



Distributional Impact of Privatization Conference February 24, 2003

The Distributional Impact of Privatization conference welcomed scholars and practitioners from around the globe to discuss the latest research on the economic impacts of privatization on the poor. Several recent innovations afford analysts a much better grasp of the issue than in the past. For example, household expenditure and consumption data have been mined to reveal a great deal about the distributional consequences of the privatization of infrastructure (utility) firms in Latin America. Somewhat unexpectedly, the Latin American cases indicate that the distributional consequences of privatization are quite small, at least in terms of effects on employment and wages. And while many citizens are found to be paying higher prices for privatized utility services, coverage has expanded greatly. This expansion of coverage has a particular benefit for the poor. Researchers agreed that the benefits of increased coverage generally outweigh the costs of increased prices. If these results apply generally, it might be concluded that privatization is being unfairly blamed for problems caused by other aspects of policy and reform. But cases from outside Latin America illustrate how outcomes differ by region. Privatization is much more likely to have significant, possibly severe short-term negative distributional consequences in lower income countries, like Sri Lanka, and in states where the institutional underpinnings of capitalism are still embryonic, such as Georgia, Ukraine, and Russia.

While some privatization programs have been plagued by corruption and ineptitude, we also see cases where it directly benefits the poor. The process of privatization strongly influences its outcomes. A process that includes competition enhancement (where possible) and good regulation (where necessary) helps to avoid negative effects on the poor. Selling governments should devote more initial effort to introduce and safeguard competitive forces and develop good regulatory systems, rather than concentrate on the speed and number of transactions.