

Privatization in a Hypercentralized Economy: The Case of Romania

John S. Earle and Dana Sapatoru

October 1992

Abstract

This paper presents an analysis of the "large privatization" program of Romania, a country heretofore neglected in most research on Eastern European privatization. We first provide an overview of the preconditions of the Romanian transition, arguing that the origins of the highly centralized privatization program can be found in the pre-existing concentration of economic power at the center under communism and, moreover, that this centralization may be an advantage in that the struggles over unclear property rights that are prevalent in other countries may be avoided. However, the design of the new institutions that have been established to implement the program suffers from a lack of clarity in the division of authority, and the clear separation of state from private that was the starting point of the process seems to be made less clear by these problems of institutional design. Despite the possibilities for market-type mechanisms inherent in the giveaway part of the program, the privatization process is largely based on administrative allocation, and the role for spontaneous action by individuals or private groups within the program itself is sharply circumscribed. In thus relying on market forces to exert themselves only after the program has been completed, largely through secondary markets, there is a fundamental contradiction between the program's methods and its goals.