

**The Effect of Privatization on the Demand for Labor in Romania.
Evidence from a Comprehensive Panel**

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During the last decade, employment in Romania declined substantially. Table 1 documents this for the population of firms that had been established before the transition started (the “old” sector). It shows, that from a mean employment size of 767.7 in 1992, firms shrank in ten years approximately three times on average, reaching a mean employment of 224.4. During the same period, most of the state-owned firms were privatized. As Table 2 shows, the share of private firms in the old sector increased from practically zero to 87.6 percent by 2002.

The aim of this paper is to establish a linkage between privatization and employment change. In particular, it asks whether privatization contributed to the employment decline of the old, state-owned sector, and whether private firms became more sensitive to changes in wages, than state-owned enterprises.

The data I use is assembled from firm balance sheets and the State Ownership Fund’s database on privatization transactions.¹ The database has yearly information for the period between 1992 and 2002 on each Romanian firm’s employment, wages, output and ownership structure, and on the firm’s location and industrial sector. Firms which had any state ownership were drawn from these data. This resulting database consists of 11,582 firms or approximately 62,000 firm-year observations with complete information on the variables listed above. The descriptive statistics for wages, capital stock and output, and the industrial composition of the sample are shown in Table 3 and 4.

I estimated dynamic labor demand equations with firm-fixed effects, where wages, capital stock and output are instrumented by the log ratio of these variables.² The results are presented in Table 5. As in the previous literature, in Model 1 I included a private dummy in order to test the relation between privatization and the log level of employment. The coefficient of the private dummy is -0.071 (statistically significant), showing that privatization decreases employment. However, these models do not answer the question of whether privatization increases the wage elasticity of labor. In order to test this directly, in Model 2 I interacted the log wages with the private dummy (which equals 1 if the firm is majority private). Following the natural experiment methodology, I also interacted wages with a dummy indicating whether the firm was ever privatized during the period studied. The estimation results show that privatization increased the wage elasticity of employment by 5.7 percent.

In continuation, I analyze two other effects. First, whether privatization has different effects on firms that belong to growing and declining industries. Second, I disentangle private ownership by types of owners (foreign, domestic investor, domestic dispersed owners and insiders) to test whether the effect of privatization on the level of employment and wage elasticity varies along this dimension.³

¹ The data were cleaned thoroughly, using other sources of information wherever necessary, such as the Romanian Enterprise Registry, and firm’s web sites.

² The firm-fixed effects were included in order to reduce the bias resulting from the correlation of privatization and other firm characteristics, such as performance.

³ Data on industrial output and types of owners are not ready yet for analysis.