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# Voucher Privatisation

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January 2012

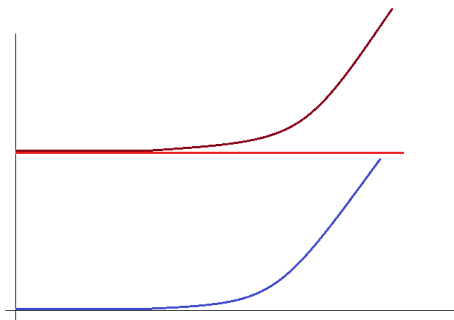
# Privatisation

## Definition

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

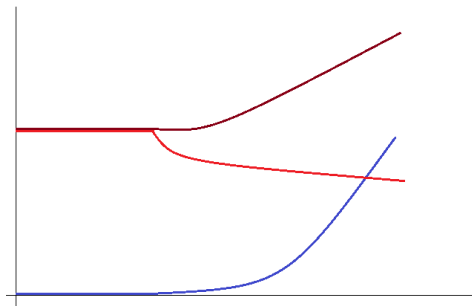
- ▶ Lady Margaret Thatcher and efficiency gains
- ▶ Rightists and government downsizing
- ▶ Leftists and revenue generating
  
- ▶ Eastern Europe
  - ▶ All of the above
  - ▶ Marketisation and privatising the entire economy

# Privatisation



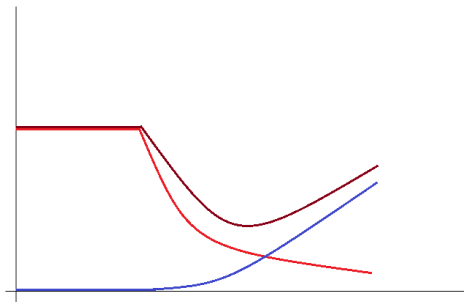
SOE in Red, DeNovo Private in Blue, sum in Brown

# Privatisation



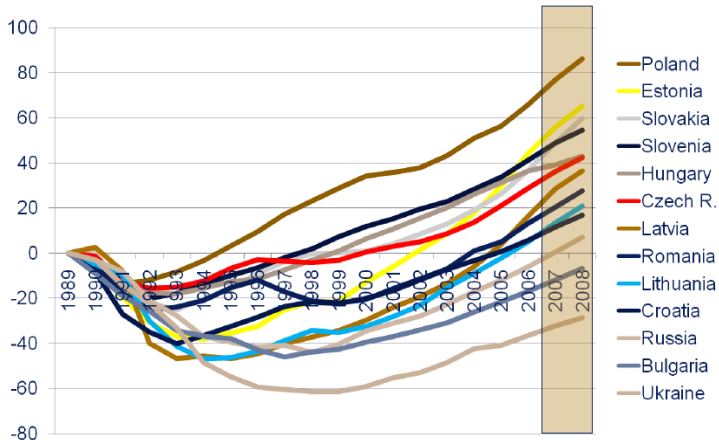
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# Privatisation



SOE in Red, DeNovo Private in Blue, sum in Brown

## Privatisation as an explanation to the Surprise



Source: IMF World Economic Outlook 2007, newer = estimates

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 politicaly 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

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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



## Voucher Privatisation

- ▶ Fast
- ▶ Fair and politically viable
  
- ▶ No extra capital invested
- ▶ No extra managerial skills aquired
- ▶ 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 (Freshman, 1990)