EFFECTS OF PRIVATIZATION ON INCOME & WEALTH DISTRIBUTION

John Nellis
Center for Global Development
ECONOMIC ASSESSMENTS RANK PRIVATIZATION A SUCCESS
MACROECONOMIC IMPACT POSITIVE (IMF)

- Proceeds = 1 % GDP; saved, not spent
- Growth impact positive (?)
- Good proxy for liberalizing reform
- Financial flows to govt. increase post-privatization
CAVEATS:
WIDE REGIONAL VARIATION IN OUTCOMES;
e.g. FSU vs. CEE;
OECD vs. SSA;
2nd:

OUTCOMES LESS POSITIVE IN LOWER INCOME COUNTRIES & REGIONS
3RD:

OUTCOMES VARY BY SECTOR
(infrastructure vs. manufacturing or commercial)
POSITIVE STUDIES
DATE FROM PERIOD OF GENERAL BOOM ---
1992-1998
& 5TH:

EXTENT TO WHICH OWNERSHIP EXPLAINS PERFORMANCE IMPROVEMENTS STILL UNDER DEBATE
PRIVATIZATION HIGHLY & INCREASINGLY UNPOPULAR IN LATIN AMERICA, SOUTH ASIA, AFRICA & TRANSITION COUNTRIES
percent who disagree or disagree strongly that privatization has been beneficial

- Argentina
- Bolivia
- Mexico

1998
2000

- Social Life
- Economic Stability
- Cost of Living
- Poverty Level
- Standard of Living

[Bar chart showing the percentage of respondents who felt social life, economic stability, cost of living, poverty level, and standard of living improved or worsened.]
IN RUSSIA, 2/3 INTERVIEWED: “LOST MORE THAN GAINED FROM PRIVATIZATION”

2001; 1600 respondents; only 5 % said opposite
AVOIDING THE NAME...

- Bolivia  “capitalization”
- India  “disinvestment”
- Vietnam  “equitization”
- Sri Lanka  “peopleization”
- China  “ownership reform”
- Mexico  “disincorporation”
PRINCIPAL CRITICISMS OF PRIVATIZATION:

- UNFAIR IN CONCEPTION & DESIGN
- BENEFITS RICH, FOREIGN & CORRUPT
- INCREASES INEQUALITY & POVERTY
PRIME QUESTIONS:

- IS PRIVATIZATION INCREASING INEQUALITY?
- IF SO, HOW & TO WHAT EXTENT? &
- WHAT CAN & SHOULD BE DONE ABOUT IT?
HOW CAN PRIVATIZATION AFFECT EQUITY?

1. DISTRIBUTION OF ASSETS
2. EMPLOYMENT & RETURNS TO LABOR
3. ACCESS (COVERAGE) & PRICES
4. FISCAL POSITION & RESOURCE ALLOCATION OF GOVERNMENT
FINDINGS

OWNERSHIP BECOMES:

MUCH MORE CONCENTRATED, DESPITE VOUCHERS; SHARES TO WORKERS; “CAPITALIZATION,” RESERVING TRANCHE FOR WORKERS, LOCALS, ETC.
Ownership effects unlikely to affect bottom end of income distribution

Employment/consumer effects more important
But....

Overall wealth distribution can be seriously worsened (e.g., Russia)
EMPLOYMENT:

# OF EMPLOYEES

OFTEN DECLINES, SIGNIFICANTLY, BEFORE & AFTER SALE
SURVEY OF 308 PRIVATIZED FIRMS:

EMPLOYMENT LOSS IN 79%
EMPLOYMENT NEUTRAL OR GAIN IN 21%

(Chong & Lopez-de-Silanes, 2002)
DOES ADD TO UNEMPLOYMENT; but

# DISMISSED SMALL % OF WORKFORCE

NOT PRIME CAUSE OF HIGH POST-REFORM UNEMPLOYMENT LEVELS
EMPLOYMENT:

- RETAINED EARN ABOUT SAME
- WORK MORE HOURS; LESS SECURITY
- MEN, YOUTH, BETTER EDUCATED THE WINNERS; WOMEN, THOSE > 45 THE LOSERS
ACCESS & PRICES:

- ACCESS *INCREASES*, ESP. IN POORER DECILES
- QUALITY INDICATORS UP
- PRICE INCREASES COMMON---AND OFTEN LARGE
- BUT LARGE PRICE *DECREASES* ALSO OBSERVED
IMPROVED ACCESS

- **Peru** telecom + 167 %
  - electricity + 33 %

- **Bolivia** telecom + 123 %
  - electricity + 2.7 %
  - water + 15 %

- **Argentina** telecom + 30 %
  - electricity + 11 %
  - natural gas + 30 %
QUALITY SHIFT CAN BE VERY IMPORTANT

Argentina: infant mortality down 5 to 7% in areas where water privatized

Poorer the area, greater the decline (up to 24%)

(Galiani, Gertler, Schargrodsky, 2002)
PRICE SHIFTS IN INFRASTRUCTURE

- UP IN WATER & ELECTRICITY; DOWN IN TELECOM & GAS
- DISTRIBUTIONAL IMPACT DEPENDS ON REGULATORY COMPETENCE but......
- HOUSEHOLD BUDGET SHARES NOT LARGE ENOUGH TO PRODUCE SIGNIFICANT PRICE EFFECTS
EVEN WHEN WELFARE +, POOR CONSUMERS CAN & DO SUFFER

E.G., ENDING ILLEGAL HOOK-UPS (Argentina)
Does increased access offset price increases?

Answer: “yes” --- access effects + for all but top decile
FISCAL EFFECTS

- Positive “flow of funds” (despite “underpricing”)
- More from end of subsidies & new corporate taxes than from sales proceeds
- Public debt down; social expenditures up in many cases
- Privatization a fiscal opportunity
CONCLUSION:

IN SHORT RUN, PRIVATIZATION WORSENS ASSET & INCOME DISTRIBUTION

but....
• Wealth effects mainly important in transition economies
• Income effects small & often temporary
• Increased access far outweighs price increases
• Poor can be the primary beneficiaries
• More often, all benefit—but upper deciles more than lower
• General welfare increases, & perhaps inequality as well
But in best-studied Latin American cases.......  

- "...privatization has a very small effect on inequality..."
- changes to Ginis 0.02 or less
- "Privatization either reduces poverty or has no effect on it....."
Bottom line:

Inequality & perceptions matter; privatizations can & should be structured to minimize trade-offs between efficiency & equity
Independent & accountable
regulation of infrastructure most acute need

Nonetheless.....
Distribution studies do not suggest privatization should be halted or reversed.
But rather that it be more carefully and justly conceived & implemented