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Series Foreword

Government regulation of economic activity in the United States has changed dramatically in this century, radically transforming the economic roles of government and business as well as relations between them. Economic regulation of prices and conditions of service was first applied to transportation and public utilities and was later extended to energy, health care, and other sectors. In the early 1970s explosive growth occurred in social regulation, focusing on workplace safety, environmental preservation, consumer protection, and related goals. Regulatory reform has occupied a prominent place on the agendas of recent administrations, and considerable economic deregulation and other reform has occurred. But the U.S. economy remains highly regulated, and the aims, methods, and results of many regulatory programs remain controversial.

The purpose of the MIT Press Series, *Regulation of Economic Activity*, is to inform the ongoing debate on regulatory policy by making significant and relevant research available to both scholars and decision-makers. Books in this series present new insights into individual agencies, programs, and regulated sectors, as well as the important economic, political, and administrative aspects of the regulatory process that cut across these boundaries.

Industries that have been subjected to economic regulation in the United States have more commonly been government-owned in other nations. Just as an active deregulation movement in the United States has sought, with some success, to reduce the scope of economic regulation, strong privatization movements abroad have sought in recent years to transfer the ownership of government enterprises to the private sector. In some cases privatization replaces government ownership by economic regulation; in others it produces unregulated markets.

In this book John Vickers and George Yarrow provide both a useful overview of the economic theory relevant to privatization, much of which has been developed only recently, and a comprehensive examination of the far-reaching privatization program of the Thatcher Government in the U.K. This important "microeconomic experiment" will fundamentally change market and regulatory structures in a number of important sectors of the U.K. economy. Vickers and Yarrow present the most comprehensive and rigorous analysis of privatization—both in general and in the U.K.—that has appeared to date. This important book should be of

interest to scholars and policy-makers concerned with industries that have been included in the U.K. "experiment" and, more generally, to all concerned with economic regulation, public enterprise, and comparisons between them.

Preface

The end of 1987 is in many ways a fortunate time to complete a book on the economics of privatization in Britain. We can look back on the record of the first two terms of Mrs Thatcher's Conservative Government and, following her election victory in June, we can look ahead to the privatizations of the electricity and water industries which are planned to occur about two years from now. The past 12 months or so has been a particularly active period. Since December 1986, about £15 billion worth of state assets—British Gas, British Airways, Rolls-Royce, the British Airports Authority, and the Government's remaining shareholding in BP—have been sold to private investors. With the next major privatizations likely to be some way into the future, now is an opportune moment to reflect on what has happened so far.

But the world does not stand still. In the few months since our manuscript went to the publishers in September, privatized companies have continued to be at the center of events. British Airways successfully fought with SAS for control of British Caledonian, BP made a bid for Britoil, the intention to privatize British Steel was announced, and British Gas's industrial pricing policies were referred to the Monopolies and Mergers Commission. There was also the stock market crash in October, right in the middle of the BP sale. Our publishers kindly allowed us to add a word or two on some of these events, but with each day's news it would always be possible to say a little more. However, we have tried throughout to emphasize the longer-term economic issues connected with privatization in Britain.

It is a pleasure to thank those who have helped us in the writing of this book. Sara Connolly, Simon Cowan and Ian Preston gave us valuable research assistance. Julia Gibert unselfishly gave of her time to ensure deadlines were met. Colin Mayer, Francis McGowan, Shirley Meadowcroft, Al Phillips, David Starkie, Jeffrey Wheatley and Hyun Shin were among those who commented on draft chapters. Alison Hook typed large portions of the manuscript with great skill and remarkably good cheer. Christine Sharrock of Omega Scientific organized the typesetting speedily and efficiently. Robert Bolick of MIT Press was a pleasure to work with. We are extremely grateful to them all. Responsibility for remaining errors alas remains with us.

Finally, we would like to thank Oxford University and our respective colleges for giving us the opportunity to write this book.

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