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Does Privatization Raise Productivity? Evidence from Comprehensive Panel Data on Manufacturing Firms in Hungary, Romania, Russia and Ukraine

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Abstract

This paper analyzes the impact of privatization on multifactor productivity (MFP) using long panel data for nearly the universe of initially state-owned manufacturing firms in four economies. Controlling for firm and industry-year fixed effects and employing a wide variety of measurement approaches, majority privatization raises MFP about 28% in Romania, 22% in Hungary, and 3% in Ukraine, with some variation across specifications, while in Russia it lowers it about 4%. Privatization to foreign rather than domestic investors has a larger impact (about 44%) and is much more consistent across countries. The positive effects emerge within a year in Hungary, Romania, and Ukraine and continue to grow thereafter, but are still ambiguous even after 5 years in Russia. Pre-privatization MFP exceeds that of firms remaining state-owned in all countries, implying that cross-sectional estimates overstate privatization effects. The patterns of the estimated effects cast doubt on a number of explanations for "when privatization works."