

Who Wants to Revise Privatization?

People with negative personal experiences during the transition favor re-privatization

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For the last 20 years, the privatization of state enterprises has been a central element of economic reform. By most accounts, the beneficial effects of privatization have outweighed the costs in most settings. Yet privatization seems to be unpopular with the mass public in many reforming countries.

We analyze the attitudes towards privatization, relying on a dataset from the 2006 survey by the World Bank and EBRD entitled "Life in Transition", which covers 28,000 individuals in 28 transition countries.

We find strong support for revision of privatization in all post-communist countries, with more than one half of the population in each country supporting some form of revision, from levying additional taxes on current owners of privatized assets to their full expropriation. Re-nationalization and keeping companies in state hands is strongly preferred in Central Asia and the South Caucasus (see Table). The highest support for re-nationalization followed by re-privatization using a more transparent process is observed in the South Caucasus and in Croatia. In contrast, respondents in Albania, Bulgaria, the Czech Republic, Hungary, and Romania have a strong preference for leaving property with current owners, provided that they pay what the privatized assets are worth. Leaving most privatized companies in the hands of current owners

without any change is especially pronounced in Belarus and Estonia.

Institutions are Important

We examine how individual characteristics shape attitudes towards privatization and find that the following groups of people are in favor of revising privatization:

- Respondents with less human capital and/or human capital specific to an economy dominated by state ownership — older respondents, those in less skilled jobs, in poorer health, and with only vocational educations;
- People who have experienced significant and sustained economic hardships during transition, such as food cuts, forced asset sales, and wage cuts;
- People who have worked in the public sector during transition, presumably because the person believes that s/he missed out on gains from the initial round of privatization. If a respondent moved from wage work to self-employment, or worked for longer periods in the private sector, his/her preference for private over state property was stronger, but attitudes towards revising privatization were not affected.

On the other hand, respondents reporting a movement up the income ladder relative to 1989 oppose re-nationalization/revising privatization. To this group also belong owners of private assets (house or apartment), because

their personal holdings may be adversely affected by such a change in policy.

We also find that institutions do affect the link between transition-related histories and support for the revision of privatization. In particular, in countries with better governance, stronger democracy, and more extensive private ownership respondents moving from work for wages to self-employment are significantly more likely to oppose revising privatization than their counterparts in countries with weaker institutions.

Inequality does not directly affect the link between individual transition histories and attitudes towards revising privatization, but it does decrease the differences in the belief of the superiority of state over private property between those with relatively successful and unsuccessful transition histories.

Finally, in countries where privatization has been extensive, those who moved from wage work to self-employment during transition are more likely to oppose revising privatization.

Policy Implications

Understanding who supports the revision of privatization and the reasons for this support has different implications for policy. If public support is rooted in relative losses from declining returns to human capital, then retraining programs may prove to be an effective tool. However, if public support for the revision of privatization is driven by concerns of fairness, governments may have to turn to redistributive policies. An optimistic lesson from our results is that most of the support for the revision of privatization due to unfairness comes from negative personal experiences during the transition, which are likely to play a smaller role in shaping attitudes over time.

"In your opinion, privatized companies should be..." (selected countries)

	Re-nationalized and kept in state hands	Re-nationalized and then re-privatized in a more transparent way	Left with their current owners provided they pay privatized assets' worth	Left with their current owners with no change
Armenia	40.5	22.6	26.8	10.1
Belarus	20.4	7.1	25.8	46.7
Bulgaria	28.8	15.8	48.3	7.2
The Czech Rep.	13.0	11.8	20.6	24.6
Estonia	22.4	10.7	22.6	44.4
Georgia	30.9	31.9	14.0	23.2
Hungary	24.6	10.2	51.9	13.3
Romania	19.9	14.4	53.0	12.8
Russia	36.7	13.3	31.5	18.5
Ukraine	43.0	12.5	31.9	12.6

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