

Welfare-Deteriorating Leadership by State-Owned Public Enterprises

Hiroaki Ino

Graduate School of Economics, University of Tokyo

and

Toshihiro Matsumura

Institute of Social Science, University of Tokyo

August 23, 2005

Abstract

We investigate long-run effects of state-owned public firms' leadership. We compare the case where a public firm produces before private firms (Stackelberg leader) to the case where all firms produce simultaneously (Cournot). We examine long-run effects by considering free-entry of private firms. We find that, as oppose to the short-run case, the public firm should not be the leader. This implies that a time inconsistency problem arises. We also investigate the possibility that the public firm is a follower and how privatization affects welfare.

JEL classification numbers: H42, L13, C72

Key words: free entry market, Stackelberg, Cournot, mixed oligopoly, commitment