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**Part I**  
**Introduction**

## **Introduction**

At first, this project was intended to be a study on transition and privatization in Romania, a country viewed with suspicion even today, due to its past, and considered a “taboo-zone”, that seems to forbid even the slightest interest. In the Western press today, Romanian current events make the news only with negative headlines, if at all. It all began with asking detailed questions and looking more closely at events on the spot. While staying in Bucharest in autumn 1992, I saw the people, experienced their candor, the difficulties of their everyday lives and the creativity they used to overcome them. At that time I had the opportunity to discuss the concept of privatization with local economists and to witness the infancy of privatization itself.

Upon returning, I was interested in following up the discussion on privatization concepts which concentrated mostly on the question of which method would be suitable and which would not. I fell under the spell of the privatization debate. My doubts, however, were gradually increasing. It became evident that only the details of individual methods were being analyzed, and in an over-subtle way; above all, the “how” issue overshadowed the “whether” of privatization. In this phase I was struck by the passage in the privatization program of the Russian Federation of 1992 defining the objects excluded from privatization. An explicit privatization ban was declared for the financial resources of the national budget and the central bank. I therefore asked myself how anybody could even remotely suggest that revenue authorities and the central bank represent property and thus could be privatized. I suspected insufficient knowledge of the actual facts on my part and that the privatization debate had obscured my view. Obviously, while the West and the East agreed upon how and what should be privatized, a common conception of property was still missing.

Many additional observations increased my skepticism concerning the privatization debate. For instance, the question of why the Scandinavian countries are considered market economies despite their large public sector, whereas some Central and Eastern European countries, like the Czech Republic, are still considered to be in transition in spite of tremendous privatization. Another issue was the Russian voucher privatization, which Western economists followed with avid interest, while simultaneously Western entrepreneurs complained about a Mafia-like phenomenon which was turning Russia into “another Italy”. Then there was Romania, a country demonstrating hardly any privatization, but whose to some extent “acceptable” development at first went unnoticed by all. I therefore asked myself if, indeed, there is no considerable difference between countries with speedy versus sluggish privatization, then why have privatization at all? My excitement about privatization cooled off substantially.

During the ensuing months, it was not only the popular topics like the Mafia, but also phenomena like the refusal of enterprises to pay taxes, as well as the state's defaulting on the payment of wages, that astonished Western economists as well as myself, who receive our salaries and also pay our taxes in a timely manner. I suspected the root of these phenomena to be property and I understood that the question of property cannot be resolved through simple privatization. To put it another way: to some extent, property represents a prerequisite for privatization. This is where my search for property and its "essence" began – and it still continues. The answers I found to the question of property so far are the basis for Part IV, "Property Rights in Transition".

In years past, the radical change of Central and Eastern European systems, historically unique, has been referred to as "transition". Though its importance for society as a whole was recognized and examined, attention was mainly focused on the economic problems of transition from a planned to a market economy. In the economic subsystem, transformation was subdivided into the components of liberalization, stabilization and privatization. Privatization, that is, the transfer of state property to the private sector, was considered the main instrument for the change of the socialist property system. A rapid privatization became the standard for the success of transition *per se*. But equating the change of property order with a successful transfer of state resources to the private sector does not go far enough. The assumption that a private disposition of resources will bring about an increased efficiency presupposes a stable framework, which within transformation is precisely what is not given. In this context, the question of property is rather a fundamental one, namely of the emergence of and changes to property as a social institution.

The main goal of this study is to analyze this process, allocating privatization its place and expounding the limits of a purely economic observation of transition. An additional concern is not to single out one country for the purpose of demonstration but to analyze transition countries considered advanced and others considered to lag behind, as well as both big and small countries, always with regard to what conception of property they develop. The reason for this approach is the author's strong belief that the connection between transformation and property cannot be analyzed via one characteristic example, but only by comparing several countries. It was thereby necessary to fall back on statistical data on a large scale. The study initially intended as the study of one country, namely Romania, ultimately grew to include many of the European transition countries. The nature of the topic necessitated this. A postscript in this context: although I refer to "Central and Eastern Europe" I do, of course, include South-Eastern European countries, especially Romania. Admittedly, this is a terminological inaccuracy, although it is frequently found in specialized literature.

#### 4 *Privatization in Central and Eastern Europe*

Questions concerning the emergence and the social justification of property, which were discussed in the ancient world and again became relevant in the later Middle Ages, have nowadays fallen into oblivion. The philosophical property theories represent the starting-point of this study, the rest of which is divided into three parts: "Property Rights in Philosophy and Economics", "Property Rights in Planned Economies" and "Property Rights in Transition".

Part II begins with the early philosophers; they did not consider property to be a sacrosanct and unavoidable institution, but asked more fundamental questions. Their explanation of the emergence of property and the state on the basis of the construct of the social contract still reflects this complexity of the conception of property; in time this conception was, however, analyzed less and less. The events in Central and Eastern Europe will need to be studied on the basis of this examination. Starting from a philosophically inspired classification of economic property theories into individualistic (neoclassicism and monetary theory) and group-related approaches (early institutionalism in particular), neoclassical analysis will offer the economic approach. It directly takes up the old idea of a contract, which had already been proposed by philosophers, in the form of Buchanan's contractarian theory. It additionally extends the perspective restricted to the nation-state by asking whether and why at a certain point in time property rights can take on different forms in different societies – as is evident in Eastern Europe. Monetary theory will then be addressed, instead of further following the problem of designing privatization – which after all constituted the basis of the privatization debate. The latter attributes property a new function within money economies and from this perspective explains some fundamental differences between planned and money economies that contribute to the understanding of transformation. A last change of scene to old institutionalism will lead us back to the question of how property emerges as an institution and of how it can be established socially with durable effect. With these realizations, gained from the examination of historic processes, the old institutionalism is bringing us back from philosophical speculation and economic rationality, and instead firmly sets our feet on the hard facts of Central and Eastern Europe that smoulder with conflicts.

Part III is entitled "Property Rights in Planned Economies". At the outset of transformation many economists actually believed that the radical changes in Central and Eastern Europe could be interpreted as a new beginning, but meanwhile it has been demonstrated that old patterns of behavior are a retarding factor for institutional development. It is therefore not sufficient to establish that, at the beginning of transformation, the individual Central and East European countries would have had different starting conditions. Rather, it is necessary to take the past developments into consideration more seriously than has been done so far. On that note, we will

not go back too far in history, even though some transformation countries have re-established links to their pre-socialist past. Instead, priority is given to the comparison of countries that comprises events of the last decade of the planned economy phase. The closest attention is thus not paid to the functioning of planned economies, but to the changes of property order. This process will be examined from two perspectives. While one side expounds upon the extent to which private property was allowed during the 1980s, the other side takes up attempts for reform within the so-called socialist sector. According to the study, the interplay of the increasing liberalization of private activities on the one hand and the increasing autonomy of state-owned enterprises on the other led to a more or less pronounced erosion of the previous property order during the 1980s. An undesired process was thus set in motion even before the radical changes took place; it had considerable effects on the role of property within transformation.

“Property Rights in Transition”, Part IV, represents the centerpiece of this study. It will first portray the transformation crisis of the individual countries as well as the attempts to explain it, before addressing the question of property. It is noticeable here that institutional deficiencies were recognized as the root cause of the crisis only at a late stage. This applies particularly to the institution of property. Surprisingly, during the mid-1990s and thus towards the end of privatization, the phenomenon of “not fully state, not fully private” is detected alongside insufficient restructuring of enterprises. It does not occur to anyone, however, that the privatization and the resolution of the property issue in Central and Eastern Europe cannot be identical (provided the second problem is identified at all). The matter of property will therefore be analyzed anew together with the three methods pursued in Central and Eastern Europe so far, namely the legal solution, privatization as economic patent remedy and the spontaneous solution. The main focus will be on privatization. The conceptions, development and results of privatization in the individual countries will first be demonstrated through a rather traditional approach starting with the theoretical privatization debate. A reassessment will follow subsequently. To come straight to the result: in Central and Eastern Europe privatization frequently remained a formal act and thus hardly contributed within transition to the change of property as an institution.

In studying Central and Eastern Europe, a multitude of difficulties must be overcome. Some partly technical comments are thus necessary beforehand. The first comment concerns the examination period. Transformation means rapid changes; the important observations made today could seem of secondary importance tomorrow. In this respect it would therefore be best if a study like this could be written, so to speak, overnight. But the prolonged time period needed for completion, and the claim to be topical, required that once the end had been reached, certain earlier parts needed to be reworked and completed. A clear break had to be made: as far as it

was possible, this study will consider the development of each country until the end of 1997, partially even until 1998.

The period of completion and the increasing amount of literature pertaining to transformation and privatization lead to a second point. Documentation concerning Central and Eastern Europe has not always been as reliable as it is today. A few years ago it was only possible to gain an insight into the events by examining Eastern European primary sources in addition to Western publications. This was my way of operation, wherever my language skills allowed it. The reading of Russian and Romanian essays, newspapers and legal texts, initially dominating the list of literature, took up much time, but also provided many interesting discoveries. The Eastern European countries meanwhile have begun to publish German- and English-language newspapers, authors write in better-known languages, and legal texts are often translated simultaneously. The bibliography has been enriched with such sources, wherever it was possible. Since sizable remaining original literature and some East European authors were quoted, the "latinization" of names and characters has to be addressed. The transliteration of the Russian alphabet was made according to the "official" way that is usual in Slavonic studies. New technology enabled the reproduction of all characters of Romanian and of the various Slavonic languages. The names of authors that publish under their latinized name have not been rendered into Slavonic subsequently.

An Appendix provides the statistical basis. The countries' original statistics have been used primarily. They represent a relatively good basis for study in recent times and are being used by international organizations. The problems of old, socialist statistics are referred to as they surface. Explicit indications are necessary in pointing out that statistical reporting is still an area of transformation and that the given information can only reflect a general trend. The statistical appendix contains tables concerning the economic development of the countries examined.

The Bibliography partly gives the year of the first publication and that of the reprint used. It seems sensible to indicate the first year of publication, because among other things, philosophical quotations can thus be classified chronologically at first glance, revealing the spirit of the times. The first year of publication is not indicated for current authors.

Finally, the abbreviations used need to be mentioned. A peculiarity relates in this context to currency denominations, which are abbreviated according to the rules of the International Organization of Standardization. All in all restraint has been exercised, so that the list of abbreviations turns out quite short:

CMEA Council of Mutual Economic Assistance  
EU European Union  
GDP Gross Domestic Product

IMF International Monetary Fund  
SME Small and medium-sized enterprises

The following currency denominations have been used:

CZK Czech koruna (after division of Czechoslovakia; before that Kčs)  
HUF Hungarian forint  
PLN Polish zloty  
ROL Romanian lei  
RUR Russian rouble  
TRbl. Transfer-rouble

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