

The Voucher System in Action

By Lynda L. Maillet

The main problem facing citizens is a lack of information about the enterprises.

THE Czechoslovak privatization program may prove to be a model (or a disastrous object lesson) for similar programs throughout Eastern Europe and the former Soviet Union. This winter and spring, around 8.5 million people bought and registered booklets of vouchers which entitle them to shares in the more than 3,000 enterprises being privatized through the sale of shares.

Each enterprise had the opportunity to find a foreign buyer by a deadline set by the government (Volkswagen, Air France, and Kmart are among those Western firms which acquired companies during this period); those which could not had to hand over their shares for sale in the voucher program. Most participating

enterprises are offering about 60% of their equity through the voucher program, although they are allowed to offer up to 97%. The remaining 3% must be set aside for a restitution fund which will compensate former owners who had their property expropriated when the Communists took control in 1948. Under the program, 292.6 billion crowns (or \$9.7 billion) in equity will be distributed (of this, 185.3 billion crowns are equity in Czech companies, 93.5 billion in Slovak companies, and 13.8 billion in federal property). Each voucher book, bought and registered for 1,035 crowns, should therefore be worth more than 30,000 crowns. Every adult citizen was eligible to buy one book.

A voucher book represents 1,000 "points" which are used to bid on shares. All shares will initially be offered at a price of three shares per 100 points, and individuals use their points to bid on the shares of specific enterprises. Throughout the summer, a computer (provided by the Digital Equipment Corp.) will allocate the enterprise shares by matching the bids of subscribers with the offer of shares. If the demand for some shares exceeds supply, those shares will be offered again for higher bids. Those that are not sold off will be offered, to new buyers only, at a lower price. Once the shares are purchased, their owners are free to sell them as they wish.

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The main problem facing citizens wishing to purchase shares is a lack of information about the enterprises. The method used for estimating the true value of an enterprise's shares is the book value, although the price will vary once a market is established. However, individuals face great difficulties in finding out the actual worth of an enterprise. The local press published some information, including income figures and privatization plans of companies, but only for a small number of the 3,000 companies involved. The Czech Republic privatization ministry published a complete list of enterprises, but this included only the enterprise names and asset (book) values. As a result, more than two-thirds of the participants are exchanging their points for shares in one of more than 400 heavily advertised private investment funds, hoping that the fund managers will be better able to judge in which enterprises to invest. Many of these funds are promising guaranteed returns of 1,000% and higher, which would be feasible if book values are accurate but could prove disastrous for their investors if values are much lower or equity markets do not develop as hoped.

Other nations embarking on privatization schemes might take note of the speed with which the Czechoslovaks have proceeded while at the same time depriving their citizens of information necessary to make informed investment decisions. By the end of 1992 it should be clear whether the Czech and Slovak citizens benefited from rapid privatization or suffered from confusing choices and inadequate information about their prospective properties. Lack of information caused the investment funds to play a surprisingly large role in the scheme, so much so that the Czechoslovak Parliament limited a fund's ownership in a single enterprise to 40%. The failure of a large number of funds might seriously undermine the stock market which officials hope to have going by year-end; other potential problems include the lack of rules regarding insider trading. Despite the inherent problems in the program, the Czechoslovak officials are optimistic about its outcome and are even planning another round of privatization at the end of 1992. ♦

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