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NEW REPORT: Privatization in transition economies has a positive impact on employment and productivity

A new report published on IZA World of Labor finds that the privatization of state-owned enterprises (SOE) in transition economies improves firm-level employment and productivity. These findings are contrary to the fears of some politicians that privatized firms cut jobs when they face competitive pressure from the market economy.

Professor Yasuyuki Todo, from the Graduate School of Economics, Waseda University, Tokyo focuses on a number of studies conducted in China where SOEs have gradually been privatized since the early 1990s, due to the central government's concern about its considerable debt. The share of SOEs responsible for urban employment dropped drastically from 78% in 1978 to only 17% in 2013. Todo shows that privatization in China improved productivity and employment not only in the short term.

Privatization increased productivity and employment one year after privatization by 2.2% and 2.9%, and six years after that by 12.8% and 3.4%, respectively. These findings imply that privatization generates a virtuous cycle among productivity, exports, and employment. Competitive pressure seems to improve productivity and export propensity. When privatized firms expand their export activities they tend to acquire new foreign knowledge, thus further improving their productivity. As a result of increased productivity and export propensity, sustainable employment growth (the virtuous cycle) can be achieved.

Todo advises policymakers in transition governments and emerging economies not to be afraid of the potential negative effects of privatization on employment. Instead they should recognize its positive effects on employment and productivity due to penetration into global markets. Although the privatization of SOEs is primarily a domestic issue, it can be promoted in an international framework, utilizing extended multilateral free trade agreements that require member countries to treat private firms and SOEs equally.

Media Contact:
Please contact Francesca Geach for more information or for author interviews:
francesca.geach@bloomsbury.com or +44 20 7462 9204

Notes for editors:

IZA World of Labor (http://wol.iza.org) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.

The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.

Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labour markets. Based in Bonn, it operates an international network of about 1,300 economists and researchers spanning more than 45 countries.