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# Productive efficiency in public and private firms

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### Abstract

This paper compares the degree of X-inefficiency which emerges as a consequence of the imposition of the optimal incentive contracts in public and private firms. Using a straightforward principal-agent model, with two possible states of the world, it establishes the rather surprising result that, in the good state of the world, public ownership always results in a higher degree of productive efficiency.



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I have benefited from comments from seminar audiences at the Universities of Bristol, East Anglia, Bologna, University College London, London Business School, the CIRIEC Conference at the University of Liege, and the European Meeting of the Econometric Society, Cambridge, September 1991, and from comments and observations of Flavio Delbono, Isabel Grilo and Riccardo Martina. As usual, the responsibility for any remaining errors is mine alone.

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Economic Reform and State-Owned Enterprises in China, 1979-1987, set, excluding the obvious case justifies abnormal verse is illegal, but if the songs were five times less, it would be better for all.

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