Lecture 4. Types of Public Investments

What is the meaning of public investment?

Public investment, investment by the state in particular assets, whether through central or local governments or through publicly owned industries or corporations.

Public investment has arisen historically from the need to provide certain goods, infrastructure, or services that are deemed to be of vital national interest. Public investment has tended to increase as a consequence of industrialization and corresponding demands for new infrastructure to facilitate the growth of urban communities. At the turn of the 21st century, the privatization of state industries and the accompanying deregulation of markets led to the growth of public spending on goods and services provided by the private and not-for-profit sectors, principally through the development of various public-private partnerships.

Public investment tends to be measured quantitatively, on an annual basis, as a percentage of total national income in a given period. It tends to be divided between physical or tangible investment in infrastructure (for example, transport, telecommunications and buildings); human or intangible investment in education, skills, and knowledge; and current investment in the consumption of goods and services (for example, welfare benefits and pensions). Public investment generally constitutes a relatively small percentage of overall public spending but is frequently a major component of total national capital investment.

Justifications of public investment

Public investment has been justified on the grounds of both economic theory and political ideology. In economics, public investment has generally been considered necessary for the provision of certain vital goods and services that are either impossible for the private sector to efficiently supply (public goods) or are such that only one supplier could invest in them economically (natural monopolies). Examples of the former kind are police services and military defense, and examples of the latter kind are electricity, clean water, and sewage services.

In politics, public investment has been justified as necessary to achieve a variety of political objectives, including national security, protection of property rights, maintenance of the rule of law, national economic development and full employment, a clean environment, collective ownership of the means of production, and greater equality in the distribution of income and wealth.

Public investment in the 19th and 20th centuries

In the 19th century, economists argued that public investment was of critical importance for any industrializing economy wishing to develop its national productive powers sufficiently to be able to compete with other advanced economies. Public investment was seen not only as a vital source of economic development but also as a basis of national independence, national unity, and a sense of common purpose within the country concerned.

During the first half of the 20th century, the role of public investment in Europe and the United States was expanded by the military buildup undertaken by participants in the two World Wars and by the social welfare programs implemented in the 1930s to ameliorate the effects of the Great Depression. The latter form of public investment was justified by the insights of the influential British economist John Maynard Keynes, who argued that, in the aftermath of major economic downturns, wages, interest rates, and prices might not spontaneously adjust themselves to deliver full employment. The amount of effective demand in an economy arising from investment and consumption might not be sufficient to yield a level of output sufficient to produce jobs for everyone. Through a large-scale extension of their traditional functions, Keynes argued, governments could borrow money to finance public investment, which in turn would have a multiplier effect on the level of private investment, demand, and confidence among firms and consumers.

A Keynesian social democratic consensus about the central role of public investment in delivering postwar recovery, full employment, and enhanced public welfare was prominent in many industrialized economies from 1945 until about 1970. At the same time, public investment played a central role in the political economy of rapidly industrializing, developing

countries in East Asia. In particular, as the World Bank emphasized at the time, sustained public investment in primary and secondary education was a key agency of development and improved productivity in the high-performing Asian economies.

From the mid-1970s the coincidence of slower economic growth and rising inflation and unemployment fostered an ideological assault upon the principle and practice of public investment in the United States and the United Kingdom, which was part of a broader political project by libertarian and conservative activists and by business groups to reduce the role of government in the economy and other spheres of public life. Asserting the benefits of laissez-faire, they argued that public investment had crowded out private investment, resulting in a less-efficient allocation of resources than that which would have been achieved if nationalized industries and public utilities had been privately owned. Public investment was also held to have undermined entrepreneurship and consumer choice and fostered a "dependency culture" among the communities and sectors of the economy that had become reliant upon it as a source of income.

By promoting the privatization of major public assets, the movement against public investment hoped to achieve a number of key policy objectives. First, investment would be depoliticized—in the sense that it would no longer be subject to democratic decision-making or public control—and new markets would be created for private capital. Second, investment would be allocated more efficiently and more profitably, thereby promoting the economic freedom of corporations, greater consumer choice, and improved national economic performance. Third, the power of public-sector trade unions would be reduced, and the frontiers of a democracy of property owners and shareholders would be simultaneously advanced.

Public-private partnerships

In the 1990s, innovative uses of private finance to fund public goods and services, called public-private partnerships (PPPs), were introduced with the intention of enhancing efficiency, equity, and accountability in the delivery of public services and harnessing the skills of the private sector in the design and management of major capital projects. PPPs have taken a number of forms, including the introduction of private-sector ownership into state-owned businesses; the purchasing of public services from private-sector partners, with the latter assuming responsibility for delivering investment in better-quality services; and the sale of government services into wider markets with a view to exploiting the commercial potential of investment in government assets.

The anticipated benefits of PPPs—including increased efficiency, greater value for money spent, and the transfer of risk from the taxpayer to the private sector—have been limited. Although the private sector has taken on responsibility for major project performance risks (such as cost overruns and delays), nevertheless, the key risks in investment projects have remained with the public sector and taxpayers. Furthermore, the capacity to assess the actual risk transfer has proved problematic because of the multitude of risks to which PPPs have been exposed and because of the sheer complexity of PPP contracts. At the same time, the transfer of investment from the public to the private sector has raised questions about the detrimental impact on working conditions and terms of employment for public employees involved in PPPs, especially regarding retirement benefits.

What is public and private investment?

In case of private equity, the investors have the freedom to trade assets among each other or the public but only after getting the consent of the founder. In case of public equity, the investors have the freedom to trade assets among each other or the public without the need for getting the consent of the founder.

What is the role of public investment?

Public investment shapes choices about where people live and work, influences the nature and location of private investment, and affects quality of life. Public investment can boost growth and provide the right infrastructure to promote private investment.

What are 4 types of investments?

Bonds, stocks, mutual funds and exchange-traded funds, or ETFs, are four basic types of investment options.