transfer of property rights in Eastern Europe. The transition economies of Eastern Europe and the former Soviet Union witnessed probably the fastest peaceful transfer of property rights in history – according to available data on the number and value of assets that have been privatized since the demise of socialism. The expropriation and collectivization of private property by the Communists when they first came to power may have been even swifter, but was more violent. The peacefulness of the recent process is puzzling, given the extent of the reallocation of control rights not only over economic assets but also over political power that one may expect with a comprehensive property rights reform. A likely explanation is that the post-socialist transfer of property rights tended to leave control rights with the incumbents, who had already ensured their *de facto* control rights over assets during the last years of socialism when in many countries state controls were relaxed. And where property rights were transferred to third parties, their new *de jure* rights frequently did not pose a major challenge to the incumbents.

The transfer of the legal title empowered the new owners to reallocate their property rights through simple market transactions and provided the basis for a reallocation of property rights on the secondary market. This 'privatization of the privatization process' was regarded by many as the key to a speedy yet peaceful transfer of property rights in transition economies. However, the development of secondary markets for property rights has overall been much slower than expected, although there are notable differences across countries. This is true not only for real estate markets which often remain highly regulated, but also for the market for shares in privatized companies, where the development of a secondary market was a necessary condition for new owners to consolidate their property rights and contribute to enterprise restructuring. The slow pace of the development of secondary markets for private property rights suggests that the transfer of formal title alone is not sufficient to create secure private property rights for potential new entrants, especially not in a market that is dominated by incumbents.

THE POLITICS OF TRANSFERRING PROPERTY RIGHTS. Politics are crucial for shaping property rights regimes and have been the most decisive determinant in the former socialist countries of the scope of property rights that were actually transferred, the selection of privatization strategies, and the extent to which not only incumbents but also new outside owners participated in the initial transfer of property rights. The paradox of transferring property rights from the state to private hands is that even though the ultimate goal is to reduce the state's grip over economic assets, the state controls the process of divesting the assets it owns and thereby exercises considerable discretion over the evolving new property rights regime.

In many countries, a range of assets was excluded from privatization for political reasons, sometimes explicitly by law, sometimes as the result of a political struggle that prevented the implementation of privatization laws. A prime example is the reluctance to privatize land in Russia and other former Soviet Union Republics. Other assets were perceived to be part of the national heritage – the 'crown jewels' of a country. These assets, apart from the defence industry and utilities, most natural resources and the companies exploring and processing these resources, were either excluded from privatization, or the right to acquire more than minority stakes in these assets was limited to domestic parties. While there may be sound reasons for deferring privatization of certain assets or for retaining them at least temporarily in state control, political arguments often dominated the debate.

In many of the Central and Eastern European countries, restitution played an important role in privatizing land and housing, as well as small and medium size enterprises. Restitution rested on the belief that those who had been deprived of their property rights during socialism should be allowed to regain their assets. The political desire to reinstate former owners, and thereby demonstrate the commitment of the state to protect private property rights with retroactive effect, often came at the expense of economic efficiency. Conflicting claims over property rights have burdened court systems and delayed the installation of owners who would put the assets into use. Restitution is virtually unknown in the countries of the former Soviet Union itself. Collectivization and nationalization measures in those countries had taken place a generation earlier, leaving at best a constituency of heirs of those deprived of their property rights to claim these assets.

Where assets were not earmarked to be returned to their former owners, but to be transferred to new ones, politics played a key role in determining who the new owners in the initial transfer of property rights should be. Foreign investors were often excluded from the privatization of small and medium size companies, which paved the way for the takeover of these firms by incumbents. For the privatization of the bulk of large enterprises, two countries relied heavily on foreign investor participation: Hungary and Estonia. The goal to generate income from privatization for the state budget and to transfer property rights to investors with investment capital and expertise dominated over the politically motivated reluctance to 'sell out' the country to foreigners.

By contrast, the majority of the former socialist countries in Central and Eastern Europe and the former Soviet Union opted for 'mass privatization' – a privatization method that promised speed as well as the broad participation of the population in the transfer of property rights. While foreign investors were in most cases not explicitly excluded from participating in mass privatization, they were often reluctant to acquire only minority stakes. Some countries assured not only 'the masses' their due share in the former state companies, but guaranteed privileged treatment to management and employees. In Russia, company insiders were allowed to acquire a controlling stake in 'their' companies before any assets were offered to outside investors. This was the result of a political compromise between the government and the industrial elite in the country, without whose support privatization was deemed to be impossible. In the Ukraine, management-and-employee-buy-outs (MEBOs) have become the most frequently utilized privatization method after mass privatization failed to take root.

The influence of politics over property rights is not confined to the process of transferring property rights. Even where titles have been transferred, the state's interest in the prospects of the now privatized entities has not subsided. There are companies that are deemed to be too big to fail. With few exceptions (Hungary and Poland), bankruptcies have been scarce in transition economies despite the fact that many companies are insolvent and many remain economically unviable even if relieved of their inherited debt burden. In some cases the national or regional government has even stepped back in as an owner to rescue a company from failure.

The political promises of mass-privatization have largely failed to materialize. Property rights of small investors have become marginalized. As minority stakeholders their interests were frequently overruled by the interests of management and employees or majority shareholders. Where they chose to invest in privatization investment funds, this has by and large not improved the likelihood of obtaining returns from their investments. In the control vacuum of the transition economies, these financial intermediaries had little incentive to guard the rights of their investors, but all the more to take advantage of the opportunities this environment offered to those who controlled the assets of the funds.

The ability of the state and its agents to control the process of transferring property rights has given ample room to use privatization as a means to further the interests of individual state agents or of a political interest group. There has hardly been a country without a privatization scandal. The clearest example of a political elite using the transfer of property rights for their own benefit has been the privatization of Russia's oil and minerals companies. The state had retained large blocks in these companies for a period of three years. In 1995/1996, these assets were transferred at prices far below market value to a selected group of domestic banks in the so-called 'shares for loans programme' which defied any procedural standards of transparency and competition. The same banks subsequently financed the presidential re-election campaign in 1996.

THE ECONOMICS OF TRANSFERRING PROPERTY RIGHTS. The primary reason for privatizing the extensive state sector inherited from the socialist regimes was economic: as market economies dominated by private ownership had proved to be economically more efficient, the privatization of former state enterprises was to contribute to structural reforms of the inherited state-owned enterprise sectors whose low productivity rendered them uncompetitive in a market environment.

According to standard property rights theory, the objective of privatization is to align property rights in the hands of a single owner that previously were divided among company management, branch ministries, and the state treasury. Property rights comprise (physical) control rights over assets and the rights to the cash flow generated by the use of those assets. In the case of state-owned enterprises, the state treasury controls residual earnings, and state officials in branch ministries and company insiders share control rights over assets. The result is that the costs of economic activities are not borne by those in charge of decision making. Moreover, decisions concerning the business strategy of a company are based primarily on political, not on economic considerations. This leads to a misallocation of economic resources. The ability of company managers and state officials to ease the adverse effects of the separation of cash flow and control rights and of the distribution of control rights between management and state officials is limited. The most common means is for the management to divert company earnings in order to buy support from state officials. As these contracts are illegal, they are not binding, and therefore do not offer protection against future intervention. In a world of weak contract enforcement the most promising way to enhance the efficient use of resources therefore seems to be the alignment of cash flow and control rights by transferring property rights to a private owner. From an efficiency point of view, property rights over a firm should therefore be vested with a single owner. Within this property rights framework, the identity of the new owner – be it incumbent management, or a new outside owner who may be a supplier, customer or investor – is largely irrelevant, because the incentive structure created by the alignment of property rights should lead to an economically efficient outcome.

The property rights theory offers a theoretical justification for transferring property rights in small and medium sized enterprises to the incumbent management. It also supports the sale of controlling blocks in large enterprises to new owners, including foreign investors and managers. The theoretical model assumes that the different owners all have equal access to capital and expertise to make the best use of their position as owners of a firm. The realities of the transition process have demonstrated that this may not always be the case. Foreign investors have in general proved to be better suited to turn a company around than incumbent managers or domestic strategic investors. New private as well as privatized small and medium sized enterprises have had difficulties raising finance in domestic markets, where privatization and restructuring of financial institutions has been slow. Banks tend to serve their old customers out of habit, in response to political pressures or

to influence exerted by large shareholders to serve their financial needs (often at the expense of the economic viability of the bank). Nevertheless, *ceteris paribus*, transferring control and cash flow rights to a single or dominant owner has improved the likelihood of survival for the firm.

By contrast, mass privatization is hard to justify within the framework of a simple efficiency paradigm of the property rights theory. Mass privatization implies that property rights in large enterprises are relatively dispersed. The separation of 'ownership and control' in large companies is a phenomenon well known in developed market economies. Their experience demonstrates that this does not necessarily imply economic inefficiency. Under the conditions of well functioning capital markets, competitive managerial labour and product markets, and a developed legal system for the protection of investors' rights, companies with dispersed ownership structures can be highly competitive. None of these conditions existed in the transition economies at the outset of privatization. Moreover, the creation of the institutional and market environment to effectuate dispersed property rights has been slow and cumbersome. As a result, many privatized companies have failed to restructure. In many cases, the companies' management has continued post privatization to deplete assets and spin off lucrative subsidiaries while securing their exclusive cash flow rights over these assets – a phenomenon referred to as 'spontaneous privatization' as long as the companies were still legally owned by the state – which many had hoped to cure with the transfer of property rights.

The weakness of the emerging private property rights regime may be partly attributed to the identity of the new owners. Mass privatization, for example, typically involved the creation of institutional investors who acquired privatization vouchers from the population and used this voucher capital to invest in privatized companies. These institutions have played an ambivalent role as new owners. They typically lacked effective control rights by their investors as well as effective regulatory oversight. In some cases one may doubt whether they are state or private institutions. Their investor/owners are private citizens and this gives them the appearance of private institutions, but they are sometimes managed by representatives of the old political-industrial elite. Even where they were truly new entities and also managed to abstain from embezzling the assets entrusted with them, they have had little impact on companies other than consolidating shares and selling them to new outside owners, and many have been unable to survive in the post-privatization environment. Companies that were turned over to the incumbents in a MEBO have on average not fared much better. While available evidence suggests that privatized companies are more likely to restructure than non-privatized companies, restructuring in companies owned by insiders or with dispersed share ownership has been slow. Thus, privatization has left many former state owned companies at least temporarily in a control vacuum.

In countries where mass privatization was completed early in the transition process, such as in Russia and the Czech Republic, one can now observe a trend towards greater concentration of control rights over economic assets. In several cases, new outside owners have mounted a takeover by acquiring controlling blocks, mostly in off-market transactions. This may be taken as a sign that economic agents respond rationally to the environment in which they operate. In the absence of institutions and markets that are conducive to dispersed property rights, they concentrate their holdings in order to gain direct control. In addition, the concentration of assets has often resulted in the creation of holding structures or webs of cross share holdings between production enterprises and financial institutions, including banks and privatization investment funds. These structures secure the survival of the companies they integrate and hedge against the uncertainties of the transition process. Whether these structures will contribute to the restructuring of enterprises and the more efficient use of scarce economic resources remains yet to be seen. An optimistic interpretation of this phenomenon is to see in them Japanese-style *keiretsus* that may provide important synergy effects and thereby facilitate the adaptation process of companies to the changing environment. In a more pessimistic vein, however, one may point out the extent to which these structures are shielded from domestic and international competition, the weakness of the financial institutions that partake in these arrangements, and the potential lobbying power they may exert to secure future state protection against market forces.

The alleged greater efficiency brought about by the transfer of property rights was not the only economic argument for speedy privatization. An equally important reason was to free the state from the economic and political burden of either subsidizing or closing loss-making companies. At face value this argument suggests that property rights should be transferred, even if the methods chosen for the transfer and the selection of the new owners do not ensure the creation of an effective property rights regime. In practice, however, the two aspects have been closely intertwined. Where companies have found new private owners with sufficient expertise and/or capital to support restructuring efforts, the state has been effectively freed from looking after these companies. However, where companies remained in a control vacuum, the results have been more ambiguous. Governments may have been strong enough to cut direct subsidies, but they have been reluctant to enforce tax or energy payments if this meant closing down a major company. Moreover, the wave of banking crises in Central–Eastern Europe and the Baltic states in 1996/1997 – many of which were caused by imprudent lending or outright fraud during the transition process – is evidence that governments have been weak in supervising banks, be they state owned, new private, or (partially) privatized. While some countries have forced these banks into bankruptcy – often under pressure from international lending organizations – financial institutions are likely to remain an important resource for ailing companies irrespective of their ownership structure, unless these institutions undergo decisive reforms and non-viable companies are eventually closed down. The experience of the transition economies suggests that neither problem will be solved simply by a transfer of property rights.

LAW AND THE CREATION OF PRIVATE PROPERTY RIGHTS. The experience of transferring property rights in transition economies has revealed the fragility of property rights that do not rely primarily on physical control, but are residual claims against assets. An important reason for this appears to be the lack of a legal regime to protect property rights, especially the rights of investors and shareholders. Given the apparent weaknesses of the legal system in countries that had hastily drafted new laws relying on pre-war legislation or on the bare bones of foreign statutory law – without the enrichment of case law and legal interpretation that are part of the legal systems in the countries that served as models – the claim that deficiencies in the legal system are the main obstacle to the ultimate success of privatization is plausible. At the same time, even for developed market economies we still lack a good understanding of how residual property rights are effectuated and what role the legal system plays in enforcing these rights. The property rights theory was developed for firms with a single owner and so far has been expanded only to partnerships and cooperatives, but not, however, to complex organizations such as joint stock companies. The role of corporate law in enforcing shareholder rights and exerting corporate governance over joint stock companies in developed market economies has been said to be trivial as compared to the role of competitive capital, managerial labour, and product markets. According to this view, the rights of holders of different property rights in a corporation are effective only if parties have reasons to respect these rights voluntarily, and not because the law mandates the observance of these rights. It should therefore be left to the market to define these rights on a contractual basis rather than have the state prescribe their contents. In addition, it is widely held that the complexity of property rights in developed market economies defies any attempt of the state to define or regulate those rights. From this point of view, the lack of an adequate legal infrastructure in transition economies may not matter much. The missing link is not state mandated law but markets and market institutions that facilitate the enforcement of contracts.

This view, however, is based on a misconception of the function of law in defining property rights. It assumes that the law prescribes in detail how parties ought to behave. By contrast, the basic function of law governing market transactions is to define '*not* what shall be done by whom *but* who has the legal right to do what' (Coase 1960: 15). In other words, the law sets the framework within which rights may be reallocated and contracts concluded and enforced. The role of law in providing this basic infrastructure is all the more important in the context of transition economies. The reform of the property rights regime in transition economies goes beyond a transfer of pre-existing well defined property rights. This is not to say that property rights did not exist under socialism. As noted above, one may identify different agents who exercised control and cash flow rights over productive assets in the socialist economy. Still, the scope of property rights exercised by these agents was a function of the political system, which controlled the allocation and reallocation of these rights. Its purpose was not to provide an infrastructure for market transactions. On the contrary, it explicitly prohibited the transfer of property rights other than by political fiat. A market economy requires a different paradigm for creating, transferring, and enforcing private property rights. It is the function of the legal system to define this paradigm and allocate basic rights and obligations accordingly:

> . . . without the establishment of this initial delimitation of rights there can be no market transactions to transfer and recombine them (Coase 1960: 8).

The record of transition economies in providing the basic legal infrastructure for private property rights has been mixed. Countries that had pre-war civil and commercial codes to rely on fared better on average than those where a legal framework for a market economy had never existed, as in most of the former Soviet Union republics. The lack of a well developed legal system has been less apparent with respect to property rights over real assets of small firms. In these cases the new owners typically acquired physical control rights which are comparatively easy to delimit and to defend without more elaborate legal rules. The situation is different in the case of large corporations or investment funds, where property rights are not based on physical control rights. Most holders of property rights in these organizations hold minority positions. Unless these rights are specified and property rights holders vested with procedural rights to enforce them, they remain at the mercy of those exercising *de facto* control rights. Even transition economies with a legacy of pre-war legislation did not have a legal infrastructure to deal adequately with these complex and relatively fragile property rights. As a result, the holders of property rights have faced great obstacles when trying to realize these rights either by exerting influence on the business strategy of a company, or by liquidating their position and selling their property rights on the market.

Secure private property rights depend not only on laws that define the rules of the game, but also on the state's ability to restrain from arbitrary and excessive interference with the use of privately owned assets. Safeguards against expropriation and nationalization have been put into place in practically all countries, and have by and large been observed. However, in several countries frequently changing and often high tax rates combined with arbitrary tax enforcement and insufficient recourse to independent judicial review have undermined the security of property rights. This in turn has led many market participants to disinvest or to shift their business activities to the informal sector, where information is scarce and high risk premiums compensate for the lack of legally protected rights. Operating outside the law does not necessarily imply the use of criminal actions to enforce contracts, but there is evidence that violent means for settling contractual disputes have been not uncommon in many transition economies. Thus, next to the size of the secondary market for assets, the size of the informal sector can be taken as a gauge of the degree of security of property rights a country offers. Finally, the security of private property rights requires that they can be enforced impartially. Courts in many transition countries have had difficulties in coping with the number of cases filed in an environment where high inflation and uncertainties about the future created incentives to breach contracts.

In other countries, a significant drop in cases under similar circumstances reflects a lack of credibility in the court system. Alternative dispute settlement institutions have provided a new forum for settling disputes and sometimes eased the burden of the courts. However, they have not been able to overcome the enforcement problem, as their rulings may not be complied with voluntarily. In several countries enforcement has been taken over by private 'law enforcers'. While this may render the enforcement of rights more effective, their impartiality and thus the security of property rights of the defendant of a claim remain in doubt.

PROPERTY RIGHTS, MARKETS AND INSTITUTIONS. The right sequencing of reforms in transition economies, including macroeconomic, microeconomic, legal, and institutional reforms, has been at the heart of the debate that preceded reforms. The historical experience of the emergence of capitalism in the West suggests that property rights are an important condition for economic development. Consequently, privatization was advocated as an urgent reform measure to be implemented in tandem with stabilization and liberalization measures. Neither this debate nor the design of privatization programmes paid adequate attention to the complexity of property rights in the modern economies which the highly industrialized former socialist countries were attempting to emulate.

Small enterprises were auctioned off in simple cash auctions. As buyers gained direct control over assets, the basic legal framework that already existed was largely sufficient. Despite the more fragmented property rights which shares in large enterprises conferred, their privatization proceeded without further ado. Companies were incorporated and their shares transferred to new owners. Within months thousands of publicly held corporations were created. Shareholders' rights remained ill-specified and lacked meaningful procedural safe guards, including justiciable and self-enforcing rights. The lack of clear delimitation of these newly created property rights meant that these rights were not enforceable. The trend towards a concentration of ownership rights is a rational response to the weakness of the legal infrastructure. The cost of this trend has been borne by small investors who have been effectively frozen out of the positions they had acquired during privatization.

The legal void surrounding investors' rights was well recognized at the outset of privatization, but it was considered a price worth paying to accomplish a speedy transfer of property rights. Through the transfer of these rights a new constituency of owners was expected to emerge that would lobby for better protection of their rights. This strategy paid inadequate attention to the fact that the identity of the new owners and their relative strength *vis-à-vis* the incumbents are largely determined by the rights – or lack thereof – which the transferred titles confer. Not surprisingly, among the major beneficiaries of a quick transfer of nominal property rights were the incumbents who have by and large been able to fend off far-reaching restructuring efforts that would have endangered their positions. The losers were small investors with minority positions in companies or investment funds who, due to collective action problems, were unable to organize themselves and lobby for a better protection of their rights. New outside owners who established effective control by acquiring larger blocks had little interest in sharing their gains with minority shareholders or supporting their quest for improved legal protection. Still, the ascendancy of core investors has on average had beneficial effects on the restructuring efforts in companies. By contrast, companies that remain in the ownership of either dispersed shareholders or investors that themselves lack adequate control structures, such as privatization investment funds, find themselves in a low-level equilibrium trap. Weak owners are unable to enforce their property rights or to lobby for better protection, leaving assets in a control vacuum that is not conducive to enterprise restructuring. Because of the inherent weakness of these property rights, they are difficult to market. Current shareholders are locked into their holdings, making it impossible to create a market for the secondary privatization of these assets.

Thus, the experience of transition economies reinforces the proposition that a legal framework that specifies property rights is an important condition for markets to develop. An adequate legal infrastructure is a necessary, but not a sufficient condition for the development of highly fragmented property rights that characterize modern market economies. A host of market institutions that provide information and generate credibility among market participants by building reputation are necessary to support the creation of markets for property rights, and markets in turn help to enforce these rights. In well developed markets, the law, capital market supervision by regulatory agencies, markets, and market institutions, including reputation bonds and self-governing organizations, reinforce each other, giving the appearance that law plays all but a trivial role. In an environment in which information is scarce and markets for assets are only in their formative stage, market institutions work less well. The payoff from cheating is simply too big. The experience of transition economies with Ponzi schemes (fake financial institutions that lure households to part with their savings only to embezzle them) fund managers who expropriate the assets of the fund, and the flagrant violation of shareholder rights in many privatized companies give ample evidence that self-governing mechanisms are at best malfunctioning. These mechanisms need to be supplemented with state institutions that are capable of sanctioning violations of clearly established rules.

In most transition economies, regulations and state oversight remain rudimentary. To some extent this has been the result of a policy choice, as markets became the panacea of reform and the state's role was confined to macro economic management. Many governments still lack the political and human resources to build an adequate legal and supervisory infrastructure. Government institutions, such as securities and exchange commissions, have neither the capacity nor the political will to enforce the rules as they are. The result has been a serious loss of confidence by investors in the emerging financial markets who signal their discontent with the insecurity of property rights in financial assets by refraining from investments. A comparison of the Warsaw stock exchange with the stock markets in the Czech Republic or Russia reveals that Poland, a country that created a regulatory framework for markets

but lagged behind in privatizing large enterprises, developed a more vibrant market for shares than countries that attempted to fuel market development by implementing speedy mass privatization programmes but neglected the legal and institutional infrastructure. Russia and the Czech Republic have meanwhile strengthened their legal regime for the protection of investors' rights in an attempt to regain confidence in financial markets. As this occurs only *ex post facto*, it will take some time for the newly defined rights to take root.

THE EVOLVING PROPERTY RIGHTS REGIME. The main goal of the transfer of property rights from the state to private hands was to increase economic efficiency. The previous discussion suggests that this goal was not achieved uncompromised. The political constraints were often too numerous. Moreover, the lack of a legal and institutional infrastructure to support complex property rights defeated, at least in part, attempts to accomplish a comprehensive transfer of property rights by a fast track privatization strategy.

The evolving property rights regime in transition economies has been aptly characterized as 'recombinant property' (Stark 1996). It is not the result of an arms-length transfer of clearly defined property rights from the state to an independent private party devoid of prior relations with either the previous owner or the assets that were transferred. In many cases, titles rather than the underlying assets changed hands. Intricate webs of property rights have been created, which defy the textbook notion of economic efficiency of clearly defined private property rights. Moreover, property rights were acquired not only to enhance the economic efficiency of a company but for a variety of other reasons, including to secure the position of top management, to shift the liabilities of an entity to undercapitalized shell companies while siphoning off the cash flow from lucrative spin offs and reducing the accountability of those with access to cash flow rights, or to control the penetration of foreign markets by companies in transition economies. None of these phenomena is uncommon in developed market economies. However, in these economies more sophisticated laws, judicial and administrative institutions and markets impose more effective constraints.

The extent of webs of recombinant property that have been created differs across countries, assets, and types of owners. Most affected are medium and large enterprises – complex organizations with hundreds if not thousands of employees, diverse assets, and often huge liabilities in an attempt to hedge against the uncertainties of the transition process. In addition, the strategy pursued to transfer assets played an important role in shaping the evolving property rights regime. The creation of webs of property rights through the establishment of holding companies with dense patterns of cross-share holdings has indeed been most common where companies were not privatized, where privatization proceeded at a slow pace, prolonging the control vacuum, or where privatization led to a fragmentation of property rights that made the consolidation of assets to gain effective control over company management more difficult, or left core assets with largely passive investors. Counterexamples include companies that were sold to strategic domestic and foreign investors.

Property rights have not remained static, neither in the case of privatized companies nor in those that formally remained in partial or full state ownership. The scale of reallocating assets on the secondary market post privatization may have been limited, but off market transactions and shifts in the balance of power among holders of different property rights as a result of economic, political and legal changes provide the basis for a continuous recombination of property rights. Over time, these rights may come to resemble private property rights in developed market economies. Whatever the outcome may be, the initial transfer of property rights by the state was a precondition for a new property rights regime to develop. The initial transfer provided only the starting point for a prolonged process of recombining rights over economic assets within a changing environment. The strategy chosen for the transfer of assets has created an evolutionary path dependency that will have bearing on the evolving property rights regime for some time to come.

KATHARINA PISTOR

See also AGENCY COSTS AND CORPORATE GOVERNANCE; BUREAUCRACY IN EASTERN EUROPE AND THE FORMER SOVIET UNION; CORRUPTION IN TRANSITION ECONOMIES; LEGAL OBLIGATION, NON-COMPLIANCE AND SOFT BUDGET CONSTRAINT; LEGAL REFORM IN EASTERN EUROPE; OWNERSHIP OF THE FIRM; PRIVATIZATION IN CENTRAL AND EASTERN EUROPE; PROPERTY RIGHTS; TRANSITION IN EASTERN EUROPE.

Subject classification: 2b(ii); 2c; 3f(ii).

BIBLIOGRAPHY

Black, B. and Kraakman, R. 1996. A self-enforcing model for corporate law. *Harvard Law Review* 109(8): 1911–83.

Coase, R. 1960. The problem of social cost. *Journal of Law and Economics* 3: 1–44.

Hansmann, H. 1996. *The Ownership of Enterprise*. Cambridge, MA: Belknap Press of Harvard University Press.

Pistor, K. and Spicer, A. 1997. Investment funds in mass privatization and beyond. In *Between State and Market: Mass Privatization in Transition Economies*, ed. I. Lieberman, R. Desai and S. Nestor, Washington, DC: The World Bank (forthcoming).

Rapaczynski, A. 1996. The role of the state and the market in establishing property rights. *Journal of Economic Perspectives* 10(2): 87–103.

Shleifer, A. 1995. Establishing property rights. *Proceedings of the World Bank Annual Conference on Development Economics 1994*. Washington, DC: The World Bank.

Stark, D. 1996. Recombinant property in Eastern Europe. *American Journal of Sociology* 101(4): 993–1027.