

Reallocation, Productivity, and the Effects of Privatization: Estimates from Manufacturing Firms in Transition Economies

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Abstract

How do government policies affect the productivity consequences of job reallocation? This paper analyzes the extreme case of the change in economic system in Hungary, Romania, Russia, and Ukraine, with a special focus on the effects of privatization. We employ annual industrial census data from 1985 to 2004 on medium and large firms in these four economies, which have adopted radically different policies for economic transition, including different privatization policies. We find that reallocation had negligible consequences for aggregate productivity under central planning, but has become strongly productivity-enhancing during the transition. Preliminary results also suggest that privatization increases the degree to which reallocation raises productivity, albeit with large differences across countries and between domestic and foreign ownership.

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