

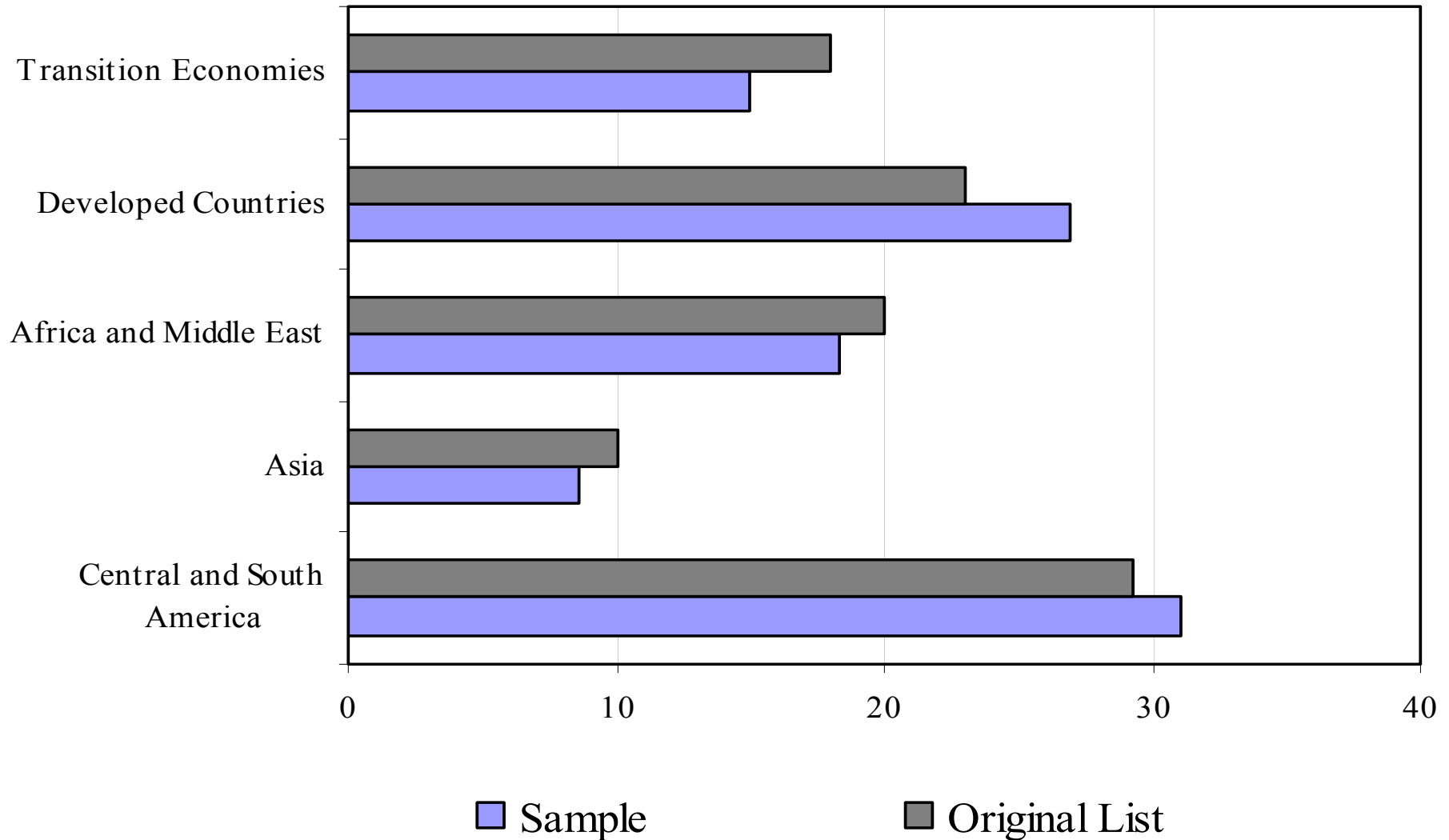
# Privatization: Stylized Facts, Myths, and Unsolved Issues

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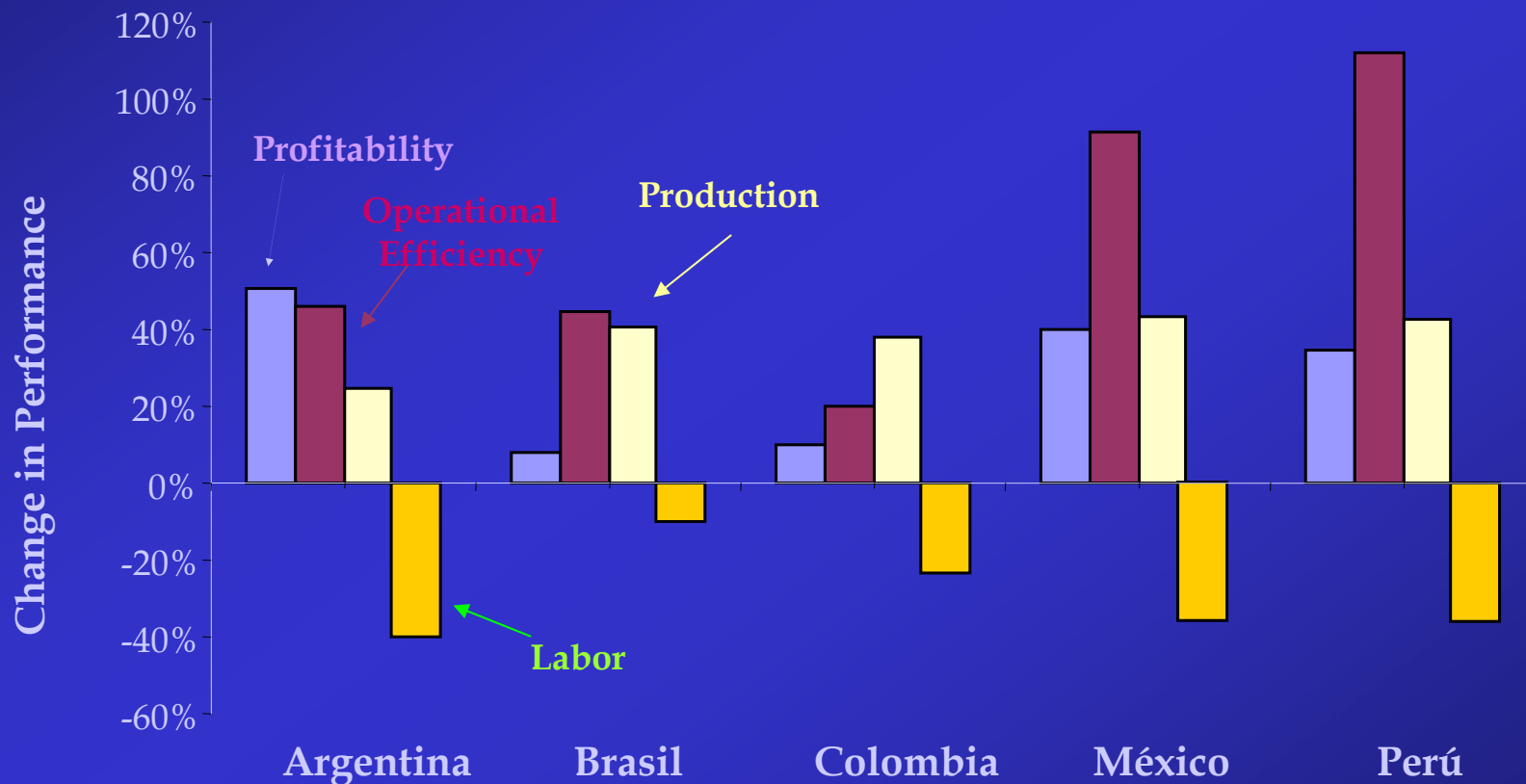
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# What are the Stylized Facts?

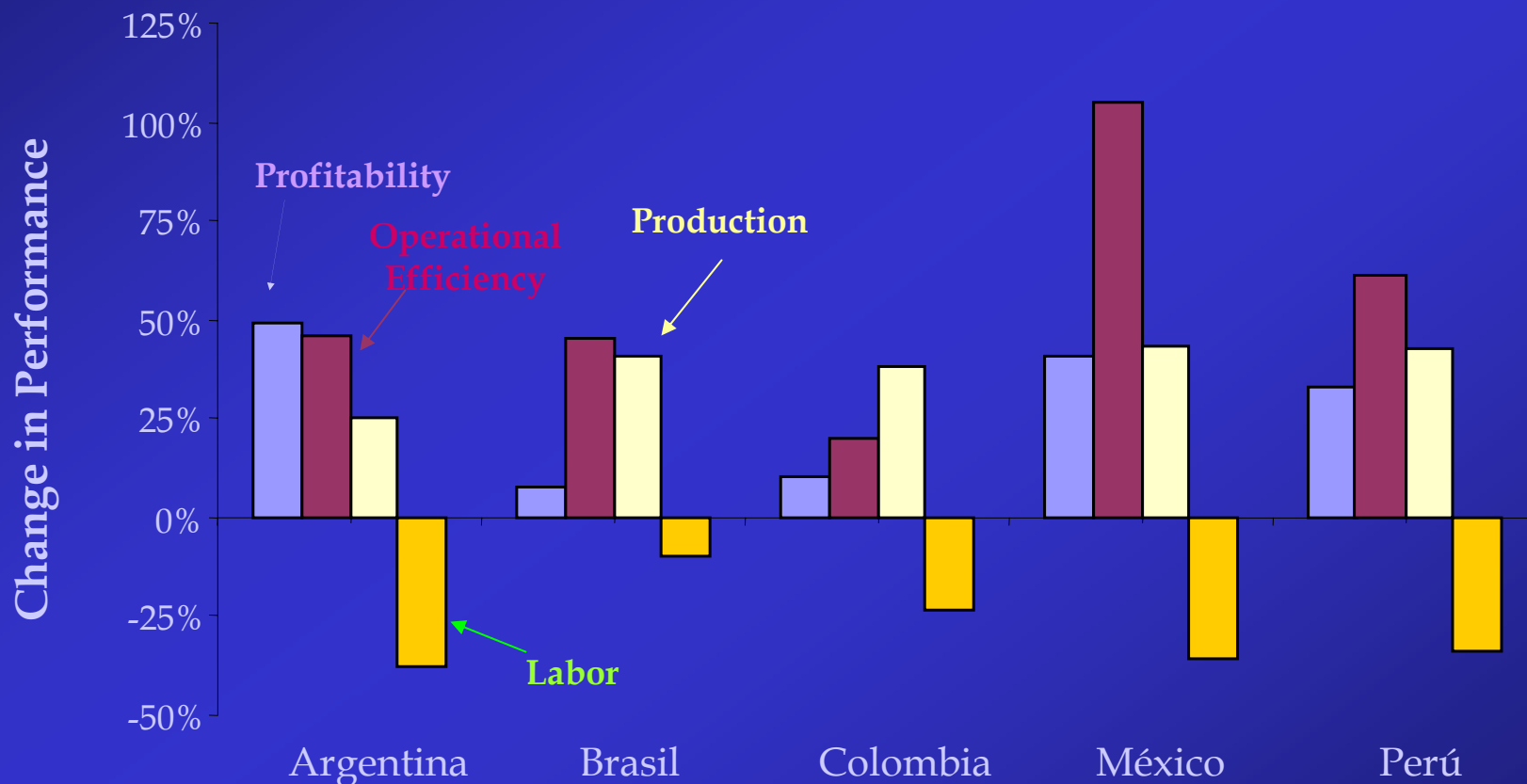
# Fact 1: Latin America has Privatized More than Most Regions



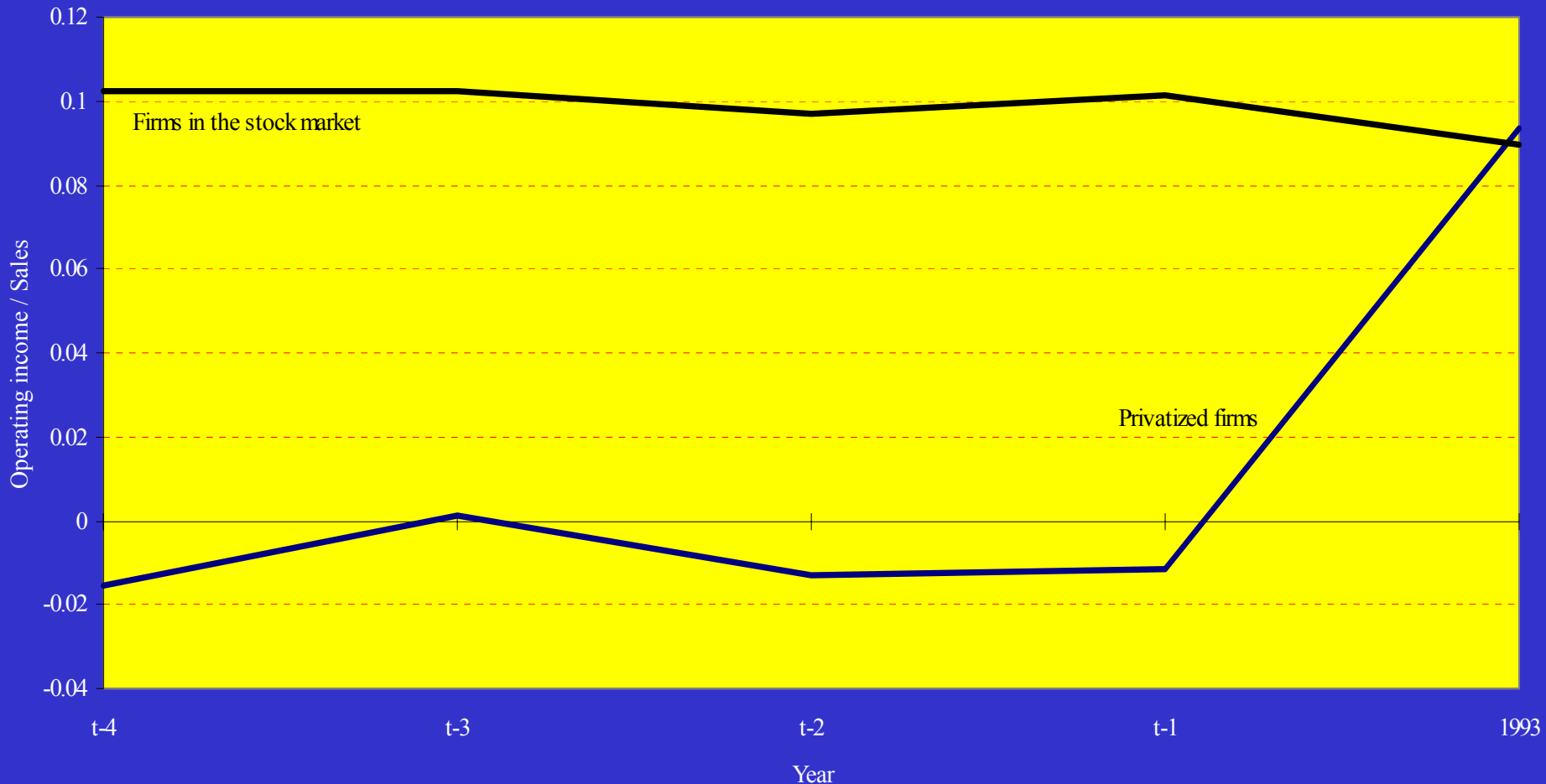
# Fact 2: Firm Performance after Privatization is positive



# Fact 3: Firm Performance After Privatization is Positive when adjusting for industry



# Fact 4: Privatized Firms Quickly Catch-Up With the Rest of Firms



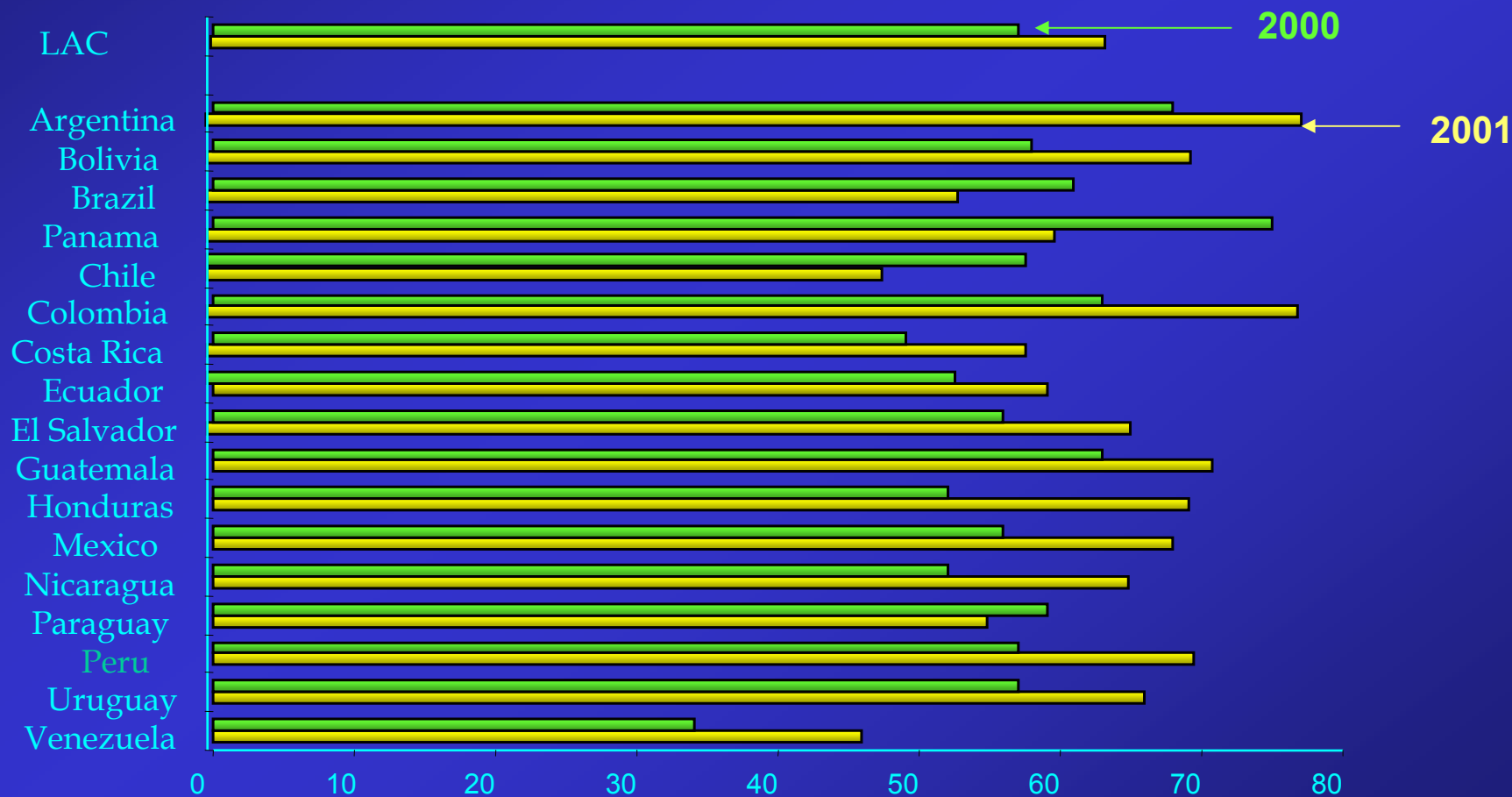
Source: Chong and Lopez-de-Silanes, eds., (2003)

# Fact 5: Key Source of Gain is Productivity

## *Decomposing Change in Profitability*

Gains due to price increases	1.3 percent	(5%)
Gains due to layoffs	7.7 percent	(31%)
Productivity Gains	15.0 percent	(64%)
<b>== Change in Profitability</b>	<b>24.0 points</b>	<b>(100%)</b>

# Still, Disapproval Rate of Privatization in Latin America is High...



Why Such Negative Perception?

# Myth 1: Privatization is Linked with Both More Inequality and More Poverty

## Flawed Questions?

- Short-Run versus Long Run Problem  
Is it Privatization Revenues or Structural Reform?
- Public Sector Workers are not among the Poorest
- Some Progress but still lack of data: No Convincing Evidence

# Myth 2: Privatization does not Improve Welfare

- Welfare

Argentina (water) ---Galiani, Gertler, Schargrotsky, and Sturzenegger (2001); Perú (rural telephony) –Chong, Galdo, and Torero (2002), and Bolivia, Colombia...

- Prices

Privatization has limited bearing on Prices (Mexico, Lopez-de-Silanes, 1997; Argentina: Galiani, et al., 2001; Peru: Torero, 2001; and Colombia, Brazil)

# Myth 3: Labor is the Big Loser After Privatization

- Total (Direct and Indirect) employment actually increases
- Re-Hires after privatization (because of adverse selection) are quite common everywhere, in particular in Latin America.



## Myth 4: Globalization and Employment do not mix (or the Technology myth)

- Privatized firms with foreign participation hired more temporary and permanent workers because of higher productivity
- They also re-hired much less because of less adverse selection
- No difference in terms of subcontracting or stability

## Two Unsolved Issues

- The Relevant Question: What Happens with Workers After Privatization?
  - Data problems
  - Econometric Issues
- Regulation Issues are crucial: the structure is the same (reach and characteristics should be re-assessed)