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Tiivistelmä-Referat-Abstract This thesis provides an analysis of the welfare impact of privatisation in former command economies. The main idea is to examine the impact of inequality first of all on aggregate welfare and secondly on restructuring decisions and growth. In the first part of the paper different utility functions of enterprise managers and owners are analysed in a model with given ownership structures. The conclusion is that an increase in unemployment during enterprise restructuring leads to a trade-off between efficiency and inequality. Privatisation policies that maximise productivity gains of individual enterprises do not necessarily lead to a maximisation of aggregate welfare. The second part of this paper provides a special form of a typical transition economics model that analyses the interactions between unemployment and the decisions of enterprises in transitional economies. Instead of constant average production in state and private firms an AK growth model is used, in which inequality leads to a decrease in investments and growth. The impact of inequality on the equilibrium rates of restructuring and unemployment depend on whether restructuring is exogenous or endogenous. If the speed of restructuring - in other words the speed in which state- owned enterprises shed labour - is given, inequality leads to a larger equilibrium unemployment. However, in the empirically more realistic case the speed of restructuring is affected by the decisions made by enterprise workers. As in the first model the employees face a trade-off between an increase in wages in the private sector and safe employment in the public sector. The conclusion with endogenous restructuring is that inequality is a major obstacle for restructuring. Economies with large inequality end up with slower restructuring speed and smaller unemployment in their equilibrium transition path. This paper also gives empirical evidence for the arguments in the case with endogenous restructuring. A sample of eighteen transitional economies shows that countries with relatively low income inequality have proceeded faster in enterprise reforms. Also, these countries have relatively high unemployment rates compared to countries with higher inequality.			
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