

Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	xi
<i>The Nobel Symposia</i>	xiii
<i>Acknowledgements</i>	xiv
<i>About the Editors</i>	xv
<i>Notes on the Contributors</i>	xvi
1 Introduction: Economics and Transition	1
<i>Erik Berglöf and Gérard Roland</i>	
2 Soft Budget Constraint Theories: From Centralization to the Market	12
<i>Eric Maskin and Chenggang Xu</i>	
3 When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies	37
<i>Roman Frydman, Cheryl Gray, Marek Hessel and Andrzej Rapaczynski</i>	
4 Disorganization and Financial Collapse	70
<i>Dalia Marin and Monika Schmitzer</i>	
5 Transition with Labor Supply	94
<i>Tito Boeri</i>	
6 The Evolution of Output in Transition Economies: Explaining the Differences	144
<i>Andrew Berg, Eduardo Borensztein, Ratna Sahay and Jeromin Zettelmeyer</i>	
7 Property Rights and Finance	213
<i>Simon Johnson, John McMillan and Christopher Woodruff</i>	
8 Courts and Relational Contracts	243
<i>Simon Johnson, John McMillan and Christopher Woodruff</i>	
9 Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries	298
<i>Eric Friedman, Simon Johnson, Daniel Kaufmann and Pablo Zoido-Lobaton</i>	
10 Why Do Firms Hide? Bribes and Unofficial Activity after Communism	335
<i>Simon Johnson, Daniel Kaufmann, John McMillan and Christopher Woodruff</i>	

11	The Causes of Corruption: A Cross-National Study <i>Daniel Treisman</i>	360
12	Incentives to Provide Local Public Goods: Fiscal Federalism, Russian Style <i>Ekaterina V. Zhuravskaya</i>	424
13	Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style <i>Hehui Jin, Yingyi Qian and Barry R. Weingast</i>	455
14	The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China <i>Alwyn Young</i>	481
15	Coordinating Reforms in Transition Economies <i>Yingyi Qian, Gérard Roland and Chenggang Xu</i>	518
	<i>Author Index</i>	547
	<i>Subject Index</i>	551

1

Introduction: Economics and Transition

Erik Berglöf and Gérard Roland

The transition from socialism to capitalism at the end of the twentieth century was one of the most significant events in the world economy since industrialization. Fundamental institutional change affected about a quarter of the population of the world. Few, if any, historical events have involved such change for so many over such a short period of time.

The transition process phases out the equally massive economic and political experiment embarked on earlier in the twentieth century. The socialist economic model with central planning was initially promoted as an alternative to capitalism, itself the result of gradual, small-scale and decentralized experimentation over the centuries. During the first decades of socialism, this challenge was taken very seriously, but by the late 1980s few doubts remained that the socialist economic system was in the long run dynamically less efficient than capitalism. The system generated little innovation, but led to widespread shortages and poor product quality. Over the course of several decades, growth gradually came to a halt (for a definitive analysis of the socialist economic system, see Kornai, 1992).

Nevertheless, even to experts, the transition came as a surprise. A few years earlier, in the USA, the CIA and others assembled the best sovietologists to discuss the prospects of the Soviet economic system. In 1983, they published a book with the title, *The Soviet Economy Toward the Year 2000* (Bergson and Levine, 1983). Without the early political changes initiated by Mikhail Gorbachev, the Soviet Union might still have existed in the year 2000. In parallel, the transition process had been quietly proceeding in China, the world's most populous country. Few paid attention to the Chinese transition at the time, partly because it was thought to be heavily constrained by the persistence of the communist political regime. In the Soviet Union it was the unexpected collapse of the communist political regime and the advent of democracy that opened up so many possibilities for the economic transition from socialism to capitalism.

Transition was a challenge for the economics profession as a whole. Indeed, it represented a unique opportunity to spread the capitalist system to a large number of countries. In general, economists were not well prepared. There was little in terms of conceptual thinking about how to move an economy from one system to

another, and no data on which to test such concepts. Though no roadmap existed, the principles of economics were to provide a compass, and transition was to reveal the accuracy of that compass. Ultimately, transition was to provide a test of our understanding of the capitalist system itself.

1.1 The challenge of transition for economics

At the start, the transition literature was clearly driven by policy demand. The early contributions were also largely policy papers proposing strategies for transition, or part of it. Perhaps the most well-known of such papers is that of Lipton and Sachs (1990), outlining a transition strategy for Poland, which was used immediately as a reference for other transition countries. The paper contains a formulation of the 'big bang' approach to transition, advocating that all reforms should be started as quickly as possible and in a comprehensive package. An MIT Press book written jointly by several top economists (Blanchard *et al.*, 1993) followed in the same vein, but it was more comprehensive and provided a detailed argumentation in favor of, among other things, mass privatization. The big bang approach to transition had a compelling logic to many. Its intellectual roots were threefold:

1. Monetary theory and stabilization policy. The general consensus was that 'shock therapy' or 'cold turkey' was the only way to stop hyperinflation, since only drastic reductions in money supply could lead to changes in expectations
2. Complementarities between reforms. Any single reform introduced on its own would have less positive effects, and possibly negative effects, than if all reforms were introduced at the same time. For example, privatization and liberalization obviously complement each other. The idea of complementarities had been advanced a long time ago in comparative economics and the analysis of economic systems. The disappointing results from partial reforms in the early 1980s in countries such as Hungary strengthened the argument for complementarities.
3. The 'Washington consensus' on structural reforms in emerging markets in general put a strong emphasis on liberalization, privatization and fiscal discipline as conditions for aid from the international financial institutions. The disappointing experiences with development aid in the 1960s and 1970s had led to the conclusion that sound macroeconomic policies needed to be backed up by microeconomic reforms to encourage the development of markets and a competitive environment. In the context of transition countries, structural reforms such as liberalization and privatization were obviously fundamental ingredients of the transition itself.

From the very start of transition, however, a plethora of surprising puzzles dampened enthusiasm for the economic opportunities provided by the collapse of communism. We list only the main ones here.

First, price liberalization caused output to fall sharply in all Central and Eastern European countries. The output fall was clearly not predicted; it presented economists with a puzzle. Standard economic theory predicts that the volume of

sales on a market is maximal at the equilibrium price. Moving from fixed prices to equilibrium prices should in general lead to an increase in production. Even under a pessimistic scenario with no supply response, production remains the same, but certainly does not fall. Given the general inefficiencies that plagued the socialist economy, price liberalization should move the economy in the direction of greater allocative efficiency and thus lead to a higher level of activity.

When price liberalization produced an output fall everywhere in Central and Eastern Europe, the immediate reaction was either to dismiss the phenomenon as a statistical artefact: according to theory it could not have happened. Alternatively, macroeconomic policies were at fault. In particular, several papers were written that blamed the Polish output fall on excessive macroeconomic contraction (Rosati, 1994; Berg and Blanchard, 1994; and Bhaduri *et al.*, 1993). However, when prices were liberalized in Russia, stabilization was anything but excessive. Prime Minister Yegor Gaidar could only get the Duma to agree to a fiscal stabilization plan for the first three months of 1992. Afterwards, the fiscal situation was out of control and inflation remained very high in Russia for at least three years.

The fact that macroeconomic policies could not explain the output fall in general presented a challenge to market and price theory. The search for an explanation for the output fall led economists to have a new look at markets by focusing on contracts and their legal, social and political environment. As we shall see below, this is part of a general shift in economics towards inquiries into the institutional underpinnings of markets and the 'lens of contracts' (Williamson, 2002).

A second big puzzle was the so-called 'great divide' between Central Europe and Eastern Europe (CEE) and the Former Soviet Union (Berglöf and Bolton, 2002). Whereas in the CEE countries the output fall was followed by a recovery, most countries of the former Soviet Union experienced a much deeper and more protracted economic decline that lasted for the greater part of the 1990s. The 'Great Divide' was puzzling, since the large variation in growth experience could not easily be traced to differences in economic policies. There were probably more differences between the Hungarian and the Czech transition strategies or between the Ukrainian and Russian strategies than between the Czech strategy and that of Russia. The Russian transition strategy was very similar, at least in the dimensions emphasized by the Washington Consensus, to the big bang approach followed in Poland and the Czech Republic. The Czech Republic and Russia implemented mass privatization, whereas Poland did not, and Russian stabilization policy was more timid than in these countries. However, Hungarian stabilization policy was also very timid in the early years. Economists had to look beyond economic policies and ponder the long-run role of institutions in determining the growth path of an economy.

A third puzzle was the extraordinary success of the transition process in China and the Chinese economic miracle since the 1980s. In 1990, the Chinese transition seemed half-baked and was criticized for its gradualism. The conventional wisdom at the time suggested that the democracy and political pluralism in Central and Eastern Europe would generate a more successful transition process, and that China would have been much better off had it followed a big bang strategy

(Sachs and Woo, 1994). In reality, the Chinese transition, while still in many respects incomplete, proved to be much stronger than that of Central and Eastern Europe, at least as at the time of writing. No output fall occurred and the economy has been on a robust growth path for over twenty years with reforms progressing gradually.

Even in today's perspective, with much stronger emphasis on the importance of institutions, China's economic success is puzzling. This success was produced despite institutional inconsistencies caused by the lack of complementarities. Moreover, China lacks what are seen today as 'first-best' institutions such as the rule of law, democracy, separation of powers, and transparency, now thought to be fundamental to successful growth. This has led within the institutionalist framework to a renewed questioning of the validity of institutions across countries and across time, and to a criticism of 'institutional monocropping' (Evans, 2004) and to questions as to what constitute 'adequate institutions' in a given country at a given time.

Finally, an important puzzle occurred with privatization, especially with mass privatization programs that led to widespread asset-stripping by the new owners. This outcome was in sharp contrast to the initial view, most starkly expressed in Blanchard *et al.* (1993), that fast privatization was a priority precisely to prevent asset-stripping by managers in state-owned enterprises (SOEs). The implicit assumption was that most managers in SOEs were facing an endgame situation. Ultimately, they would lose their jobs, and for this reason would engage in asset-stripping. The only way to stop this from happening was to privatize firms as fast as possible. Another assumption implicitly made by many was that, once privatized, the Coase theorem would apply and firms would ultimately be in efficient hands. In practice, many SOE managers surprised observers by restructuring their enterprises (Belka *et al.*, 1993). More recent evidence also shows that, once the initial selection effect has been taken into account, state-owned firms have been at least as successful at restructuring as firms privatized to domestic owners (EBRD, 2005). It came as an even bigger surprise that mass privatization led to massive asset-stripping (see, for example, Black *et al.*, 2000, for Russia). Economists apparently needed to think more deeply about institutional requirements for successful privatizations and the restructuring of state-owned companies.

These different observations and the queries they raised (as well as many other phenomena of the post-socialist world, such as the emergence of the mafia and the numerous secessions of countries) cast serious doubt on the Washington consensus and revealed the extent of our ignorance.

The research on transition since the late 1980s has contributed to important shifts in the way we look at economic systems. The many surprises of transition contributed to a change of focus in the vision of economics, and have very much reinforced the institutionalist perspective, emphasizing the importance of the institutional underpinning a successful capitalist economy. Successful institutions of capitalism are already present in advanced economies, and we had tended to take them for granted when thinking of economies in transition or developing economies. The experience of transition shows that policies of liberalization, stabilization and privatization are unlikely to deliver successful outcomes unless

they are grounded in adequate institutions, thus accounting for at least some of the failures of the Washington consensus. Much of this change of focus towards the institutionalist perspective was already under way with the development of contract theory, political economy, law and economics, regulation theory, corporate finance and other areas in applied economic theory. The experience from transition provided strong empirical support for this shift in focus from markets and price theory to contracting and the legal, social and political environment of contracting.

The transition experience has also reinforced the need to incorporate the enforcement and implementation aspects of economic analysis and economic policy-making. The rapid introduction of vast bodies of laws and regulations proved to be insufficient, and often even counterproductive, as laws and regulations must be enforced. Enforcement, in turn, relies on the capacity of courts and enforcement agencies, and the strength of these institutions ultimately depends on the support generated by the political process. Similarly, the early transition programs based on long checklists of desired reforms to be implemented immediately are no longer taken seriously. The transition experience has brought home forcefully the need to design programs with endogenous political constraints. Reforms must be acceptable *ex ante* and sustainable over time, and sequencing matters for the outcome. Constituencies must be built and maintained, and local ownership is critical to the long-term success of reform programs.

Transition has also renewed interest in the difficult topic of the complementarities between the various elements of capitalist system (markets, incentive and governance systems, legal arrangements, social and cultural norms, organization of government) (see Roland, 2000). One of the important themes is the problems of transplantation: institutions working well in one context may be disappointing or dysfunctional in another. Yet the remarkable institutional transformation in Central and Eastern Europe cannot be understood without taking into account the process of enlargement of the European Union (EU). The explanation for the success of this institutional transplantation is likely to rest on its comprehensiveness (the entire body of law, the *acquis communautaire*, and the institutions that go with it) and the strong domestic support for the overall objective of the process (to become part of the European Union). Ultimately, the experiences from transition have also shed new light on the extent of complementarity between politics and economics. Political transition is intimately linked to economic transition, even if the case of China shows that some economic reforms can be sustained for long periods of time without fundamental political reform.

Finally, transition has also forced us to think about institutions in a dynamic way: how momentum for reform is created; how institutions can evolve; but also how momentum can be lost and how countries can get stuck with inefficient institutions. In that sense, transition has reinforced the evolutionary-institutionalist perspective, insisting both on the institutional environment of agents at any moment in time but also on its evolution.

On the whole, transition economics has contributed to a more general shift in the way we think about the general body of economics itself. First, contracts and

transactions are taken as the object of analysis. The Coase theorem and departures from its conditions are the starting point for any analysis of transactions. The puzzle of the output fall in the transition context could only be solved through a contractual approach where liberalization in a context with no pre-existing markets and an imperfect contracting environment could lead to disorganization in production and exchange (Blanchard and Kremer, 1997; and Roland and Verdier, 1997). These lessons go far beyond transition; they represent a different view of markets.

Second, abuse rather than exchange is the core problem in contracting, a theme permeating the transition literature and the understanding of economic performance. Indeed, abuse by clients, suppliers and debtors, and racketeering by mafia as well as by bribe-seeking government bureaucrats, abound in transition countries. As a consequence, the legal, institutional and social environment protecting agents against private and public abuse are of first-order importance. These institutions are often taken for granted in advanced market economies.

Third, transition has shifted the emphasis in the age-old controversy among economists over the optimal size of government. The discussion has moved away from 'more' or 'less' government towards the relative efficiency and effectiveness of different governments in providing public goods, from law and order to health and education and forms of social insurance. Research increasingly opens up the black box of government and goes beyond a monolithic view of government as being either a benevolent social planner or a malevolent Leviathan. The focus is on the organization of government and the incentive of individual politicians and bureaucrats within the given constitutional arrangement.

Fourth, the political sustainability of institutions and the need to build support for continuous reforms and new institutions have come to the fore in light of the transition process. Political constraints have played an important part in varying degrees in all countries undergoing transition. The subject of the political economy of reforms has emerged to incorporate these constraints. Moreover, political sustainability affects not only economic outcomes but also expectations.

Fifth, the transition experience has helped to overcome an ahistoric and naïve view of institutions as something easily imported and exported. Serious thinking is devoted to understanding whether institutions are adequate for particular geographical and historical contexts. Researchers also acknowledge the scope for diverse institutional responses to particular contexts. The Chinese experience and the unorthodox 'transitional institutions' such as the dual-track system or township-village enterprises have played a fundamental part in this change of perspective.

Sixth, another legacy of transition is the increasing interest in the flexibility or rigidity of institutions towards changes in economic circumstances. In the search for more efficient institutions, flexibility may be a virtue – in particular, in overcoming collective action problems.

It is difficult to trace these shifts in emphasis to particular papers, but contributions to the Nobel Symposium are representative of these trends in research.

The submitted papers have all been subject to extensive academic review and have stood the test of time in a rapidly evolving field.

1.2 The symposium papers

Erik Maskin and Chenggang Xu, in Chapter 2, survey the literature on soft budget constraints, an incentive problem conceptualized by Kornai (1980) that played an important role under socialism and continues to do so under transition. In fact, the soft budget constraint problem is generic to economic activity. It has been studied fruitfully with the help of contract theory. Budget constraints are said to be soft when an investor (the state, a bank or any other investor) has to bail out a project even though the project from an *ex ante* point of view should be closed down, since it has been unprofitable. *Ex ante*, the investor would prefer to commit not to bail out, but such a commitment might not be credible. The soft budget constraint literature shows how a given institutional context affects budget constraints.

Roman Frydman, Cheryl Gray, Marek Hessel and Andrzej Rapaczynski, in Chapter 3, present a rare cross-country comparative analysis of the effects of changes in ownership following privatization policies in Central Europe. Their main finding is that privatization has no significant impact on economic performance for insiders, but for outsiders it has a significantly positive one. Other studies have found similar results, though at the level of individual countries. The research on privatization in transition economies has led economists to think beyond simple ownership categories and to focus more strongly on issues of corporate governance.

Dalia Marin and Monika Schnitzer, in Chapter 4, use a contract-theoretic approach to explain jointly the output fall and the strong increase in barter and interfirm arrears in many transition economies in the late 1990s. They argue that, in Russia, barter has helped to alleviate opportunism in contract enforcement, and somewhat buffered the effects of disorganization by collateralizing trade between firms. This chapter is a nice example of how the contractual framework can take the institutional environment of firms into account, and derive macroeconomic implications. Their contractual framework contributes to our understanding of more general issues in international trade, where barter has often played a non-negligible role, and where the study of the form of contracts has been neglected until very recently.

Tito Boeri, in Chapter 5, goes directly to a macro framework, but this time from the perspective of labor economics. He explains the large reduction in labor supply at the beginning of transition as a result of frictions in the newly-established labor markets. Early generous unemployment benefit schemes put in place in many countries further contributed to withdrawals from the labor force.

Andrew Berg, Eduardo Borensztein, Ratna Sahay and Jeromin Zettelmeyer, in Chapter 6, exploit the vast amount of data made available over time to understand the effects of reforms and initial conditions on economic performance in the different transition countries. Using a 'general to specific' approach, they conclude that one cannot reject an effect of policies. Initial conditions seem more important

to explain initial declines, while structural reforms explain the recovery. Among the various models taking economic policy as exogenous, this is clearly the most sophisticated and comprehensive analysis to date.

In Chapter 7, Simon Johnson, John McMillan and Christopher Woodruff report, based on a survey of new firms in Poland, Slovakia, Romania, Russia and the Ukraine, that insecurity of property rights is a first-order effect explaining the lack of investment by firms. This approach is in stark contrast to the focus in much of the recent development literature emphasizing credit constraints, and has, in conjunction with others (for example, Besley, 1995) it has triggered an interesting body of work. In a companion chapter based on the same survey, Chapter 8, the authors compare the effectiveness of informal and formal contract enforcement mechanisms when courts are effective. They find that well-functioning courts encourage firms to develop new economic interactions with other firms, in this way creating a more competitive environment.

The issue of the informal sector is analyzed in Chapter 9, by Eric Friedman, Simon Johnson, Daniel Kaufmann and Pablo Zoido-Lobaton, and in Chapter 10 by Simon Johnson, Daniel Kaufmann, John McMillan and Christopher Woodruff. Both chapters find that the greater the unofficial activity, the greater is government corruption. However, Chapter 9 shows that more unofficial activity is associated with lower tax rates, suggesting that more corrupt governments are also smaller in size. The latter result is in line with the theme developed by the transition literature, that the issue about the relative efficiency of a government is more important than the traditional issue of its size.

Daniel Treisman, in Chapter 11, presents a cross-country study attempting to explain the causes of corruption. He finds that less corruption is associated with a Protestant tradition, a history of British rule, higher development and a longer exposure to democracy. Federalism is positively correlated with corruption.

Issues of the organization of government are studied by Ekaterina Zhuravskaya in Chapter 12, and Hehui Jin, Yingyi Qian and Barry Weingast in Chapter 13. While both chapters empirically analyze decentralization, their results differ strikingly. Zhuravskaya's analysis of Russian city budgets shows that changes in local government revenues are often offset on a one-to-one basis by the regional government. The strongly dampened fiscal incentives at the local level have a negative impact on the efficiency of the provision of public goods and the development of the private sector. In China, by contrast, fiscal decentralization makes local governments residual claimants on tax revenues. As a result, they have strong incentives to maximize the tax base by encouraging economic activity.

Alwyn Young, in Chapter 14, documents the barriers to trade set up by provincial authorities in China to protect themselves from the effects of price liberalization in the mid-1980s. The contribution analyzes episodes of increasing interregional variation of prices in the 1980s and their fluctuations in the 1990s suggesting episodes of local protection suppressed by the central authorities followed by further protection. The resistance to reforms also observed in other countries highlights strongly the importance of political sustainability. The devolution of authority associated with decentralization and the local diversification of production associated with

the provincial organization of central planning certainly contributed to provincial protectionism.

Yingyi Qian, Gérard Roland and Chenggang Xu, in Chapter 15, highlight some positive aspects of the provincial organization of Chinese administration, namely the institutional flexibility in terms of experimenting with reforms. This example illustrates the role of institutional flexibility in the process of change.

1.3 The transition of transition economics

The transition process has proved to be more complex and protracted than had initially been thought. It has proved a healthy challenge to economics, generating research that has influenced the economics profession and the way that economics is thought about in general. However, the field itself is in transition, moving away from applying existing economic knowledge to transition economies and towards trying to create new theories to explain the problems revealed by the transition experience. The transition process itself, however, is finite in time, and in the EU accession countries it is largely completed. Even if the process takes longer other economies, they are now all far away from the socialist central planning model. In which directions will this field of research go?

The two fields of institutional economics closest to transition economics are development and economic history. All three fields are fundamentally motivated by the same question – the so-called Adam Smith question – what are the conditions for successful economic growth and development? In all three fields, answering this question requires a comprehensive approach to understanding the institutional conditions for growth and development, and how these institutional conditions arise and emerge. In contrast to other fields of economics, researchers must have strong factual knowledge that is not easily transferable to other fields of investigation.

In a certain sense, research on transition will over time naturally merge with economic history. Interest in the subject will stay alive for a very long time, just as interest in understanding the socialist economy seems again to be resuming as it becomes more distant in time. Perhaps more interestingly, themes from transition economics are being picked up by development economics as the study of this subject shifts away from its traditional focus on rural poverty and development and towards institutional reforms and institutional change. The increasing interest in the latter issues will bring together scholars from both disciplines.

Research on transition is also transforming itself. One important example is the research program of *macro-institutional development* studying the conditions and aggregate effects of institutional change in development. The strong impact of the recent work of Acemoglu *et al.* (2004) on the effects of institutions on growth (see also, Hall and Jones, 1999). More research is currently being done in that area. Another direction of transformation is comparative institutional analysis, such as the comparison of the effects of differences in the legal systems of countries (La Porta *et al.*, 1998, 1999, 2000), the comparison of differences in the political constitutions of countries (Persson and Tabellini, 2000, 2003; Persson *et al.*, 2003),

and the comparison of institutions regulating entry and the economy in general (Djankov *et al.*, 2003; Botero *et al.*, 2004).

Many questions are being raised within these evolving research programs. A major challenge is to be able to disentangle the relative importance of different institutions that matter for growth and development. What is the role of the quality of the legal system and the quality of law enforcement? What is the role of the quality and integrity of the bureaucracy? What is the role of the political regime, the electoral rule, the degree of federalism? What is the role of social capital? What is the role of social norms and values? Ideally, we would like to be able to measure the separate effect of different institutions or the joint effect of a subset of institutions. This is not easy, since many institutions are strongly correlated. A bigger problem than correlation is the identification problem. Institutions are not exogenous, but specific institutions can also be caused by other institutions. Are legal arrangements causing social norms or is the opposite the case? Considerable craftsmanship and innovation in datasets will be required to find adequate estimation strategies to tackle those questions. Much research is needed to better understand interactions between different institutions. We also need to more fully develop the empirical grounds of our knowledge about the determinants of institutional change. This will require a major effort, not only for those who study development and transition but perhaps most of all for economic historians, because history provides a very rich ground for studying institutional change.

Despite these difficulties, these questions will be at the forefront of policy debates in coming decades. They will no doubt also continue to shape our vision of economics.

References

- Acemoglu, Daron, Simon Johnson and James A. Robinson (2004) 'Institutions as the Fundamental Cause of Long-Run Growth', CEPR Discussion Papers No. 4458.
- Belka, Marek and Brian Pinto (2003) 'Transforming State Enterprise in Poland: Evidence on Adjustment by Manufacturing Firms', *Brooking Papers on Economic Activity*, Vol. 1.
- Belka, Marek, Stefan Krajewski and Brian Pinto (1993) 'Transforming State Enterprise in Poland: Evidence on Adjustment by Manufacturing Firms', *Brookings Papers on Economic Activity*, vol. 1, pp. 213–70.
- Berg, Andrew and Olivier J. Blanchard (1994) 'Stabilisation and Transition in Poland, 1990–91', in Olivier Blanchard, Kenneth A. Froot and Jeffrey Sachs (eds), *Transition in Eastern Europe*, vol. 1 (Chicago: National Bureau of Economic Research and University of Chicago Press), pp. 51–92.
- Berglöf, Erik and Patrick Bolton (2002) 'The Great Divide and Beyond: Financial Architecture in Transition', *Journal of Economic Perspectives*, vol. 16, no. 1, pp. 77–100.
- Bergson, Abram and Herbert Samuel Levine (1983), *The Soviet Economy: Toward the Year 2000* (London/Boston, Mass.: George Allen & Unwin).
- Besley, Timothy (1995) 'Property Rights and Investment Incentives: Theory and Evidence from Ghana', *Journal of Political Economy*, vol. 103, no. 5, pp. 903–37.
- Bhaduri, Amit, Kazimierz Laski and Friedrich Levcik (1993) 'Transition from the Command to the Market System: What Went Wrong and What to Do for Now?', Mimeo, Vienna Institute for Comparative Economic Studies.

- Black, Bernard, Reinier Kraakman and Anna Tarassova (2000) 'Russian Privatization and Corporate Governance: What Went Wrong?', *Stanford Law Review*, vol. 52, pp. 1731–808.
- Blanchard, Olivier and Michael Kremer (1997) 'Disorganization', *Quarterly Journal of Economics*, vol. 111, pp. 1091–126.
- Blanchard, Olivier J., Rudiger Dornbusch, Richard Layard, Lawrence H. Summers and Paul Krugman (1993) *Reform in Eastern Europe* (Cambridge, Mass.: MIT Press).
- Botero, Juan, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2004) 'The Regulation of Labor', *Quarterly Journal of Economics*, vol. 119, no. 4, pp. 1339–82.
- Djankov, Simeon, Edward Glaeser, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2003) *The New Comparative Economics, Journal of Comparative Economics*, vol. 31, no. 4, pp. 595–619.
- EBRD (2005) 'Business in Transition', *Transition Report 2005*. November.
- Evans, Peter (2004) 'Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation', *Studies in Comparative International Development*, vol. 38, no. 4, pp. 30–52.
- Hall, Robert E. and Charles I. Jones (1999) 'Why Do Some Countries Produce So Much More Output per Worker than Others?', *Quarterly Journal of Economics*, vol. 114, pp. 83–116.
- Kornai, János (1980) *Economics of Shortage* (Amsterdam: North-Holland).
- Kornai, János (1992), *The Socialist System, The Political Economy of Communism* (Princeton: Princeton University Press).
- La Porta, Rafael, Florencio López de Silanes, Andrei Shleifer and Robert W. Vishny (1998) 'Law and Finance', *Journal of Political Economy*, vol. 106, pp. 1113–55.
- La Porta, Rafael, Florencio López de Silanes and Andrei Shleifer (1999) 'Corporate Ownership Around the World', *Journal of Finance*, vol. 54, no. 2, pp. 471–517.
- La Porta, Rafael, Florencio López de Silanes, Andrei Shleifer and Robert W. Vishny (2000) 'Investor Protection and Corporate Governance', *Journal of Financial Economics*, vol. 58, pp. 3–27.
- Lipton, David and Jeffrey Sachs (1990) 'Creating a Market Economy in Eastern Europe: The Case of Poland', *Brookings Papers on Economic Activity*, vol. 1, pp. 75–133.
- Persson, Torsten, and Guido Tabellini (2003) *The Economic Effects of Constitutions* (Cambridge, Mass.: MIT Press).
- Persson, Torsten, Gerard Roland and Guido Tabellini (2003) 'How Do Electoral Rules Shape Party Structures, Government Coalitions, and Economic Policies?', NBER Working Paper No. 10176, National Bureau of Economic Research.
- Roland, Gérard (2000) *Transition and Economics: Politics, Markets and Firms* (Cambridge, Mass.: MIT Press).
- Roland, G. and Thierry Verdier (1997) 'Transition and the Output Fall', CEPR Discussion Paper No. 1636, May.
- Rosati, Dariusz (1994) 'Output Decline during Transition from Plan to Market', *Economics of Transition*, vol. 2, no. 4, pp. 419–42.
- Sachs, Jeffrey and Wing Thye Woo (1994) 'Structural Factors in the Economic Reforms of China, Eastern Europe and the Former Soviet Union', *Economic Policy*, April, pp. 101–45.
- Williamson, Oliver E. (2002) 'The Theory of the Firm as Governance Structure: From Choice to Contract', *Journal of Economic Perspectives*, vol. 16, no. 3, pp. 171–95.

Author Index

- Acemoglu, Daron, 9, 213
Ades A., 362, 365, 370, 417, 418
Aghion, Philippe, 22, 30, 31, 138
Akai, Nobuo, 477
Alexander, Ian, 292
Altonji, Joseph G., 292
Alvarez, M., 371, 389, 390, 411, 418
Andreoni, J., 339
Arora, V. B., 450
Ashenfelter, Orley, 41
Åslund, Anders, 207
Ausubel, Lawrence, 294
- Bagehot, W., 31
Bahl, Roy, 458, 459, 463, 470, 471
Bai, Chong-en, 24, 25, 29
Balcerowicz, Leszek, 63, 65
Banerjee, Abijit, 92, 291
Banfield, Edward C., 363, 417
Barberis, Nicholas, 38, 64, 65, 66
Barrett, D., 370, 379, 411
Barro, R. J., 418
Bartlett, B., 303, 331
Becker, G. S., 364
Belka, Marek, 4
Berg, Andrew, 3, 208
Berglöf, E., 19, 20, 21
Bergson, Abram, 1
Berkowitz, Daniel, 215
Besley, Timothy, 213, 237
Bhaduri, Amit, 3
Bigsten, Arne, 291, 294
Black, Bernard, 4
Blanchard, Olivier J., 3, 4, 39, 54, 63, 71, 72, 90, 91, 98, 132, 138, 210, 244, 457
Bloem, Adriaan, 208
Boardman, Anthony E., 37, 64
Boeri, Tito, 113, 114, 122, 123, 127, 129, 138, 139, 141
Bolton, P., 18, 28
Boone, Peter, 207
Botero, Juan, 10
Boycko, Maxim, 38, 48, 450
Bradley, Michael, 30
Bratkowski, Andrzej, 240
Brennan, Geoffrey, 456
Brierly, J., 380
Brooks, Karen, 538
Brunetti, A., 137
Bruno, R., 138
- Bryce, James, 538
Buchanan, James M., 456
Burda, M., 113, 139
Butterfield, John, 537
- Calvo, Guillermo A., 71, 77, 82, 91
Campos, N., 137
Card, David, 41
Cebula, R. J., 303, 331
Chandler, Alfred, 544
Charny, David, 250
Chen, Rulong, 463
Chen, Yong Yu, 510
Christoffersen, Peter, 207
Claessenes, Stijn, 38, 63, 64
Coase, Ronald, 13, 23
Coffee, John C., 64
Coles, M., 129
Commander, Simon, 90
Coricelli, Fabrizio, 71, 77, 82, 91
- David, R., 380
de Broek, Mark, 208
de Figueiredo, Rui J. P., 457
de Melo, Martha, 147, 153, 154, 207
de Soto, H., 330, 335, 355
DeJong, David N., 215
Delong, B., 299
Demirgüç-Kunt, Asli, 214
Denizer, Cevdet, 147, 153, 207
Dewatripont, Mathias, 14, 26, 139, 544
Di Tella, 362, 365, 370, 417, 418
Diamond, Douglas, 28
Diamond, L., 417
Djankov, Simeon, 10, 38, 63, 133, 215, 221
Dobozi, Istvan, 208
Doyle, Peter, 207
Dybvig, Phillip, 28
- Earle, John S., 38, 48, 64, 66
Easterly, W., 299, 370, 417, 418
EBRD (European Bank for Reconstruction and Development), 4, 90, 215, 336, 354, 355, 357
Eckstein, H., 363
Ekpo, M. U., 364
Elazar, D., 371, 388, 411
Ellickson, Robert C., 243

- Enste, D., 303, 309, 325, 330, 331, 332, 335,
 336, 338, 339, 355
 Erbenova, M., 127
 Estrin, Saul, 38, 48, 64, 66
 Evans, Peter B., 4, 364
- Fafchamps, Marcel, 245, 291
 Falvey, Rodney E., 513
 Fan, Gang, 459
 Faure-Grimaud, Antoine, 21, 26
 Fearon, J. D., 365
 Fidrmuc, J., 133
 Fieldhouse, D. K., 370, 411, 419
 Fischer, Stanley, 149, 150, 207
 Fisher, S., 137
 Ford, J. L., 513
 Frexias, X., 14, 31
 Friedman, E., 330, 339
 Frydman, Roman, 38, 48, 49, 52, 55, 56, 63,
 64, 66
 Frye, Timothy, 214, 249, 262, 340, 356, 457
- Gaddy, C. G., 91
 Galanter, Marc, 243, 246
 Garibaldi, P., 141
 Gavrilencov, Evgeny, 208
 Geddes, Barbara, 365, 417
 Gelb, Alan, 147, 153, 207, 488
 Ghosh, Parikshit, 251
 Glaeser, Edward, 265
 Goldfeld, Stephen, 14
 Goodfriend, M., 31
 Goodhart, Charles A. E., 31
 Greene, William H., 512
 Greif, Avner, 243, 291
 Grier, R., 370, 411
 Grogger, Jeffrey, 63
 Grondolo, J., 331
 Grosfeld, Irena, 38, 63
 Grossman, Gene, 31
 Groves, Theodore, 465
 Gunnemark, E. V., 370, 386
 Gustafson, T., 339
 Gwarney, J., 309
- Hall, Robert E., 9
 Hansmann, Henry, 49
 Hart, Oliver, 18, 27–8
 Havrylyshyn, Oleh, 147, 186, 207, 209
 Hayek, Friedrich A., 455
 Hayo, Bernd, 208
 Heckman, James J., 41
 Hellman, Joel S., 239, 249
 Helpman, Elhanan, 31
 Hendley, Kathryn, 91, 249, 291, 294
 Hendry, David F., 208
- Hernández-Catá, Ernesto, 151, 207
 Heybey, Berta, 179–82, 207
 Heywood, P., 417
 Hoffman, 31
 Hofman, Bert, 463
 Holmes, K. R., 309
 Holtz, V. Joseph, 41
 Horrabin, J. F., 370, 419
 Howitt, Peter, 31
 Hsueh, Tien-tung, 506, 507
 Huang, Haixhou, 18, 23, 28, 29, 31, 32
 Huang, Yasheng, 520
 Humpfrey, T., 31
 Huntington, S. P., 417
- Ickes, Barry W., 91
- Jackman, R., 139
 Jefferson, Gary H., 511
 Jimeno, J. F., 132
 Jin, H., 425, 427, 432, 438, 451
 Johnson, B. T., 309, 353, 354, 355, 357, 358
 Johnson, Simon, 91, 207, 239, 247, 299,
 303, 325, 330, 331, 332, 335, 336, 339,
 340, 355, 356, 357, 358, 361, 425, 450,
 452
 Jones, Charles, I., 9
 Jones, D. C., 133
- Kaliberda, Aleksander, 208, 303
 Kandel, Eugene, 291
 Karatnycky, A., 309
 Kato, T., 133
 Kaufmann, Daniel, 208, 239, 298, 303, 335,
 336
 Keefer, Philip, 213, 299
 Kennedy, P., 417
 Kessler, Daniel, 63
 King, R. G., 31
 Klemperer, Paul, 246, 294
 Knack, Stephen, 213, 299
 Knight, John, 451, 478
 Koen, Vincent, 208
 Koford, Kenneth, 291
 Kollo, Janos, 38
 Konings, Jozef, 91
 Kornai, Janos, 12, 13, 14, 18, 22, 32, 457,
 465, 544
 Kostial, Kristina, 208
 Kranton, Rachael, 250
 Kremer, Michael, 71, 72, 90, 91, 244
 Kumar, Anjali, 507
- La Porta, Rafael, 9, 37, 65, 213, 299, 309,
 311, 321, 361, 362, 370, 379, 380, 391,
 394, 411, 417, 418, 419

- Lacko, M., 309, 325, 330, 331, 338, 355
 Laffont, J., 22
 Laird, Roy, 536, 537
 Laitin, D. D., 365
 Lavrov, Aleksei, 426, 457
 Lawson, R., 309
 Learner, Edward E., 156
 Lenz, Gabriel S., 384, 385, 394
 Levine, H. S., 1
 Levine, Ross, 148, 156, 213, 299, 370, 417, 418
 Li, David, 19
 Li, Hongbin, 458
 Li, Shi, 451, 478
 Lieberman, Ira W., 38
 Liefert, William, 537
 Lijphart, A., 388
 Lin, Justin Yifu, 478
 Lipset, Seymour Martin, 363, 364, 384, 385, 394
 Lipton, David, 2
 Liu, Zhiqiang, 478
 Loayza, N. V., 303, 311, 325, 331, 332, 335
 López-de-Silanes, Florencio, 37, 65
 Lotspeich, Richard, 227
 Loveman, Gary W., 239
 Lucas, Robert, 31
- Macaulay, Stewart, 243, 246, 250, 291
 Majluf, Nicholas S., 227
 Maksimovic, Vojislav, 214
 Manion, Melanie, 509
 Marcouiller, D., 336, 339, 355
 Marin, Dalia, 71, 90, 91, 92
 Martin, Ricardo, 150, 153, 207
 Martinelli, Cesar, 481
 Maskin, Eric, 14, 26, 92, 458, 520
 Mauro, Paolo, 129, 213, 299, 360, 361, 369, 370, 386, 395, 411, 417, 418
 Mayer, Colin, 292
 McClellan, Mark, 63
 McKinnon, Ronald, 477
 McMillan, John, 215, 219, 245, 247, 340, 355
 Megginson, William L., 37, 65
 Messick, R. E., 309
 Meyendorff, Anna, 227
 Migrom, Paul, 519, 521, 536
 Miller, Jeffrey B., 291
 Miller, Merton, 13
 Mishkin, F., 31
 Mitchell, Janet, 30
 Modigliani, Fanco, 13
 Montinola, G., 425, 438, 450, 451, 456
 Moore, John, 18, 27–8
 Morck, Randall, 49
 Mumssen, Christian, 90
 Munich, D., 113
- Murphy, Kevin M., 92, 481
 Murrell, Peter, 179–82, 207
 Musgrave, Richard, 455
 Myers, Stewart C., 227
 Myrdal, G., 364
- Nash, Robert C., 37
 Naughton, Barry, 239, 508, 509
 Nellis, John, 38
 Neumann, Peter, 310
 Nivet, Jean-François, 38
 Norregaard, J., 450
 Nove, Alec, 520
- Oates, Wallace, 455
 OECD, 98, 113, 138, 356, 457
 Oi, J., 425, 438, 450
 Oksenberg, Michel, 463
 Olson, M., 365
 Osborne, David, 539
- Pagan, Adrian, 208
 Parker, S., 451
 Pauna, C., 139
 Penrotti, Enrico, 23
 Perkins, Dwight Heald, 508
 Persson, Torsten, 9
 Pinto, Brian, 63, 66
 Pistor, Katharina, 64
 Plattner, M. F., 417
 Pohl, Gerhard, 37, 38, 63, 66, 133, 208
 Pop-Eleches, Cristian, 249
 Povel, Paul, 28
 Price Waterhouse, 354
 Prud'homme, R., 366
 Przewoski, A., 139
 Putnam, R. D., 417
- Qian, Yingyi, 17, 18, 20, 21, 425, 438, 450, 477, 519, 520
 Quandt, Richard, 14
- Rajan, Raghuram, 213
 Ramey, Garey, 250
 Rapaczynski, Andrzej, 38, 48
 Rauch, J. E., 364
 Rawski, Thomas G., 511
 Ray, Debraj, 251
 RECEP, 452
 Renelt, David, 148, 156
 Ridder, G., 139
 Riker, W., 371, 388
 Roberts, John, 519, 521, 536
 Rochet, Jean-Charles, 21, 30
 Rodrik, D., 139

- Roland, Gérard, 5, 19, 20, 21, 38, 63, 90,
139, 244, 477, 544
Romer, Paul, 31
Rose-Ackerman, S., 366
Rosen, L., 417
Rosenzweig, Michael, 30
Rostowski, Jacek, 70
Rouen, Ren, 514
Ryterman, Randi, 91
- Sachs, Jeffrey D., 2, 150, 207, 386, 419, 544
Sahay, Ratna, 207, 364
Saint-Paul, G., 132
Sakata, Masayo, 477
Sala-i-Martin, Xavier, 148
Santomero, 31
Scarpetta, S., 127, 129
Schaffer, Mark, 14, 140
Scharfstein, D., 18, 28
Schiavo-Campo, S., 371, 411
Schmidt, Klaus M., 22
Schneider, F., 302, 303, 309, 325, 330, 331,
332, 335, 336, 338, 339, 355
Schnitzer, Monika, 22, 71, 90, 91, 92
Schoenmaker, D., 31
Schwartz, A., 31
Segal, Ilya, 19, 26
Selowsky, Marek, 150, 153, 207
Sharpe, Steven, 294
Sheehy, T., 309
Shleifer, Andrei, 16, 38, 49, 214, 215, 219,
230, 249, 299, 335, 339, 340, 356, 360,
366, 425, 455, 457
Shorrock, A., 139
Shyam-Sunder, Lakshmi, 227
Silvani, C., 331
Sobel, Joel, 258
Song, Xinzhong, 509
Stigler, G. J., 364
Svensson, Jakob, 213
Swinnen, Johan, 537
- Tabellini, Guido, 9
Tanzi, V., 365, 366
Tenev, Stoyan, 147, 153, 207
Tiebout, Charles, 455, 456
Tirole, Jean, 22, 30
Tommasi, Mariano, 481
Tong, James, 463
Treisman, D., 426, 428, 451
Turkowitz, Joel, 64
- Ul Haque, N., 364
- van Atta, D., 536
van der Kroef, J., 380
van Ours, J., 139
van Randenborgh, Matthias, 37
- van Rijckeghem, 364
van Wijnbergen, Sweder, 63
Vasiliev, Dmitry, 49
Végh, Carlos A., 207
Verdier, Thierry, 90, 244
Vining, Aidan R., 37, 64
Vishny, Robert W., 16, 38, 215, 219, 230,
335, 366, 455
- Wädekin, Karl-Eugen, 537
Wallich, Christine, 463, 471
Walsh, Patrick Paul, 91
Wang, Yijiang, 24, 25, 29
Warner, Andrew M., 150, 207
Watson, Joel, 250, 251, 258
Weder, B., 364
Wegren, Stephen, 536, 537, 538
Wehrheim, P., 537
Wei, S.-J., 370, 417
Weiner, M., 363
Weingast, Barry R., 366, 425, 438, 450, 457,
477
Wildasin, David E., 477
Williams, C. C., 303, 331
Williams, Nicolas, 292
Williamson, Oliver E., 3, 243, 246, 247, 544
Wilson, D., 298
Wilson, James Q., 366
Wilson, Robert, 244
Windebank, J., 303, 331
Wolf, Holger C., 147, 150, 186, 207
Wong, Christine P. W., 428, 450, 451, 453,
458, 471, 483, 485, 487, 488, 506, 508,
509
Woo, Wing Thye, 514, 544
Woodruff, Christopher, 245, 247, 293, 340,
355
World Bank, 108, 331, 360, 364, 370, 411,
421
World Economic Forum, 310
Wright, R., 132
- Xu, Chenggang, 17, 18, 23, 28, 29, 31, 32,
450, 519, 520
- Young, Alwyn, 515
Young, L., 336, 339, 355
- Zettelmeyer, Jeromin, 209, 210
Zhang, Tao, 478
Zhou, Li-An, 458
Zhuravskaya, Ekaterina V., 262, 356, 457,
471, 477
Zingales, Luigi, 213
Zoido-Lobaton, P., 335, 336
Zou, Hang-fu, 478

Subject Index

- accession/enlargement, European Union, 5, 95, 136
- acquis communautaire (EU accession), 137
- Africa
 - corruption, 392
 - unofficial economy, 335
- agriculture
 - China, 498–504, 533–6
 - Russia, 537
 - Soviet Union, 536–8
 - subsistence agriculture, 95
- Albania, 165
- Anglicanism (religion), 379, 384
- apprenticeships, 107
- Armenia, 191
- attribute shocks, 519, 522
- augmented Dickey–Fuller regressions. 151
- average effects, privatization, 44–8

- Bai–Wang model (soft budget constraints), 26
- bailout costs, banks, 31
- Balkans, 101, 122
- Baltic republics, 144, 157, 173
- bank credit, 213, 223–6
 - collateral, 225, 226
 - Poland, 223, 225, 344
 - Romania, 223, 224, 225, 344
 - Russia, 223, 224, 225, 344
 - Ukraine, 224, 344
 - USA, 225
- bankruptcy, 30, 31
 - Chapter 11 bankruptcy procedure (USA), 30
- banks
 - bailout costs, 31
 - bankruptcy, 31
 - central banks, 30–1
 - soft budget constraints, 20–2, 30, 31;
 - interbank lending, 28, 29, 30;
 - recapitalization, 21–2
- barter trade, 70, 71, 85–6, 91
 - Kasachstan, 70
 - Romania, 70
 - Russia, 70, 87, 90
 - Ukraine, 72, 78–82
- Belarus, 191
 - declining output, 70
- Belgium, 388
- big-bang approach, 2
- bilateral relationships,
 - see relational contracts
- boundaries, firms, 13, 23–4
- Brandeis, Louis, 538
- bribery, 218, 219, 236, 310, 337, 341, 353
 - see also corruption
- Britain
 - colonialism, 375–85, 419, 421
 - legal system, 363
 - over-regulation, 313
- British Airways, 63
- British Steel, 63
- BRO countries, 165, 170, 177–8, 186, 209
- Budapest, 108
- Bulgaria
 - employment, 102, 122, 123
 - output, 165
 - relational contacts, 291
- Business International (BI), 361, 369, 370, 418

- capital structure, 27–8
- cash flow, 239
- CEE, *see* Central and Eastern Europe
- Central and Eastern Europe (CEE), 3, 70, 87
 - contract enforcement, 91
 - corruption, 336; bribery, 341, 353
 - education, 106
 - employment, 95
 - European Union enlargement, 5
 - external finance, 214
 - organized crime, 336, 353
 - output, 144, 170, 186
 - over-regulation, 314
 - price liberalization, 3
 - privatization, 38, 58, 60; employee-owned firms, 64; managerial ownership, 49; partially privatized firms, 52, 64
 - property rights, 214, 218
 - tax rates, 353
 - unofficial economy, 336, 344, 345, 352–3

- central banks, 30–1
- Central Europe, *see* Central and Eastern Europe
- central planning, China, 483, 505
 - central–provincial fiscal relations, China, 458, 462–76
- centralized credit, 14–17
- centralized economies, 518, 519
 - China, 520
 - Russia, 520
 - soft budget constraints and, 17–19
- Chapter 11 bankruptcy procedure, USA, 30
- China, 1, 3–4, 520
 - agriculture, 498–504, 533–6; fishery sector, 534–6; household farming, 534
 - central planning, 483, 505
 - centralized economy, 520
 - Cultural Revolution, 485, 487, 488, 497
 - extra-budgetary revenue, 505–6
 - federalism/local government, 20, 425, 426–7, 432, 439, 455–78, 505;
 - central–provincial fiscal relations, 458, 462–76; levels of government, 450, 458, 508; off-budget revenue, 427; revenue sharing, 427–8, 451
 - fenzao chifan* policy, 486
 - fiscal contracting system, 459
 - labor allocations, 498
 - li gai shui* system, 509
 - output, 489–93
 - price controls, 488
 - prices, 493–5, 496; grain prices, 510
 - privatization, 465
 - profit rates, 238
 - separating tax system, 459
 - special economic zones, 488
 - State Planning Commission, 520
 - state-owned firms, 63, 465
 - subsidies, 426, 505
- China Price Statistics Yearbook*, 506
- China Public Finance Yearbook*, 505
- China Statistical Yearbook*, 462, 505, 506, 507, 512
- CIA, 1
- CIS countries
 - employment, 122
 - output, 157
- civil laws systems, 362
- Coase theorem, 4, 6
- Cobb–Douglas model, 112
- coke, 86
- collateral, 77–8, 235, 238
 - bank credit, 225, 226
- Czech Republic, 240
- Hungary, 240
- Poland, 240
- Romania, 240
- Russia, 240
- Ukraine, 240
- Colombia, 418
- colonialism
 - Britain, 375–85, 419, 421
 - corruption and, 375–83, 394, 419, 421
- COMECON, 41, 44
- common law system, 361, 362–3, 383, 417
- contract enforcement, 74–5, 91, 218, 219, 247, 254, 343
 - Central and Eastern Europe, 91
 - liquidity and, 74–5
 - Poland, 336
 - private enforcement, 265
 - relational contracts, 243–4, 250–1, 247, 254
 - Romania, 218, 336
 - Russia, 91, 336, 343
 - Slovakia, 336
 - Ukraine, 218, 336, 343
 - unofficial economy and, 336
 - see also* courts
- contract workers, 473
- contracts, *see* relational contracts
- corporate tax, 353–4
 - Poland, 354
 - Russia, 353, 354, 357, 453
 - Slovakia, 354
 - Ukraine, 353, 354, 357
- corruption, 137, 360
 - Africa, 392
 - bribery, 218, 219, 236, 310, 337, 341, 353
 - Central and Eastern Europe, 336, 341, 353
 - Colombia, 418
 - colonialism and, 375–83, 394, 419, 421
 - Czech Republic, 137
 - democracy and, 361–2, 363, 389–90, 393
 - economic development and, 386–7
 - Egypt, 382
 - El Salvador, 386
 - ethnic diversity and, 365, 385–6, 388
 - extralegal payments, 216–17, 236, 344–5, 346
 - federal states, 361, 366, 374, 387–9, 394
 - India, 379
 - Iraq, 418
 - Italy, 393, 396, 420
 - Japan, 418
 - Jordan, 382

- corruption – *continued*
 Korea, 418
 Latin America, 315, 396
 legal systems and, 361, 362–3, 380–4, 417
 Liberia, 382
 Mauritius, 382
 Nigeria, 418
 OECD countries, 315, 388
 openness to trade and, 390, 394
 organized crime, 217, 262
 Pakistan, 418
 Peru, 394
 Poland, 336, 341
 Portugal, 389
 punishments for, 364
 raw material exports and, 385
 reinvestment and, 229, 238
 religion and, 363, 379, 384–5, 394
 Romania, 217, 229, 336, 341
 Russia, 216, 217, 229, 238, 336, 341, 353,
 392–3, 394, 396
 Slovakia, 336, 341
 super-normal profits, 365
 Thailand, 382
 Turkey, 394
 Ukraine, 216, 217, 229, 238, 336, 341,
 353
 unitary states, 361, 395
 unofficial economy and, 315, 316, 328,
 335, 336, 352, 353
 USA, 393
- cost effects, privatization, 55–7
- courts, 244–7, 260–6, 269, 275–8, 280, 281,
 286, 291, 293, 343
- Japan, 291
 Mexico, 293
 Poland, 247, 248, 249, 265, 276, 281, 286,
 291, 293, 336
 Romania, 247, 248, 249, 281, 293, 336
 Russia, 248, 249, 280, 291, 293, 336, 343
 Slovakia, 248, 249, 265, 276, 281, 286,
 293, 336
 Ukraine, 247, 248, 249, 280, 291, 293,
 336, 343
 USA, 291
 Vietnam, 247
- credit, *see* external finance
- credit constraints, 82–6
- creditor rights, 315
- Croatia, 173, 176, 191
- Cultural Revolution, China, 485, 487, 488,
 497
- cumulative liberalization indices, 151, 207
- Czech Republic, 3, 70
- collateral, 240
- corruption, 137
- education, 107
- employment, 94; earnings inequality,
 123; minimum wage, 118
- liquidity, 71
- output, 165
- over-regulation, 313
- privatization, 38, 39, 40, 64; partially
 privatized firms, 52; revenue effects, 55
- unemployment, 103, 104, 117–18, 139
- debt–equity ratios, 27
- decentralized credit, 15–17
- decentralized economies, 18, 19
- declining output, 70, 102, 104, 144, 186
- Russia, 70, 81, 91, 104, 144
- Ukraine, 70, 78, 79, 81
- democracy, 361–2, 363, 389–90, 393
- design attributes, 519
- devolution, *see* federalism
- Dewatripont–Maskin model, 14–17, 19
- Dewatripont–Roland model, 107
- Diament, Mario, 396
- Dickey–Fuller regressions, 151
- disorganization, 71, 76, 87, 91
- liquidity and, 76
- Soviet Union, 71, 87
- Ukraine, 91
- early retirement schemes, 117
- earnings inequality, 123
- East Asia, 209
- Financial Crisis (1997), 28
- Eastern Europe, *see* Central and Eastern
 Europe
- EBRD (European Bank for Reconstruction
 and Development), 187, 248, 354, 355,
 357, 425
- economic development, 386–7
- Economist Intelligence Unit, 418
- education, 105–7, 121
- Central and Eastern Europe, 106
- Czech Republic, 107
- European Union, 105
- Germany, 107
- Greece, 105
- OECD countries, 121
- Poland, 107
- Spain, 105

- Egypt
 corruption, 382
 legal system, 383
 El Salvador, 386
 electricity-based estimates, 208, 303, 325
 employee-owned firms, 47, 64
 employment, 94–143
 Bulgaria, 102, 122, 123, 133
 CIS countries, 122
 Czech Republic, 94, 103, 104, 118, 123,
 117–18, 131, 139
 European Union, 98
 foreign-owned firms, 51
 fungibility, 114, 122
 Hungary, 107, 117, 129
 Italy, 100
 Labor Force Survey (LFS), 98, 102, 126
 non-employment benefits, 104–31
 North America, 98
 OECD countries, 100, 101, 102, 117, 121
 Poland, 107, 117, 121, 123, 126, 129
 privatization and, 39, 47, 51, 54, 65, 138
 regional variations, 126–9
 Romania, 102, 122, 123
 Russia, 102, 122, 123, 140
 Slovenia, 101
 Soviet Union, 95, 105, 123, 134
 state-owned firms, 98
 Visegrad group, 102, 122, 123, 135
 wage bargaining, 111, 113
 Western Europe, 98
 women, 95
 employment-to-output elasticities, 94, 101,
 122
 endogeneity problems, 149
 enforcement, contracts, *see* contract
 enforcement
 enlargement/accession, European Union, 5,
 95, 136–7
 ESOPs, Hungary, 63
 Estonia, 165
 see also Baltic republics
 ethnic diversity, 365, 385–6, 388
 EU, *see* European Union
 European Union (EU)
 education, 105
 employment, 98
 enlargement/accession, 5, 95, 136–7
 external finance, 213, 227, 229, 234, 239,
 344
 bank credit, 213, 223–6, 344
 Central and Eastern Europe, 214
 collateral, 77–8, 225, 226, 235, 238, 240
 interest rates, 228, 292
 Poland, 223, 225, 228, 240, 292, 344
 property rights and, 226, 228, 236, 238,
 240
 Romania, 223, 224, 225, 228, 240, 292,
 344
 Russia, 223, 224, 225, 227, 240, 344
 Slovakia, 223, 224, 225, 228, 344
 Soviet Union, 214
 trade credit, 225, 251–4, 266, 282, 291,
 293
 Ukraine, 224, 344
 external liberalization, 164
 extra-budgetary revenue, China, 505–6
 extralegal payments, 216–17, 236, 344–5,
 346
 see also corruption

Far East Economic Review (FEER), 508
 FE model, *see* fixed-effects model
 Federal Reserve Board of Governors (FRGB),
 USA, 225, 239
 federalism/local government, 371, 388, 455,
 538–9
 Belgium, 388
 China, 20, 425, 426–7, 432, 439, 450,
 451, 455–78, 505, 508
 corruption and, 361, 366, 374, 387–9, 394
 Italy, 417, 420
 revenue sharing, 427–8, 446, 451
 Russia, 426–53, 471
 soft budget constraints and, 20
 Spain, 388
 USA, 538–9
fenzao chifan policy, China, 486
 financial crises, 28
 financial institutions
 privatization and, 51
 soft budget constraints and, 31–2
 firms
 boundaries, 13, 23–4
 employee-owned firms, 47
 financial institutions as shareholders, 51
 foreign-owned firms, 51, 64
 individual shareholders, 52
 privatization, 22, 37–69; partially
 privatized firms, 52, 64–5
 state-owned firms, 22, 23, 37–69, 97, 98,
 465
 fiscal balances, 162
 fiscal contracting system, China, 459
 fiscal federalism, 450
 fishery sector, China, 534–6

- fixed-effects (FE) model, 41–3, 57–60
 Ford–Falvey model, 513
 foreign-owned firms, 51, 64
 former Soviet Union, *see* Soviet Union
 France, 538, 544
 Fraser Institute, 309, 314
 Freedom House, 309, 310, 314, 332, 370, 390, 420
 fungibility, 114, 122
- Gaidar, Yegor, 3
 Gallup International, 369, 376, 383, 418
 general currency ration (GCR) model, 331
 general-to-specific methodology, 155, 194, 208
 Georgia, 176, 191
 Germany, 107
 Ghana, 213
 Global Competitiveness Survey, 310
 Göttingen University, 368
 grain prices, 510
 Greece, 105
 growth rates, 518
 Guangdong province, China, 458, 488, 510
 Guizhou province, China, 459
- Hainan province, China, 544
 Harris–Todaro model, 95, 96, 97, 108
 Heckman correction terms, 123
 Hecksher–Ohlin model, 513
 Hendry, David, 155
 Heritage Foundation, 309, 313, 353, 354, 355, 357
 Heybey–Murrell regression, 179–82
 hidden activity, *see* unofficial economy
 household farming, 534
 Huangshi city, China, 509
 Hungary, 3, 70, 518, 544
 collateral, 240
 employment, 107; non-employment benefits, 117
 ESOPs, 63
 growth rate, 518
 liquidity, 71
 output, 157
 privatization, 38, 39, 40, 55, 63;
 individual shareholders, 52
 unemployment, 129
- incentive theory of money, 92
 income tax, 354, 357
 incremental reform, 481
Index of Economic Freedom, 353, 355
 India
 corruption, 379
 state of emergency (1975), 418
 individual shareholders, 52
 infant mortality, Russia, 439
 infrastructure investment, 20
 insider privatization, 48, 49–50, 60, 65
 cost effects, 55
 Poland, 49
 revenue effects, 65
 Institute for International Management, 311
 Institute for Management Development (IMD), 354, 383
 inter-jurisdictional competition, 455
 interbank lending, 28, 29, 30
 interest rates, 228, 292
 internal liberalization, 164
 Internal Revenue Service, US, 331
International Country Risk Guide (ICRG), 417, 418
 Iraq, 418
 Italy
 corruption, 393, 396, 420
 employment, 100
 federalism, 417, 420
- Japan, 538
 bank bailout costs, 31
 corruption, 418
 courts, 291
 Jiangsu province, China, 459
 Jordan
 corruption, 382
 legal system, 383
- Kasachstan, 70
 Kaufmann, Daniel, 239
Kimes International Law Directory, 380
 Klaus, Vaclas, 133
 Knightian uncertainty, 140
 Korea, 28, 418
 corruption, 418
 Kyrgyz Republic, 191
- IMF, 149, 150
Impulse (German business magazine), 310
 labor allocation, China 498
 Labor Force Survey (LFS), 98, 102, 126

- labor supply, *see* employment
- Lange–Lerner market socialism, 17
- Latin America
- corruption, 315, 396
 - legal systems, 315
 - over-regulation, 314
 - tax rates, 313
 - unofficial economy, 313, 314, 315, 335
- Latvia, *see* Baltic republics
- layoff rates, 113
- League of Russian Cities, 431
- leasing, privatization, 63
- legal systems, 355
- Britain, 363
 - civil laws systems, 362
 - common law systems, 361, 362–3, 383, 417
 - corruption and, 361, 362–3, 380–4, 417
 - Egypt, 383
 - Jordan, 383
 - Latin America, 315
 - Mauritius, 380
 - OECD countries, 315
 - Poland, 355
 - Roman law, 380
 - Romania, 355
 - Russia, 355
 - Slovakia, 355
 - Thailand, 383
 - Ukraine, 355
 - unofficial economy and, 314–15, 316, 326
see also courts
- lenders of last resort, 30–1
- levels of government
- China, 450, 458, 508
 - Russia, 450
- li gai shui* system, China, 509
- liberalization indices, 150
- cumulative liberalization indices, 151, 207
- Liberia, 382
- liquidity, 28, 29, 72–7, 90
- contract enforcement and, 74–5
 - Czech Republic, 71
 - disorganization and, 76
 - Hungary, 71
 - incentive theory of money, 92
 - Poland, 71
 - Russia, 73, 91
 - Soviet Union, 72, 73
- Lithuania, 191
- see also* Baltic republics
- local government, *see* federalism
- long-term unemployment, 117, 126–7
- M-form organizations, 519, 520, 523–33, 534, 535, 536
- Macedonia (FYR), 151, 176
- macroeconomic changes, privatization, 55
- macroeconomical imbalances, 169
- mafia, *see* organized crime
- managerial compensation, 133
- managerial turnover, 64
- manufacturing firms, 215–16, 265, 357
- market information, 26
- market-preserving federalism, 477
- Mauritius
- corruption, 382
 - legal system, 380
- Mexico
- bank bailout costs, 31
 - courts, 293
- MIMIC (multiple-indicator multiple cause)
- method, 303, 325
- minimum wages, 118, 121
- Czech Republic, 118
 - OECD countries, 121
- Modigliani–Miller irrelevance theorem, 27
- money supply, 239
- Mongolia, 157, 170
- monopolies, 26–7
- Moscow, 439
- Nash bargaining, 72, 74, 77–8
- wage bargaining, 111, 113
- National Survey of Small Business Finance (NSSBF), USA, 225, 239
- natural resource exporters, 169
- New Deal, USA, 539
- Nigeria, 418
- nomenklatura* system, 509
- non-employment benefits, 104–31
- Czech Republic, 117, 131
 - Hungary, 117
 - OECD countries, 117
 - Poland, 117
 - Portugal, 131–2
 - Russia, 122
 - Slovakia, 117
 - Soviet Union, 105, 134
 - Spain, 131–2
 - see also* unemployment benefit
- North America, 98
- OECD countries
- corruption, 315, 388
 - education, 121

- OECD countries – *continued*
 employment, 100, 101, 102; minimum wages, 121; non-employment benefits, 117
 legal systems, 315
 over-regulation, 314
 tax rates, 313
 unofficial economy, 313, 314, 315
 off-budget revenue, China, 427
 optimal speed of transition (OST), 94, 97, 99, 100, 104, 108, 139
 Harris–Todaro models, 95, 96, 97, 108
 organized crime, 217, 262
 Central and Eastern Europe, 353
 Poland, 336
 Romania, 336
 Russia, 262, 336, 341, 356
 Slovakia, 336
 Ukraine, 262, 336, 341
 unofficial economy and, 336, 339, 352, 353
see also corruption
 output, 144–212
 Albania, 165
 Armenia, 191
 Baltic republics, 144, 157, 173
 Belarus, 70, 191
 BRO countries, 165, 170, 177–8, 186, 209
 Bulgaria, 165
 Central and Eastern Europe, 144, 170, 186
 China, 489–93
 CIS countries, 157
 Croatia, 173, 176, 191
 Czech Republic, 165
 declining output, 70, 102, 104, 144, 186
 East Asia, 209
 Estonia, 165
 Georgia, 176, 191
 Heybey–Murrell regression, 179–82
 Hungary, 157
 Kyrgyz Republic, 191
 Lithuania, 191
 Macedonia (FYR), 151, 176
 Mongolia, 157, 170
 Poland, 91, 157, 173
 privatization and output, 53
 Russia, 70, 81, 91, 104, 144, 165, 191
 Slovenia, 176
 Tajikistan, 173, 209
 Turkmenistan, 165, 191, 209
 U-shaped profile, 148, 176, 185, 186
 Ukraine, 70, 78, 79, 81, 176, 191
 USA, 496
 Uzbekistan, 173, 176, 191, 209, 210
- outsider privatization, 48, 50–4, 60
 cost effects, 55–6
 employment and outsider privatization, 54
 financial companies as shareholders, 51
 foreign investors, 51, 64
 individual shareholders, 52
 partially privatized firms, 52
 productivity, 53
 over-industrialization, 169
 over-regulation, 341
 unofficial economy and, 313–14, 316, 321–5
 own revenues, Russian federal/local government, 427
- Pakistan, 418
 partially privatized firms, 52, 64–5
 Czech Republic, 52
 state passivity, 53
 personal tax, *see* income tax
 Peru
 corruption, 394
 unofficial economy, 335
 petroleum, 86
 Poland, 3, 70
 contract enforcement, 336
 corruption, 336, 341; extralegal payments, 217, 229
 courts, 247, 248, 249, 265, 276, 281, 286, 291, 293, 336
 education, 107
 employment, 107; earnings inequality, 123; non-employment benefits, 117; reservation wages, 121, 126
 external finance: bank credit, 223, 225, 344; collateral, 240; interest rates, 228, 292
 legal system, 355
 liquidity, 71
 manufacturing firms, 215, 216
 money supply, 239
 organized crime, 336
 output, 91, 157, 173
 privatization, 38, 39, 40; insider privatization, 49; leasing, 63; revenue effects, 55
 profit rates, 220, 221, 223, 239
 property rights, 214, 226, 234, 238, 240
 reinvestment, 223, 225, 226, 229, 238, 240
 relational contracts, 259; switching costs, 266, 286

Poland – *continued*

tax rates, 340, 353, 354; corporate tax, 354; income tax, 354, 357; social security contributions, 354
 trade associations, 251, 286
 trade credit, 225, 252, 254, 291
 unemployment, 129
 unofficial economy, 336, 338, 340, 344, 345, 346, 353; under-reported sales, 336, 337, 338

Political Risk Services, 315, 417

Portugal

corruption, 389
 non-employment benefits, 131–2
 pre-screening, R&D projects, 17
 price controls, China, 488
 price liberalization, 2–3
 Price Waterhouse, 354
 prices, China, 493–5, 496
 private enforcement, contracts, 265
 privatization, 4, 37–69
 average effects, 44–8
 Central and Eastern Europe, 38, 49, 52, 58, 60, 64
 China, 465
 cost effects, 55–7
 Czech Republic, 38, 39, 40, 52, 55, 64
 employee-owned firms and, 47, 64
 employment and, 39, 47, 54, 65, 138
 financial companies as shareholders, 51
 fixed-effects model, 41–3, 57–60
 foreign investors, 51, 64
 Hungary, 38, 39, 40, 55, 63
 individual shareholders, 52
 insider privatization, 48, 49–50, 60, 65
 leasing, 63
 macroeconomic changes, 55
 market information and, 26
 outsider privatization, 48, 50–4, 60
 partially privatized firms, 52, 64–5; state passivity, 53
 Poland, 38, 39, 40, 49, 55, 63
 productivity, 53
 restructuring and, 63, 66
 revenue effects, 56–7, 65, 66
 Russia, 38, 48, 49, 64
 sectoral effects, 55
 selection bias, 57–60
 soft budget constraints and, 22, 26
 Price Waterhouse, 310
 productivity, *see* output
 profit rates, 219–23, 239, 341
 China, 238

Poland, 220, 221, 223, 239
 Romania, 220, 223, 239, 340
 Russia, 220, 223, 239, 341
 Slovakia, 220, 223, 239, 341
 Ukraine, 220, 223, 239, 340
 property rights, 213–15, 218–19, 233–4
 Central and Eastern Europe, 214, 218
 external finance and, 226, 228, 236, 238, 240
 Ghana, 213
 Poland, 214, 226, 234, 238, 240
 reinvestment and, 223, 226, 229, 237–8
 Romania, 214, 234, 238, 240
 Russia, 214, 218, 226, 234
 Soviet Union, 214, 218
 Ukraine, 214, 218, 226, 234, 240
 protection rackets, *see* organized crime
 Protestantism, 379, 384–5, 394
 public ownership, *see* state-owned firms
 punishments, corruption, 364

 R&D projects, 17, 24–6
 ratchet effect, 14
 raw material exports, 385
 recapitalization, banks, 21–2
 refinancing, *see* recapitalization
 regional variations, employment, 126–9
 reinvestment, 223, 225, 229–30, 240
 corruption and, 229, 238
 Poland, 223, 225, 226, 229, 238, 240
 property rights and, 223, 226, 229, 237–8
 Romania, 223, 229, 238
 Russia, 223, 225, 226, 229, 238
 relational contracts, 243–4, 250–1
 Bulgaria, 291
 enforcement, 247, 254; private enforcement, 265
 Poland, 259, 266, 286
 Romania, 259, 266, 286
 Russia, 291
 Slovakia, 266, 286
 switching costs, 266–76, 280, 281, 284, 286, 294
 trade associations, 251, 266, 269, 274, 286
 trade credit, 225, 251–4, 266, 282, 291, 294
 Ukraine, 266
 USA, 243
 Vietnam, 258
 religion, 363, 379, 384–5, 394
 repressed inflation, 209
 reservation utilities, 109–10, 121, 122, 126

- reservation wages, 118, 126, 141
 - Poland, 121, 126
- restructuring, state-owned firms
 - privatization and, 63, 66
 - soft budget constraints and, 23
- revenue effects, privatization, 56–7, 65, 66
- revenue sharing, federalism/local government
 - China, 427–8, 451
 - Russia, 428, 446
- Roman law, 380
- Romania
 - barter trade, 70
 - contract enforcement, 218, 336
 - corruption, 336, 341; extralegal payments, 217, 229
 - courts, 247, 248, 249, 281, 293, 336
 - employment, 102, 122, 123; earnings inequality, 123
 - external credit: bank credit, 223, 224, 225, 344; collateral, 240; interest rates, 228, 292
 - legal system, 355
 - manufacturing firms, 215, 216
 - money supply, 239
 - organized crime, 336
 - profit rates, 220, 223, 239, 340
 - property rights, 214, 234, 238, 240
 - reinvestment, 223, 229, 238
 - relational contracts, 259; switching costs, 266, 286
 - tax rates, 340, 353; corporate tax, 354; income tax, 354, 357; social security contributions, 354
 - trade associations, 286
 - trade credit, 225, 254
 - unofficial economy, 338, 340, 344, 345, 346, 353; under-reported sales, 336, 337, 338
- Russia, 70, 87
 - agriculture, 537
 - barter trade, 70, 87, 90
 - centralized economy, 520
 - contract enforcement, 91, 336, 343
 - corruption, 392–3, 394, 396; bribery, 238, 336, 341, 353; extralegal payments, 216, 217, 229
 - courts, 248, 249, 280, 291, 293, 336, 343
 - employment, 102, 123, 140;
 - non-employment benefits, 122
 - employment-to-output elasticities, 94
 - external finance, 227; bank credit, 223, 224, 225, 344; collateral, 240
 - federalism/local government, 426–53, 471;
 - levels of government, 450; own revenues, 427; revenue sharing, 428, 446
 - infant mortality, 439
 - legal system, 355
 - liquidity, 73, 91
 - manufacturing firms, 215, 216, 357
 - money supply, 239
 - organized crime, 262, 336, 341, 356
 - output, 165, 191; declining output, 70, 81, 91, 104, 144
 - price liberalization, 3
 - privatization, 38, 48, 49, 64
 - profit rates, 220, 223, 239, 341
 - property rights, 214, 218, 226, 234
 - reinvestment, 223, 225, 226, 229, 238
 - relational contracts, 291
 - schools, 436
 - social policy model, 135
 - subsidies, 426
 - tax rates, 325, 336, 340, 353, 354;
 - corporate tax, 353, 354, 357, 453; income tax, 354, 357; social security contributions, 354
 - trade associations, 251
 - trade credit, 225, 291
 - unofficial economy, 298, 325, 336, 338, 340, 344, 345, 348, 353, 356;
 - under-reported sales, 336, 337
- Russian Chamber of Commerce, 291
- Safire, William, 396
- schools, Russia, 436
- search frictions, 90
- sectoral effects, privatization, 55
- selection bias, privatization, 57–60
- separating tax system, China, 459
- Shanghai, 485, 509
- shareholder rights, 315
- shortages, 18
- silkworm cocoon war, China, 482
- Slovakia
 - contract enforcement, 336
 - corruption, 336, 341
 - courts, 248, 249, 265, 276, 281, 286, 293, 336
 - external finance: bank credit, 223, 224, 225, 344; interest rates, 228
 - legal system, 355
 - manufacturing firms, 215, 216
 - money supply, 239
 - non-employment benefits, 117
 - organized crime, 336

- Slovakia – *continued*
 profit rates, 220, 223, 239, 341
 property rights, 214, 234, 240
 reinvestment rates, 223
 relational contracts, 266, 286
 tax rates, 353, 354; corporate tax, 354;
 income tax, 354, 357; social security
 contributions, 354
 trade associations, 286
 trade credit, 225, 291, 293
 unofficial economy 338, 340, 344, 345,
 346, 353; under-reported sales, 336,
 337, 338
- Slovenia
 employment, 101
 output, 176
- Smith, Al (governor of New York state), 539
- social assistance, 123
- social policy models, 135
- social security contributions, 354
- soft budget constraints (SBCs) 12–36
 bankruptcy and SBCs, 30, 31
 banks, 20–2, 30, 31
 boundaries of firms and, 13, 23–4
 capital structure and, 27–8
 centralized credit, 14–17
 centralized economies, 17–19
 decentralized credit, 15–17
 decentralized economies, 18, 19
 Dewatripont–Maskin model, 14–17, 19
 federalism and, 20
 financial crises and SBCs, 28
 financial institutions, 31–2
 interbank lending, 28, 29, 30
 lenders of last resort, 30–1
 market information and, 26
 monopolies, 26–7
 privatization and, 22
 public ownership and, 19
 R&D projects, 17, 24–6
 restructuring, 23
 shortages, 18
 transition economies, 19–23
- Soviet Union/former Soviet Union, 1, 3, 70,
 86, 87
 agriculture, 536–8
 disorganization, 71, 87
 employment, 95; non-employment
 benefits, 105, 134; social assistance, 123
 external finance, 214
 liquidity, 72, 73
 property rights, 214, 218
 unofficial economy, 336, 338, 345
- Spain
 education, 105
 federalism, 388
 non-employment benefits, 131–2
 unofficial economy, 325
 special economic zones, China, 488
 spin-off firms, 216, 223, 338, 341
 St. Petersburg, 439
 start-up firms, 216, 223, 338, 341
 state of emergency, India (1975), 418
 state passivity, partially privatized firms, 53
 State Planning Commission, China, 520
 state-owned firms, 97
 China, 63, 465
 employment and, 98
 privatization, 22, 37–69
 restructuring, 23
 soft budget constraints and, 19
 see also privatization
- structural adjustment/reforms, 152, 164
- subsidies, 97
 China, 426, 505
 Russia, 426
- subsistence agriculture, 95
- super-normal profits, 365
- Sweden, 325
- switching costs, relational contracts,
 266–76, 280, 281, 284, 286, 294
 Poland, 266, 286
 Romania, 266, 286
 Slovakia, 266, 286
 Ukraine, 266
- Tajikistan, 173, 209
- task coordination, 519
- tax rates, 340, 353–4, 357
 Central and Eastern Europe, 353
 corporate tax, 353–4
 income tax, 354
 Latin America, 313
 OECD countries, 313
 Poland, 340, 353, 354, 357
 Romania, 340, 353, 354, 357
 Russia, 325, 336, 340, 353, 354, 357, 453
 Slovakia, 353, 354, 357
 social security contributions, 354
 Ukraine, 336, 340, 353, 354, 357
 unofficial economy and, 298–9, 302, 313,
 315, 316, 318, 321, 325, 335, 339, 346,
 353
- tax revenue
 revenue sharing (federal/local
 government), 427–8, 446, 451

- tax revenue – *continued*
 unofficial economy and, 315, 316, 321, 352
- Thailand
 corruption, 382
 legal system, 383
- Tiananmen Square, 468
- too-large-to-fail policy, 31
- too-many-to-fail syndrome, 30
- trade associations, 251, 266, 269, 274, 286
 Poland, 251, 286
 Romania, 286
 Russia, 251
 Slovakia, 286
 Ukraine, 251
- trade credit, 225, 251–4, 266, 282, 291
 Poland, 225, 252, 254, 291
 Romania, 225, 254
 Russia, 225, 291
 Slovakia, 225, 291, 293
 Ukraine, 225, 291
 USA, 254
- trade dependency, 169
- transitional unemployment, 108–9
- Transparency International (TI), 137, 310, 361, 368–9, 370, 374, 396, 397, 398, 417, 418, 419
- Turkey, 394
- Turkmenistan, 165, 191, 209
- U-form organizations, 519, 520, 523–33, 538
- U-shaped profile, output, 148, 176, 185, 186
- Ukraine, 3
 barter trade, 70, 72, 78–82
 contract enforcement, 218, 336, 343
 corruption: bribery, 238, 336, 341, 353; extralegal payments, 216, 217, 229
 courts, 247, 248, 249, 280, 291, 293, 336, 343
 disorganization, 91
 external finance: bank credit, 224, 344; collateral, 240
 legal system, 355
 manufacturing firms, 215, 216
 money supply, 239
 organized crime, 262, 336, 341
 output, 176, 191; declining output, 70, 78, 79, 81
 profit rates, 220, 223, 239, 340
 property rights, 214, 218, 226, 234, 240
 reinvestment, 223, 225, 226, 229, 238
- relational contracts, 266
- tax rates, 336, 340, 353; corporate tax, 353, 354, 357; income tax, 354, 357; social security contributions, 354
- trade associations, 251
- trade credit, 225, 291
- unofficial economy, 336, 338, 340, 344, 345, 348, 353, 356
- under-reported sales, 336, 337, 338, 355
- unemployment, 96, 97, 103, 114
 Czech Republic, 103, 104, 117–18, 139
 Hungary, 129
 long-term unemployment, 117, 126–7
 Poland, 129
 transitional unemployment, 108–9
 Visegrad group, 94
- unemployment benefits, 104–5, 138, 140
see also non-employment benefits
- unemployment miracle, Czech Republic, 104, 117–18
- unions, 95, 118, 136
- unitary states, 538
 corruption, 361, 395
- United States, *see* USA
- unofficial economy, 298–332, 335–58
 Africa, 335
 Central and Eastern Europe, 336, 344, 345, 352–3
 contract enforcement and, 336
 corruption and, 315, 316, 328, 335, 336, 352, 353
 Latin America, 313, 314, 315, 335
 legal systems and, 314–15, 316, 326
 OECD countries, 313, 314, 315
 organized crime and, 336, 339, 352, 353
 over-regulation and, 313–14, 316, 321–5
 Peru, 335
 Poland, 336, 337, 338, 340, 344, 345, 346, 353
 Romania, 336, 337, 338, 340, 344, 345, 346, 353
 Russia, 298, 325, 336, 337, 338, 340, 344, 345, 348, 353, 356
 Slovakia, 336, 337, 338, 340, 344, 345, 346, 353
 Soviet Union, 336, 338, 345
 Spain, 325
 Sweden, 325
 tax rates and, 298–9, 302, 313, 315, 316, 318, 321, 325, 335, 339, 346, 353
 tax revenue and, 315, 316, 321, 352
 Ukraine, 336, 337, 338, 340, 344, 345, 348, 353, 356

- unofficial economy – *continued*
 - under-reported sales, 336, 337, 338, 355
 - Venezuela, 325
- USA
 - bank credit, 225
 - Chapter 11 bankruptcy procedure, 30
 - contacts, 243
 - corruption, 393
 - courts, 291
 - federalism, 538–9
 - New Deal, 539
 - output, 496
 - trade credit, 254
- Uzbekistan, 173, 176, 191, 209, 210

- Venezuela, 325
- Vietnam
 - courts, 247
 - relational contracts, 258
- Visegrad group
 - employment, 102, 122, 123, 135
 - unemployment, 94

- vocational education, 106

- wage bargaining, 111, 113
- Wall Street Journal*, 248, 355
- Washington consensus, 2, 3, 4–5
- Weber, Max, 384
- Williamsonian relationships, 90
- women, employment, 95
- World Bank, 137, 187, 385, 538
- World Competitiveness Yearbook*, 291, 354, 371, 391
- world development indicators, 391
- World Development Report*, 421
- World Economic Forum, 291
- World Values Survey, 385
- Worldscope, 221, 239

- Xinhui county, China, 535–6

- Zhejiang province, China, 482, 510