

**Syllabus****Privatization, Private/Public Partnership and Efficiency**

Syllabus

Fall 2013

Moshe Adler

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

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 20<sup>th</sup> century all government services had to be privatized and today public/private partnerships are ubiquitous. They include "public spaces," the conservancies of the different parks, and Business Improvement Districts. In 2011 New York City issued a call for proposals on how to privatize its street parking.

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 6<sup>th</sup> 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 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, privatization. A research proposal with a preliminary bibliography is due no later than the 10<sup>th</sup> 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

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.

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

Spufford, *Red Plenty*, Chapter 3

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

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

### Firms

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

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

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. Government = Distorted Prices, Wages, Employment

The World Bank

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

Pareto Efficiency:

Adler, Chapters 1-3

Private property and economic efficiency

RH Coase, 'The Problem of Social Cost' (1960) 3 *Journal of Law and Economics* 1-44

Pecuniary externalities

Randall G. Holcombe and Russell S. Sobel, "Public Policy Toward Pecuniary Externalities," *Public Finance Review*, 2001, 29: 304

Just Compensation

Adler, chapter 4

John K. Horowitz and Kenneth E. McConnell, "A Review of WTA / WTP Studies," *The Journal of Environmental Economics and Management*, 44, 426 - 447, 2002

Thomas J. Miceli and Kathleen Segerson, "The Economics of Eminent Domain: Private Property, Public Use, and Just Compensation," *Foundations and Trends in Microeconomics*, Vol. 3, No. 4 (2007) 275-329

Over-protection

Red Planet

## III. Government Malfeasance

Stigler. 1971. The theory of economic regulation. *Bell Journal of Economics and Management Science* 2 (spring): 3-21

Class discussion: Marginal Cost Pricing

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.

John G. Matsusaka, Direct Democracy Works, *Journal of Economic Perspective*, Vol. 19, No. 2, Spring 2005

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

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

Hector E. Schamis, "Distributional Coalitions and the Politics of Economic Reform in Latin America," *World Politics*, Vol. 51, No. 2 (Jan., 1999), pp. 236-268

Optional: Feigenbaum, Harvey B. and Jeffrey R. Henig. 1994. "The Political Underpinnings of Privatization: A Typology," *World Politics*, 46(2): 185-208. <http://www.jstor.org.ezproxy.cul.columbia.edu/stable/pdfplus/2950672.pdf>

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

Ann R. Markusen, "The Case Against Privatizing National Security," *Governance* Volume 16, Issue 4, pages 471-501, October 2003

Sclar, Chapter 5

#### IV Privatization and Market Failures

David Lowery , "Consumer Sovereignty and Quasi-Market Failure" *Journal of Public Administration Research and Theory*: Vol. 8, No. 2 (Apr.,1998), pp. 137-172

#### V Private Public Partnership

##### The Choice of Form

California Debt and Investment Advisory Commission, "Privatization vs. PPP, a Comparative Analysis," August 2007

##### The Contract

Elliott Sclar: Privatization: The New Subprime

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>

##### PIRG Perspective

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/H5QI0NcoPVeVJwymwLURRw/Private-Roads-Public-Costs.pdf>

### Doing it right: the payoff to caution and selectivity

#### Russia

Boycko, Shleifer, Vishny, finish the book.

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

Stanford Law School John M. Olin Program in Law and Economics

Working Paper No. 178 William Davidson Institute at University of Michigan Business School Working Paper No. 269

#### Poland

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

Poland to privatize 19 chemical companies by 2011, ICIS.com

#### The World Bank

Sunita Kikeri and Aishetu Fatima Kolo: "PRIVATIZATION: TRENDS AND RECENT DEVELOPMENTS," 2005, The World Bank

#### Red Plenty, *passim*

## VI 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, 20, 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>

## 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>

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](http://www.columbia.edu/~ma820/bids.first.full.version.html)

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

## VII What and How to Privatize

Scar, chapters 3, 7