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Not Poles Apart: "Whither Reform?" and "Whence Reform?"

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Tis only as the shades of night are falling that the Owl of Minerva spreads her mighty wings and takes to flight. (Hegel)

The paper "*Whence Reform?*" by the Polish economists Marek Dabrowski, Stanislaw Gomulka, and Jacek Rostowski (DGR) is a welcome and revealing commentary on what is called the "Stiglitz Perspective."[1] Our main response is gratitude at DGR's agreement with the main theses of "*Whither Reform*?" such as the critiques of voucher privatization and of the attempts to quickly install institutional reforms involving long agency chains. Our positions are not poles apart. We say: "With 'critics' like these, who needs supporters?"

It is nevertheless clear that DGR have worked hard to either discover or imagine disagreements and "mistakes" in the "Stiglitz perspective" that will help preserve their good standing in the fraternity of neoliberal reformers. We appreciate the exigencies of maintaining reputational capital so we will cross swords in some of the side scrimmages even though the main battle seems to be over. While we will not contest every real or imagined disagreement, we do think that identifying some of the major areas of agreement and disagreement may be useful in helping shape appropriate policies for the countries in transition going forward.

COMMENTS ON SOME THESES

DGR attempt to summarize our perspective in a long list of twenty theses concerning transition. It might be more useful to first comment on some of the points-largely points of agreement.

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Institutional Infrastructure

Successful transition requires the establishment of an *institutional infrastructure*, including banking and financial systems, effective judicial systems to enforce contracts, competition, bankruptcy laws fairly and efficiently, and regulatory systems, e.g., for securities markets and to prevent the abuse of monopoly power. That institutional infrastructure is an essential part of a market economy, but typically cannot be established quickly as envisaged in the bad analogy that carried over macro-stabilization shock therapy to institutional change. In some of the transition economies, some of that institutional infrastructure had survived the Communist era; those economies neighboring on Western Europe and hoping for EU accession could perhaps more easily "borrow" and "adapt" from their neighbors, and had strong incentives to do so, but for other countries that part of the transition might indeed be difficult.

Organizational Capital

In a related matter, standard economic theory has underemphasized the importance of *informational, organizational*, and *social capital*.[2] While some of this capital will inevitably be destroyed (e.g., the informational capital associated with how to make a planned economy "work") in the process of transition, there are ways of managing the transition that build on and transform existing institutions, preserving and even enhancing social capital, while there are others which lead to more extensive destruction of social capital.[3] The former strategies are more likely to be associated with a successful transition.[4]

Incentives

Incentives matter, but incentives are affected not just by matters of property ownership (privatization) but by other aspects of the economic environment, which in turn are affected by the institutional infrastructure and social capital. Privatization can lead, for instance, to asset stripping rather than wealth creation (see below), and indeed, we note [Stiglitz 1999b] that in the absence of appropriate corporate governance more rapid privatization has not led to more rapid economic growth. While there may be no *perfect* solution to the problem of corporate governance (agency problems are never fully resolved), one simply cannot ignore corporate governance issues (as the Czech Republic learned at such great cost), and there are *better* and *worse* ways of addressing the issues. Unfettered capitalism (sometimes called "cowboy" capitalism) does not work.

Sequencing

Sequencing matters. One of the reasons that transitions are so difficult is that they involve issues of "second best." Standard market theory says that for markets to lead to efficient outcomes there must be *competition* and *private property*. But if both cannot be achieved overnight simultaneously, the question is where the emphasis should be placed. China put greater emphasis on the former, Russia on the latter.[5] Privatization prior to establishing the appropriate institutional infrastructure may not lead to wealth creation.

Sequencing also has implications for political dynamics. As we argued in our earlier papers, some advocates of the neo-liberal doctrines have gone beyond Coase, who argued that what matters is a clear assignment of property rights. In a kind of "Political Coase Theorem," they have argued that even if property rights are not well-defined, those who have property will use the political process to ensure that they become well-defined, and more broadly, to establish the necessary institutional infrastructure. To be sure there was never much theory or historical evidence behind this conjecture, and the subsequent events have not been supportive. Just as it is not the Bill Gates and John D. Rockefellers of the world who pushed for stronger and more effective enforcement of competition laws, it is not the oligarchs who have pushed for such policies in Russia.[6]

Counterfactuals

There were alternative strategies available, and this was apparent not only with 20–20 hindsight, but *ex ante*. One of the most disingenuous arguments made by the Russian "reformers" (not DGR) was the TINA argument that There Is (or was) No Alternative. Consider the question of privatization. Not only were the lease buyouts an alternative, the "reformers" stopped the leasing program so that there would be some firms left to go into the voucher auctions. Leasing was at least one of the counterfactuals to vouchers.

> It's ironic that the Russian Communists of a decade ago, knowing that central planning was a dead end but not fully trusting markets either, likely built through enterprise leasing a better means for enterprises to manage privatization than the privatize-now approach that Western advisors later promoted and Russian reformers enthusiastically seized on. [Black et al. 2000, 61]

DGR conclude by noting that early in the transition debate "some authors, notably Kornai [1990]" resisted the siren song of voucher privatization[7] and

placed more importance on incremental approaches emphasizing the SME sector. One might note that "some authors" include Stiglitz [1993] and Ellerman [1993] among others such as Weitzman [1993] and Murrell [1995].

In the aftermath of the 1998 crisis, the "Owl of Minerva" has finally taken to flight and there has been enormous convergence on these perspectives, both among those who initially advocated more incremental or staged strategies and those who pushed for more radical 'shocking' reforms. To be sure, some who pushed for radical reforms point out that they did mention the importance of certain aspects of the institutional infrastructure, and in the Christmas trees of IFI conditionalities, few desiderata were left off. But advice that "Everything is important" leaves the client in the "darkness where all cows are gray." The question was, what issues were *emphasized* or stressed (though not always enforced) as absolutely necessary for the continuation of support.

SOME DISAGREEMENTS

Assessing success

DGR point out, as we have, the difficulties of even assessing success, let alone explaining the factors that determine it. We pointed out the problems in GDP numbers-the risk of undercounting from the changing role of the gray and black markets[8] and the aggregation problems which arise because prices are not "market" prices, either under Communism or in transition, especially, as in Russia, where such a large fraction of all transactions have been barter. We did not want to get into the statistical morass, where some claim the numbers represent a vast underestimate of the extent of decline, others a vast overestimate. That is why we looked for alternative ways of measuring performance. The marked decline in life expectancy in the FSU, in a time where other countries (outside of the AIDS affected countries) have seen marked increases, is certainly consistent with declining living standards. Perhaps the most convincing evidence is provided by surveys of living standards, which show marked increases in poverty and decreases in living standards for large proportions of the populations in almost all of the economies in transition-and marked improvements in China.

GDP, even if it were correctly measured at least by conventional Western standards, is not the sole measure of welfare or human development. From the distributional perspective of inequality, the performance of most of the transition economies would look even more dismal. On the $4 a day standard, Russian

poverty increased from 2% to close to 50%, and the number of children in families in poverty exceeds 50%, while in China, the number in poverty has decreased markedly. But even if one limited oneself to the more narrow metrics of GDP, while DGR are right in emphasizing long run prospects, they take a too narrow view of what is required. Market reforms have to be politically sustainable. There is at least a widespread view that the sustainability of such reforms, including the rule of law, requires that large fractions of the population not be made worse off as a result and that the middle classes, in particular, not be devastated-which appears to have been the case in many of the economies in transition.

In a race between a tortoise and a hare, it is premature to declare the hare the winner, just a few minutes after the beginning of the race. Those that rushed to judgment concerning the winners and losers in the transition race a few years after the beginning should perhaps have been embarrassed by what happened in the subsequent years. And the lessons that were drawn based on these earlier observations surely have to be reexamined-that was one of the points of the earlier paper. Star performers like the Czech Republic have fallen from grace, while some of those that were criticized for lagging in reforms, such as Slovenia and Hungary, now appear on firmer ground. DGR are right to emphasize the necessity of taking a long run view. Learning from mistakes is a painful human experience. Those in the governments, IFIs, and academia who by their public words and actions supported voucher privatization and institutional shock therapy will tend not to inflict that painful experience upon themselves. That is why DGR's candid statement that two out of the three "wrongly" supported voucher privatization is so commendable and leaves us not poles apart. To others we fear that Leo Szilard's remark that "progress comes only funeral by funeral" (about physics) may be more appropriate.

The appropriateness of the China comparison

DGR took some umbrage at the China-Russia comparison. They seem to believe that because China was a low-income less-developed country, it had an easier course to transition. Were that the case! The fact of the matter is that, outside of East Asia, relatively few less developed countries have made marked strides in closing the gap between themselves and the more developed countries, and we would argue[9] that the East Asian countries succeeded because they followed policies that were markedly different, in several key respects, from those advocated by the Washington consensus. It is not obvious to us (and DGR present no argument) why a country facing the double challenge of transition and develop-

ment would find matters easier than countries facing only one of the hurdles. If DGR's contention were correct, the less-developed countries of the FSU might have fared better than their more developed cousins such as Russia and the countries of Eastern Europe.[10]

Our main point was that in each of the major strategic areas-an emphasis on competition rather than privatization, on ensuring that job creation keeps apace with job destruction resulting from corporate restructuring, and the role of institutions and social/organizational capital-China made choices that seemed to work (for it), Russia made choices that, so far at least, seem not to. To be sure, DGR are correct in noting differences in circumstances which affected both what policies were chosen and their effects. China's emergence from the shock of the Cultural Revolution, its awareness of the huge costs that are associated with such turmoil, made it particularly wary of crises from another dose of shock. They knew that institutional shock therapy destroys the old institutions and that new market institutions do not automatically arise out of the ashes. While Russia chose that path, China did not and the difference shows.

Neoliberal reformers often misinterpret the debate between institutional shock-therapy ("jump over the chasm in one leap") versus incrementalism ("build a bridge over the chasm") as being about "rapid versus gradual" change but that is a misformulation. As we are seeing, climbing back out of a chasm after an ill-advised attempt to leap over it without building a bridge can be quite a "gradual" process. But incremental change like the Chinese agricultural reforms or the Polish leasing[11] form of privatization ("privatization by liquidation") can be quite rapid. Indeed, the move from communes to the individual responsibility system for the close to a billion farmers in China in a span of five years may represent one of the most rapid changes in modes of production ever to occur. But it was a change that was not effected through Bolshevik methods, imposed from on top, but spread across the country as the merits of the alternative system were proven in one region after another.[12]

China's early success, after the transition to the individual responsibility system in agriculture, was based on new institutional forms, the township and village enterprises (TVEs). It is inconvenient for doctrinaire believers in the central role of private property, but the fact of the matter is that these TVEs were not privately owned. For reasons we explained in *Whither Reform?*, these institutions addressed the governance problems better (if still imperfectly) than did the ersatz privatizations in Russia.[13] The TVEs built on and further enhanced traditional organizational and social capital; the communes which previously had been responsible for agriculture were freed of that responsibility and transformed themselves by assuming responsibility for local industry.

China had one great advantage that DGR did not stress: it followed pragmatic policies, not the dictates of "market bolshevism." They knew the dangers into which ideological approaches to economic policies can lead; they were unwilling to exchange Mao's ideology for Milton's (Friedman). DGR mention dual pricing which provides another example of the incremental or staged approach. In the early discussions of transition, Chinese thinkers worried about how to move from the system of distorted prices to market "equilibrium" prices. If all goods were traded, the answer would be easy: use international prices. But not all goods are traded, and even if they were, transport costs are high so prices in the interior could be markedly different from those at the coast. In addition, changes in relative prices have large distribution effects, that can be all out of proportion to their allocative effects. These redistributions can undermine social fabric, and may even themselves have large allocative effects in the presence of imperfect information.[14] Their recourse to the dual price system, allowing prices at the margin to adjust, provided good marginal incentives, while minimizing the social disruption that might have arisen from larger changes in distribution. Gradually-and in this case, the time span was remarkably short-the dual system was replaced.[15]

Macro-economic policy

We all agree on the importance of eliminating hyperinflation. But stabilization is a means to an end, not an end in itself; it is meant to enhance long term growth. Poland, China, and the other successful countries recognized this; they were content to live with moderate levels of inflation. To be sure, if it were costless to reduce inflation no one would object. But there were two costs, which DGR either ignore or underestimate. While they recognize the importance of enterprise and job creation, of shifting resources from less to more productive uses, they fail to recognize that these require investments, and that worries about inflation, combined with the doctrine of the nominal exchange rate anchor, led to real exchange rate appreciation, which also stifled the domestic economy. It is no accident that Russia's economy has enjoyed its first burst of growth only after devaluation (though, to be sure, the recent high oil prices have helped).

It is easier to destroy jobs than to create them; that is why the timing of liberalization matters. If it occurs when macro-economic policy has forced interest rates to high levels and exchange rates remain overvalued, and before the creation of financial institutions that can provide finance to new and small enterprises, then rather than resulting in moving workers from low productivity jobs

to higher productivity jobs, liberalization can result in moving workers from low productivity jobs into unemployment, hardly a recipe for economic growth.

Privatization

The disagreements between us and DGR became seemingly most heated on the issue of privatization, but much of the disagreement is semantic rather than real. We, as well as DGR, agree that what matters is restructuring the economy, not restructuring existing state enterprises. China is given credit for privatization, simply because the role of the state owned enterprises has decreased, even though most of the new enterprises are not private, but are "owned" (if one can use that term) by public bodies, townships and villages.[16] As the success of the TVEs has become clear, orthodox advice has moved from condemning them for not being private to reclassifying them as "private" (as the theory of cognitive dissonance would predict).

The key points we made, with which DRG do not disagree, are that privatization by itself does not necessarily lead to improved efficiency or wealth creation (quite the contrary) but with appropriate corporate governance, it can be an important component of successful transition. We emphasized that there were alternatives which held out the promise of a better transition. In the case of Russia, DGR ignore our references to lease buyouts (and the Polish leasing privatization) as examples of incremental or staged privatization strategies that started with short agency chains ("stakeholder privatization") and they ignored our repeated critiques of Russian voucher privatization to miraculously conclude that Variant II of the Russian voucher privatization was "the very privatisation to stakeholders that Stiglitz recommends."

Thus it might be useful to review the logic of the stakeholder privatization strategy. As Coase pointed out a long time ago [1937], each firm represents a local solution to a collective action problem. Certain parties have to cooperate together ("collective action") on a daily basis in order for the firm to work regardless of the legal arrangements. The idea of stakeholder corporate governance is to "shrink-wrap" the "ownership" (the "principals") around these given economic actors (the "agents"). Thus agency chains are minimal. Corporate governance is exercised not through long agency chains but through mutual peer monitoring and the "give and take" and *modus vivendi*of mutually dependent economic activity. Interdependence makes each stakeholder a partial hostage to the others. Market economies start their evolution with firms that follow something like this up-close logic (e.g., family firms) and Japan has developed its

own version. Absentee ownership through agency chains is a much later development that cannot be quickly "installed" through institutional shock-therapy.

Stakeholder governance is a form of up-close (short agency chain) corporate governance, not a short-term gimmick like the employee shares in Variant II or in some privatizations in the West to grease the process of privatization. As we learned from the takeover craze in the US, companies cannot focus on long-term restructuring if their ownership and control are constantly "in play." The Russian "reformers" blocked the attempts to allow the American or English trust-based forms of employee ownership known as Employee Stock Ownership Plans or ESOPs (a crude version was proposed as Variant IV) which would have been a form of stakeholder privatization (in addition to the lease buyouts). The ESOPs use trust mechanisms to keep the ownership stable and broad-based among the workforce so the workers would focus on increasing the value of their shares through profitable operations rather than through "sharp" share-trading or stampeded share-selling. The "reformers" wanted to keep all the marbles rolling loosely on the wobbly table-top (e.g., Variant II with the mandatory "open corporations") so that sooner or later the marbles would all roll off into more "worthy" hands. Eventually the "reformers" used the loan-for-shares scheme to vastly expedite their desired process of concentration.

The form of short agency chains favored by neoliberal reformers was the concentrated or single owner firms. The logic was that asset stripping in a viable firm would then be pointless since the owner would lose in one pocket what he gained in the other, and the owner had a clear incentive to make sure the firm was managed in the best way possible.[17] There were several flaws in that logic. The first is now called the "exit problem." The managers could withhold wages and instead borrow the wage funds from their friendly neighborhood bank to offer to help the cash-short workers out by buying their shares. Such schemes used by managers to concentrate ownership are delicately referred to by DGR as "the result of free choices made by the insiders to sell out." But aging managers then faced the "exit problem" of capitalizing the fruits of their employees' "free choices." In a developed market economy, a concentrated owner might find a market for the shares but that option was of little value in Russia. Hence even the concentrated owners turned to asset stripping to "capitalize" their ownership.

Compare the concentrated-owner scenario that played itself out in Russia to the scenario with broad-based stakeholder ownership. In the latter, no particular stakeholder has the power to "grab the golden eggs" so each must settle for the cooperative solution of keeping the "goose" alive and making it healthier.[18]

DGR give further insight by arguing that "a premature lifting of capital controls did not contribute to asset stripping, as Stiglitz claims, for the simple rea-

son that capital controls were never lifted." DGR here give casuistry a bad name by taking "capital controls" to refer to some worthless print on Kremlin law books. Surely one should not refer to well over a billion dollars of capital flight a month-mounting to 2 billion a month in the aftermath of the financial crisis-as a system of "capital controls." And the hemorrhaging goes on. The foxes in charge of the chicken coop throw up their paws in dismay at the continuing disappearance of the chickens since the "capital controls were never lifted."

There is one small but interesting and revealing point here. In spite of many throw-away lines about our ignoring Polish experience, we explicitly advocated the Polish leasing or privatization by liquidation form of privatization. Yet DGR never refer to it by name, and instead applaud all the *de novo* private firms in Poland. The Polish leasing privatizations were asset deals, not share deals. The assets were dropped down into a newly incorporated private legal shell (often set up by managers and workers) and the old legal shell was liquidated (hence the name "privatization by liquidation"). Thus one could have some of the same workers working with the same managers in the same building and with the same machines (but one hopes with some new products and a good marketing department), and yet that would count as a *de novo* company used by DGR to exhibit the ease with which *de novo* organizational capital can be created! This seems to be a victory of form over substance.

Unfortunately, DGR's "critique" of the incremental stakeholder-oriented strategy in favor of "*de novo* private firms" becomes rather confusing when they cite our two examples of the former strategy-namely Polish privatization by liquidation (cited in the guise of *de novo* Polish firms) and the Chinese TVEs-as examples of the latter strategy! Aside from some questions of terminology and interpretation, we are not poles apart.

The definitional question of whether one considers the Polish leasing firms as new or old organizational capital is beside the point as we move into the CIS countries where we all agree that it was much more difficult to assemble new organizational capital. Since DGR applaud Polish leasing (in the guise of *de novo* industrial firms), they can perhaps better appreciate our argument that the best alternative in Russia to voucher privatization was to continue along the lines of what DGR mention as the "some 10,000 enterprises [that] had been leased by managers and workers from the state" by the beginning of 1992. The leasing firms had some structural problems but the EBRD pilot lease-buyouts showed how to address those problems.[19] We argue that if the same expertise and resources had been invested in improving and pushing the incremental or staged strategy of the Russian lease buyouts as opposed to trying to jump over

the chasm with voucher privatization, then the outcome would have been rather more positive.

CONCLUDING REMARKS

Assessing the experience of the past decade of reforms is not an easy task. We do not have the data we would like to have. Even though, at first blush, the large number of countries might seem to provide precisely the kind of cross-country tests that econometricians love, the circumstances-their history, geography, the nature of their prior relationships with each other and the West, their stages of development-all differ markedly.[20] The interplay between politics and economics makes matters more confusing; what options were *politically* feasible? Political judgments were mixed with economic judgments; many rapid reformers defended their actions on the grounds that without such reforms, their was a real danger of backsliding to Communism. Even if in hindsight, those fears now seem greatly exaggerated, and even if the danger of nationalism based on the failures of reforms and increased impoverishment of large portions of the population seem more imminent, it is hard to know, *were those fears, at the time, reasonable*?

We also know that simple economic theory provided less of a guide at that one might have liked. Economics is best at describing equilibrium in well-functioning markets. The problems of transition were essentially dynamics, transitions not just of economies but of whole societies entailing the creation of markets and market institutions. But economics that went beyond textbook models and focused on institutions and market imperfections, and economic history that looked at the complexities of transformations in other contexts, did have much to contribute. Many of the issues which were at the core of the failures-issues like corporate governance and agency problems more broadly-had indeed become the subject of extensive research in the fifteen years preceding the onset of transition. The sad fact was that much of this knowledge was not employed. And it would be equally sad if their insights are not brought to bear as we set about interpreting the lessons of the past decade of transition.

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Endnotes

1. In 1998–9, David Ellerman was an economic advisor to Joseph Stiglitz at the World Bank. In that capacity, we engaged in a joint research program and extensive consultations both inside the Bank and outside, to review the experiences of transition, in part to provide the foundations

for a rethinking of the strategies going forward, both in those countries that had been moderately successful, and those that had not. The results of that rethinking are reflected in the paper "Whither Reform" (Stiglitz 1999a in DGR) on which much of DGR's analysis is based as well as "*Quis Custodiet Ipsos Custodies*?" (Stiglitz 1999b in DGR). For a more complete articulation of our views about the strategies that countries that have been slow to reform should follow going forward, and a more complete articulation of certain aspects of the issues, e.g. of structural reform, see Stiglitz and Ellerman [2000].

As DGR note, part of our perspective on the reforms in Eastern Europe and FSU was informed by the experiences of China. While Stiglitz has been involved in discussions of the reforms in China since the early days of those reforms in meetings with the Chinese Academy of Social Sciences and policymakers from 1980 on, our interpretation of those experiences conforms with those, such as Qian [1999] who have studied that country's transition more closely. For a more extensive comparison of the Chinese experience with that of Russia and Eastern Europe, with greater emphasis on what China did right and why, with results that are fully consistent with Stiglitz [1999a, b, and Stiglitz and Ellerman [2000], see Hussain, Stern, and Stiglitz [2000]. (At the time, Stern was chief economist at the EBRD; he has since become the chief economist at the World Bank.)

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2. The fact that these concepts are not easy to define clearly, and that differences may lead to semantic disputes as a result, does not undermine the importance or usefulness of the concepts.
3. Moreover, just as it is easier to destroy jobs than to create new ones, it is easier to destroy social capital than to recreate it. DGR assert quite rightly that organizational capital can be more quickly reassembled in the transition economies bordering on the West, with much less time under Communism, and with some entrepreneurial tradition (e.g., Poland, Hungary, and Estonia). Since DGR correctly understand this point about the Central European and Baltic countries, they should also understand why we argued the contrary in the CIS countries where all those conditions were lacking.
4. See Hussain, Stern, and Stiglitz 2000 and Blanchard and Kremer 1997.
5. It is perhaps worth noting that at the conference between American and Chinese economists held under the auspices of the National Academy of Sciences and the Chinese Academy of Social Sciences in 1980 at Wingspreads, emphasis was placed on the importance of competition over privatization-quite the opposite of the stress in orthodox advice such as the Washington consensus policies.
6. Other sequencing mistakes include privatizing natural resources before the development of institutional structure to impose taxes on the sector, so that a natural resource rich country found itself without adequate government revenues. Under these policies, it appeared that the government was virtually giving away these resources to oligarchs, but had to borrow internationally to conveniently pay pension arrears to the elderly at election time. This has contributed to undermining support for market reform processes.
7. For more analysis, see Ellerman 2001.
8. Note that in assessing growth, it is not the existence of gray and black markets, but changing relative sizes, which distort calculations. A related problem arises from the failure to value time, either under the old regime, waiting in line to obtain goods, or under the new regime, in barter.
9. Along with Wade [1990], Amsden [1989], Campos et al. [1996] and a host of other observers. Even the World Bank [1993] in their appraisal of the East Asia miracle noted that government had played a larger role than typically ascribed in the Washington consensus policies.
10. At a more technical level, DRG seem to assert that China's gains came from closing the technology gap. They seem unaware of the fact that this is, in fact, a highly contentious matter. Though we believe that some of the gains did come from total factor productivity growth resulting from "closing the gap," some serious scholars, such as Lau and Kim [1994] claim otherwise.
11. See Ellerman 1993
12. See Rogers 1983 for a description of such a more horizontal social learning mechanism.
13. As Hussain, Stern, and Stiglitz [2000] point out, the fact that they worked well at a particular stage in China's development does not mean that they will be effective in the future.

14. Contrary to "Coase's Theorem," distribution does matter; efficiency and distribution cannot be separated, whenever there are agency problems. See, for instance, Stiglitz [1994], Greenwald and Stiglitz [1993].
15. See Qian [1999] and Lau et al. [2000].
16. See Weitzman and Xu 1994.
17. Whoever got control was assumed to have an incentive to make sure that the firm's value was maximized, i.e., sold to the person who could manage the firm the best. To be sure, there are some conditions under which that might be true-but they are hardly the conditions which prevail in the economies in transition. The problems cited below are two reasons why it may matter who gets control. In economies in which capital markets are highly imperfect, the person or group willing to pay the most for an asset may not be the person who is able to ensure that it will be most efficiently deployed.
18. DGR implicitly recognize the stakeholder logic when they note the role of the workers' councils in the Polish firms to limit asset stripping. Indeed, "two of us argued at the time in favour of the advantages of workers' management as a form of corporate governance [in Polish SOEs], against the advice coming from the World Bank." Two cheers for DGR!
19. See Ellerman 1993.
20. See Stern 1989 for remarks about cross-country regressions.