PRIVATIZATION

A Theoretical Treatment

Dieter Bös

Contents

| 1 | • | ments on i iivatization | 2 | | |
|---|---|--|-----|--|--|
| | 1.1 | G | | | |
| | 1.2 | <u> </u> | 6 | | |
| | 1.3 | The Influence on the Government Budget | 15 | | |
| | | Part One Theoretical Background | | | |
| 2 | The 1 | Process of Privatization | 19 | | |
| | 2.1 | The Fundamental Privatization Theorem | 19 | | |
| | 2.2 | | 21 | | |
| • | 2.3 | | 22 | | |
| | 2.4 | 1 1 0 | 24 | | |
| | 2.5 | Employee Share Ownership | 30 | | |
| 3 | Incentives and Efficiency in Public and | | | | |
| | Privatized Firms | | | | |
| | 3.1 | Objectives and Incentives | 33 | | |
| | 3.2 | Comparing Efficiency: Empirical Evidence | 50 | | |
| 4 | Mark | et Allocation in the Transition | | | |
| | from | Public to Private Firms | 61 | | |
| | 4.1 | Monopolistic Markets | 63 | | |
| | 4.2 | Oligopolistic Markets | 70 | | |
| | 4.3 | Integration or Separation of Production | 79 | | |
| | | Part Two Positive Theory | | | |
| 5 | What | t is Positive Theory? | 89 | | |
| 6 | Efficiency and Privatization | | | | |
| | 6.1 | Two Benchmark Models | 93 | | |
| | 6.2 | Linear Incentive Schemes | 97 | | |
| | 6.3 | Efficiency of the Privatized Firm | 100 | | |
| | 6.4 | Efficiency of the Public Firm | 104 | | |
| | 6.5 | | 122 | | |
| | 6.6 | Appendix: Multi-Objective Schemes | 122 | | |
| 7 | Regulation of a Privatized Firm | | | | |
| | 7.1 | Four Cases of Price-Cap Regulation | 124 | | |
| | 7.2 | <u> </u> | 127 | | |
| | 7.3 | Conclusion | 133 | | |
| | | | | | |

| viii | 1 | Contents | | | |
|------|--|--|-----|--|--|
| 8 | Partial | Privatization | 135 | | |
| | 8.1 | Introduction | 135 | | |
| | 8.2 | Internal versus External Regulation | 138 | | |
| | | Government's Information Status | 139 | | |
| | 8.4 | Management Incentives | 144 | | |
| | | Conclusion | 148 | | |
| 9 | Government versus Trade Unions | | | | |
| | 9.1 | The Model | 149 | | |
| | | The Two-Tier Optimization Approach | 153 | | |
| | 9.3 | The Tier-One Game: Privatization | | | |
| | | and Employee Shares | 157 | | |
| | | The Tier-Two Game: The Decision on | | | |
| | | Efficiency and Price | 163 | | |
| | | Extensions of the Cooperative Game | 165 | | |
| | 9.6 | Appendix | 170 | | |
| 10 | Privatization and Market Entry | | | | |
| | 10.1 | Introduction | 177 | | |
| | 10.2 | The Model | 178 | | |
| | 10.3 | The Game without Price Regulation | 181 | | |
| | 10.4 | Price Regulation of the Incumbent | 192 | | |
| | 10.5 | | 199 | | |
| | 10.6 | Appendix | 201 | | |
| | | Part Three Normative Theory | | | |
| 11 | What i | is Normative Theory? | 219 | | |
| 12 | The Economy | | | | |
| | 12.1 | Economic Background | 225 | | |
| | 12.2 | The Private Firms | 226 | | |
| | 12.3 | The Privatized Firm | 227 | | |
| | 12.4 | The Government | 235 | | |
| | 12.5 | The Consumers | 240 | | |
| 13 | The Allocative Basic Features of Welfare-Optimal | | | | |
| | Privati | zation | 241 | | |
| | 13.1 | The Optimization Approach | 241 | | |
| | 13.2 | Efficiency Increases versus Profit Increases | 243 | | |
| | 13.3 | Privatization and Pricing | 249 | | |
| 14 | Dividend Incomes and Optimal Privatization | | | | |
| | 14.1 | The Optimization Approach | 261 | | |
| | 14.2 | The Welfare-Optimal Issue Price | 262 | | |
| | 14.3 | People's Capitalism in a Welfare Context | 266 | | |
| | 14.4 | Allocation versus Distribution | 270 | | |

| • | | P Contents | 12 |
|-----|-------|---------------------|-----|
| 15 | Gover | 275 | |
| | 15.1 | Public Expenditures | 278 |
| | 15.2 | Income Taxation | 280 |
| Ref | 285 | | |
| Aut | 30 | | |
| Sub | 308 | | |