

Evolutionary approaches to privatisation
New Frontiers in Privatisation, Bled, Slovenia,

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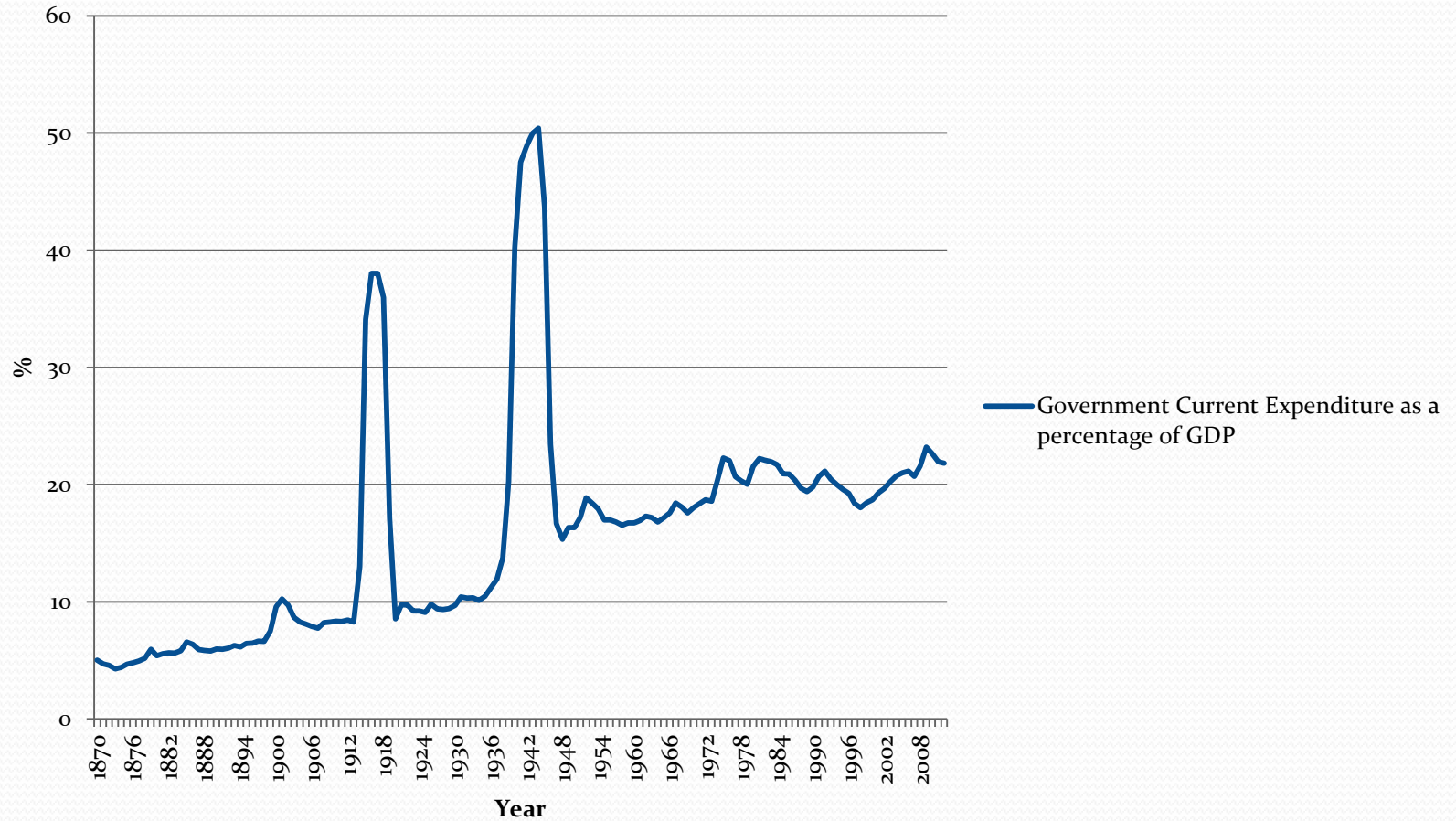
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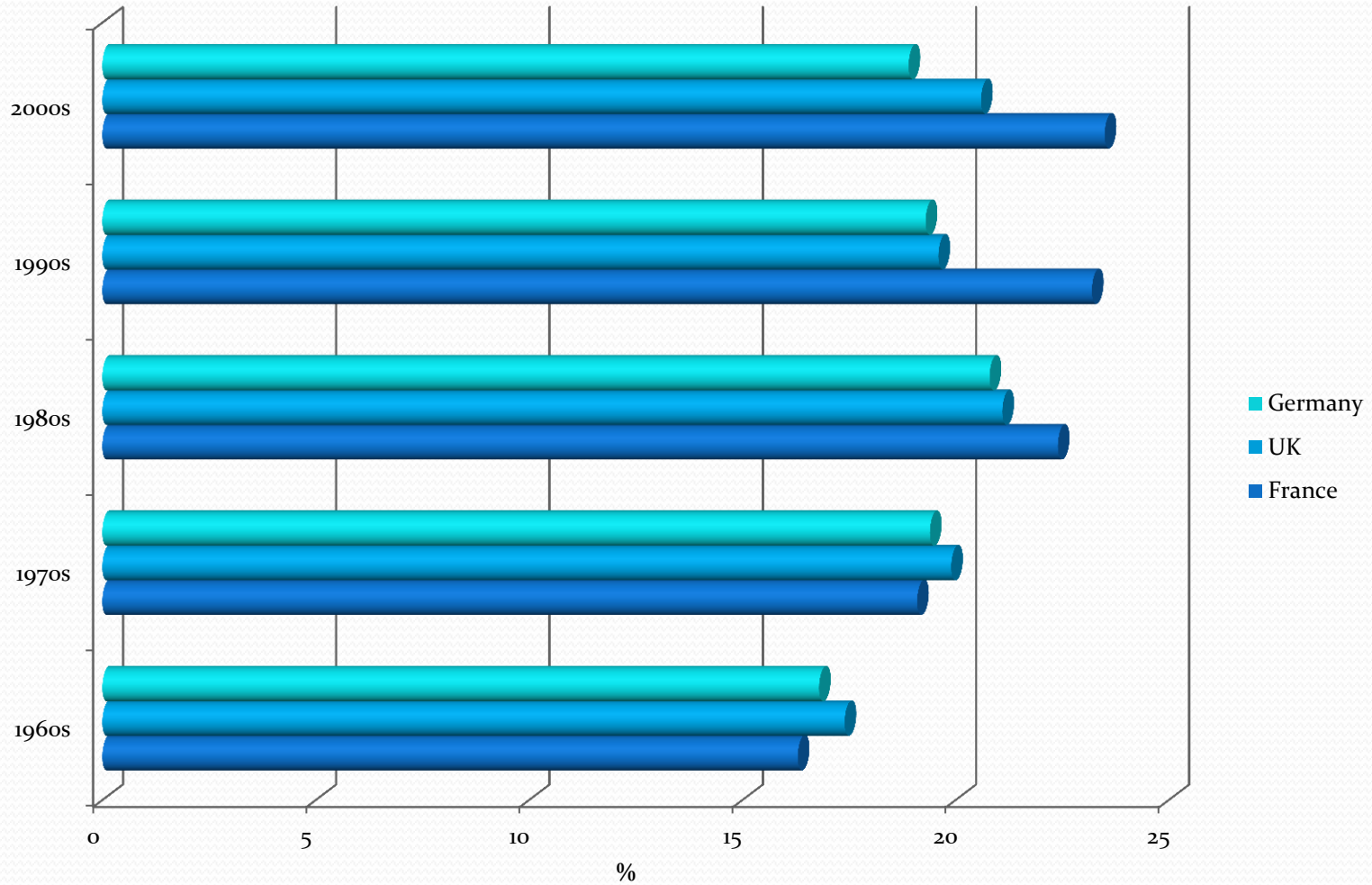
Overview

- Scope for further privatisation
- What are the obstacles?
- How valid is revealed preference?
- Corporate structure

Government Current Expenditure as a percentage of GDP



UK, German and French Current Government Expenditure as a Percentage of GDP



Revealed preference

- The first waves of privatisation clearly improved consumer welfare
- In general, they have the support of consumers (the electorate)
- Survey evidence suggests non-trivial discontent with some privatisations, and even stronger opposition to further extensions
- If revealed preference is decisive, the strategy should be to press ahead regardless. The superior alternative will eventually be selected (supported) by the clear majority
- ‘I believe that respondents to... surveys are often not responding out of stable or well-defined preferences, but are essentially inventing their answers on the fly, in a way which makes the resulting data useless for serious analysis.’ Hausman, *J Ec Perspectives*, 2013

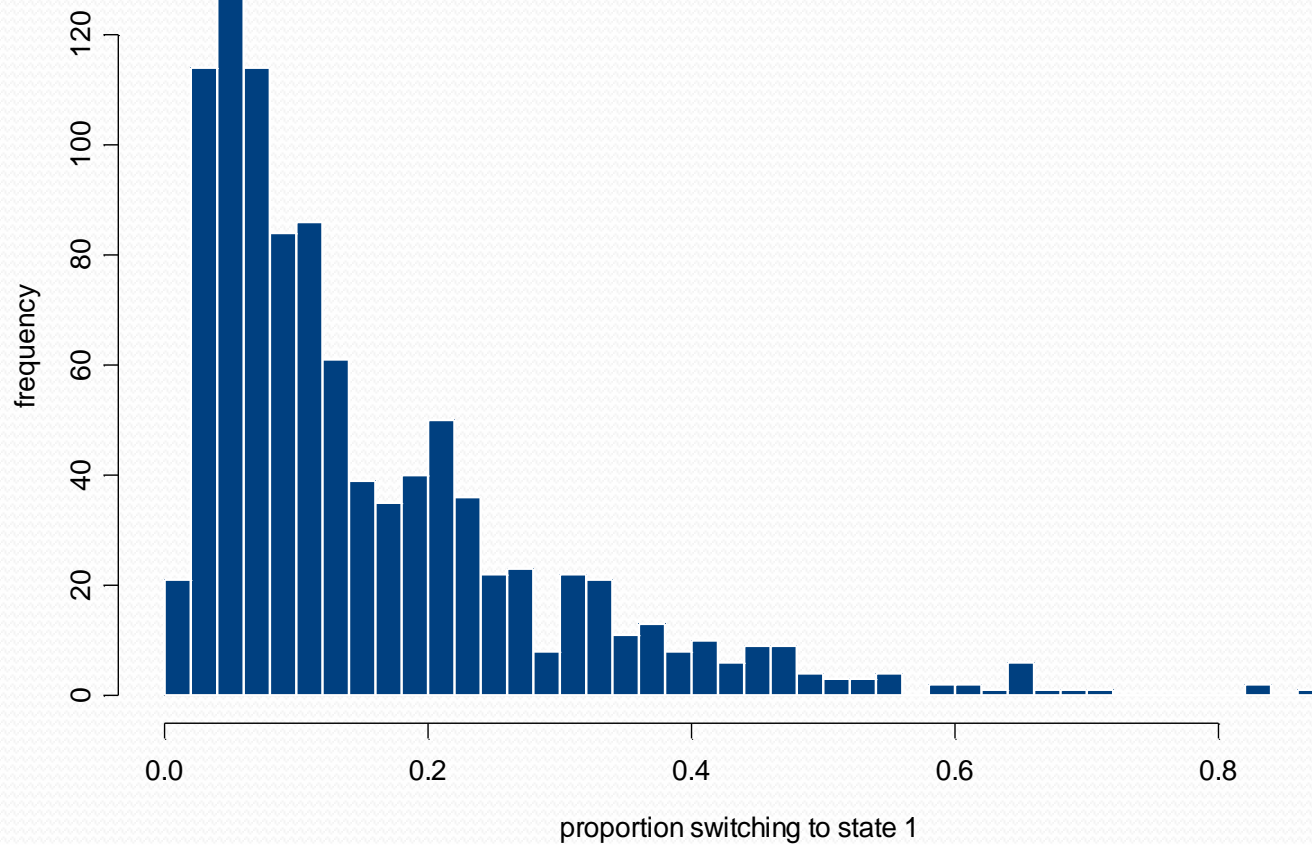
Are preferences well-defined and stable?

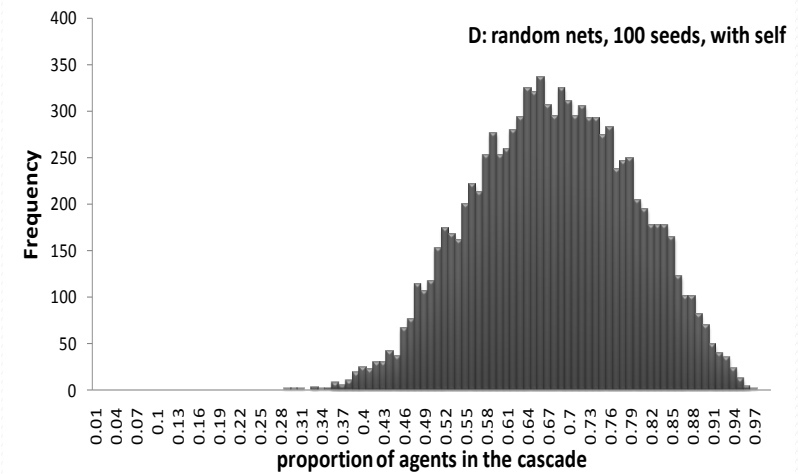
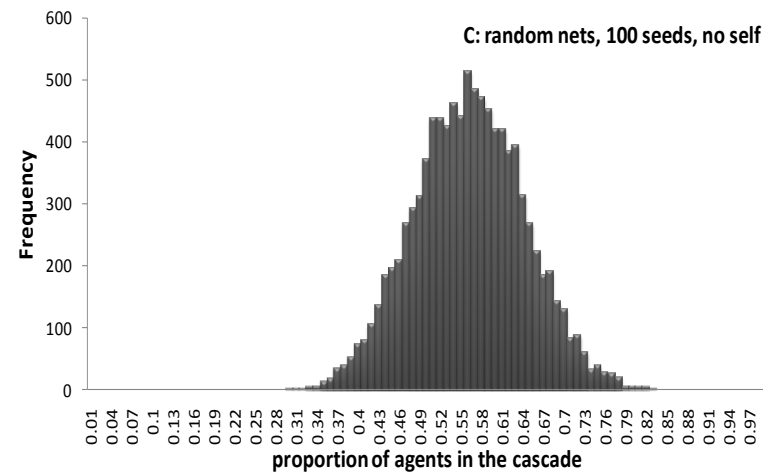
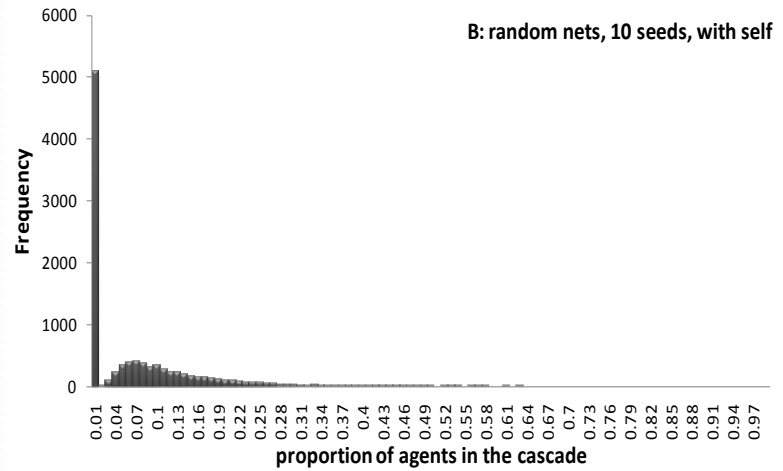
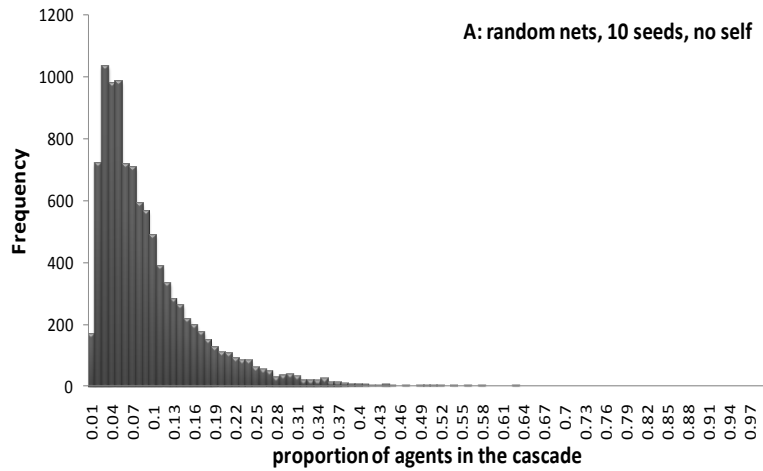
- Hayek 'The Intellectuals and Socialism', *Univ of Chicago Law Review*, 1949
- In terms of objective attributes, capitalism is unequivocally superior to socialism. Why did the latter attract such support?
- 'In all democratic countries, a strong belief prevails that the influence of the intellectuals on politics is negligible. This is no doubt true of the power of intellectuals to make their peculiar opinions of the moment influence decisions, of the extent to which they can sway the popular vote on questions on which they differ from the current views of the masses. Yet over somewhat longer periods they have probably never exercised so great an influence as they do today in those countries. This power they wield by shaping public opinion'
- Preferences are *not* fixed. They evolve over time, in large part due to the influence of others

A simple model of evolving preference: binary choice with externalities

- Much of the agent based/network literature which focuses on the spread of ideas/behaviour, essentially involves ‘binary choice with externalities’ (Schelling 1973, Watts 2002)
- Heterogeneous agents are connected on a network and can be in one of two states of the world
- Agents switch depending upon their individual threshold (propensity to switch) and the states of the world of their neighbours
- With this model, the process of ‘adoption’ of new norms or shared conceptions is essentially one of copying (imitation)
- ‘Hubs’ can act as blocks on the spread of opinions
- Much of this literature is ‘one-off’ solutions with fixed thresholds, but sequential solutions with endogenous threshold create problems for new concepts spreading (Nowak et al. 2012)

Distribution of size of cascade: identical initial shock
1000 solutions, small world network





Concessions?

- The joint stock company is the dominant species in the market economy
- But there is voter resistance to this structure in any further privatisations
- Should we encourage alternative structures e.g. co-ops, community interest companies, legislate to enable other forms to emerge
- Would this sacrifice efficiency and the gains from privatisation?
- Path dependence; emergence
- 'Neutral' theory of evolution