Preface

Since its beginnings four years ago, the Center for Global Development has put a priority on understanding the effects of market reforms on the well-being of people in developing countries. Among the most controversial of market reforms has been the privatization of state-owned enterprises. The international financial institutions have been consistently and strongly encouraging privatization of inefficient state enterprises, in part because these enterprises were eating up scarce public funds. Throughout the 1990s, privatization was strongly embraced in Eastern Europe and the former Soviet Union as a key part of the transition to a market economy; it was widely adopted in Latin America and throughout Asia and Africa as well. What is surprising is how little attention, before and after the fact, has been paid to the distributional implications of the privatization movement. It is particularly puzzling given the nature of the current backlash in so many settings against further privatization—a backlash nurtured by the widespread view that the effects of privatization have been to enrich the already rich and powerful, and sometimes corrupt, at the expense of the majority.

This book makes a start at rectifying the situation. It brings together a comprehensive set of country studies on the effects of privatization on people—winners and losers in different income, employment, and education groups. The studies are sophisticated and careful; they exploit household-level data on changes in the income of different groups affected by privatization and country data on profits, changes in public tax revenue from privatized enterprises, and shifts in pension and other liabilities. It addresses the big questions: Are the poorest households paying more for water, power, and other basic services? Did those who lost jobs suffer permanent declines in income? Were state assets sold at prices that were too low, and who benefited from the resulting windfalls? Was the process, in laypersons' terms, "fair"?

Some readers will be surprised at the general conclusion: that privatization has, in many cases, been a reasonably good thing, including for the poor. Others will be surprised at its limited effects—for good or for ill—and at the heavy dependence of the results on the setting, the timing, the type of enterprise, and the initial conditions—who was benefiting to start with. Almost all readers will want to understand the potential for future privatizations—which remain on the policy agenda despite public resistance and continuing controversy—to enhance competition and at the same time, be fundamentally more just and fair.

The idea for this book began when I was a senior associate at the Carnegie Endowment for International Peace working on issues of inequality around the world. I was fortunate to be able to persuade John Nellis, then retiring from the World Bank after more than a decade of advising, guiding, and worrying over privatization throughout the developing world, especially in Russia and other countries of the former Soviet Union, to collaborate with me in unbundling the effects of privatization on people. I am enormously grateful to John for his wisdom, his readiness to share his experience, and his overall leadership on the ambitious project, which this book represents.

We are grateful to the Carnegie Endowment for its initial sponsorship and to the Tinker Foundation for its early support of the country studies in Latin America. We thank Nancy Truitt at the Tinker Foundation for her ideas on the proposed scope and approach of the project. We are also indebted to Christine Wallich and her then-colleagues at the Asian Development Bank (ADB), who sponsored several of the Asia country studies, and to Michael Lim of the ADB for his comments on the initial drafts of the studies on China and Sri Lanka. We were fortunate to benefit from the collaboration and contributions of a program on privatization at the Inter-American Development Bank (IADB) developed under the leadership of Nora Lustig (now director of the Center for Studies on Globalization and Development and a Board member of the Center). We also thank Alberto Chong of the IADB for his willingness to have the IADB cohost our February 2003 conference at the Center, where contributors presented draft studies; for his generosity in sharing information and studies he had conducted on related aspects of privatization; and for his comments on several chapters in the study. Among the many who provided critical and constructive comments at the 2003 conference were Navroz Dubash of the World Resources Institute, Carol Graham of the Brookings Institution, Albert Keidel, then at the US Treasury, Minxin Pei of the Carnegie Endowment for International Peace, Louise Shelley of American University, John Williamson of the Institute for International Economics, and Ambassador Kenneth Yalowitz of American University. John and I also thank the two senior scholars who reviewed and commented on the entire manuscript draft: Johannes Linn of the Brookings Institution, who, as former vice president for Eastern Europe and Central Asia at the World Bank, knows the issues well, and William Megginson, holder of the Rainbolt Chair of Finance at the University of Oklahoma's Price College of Business.

The book could not have been completed without the help of Sabeen Hassanali, formerly of the Center, who has been deeply involved in every aspect of the overall project, who helped make the project conference a success, and who has overseen editing and production details with many far-flung authors. I am particularly grateful to our production and publishing team at the Center, especially Noora-Lisa Aberman and Yvonne Siu, as well as to Marla Banov, Madona Devasahayam, and Valerie Norville at the Institute for International Economics.

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In the end of course an edited book relies on the contributions of its contributors. John and I are enormously grateful to our colleagues for their willingness and ability to tackle an issue that is not amenable to simple and clear analysis. Surely one reason for the dearth of earlier work on the distributional implications of privatization programs is that there is no consensus about the methods and the data to address it—and thus no guarantee of success in the narrow research sense. We are grateful to our contributors for their commitment to excellence and the evidence in a controversial area and for their willingness and ability to combine the most advanced theoretical and empirical methods with practical policy insight.

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President
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