The Macroeconomics of Massive Giveaways

Fabian Gouret*

February 2004

Abstract

In a framework similar to the models of expectation on economic policy, we purpose a model where the government subsidizes firms privatized by massive giveaways to the managers who are empire-builders. The government injects funds because its aim is to avoid a drastic fall of output when a negative external macroshock hits the country. The consequence is that the economy can be locked into a soft budget constraint equilibrium and a path of underdevelopment. At the heart of the model there are i) the behavior of managers, ii) the macroshock and iii) the credibility of the government when it affirms that it stops subsidies. Therefore, we argue that the model explains why the soft budget constraint syndrome is worse in the CIS than in the Central European Countries: massive giveaways, largely used in the CIS, do not avoid that unproductive managers divert funds when an important macroshock hits the economy (worse in the CIS) and governments are not credible. Finally we derive from the model some policy recommendations: first, to create an economic union with Articles prohibiting any subsidies which favor unrestructured firms; second, to privatize and restructure the banking system, i.e. to apply standard risk analysis technics in order to strengthen the budget constraint.

JEL classification: E6, P31
Keywords: Transition, privatization, soft budget constraint, economic union.

*ROSES-CNRS, University Paris I Panthéon-Sorbonne, 106-112 Bd de l'Hôpital 75647 Paris CEDEX 13, France. Email: Fabian.Gouret@malix.univ-paris1.fr, Fax: 33(0)1 44 07 81 91, Phone: 33 (0)1 44 07 81 94.

1 Introduction

Privatization is widely considered as one of the centerpieces of the processus of transition in the former communist countries. It is an institutional large-scale policy reform and there is agreement that privatisation of State-owned enterprises (SOE) will have a positive large impact on the economy's output level, if not in its rate of growth[1].

Nevertheless, the macroeconomic gains associated to privatization appear not prominent. Zinnes et al [2001] have included in panel data regressions an indicator which captures the depth of privatization in order to explain the behavior of output. They show that privatization does not have a significant impact, unless the budgetary constraint is hard enough and the legal and institutional framework which permits to owners to control their firms exists. In a similar macroeconometric framework, Gouret [2003] finds that all depends on the privatization policy which is put in practice: massive give-aways can lock a country into a path of economic underdevelopment, whereas countries which decide to privatize by gradual sales have a positive impact of privatization on the output behavior.

We have to remember that at the beginning of transition a big part of the SOE were yielding a negative return (Duchêne [1993], Hugues and Hare [1991]). Private investors would not have acquired firms whom assets yield a negative expected return. So two strategies were possible: i) a strategy of gradual sales, that we can describe in three phases. First, the control by the State of SOE is firmly reestablished (Debande and Friebel [2004]) and it avoids that (unproductive) managers abuse and divert capital or funds which are for restructuring. Second, the government injects funds to re-

[1] See Balcerowicz [1995] or Havrylyshyn [2001].

structure SOE which yield after the restructuration a positive return. Third, the preprivatization restructuration serves as a useful screening device in order to interest private investors, who buy the firms. When they are foreign investors, they back the firms by giving them an injection of new capital and some intangible assets concerning the functioning of a market economy (Kornai [2000]).

ii) The other strategy was to privatize by massive giveaways and let the new private owners to restructure the firms. In Russia where a mass privatization to insiders was applied, Chubais, who was privatization minister from 1992 to 1994, proclaimed that *"he didn't speak, he privatized"* (in Kornai [2000]). In Czech Republic where a mass privatization to outsiders was applied, Klaus, who was first minister from 1992 to 1997 claimed that *"the whole concept of the economic transformation is to privatize as quickly as possible and let new owners decide"* (in Grosfeld and Senik [1996]). They were thinking that the change of ownership was a necessary and a sufficient condition of capitalism (Kornai [2000]). They thought that privatization might have provided managers with stronger incentives to exert effort because the cash flow rights were transfered to them. But, as Debande and Friebel [2004] argue, managers may be empire-builders (Jensen [1986]) or face powerful worker collectives. In such a case, privatization may weaken incentives because managers who receive control over the restructuring funds can divert the funds in order to finance losses. And the government is willing to inject another funds in order to avoid high unemployment.

In this paper, we deal with massive giveaways, soft budget constraint (SBC[2]) and the behavior of output in a theoretical framework similar to the models of expectation on economic policy (Barro and Gordon [1983], Flood

[2]HBC correspondingly stands for hard budget constraint.

and Marion [1998]). We link the soft budget constraint syndrome to the method of privatization, massive giveaways to insiders, and to the negative external macroshocks which hit the economy. As it is the case in Russia, the State has privatized SOE by massive giveaways to managers. It has been interested in obtaining an output level close to the natural output, i.e. an economy where privatization has provided incentives to have efficient firms and where subsidizes are not necessary to avoid bankruptcy. Unfortunately, managers are empire-builders à la Jensen. If they expect that the government continues to subsidize their loss making firms, they do not make efforts in order to restructure. The government subsidizes the firms because it fears a too important fall in output when a negative external macroshock hits the economy. Indeed, if it does not firms goes to bankruptcy and unemployment rises drastically. But if private managers expect a strengthen of the budget constraint, they restructure the firms because they fear the firms to be liquidated. We believe this result is new because usually the theoretical micro literature on SBC[3] does not link its syndrome to negative external macroshocks.

The traditional SBC theoretical literature is based on the model of Dewatripont and Maskin [1995]. In these types of model, the equilibrium is a SBC because there is asymmetric information about a project: in a first period 1 an enterprise asks a fund for a project to a private or State-owned bank which can not identify if the project is efficient or not. If the bank injects the fund and it realizes ex-post that it is an inefficient project, it can be more interesting for it to refinance the project in 2 than to ask for a liquidation. First, refinancing is better than a liquidation ex-post because the initial injection of fund is sunk. Second, when the funding source is a paternalis-

[3]For a survey of theoretical literature on SBC, see Kornai et al [2003].

tic government (that maximizes the overall social welfare of a project), the SBC syndrome is stressed because it takes care of the negative effect on the rest of the economy that a strengthen of the budget constraint can induce. The enterprise anticipates being rescued when they get into trouble so they submit poor projects which are refinanced. Dewatripont and Roland [2000] and Kornai et al [2003] use the Dewatripont and Maskin model as a starting point to understand why the SBC syndrome is worse in socialist and transition countries than in capitalist ones and how to alleviate the SBC problem. They demonstrate that the SBC syndrome is worse in transition economies because: the provider of funds is a State-owned agency which maximizes the overall social welfare of a project, the banking system is centralized, banks are rent-seekers, economic activity in transition economies is monopolistic, the average quality of new enterprises is low and the government decisions are centralized. But none of this reason deals with external macroshock like transition. It is precisely this gap that we aim to redress in the present paper. For this purpose, we transplant the SBC syndrome in a model of expectation on economic policy like the model of Barro and Gordon [1983]. It is possible because the SBC is a commitment problem like the commitment problem for monetary policy.

In section 2, we present our model's framework. More specifically, the State has privatized the firms to managers à la Jensen. They do not make effort to restructure their loss-making firms if they expect that the government continues to subsidize them. The main result is that if a macroshock hits the economy, the country locks into a soft budget constraint equilibrium and a path of underdevelopment. In section 3, we highlight the model explains that massive giveaways, largely used in the CIS, do not avoid that unproductive managers divert funds when i) an important macroshock hits the economy and ii) governments are not reliable when they affirm that they stop subsidies. Therefore, we contends that the model explains very well why the persistence of the soft budget constraint is worse in the CIS than in the Central European Countries (CEC). Russia and Ukraine implement massive giveaways, contrary to Hungary and Poland which apply gradual sales. Unfortunately, the formers i) face an external macroshock (the collapse of the CMEA) which is worse that the one which hits the CEC and ii) their governments are not so reliable. Finally, we make two policy recommendations: to obligate the government to follow the rule by including in Treaties of economic unions articles on the matter; to restructure and privatize the banks in order to escape of the SBC equilibrium. Section 4 concludes.

2 The Model

In our model the government has to minimize a loss function as in Barro and Gordon [1983] or Flood and Marion [1998]. The concern is the subsidies the government makes to the firms which has been privatized by massive giveaways. Cash flow rights has been transfered to managers to provide them with restructuring incentives[4]. Unfortunately, policymakers have given away *"ownership and control to existing oligarchs -nomenklatura managers whose dominated those firms-"* because they have leaned on them for support (Stern in Hirschler [2000]). And *"prestige, power* [...] *motivate management rather than the pursuit of the creation of economic value"* (Ericson [1999]). In brief, they prefer to stay in a statu quo situation, they are empire-builders

[4]Note that during the Soviet Union, control rights had been gradually delegated from ministries to management. This form of ownership provides bad incentive to yield positive return because insiders are not sanctioned by their actions. So the objective of the transfer of cash flow rights to insiders is equivalent to a decision of internalization of the consequences of their entrepreneurial choices.

managers. It means that it is more interesting for them to ask for subsidies to the government than to restructure their loss-making firms.

Output is determined in t by equation 1:

$$Y_t = \overline{Y_t} + a\wp_t - bE(\wp_t) - u \tag{1}$$

where $\overline{Y}$ is the natural output level, $\wp$ is the importance of softness of the budget constraint, $E(\wp)$ is the expectation by the managers of the privatized firms of the softness of the budget constraint. u is an external macro disturbance. a and b are coefficients with $b > a$. At the beginning (in t), the privatized sector makes losses and is not productive. But the government subsidies the loss-making firms so they are not liquidated. Therefore we are in a SBC equilibrium, i.e. $E(\wp) = \wp > 0$ and the output Y^* is such as $Y^* < \overline{Y} - u$.

If the government decides to harden the budget constraint in $t+1$ ($\wp_{t+1} = 0$) and the managers do not anticipate it ($E(\wp_{t+1}) = \wp_t$), the output falls because firms are not restructured and they are liquidated. Therefore the output in $t+1$, Y^{**}, is such as the economy is in a worse state than the one in t ($Y^{**} < Y^*$). If managers anticipate a strength of the budget constraint ($E(\wp) = 0$), they prefer to restructure because if they do not, they fear to be in bankruptcy. So they restructure the firms which become more productive and profitable. In such case the output Y^{***} is such as $Y^{***} = \overline{Y} - u$.

The government minimizes the loss function:

$$L = \frac{1}{2}\wp^2 + \frac{1}{2}(\overline{Y} - Y)^2 \tag{2}$$

If the government decides to strengthen the budget constraint ($\wp = 0$), the loss function is:

$$L_{HBC} = \frac{1}{2}[bE(\wp) + u]^2 \tag{3}$$

If it decides to stay in a statu quo situation, i.e. it continues to subsidize privatized firms losses, the loss function is:

$$L_{SBC} = \frac{1}{2}\wp^2 + \frac{1}{2}[-a\wp + bE(\wp) + u]^2 \tag{4}$$

So the government chooses:

$$\wp = \frac{a[bE(\wp) + u]}{1 + a^2} \tag{5}$$

which permits to achieve a policy loss of:

$$L_{SBC} = \frac{[bE(\wp) + u]^2}{2(1 + a^2)} \tag{6}$$

and an output level of:

$$Y = \overline{Y} - \left[\frac{bE(\wp) + u}{1 + a^2}\right] \tag{7}$$

Now, we introduce a fixed cost (C) which occurs if the economy stays in a SBC equilibrium. It is costly to stay in such a situation for at least two reasons: i) the subsidies are financed by the taxation of a new private sector which can not emerge if the taxes are too important. We know that the bottom up development of the private sector is as important as the restructuration of existing assets because it supplies products which were in shortage during the socialist era and permits to have a more competitive economy. So it is necessary to provide favorable conditions which is not the case if it is taxed. ii) foreign direct investments do not flow in such an economy because taxation is too high, output level is low and to find good local providers is difficult. But if we are in a situation such as:

$$L_{HBC} > L_{SBC} + C \text{ which occurs if} \tag{8}$$

$$u > \sqrt{\frac{2C(1+a^2)}{a^2}} - bE(\wp) = \overline{u} \tag{9}$$

we can derive proposition 1.

Proposition 1 *If the government sets the policy after observing the negative external macroshock u such as $u > \sqrt{\frac{2C(1+a^2)}{a^2}} - bE(\wp)$, the economy stays in a SBC equilibrium.*

The proposition 1 is very closed to the models of time inconsistency policymaking of Barro and Gordon [1983]: if the government sets the policy after observing the external disturbance which shocks the economy and managers understand the temptation that the government faces, managers expect to obtain subsidies and do not restructure their firms. And it is optimal for the government to confirm this expectation, because if it does not, the output falls drastically. So the economy stays in a SBC equilibrium and in a path of underdevelopment.

We can easily show that we can have 3 equilibria too if there is uncertainty on the macroshock. Let's imagine that expectations are rational and u can take the value $\overline{\mu}$ with probability (p) and $\underline{\mu}$ with probability $(1-p)$. And we have $\overline{\mu} > \underline{\mu}$. Three equilibria are possible:

1. if $\overline{u} > \overline{\mu}$, the economy goes to an HBC equilibrium. $E(\wp) = 0$ and $\overline{u} = \sqrt{\frac{2C(1+a^2)}{a^2}} > \overline{\mu}$.

2. if $\overline{\mu} > \overline{u} > \underline{\mu}$, the equilibrium is not stable: the probability to go to a SBC equilibrium is p and $(1-p)$ to an hard budget constraint. $E(\wp) =$

$p\frac{a[bE(\wp)+\overline{\mu}]}{1+a^2} \to E(\wp) = \frac{pa\overline{\mu}}{1+a^2-pab}$ and $\overline{\mu} > \sqrt{\frac{2C(1+a^2)}{a^2}} - b\frac{pa\overline{\mu}}{1+a^2-pab} > \underline{\mu}$.

3. if $\underline{\mu} > \overline{u}$, the economy goes to a SBC equilibrium. $E(\wp) = \frac{a[bE(\wp)+\underline{\mu}]}{1+a^2} \to E(\wp) = \frac{a\underline{\mu}}{1+a^2-ab}$ and $\underline{\mu} > \sqrt{\frac{2C(1+a^2)}{a^2}} - b\frac{a\underline{\mu}}{1+a^2-ab}$.

And we obtain the proposition 2.

Proposition 2 *Suppose the government is not reliable when it announces that it will stop subsidies, expectations are rational, the macroshock u takes the value $\overline{\mu}$ with probability (p) or an inferior value $\underline{\mu}$ with probability $(1-p)$ and $\sqrt{\frac{2C(1+a^2)}{a^2}} > \overline{\mu} > \sqrt{\frac{2C(1+a^2)}{a^2}} - b\frac{pa\overline{\mu}}{1+a^2-pab} > \underline{\mu} > \sqrt{\frac{2C(1+a^2)}{a^2}} - b\frac{a\underline{\mu}}{1+a^2-ab}$, there are three equilibria: a HBC, an unstable and a SBC one.*

Note that if the negative external shock u is too important, *ceteris paribus*, the unique equilibrium is a SBC one.

3 Discussion

First, the model presented above explains very well the persistence of the soft budget constraint in the countries of the CIS and why other countries are in a better path. Second, it helps to give recommendations for policy makers.

3.1 Why Countries of the Former Soviet Union are so different from Central European Countries?

At the heart of the model presented above, there is a SBC equilibrium because of i) the method of privatization and the behavior of managers (empire-builders) ii) the macroshock and iii) the credibility when a government affirms that it stops subsidies. A country which privatizes by massive giveaways stays in a soft budget constraint equilibrium if the government's aim is to avoid a too important output fall when its economy is hit by an important external macroshock and if it is not credible when it affirms that it stops subsidies. We contend that i), ii) and iii) explain the persistence of the soft budget constraint in the countries of the CIS and why CEC are in a better path.

First, we assume that managers are empire-builders and loss making firms are privatized by massive giveaways: they receive control over the restructuring funds and prefer to divert the funds in order to finance losses than to restructure the firm. The Russian government had not managed to regain control over the firms and giveaways firms yielding a negative return to the managers who are empire builders as we argued at the beginning of part 2. The Georgian, Moldovan and Ukrainian governments privatize by vouchers too and the same events occur. With the method of gradual sales which has been applied in Hungary and Poland (Roland [2000]), it does not occur. Let's take the example of Hungary. In 1990, the State stops spontaneous privatization which were carried out by insiders. Control by the Hungarian State Property Agency (HSPA) was firmly reestablished. It avoided that (empire-builders) managers abused and diverted funds which were for restructuring. Consequently the HSPA targeted foreign investors (Debande and Friebel [2004]).

Second, the macroshock has been worst in the CIS than in the CEC because of the break up of the CMEA and USSR. On the one hand, the 15 components of the FSU were highly integrated[5] and the disintegration led to the set up of trade barriers between themselves. Some of them have been engaged in military conflicts (e.g., Armenia *versus* Azerbaijan) which make difficult trade between themselves. In brief, the CIS is an era of disintegra-

[5] But with trade not based on comparative advantages.

tion. On the other hand, the Czechoslovak, Hungarian and Polish politicians has reacted quickly to the collapse of the CMEA. They decided to create a space of free trade with the Agreement of Visegrad in February 1991, so before the official dissolution of CMEA (June 1991). The Treaty of Cracow (December 1992) by creating the Central European Free Trade Area (CEFTA) firmly proved that these countries wanted to be integrated, with the target of being members of the European Union[6]. Not by any means the CEFTA be idealized. Monetary policies have not been coordinated and countries have pursued beggar-my-neighbors policies by devaluating their currency. But the contrast between the CIS and the CEC is striking.

Third, we affirm that governments have been more credible in the CEC than in the CIS. In the model, the rule requires the government has to strengthen the budget constraint regardless the current state of the economy and the external disturbance u. It occurs for example in Poland with State managers who have begun to restructure when budget constraints have become harder due to the monetary stabilization and the slowdown of subsidies (Aghion and Blanchard [1994], Pinto et al [1996]). Polish government stops subsidies regardless of the current state of the economy. But it does not occurred in Russia because the voucher scheme imposed on the country has been coupled with manipulated transfers of property into the hands of the managers and bureaucrats of the nomenklatura who were leaned by policymakers (see Stern in Hirschler [2000], Kornai [2000]).

[6]Furthermore, note that Hungary and Poland, during the 80, engaged in foreign trade which was as likely to be directed to the West as to the East.

3.2 Policy recommendations

We can argue that a renationalization of the assets privatized by massive giveaways is a solution if control over the firms by the State is firmly reestablished and funds injected are really used to restructure the firms. Such a plan is perhaps difficult to put in practice in Russia because even during the socialist area, the government's control over state owned firms has been weak because control rights had been delegated to managements (Debande and Friebel [2004], Grosfeld and Senik [1996]).

As we said before, the rule requires the government to stop subsidies regardless the current state of the economy. The SBC is therefore one of several commitment problems. A classical solution is to find an institutional solution which can solve it. In monetary policy, an institutional solution is to appoint a conservative central banker, an independent central bank or, if it is not enough, a *de jure* dollarization. Here, what is the institutional solution which makes that government stops subsidies regardless the state of the economy? Clauses concerning budget deficits and restrictions to subsidies in order to fight against dumping in an economic union may be a solution. Let's take for example the European Commission: Article 87 of the European Community Treaty prohibits any aid granted by a member State or through State resources which distorts or threatens to distort competition by favoring certain firms[7].

We refer only in our model to the fiscal mean (subsidies and tax concessions). However, we do not have to forget the other mean of softening which is taking into consideration in the theoretical literature on SBC: the credit

[7]Note however that Article 87 allows aid having a social character, aid to make good the damaged caused by natural disasters or aid designed to promote the economic development.

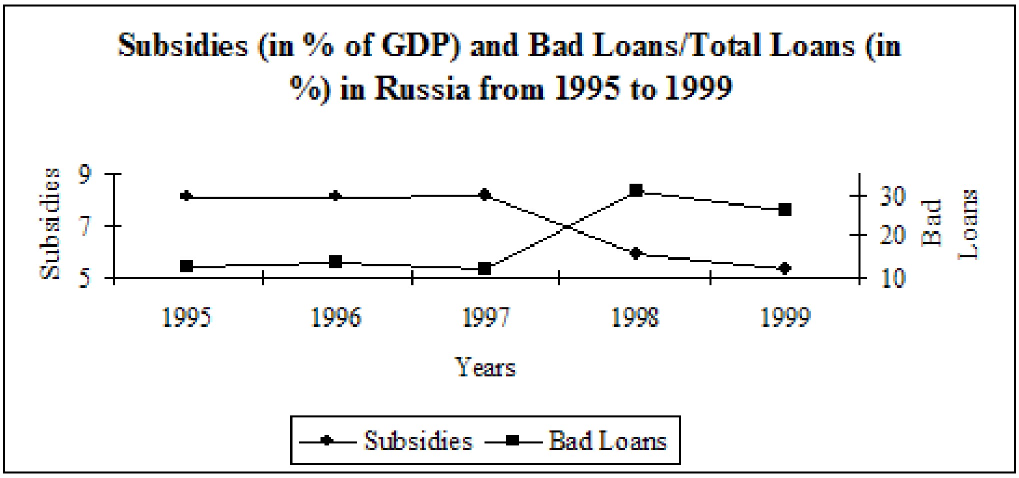

Figure 1:
Sources: EBRD [2002].

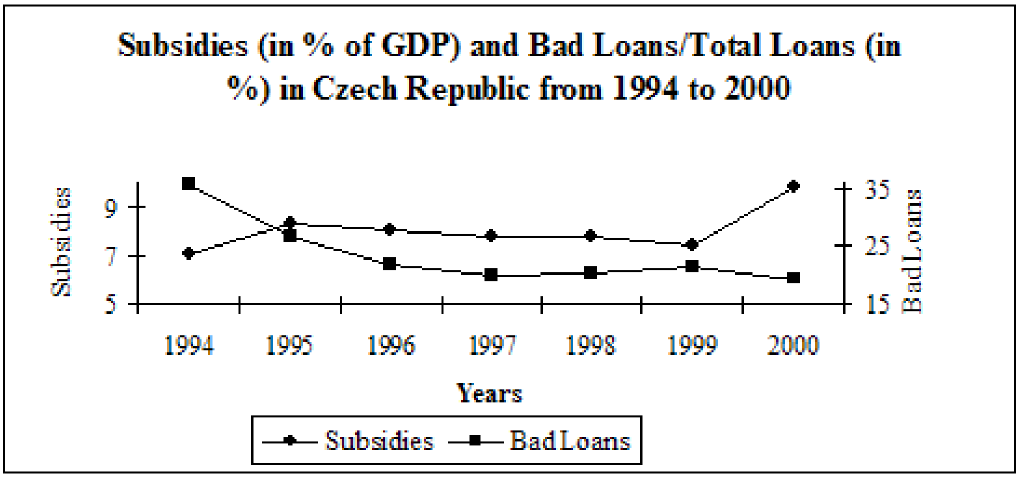

Figure 2:
Sources: EBRD [2002].

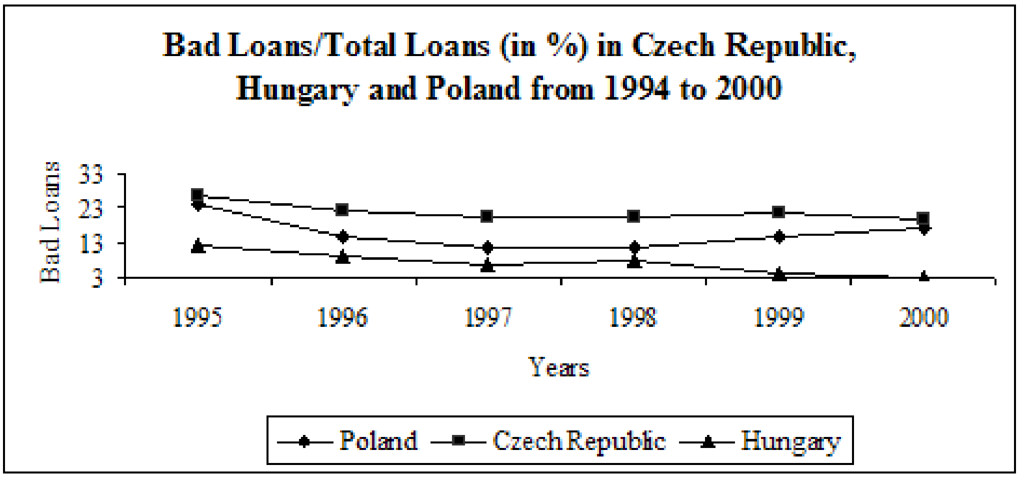

Figure 3:
Sources: EBRD [2002].

mean (Kornai et al [2003]). We have to remark that in Russia, when the relative importance of subsidies in GDP falls, the importance of bad loans in total loans rises (see figure 1). Czech Republic follows the opposite way (see figure 2): from 1994 to 1995, it knows a fall in bad loans but a fantastic increase in subsidies; a stabilization of subsidies and bad loans from 1995 to 1999; and a new rise of subsidies and a drastic reduction of bad loans from 1999 to 2000. The relative importance of bad loans in Czech Republic between 1995-1999 was still high comparing to Hungary and Poland (see figure 3). Czech Republic adopts fast giveaways to the Czech citizens contrary to the two other countries mentioned above which put in practice a strategy of graduate sales (see Kornai [2000], Roland [2000]). In a first time assets were dispersed among the citizens. They were concentrated again afterwards in Investment Funds. However, the owners of the Funds were, in most case, State-owned banks. Loans were offered to financially troubled firms that would not have been eligible for credit where standard risk analysis technics applied.

Therefore, to avoid this phenomenon, banks have to be restructured and privatized by sales to strengthen the budget constraint. This conclusion is closed to the post-Keynesian (see Andreff [2003], Taylor [1994]) and theorists of the SBC (see Dewatripont and Roland [2000]) recommendations, but on contradiction with policies which were implemented during the nineties: it was not advised to privatize banks because advisors feared a systemic risk. Balcerowicz [1995], for example, argues that the privatization of the banking system is not a priority, contrary to the privatization of firms, because it can implies a systemic risk. He writes *"hasty privatization of State banks may lead to their subsequent renationalization, as in Chile in 1982"*. In 1976, the Chilean banking system is deregulated. The country adopts a Scottish banking system, i.e. without guarantee for the bank depositors. But until 1981, the banks do not conduct any risk analysis of loans and there is no banking supervision. With a fixed exchange rate and an inertial inflation in Chile banks have interest to borrow to foreigners. But from 1981-1982 foreign borrowers begin to withdraw their capitals which obligate the country to devaluate; the debt explodes. Therefore, the real problem is liberalization when the banks are not restructured, i.e. when modern technics of risk analysis are not introduced to select loans.

4 Conclusion

In this paper, we have analyzed the syndrome of the SBC and linked it with privatization policy implemented, credibility of the government and external macrodisturbance. The softness is normally more important in a country which has privatized firms in trouble by massive giveaways. Government uses massive giveaways to managers in order to provide managers with stronger incentives to make effort. But if such a policy is applied and managers are empire-builders, the economy can be locked into a SBC equilibrium if the country is hit by an important external negative macroshock. To escape of this SBC equilibrium, we argue that an institutional solution is to implement articles concerning State subsidies in economic union. It has to restructure and to privatize the banking system too in order to avoid that the managers of the firms use an other mean of softening, the loan.

References

Aghion P., Blanchard O. [1994], "On the Speed of Transition in Central Europe", *NBER Macroeconomics Annual*, MIT Press, Cambridge, pp.283-320.

Andreff W. [2003], *La Mutation des Economies Post-Socialistes: Une Analyse Economique Alternative*, L'Harmattan.

Balcerowicz L. [1995], *Socialism, Capitalism, Transformation*, Budapest, Central European University Press.

Barro R.J., Gordon D.B. [1983], "A Positive Theory of Monetary Policy in a Natural Rate Model", *The Journal of Political Economy*, 91(4), pp.589-610.

Debande O., Friebel G. [2004], "A Positive Theory of Give-away Pivatization", *International Journal of Industrial Organization*, forthcoming.

Dewatripont M., Maskin E. [1995], "Credit and Efficiency in Centralized and Decentralized Economies", *The Review of Economic Studies*, 62(4), pp.541-555.

Dewatripont M., Roland G. [2000], "Soft Budget Constraints, Transition and Financial Systems", *Journal of Institutional and Theoretical Economics*, 56(1), pp.245-260.

Duchêne G. [1993], "Le Niveau de Développement de la CEI", *Economie et Prévision*, 109, pp.121-132.

EBRD [2002], *Transition Report*, London.

Ericson R. [1999], "The Post-Soviet Russian Economic System: An Industrial Feudalism", *SITE Discussion Paper*, 140.

European Community [2002], "Consolidated Version of the Treaty Establishing the European Community", *Official Journal of the European Communities*, C325/33.

Flood R., Marion N. [1998], "Perspectives on the Recent Currency Crisis Literature", *NBER Working Paper*, 6380.

Gouret F. [2003], "Méthodes de Privatisation et Evolution de l'Output dans les Economies en Transition", *Mimeo.*

Grosfeld I., Senik-Leygonie C. [1996], "Trois Enjeux des Privatisations à l'Est", *Revue Economique*, 6, pp.1351-1371.

Havrylyshyn O. [2001], "Recovery and Growth in Transition: a Decade of Evidence", *IMF Staff Papers*, Vol. 48, special issue, pp.53-87.

Hirschler R. [2000], "Ten Years Transition: Recalling the Events of a Historic Decade with World Bank Chief Economist Nicholas Stern", *Transition Newsletter*, 11(5).

HUGHES G., HARE P. [1991], "Competitiveness and Industrial Restructuring in Czechoslovakia, Hungary and Poland", *European Economy*, special issue, 2, pp.83-110.

JENSEN M.C. [1986], "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers", *The American Economic Review*, 76(2), pp.323-329.

KORNAI J. [2000], "Ten Years After 'The Road to a Free Economy': The Author's Self Evaluation", *Paper for the World Bank 'Annual Bank Conference on Development Economics.*

KORNAI, J., MASKIN E. ET ROLAND G. [2003], "Understanding the Budget Constraint", *Journal of Economic Literature*, 41(4), p.1095-1136.

PINTO B., BELKA M. ET KRAJEWSKI S. [1993], "Transforming State Enterprises in Poland: Evidence on Adjustment By Manufacturing Firms", *Brookings Papers on Economic Activity*, 1, pp.213-269.

ROLAND G. [2000], *Transition and Economics, Politics, Markets and Firms*, MIT Press.

TAYLOR L. [1994], "The Market Mets its Match: Lessons for the Future from the Transition's Initial Years", *Journal of Comparative Economics*, 19(1), pp.64-87.

ZINNES C., EILAT Y. ET SACHS J. [2001], "The Gains from Privatization in Transition Economies: Is Change of Ownership Enough?", *IMF Staff Papers*, Vol. 48, special issue, pp.146-170.