UNIVERSITY OF CAMBRIDGE
Electricity Policy Research Group

Ownership and competition: Finding Performance Breaks for Great Britain's Power Plants

EPRG Working Paper 1021

Cambridge Working Paper in Economics 1043

Thomas P. Triebs

Michael G. Pollitt

Economists believe that private ownership and competition increase firm productivity, but is it true? In this paper we analyse whether the restructuring and privatisation of Great Britain's electricity industry on the one hand and increased competition on the other increased labour and fuel productivity at the generation plants. We exploit the sequence of reform steps (privatisation before competition) to separately identify the effects of ownership change and competition. Because a simple before-after comparison does not allow us to separate the reform effects from other changes in the industry we use comparable US generation plants as a control group.

Even though the timing of the reform dates is know it is possible that the economic effects occurred earlier, for instance when the reform is anticipated, or later, if for instance adjustment takes time. Our method identifies the most likely date when the economic effect occurred. And for that date we estimate the effect size as the difference in labour and fuel productivity.

We find that privatisation in 1991 increased labour productivity by about 50 per cent. The effect is driven by improved management practices as well as the end of political interference in input choices, i.e. lower union power. Privatisation did not increase fuel productivity probabaly because the state owned firm had an culture that valued engineering excellence. But fuel productivity increased in the second half of the 1990s when the regulator forced the incumbents to divest some of their plants to improve competition. It seems that competition increased fuel productivity by up to 15 per

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

cent. Improved competition also increased labour productivity but the effect was strongly dominated by the effect of privatisation.

Contact triebs@ifo.de
Publication December 2015
Financial Support ESRC, TSEC 1, Ifo Institute