

## On the Economic Functions of the Public Sector

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Regardless of the socio-political system, the economic functions of the public sector depend in varying degrees on individual and social perceptions toward risk. The greater the degree of individual and social risk aversion, the higher will be the probability that the public sector will be called on to perform a series of economic functions. We list below five of these functions in the context not just of individual and social perceptions but also whether society fosters the development of institutions that can efficiently price risk in the context of market economic systems. To the extent that prices can incorporate all relevant dimensions of risk within and across time, the less will be the need for the public sector to perform any combination of these economic functions. Since the future can never be predicted with absolute certainty, real world policy thus turns on the extent to which risk can be incorporated into market pricing systems.

1. **Provide a legal and institutional framework for the efficient allocation of resources**
2. **Promote competition in support of economic efficiency**
3. **Foster economic stabilization and economic growth**
4. **Promote distributive economic justice**
5. **Reallocate resources to promote the efficient composition of production**

Consider any of the above economic functions of the public sector in relation to historical events and it is clear that in each instance, the expansion of the public sector derives from a combination of individual and social risk aversion and weakness in the range and depth of risk-inclusive financial and economic products that can efficiently and equitably allocate resources in and across time. Whether the issue is economic globalization, new forms of economic competition, or weak understanding of natural phenomena that carry economic consequences, it is clear that the design

and promulgation of risk-inclusive goods and services provides an alternative to an overburdening of the public sector into areas that it is ill equipped to serve and in which living standards may be compromised in the process. All too often, political discourse fails to address the question of the optimal role of the public sector within the context of alternative responses to risk.