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# **WIDER WORKING PAPERS**

**Spontaneous Privatization  
in the Soviet Union.  
How, Why and for Whom?**

**Simon Johnson**

WP 91

September 1991

**SPONTANEOUS PRIVATIZATION IN THE SOVIET UNION.  
HOW, WHY AND FOR WHOM?**

by

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June 1991

This paper is an outcome of the research project entitled Transformation of Centrally Planned Economies: The Lessons for Developing Countries under the auspices of the **United Nations University's World Institute for Development Economics Research (UNU/WIDER)** with financial support from the **Finnish International Development Agency (FINNIDA)**.

Very helpful comments on earlier drafts were provided by Jim Cashel, William Jarosz and Carla Kruger.

## Abstract

Many Soviet state enterprises are changing their legal form. Permissive but imprecise legislation, policy paralysis at all levels of government, the breakdown of the state supply system, and continued excess demand, have allowed managers of state firms to initiate "spontaneous privatization" -- through which managers and other individuals are effectively obtaining property rights which previously belonged to ministries, planners and the Communist Party.

Spontaneous privatization often also involves fundamental changes in the organization and operations of enterprises and is rapidly rendering existing theories of Soviet managerial behavior out-of-date. The limited available evidence suggests that new property forms represent both a means to change firms contractual arrangements and an opportunity for managers and some bureaucrats to obtain property rights. There are some positive economic effects from this process, but there is also an important element of theft -- and this may have significant negative political consequences.

There is strong evidence of rapid and remarkable changes in the property form of enterprises in the Soviet Union. These changes are not the result of a coherent government policy, and nor do they appear to be unambiguously in the interest of any political group, such as "democrats", "nationalists", or "conservatives". Instead, the process is truly spontaneous privatization: the critical decisions are made by enterprise managers and by lower level supervisory bureaucrats, and these individuals obtain rights which were previously held by the state. In many cases, the new property forms are motivated by the desire for new contracts between the firm and suppliers, customers, workers and -- implicitly -- bureaucrats. But at the same time, another motivation behind this process is the desire of state managers, members of the bureaucracy, and in some cases workers, to seize property rights -- meaning control over what was previously state property.

In this paper I use several terms which need to be clearly defined at the outset. I follow an established literature in defining a firm "to consist of those assets that it owns or over which it has control," (Grossman and Hart, 1986, p.693). The property form of a firm is its de jure legal form, such as state enterprise, joint stock company or cooperative. Firms' contracts are those economic relationships with other legal entities and with people which contain specific provisions -- actions to be taken when specified contingencies occur. These provisions may be either explicit or implicit. We also refer to a legal entity's or a person's property rights, which we take to mean those assets over which that person or legal entity has residual rights of control -- they can determine the use of this asset, subject to specific contractual provisions. Using these terms helps to maintain the important

distinction between changes in the property form and contracts of firms, and changes in the property rights of people and of different levels of government.<sup>1</sup>

People's property rights used to be very limited in the Soviet Union, because the plan, the party and the administrative apparatus controlled almost all property.<sup>2</sup> The central government's reforms after 1987 loosened these controls, but failed to create a coherent alternative system in which property rights are well-defined. As a result, there are unclear, overlapping and even contradictory claims to almost every firm in the Soviet economy. Taking advantage of this confused situation, in the past eighteen months managers and lower-level bureaucrats have rapidly developed ways to seize property rights for themselves. Not only does this seizure go much further than the limited decentralization of decision-making intended by the central government, but through drastically curtailing the property rights of the central government, it also implies a decline in the central government's fiscal revenue and the loosening of its control over the money supply. The appropriation by some individuals of property rights is closely related to two other developments: changes in firms' property forms and changes in firms' contracts.

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<sup>1</sup>Although these changes in property are significant, the Soviet Union remains a long way from meeting the conditions for an efficient system of property rights, such as the right to exclude others, transferability and universality (Posner 1972).

<sup>2</sup>Some anomalies should be noted. There has long been the right to own a country house, including the right to sell and to bequeath. Urban housing was generally only rented, but it was usually possible to find ways to swap an apartment or to pass it to descendants. However, other private property rights were severely limited, for example Article 13-3 of the 1977 Constitution explicitly forbade the use of personal property for generating "income without work". Agriculture is somewhat different, because farmers have usually had the right to cultivate some products on "private plots" of land.

From press reports, it is evident that many Soviet managers are involved in or would like to become involved in some new property form.<sup>3</sup> This is rarely complete privatization, because private individuals do not become the de jure owners of assets, but all levels of government definitely end up with fewer property rights -- though some individual bureaucrats may gain rights (International Monetary Fund et al 1991, Vol.2, Chapter IV.2). There is no single word in English for this process, but the Russian word is descriptive: "razgosudarstvlenie" -- literally "destatization", but perhaps closer to "the breaking apart of the state" or "the decentralization of control over state property".<sup>4</sup> In the late 1980s a similar process was experienced in both Hungary and Poland -- it was known in the latter as "nomenklatura privatization", because the principal beneficiaries were members of the communist hierarchy, both managers and bureaucrats (Levitas and Strzalkowski 1989). In the Soviet Union, as in Hungary and Poland, the acquisition of property rights by managers is dividing the nomenklatura and making it much harder to ever reconstitute the political control of the Communist party.

Spontaneous privatization often also involves an important element of reorganization for firms' contracts. Because managers are acquiring the right to decide how assets are used, they are also devising novel ways to deal with the current economic problems of their firms. Many of these reorganizations are merely the rational response to macroeconomic imbalance and pervasive shortages, but some new contracts help to create new physical and human capital. Even if these reorganizations are rational given prevailing relative

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<sup>3</sup>A few examples of recent reports are Shatalev 1991, The Economist 1991, Kommersant 1991.

<sup>4</sup>The term "spontaneous privatization" has also appeared in the Soviet press. See, for example, Izvestiya 1990.



prices in the Soviet Union, it is very difficult to know how these new forms of capital would fare at world prices.

The remainder of this paper has three sections. Section I summarizes what we know about Soviet spontaneous privatization, based on published sources and on firm-level interviews in 1990 and 1991. Section II offers a preliminary interpretation of this phenomenon. Section III concludes by emphasizing the importance of this process. An appendix provides a questionnaire which will be used to obtain further information from firm-level interviews in the Soviet Union.

### I. Spontaneous Privatization

This section reviews the available evidence on firms' new property forms, their new contracts, and the probable winners and losers in this process. The existing evidence suggests that the property form of firms is endogenous and determined by managers desire to obtain property rights and to restructure their firms' contracts.

It must be stressed that while much of spontaneous privatization appears to be beyond the control of government, it is not usually illegal. In fact, the precise legal situation of firms has been increasingly unclear since the 1987 Law on State Enterprises, which broadened the rights of workers' councils and, in particular allowed them to elect managers. Although this right was rescinded by the 1990 Law on the Socialist Enterprise, the 1987 law did begin the process of confusing the old system of enterprise control.<sup>5</sup> Gradually

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<sup>5</sup>Although workers have not explicitly acquired the right to fire managers, there are indications that managers are now more responsive to increasingly militant workers (Rutland 1990). The industrial relations situation resembles Poland in the mid-1980s.

state enterprises were allowed a wider range of property form: in October 1988 they were authorized to issue non-voting shares, during 1988 they began to sign leases with ministries, and after August 1989 they could become independent from a sectoral ministry (Hansen 1990). Important further steps were taken in March 1991, with amendments to the Constitution which allowed citizens to own means of production, the Law on Ownership, and the Principles of USSR and Union-Republic Land Legislation. Yet while these laws were important statements of principles, they have not yet been made operational by implementing legislation (Directorate-General 1991, Annex XI). In fact, while the central government has clearly authorized some decentralization of decision-making to firms, it has failed to take sufficient measures to preserve government property rights and to limit the rights of individual managers and bureaucrats.

Cooperatives were formed after the 1986 Law on Individual Labor Activity and the 1987 Decree on Consumer Goods Cooperatives, but they only became fully legal with the June 1988 Law on Cooperatives. The leasing of state assets appears to have begun spontaneously in 1988, well before it was formally approved in a decree of April 1989 and guidelines in December 1989. The most important new property form is probably the joint stock company, first seen in 1989. These are usually majority owned by "legal persons", such as state enterprises, banks, institutes, and ministries, although there have recently been some cases in which employees have explicitly acquired a significant fraction of the shares (Economist 1991, Kommersant 1991, Shatalev 1991).

In addition, since August 1990 "Small Enterprises" have been allowed.<sup>6</sup>

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<sup>6</sup>All-Union Council of Ministers decree, 8 August 1990, #790, published in *Ekonomika i Zhizn*, #33, August 1990, p.4.

These enterprises are not strictly a new property form, but rather just small units of production -- usually within a state enterprise. In some cases an individual entrepreneur persuades a state manager to allow an autonomous small enterprise within a state firm. These enterprises receive some tax breaks. Legislation from 1990 also permits "partnerships" with unlimited liability, and given how hard it is to sue in the Soviet legal system, these partnerships are essentially limited liability companies.

Within these new legal forms at least five major new forms of contract can be detected.

1) Contracts With The State. New property forms provide numerous legal ways to avoid wage and price controls -- there are, in effect, fundamental changes in firms' contracts with all levels of government. The creation of new property forms and new contracts also provides opportunities to transfer money from tightly controlled accounts (beznalichnye) which cannot be used to pay wages, into cash or other bank deposits which are not so restricted. It is now quite common for firms to establish joint stock banks which are not effectively regulated, and to use these banks as a way to avoid wage controls and probably also to evade their taxes. In these ways spontaneous privatization increases the nominal purchasing power in the economy.<sup>7</sup>

There is definitely an element of theft in many forms of spontaneous privatization -- individuals are obtain property rights often without payment. The extent of theft is hard to quantify: it is increasingly difficult to know the monetary value of any good, let alone an asset which represents a stream of future earnings. There is clearly now opportunity, motive and means for

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<sup>7</sup>Related evidence is that the proportion of payments to workers which was in the form of bonuses and "special payments" was 25% in 1980 but 42% in 1990 (Rutland 1991).

some individuals to obtain rights of control over what was previously controlled by government ministries. However, it is not usual for this property to become de jure private -- there is still some political risk. Often the "theft" involves managers obtaining more autonomy to make decisions, although obtaining these rights usually requires side-payments to workers, bureaucrats, and supplying firms.

2) Contracts With Individual Bureaucrats. Managers and their former bureaucratic bosses also may explicitly establish a new property form together, combining their economic and political skills, and with the shares officially held by their organizations. Effectively, parts of the nomenklatura are engaged in leveraged quasi-buyouts of former state assets, always on extremely favorable terms -- often involving no initial cash payment. At the same time these deals are carefully constructed so they do not break any Soviet law.

3) Contracts With New Firms. There appears to be a significant number of start-up firms in the Soviet Union. Any new firm would be very vulnerable if it tried to operate by itself, buying and selling for money. The key to success is to obtain resources (material inputs, food, transportation services) through established and emerging networks of barter between existing state firms. Many new firms are therefore organized with an equity stake, either implicit or explicit, for a "protecting" state firm.

Existing state firms may provide to new firms four main forms of protection and support: financial, logistical, people, and political. Financial support is necessary, but usually the least problematic -- state enterprises can usually provide this from controlled (beznalichnye) bank accounts, so the opportunity cost is very low. Logistical support is

essential for day-to-day operations, and this includes providing premises, assuring regular supplies and guaranteeing transportation. Contacts with other managers are also critical, because contracts cannot easily be enforced through the legal system, so many economic transactions require a high level of trust. In part, this trust can be provided through state managers' networks of contacts which give participants the incentive to obtain and maintain good reputations. Potential political protection is always useful for a new enterprise. Even if this protection is not immediately used to fend off bureaucrats and other firms, it does provide a valuable form of insurance. Larger enterprises in more "strategic" sectors, such as the military-industrial complex, are probably better providers of political insurance

Some of the problems faced by joint ventures are the result of not being part of such protective networks. For example, after McDonalds' initial success in Moscow, suppliers put up prices and various levels of government tried to renege on agreements (Goldman 1991). McDonalds has constructed its own supply chain in the Soviet Union, but it appears not to use the same kind of contracts which are seen now in Soviet firms: for example, giving an equity stake in a downstream firm, such as a restaurant, to suppliers.

4) Contracts With Suppliers. Some new contracts are designed to reorganize supply relations. There are at least two distinct forms of reorganization. First, there may be reintegration of an input supply chain inside a new firm. The collapse of planning and central control over supplies means that the old system of vertical integration under individual ministries is breaking down. This breakdown has been exacerbated by ethnic conflicts, because supply chains were often stretched across several republics and inter-republic trade is now frequently disrupted. Therefore some managers are now seeking to rebuild

input supply chains on a narrower geographic basis -- preferably within one republic. These managers argue that all stages of production need to be placed within one firm, because this is the only way to monitor whether everyone complies with their supply agreements. Formal contracts cannot be enforced (or only at very high cost), so the best way to proceed is through establishing a new joint stock company, which enables managers of the constituent state firms to monitor each other closely. In this case new contracts are the major motivation for new property forms.<sup>8</sup>

Second, the whole supply chain of agricultural goods may be reintegrated within one firm, in reaction to the increasing problems of obtaining food in markets or through stable barter deals. In this case the manager seeks to achieve autarchy for his firm. Some trade with other firms remains desirable, but the goal is to have the capacity to survive primarily through long-term implicit contracts, relying as little as possible on trade in unstable spot markets. Some changes in contracts, such as entering a long-term arrangement with a collective farm, can be achieved without any de jure change in property form and without even a written contract. Of course, some of these contracts between industrial enterprises and agriculture existed before 1985, but nevertheless it appears that this form of vertical integration is becoming more widespread.

5) Contracts With Other Enterprises. Some new property forms are designed to create a holding company which will facilitate expansion by enterprising

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<sup>8</sup>There is a great deal of uncertainty about the value of money, particularly its purchasing power over industrial inputs, and the result is widespread barter between firms -- reminiscent of hyperinflations in capitalist countries. This analogy is interesting, especially because the changes in organizational form now seen in the Soviet Union -- particularly the increase in vertical integration within firms -- resemble those documented for the German hyperinflation of the early 1920s (Michels 1928).

managers -- this is horizontal rather than vertical integration. Pervasive shortages mean there are opportunities to produce new goods and services, but in a very unstable economy it makes sense to diversify the risks by operating in a variety of different sectors. Therefore a holding company may be established, running a conglomeration of different enterprises or organizing an effective monopoly. The lack of effective antitrust measures must make the formation of monopolies attractive (Kroll 1991). However, through a holding company, state managers can also be able to pool their resources, share know-how, involve private entrepreneurs -- often in the form of a protected "small enterprise" of subcontractors, such as consultants -- and monitor each other.

6) Contracts With Workers. Some of the new property forms are also motivated by types of contracts with workers. For example, some cooperatives have been established within state firms either as subcontractors or simply as ways for workers to earn a higher wage. The state enterprise provides protection, and in return workers turn over part of their output to managers, who may then use it to barter for consumer goods for the enterprise as a whole. The rise of subcontracting cooperatives probably also involves an increase in contingent payments to workers.

The precise distribution of gains and losses from spontaneous privatization in the Soviet Union is not yet clear, even to the participants. In Hungary and Poland there is still considerable debate about the extent to which members of the former nomenklatura gained (Stark 1990, Levitas and Strzalkowski 1989). Even though there is strong evidence for Poland that some workers gained in 1988-89, for example because they could receive higher tax-free wage increases, redressing the wrongs of spontaneous privatization was an important element of Walesa's presidential campaign during 1990 (Wechsler

1990).

Nevertheless, we can tentatively identify some of the Soviet winners in spontaneous privatization, particularly the people gaining property rights. The process is clearly initiated in most cases by managers seeking greater residual rights of control, and often with a clear idea of what they would like to do with this autonomy. However, managers can usually become more independent of the planning hierarchy only if they form a working alliance with their immediate supervisors in the bureaucracy. Lower level bureaucrats and managers together have the information necessary to control the use of productive assets, and they are most likely to be the principal winners.<sup>9</sup> The principal losers, by implication, are those higher level bureaucrats who are not able to adapt by creating new institutional forms, such as holding companies. Exactly how full-time party functionaries will fare remains unclear, although the fact that regional party secretaries have always had some direct involvement in industry probably helps them to benefit from spontaneous privatization (Hough 1969).

Workers in the privatized companies may also gain, particularly if the result of the new property form is higher wages. Of course, in the Soviet Union at present money wages are of only limited value -- the most important issue is whether the firm can deliver consumer goods directly to its own workers. For this reason, new barter arrangements or new forms of vertical integration may provide workers with significantly higher living standards, even if they receive only small money wage increase.

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<sup>9</sup>The term "bureaucrats" is meant as a general description of people whose official job is administrative, rather than managerial. There are many former administrators who are involved in new property forms -- Komsomol officials are one leading example (Solnick 1990, p.13).



The principal winners are therefore people who work in the firm being privatized and their immediate supervisors in the bureaucracy. But at the same time there may be gains for suppliers and customers. The state supply system is disintegrating, and all the traditional problems of obtaining goods have been greatly exacerbated. The move to market relations with western-type contracts between parties is complicated by the lack of a legal system which can enforce contracts and by the absence of a stable money. Therefore new institutional forms which may seem bizarre from a western perspective, such as complicated cross-holdings of shares which are not underpinned by any ultimate private ownership, can be interpreted as contracts which are designed to ensure stable access to supplies.

There must also be some losers. For people who rely on deliveries of consumer goods to state stores at official prices, living standards may fall due to spontaneous privatization -- to the extent it helps divert goods onto the free market. It is very difficult to identify exactly who are such people, because they do not form a single homogeneous group. For example, it might be reasonable to think that pensioners would be losers. But some pensioners have personal connections to family or friends who are gaining from spontaneous privatization and they will likely share in these gains. The critical issue is whether an individual is connected to an organization in which managers are gaining autonomy and property rights, and this varies considerably between individuals.

In the Soviet Union at present there is a striking contrast between the rapid pace of spontaneous privatization and the apparent paralysis of macroeconomic policy. The failure to stabilize the macroeconomy, seen clearly in the continued budget deficit, worsening shortages at controlled prices and

rising inflation at free prices, can be attributed to the loss of political authority of the central government (Rutland 1991). The government cannot stabilize because it lacks the authority to impose losses on any social group, even if this will bring considerable gains for society as a whole.<sup>10</sup> But this same loss of authority has quite different implications for the issue of property -- here the direct gains are for a few, and the losses, if any, are for society as a whole. Furthermore, the few principal winners -- managers and some bureaucrats -- are also in a position to seize their winnings directly.<sup>11</sup>

## II. Interpretation

The speed and scope of property changes in the Soviet Union today are probably unprecedented. Nevertheless, there are several established literatures which can help provide an interpretation of this process. Changes in contract form can be interpreted as the rational response of managers to new opportunities and incentives. For example, the creation of new holding companies may be a rational way to integrate activities. By reorganizing the residual rights of control over an asset, managers may be better able to deal with the problems caused by the intrinsic incompleteness of contracts (Grossman and Hart 1986, Tirole 1988 Chapter 1). At least in part, changes in firms' property forms can be seen as being motivated by new

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<sup>10</sup>An alternative explanation would be that there is a "war of attrition" between different social groups over who will pay the cost of stabilization, and no group has yet conceded -- see the formal model of Alesina and Drazen (1991). In this framework, spontaneous privatization can be interpreted as managers altering the structure of their firms in an effort to reduce their costs of macroeconomic instability.

<sup>11</sup>Related ideas are explored formally in models which examine the sustainability of trade reform, see for example Fernandez and Rodrik (1991).

contracts between the involved parties.

This interpretation should not be considered a radical departure from the existing literature on Soviet managerial behavior. Discussions of the changing and contradictory pressures on managers, (Berliner 1957, Granick 1954), can be seen as conflicts between different parts of the state over exactly who had what property rights. Regional party secretaries probably also had some rights to control firms' assets (Hough 1969). The well-documented use of informal networks by state managers resembles the role of kinship ties in primitive societies which do not have clear private property rights (Posner 1983, Chapter 6 and pp.179-182). Given their previous situation, as described in this literature, it is not surprising that managers are taking advantage of their current opportunity to gain greater autonomy and even property rights.

The idea that economic reform of communism must involve new contractual arrangements has been gaining strength for some time (Stark and Nee 1989). However, the current idea among observers of Eastern Europe is that proper private ownership is essential for the proper functioning of markets and that economic reform should involve privatization of most productive assets (Hinds 1990, Lipton and Sachs 1990, Stark 1990). The fundamental assumption in this literature is that private ownership is a necessary condition for market-oriented behavior and particularly for hard budget constraints (Kornai 1990). What appears to be happening in the Soviet Union is consistent with a modified version of that view: it is the rise of market relations, and the collapse of the state-controlled supply system, which is creating the incentives for new forms of contracts, and these in turn create a demand for private ownership. The Soviet Union differs from Poland at present because privatization in the

former is largely the initiative of managers, whereas in the latter it is explicitly government policy.

This interpretation is also consistent with historical studies of the development of property rights in capitalist countries, which emphasize that changes in relative product prices can create incentives for people to acquire in property rights -- in effect, there is an increase in demand for property rights (Feeny 1988). Therefore the loss of control over the Soviet macroeconomy, which resulted in the collapse of the state supply system, the increasing importance of market transactions and rising black market premium on goods, can be linked -- given the presence of vaguely permissive legislation -- to the seizure of property. Viewed in the light of European economic history, this appropriation of property rights may help reduce the externalities associated with technical innovation and improvements in the organization of work (North and Thomas 1973). New contracts and new property rights are clearly related. To the extent that new contractual arrangements raise the market value of an asset or reduce the costs of enforcing property rights then it becomes more likely that the property rights to a resource will be recognized (Demsetz 1967).

But there is also a supply side to property rights, because the government must play a critical role in determining what are legitimate claims. Property rights can be viewed as a public good which it may not be politically rational for the government to provide (Bates 1988). Particularly in the Soviet Union, why would the government want to provide or allow those property rights for individuals when these clearly undermine its own authority? This is a question which requires more work, but the answer is probably be linked to the emergence of political competition in the Soviet

Union after 1988, and to the political strategies adopted by local Party elites in the face of rising nationalism.<sup>12</sup>

### III. Conclusion

Spontaneous privatization is the result of managers seizing greater control over their enterprises. Many of the new property forms at first seem bizarre to a western observer, but in most cases the new implicit contracts are "rational" given current relative prices. However, it is also clear that not only contract structure, but even endowments are endogenous in the Soviet Union today -- in other words, spontaneous privatization is often also theft. But through theft the nomenklatura is fragmenting and is probably now beyond reconstruction.

The social and political implications are enormous: the old control structure, which worked through the self-interest of party careerists, has disappeared. The best bureaucratic career move now is to promote new enterprises, and get an implicit equity stake. Of course, if too many of the nomenklatura make too much money there will be popular outrage against this form of privatization -- as there was in Poland and Hungary.<sup>13</sup>

At the same time state sector managers and private entrepreneurs are learning how to do business, how to tailor products for consumers, and occasionally how to export. The products, production processes and physical

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<sup>12</sup>In both Latvia and Estonia some firms have changed their property form because their predominantly Russian workforces did not want to be under the supervision of the republic government (Rutland 1991).

<sup>13</sup>In Poland and Hungary this outrage combined with other political developments to produce systematic and "ideal" privatization strategies. But in the Soviet Union the political outcome could just as easily be Latin American-style populism.

capital which result from spontaneous privatization may all be totally unsuited to a free market economy operating with more nearly world relative prices. Most likely some of the human capital which is being created will remain useful. Private entrepreneurs need the time and the opportunity to develop their own skills, organizations and networks. In Poland there was ten years of private sector development and various forms of destatization before the implementation of the "shock therapy" at the beginning of 1991, and even in Poland many workers and managers in state firms are having problems adjusting to a market economy (Dabrowski, Federowicz and Levitas 1991).

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## Appendix: Preliminary Questionnaire

This preliminary questionnaire will be used in firm-level interviews in Ukraine, beginning summer 1991. Any suggestions for further questions would be very welcome.

i) The Interviewee

0a. What is your name?

1a. What is your age?

2a. How long have you worked at this firm?

3a. What is your highest educational qualification?

4a. What is your official job title?

5a. Do you own any shares in this firm or in any other firm?

6a. Are you married?

6b. If so, how many children do you have?

ii) The Firm

1a. How many employees do you have?

1b. How many are administrators, not directly involved in production?

1c. How many are managers?

2a. What was your total monthly wage bill in June 1991, June 1990, June 1989, June 1988?

3a. What was your total turnover in 1990?

4a. How many square meters of space does your firm have?

5a. How many vehicles does your firm have?

6a. What products do you make?

6b. How many competitors do you have for each product?

7a. Does your firm own any holiday homes?

7b. If yes, where and how much?

- 8. How many square meters of housing does your firm have?
- 9. How old is your capital equipment? Please be as detailed as possible.
- 10a. Who are your competitors?
- 10b. How many of your competitors are located in Ukraine?
- 10c. What is the property form of your competitors?
- 10d. To whom are your competitors subordinate?

iii) Measures of Property Form

- 1a. What is the current legal form of this enterprise?
- 1b. If the answer to 1a is not "state enterprise", when did the legal form change?
- 2a. Is any part of your firm leased?
- 2b. If the answer to 2a is yes, describe what parts and from whom.
- 2c. What are the terms of this lease?
- 3a. Is there a "small enterprise" inside your firm, or otherwise connected to it?
- 3b. If the answer is yes, describe this small enterprise: number of workers, type of product.
- 3c. Did the manager of this small enterprise previously work in this firm?
- 4a. Is there a cooperative inside your firm, or otherwise connected to it?
- 4b. If so, describe it.
- 4c. Did the manager of this cooperative previously work in this firm?
- 5a. Is your firm a joint stock company?
- 5b. If so, who owns the shares? Please give a full list.
- 5c. Can your shares be bought and sold?
- 6a. Are you involved in any way with an existing joint venture?
- 6b. If so, what are the details?

iii) Measures of contracts

- 1a. How many suppliers do you have?
- 1b. Do any of them own shares in your company?
- 1c. Do they share in any other way in your profits?
- 1d. Do you pay money for these goods? If not, how do you obtain them?
- 1e. How far are your suppliers from this firm? Are they in Ukraine?
- 1f. How many suppliers did you have 1 year ago? And 2, 3, 4, 5 years ago?
- 1g. What is the property status of your suppliers?
- 2a. Who are your customers?
- 2b. Do any of them own shares in your company?
- 2c. By product type, what proportion of your output goes to state orders?
- 2d. Do they share in any other way in your profits?
- 2e. Do they pay money for these goods? If not, how do you obtain them?
- 2f. How many suppliers did you have 1 year ago? And 2, 3, 4, 5 years ago?
- 2g. What is the property status of your customers?
- 3a. Do any of your workers own shares in your company?
- 3b. Do they share in any other way in your profits?
- 3c. Do you pay workers a flat rate per month, or does their pay depend in any way on the firms' performance?
- 3d. What was the ratio of bonus and other special payments to workers to their wages in 1990?
- 3e. Do you obtain goods directly for your workers?
- 3f. If yes, what do you obtain and where do you obtain them?
- 4a. Do any of your managers own shares in your company?
- 4b. Do they share in any other way in your profits?
- 5a. Does anyone lease assets or space from you?

- 5b. If so, describe how this works.
- 6a. Do you receive business advice from any outside consultants?
- 6b. If so, who and how do you pay them?
- 7a. Do you have any computers in your firm?
- 7b. If yes, from where did you obtain them? Did you buy any of them from a cooperative?
- 8a. What goods do you barter with other enterprises?
- 9a. Do you have any direct dealings with agricultural cooperatives or state farms to obtain goods for your workers?
- 9b. If yes, describe these deals.
- 10a. Which banks do you have business dealings with?
- 10b. Does your firm own shares in banks?
- 10c. If yes, how much and which bank?
- 10d. Why do you own these shares?
- 11a. Does your firm have any loans outstanding?
- 11b. If yes, from which bank, how much, what interest rate, and what is the maturity of the loan?
- 12a. Does your firm have any money in the bank?
- 12b. If yes, which bank, how much, what interest rate, and what is the maturity of the deposit? Is any of it hard currency?
- 13a. Does your firm own shares in any other company?
- 13b. If yes, what are the details?
- 14a. How many workers' brigades -- which handle wage distribution independently -- do you have?
- 14b. When were these brigades formed?

iv) Measures of Property Rights

- 1a. Under whose authority was this firm in 1985?
- 1b. Describe the chain through which instructions were passed down from government agencies.
- 1c. Please draw a diagram of this command chain.
- 2a. Has this relationship with government agencies changed?
- 2b. If so, when?
- 3a. Do you still receive orders from any one in the administrative structure of the government?
- 3b. If so, who?
- 4a. Do you receive business advice from any one in the administrative structure?
- 5a. Do you receive any other kind of assistance from any one in the administrative structure?
- 6a. Are your workers involved in any way in the following decisions:
- wage levels?
  - types of investment?
  - arrangements with suppliers and customers?
  - dealings with with people in administrative structures.
- 6b. If the answer to any part of 6a is yes, explain how.
- 7a. Is the internal organization of the firm currently being changed?
- 7b. If so, explain how.
- 8a. Would you say that managers in this firm now have more, less or the same decision-making autonomy than five years ago?
- 9a. Are you trying to attract westerners to form a joint venture?
- 9b. If yes, what concrete steps have you taken to do this?

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