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RECOMBINANT PROPERTY IN EAST EUROPEAN CAPITALISM

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Abstract

This paper examines the changing character of property relations in Hungary where a process of decentralized reorganization yields new property forms that are neither statist nor private. Managers at the enterprise level are fragmenting property into numerous limited liability companies in orbit around corporate headquarters. Nominally independent, majority shares of the new units are typically held by the parent enterprise in partnership with private individuals and dense institutional cross-ownership. In such recombinant property, the instruments of state ownership are also changing from juridical ownership by state ministries to shareholding by state property agencies. Ironically, such corporatization finds agencies responsible for privatization acting as agents of renationalization.

These pseudo-private property forms are examined from the perspective of evolutionary economics. Earlier work in that tradition was focussed on policy prescriptions for promoting a class of private proprietors emerging from the second economy. The current research turns the tools of ecological-evolutionary analysis to the large manufacturing enterprises at the core of the economy. Do the new recombinant property forms facilitate or impede creative destruction? What are the sources of organizational innovation that brought about these new forms? How does the emergence of these new forms exemplify processes of organizational innovation in general as well as those specific to the East European context? Are new legal codes becoming institutionalized in enterprise governance with new expectations about codes of conduct? What is the character of relations between state and economy when state ownership of the majority of productive assets is exercise as a shareholder?

The processes identified here suggest the emergence of a distinctively East European capitalism neither state capitalist nor market socialist which, as newly democratic market economies, will differ as much from West European capitalisms as do contemporary East Asian variants.

This new organizational form is examined through field research in five Hungarian enterprises in which the recombinant property form predominates. The investigation is being carried out in enterprises which the author had studied previously from 1984 to 1989. These firms, -- two of which were among the ten largest enterprises in Hungary at the outset of the transformation -- are at the core of the Hungarian economy, in metallurgy, rubber, plastic, machining, engineering and design.

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Introduction: From replacement to recombination

The greatest obstacle to understanding change in contemporary Eastern Europe is the concept of transition. In such analysis of the not yet, concepts are driven by hypothesized end-states. The present is a liminal state suspended between one social order and another, each conceived as a stable equilibrium organized around a coherent and more or less unitary logic. The collapse of communism has left an institutional vacuum prompting, from mainstream economists, bold initiatives of designer capitalism and, from political scientists, grim predictions of paralysis or chaos.[1]

The alternative proposed in this essay examines institutional legacies instead of institutional vacuums. It invites the reader to rethink the metaphor of collapse: instead of seeing the "fall of communism" as some uniform process, a sociological analysis of transformation in Eastern Europe starts from the assumption that differences in how the pieces fell apart will have consequences for how political and economic institutions can be reconstructed. In short, distinctive paths of extrication from socialism shape possibilities of transformation.

[1] "What we find in Eastern Europe today is an institutional vacuum. The logic of state socialism was to render the party the central nervous system. It was the institution, giving life, logic and functions to all other subsidiary institutions. When communist party hegemony died, institutions die and, with that, roles and rules" (Bunce and Csanadi, 1992:14). See also Jowitt.

With the rejection of the teleological concepts of transition, liminality, and institutional vacuum, this essay rejects the social engineering of designer capitalism. Instead of notions of grand architecture "starting from scratch" <u>on</u> the ruins of communism, it examines transformative processes of bricolage rebuilding <u>with</u> the ruins. Most important, instead of thinking about organizational innovation as <u>replacement</u>, we see reconfigurations and rearrangements of existing institutional elements. In short, innovation is <u>recombination</u> (Schumpeter, 1934:65-66). In place of the disorientation that the political scientists find so alarming or the tabula rasa that the economists find so attractive, we find the metamorphosis of subrosa organizational forms and the activation of preexisting networks of affiliation.

<u>The property debate and evidence from Hungary</u>

This perspective on transformation as recombination is adopted to address a question that stands at the center of contemporary debates in the societies of Eastern Europe and the former Soviet Union: By what means can private property become the typical form of property relations in economies overwhelmingly dominated by state ownership of productive assets?

Much of that debate can be organized around two fundamental policy strategies. According to the first strategy, the institutionalization of private property can best be established by <u>transferring assets</u> from public to private hands. Despite differences in the specific methods designated for such privatization (e.g., sale versus free distribution, etc.), the various proposals within this radical or constructivist perspective share the assumption that the creation of a private sector begins with the existing state owned enterprises. That is, the basic organizational units of the emergent market economy will be the pre-existing but newly privatized enterprises.

The alternative policy strategy argues from the perspective of institutional (and specifically, evolutionary) economics that, although slower, the more reliable road to institutionalizing private property rests in the development of a class of private proprietors. Instead of transferring the assets of a given organizational unit from one ownership form to another, public policy should lower barriers to entry for small and medium scale genuniely private ventures. Instead of focusing on the existing state owned enterprise, this perspective typically looks to the existing second economy entrepreneurs as the basic organizational building block of an emergent market economy.

Recent evidence suggests that Hungary is adopting neither a Big Bang approach nor the policy prescriptions of evolutionary economics. Contrary to the optimistic scenarios of domestic politicians and western economists who foresaw a rapid transfer of assets from state owned enterprises to private ownership, the overwhelming bulk of the Hungarian economy remains state property. Two years after Prime Minister Jozsef Antall confidently announced that his new government would privatize more than fifty percent of state property by 1995, the director of the Privatization Research Institute functioning alongside the State Property Agency estimates that only about 3 percent of the state owned productive capital has been privatized (Mellár, 1992).

Contrary as well to the hopes of many observers that the new government might adopt a policy of stimulating new entrants to a dynamic private sector based on the proto-entrepreneurial experiences of "second economy" producers, the evidence on Hungary's private sector is similarly discouraging. Although the number of registered private ventures has skyrocketed, Hungarian researchers advise caution in interpreting the numbers. Some firms exist only in the courts' registries having never produced any income, and a significant number are "dummy firms" set up to help intellectuals and professionals write off expenses such as rent, telephone, and heating for their apartments (Laky, 1992). A considerable body of evidence now suggests that the second economy has not become a dynamic, legitimate private sector: many entrepreneurs (a majority in some categories) still engage in private ventures only as a second job (Laky, 1992; Gábor, 1992); tax evasion is pervasive: and although employment is slowly increasing in the sector, most researchers agree that the proportion of unregistered work (for which the state receives no social security payments and the employee receives no benefits) is increasing faster (see Kornai, 1992:13). These tendencies together with new forms of corruption, extortion, and exploitation have prompted one researcher to label the transition as one "from second economy to informal economy" arguing that it is now, under these new conditions, that Latin American comparisons are more applicable to the Hungarian setting (Sik, 1992)[2]. When the private sector looks to government policy it sees only burdensome taxation, lack of credits, virtually no programs to encourage regional or local development, and inordinate delays in payments for orders delivered to public sector firms (see Kornai, 1992). Through violations of tax codes, paying workers off the books, and the inability or reluctance to engage in capital investment (Gábor, 1992), much of the private sector is responding in kind. Such government policies

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[2] See Stark, "Bending the Bars of the Iron Cage: Bureaucratization and Informalization under Capitalism and Socialism," Sociological Forum 4: 4 (1990) for a systematic comparison of "second economy" and "informal economy."

and private sector responses are clearly not a recipe for the development of a legitimate private sector as a dynamic engine of economic growth.

But although they fail to correspond to the policy prescriptions of either Big Bang or evolutionary economics, significant property transformations are taking place in Hungary. This paper examines these actual property changes. To anticipate the argument: we will see that actors within the formerly, formally state sector -- that is, within the sphere of the large public enterprises -- are not waiting for the economists or the policy makers to resolve the debate over transferring assets versus encouraging private proprietors. Instead of waiting, they are acting to modify and transform property relations at the enterprise level. The results, however, are definitely not well-defined rights of private property, yet neither are they a continuation or reproduction of old forms of state ownership. The property forms that result are definitely not "mixed" property but ones in which the propertiesof private and public are dissolved. Thus, instead of mixed, or hybrid, or intermediate property I prefer the term recombinant property. Outcomes are neither statist nor private. I am arguing here that even if they become, as I think is likely, democratic capitalist economies, the societies of Eastern and East Central Europe will differ as much from West European capitalism as do contemporary East Asian variants.

Corporate satellites

Since 1989, there has been an explosion of new economic units in Hungary. Table 1 shows that, while the number of state-owned enterprises and agricultural collectives has remained almost constant, the number of other incorporated business organizations has skyrocketed.[3] Most of this growth took the form of limited liability companies (KFT) whose numbers increased from 450 at the end of 1988 to 55.461 in late 1992.

[Table 1 page 26]

At first glance. Table 1 might suggest relatively little change in the state sector of the Hungarian economy. The number of state enterprises did decline -- with much of that decrease occuring in 1992. But the total number of state enterprises. collectives. and industrial cooperatives has changed only modestly. It would be a mistake. however. to conclude that the new organizational forms have taken off entirely outside the state sector: in fact. the formerly socialist enterprises have been active founders of the new incorporated units.

The basic process of this property transformation is one of <u>decentralized reorganization</u>: Under the pressure of enormous debt. declining sales. and threats of bankruptcy or (in the cases of more prosperous enterprises) to forestall takeovers as well as attempt to increase autonomy from state ministries. directors of many large public enterprises are taking advantage of several important pieces of legislation that allow state enterprises to establish joint stock companies (RTs) and limited liability companies (KFTs). In the typical cases. the managers of these enterprises are breaking up the organization (along divisional, factory, departmental. or even workshop lines) into numerous corporations. It is not uncommon to find virtually all of the assets of a large public enterprise distributed

[3] Table 1 reports only business organizations with legal personalities. It does not include non-incorporated units whether registered or unregistered with the authorities.

among 15-20 such satellites orbiting around the corporate headquarters.[4]

As newly incorporated entities with legal identities, these new units are nominally independent -- registered separately, with their own boards of directors and separate balance sheets. But on closer inspection, their status in practice is semi-autonomous. An examination of the computerized records of the Budapest Court of Registry indicates, for example, that the controlling shares of these corporate satellites are typically held by the public enterprises themselves (Stark, 1992). This pattern is exemplified by the case of one of Hungary's largest metallurgy firms represented in Figure 1. As we see in that figure, Heavy Metal, the state-owned enterprise, is the majority shareholder of 15 of its 16 corporate satellites.

[Figure 1 page 27]

Property shares in these satellite organizations are not limited, however, to the founding enterprise. Top and mid-level managers, professionals, and other staff can be found on the lists of founding partners. In the typical pattern of mixed ownership, these private persons are joined in share ownership by other joint stock companies and limited liability companies -- sometimes by other KFTs in a similar orbit around the same enterprise.

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[4] In the ongoing research outlined here I analyze this new organizational form by conducting field research in five Hungarian enterprises in which the pseudo-private property form predominates. These firms -- two of which were among the ten largest enterprises in Hungary at the outset of the transformation -- are at the core of the Hungarian economy, in metallurgy, rubber, plastic, machining, engineering and design. My knowledge of the firms predates the proposed study, having done field research in these companies (in four of the five beginning in 1984) on an earlier organizational innovation (Stark, 1986, 1989, 1990). The project thus has a distinctive longitudinal component in which organizational histories need not be reconstructed after the fact. This paper is a report of research in progress. Three of the five firms were studied in June 1992, in collaboration with László Neumann of the Institue of Labour Studies, Budapest. Further research will be carried out in 1993-94 while I am a Visiting Fellow at the Budapest Collegium/Institute for Advanced Study at the invitation of János Kornai.

more frequently by joint stock companies or KFTs spinning around some other enterprise with lines of purchase or supply to the corporate unit (Voszka, 1990; Móro, 1990; Stark, 1992). Most important among the outside owners are banks. In many cases, the establishment of KFTs and other corporate forms is triggered by enterprise debt, and in the reorganization the creditors -- whether commercial banks (whose shares as joint stock companies are still predominantly state-owned) or other credit institutions (also state-owned) -- exchange debt for equity. This pattern is represented in the case of another Hungarian firm in Figure 2.

[Figure 2 page 27]

The new property forms thus find horizontal ties of cross-ownership intertwined with vertical ties of nested holdings.

What then is the fastest growing new ownership form in Hungary? The institutionally cross-owned corporate satellite involving the hybrid partnership of public and private property is certainly a likely candidate. An exacting terminology is cumbersome, but it reflects the complex, intertwined character of property relations in Hungary: the fastest growing new property form is a limited liability company owned by other limited liability companies owned by joint stock companies, banks, and large public enterprises owned by the state (see Voszka, 1991; Stark, 1992).

Privatization as *etat*ization

Elements of property are being recombined not only by actors at the enterprise level but also by the central agencies nominally responsible for privatization. That is, parallel to the process of fragmentation is the mandated process of corporatization through which the former state-owned enterprise is transformed into a joint stock company or other corporate form. In almost all cases, the overwhelming majority of shares in these corporatized firms are held by the State Property Agency or the newly created State Asset Trust. Whereas "state-owned enterprise" in socialism meant juridical ownership by a state ministry (e.g., Ministry of Industry), corporatization in postcommunism entails share ownership by one or another state property agency. In the Hungarian transformation, recombinant property is therefore not a simple mixture in which private owners (whether institutional or individual) are now co-participants with the state but one in which the nature and the instruments of state ownership are undergoing change as well.

Such corporatization mandated by a privatization agency in the current context has some distinctive features of renationalization. Namely, in Hungary where managers in the 1980s exercised de facto property rights (primarily rights of residual control, secondarily rights over residual income streams, yet virtually no rights of disposal) and in Poland where workers in the same period enjoyed similar rights, corporatization involves efforts at re-centralization. That is, property is quasi-private in part because state elites are reluctant to let the economy slip out of their hands. The irony, of course, is that it is precisely the agencies responsible for privatization that are acting as the agents of *étatization* by providing the instruments for the exercise of control through share ownership. The effective exercise of such centralized control, however, varies inversely with the scope and the degree of direct intervention (the trap of centralization already well-known in the region). Thus, simultaneously with this move toward centralization, one encounters proposals for privatizating the asset management function. In such programs, the state (through its property agenices, the SPA and SAT) retains the right to dispose of the property while engaging private actors (through various kinds of subcontracting/commission schemes) to exercise the agency's rights as shareholder.

Recasting the debate in Hungary

Such recombinant property is clearly eroding the old property divide of public and private. How then do the processes and forms identified here illuminate and recast the debate in Hungary? The main problem with that debate is that despite enormous differences, both sides -- the radical constructivists and the evolutionary theorists -- share the idea that the Hungarian economy can be represented in a two-sector model (old state enterprises, new private ventures). All the major policy prescriptions -- on both sides -- hinge on this dualistic representation. Such a two-sector model is entirely misleading and policies based on it will yield distorted results. This criticism is not simply one at the margins. I am not arguing that in addition to the state sector and the private sector we need to include some region of overlapping properties. Instead, I am suggesting that the recombinant property space of both/and, neither/nor might actually be the largest part of the economic field.

In short, the Hungarian economy is evolving in forms that are neither state capitalist nor market socialist.

Recombinant property and economic development: a research agenda

If pseudo-private property recasts the policy debate in Hungary, what are the implication of these recombinant forms for the problems and prospects of economic development in East Central Europe? That is, how do we assess these forms -- will they contribute to development or will they block it? In the standard property rights literature these blurred and ill-defined property rights would be an obvious liability from an economic standpoint. To the new school of flexible specialization, consitutional orderings, and affiliative networks, on the other hand, these fuzzy boundaries are, of course, at least potentially virtuous (see especially, Sabel, forthcoming).

Evolutionary economics provides the point of departure to address these questions. To date, evolutionary economists working on transformation in Eastern Europe have focussed almost entirely on the nascent private sector. With their attention focused on the existing second economy entrepreneurs, evolutionary economists have limited their consideration of the large public enterprises to policy prescriptions calling for stronger regulation of the remaining state sector until creative destruction can do its work. Given, however, that actors within these firms are not waiting passively but are acting in ways that may be eroding the property divide and the two-sector model (old state enterprises, new private ventures) that formed the basis of those prescriptions, it is now time to chart the actual contours of property forms and decipher the operative principles of enterprise governance that are neither state capitalist nor market socialist. Evolutionary economics, organizational ecology, and the new sociological institutionalism provide the analytic tools for examining these emergent forms and processes.

In the discussion that follows I use three core principles of evolutionary economics as a heuristic to address the problems and prospects of economic development in Eastern Europe. Whereas designer capitalism adopts principles to produce formulas, in the analytic strategy adopted here principles are immediately problematized.

1) *Development depends on creative destruction.*

The major challenge confronting an evolutionary institutionalism is to discover the process whereby selection can begin to operate in the East European setting when there are good reasons to question the usual recipes. On one hand, insights from public choice theory provoke skepticism about proposals calling for strong states to distribute property rights according to some formula whereby assigned property will bring about markets (Stark, 1990; Kornai, 1992). On the other, familiarity with problems of market failures yields a healthy skepticism about proposals based on the alternative formula that artificial markets can be the instruments to bring about private property (Levitas, 1992; Stark, 1992).

Thus, the first question we need to address is whether the recombinant property form represented by institutionalized cross-ownership at the enterprise level contributes to processes of creative destruction. Several early case studies (Móro, 1991; Voszka, 1990) and my own preliminary investigations in three of the firms during June 1992 suggest that quasi-private property is frequently a product of strategies to avoid bankruptcy. Engaging banks as owners, for example, is often motivated by a search for continued credit in hopes that a lender who is also an owner (and itself owned by the state) will extend credit rather than allow the firm to fail.[5] The same goes for enlisting suppliers as owners -- an added twist to the strategy of softening budget constraints through inter-enterprise debt, obtaining forced credit by late payment. Such strategies are, moreover, sometimes accompanied by director-employee alliances to avoid layoffs. As I saw in one of the largest metallurgy firms in Hungary, the top stated priority for the strategy of grouping satellites around the (now virtually empty) corporate headquarters was "to preserve employment." In this firm the "Club of Managing Directors" of the eighteen nominally independent KFTs established a closed labor market ("no outside hiring") in which each agreed that any new openings would be filled by workers made redundant in other units. Perhaps not surprisingly, 15 of the 16 units reported the same rate of profit for their activities in 1991 (no doubt a challenge for the accountants who worked out the various pricing, phony leasing, and subcontracting arrangements among the limited liability companies).

Nonetheless, by dividing large enterprises into smaller and distinctly identifiable units, the Hungarian recombinant property form may contribute to some creative destruction. If the pattern of obviously doctored books of the metallurgy satellites is not too widespread, it should become easier to identify clear winners and losers; and the smaller size of the composite units might facilitate the liquidation of the obvious loss-makers. Similarly, with their own balance sheets and their own boards of directors, some of the semi-autonomous limited liability companies might more likely become targets for take-overs by foreign firms or indigenous private entrepreneurs whose limited means could not acquire properties left

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[5] Such circumstances are plausible in the particular Hungarian context where enterprises (and their debts) were arbitrary <u>assigned</u> to commercial banks (that remain owned by the state) during the reform of the banking system.

integrated within the large state enterprises. That is, the quasi-private property that results from decentralized reorganization in the first round might set the stage for a later round of deeper privatization. Of course, the more dense the pattern of cross-ownership, the less likely we are to see liquidations and/or genuine buyouts.

Further research should also analyze the state's participation as (often majority) shareholder and how it facilitates or impedes creative destruction. How, for example, do the state's agents reconcile the often conflicting goals of 1) increasing the value of a particular firm's assets, 2) promoting macro-economic policies to achieve economic growth while maintaining social peace, and 3) improving the electoral/political fortunes of the governing party?

2) Because systemic change is less a product of change (reform) within organizations than of aggregate changes in the population of organizations, dynamic growth depends on organizational diversity.

Whereas the first principle refers to exit or "deaths," this second refers to entry or "births" not simply of new organizations but of <u>new organizational forms</u>. Socialism failed not only because it lacked a selection mechanism to eliminate organizations that performed poorly but also because it put all its economic resources in a single organizational form -- the state enterprise. Socialism drastically reduced organizational diversity and in so doing prohibited a broad repertoire of organized solutions to problems of collective action. Organizational forms are specific bundles of routines and the reduction of their diversity means the loss of organized information that might be of value when the environment changes (Hannan, 1986; Boyer, 1991; Stark, 1989, 1992b). The relative paucity of organizational diversity in Eastern Europe gives added urgency to the question: where do (new) organizational forms come from?

The conventional answer in the postcommunist setting is that they must be introduced from the outside. The collapse of communism and the subsequent institutional vacuum, in this view, present both an opportunity and an imperative for grand designs and bold experiments of institutional reconstruction. The project I am proposing breaks with these assumptions. Wary of the possibly teleological character of the notion of <u>transition</u> in which concepts are driven by hypothesized end-states, it looks instead for patterns of <u>transformation</u> in which new elements are typically combinations, adaptations, rearrangements, permutations, and reconfigurations of existing organizational forms. In short, the path to explaining <u>innovation</u> rests in analyzing <u>routines</u>.

The notions of collapse and vacuum are misleading moreover because they overstate the rapidity and the totalizing character of institutional change in Eastern Europe. The proposed project seeks a dual corrective: institutional change has been much less dramatic, but the de-institutionalization that did occur began much earlier.

By "deinstitutionalization" we refer to processes whereby the taken-for-granted character of institutions is eroded as, for example when legal or other rules that maintain boundaries between previously discrete populations of organizations are relaxed (Stark, 1989; Powell and DiMaggio, 1991). Moreover, this blurring of boundaries (as Hannan and Freeman, 1986, observe) engenders new organizational forms. Such deinstitutionalization was taking place in the Hungarian economy throughout the 1980s. Most important for the current debate over property transformation were the broad economic, legal, and social changes that eroded the boundaries between state and private property. Whereas the communist polity had been based on eliminating the boundary between public and private, the state socialist economy had been built on an absolute barrier separating public and private, sanctified in a rigid hierarchy of collective, cooperative, and private property. These absolute barriers were crossed first in agriculture in the late 1970s with the blurring of boundaries between the property of the cooperatives and those of the household plots. By 1982, boundaries between state and private property were being eroded in even the most advanced sectors of Hungarian manufacturing. With this deinstitutionalization came greater organizational diversity. The most prominent new organizational form was a hybrid property form, the enterprise partnership (or VGMK), in which semi-autonomous subcontracting units used enterprise equipment to produce goods or services during the "off hours" (see, Laky, 1988; Neumann, 1989; Stark, 1986, 1989). Modified in their migration from agricultural to manufacturing, these "household plots of industry" had no rights to dispose of assets, but they did have a claim to the use of equipment during parts of the day/week. Moreover, the "partnerships" had captured significant rights over resididual income (their "entrepreneurial fees" not uncommonly exceeded managerial earnings) and enjoyed significant rights of control ("From 6 to 2 we work for them; from 2 to 6 we work for ourselves," went the common expression).

Thus, as the partnerships spread to virtually every socialist enterprise and eventually involved more than ten percent of the industrial labor force, a good part of Hungary's managerial stratum had some practical experience with an organizational form of a hybrid property character.

The research that I will conduct during my stay in Hungary in 1993-94 will investigate the relationship between the earlier mixed property forms of the 1980s and those of the present. The first and most obvious question is whether the new KFTs are the literal organizational successors of the earlier subcontracting partnerships. (I did find examples of such cases in my preliminary investigations in three of the firms in June 1992.) Did the earlier hybrid forms provide a primitive organizational template for the subsequent quasi-private companies? If not, did the firm have previous experiences with joint-ventures or other mixed property forms, and did these provide the basis for possible recombination? What other new organizational forms are appearing in the large enterprises? Are diffusion processes operating in these settings, and if so, through what channels and mechanisms is such diffusion taking place?

A thorough organizational history of each of the new limited liability companies affiliated with the enterprises will give some grounds for assessing if this has been a common pattern. I expect relatively few cases where a work partnership was simply transformed into a limited liability company, but I do expect to find that the most active roles in establishing the new companies have been played by those managers who were most active in (or interacted most frequently with) the partnership ventures.

3) Economic development depends not only on new legal codes but also on new codes of conduct.

Legal and other changes that modify official rules without altering the dispositions, expectations, routines, and habits of social actors are changes that have not been institutionalized as taken-for-granted rules of the game. Given that economic institutions include not only regulatory frameworks but also <u>expectations about behavior</u> (see Schotter, 1981), the efficaciousness of a convention depends on assessments about the probability that others are recognizing the convention. It follows from this premise that institutional changes introduced across a population of actors are less likely to be successful in structuring conduct than those introduced only among a buffered subset of the population. That is, institutional changes are more likely to take root and diffuse throughout a population if they have a chance to structure behavior among some (temporarily) buffered group of actors (see the game-theoretic argument of Boyer and Orlean (1991). Consistent with these principles, in the contemporary East European setting, private property and market processes are more likely to take hold when stimulated to develop deeply among existing entrepreneurs rather than spread thinly across all organizations (Kornai, 1990; Stark, 1990; Murrell, 1992a). In the current project, I am examining whether and how codes of conduct are changing at the core of the formerly socialist economy where deep-rooted expectations and habits are thinly covered by new property forms and legal regulations. How quickly does conduct change where legal environments are alterred? If actors assume that the tax auditor is corrupt or at least corruptable, if they assume that the tax regulations were drafted based on assumptions of tax evasion, and if they expect that others in their position are tax evasive, will new regulations and standards of enforcement shape new behavior? Might old patterns of soft budget constraints be perpetuated by old codes of conduct? For example, managers of socialist enterprises were subject to efficiency testing: the problem was (and might continue to be) that survival chances were affected more by efficiency in mobilizing resources than by technical efficiency in producing a product. Similarly, directors of "flagship enterprises" accustomed to calculating the firm's indispensability on the basis of the number of its employees, might not suspend these calculations overnight -- especially when the predominant share holder is represented on the firm's new board of directors by political appointees of the governing party.

Grand schemes of privatization mistake the assignment of rights over property as the institutionalization of property rights. Instead, I anticipate that actual property relations are shaped by the interactions of new regulations and past practices. For property rights to be clarifed, they must be well-defined not only in legal codes but in everyday routines. The "rights of shareholders" can be inscribed in legislation, mandated in corporate charters, and interpreted in court rulings. My investigations will examine how these rights are negotiated and clarified in circumstances where everyone in the room has executive experience and yet no one has ever been a member of a body just convened as a "board of directors." I expect that the resulting practices will draw as much from old rules and roles as from new regulations.

Old rules and roles, however, need not imply stagnation. Under what circumstances are new opportunities exploited in attempts to preserve old identities? Conversely, how are established resources and practices utilized for new goals? How are relations among the managing directors of the corporatized satellites redefined across new organizational boundaries? Do interlocking directorates follow the paths of old networks of affiliation or are they based on new logics? In what circumstances does an attempt to survive using an old tactic yield new configurations and alliances? Are new codes of behavior diffusing from small and medium scale entrepreneurs? How do managers of transformed enterprises interact with agents representing the state as shareholder? How do these interactions differ depending on whether the representative is an official of a property agency or a "private" consultant exercising the asset management function?

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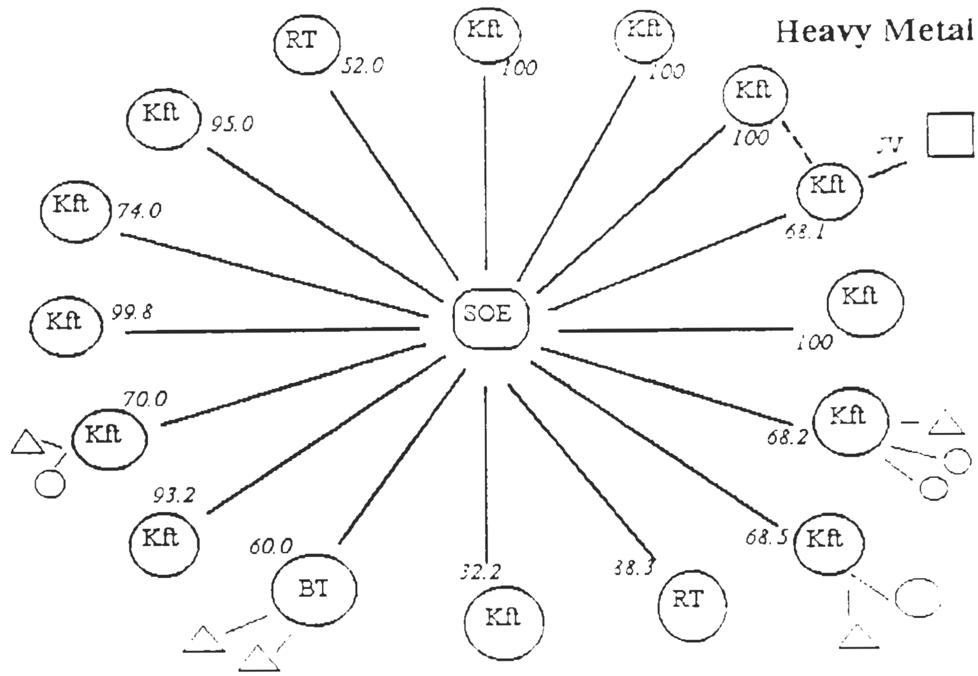
TABLE 1

Enterprise Forms in Hungary, 1988-1992

	1988	1989	1990	1991	1992 (Nov
State enterprises and cooperatives					
Enterprises	2,378	2,400	2,363	2,233	1,787
Agricultural cooperatives	1,333	1,333	1,348	1,421	1,434
Small industrial cooperatives	3,106	3,223	3,155	3,101	2,868
TOTAL	**6,817**	**6,956**	**6,866**	**6,755**	**6,089**
Other legal-entity business organizations					
Limited liability companies (KFT)	450	4,464	18,317	41,206	55,461
Shareholding companies (RT)	116	307	646	1,072	1,647
Associations	78	105	201	231	231
Common firms (unlimited liability)	275	295	237	188	158
TOTAL	**919**	**5,171**	**19,401**	**42,697**	**57,497**

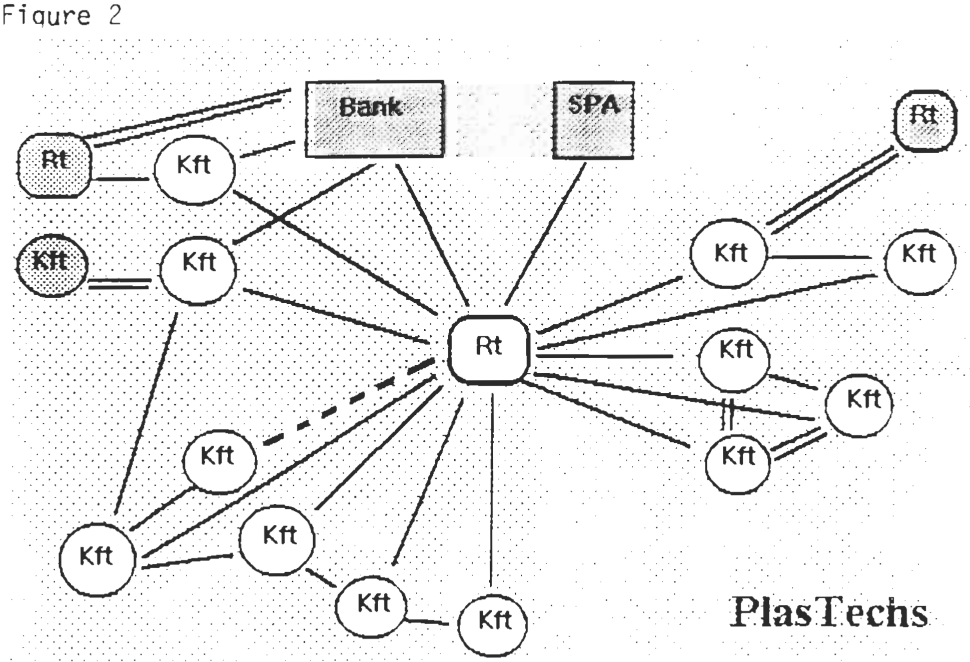
Source: Hungarian Central Statistical Office, Special Reports, December 1992

Figure 1.



Italicized figures indicate percentage of shares held by the state-owned enterprise (SOE).

Figure 2



Kft - Limited Liability Company
RT - Shareholding Corporation
SPA - State Property Agency

—— Ownership tie
═══ Cross-ownership
--- Lease