Voucher Privatisation

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Privatisation

Definition
The conversion of state-owned enterprises into privately managed assets; denationalisation, state divestiture.

- Lady Margaret Thatcher and efficiency gains
- Rightists and government downsizing
- Leftists and revenue generating

- Eastern Europe
  - All of the above
  - Marketisation and privatising the entire economy
Privatisation

SOE in Red, DeNovo Private in Blue, sum in Brown
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By 2001 gap between West and East was larger than in 1989.
Types of Privatisation

- Big-bang (or shock therapy) vs gradualism
- Restitution
- Give-away Vouchers
- Direct sales or Auctions
Gradual Privatisation

- Fast privatisation may result in a large layoff of workers
  - may result in renationalisation
  - potentially politically non-viable
- Too much uncertainty
  - So first go the ‘well-performing’ firms
  - ‘poorly-performing’ firms stay on subsidy longer
Fast Privatisation

- Price liberalisation is not enough incentive to restructure
- State cannot help intervening
- Managers would decapitalise firms meanwhile
Gradual Privatisation

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- Too much uncertainty
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Restitution

- A restoration of the property to its rightful owner
  - identifying the rightful owner
  - possible low interest in the property
  - probable investment inabilities or managerial skills

- Not a perfect mechanism
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Voucher Privatisation
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- Fast
- Fair and politically viable

- No extra capital invested
- No extra managerial skills acquired
- No revenue generated for the government
- Extra-short term investment possibilities
Auction Privatisation

- Lack of local capital
- Slow
- Prone to *nomenklatura* rent-seeking
- Banks in Czech Republic prior to 1997
Russia and Harvard Mafia

- Large scale voucher privatisation
- Private banks started to operate
- Loans-for-shares

- Harvard University programme under USAID
Slovenia and Gradualism

- Refused to privatise
- Vouchers to population
- State shares and development funds
Extent of Privatisation and Ideology

- Ideology determines how the privatisation is drafted
- Ideology shapes the definition of interests and distribution of power
- Ideology reflexes the government’s attitude towards property rights
Extent of Privatisation and Economics

- Profit maximising leads to Pareto efficiency
- Shareholders want profit maximisation
- Competitive markets impose profit maximisation

- No, No, and No!

- In incomplete competition state firms outperform (Freshtman, 1990)