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**Explanatory limitations
of property rights theory:
inside linear causality
(DRAFT)**

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The problem

- ◆ **Dualism between market failure (MF) and government failure (GF)**
- ◆ **Spectacular failure of prediction of GF and property rights theory (PRT):**
www.epsu.org/IMG/pdf/PSIRU_efficiency.pdf
- ◆ **Need to reconsider the foundations of modern industrial organisation theory (IOT); in particular, GF and PRT**



PRT's spectacular failure of prediction

- ◆ Quantitative studies fail to find superior private efficiency in the following sectors
 - Buses
 - Electricity
 - Healthcare
 - Ports and airports
 - Prisons
 - Rail
 - Telecoms
 - Waste management
 - Water



The solution

- ◆ **Go beyond MF-GF dualism**
- ◆ **Switch explanatory paradigm from necessity to possibility, from uniqueness to multiplicity of economic outcomes**
- ◆ **Heed the lessons of Coase, Williamson, Dollery, et al: we need a theory of organisational failure (OF)**



Property rights theory

- ◆ **PRT is central to the GF movement**
- ◆ **Differences in conceptualisation do not preclude alliances between PRT and transaction cost economics, public choice, and agency theory**
- ◆ **Variety in theorising does not diminish PRT's centrality to the GF movement**



Heuristic framework

- ◆ **Oliver Williamson's comparative institutional analysis as heuristic, not a general theory**
- ◆ **Foundations of the Williamsonian tradition: bounded rationality, remediableness, opportunism, transaction costs, asset specificity, fundamental transformation**
- ◆ **Four ideal-types of ownership/performance: private efficiency; public inefficiency; private inefficiency; public efficiency**



Meta-theoretical framework

- ◆ **Two ontologically bipolar opposites**
 - Orthodox economics adopts closure, linear causality, and deductivism
 - Orthodox economics influenced both MF and GF
 - Heterodox economics assumes open systems, path dependent causality, and methodological pluralism
 - Critical realism and attention to duality of agency and institutions constitute the methodological foundations of heterodox economics



Definitions

- ◆ **Linear causality: causality that occurs in closed systems**
- ◆ **Closed system: an artificial system where fixed event regularities necessarily occur**
- ◆ **Event regularity: persistent occurrence of an event given the specification of the attributes of the causal agents and causal environment**



Empirical evidence - I

- ◆ **Urban water sector: natural monopoly market structure defines the opportunity reform set across the public-private continuum**
- ◆ **Qualitative case studies on performance of public and private operations in global North and South under different organisational and institutional arrangements**
- ◆ **PRT's expectations are not realised due to the attributes of private and public causal agents and the causal environment**



Empirical evidence - II

- ◆ **PRT's expectation of private efficiency is not realised as private operators can and do extract net gains from long-term concessions**
 - Profit maximisation imperative
 - Asymmetry of information and power
 - Williamson's fundamental transformation
 - Willig's paradox
- ◆ **Cases include: Buenos Aires, Argentina; Conakry, Guinea; Nice, France; Arezzo, Italy; England and Wales, UK;**



Empirical evidence - III

- ◆ **PRT's expectation of public inefficiency is not realised as a number of institutional factors can and do induce public efficiency**
 - Absence of profit maximisation imperative
 - Lorrain's paradox
 - Democratic governance
 - Corporatisation
- ◆ **Cases include: Phnom Penh, Cambodia; Grenoble, France; Debrecen, Hungary; Kaunas, Lithuania; Stockholm, Sweden**



Discussion of findings - I

- ◆ **PRT fails to meet explanatory complexity and adequacy, as the structure of explanatory claims put forward by PRT assumes linear centrality and mechanistic closure**
 - Isolation from real-life institutions artificially leads to predict the necessity of a single economic outcome
 - Because of linear centrality, PRT is oblivious to Williamson's fundamental transformation and the duality of agency and institutions
 - PRT as an example of Coasian "blackboard economics" due to idealisation of the private sector



Discussion of findings - II

- ◆ **Closed systems redefined: systems where fixed event regularities necessarily occur because explanatory claims are isolated from the “interference” of causal mechanisms**
- ◆ **PRT is fundamentally flawed as it neglects the fundamental causal mechanism that is the duality of agency and institutions**
- ◆ **Importance of distinguishing between cognitive and theoretical closure**



Discussion of findings - III

- ◆ **PRT's failure points to the failure of GF**
- ◆ **The failure of GF is, on a theoretical and empirical level, due to the same reasons that led to the failure of MF**
 - Deductivism
 - Lacking an adequate empirical basis
 - Idealising causal agents
- ◆ **IOT must heed these lessons to go beyond the dualism of MF and GF**



Problem to solution

- ◆ **Towards OF, as IOT meeting explanatory complexity and adequacy**
 - From linear to path dependent causality
 - From closed to open systems
 - From explaining unique economic outcomes (e.g. necessity of private efficiency) ...
 - To explaining the occurrence of multiple economic outcomes (e.g. possibility of public and private efficiency and inefficiency)



Conclusions

- ◆ **PRT fails as it assumes linear centrality and mechanistic closure**
- ◆ **IOT must heed the lessons arising from the failure of PRT and GF in order to meet explanatory complexity and adequacy**
- ◆ **Developing a critical realist IOT, preoccupied with the duality of agency and institutions and with path dependent causation, appears as a promising strategy to achieve this**



Selected references

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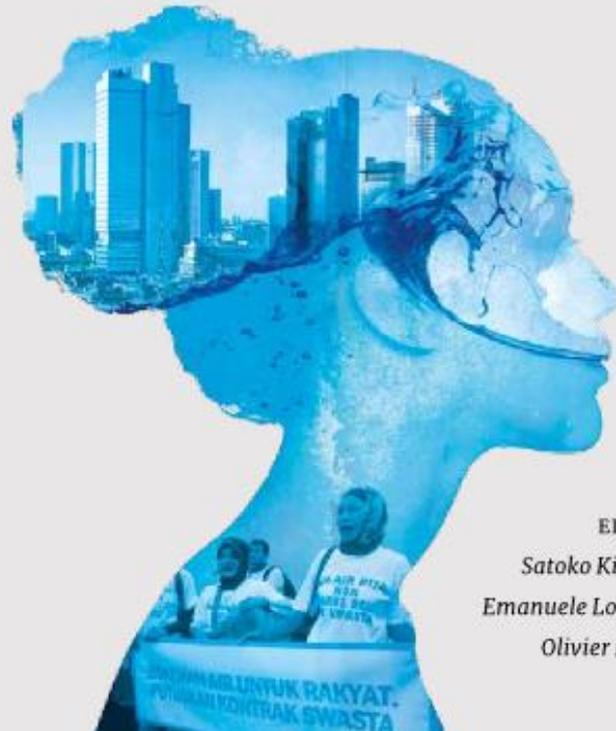
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Our public water future

*The global experience
with remunicipalisation*



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- ◆ Hall, D., Lobina, E. and Terhorst, P. 2013. Re-municipalisation in the early 21st century: water in France and energy in Germany, *International Review of Applied Economics*, vol. 27, no. 2, 193-214.



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