Competition Policy and Comparative Corporate Governance of State Owned Enterprises

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SOEs and Government Support Lead to Different Outcomes

- These differences affect performance:
  - Incentives are different than private firms (Alchian, Demsetz)
  - Corporate governance and competition are substitutes (Stigler)
- Conclusions:
  - Good corporate governance mechanisms for SOEs minimizes bad management both ex ante and ex post – some SOEs are better managed than others
  - Competition Policy can reduce distortions of SOEs and state supports

Overviews

- Private firms
- SOEs

Private vs. Government Ownership of Firms - Internal Controls

Internal Controls	Private	Public (state owned)
Corporate form	Yes	No, but sometimes a modified yes
Managerial Ownership	Yes	No
Managerial Pay	Yes	Not so well
Board Oversight	Yes (but sometimes problematic)	Yes (but generally problematic)

Private vs. Government Ownership of Firms - External Controls

External Controls	Private	Public (state owned)
Market for Corporate Control	Yes	No
Equity	Yes	No
Debt	Yes	Sometimes
Market for Managers	Yes	No
Bankruptcy	Yes	No

SOE Corporate Governance

- Incentives matter in institutional design
- Some SOEs have efficiency rationale and transparency mechanisms with good boards
- The more a government treats an SOE like a private firm, the more it behaves like a private firm
- Corporatized forms of governance should yield better outcomes … but do not always because of flaws in institutional structure

Competition and SOEs

- How SOE behavior is different than private firm behavior
  - Revenue maximization instead of profit maximization as SOE Goal
  - SOE Incentives to Raise a Rival’s Cost
  - SOE incentives to predatory price
    - Predation tests are cost based… but what are the appropriate costs?

Antitrust Predation Cost Based Tests

- Marginal Cost
- Average Variable Cost
- Average Avoidable Cost
- Long Run Average Incremental Cost

Antitrust Tests Across Jurisdictions

- No separate test for SOEs
- SOEs generally win in predation tests
  - Benefits of government ownership not imputed into costs
  - Benefits of government regulatory bias not imputed into costs

Institutions Matter

- Administrability
- Domestic Regulatory Capture
- Can domestic institutions alone remedy SOE problem?
  - WTO – a disaster on this issue
  - FTAs – equally problematic
  - BITs
  - Soft law

Recommendations

- Corporatization of SOEs
- Improved corporate oversight
- Increase competition
- Improve corporate governance
- Privatization
- Create an effective antitrust test (with cost imputation), see seminal work of Sidak & Sappington (2003a, 2003b)
  - Cost imputation has potential problems
  - Cost test may not be easy to administer given institutional weakness of the judiciary and regulators
- One size does not fit all - different solutions based on different sectors and different types of SOE problems needed