

# Beyond the Washington Consensus: Rethinking Privatization and Nationalization Globally

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When governments run into trouble they sell assets. This approach was core to the Washington Consensus, the set of 10 economic policy prescriptions favored by Washington-based institutions such as the IMF and the World Bank. Along with macroeconomic stabilization and trade liberalization, expanding ownership in the economy figured prominently. The aim was to help developing economies in crisis or transition such as the formerly communist countries of Eastern Europe.

Over the past two decades, more than 100 governments have sold stakes in state companies, raising \$1 trillion and transforming the state's economic role. In the developed world, bankrupt governments are selling off assets to make ends meet. One of the most important post-communist reforms has been the privatization of state-owned enterprises. In resource-rich countries, privatizations created the new elite. Nations struggling to balance budgets or

modernize infrastructure are likely to consider privatization. Privatization takes many forms, from the direct sale of state property to private-public partnerships. The approaches vary as much as the motives.

As President Vladimir Putin continues his third term, Russia faces new economic difficulties: with the price of crude oil returning to the \$90 mark, the Russian government will be faced with a sizable budget deficit and economic growth could suffer. With the worsening of growth prospects globally, an increasingly economically integrated Russia might face a more significant crisis as its largest trading partners suffer prolonged contraction and Russia continues to experience large capital outflows and decreasing inflows. Raising taxes is a challenge. All of this points to an increased need for extra-budgetary revenue through privatization. While Putin might oppose reducing the state's interest in Russian energy champions, the ambitious privatization program is expected to continue in other sectors and assets.

Privatization potential in Russia includes VTB and Agricultural Bank, Sheremetyevo and Vnukovo airports, RusHydro, Zarubezhneft, the InterRAO UES electricity trader, Alrosa diamond producer and Aeroflot. Other assets in which the government might consider reducing its presence are the United Shipbuilding Corporation and United Aircraft Corporation, Transneft oil pipeline, Russian Railways and the Uralvagonzavod machine-builder. All of these companies make for some of the largest employers in Russia and in many of their markets the private sector has been on an inexorable rise.

However, any such decisions will need to be made in the context of fiscal and financial constraints to ensure that these assets will be optimally managed for their citizens' future. The benefits of privatization have been questioned. The changes are rapid, the processes opaque and stakeholders find the process jarring. Corruption is often suspected in privatization deals. In many countries, governments have renationalized privatized enterprises. In April, the Argentine government renationalized its largest oil company YPF, expropriating shares held by Spanish Repsol on the basis of subpart investment. In South Africa, the air is thick with talk of nationalization. A popular strategy in circumstances of increasing natural resource prices or rising social inequality, nationalization is seen as a long-term strategy for assets that provide benefits beyond financial returns such as national security and infrastructure. There are indications that nationalizations of infrastructure and natural resources at times increase equality. In numerous cases of major bank failures, nationalization has been employed to ensure that the banking infrastructure is rebuilt faster. In China, the percentage of state-owned enterprises declined by over 35 percent in less than a decade.

Just as the promises of privatization and nationalization have been oversold, so have its ills been exaggerated. Optimal asset and resource allocation across the public, private and increasingly large parastatal sector is essential. The financial crisis shines a harsh light on the imperative to improve the wellbeing of civil society while increasing efficiency and equality. Little public discussion of the outcomes of privatization and nationalization efforts results in reduced accountability for the processes' successes and failures. The controversy associated with these processes causes policymakers to avoid any public discussion. Yet a much-needed evidence-based approach depends on increased oversight of both asset allocation processes through public discussion of outcomes and detailed

examination of historic examples. Only through this collaborative process of transparency, public consensus-building and use of best practices can privatization or nationalization yield optimal, sustainable results. Globally we all lose as countries and stakeholders reinvent the trillion-dollar wheel.

*Carin Knoop and Barbara Thornton, co-founders of the Strategic Asset Stewardship Initiative, contributed to this article.*

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