

Privatizations in Post-Socialist
Economies:
Why? How? Up to where?
Outcomes

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Main Points

- Why to Nationalize?
- Why to Denationalize/Private Public Ownership?
- Do Tool Matters?
- What about Fairness/Efficiency?
- Towards Fully Fledged Market Economies?

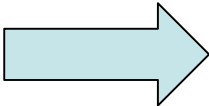

Why to Nationalize?

- In Market Economies
 - Market Failures
 - The State has an Organizer: Colbert...
 - Strategic Dimension: access to Raw materials
 - Politics: 1st Step toward a Socialist System
 - Rapid Growth

Outcomes

- Job Creation
- Catching up in some industries
- Failure in other
- Innovation in Strategic Sectors: France
- Lagging behind in other
- « State paternalism »: lack of incentives
- High Costs, Lack of Financing, Shortcomings

In Socialist Economies

- USSR Inc.
 - One State, One Industry, One Firm.
- State-Ownership
 - Link between the 3 levels macro, meso, micro
 -  « Organic Developement »
 - Firm: One Element of a whole
 - No autonomy, no incentive, no capital
 - Multi-objectives: political, social, economic.
 - Everything under Control...but low performances
 -  « Bad Industrialisation »

Why to Denationalize/Private Public Ownership?

- In Market Economies
 - Non-Market Failure
 - *The Commanding Heights* (D. Yergin): Victory of market forces over communism and socialism in Developed market economies, in developing economies andin socialist economies



Privatizations

- In Developing economies (Latin America)
 - Failure of the State

In Post-Socialist Economies

- No more Planning System
- Economic Collapse
 - Reformed and non-reformed Economies
- Setting up a Market Economic System
 - Private ownership
 - Free Entry
 - Incentives, Competition, Rewards

Objectives

- Get ride of the State Property: no more Control of Bureaucrats over Assets
- Avoid Self-Appropriation
- Developement of a Class of new Entrepreneurs
- Attract Money from Foreign Investors
- The State not in charge of restructuring
- Adjusting to the standards of normal market economies

Up to Where?

- Which assets to Privatize?
 - Productive: Strategic, Non Strategic?
 - Public goods & utilities: how to Regulate?
- Enough cash?
- Institutional Building to Monitor the Regulators, Banking
- Foreign control
- Which Assets? Up to which Level?

How to Privatize?

- Selling against a price
 - Assessing the price,
 - Direct selling
 - Bidding
- Free Distributing : To Workers, Managers, the Population
- Closing down?
- Restitution to Former Owners?

	Internal Privatizations	External privatization
Distribution	Workers & Managers: - Russia	Population: -Czech Republic
Sales	Workers & Managers, Stock option: - Slovakia	Domestic and Foreigners: - Hungary

Distribution

Positive

Fairness

Easy

Rapid

Irreversibility

Negative

Low adjustment

Not everything is
distributed (hospitals,
schools)

Governance problems

No revenues for the
State

Sales

Positive

Bring Cash to the State

Rapid Restructuring

Market Access

Innovation & up-grading

Governance

Negative

Cost of restructuring

Job reduction

Pricing

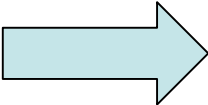
Dualism

Workers lost job &
control


Experiences

- Eastern Europe
 - Sales: ex-GDR, Hungary
 - Mass and Free Distributing: Czech Rep. Poland
- Does it matter?
 - In the short run: yes
 - Corporate governance, speed of restructuring
 - In the long run: no
 - Opening, competition, adjustment, integration, F&A

FDI: A Real Booster in CEES

- Cash, Know-how, Competencies
 - Market Access
 - Cooperation & Networking
 - Vertical & Horizontal Integration
-  New Industrial Landscape

But

- A Dualistic Structure of the Economy for a While:
 - The Best Firms under the Control of FOC
 - The bad ones: supported by the State
- Strong Dependency from Foreign Capital
 - Local Accumulation? No Bill Gates, No Red Barons
 -  Toward an Institutional Capitalism
 - Which specialization?
- Up-grading, Catching up with More Advanced Countries or a New Hierarchical Domination in a Regional Division of Labor?

Russia: « The Sale of the Century »

- Self Appropriation of Assets
- « Buying the State »: Cronism capitalism
- Still a Slice of the Cake?: Youkos
- The Oligarchs:
 - A rational behaviour
 - - Against the Corrupted Bureaucracy?
- « Domestic Restructuring »: Low pPace, Too Late
- FDI: an Asset or a Threat?

Property Concentration in 45 Industrial Sectors

Owner category	Assets	Sales
Largest private owners (22 groups)	42%	39%
Other private domestic	22%	13%
Foreign	3%	8%
Regional governments	6%	6%
Federal government	15%	26%
No data	12%	8%

Lessons

- Privatizations in Transforming Economies
 - Necessary but not Enough
- Incentives:
 - Market for Assets, for Managers, for Product
- Institutions Building
 - Transparency
 - Banking and Financial System
 - Governance