

THEME: Competition and Regulation

TITLE: A Theoretical Reexamination of Privatization: Assessing its Welfare and Distributional Impacts

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ABSTRACT:

Privatization was one of the significant public policy adopted by many countries in the last two decades. Previous and recent studies on its efficacy have focused mostly on the gains at the firm and industry levels. Differing from that approach, this paper attempts to reconsider impacts of the policy from a viewpoint of the economy as a whole via a theoretical examination. Specifically, it supposes an economy with two goods, two producers and two consumers. Within this economy, one of the consumers is assumed to be not able to obtain one good that is regarded as a necessity. Since it is considered that a basis of government intervention is to provide some necessity to people who would not be able to obtain it otherwise, government intervention on some production is assumed to satisfy this purpose.

Utilizing the method of comparative statics, the paper shows how the welfare of different kinds of consumers is affected by this intervention. Specifically, it argues that the intervention can decrease the welfare of one consumer and increases that of the other, and that it leads to higher social welfare. This suggests that there exists a rationale for government intervention into the production process.