How Economic Decisions Are Made in Public vs. Private Sectors: A Comparison of Methods

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ABSTRACT

This article describes how economic decisions are made differ from the public and private sectors. Both cater their decisions to the needs of the public but the context and the purpose behind the decisions differ. The primary purpose of article is to evaluate and compare the most common and effective methods of decision making used in private or public sectors. This article used a traditional systematic review of current literature in the field in order to perform the purpose of the study. It was found that although both sectors will make similar decisions, the sectors would utilize different methods to achieve economic decisions, primarily because both are affected by diverse factors. While private sector decisions may be hindered by government regulation, the public-sector faces challenges with financing a project and politics. This paper concludes that all the methods the private and public sectors utilize, including those in common, are viewed differently, and therefore their economic decision-making is not one in the same. Therefore, the method used to make the decision is dependent on the context of the decisions being made and also several other factors (operational, culture, regulatory) that depend on the type of sector (public or private).

KEYWORDS

Decision-Making, Economic Analysis, Private Sector, Public Sector

INTRODUCTION

In today’s society, the public and private sectors initiate economic decisions. Both sectors engage in projects that provide a service to the same customer—the public. On the most basic level, economic decisions made by both sectors depend on opportunity cost, Minimum Attractive Rate of Return (MARR), and cash flow (Brealey & Cooper, 2015). Public and private sectors then must select between different methodologies to
perform financial evaluations. Some of these methodologies include Net Present Value (NPV), equivalent uniform annual value method, cost-benefit analysis, and internal rate of return (Brealey & Cooper, 2015; Newnan, Lavelle, & Eschenback, 2014).

In the private sector, most decisions have a purpose for investment, growth, and maximizing return for stakeholders or a board of directors. These decisions are affected by government policy and regulation. They must take into account factors such as taxes, depreciation, cash flows, and risk uncertainty (Newnan, Lavelle, & Eschenback, 2014). In the public sector, on the other hand, decisions are sometimes more complicated because the decision-making process takes into consideration different types of factors, such as what the project financial source is. The finances can come from the federal, state, or municipal government (Accounting Tools, 2013). Each governing agency body can fund projects through bonds, grants, capital, or expense. Another factor that affects decision-making in the public sector is politics. For example, a project may or may not receive funding during an election year because of certain political beliefs or policies. In another scenario, a project can start as a new governing body comes in to enforce reform that causes work on the project to cease (Ap-instatute.com, 2011).

Although the public and private sectors make similar decisions for the overall objective of an organization or government agency, they implement different methods due to differing contributing factors. This paper will discuss the different methods, which both sectors use in order to make economic decisions. In addition, it will illustrate that even the methods, which they have in common, are viewed differently. Therefore, the paper will demonstrate that both sectors make economic decisions differently and cannot view things in the same manner.

**RESEARCH METHODOLOGY**

The author used Kothari’s (2009) book to choose the method to implement for this research study. According to his book, the author chose to collect existing literature about economic decision-making in the public and private sectors. The author achieved this with a traditional systematic review of current literature. The traditional systematic review of literature is a quantitative approach that helps to standardize methods and results in the studies that were collected. Because the researchers do not need to compare estimates manually, bias can be eliminated. Furthermore, with traditional systematic review of literature, the author can find papers that have been published internationally, all over the world, based off priori defined criteria. Unfortunately, the traditional systematic review of literature has some limitations. It usually returns a narrower range of results because of the confinements mentioned before. It may also not find the type of studies the researchers want to collect, because the traditional systematic review of literature is only going to look at articles that have been published with significant results. It will not find literature that is discrete in its findings. When a traditional systematic review of literature cannot unearth relevant studies, it is coined