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Mass Privatization and Mortality: Is Job Loss the Link?

W.E. Upjohn Institute Issue Brief

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Was mass privatization responsible for the increased mortality in postcommunist societies during the 1990s? This claim appears in a recent article in the British medical journal *Lancet*, and has been subsequently reported in many newspapers (see Stuckler, King, and McKee 2000). The article documents a robust correlation between the extent of privatization and the adult male mortality rate using country-level data for about 24 economies of Eastern Europe and the former Soviet Union. A storm of controversy among defenders and attackers of "shock therapy" policies has ensued. While much of the discussion is ideological, legitimate questions can be raised about various aspects of the methodology of the article, including the use of country-level data to study death and ownership—phenomena that are inherently micro.

What requires more attention is the question of causality: how could changing ownership from state to private have raised mortality? The *Lancet* authors theorize that privatized firms cut employment, and then refer to the extensive evidence on the negative impact of unemployment on health to link job loss to mortality. But is the first step valid; that is, does privatization systematically lead to substantial job loss? The *Lancet* article provides no evidence on this question.

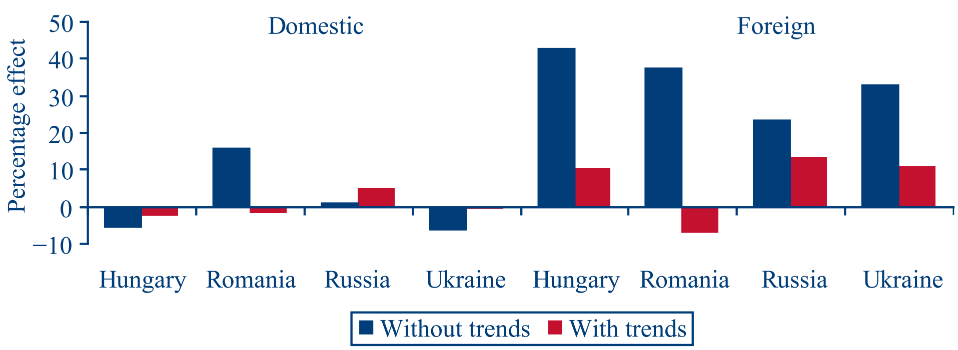
In a forthcoming study in the *Economic Journal* (Brown, Earle, and Telegdy forthcoming) we find that the answer is a clear "no." Our analysis is not at the country level, as in the *Lancet* article. The problem with such aggregated data is that a variety of confounding influences may explain the results—just the sort of issues that have heated up the blogosphere, but that may never be resolved simply because they cannot be measured. Instead, our analysis uses data on nearly every manufacturing firm inherited from the socialist period in four major transition economies: Hungary, Romania, Russia, and Ukraine. The firm is the level at which decisions on employment are made, and with our data we directly observe ownership, employment, and many other variables. Equally important, we observe firms for many years (up to 20 years in these databases), so we can follow the path of employment and other variables for long periods both before and after privatization takes place. We also observe firms that are never privatized, which together with those that are not yet privatized (but will be) can form a control group in examining the effect of privatization on employment within a particular industry and year. The ability to compare firms within industries and years—apples with apples, rather than apples with oranges—is another benefit of analyzing data at the level of the decision maker, rather than the aggregate.

Analyzing these data with several statistical methods to control for possible biases due to selection of firms for privatization, we find no evidence that privatization systematically lowers firm-level employment. Figure 1 contains results with two alternative methods: firm fixed effects and firm-specific trends (labeled "without trends" and "with trends" in the figure, respectively). The estimated effects of privatization to domestic owners are generally positive, and where they are negative the magnitudes are very small and usually statistically indistinguishable from zero. The estimated effects of foreign privatization are almost always positive, large, and statistically significant, generally implying a 10–30 percent expansion of employment following the foreign acquisition. In the country with the most (in)famous mass privatization, Russia, the domestic privatization effects are positive, and when estimated with trends the effect is the largest of any of these four countries. Analysis of the long time series shows that the absence of negative employment effects of privatization is the consequence neither of delayed restructuring several years after privatization nor of preprivatization downsizing, which is negligible in these economies.

These empirical results strongly contradict the notion, frequently assumed but little investigated, that large job cuts follow privatization. Why is this assumption empirically incorrect? One possibility is that privatization matters little for firm behavior: new private owners do not restructure and do not lay off workers. Our research investigates this possibility by decomposing the employment effects of privatization into two components, "productivity" and "scale" effects. Holding the firm's scale—its level of production—constant, an increase in productivity tends to lower employment. Holding constant the level of productivity, an increase in scale tends to raise it.

Our empirical analysis of these mechanisms finds that privatization tends to raise both productivity and scale. Both effects are much larger in firms

Figure 1 Estimated Privatization Effect on Employment



SOURCE: Brown, Earle, and Telegdy (forthcoming).

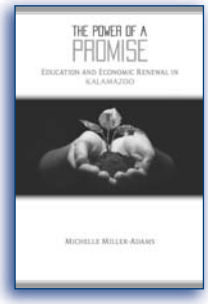
New and Recent Books

The Power of a Promise

Education and Economic Renewal in Kalamazoo

Michelle Miller-Adams

When a group of anonymous donors announced in 2005 that they would send every graduate of the Kalamazoo Public Schools to college for free, few within or outside this mid-sized Michigan community understood the magnitude of the gesture. In the first comprehensive account of the Kalamazoo Promise, Michelle Miller-Adams addresses both the potential and challenges inherent in place-based universal scholarship programs and explains why this unprecedented experiment in education-based economic renewal is being emulated by scores of cities and towns across the nation.



"Michelle Miller-Adams captures the truly unique story of the Kalamazoo Promise without losing sight of the universal lessons it offers us. [This book] is essential reading for anyone who wants to understand the future of economic and community development in our country." *–Governor Jennifer M. Granholm, State of Michigan*

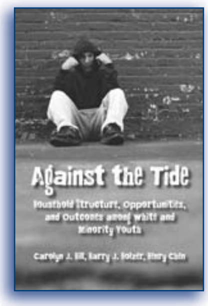
274 pp. 2009 $40 cloth 978-0-88099-340-1
$18 paper 978-0-88099-339-5

Against the Tide

Household Structure, Opportunities, and Outcomes among White and Minority Youth

Carolyn J. Hill, Harry J. Holzer, and Henry Chen

The authors examine the effects of household structure on young adults and how these effects might have contributed to the negative trends in employment and educational outcomes observed for young minorities over time. In addition to studying these links, they also provide a better understanding of the means through which growing up in a single-parent household might affect youth outcomes, and they reveal other factors that might either reinforce or counteract these household effects.



The bottom line, say the authors, is that young people growing up in single-parent households face a combination of additional challenges compared to young people growing up in two-parent families, and that these challenges, while not insurmountable, pose a significant hurdle to achieving educational and employment success.

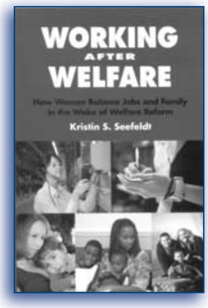
172 pp. 2009 $40 cloth 978-0-88099-342-5
$16 paper 978-0-88099-341-8

Working After Welfare

How Women Balance Jobs and Family in the Wake of Welfare Reform

Kristin Seefeldt

In *Working after Welfare: How Women Balance Jobs and Family in the Wake of Welfare Reform*, we experience the day-to-day struggles these women face and the reasons why they tend to remain in low-wage, dead-end jobs. The hundreds of women who were followed in the WES were not constrained by the decision whether to work or to stay home and raise their kids, but by one of finding the right balance between caregiving responsibilities and their families' financial and other needs. Interestingly, though, once that balance was attained, many women chose to remain in a job or forego additional schooling even if it meant stagnant or slow wage growth for fear of interrupting their children's schedules or because of an unwillingness to spend less time with their families.



171 pp. 2008 $40 cloth 978-0-88099-345-6
$18 paper 978-0-88099-344-9.

privatized to foreign investors, with 10–25 percent increases in productivity, and 15–40 percent increases in scale. The dominance of the scale over the productivity effect implies the positive impact of privatization that we observe on employment.

In none of these countries do we observe substantial job cuts due to privatization. The causal link hypothesized in the *Lancet* article is not supported by the firm-level data. Nor is it supported by other studies we have carried out of layoffs and worker turnover in privatized firms. Of course, it is possible that some other link, not suggested by the article and unrelated to employment outcomes, could explain the observed privatization-mortality correlation at the country level. Our analysis suggests that further progress on this question would benefit from analysis of data at the level where the action occurs: individual data in the case of death, and firm data in the case of privatization.

References

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