

Privatization, Private/Public Partnership and Efficiency

Syllabus

Fall 2016

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The current budget deficits that local governments face have given new life to the call to "reinvent government." In 2010, then Mayor Bloomberg hired the former mayor of Indianapolis, Stephen Goldsmith, famous for having introduced large-scale privatization and public/private partnerships, to serve as his deputy mayor (Goldsmith subsequently resigned for personal reasons, but the agenda remained). In the same year, the city of Maywood, in California, outsourced all of its services, including its school crossing guards. Privatization is one of the ways that European lenders expect Greece to use to pay back its debt.

Privatization and public/private partnerships are, of course, not new and, like other cities, New York City has also had extensive experience with them. In fact, until the 20th century all government services had to be privatized and today public/private partnership are ubiquitous. They include "public spaces," the conservancies of the different parks, and Business Improvement Districts.

Privatization and public/private partnerships raise questions both about the proper role and obligations of government, and about when public or private production is the better method for the government to use to fulfill these obligations. The course covers the main theories that planners rely on in order to choose between the different forms of service provision, and examines selected cases in light of these theories.

Students will write two papers for the course.

First paper due in the 6th week:

Based on the readings for the first half of the course, analyze the theoretical merits of privatization and private/public partnerships (5 pages).

Second Paper, which is to be presented during the last class:

A longer paper (7-10 pages) on a topic of your choice in the field of public/private partnerships/ privatization. For this second paper a research proposal with a preliminary bibliography is due no later than the 10th class. Student presentations will occur during last class.

In addition there will also be occasional short problem sets, depending on topics covered.

Grade: First paper 20%, second paper 30%, problem sets 25%, class participation 25%.

Books on Reserve:

Moshe Adler, *Economics for the Rest of Us*, The New Press, 2010 (also available as an ebook)

Elliott Sclar, *You Don't Always Get What You Pay For*, Cornell University Press, 2000

Francis Spufford, *Red Plenty*, Graywolf Press, 2010 (also available as an ebook)

I. Markets and Hierarchies

Price

Spufford, *Red Plenty*, Introduction, Chapter 2

Hayek, F. A. 1945, "The Use of Knowledge in Society," *American Economic Review*, 35(4), pp. 519-530

Coase, Ronald (1937). "The Nature of the Firm," *Economica* (Blackwell Publishing) 4 (16): 386–405.

Quality

Quality

Akerlof, George A. (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics* (The MIT Press) 84 (3): 488–500

Klein, B., and Leffler, K. B. (1981). "The Role of Market Forces in Assuring Contractual Performance," *J. Pol. Econ.* 89, 615-641.

Arch G. Woodside, "A shopping list experiment of beer brand images," *Journal of Applied Psychology*, Vol 56(6), Dec 1972, 512-513.

Adverse Selection

Sclar, Chapter 5, read whole chapter, with special attention to "Adverse Selection"

Spufford, *Red Plenty*, "Midsummer Night 1962," page 151

Moshe Adler, "On Being Honest and Behaving Honestly," *Games and Economic Behavior*, 4, 1-17 (1992)

Moshe Adler, "The Quality Guaranteeing Price with Market Anonymity," *International Journal of Game Theory*, 1992, vol. 21, issue 3, pages 313-23

Firms

Benjamin Klein, Robert Crawford, Armen Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics*, Vol. 21, No. 2 (Oct., 1978), pp. 297-326

Oliver E. Williamson, "The Economics of Organizations: A Transactions Cost Approach," *The American Journal of Sociology*, 83, 3, November 1981, 548-577

Susan Helper and Rebecca Henderson, "Management Practices, Relational Contracts, and the Decline of General Motors," *Journal of Economic Perspectives—Volume 28, Number 1—Winter 2014—Pages 49–72*

Oliver Hart, "Incomplete Contracts and Public Ownership: Remarks, and an Application to Public-Private Partnerships," *The Economic Journal*, Vol. 113, No. 486, Conference Papers (Mar., 2003), pp. C69-C76

Market Structure and Contracting

Elliott Sclar, "What's Competition Got to Do with It? Market structures and Contracting," Chapter 4

Holmstrom, Bengt & Roberts, John, 1998. "The Boundaries of the Firm Revisited," *Journal of Economic Perspectives*, vol. 12(4), pages 73-94, Fall.

Don't neglect the particulars

Granovetter, M. (1985). "Economic Action and Social Structure: The Problem of Embeddedness". *American Journal of Sociology* 91 (3): 481–510

II. Separation of Ownership from Control

Michael C. Jensen and William H. Meckling (1976), "Theory of the Firm: Managerial Behavior, Agency Costs and the Ownership Structure," *Journal of Financial Economics* 3, 305– 360.

Adler, Moshe. 1999. "Been There, Done That: The Privatization of Streetcleaning in Nineteenth Century New York." *New Labor Forum*. Spring/Summer: 88-99.

Sclar, Chapter 5, especially the section about the Principal-Agent problem.

III. Government = Distorted Prices, Wages, Employment

World Bank

"Policy Views from the Country Economics Dept.," *World Bank*, July 1992

Sandra Cointreau-Levine and Adrian Coad , "Guidance Pack," Swiss Centre for Development Cooperation in Technology and Management, 2000, Distributed by the World Bank

GAO Report about the Failed Launch of Obamacare

Chapters 1,2,3,5 in Boycko, Maxim, Shleifer, Andrei , Vishny, Robert *Privatizing Russia*, MIT Press, 1995, ebook in the library

IV. Concessions

Michael Kert et al., Concessions Toolkit, The World Bank, 1998

Mark A. Jamison, RATE OF RETURN: REGULATION, Public Utility Research Center, undated

Revenue Decoupling, A Policy Brief of the Electricity Consumers Resource Council, undated

Con Ed Rate Setting, Public Services Commission, 2013

The Rate of Return and Risk, Class Presentation

Beta, Class Presentation

Carolyn Said , THE ENERGY CRUNCH A YEAR LATER, San Francisco Chronicle, Monday, December 24, 2001

Ellen Dannin, "Crumbling Infrastructure, Crumbling Democracy: Infrastructure Privatization Contracts and Their Effects on State and Local Governance," 6 Northwestern Journal of Law and Social Policy, 47 (2011),

<http://scholarlycommons.law.northwestern.edu/njlsp/vol6/iss1/2> (Links to an external site.)[Links to an external site.](#)

Thomas Russell and Dwight Jaffee, "The Regulation of Automobile Insurance in California, in J.D. Cummins, editor, Deregulating Property-Liability Insurance: Restoring Competition and Increasing Market Efficiency (Washington, DC: American Enterprise Institute/Brookings Institution Joint Center for Regulatory Studies, 2001).

Phineas Baxandall, Kari Wohlschlegel and Tony Dutzik, "Private Roads, Public Costs:The Facts About Toll Road Privatization and How to Protect the Public," US PIRG Education Fund, 2009

<http://cdn.publicinterestnetwork.org/assets/H5QI0NcoPVeVJwymwIURRw/Private-Roads-Public-Costs.pdf> (Links to an external site.)Links to an external site.

V. A Model Contract

Gordon Culp, Design-Build vs. Design Build Operate, *Leadership and Management in Engineering*, 2011

Contract for Cedar River Water Treatment Plant, 2001

VI. Russia

Boycko, Shleifer, Vishny, finish the book.

Bernard Black, Reinier Kraakman, Anna Tarassova, "Russian Privatization and Corporate Governance: What Went Wrong?" September 1999

Marshall Goldman, "Privatization, Property Rights and Development Potential: Lessons from Poland and Russia," *Eastern Economic Journal*, 25, 4, Fall 1999

Barberis et al., How Does Privatization Work, *JPE*, 1996

VII. Private Public Partnerships

PriceWaterhouseCoopers: "Public-private^[SEP] partnerships: The US perspective,"

<http://www.ncppp.org/wp-content/uploads/2013/03/PWC-PPPs-The-US-Perspective.pdf> (Links to an external site.)Links to an external site.

LOUISE STORY (Links to an external site.)Links to an external site., LONDON THOMAS Jr. (Links to an external site.)Links to an external site. and NELSON D. SCHWARTZ (Links to an external site.)Links to an external site., Wall St. Helped to Mask Debt Fueling Europe's Crisis, NYT, Feb. 13, 2010, <http://www.nytimes.com/2010/02/14/business/global/14debt.html?pagewanted=all> (Links to an external site.)Links to an external site.
Seattle's Water filtration: <http://www.waterindustry.org/New%20Projects/OMI-2.htm> (Links to an external site.)Links to an external site.

Martin Pigeon: Une Eau Publique pour Paris

<http://www.municipalservicesproject.org/sites/municipalservicesproject.org/files/uploads/file/remunicipalisation-chap2-Paris.pdf>

Sunita Kikeri and Aishetu Fatima Kolo: "Privatization: Trends and Recent Developments," 2005, The World Bank

VIII. Learning from the Present

Bel, GermÃ, Xavier Fageda and Mildred E. Warner 2010. "Is Private Production of Public Services Cheaper than Public Production? A meta-regression analysis of solid waste and water services," *Journal of Policy Analysis and Management*, 29(3): 553-577.

Sam Dolnick, "Unlocked: Inside New Jersey's Halfway Houses," June 16, 2012, a special investigation, read all three parts

<http://www.nytimes.com/2012/06/17/nyregion/in-new-jersey-halfway-houses-escapees-stream-out-as-a-penal-business-thrives.html?pagewanted=all> (Links to an external site.)[Links to an external site.](#)

IX. Business Improvement Districts of NYC

--Small Business Services, NYC, "Starting a Business Improvement District: A step-by-step guide" <http://www.nyc.gov/html/sbs/html/neighborhood/bid.shtml> (Links to an external site.)[Links to an external site.](#)

--Amy Armstrong, Ingrid Gould Ellen, Amy Ellen Schwartz, Ioan Voicu, "The Benefits of Business Improvement Districts: Evidence from New York City," NYU, The Furman Center, 2007

--[Moshe Adler, The BID's of New York City, Report for the Economic Policy Institute, July 25, 2000.](#) <http://www.columbia.edu/~ma820/bids.first.full.version.html>

--_____, "Why Bid's Are Bad Business," *The New York Times*, February 13, 2000

Parks: Field trip led by Bethany Bingham, Director of Planning and Research, New Yorkers for Parks

X. What and How to Privatize

Sclar, chapters 3, 7