CIE Economics AS-level

Topic 3: Government Microeconomic Intervention

f) Nationalisation and privatisation

Notes

Nationalisation:

- This occurs when private sector assets are sold to the public sector. In other words, the government gains control of an industry, so it is no longer in the hands of private firms.
- The railway industry in the UK was nationalised after 1945.
- By nationalising an industry, natural monopolies are created. This is because it is inefficient to have multiple sets of water pipes, for example. Therefore, only one firm provides water.
- Some nationalised industries yield strong positive externalities. For example, by using public transport, congestion and pollution are reduced.
- Nationalised industries have different objectives to privatised industries, which are mainly profit driven. Social welfare might be a priority of a nationalised industry.

Privatisation:

- This means that assets are transferred from the public sector to the private sector. In other words, the government sells a firm so that it is no longer in their control. The firm is left to the free market and private individuals.
- It also covers the deregulation of the market.
- For example, British Airways was privatised in the UK and now operates in the competitive market.
- Free market economists will argue that the private sector gives firms incentives to operate efficiently, which increases economic welfare. This is because firms operating on the free market have a profit incentive, which firms which are nationalised do not.
- Since they are operating on the free market, firms also have to produces the goods and services consumers want. This increases allocative efficiency and might mean goods and services are of a higher quality.
- Competition might also result in lower prices.
- By selling the asset, revenue is raised for the government. However, this is only a one-off payment.