Lessons from Privatization in Eastern Europe and Latin America by Luis Luis

Comments by Jose Ramon de la Torre

I concur with Luis on the basic premise that privatization is an essential ingredient of a broad-based package of liberalization measures. Although costly and potentially disrupting in the short term, it must be done relatively fast and in parallel with the development of measures that provide the necessary infrastructure for the efficient function of a modern market economy. Where Luis fails is in distinguishing between the often contradictory goals of equity and efficiency in the choice of privatization tools and programs. What is just and fair is not necessarily what is best.

The example of Eastern European countries' handling of the return of confiscated properties is an excellent case of the dangers involved in such programs. Insufficient attention to the uncertainly introduced by complex restitution policies into such consideration as the permanency of property rights can bring serious difficulties to the best intentioned program. Also, different types of assets (real property vs. businesses, large vs. small, agricultural land vs. regulated utilities, etc.) require significantly differentiated treatment, a point Luis does not develop.

Finally, related issues such as the valuation of foreign exchange, the role of foreign investment, and the desire for establishing a broad distribution of property rights must be considered within the same equity/efficiency paradox. In closing, Luis has provided us with a first attempt, and a valuable one, to discern the lessons from a variety of experiences under highly diverse circumstances. But much remains to be done in terms of a generalized model of privatization that must be rooted in economic analysis and enriched by the ample empirical evidence. Being last in this process is a definite advantage.