ENDOGENOUS CORRUPTION IN PRIVATIZED COMPANIES

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I. Introduction - Defining Corruption

The word corruption does not have a single definition. The word expresses different meanings in different contexts. Corruption has the origin in the Medieval Latin word *corruptio*, which expressed a moral decay, wicked behavior, putridity, or rottenness. Johnston (1996, p.322) states that in the ancient Greece the corruption referred more to the moral health of whole societies, than the actions of individuals. If corruption is more societal than individual one could talk of bribes, or other dishonest means for achieving particular disgraceful ends, as a symptom of an ailing society. However, the concepts of bribe and corruption are not identical. For example, Osborne (1997, p.10) quotes Johnson's *Dictionary*, which defines bribe as "a reward to pervert the judgment or corrupt the conduct", while corruption is "a loss of purity and purpose, a social decomposition".

The meaning of corruption gradually changed the emphasis from societal to individual conduct, consequently narrowing the connotation of the concept. Today, as Gorta and Forell (1995, p.316) state, analysts tend to categorize corruption into three types, which are more overlapping than mutually exclusive:

- Legal definitions –assume that certain activity is corrupt only when it violates some standard or rule of behavior set down by a political system. Many researchers, mostly lawyers, assent to the legal definition, because of the general notion that what is not legally forbidden is permitted. However, it is generally acknowledged that laws are always less than perfect, so they can never cover all forms of corruption. This fact gives argument to the next approach.
- Public interest definitions – corruption exists if the public trust is betrayed, whether or not violation of legal rules occurs. Generally, private roles are conflicting with public duties, but if someone uses his/her office to obtain personal gain, than he/she breaches public interest entrusted in the office. For instance, the World Bank definition, which delineates corruption as an abuse of public office for private gain (World Bank, 1997, p.8), is pointing at the public interest. However, it is a very broad definition that can comprise nepotism, favoritism, outright theft of public resources, or diversion of state revenues - i.e., activities usually not labeled as corruption – so the World Bank and a lot of researchers[1] use it only as a working definition. By stressing public interest and public institutions (offices), this approach almost inevitably excludes corruption in the private (or privatized) sector.
- Public opinion definitions – are based on socially defined corrupt conduct. This approach characterizes most of the public choice literature that underlies understanding of, or incentives to, corruption. To the public opinion definitions salient assumption is that all individuals prefer to have more to less. At the same time some behavior is labeled as corrupt while other is not. According to Colombatto (2001), what determines corruption is whether a

[1] One of the pioneers and most influential authors in the field - Susan Rose-Ackerman - uses in her latest book (Rose-Ackerman, 1999) two slightly different definitions: "Payments are corrupt if they are illegally made to public agents with the goal of obtaining a benefit or avoiding a cost" (a legalistic definition on p.9); "Corruption is the misuse of public power for private gain" (public interest definition on p.91).

person, bound by principal-agent contract, takes advantage of his discretionary power and sells to a third party property rights that do not belong to him. The presence of a third party is essential, since it distinguishes an ordinary breach of principal-agent contract, as shirking or falling short of the assigned and agreed upon goal, from corruption.

Starting with Becker's seminal papers,[2] the Chicago School showed a profound interest in malfeasant behavior, but economists demonstrated their greater interest in corruption only at the end of the twentieth century.[3] This paper posits that in addition to the existing forms of corruption, privatization processes in Central and Eastern Europe creates new forms and incentives for malfeasant behavior. Using the third type of definition, this paper explains one new form of corruption, which is endogenous in the emerging economic system, and which cannot be tackled by traditional anti-corruption measures.

The paper is organized as follows. First, the connection between economic rents and corruption is demonstrated. Then, a model of endogenous corruption is suggested by exploring motives of key players in the post-privatization game. Finally, some policy options will be discussed in an effort to devise effective strategy against the endogenous corruption.

II. Corruption and Economic Rents

Since Adam Smith, it is generally believed that competition lowers rents from economic activities.[4] Consequently, bribes are hard to sustain where competition abounds. If, for instance, some producers try to include slush funds into their cost function, there will be others eager to sell goods cheaper by not paying bribes.

In general, lower rents reduce both the supply, and demand for corrupt payments (lower level of extortion). Officeholders become aware of low profits in the industry and higher risks of exposure, so their willingness to seize part of rents by means of extortion is lowered. Namely, with diminishing profits bribers will be less reluctant to expose bribees, since they may lose less in profits than they gain in reputation of being honest market competitors. By and large, as both supply and demand of slush funds diminish, the level of corruption is lowered with lower rents.

[2] "'[C]rime' is an economically important activity or 'industry', notwithstanding the almost total neglect by economists" (1968, p.538). See also Becker and Stigler (1974).

3 The end of the last century was marked by a Washington consensus on the need for warfare against corruption. Greater resources were devoted to that task, and suddenly a plethora of investigations commenced. As Krastev (2001) states " In the years 1982-1987, the word corruption appeared in average 229 times a year on the pages of *The Economist* and *Financial Times*. In the period 1989-1992, corruption appeared in average 502 times a year. In 1993 the word corruption was mentioned 1076 times in the two most respected European publications on politics and finance. In 1994 corruption was mentioned 1099 times, in 1995 – 1246 times. And this tendency sustains till now".

[4] "The price of monopoly is upon every occasion the highest that can be got. The natural price, or the price of free competition, on the contrary, is the lowest that can be taken… The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: the other is the lowest which the sellers can commonly afford to take, and at the same time continue their business." (Smith, 1776, p.164)

If, however, competition falters, firms will enjoy higher rents, and both enterprises and bureaucrats who exert control rights over them (taxes, licenses, or regulations), have higher incentives to engage in malfeasant behavior. Nevertheless, in a democratic society there are some opposing forces: high rents may also imply that the public would be keener to control both the bureaucracy and potential bribers, so the level of corruption may go down. The public in some countries is ready to spend large resources for that purpose and the effects do not miss. In spite of that, there seems to be a clear empirical finding that economic rents foster corruption. Therefore, Ades and Di Tella (1999, p.992) reckon:

> "Using data on corruption from two different sources, we find that corruption is higher in countries where domestic firms are sheltered from foreign competition by natural or policy induced barriers to trade, with economies dominated by a few number of firms, or where antitrust regulations are not effective in preventing anticompetitive practices. The size of the effect is rather large: almost a third of the corruption gap between Italy and Austria can be explained by Italy's lower exposure to foreign competition."

Having in mind these simple facts, one might say that policies of privatization and competition are vital clues to the issue of corruption in emerging market economies. However, it seems that the reality is more complicated, and that resort to the remedy will not be helpful without further qualifications.

III. Privatization, competition, and corruption

It is generally accepted that there is a lack of competition in the ex-communist world. The competition is not rife either in the product or in the input markets, and competition for positions within privatized firms is practically nonexistent. Therefore, economic actors enjoy substantial rents. Since competition cannot be introduced overnight, rents are going to persist for a substantial period of time, as Broadman and Recanatini (2000) clearly find.

Different methods of privatization produce quite different ownership structure. For example, sale may result in concentrated ownership with few strategic investors. If they are at the same time respectable foreign firms, they are unlikely to be involved in corruption dealings, although one cannot exclude grand corruption. [5]

A decentralized voucher scheme, as in Russia, may cause managers to have a dominant position, although they are minority shareholders. Despite minority ownership, the managers may have a substantial leverage in dealings not only within the firm, but equally in dealing with government bureaucrats. Consequently they may be in position to use all available means, including corruption, to further their interests.

The Czech example shows how centralized voucher auctions may create nominally powerful, but practically ineffective investment funds' position. The funds cannot tame

[5] Even in countries that are notorious of their low level of corruption, there are periodically revealed scandals implicating high-ranking officials. At the same time, the international community is pressing hard to reduce bribery of foreign officials, but results are far from satisfactory. "If everyone thinks that everyone is corrupt, then all but saints will be tempted to engage in malfeasance" (Rose-Ackerman, 1999, p.190).

managers of privatized companies, who feel free to exert their influence in "tunneling" (draining firm's resources), or outright looting.[6]

Finally, predominantly insider privatization, in competitive environment with a strong tradition of worker participation in management structure, like in Slovenia, or to a certain extent in Poland, may not create as many opportunities for corruption. However, these cases are more an exemption than the rule.

By and large, some methods of privatization are more prone to corruption than others. For instance, decentralized mass privatization schemes are more prone to corruption than other schemes involving dominant outside investors. We may say that both: a privatization method and a competition level are crucial factors determining the level of corruption[7] in the post privatization period.

One can imagine two countries applying the same privatization model, both countries being exposed to approximately equal competitive pressure, and yet completely different level of corruption. In that case, researchers tend to say that culture makes a diference, which is a usual stratagem for someone who does not offer a satisfying explanation. However, Triesmann (1999) has found that long exposure to the common law tradition, the Protestant religious affiliation, and history of democratic institutions and economic development, are all strictly unfavorable toward corruption.[8]

Similar conclusions have rekindled the debate on cultural causes and consequences of corruption. Despite these claims, this paper argues that corruption in the region is explainable in economic terms.[9] High rents in privatized industries are the principal source of corrupt practices. Together with the dispersed ownership structure, high rents provide fertile ground for corruption.

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[6] "[T]wo perverse incentive were present in the Czech Republic. One was the potential to capture greater income now through borrowing, looting and defaulting, then could be earned in the future from maximizing the firm's net worth. The other was the chance for dominant owners and/or managers to strip resources from a firm they own in part and transfer them to a firm they own in whole or to their personal accounts." (Cull, Matesova, Shirley, 2001, p. 29)

[7] Although several respectable institutions try to offer a comprehensive and an objective measure of corruption, it is more or less a subjective ranking. The most widely used is *Corruption Perception Index* constructed by the Transparency International, which states its subjective character even in the title, but also in the framework document (Lambsdorff, 1999).

[8] One must use these conclusions with great caution. Subjectivity of the rankings confirm even researchers who use the *Index* quite extensively in order to furnish far-reaching results. For example Wei (2001), after giving a lip service to subjective character of the rankings, says: "[D]espite the very different sources of the surveys, the pair-wise correlations among the subjective indexes as well as with more 'objective' Neumann index are very high". The conclusion is quite unwarranted even after taking a look at the author's Table 4.2.1. - the "objective" measure ranks Hungary as almost a half more corrupt than the average for the European transition economies, something less than the average according to the Transparency International *Index*, and substantially less corrupt by the *World Development Report*. With such a discrepancy for one of the most open transition economies, where surveys of corruption have been conducted most frequently, one needs more substantial justifications for the use of these indexes.

[9] Some authors are willing to explain differences between European East and West in terms of cosmological beliefs. For example D. Lal (1998, p.94) says: "The power of this guilt culture in maintaining social control in the West cannot be underestimated. It still exercises a powerful influence on the minds of those brought up in this culture even if they repudiated its theology". Quite contrary, Shleifer and Treisman (2000, p. 103), after considering historical and political factors, concluded: "We do not believe that the extent of corruption in Russia is best explained by its cultural or historical traditions. In fact, cultural factors specific to Russia or to post-Communist states are not needed to explain its corruption level".

IV. Who controls whom

In a privatization scheme that is either an insider producing dispersed ownership, or some kind of voucher scheme, the governance structures in privatized firms are not strictly controlled either by the owners, or by the state. The state has to relinquish its control over privatized firms, usually clustering its control to regulating utilities and other natural monopolies. However, the regulatory mechanism is still underdeveloped. Even the states labeled as advanced reformers try to impose control via political pressure, which gives rise to corruption.[10]

The other possible state encroachment is upon the banking sector, as in the Czech Republic. The state can have a substantial ownership claim in key banking institutions, which set up investment funds that possess in their portfolios greater part of the privatized sector. However, those funds also have a substantial stake in banks. Therefore, as Roland (2001, p. 103) and many other researchers find, governance of the privatized sector appears to be not transparent at all, which gives special incentives to corruption.

Apart from these facts, there seems to be a general agreement among economists that owners cannot exert influence over the governing body of a privatized company when the ownership is dispersed or concentrated among persons dependent on the management. Dispersed ownership allows directors to use effectively proxy procedure in order to retain control over the firm. In contrast to competitive equity markets, where dissatisfied owners may sell their shares and push down the price, a buyers' equity market cannot correct the problem.

A weak and deficient legislation concerning minority shareholder protection, insider self-dealing, or conflict of interest, may aggravate the problem. Unfavorable legislation that sets limits on fund's stake in the privatized company (in order to foster competition between investment funds), works in the same direction. And yet, even when small investors form a controlling coalition, it is very hard to replace incumbent management to a lack of competent managers.[11] Therefore, current managers are likely to stay. Their position seems unchallengeable, at least for the time being.

A manager who behaves in a satisficing manner, which means that he is not inclined to sudden swings in business policy, radical shedding of labor force, or substantial breach of the law is practically safe in his position. The manager's position may be jeopardized from his own ranks. Namely, a firm always has a greater value to dishonest manager for he can use illegal means for collecting debts: he can pay bribes to regulators in order to obtain a privileged position, or skim firm's funds for his personal purposes. Consequently, bad management may easily replace good management, as Black, Kraakman and Tarassova (2000, pp.1794-6) have detected both in Russia and in the Czech Republic.

[10] In Hungary major political parties had their stake in regulating big natural monopolies, as in the oil industry. A Parliamentary *ad hoc* committee, set up to investigate possible fraud and corruption, faced a concerted obstruction (Transparency International, 2001, p.130).

[11] For almost half a century generation after generation has been educated to regard management as an engineering challenge that takes as objectives production quotas and rising "productivity". Quality standards and accommodation to consumer demands were only of secondary importance. Ex-Yugoslavia, Hungary and Poland, to name the few, had some experience of market forces. But even there, a sudden change in the economic system cannot easily replace deeply ingrained attitudes.

On the other hand, managers are not omnipotent, since they own a minority of shares. Some effective coalition of outsiders/insiders might jeopardize their position. Because of the potentia l jeopardy incumbent managers have to take precautionary steps, which may include further dilution of shares, special bonuses for big shareholders, pressure on restive laborers/shareholders, including a threat to their jobs and positions within the firm. In countries where individual security cannot be taken for granted, managers may even threat personal safety of designated potential challengers of their power.

Whether managers will succeed in their endeavor to secure the position depends partly on the steps taken, but also on motives and relative strength of other actors. Therefore, the focus of the analysis should be on the “black box” - privatized firm - in order to discern different players’ vested interests in the post-privatization environment.

V. Key players and their strength

1. Managers

A new power structure has been created in privatized companies. The lax control of management has formed a powerful force that has to be respected. By controlling money flows managers exert influence over many other actors. Employees’ position in the firm, including employees’ job, fringe benefits, and even social security, critically depend on managerial decisions. Shareholders’ dividends also depend on manipulation with firm’s finances. Privatized firms seldom, if ever, pay dividends, due to fraudulent financial statements that show no profits at the end of the year. If challenged, these reports are usually confirmed by corrupt auditors and state regulators. Managers appear to be aware of their power and willing to use it.

2. Labor

Managers face a disillusioned labor force, which has realized that management, outside expertise and outside ownership, show indifference to their faith. Therefore, labor force may improve its position by creating an influential workers' union. The incentives are high, since restructuring in practice means a loss of jobs for all ”virtually employed”. As labor received a fraction of shares free of charge or with substantial discounts, they have a minority votes that give them a fictitious influence over the firms’ decisions. Even if employees have a majority of shares, individual job security and position within the firm depend on the management. Therefore, employees may easily face a following choice: to support the manager, keep the job and eventually receive a small dividend, or confront the management, lose the job and receive a (small) dividend. The first strategy may appear dominant, but it puts worker/shareholder to a submissive position. Therefore, unionization is the only way to prop up the labor’s standing.

While labor may want to unionize, obstacles for creation of an effective labor union may be overwhelming. Fearing that strong union might endanger their position, managers may thwart labor efforts. The effort may be equally thwarted by ambitions of would be leaders. Union leaders’ personal antagonism may steer a creation of several competing labor unions in the enterprise. Skillful managers can outmaneuver labor demands by giving selective offers and counteroffers to different labor representatives.[12] On the other hand, it is not in managers' best interest to annihilate labor power, because allied labor can give them support against outsiders. Having in mind the takeover risk, they will insist on having just one labor union in the firm, since it is much easier to influence one labor leadership than several. Therefore, an operating assumption in further explanation is that there is just one labor union, or a coalition of labor unions within the firm.

3. Outsiders

The third player – outside owner – is the weakest actor in this game. If he is not a (foreign) strategic investor, he can hardly further his interests. In the system of decentralized ownership, outsiders are usually disorganized and often unprotected by the law. The socialist legislation, which still burdens some transition countries, favors interests of debtors, not creditors. Therefore, privatized companies either simply do not pay dividends to owners, or show no profits in their financial statements. Like in developed capital markets outside owners are asymmetrically informed, but unlike developed markets, owners in emerging markets do not have the support of developed and well-organized information system. Because stock exchanges are still very underdeveloped it is hard to sell shares even at a big discount. Outsiders' position in post-communist countries is exacerbated by political weakness. They cannot exert serious political pressure, since pensioners, peasants, students, the unemployed, child support earners, and others outnumber them.[13]

VI. Motives and initial options of key players

According to Selten (1999, p. 291) each player has a motivational structure composed of two basic elements – his goals and fears. Players do not freely chose these elements from their respective sets, but instead - they are given by historical, psychological, sociological, and biological developments that have shaped individual preferences. Goals are middle range objectives and they are usually derived from an unsolved problem. They may be directed toward achievement of something a player does not have ("achievement goal"), or maintenance of something that calls for constant effort ("maintenance goal"). Goals will be ranked according to their importance.

While a goal is based on a desirable objective, the second element of motivational structure – fear – is based on danger of undesirable future events[14]. Goals and fears are mirror images of each other, but still – fears may be based on some imaginary

[12] This practice has been evidenced in the U.S. economy several times, and received due theoretical attention. For example, Rottenberg (1999, p. 8) states: "A business agent [i.e. union leader] who can produce large rents for the members will be preferred by them to another who produces only small rents... They may prefer a corrupt business agent to one who is not corrupt because the net monopoly gain received by the members is larger than that which would be produced by some other business agent". See also Horowitz (1999).

[13] "Between 1987 and 1997, the proportion of pensioners in the population increased from 25 percent to 30 percent in Bulgaria, from 22 percent to 31 percent in Hungary, from 17 percent to 24 percent in Poland, and from 22 percent to 26 percent in Russia and Estonia. It stayed at 23 percent in Slovenia" (Milanovic, 2001, p. 259).

[14] "A fear is the perception of a serious danger posed by the possibility of hostile actions by other actors or by the possibility of noxious accidental events." (Selten, 1999, p.298)

danger, while goals must be operational. Like goals, fears are also ranked according to their intensity.

Each player has several options. Doing nothing is also a plausible option. However, before any move is played in the game, each player has initial options determined by his/her goals and fears.

1. Managers

Managers' primary goal is to retain control over the privatized firm. They are the most powerful players, but they also are vulnerable, at least in principle, since they have just a tiny share of firm's stock. A coalition of outsiders/insiders, or a hostile takeover organized by competitors may oust them. In case of ousting managers would remain without work and salary, without perks that go with the position, they would lose symbols and levers of power, which in practice translates into lost possibility of diverting someone else's money into their pockets, and probably they would also lose self-esteem. Therefore, the goal of retaining control gives rise to a complex of well-grounded, but also imaginary fears, which hound managers.

It is reasonable to expect that managers want to get rid of, or at least to hedge against, the constant takeover threat. The only way to make their position less vulnerable is through obtaining their own capital. Since legal ways for obtaining capital are very limited, managers usually rely on illegal means, or take some morally questionable steps. For instance, managers cause firms to enter into harmful contracts with their private firms, which will obtain additional capital for their future operation as independent entrepreneurs. Skimming firm's funds for personal purposes is evident throughout transition economies, and as we have seen, the Czechs even coined a new word for this activity - "tunneling".

Only after satisfying these two goals – stability of position and ample sources for personal enrichment - managers want to achieve something that is considered as the primary goal in market economies: good reputation. Here, the reputation is the ability to collect debts, to realize firm's revenues obtained through normal activity, or to have influence in dealings with customs officers, regulators and other state officials, or to have an access to influential politicians, ability to manipulate workers' demands, even by using forceful methods ("tough bargainer"), etc.

As stated before, primary managerial concern is with possible hostile coalitions. With losing position in the privatized company managers may lose almost everything. They can keep their reputation, but even that cannot be easily capitalized when the market for managerial services is very restricted. Namely, managers that are equally ready to use all available means to protect their positions already occupy peer positions, and replacing them seems to be a task of gigantic proportions. Only secondly comes the fear of new competition, which is the primary distress of managers in market economies. Even an entrance of new competitors, with consequent drop in sales and profits, may not jeopardize managers' position because of ineffectual ownership control.

Based on this set of goals and fears, managers may exercise several initial options. They may further dilute shares with an aim to reduce the controlling stake and maintain their position through the proxy system. However, the strategy may prove to be a double-edged sword, since any multiplication of shareholders would make it harder to influence individual investor decisions. In other words, managers' oppression of shareholders becomes progressively less effective with dilution.

Therefore, they may try the second option - crackdown on labor union, i.e., to make a threat[15] or intimidate labor leaders in order to secure their support at the shareholder meetings. That strategy might be efficient, but also somewhat risky. It can bolster workers' resistance and ruin management's public image if substantial strife erupts in the company. In such a case outsiders would react, even without any coordination. At least they would try to sell their shares, which would consequently plummet share prices. In a way, that outcome may be profitable - the management may seize the opportunity and arrange a cheap management buy-out. But acquiring a controlling stake is only valuable if the firm has a certain prospective, which is not at all granted when the union tries to avoid restructuring at all cost. In either case payoffs of this strategy are too low.

Another sophisticated strategy of securing labor support is the sort-run the management may support to the formation of a single labor union, combined with the formal acceptance of all employees' demands, and attempt to shift the final showdown as far as possible in the future. The strategy assumes that in the meantime the management has to sway union leadership, or organize a substantial opposition that would seriously undermine their position, until leaders succumb to management demands. This strategy is time consuming and may require a lot of resources and negotiation skills, while favorable outcome is not guaranteed.

Since payoffs of confrontation strategies are too low, the management might consider coalition strategies. A clear line of preserving their position would be a coalition with owners that command substantial stake of shares. However, a coalition with outsiders would unavoidably demand confrontation with labor, since outsiders would require the restructuring of the firm. If the management somehow solves that problem and fulfill the restructuring task, the firm would be profitable, with profits either reinvested and shares more valuable, or profits distributed through dividends. In both ways outsiders gain, and managers secure their position, at least in the short run. But this strategy reduces managers' ability to skim firm's resources for personal gain. Furthermore, even managers' position is not guaranteed in the long run. Majority shareholders may sell their stake, by realizing capital gain, while new ownership may easily prove to be hostile toward the incumbent management. Conclusively, managers are not likely to press with this strategy.

Finally, a coalition with insiders has to be taken into consideration. In a likely confrontation with outsiders, the union support would be maintained only at the cost of granting job security, meaning that there would be no restructuring. Consequently, meager profits would be accompanied with practically no dividends and low managerial incomes. But security of the position brings quite ample opportunities for managers to manipulate with firm's finances, i.e., to divert firm's resources into private pockets. If

[15] "The threat differs from the ordinary commitment, however, in that it makes one's course of action *conditional* on what the other player does. While the commitment fixes one's course of action, the threat fixes a course of reaction, of response to the other player. The commitment is a means of gaining *first move* in a game in which first move carries an advantage; the threat is a commitment to a strategy for *second move*." (Schelling, 1960, p. 124)

company has a dominant market share, or commands some natural monopoly position, the option proves to be quite attractive. In the long run, economic inefficiency and draining of firm's funds could ruin the company, while managers could enrich themselves and could simply abandon an empty shell, or could buy remaining parts cheaply. Therefore, if managers can assure responsive reaction by the union and their support in the subsequent confrontation with outsiders, coalition with insiders could prove to be a dominant strategy in both short and long run.

2. Labor

A top priority of labor in all privatized companies is to keep the jobs, even at the expense of salaries and wages.[16] Workers are usually accustomed to the communist system of job security and are reluctant to change their behavior, like job leisure and shirking. Their entrepreneurial instincts are deeply suppressed by grim reality of state over-regulation and over-taxation of individual economic activity. Only those individuals empowered with the zest for private initiative engage in moonlight dealings. As we can witness, the shade economy is flourishing all over the region. According to Winiecki (2002), only advanced reformers have realized the importance of economic deregulation, and consequently have a lower rate of shade activity and higher economic growth. However, even in advanced post-communist economies labor is feared of restructuring that in reality results in a loss of jobs.

The second goal for labor is remuneration for the work performed. Again, reality offers an ample evidence for such a statement. For example, slow reformers in Central and Easter Europe experience a tremendous bulk of arrears. The Government usually dos not collect enough money through taxes in order to finance budgetary needs, so it delays its obligations. State firms – utilities and other companies still not privatized – have a backlog of debts and solve their insolvency problem by delaying wages. Private enterprises, on their hand, also use every opportunity to delay their financial responsibilities. And yet, debtors do not face a social upheaval, which is a sign that, although high on agenda, wages and salaries come into consideration only after job security has been realized.

The third goal to employees/shareholders' is dividends. It is quite customary for privatized firms all over the region not to pay dividends, and it seems that nobody can oblige them to do so. A strongly suggested impression is that employees keep their ownership claims only as an additional argument for keeping the job security.

As noted above, labor fears restructuring. The restructuring is a ghastly word connoting in shedding of surplus labor, which in many cases comprises a bulk of the workforce. In slow reforming economies up to 50 percent of labor is "virtually employed". Consequently, labor can expect substantial layoffs during restructuring. The process can be initiated by the Government before privatization, or by new

[16] It seems that experiences in great majority of transition economies confirm this statement: "Labor adjustment during the post-Communist depression occurred differently (comparing to market economies – M.M.). In Russia and other countries of the former Soviet Union, registered, and even actual unemployment, is very small, while real wages have declined between 40 and 60 percent. This type of wage-bill adjustment is thus exactly the opposite of the adjustment that took place during the Great Depression" (Milanovic, 1998, p.29).

owners after a company changes hands. Whereas the Government can be influenced and pressured, private investors can hardly be approached and influenced regarding restructuring. Therefore, outside investors are more adverse, so fear of a major shareholder is second in ranking of labor's fears.

Finally, labor has a realistic fear of the social safety network breakdown. Pay-as-you-go pension funds have huge deficits, and worse yet, the come unfavorable demographic trends will exacerbate the problem. Unemployment benefits are practically nonexistent, funds devoted to re-education are usually short of money (late-comers to reform process are in the process of setting up such funds). Together with other fears, this fear works in favor of keeping job security as the first and foremost goal of labor force in transition economies.

A labor union in a privatized company may satisfy its motives by selecting one or several (mixed) strategies. It can organize a strike, if managers announce restructuring. Alternatively, in the case of restructuring under way, they may subvert production efforts in order to demonstrate a "lack" of labor force. Bad industrial relations would definitively send a warning to shareholders and dissuade potential outside investors to invest in the firm. Therefore, labor union has a powerful weapon in its hands and must be respected in many circumstances. However, if there is a discrepancy in the labor market between supply and demand, in favor of employers, union strength may turn into weakness. Some managers may employ exclusively non-unionized labor, replacing the entire labor force of the privatized company. Therefore, it appears not to be advisable to threaten management with industrial unrest. More promising strategy may be some form of cooperation. The union can offer a deal (bribe) to the manager, in order to accept an inefficient scale of employment. The offer may be accepted depending on the extent of external control and secrecy of a deal. But it is to be expected that pointing to common interests in privatized company may sway the management. The union can offer support in eventual confrontation with outside owners, and management can supply job security as counteroffer. If mutual interests are easily detected a deal may be struck.

Finally, it must be emphasized that there is one more option – labor union can make a coalition with outsiders. Investors may point to the fact that the management does not pay dividends and a new board might improve shareholders' position where labor has a share in the ownership). However, employees and outsiders are not natural partners. The outsiders are interested in higher profits, or earning dividends. Both ends are achievable only through rising firm productivity, which in turn is possible only through restructuring. At that point, strong resistance from some or most employees could be expected. For them, benefits from restructuring may seem quite misty and remote, while losses look obvious and immediate. Because they may lose their jobs and may not share in the profits of the restructured firm, insiders would strongly oppose both the outside ownership and the restructuring. Therefore, the employers-outsiders coalition appears to be unlikely.

3. Outsiders

As noted above, outside investors of privatized companies are the weakest players in this game. Their goals are also different in comparison to outside investors' goals in a developed market economy. First of all, it is not an accumulation of dividend payment that counts, as usual in market economies. Instead, outsiders are mainly interested in high earnings (buying cheap, selling dear). Outsiders enter the process in a vain hope that shares bought have substantially higher "real" value, and that market will confirm that fact very soon.

The operating assumption is that outsiders have a realistic view of company's performance, of its low productivity and over-employment, outdated technology, mismanagement, bad quality and design of products. Nevertheless, they expect that somebody else will do the job, that some big strategic investor will restructure the company and make it viable for a competitive race. They are willing to support such an investor if and when he/she appears, but in the meantime they sit and wait, i.e., they are passive owners. That being the characteristic of great majority of outside petty investors in privatized companies means that the production control is only the outsiders' secondary goal, and the earning of dividends means only their third goal.

In the case of a big company sold to a strategic investor that happens to be a powerful foreign firm, or in the case of a small firm privatized by the management buy-out, a new owner is mainly interested in controlling the production settings. The investor is interested in making the company profitable, so he/she will change everything: from the design and the scope of product line to the organizational structure. Therefore, one may suppose with great confidence that production control is outsiders' primary goal. Stock appreciation and dividends appear to be secondary goals. Even though outsiders may obtain the controlling stake in the company, in great majority of transition privatization cases, outsiders remain outside. Arguably, the list of goals stipulated in the previous paragraph represents their ranking of objectives.

Outsiders are always worried over inside deals, since a new dominant owner may emerge in a non-transparent way. For example, it is not unusual that manager collects shares from pensioners or ex-employees for a fraction of the nominal price, and becomes a dominant shareholder. Moreover, in transition economies capital market is still at an early stage, and a lot of activities are either unregulated, or with an inadequate protection of shareholders' rights. An inside dealing is quite customary and often not illegal. Moreover, it is very hard to overrule even some deal that has been conducted against the stipulations set by law, due to the backlog in an inefficient and corrupt judicial system.

Problems with courts give rise to the second well-grounded fear of outsiders. Investors, or the company to which they authorized the money, may not be in a position to realize their legally sound contracts. As there is a tendency to give greater support to debtor, not a creditor, which is a practice that can easily ruin even viable companies, owners must search for political, or even mafia guarantees for their interest protection. Political and/or mob pressure, or just a credible threat of it, seems to be an indispensable tool of business conduct in transition period. Political corruption, along with judicial corruption, comes high on the list of shareholders' fears. In some less law abiding countries shareholders can easily end up without their shares after some "legal" action. In that process the state is often more of a foe than a friend.[17] For example, sometimes the administration passes retroactive legislation that can jeopardize shareholders' interests, or levy new taxation, or bring other unfavorable and unexpected rulings.

[17] "The shape of institutions and the formulation of regulations and laws are identical to standard foreign or international examples, but in implementation, the difference is obvious. Precise regulations and consistent interpretation give way, in fluid situations, to exemptions. Eventually, exemptions granted to friends, compatriots, clans, sects, or due to corruption and bribery, swallow the rule." (Kregar, 1994, p. 57)

Outsiders may have a very limited set of initial options. They may sell their shares in the market, which will affect no one, unless the buyer is a strategic investor. They may set up an investment fund in order to concentrate shares and try to obtain an upper hand in dealing with the management. They may try to oust managers by other means, where the most effective devices include political and mob pressure. However, we will not assume in further considerations that outsiders use illegal leverages, or that they are a part of organized crime, despite the grim reality in several transition states.

A likely coalition between management and union representatives is very unfavorable toward outsiders. However, if those partners do not reach an agreement, and industrial strife erupts in the firm, the owners will encounter a less hostile environment. Each party in the firm would like to attract outside backing, which will boost their bargaining strength. Outsiders will try to replace the management with first signs of bad industrial relations within the firm. However, as we have already seen that task is not an easy one. They will have to organize a coalition, comprising not only small investors who own dispersed ownership claims, but also inside owners who dare to oppose the management. The objective of outsiders is quite clear to everyone – they want to improve efficiency of the firm in order to obtain a profit. Therefore employees/owners are aware that by supporting outside owners they are nearer to restructuring, which might offer a considerable poor trade-off (loss of job in order to obtain a small dividend). So they will reluctantly support outsiders, mainly in short run tactical moves. Similar deliberations may bother the management. Giving outsiders a foothold in the company may prove to be shortsighted – once inside they may become a serious enemy. Having in mind that, managers will accept outsiders as coalition partners only under extreme pressure, so the outcome is particularly unlikely. But anyhow, we will include this option in the set of possible choices in an effort to find an equilibrium solution of the game.

VII. The Model

Based on the above assumptions, this paper develops a model that explores consequences of the expected coalitions in privatized firms. The model is based on the scenario bundle method developed by Selten (Selten, 1999). It is a systematic procedure for the construction and analysis of game models, which is labeled as semi-formal, since both formal and informal modes of reasoning are employed. The method does not require the specification of numerical parameters, i.e. it uses just qualitative judgments on the lists of goals and fears by different players, and yet the final output is a formal mathematical structure. The uncertainty is dealt with in non-Bayesian way, as focusing[18].

A scenario bundle is represented in the extensive form by a finite game of perfect information. It is a topical model, i.e. it is time and place specific. Rational players play the game, which means that they make ordinal ranking of all affordable alternatives, and behave in a consistent manner – completeness and transitivity of their preference relations is assumed (Mas-Colell, et.al. 1995, p. 6). The list of players, their goals, fears, and list of initial options, as well as their relative strength and protective relationships is stipulated in previous sections of the paper.

[18] "Instead of visualizing a probability distribution a decision maker may form a point estimate of a typical outcome. This typical outcome is his focus point. He is aware of the uncertainty but as far as his decision process is concerned the focus point is treated as if it were a certain event. In this non-technical sense the focus point is a certainty equivalent." (Selten, 1999, p.294)

The internal event that triggers the game is privatization conducted by a reform minded government in a CEE country. Consequently, some players must chose between their reactive options. In other words, there is an immediate necessity of decision in order to accommodate to a changed environment. A reactive option if followed by another reactive option by some other player(s), and so on until a natural end-point is reached, means that there are two options: (i) a blind alley, or (ii) no player feels reactive pressure. Having in mind our previous considerations, the following game tree may be constructed:

Figure 1.

Following the privatization, Labor must reach the decision whether to organize a powerful union, or to optimize on the individual basis. Without unionization, a restructuring appears almost inevitable causing a considerable loss in employment within the firm. Therefore, Labor will almost certainly unionize, putting additional strain on Managers. If Managers do not react, they will certainly lose their position, announcing the end of the game. The Managers' survival instinct should cause them to offer a coalition either to Outsiders, or to Labor. If Outsiders accept the offer, the game will be brought to an end with the restructuring of the firm. With this option Managers cannot be assured of retaining their positions, so this option does not seem likely.

If Outsiders decline the offer by Managers, Outsiders are under an immediate pressure to decide whether to offer a coalition to Labor. If Outsiders fail to offer the coalition to Labor, their cost is the loss of dividends, and the loss of potential equity increase because the firm's strife would reflect on the firm's market value. If they offer a coalition to Labor, Labor has only two choices: it must either accept or decline the offer. If it declines the offer, Outsiders and Managers may form a coalition, with ensuing restructuring. However, if Labor accepts the offer, a new management, likely to be installed, may also be inclined toward restructuring. Consequently, Labor's choice is not an easy one. Labor knows that coalition has NOT been offered to Outsiders, and should immediately accept the bid. In that case, coalition partners (Labor and Managers) would distribute rents associa ted with monopolistic market power. Accordingly, for Labor, declining Managers' offer would be an inferior strategy, since it leads to restructuring.

Equilibrium strategies in this game can be found by the backwards induction. The analysis employed herein starts with the longest path from the initial event to an end-point, i.e. the analysis starts with the situation when Outsiders offer a coalition to Labor. The assumption is that Labor accepts the deal, since it is the dominant strategy. It is also in the interest of Outsiders to offer the deal, i.e. the coalition strategy outweighs the policy of doing nothing. Another assumption is that Outsiders and Labor will not reach that part of the game, since Labor should accept Managers' offer for coalition. The coalition of Managers and Labor outweighs the alternative strategy, because the alternative strategy would directly lead to restructuring. The Labor could reach the same outcome if they enter into a coalition with Outsiders. However, such a coalition has a higher perceived cost, because it achieves the same result in a roundabout way with possible bumps on the road. Therefore, for Labor, the coalition with Managers is a dominant strategy.

Managers also perceive a coalition with Outsiders as a strategy leading to restructuring. Therefore, Managers should not offer Outsiders the coalition, since they realize that the alternative partner – Labor – if offered, should accept coalition. For Managers, that strategy is dominant since it secures their position in the firm, also opening the possibility for skimming resources of the privatized company (i.e. the illegal distribution of rents).

By and large, Managers' coalition with Labor is the equilibrium strategy, which gives the partners an opportunity to distribute rents that would go under normal circumstances to the owners of the firm.

VIII. Endogenous Corruption

Both managers and employees know that the winning strategy is one of mutual cooperation. The only force that can protect managers from outside owners is a strong workers' union. Therefore, the immediate interest of managers is to organize workers and control their might through corrupt officials. Consequently, managers will attempt to bribe workers' leaders in order to develop and maintain a credible protection force. For example, they will supply them with plush offices and firm's car with a driver, arrange free meals in expensive restaurants, and pay their family vacations. All these expenses can be included in firm's costs, since there is no real competition in the product market. At the end of year, books show no profit, and therefore no dividends are disbursed. Clearly, outside owners are the losers in this game.

Employees find their interest in supporting these policies. They will maintain their positions in the firm, and receive wages and salaries, which, however low, are still higher than the lost dividend (since they have some ownership claims in the firm). They will vote for union leaders who deliver job security and stable remunerations, although they are aware of special liaison between union leaders and the management.

Union leaders are obviously better off with these policies. They can lead relatively luxurious lives and have a strong backing in their power base, with only moral costs of turning a blind eye to management's misconduct. Union leaders are aware that their and management's perks are part of firm's profits and managers' other malfeasant behavior, such as appropriation of firm's rents. The varying degree of corruption is needed for union leaders to participate in this game, but some would be willing to accept even a stagnant or deteriorating material position of their power base. Clearly, the principal sources of bribes are rents associated with the market power of the firm.

We call this process the ENDOGENOUS CORRUPTION. It is endogenous as a consequence of systemic changes in the ownership structure. It was neither imposed from the outside, nor a consequence of deteriorating living standard. It is simply a built-in mechanism whose forces are unleashed with the termination of the state and communist party control, and the failure to create an effective outside ownership. It is highly spread across many post-communist countries, whenever the new governance structure of privatized firms is not in hands of one dominant (strategic) investor. We find this practice to be the principal cause of high corruption rates in the region. The endogenous corruption is not only the mechanism for wealth redistribution, but also, it also spreads the notion that common (group) interest must prevail over the benefit of the general public.

Some forms of corruption, specifically in an over-regulated environment can be beneficial. They can supply "grease for the squeaking wheels of a rigid administration"[19].

[19] However, more than that Bardhan (1997 p. 1322) states: "Even without pre-existing distortions, one may look upon corruption as part of Coasean bargaining process in which a bureaucrat…and the private agent…may negotiate their way to an efficient outcome. If in a bribery game there is competitive bidding by private firms for a government procurement contract, and the corrupt officials

The endogenous corruption is clearly harmful. In that game corrupt managers and union leaders win, and employees retain their jobs, which they value the most. Even employees/shareholders are better off, since they prefer job security to small dividend claims. The real losers are outsiders, since they do not receive dividends, but also all other consumers are at the loss – because they have to pay higher price for the firm's product due to the fact that corrupt payments are included in the firm's cost function. Moreover, the whole economy is at a loss since, at the best, the restructuring process has been delayed, if not totally abandoned. The delay in the restructuring process causes further lowering of productivity, perpetuating operations with outdated technology, the lowering of competitiveness on the global market, the deteriorating terms of trade, etc. The greater the gain of parties involved, the more harmful effect for the economy.

The endogenous corruption is a kind of redistribution of rents. The social interest must be focused on efficiency losses that are substantial in the arrangement. The single game is executed against the interest of the general public. The insiders' gains are highly concentrated, while the welfare loss is disseminated among many consumers. Therefore, the deal remains unopposed. The want of opposition is in accord with Olson's paradox: large groups composed of rational individuals will not act in their group interests[20]

The endogenous corruption cannot be eradicated easily. Customary anticorruption devices appear deficient. For example, a usual anticorruption strategy is the development of an independent civil sector, typically in the form of non-governmental organizations. However, partly out of misinformation, partly out of prejudices, watchdogs of the public interest may find the announced deal between management and union leaders praiseworthy, since it preserves jobs against the selfish interests of "outside greedy shareholders".

IX. Conclusions and Policy Recommendations

The endogenous corruption has devastating effects, since it hinders productivity and consequent price fall. Through commodity interconnectedness, it reduces profits in other industries and creates substantial efficiency losses for the whole economy. The endurance of the endogenous corruption mostly depends on the extent of market competition. With rising elasticity of demand for firm's products, rents must go down, resulting in less means for corruptive behavior. The obvious conclusion is that active competition policy should be fostered. The conventional wisdom is that it is always useful to have strong competition on product and factor markets. Having a strong competition is even more significant in situations where endogenous corruption is widespread. A strong orientation toward liberalization and application of hard budget constraints is crucial in such circumstances.

The liberalization policy must have two different tracks: a foreign liberalization, i.e. the opening up of domestic markets to foreign competition, and an internal liberalization, i.e. the simplification of procedures for starting new businesses (which have to be rule-based,

awards the contract to the highest bidder in bribes, then allocation efficiency is maintained, as only the lowest-cost firm can afford the largest bribe."

[20] "*[T]he larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to the individual or firm that undertakes the action. Thus, in the absence of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones*" (Olson, 1982, p. 31, italic in the original).

streamlined and transparent), the reform of the tax collection system, the lowering the levies, and the creation of legal and enforcement mechanisms for penalizing anti-competitive behavior, etc.

It is to be expected that such a policy would be opposed because of the confluence of vested interests and the public opposition. There could be two hostile tendencies: one based purely on ideological grounds, and the other founded on vested interests. With respect to public opposition based on vested interests, some people are against foreign competition in principle, arguing that foreign competition will “ruin” domestic production. This, argument is correct if a domestic firm has substantially higher costs than the foreign competitor, a necessary outcome where the endogenous corruption prevails because the corruption payments are included in the firm’s cost function. The domestic firm is a looser in that game by definition, because the rise of competition would cause prices to fall, causing the firm to perish in the long run because it cannot stand the competition.

The other argument is against all measures that might be harmful toward the working class. This line of attack on economic liberalization is widespread in countries where the official communist propaganda promulgated some version of worker self-governance myth (Yugoslavia, Poland, USSR). Here a distinction must be made between short and long run interests. In the short run, present employees obviously suffer by reduction in corruption, but in the long run the economy would grow, offering a lot of new opportunities for employment and the corresponding wage increase.

Vested interests can create serious problems in countries that have not replaced management structure after the collapse of the communist regime. Managers used to be members of the nomenklatura, which had a long tradition of good relationships with top politicians, not infrequently with the opposition leaders. Once the opposition took over, they retained the privileged position. In some countries they are so powerful that the government makes decisions by always taking into account what will be the managers’ reaction to a certain measure.

Potentially a more serious threat comes from independent unions. Their leaders come from the same circle as most of the prominent political leaders of post-communism. Over time, they have developed an “old buddies” relationship. Therefore, politicians are reluctant to take steps to limit union’s role in privatized firms. That fact is readily accepted by union leaders, who often try to establish themselves as inescapable power brokers. Their distinguished position vis-à-vis firm’s management is a prelude to the endogenous corruption.

It is therefore necessary to explain to the general public that insider deals may benefit some, but social costs can be truly high. Of course, such a campaign can have only a limited impact, but it is useful to remind people that what is good for a certain company and persons employed there, need not be good for consumers. That might sound quite strange to some who were protractedly exposed to the communist indoctrination. A new orientation is needed in many post-communist countries, from production centered, seller’s market, to consumer friendly, buyer’s market. This task seems of gigantic proportions, but one must have in mind that after each major political turn, such as a revolution, a foreign invasion, or a fall of the dictatorial system, the general public is willing to accept a behavioral change.

However, the most challenging effort must be exerted on the development of a new economic system. First of all, an effective privatization strategy has to be devised in order to produce concentrated outside ownership for privatized firms. All privatization models that give an upper hand to insiders may be politically opportunistic and thus favorable in the short run, but in the long run privatization results in substantial endogenous corruption that may raise the overall level of corruption in the country. Nations that have already privatized greater part of the state controlled assets, should concentrate their efforts on developing commercial law that would limit inside-dealing, conflict of interest, and protect minority shareholders. Those nations will also have to raise accounting standards, increase transparency of corporate decision-making process, and foster the competition on the labor market.

In the long run the only viable policy against endogenous corruption seems to be the development of the new business elite. Instead of borrowing abroad and investing in companies infested with endogenous corruption, the government should invest in human capital. It should send bright students to the West, urging them to study particularly the commercial law, the accounting and auditing proficiencies, the business administration, the industrial policy and regulatory practices. Some of them will stay in the West, but many will return. With rising standard of living in their native countries, many more will return, as there is ample evidence along prospering countries from Ireland to South East Asia. Returns in real economic terms to investment in human capital are the highest, but more than that, a prolonged exposure to business practices in the counties known to have a transparent business climate should foster the eradication of the endogenous corruption.

As reiterated in the documents advocating anticorruption policies, the first step in devising an effective strategy is the unbundling of corruption (World Bank, 2000, p.58). By differentiating causes and consequences of corruption in different countries, a policy can be developed for more successful targeting of anticorruption measures. For example, one of general recommendations is to give support to whistleblowers. Similarly to public watchdog policies, one can say that, in many instances, it is certainly advantageous to have the insider information on particular misconduct. As stated above, relying on the whistleblowers, may not work in an endogenous corruption case, since potential whistleblowers have substantial material interest not to raise their voice. The eradication of corruption requires a more subtle anticorruption policy where anticorruption devices are specifically tailored according to the source of corruption. The arguments presented herein could be a step in that direction.

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Summary

The paper deals with corruption developed with the privatization process in transition economies. In addition to existing forms of corruption, a new form emerges when ownership claims are dispersed, capital markets underdeveloped, product competition hindered, and managers willing to behave opportunistically. In such an environment labor has a strong incentive to unionize in order to avoid restructuring and consequent loss of jobs. Managers, on their part, realize that unionized labor may protect their position in eventual confrontation with outside owners, so they promote friendly union leaders. Both sides find cooperation strategy strongly dominating other possible ways of conduct. Consequently, managers give special privileges to union leaders, who turn their blind eye to managers' misconduct. Mutual benefits are financed at the expense of outside owners who are clear losers in this game. This process is labeled endogenous corruption, and it creates new hindrances to the reform effort. Usual anti-corruption strategies do not help in the case of endogenous corruption, therefore final section of the paper discuses potential remedies.

JEL classification numbers: C78, D23, J51, P51.

Summary for the JEL

The paper deals with a new form of corruption developed with the privatization process in transition economies. Labor has a strong incentive to unionize in order to avoid restructuring and consequent loss of jobs. Managers realize that unionized labor may protect their position in eventual confrontation with outside owners, so they promote friendly union leaders. Both sides find cooperation strongly dominating other strategies. Consequently, managers give special privileges to union leaders, who turn their blind eye to managers' misconduct. Mutual benefits are financed through distribution of rents, at the expense of outside owners.

Résumé

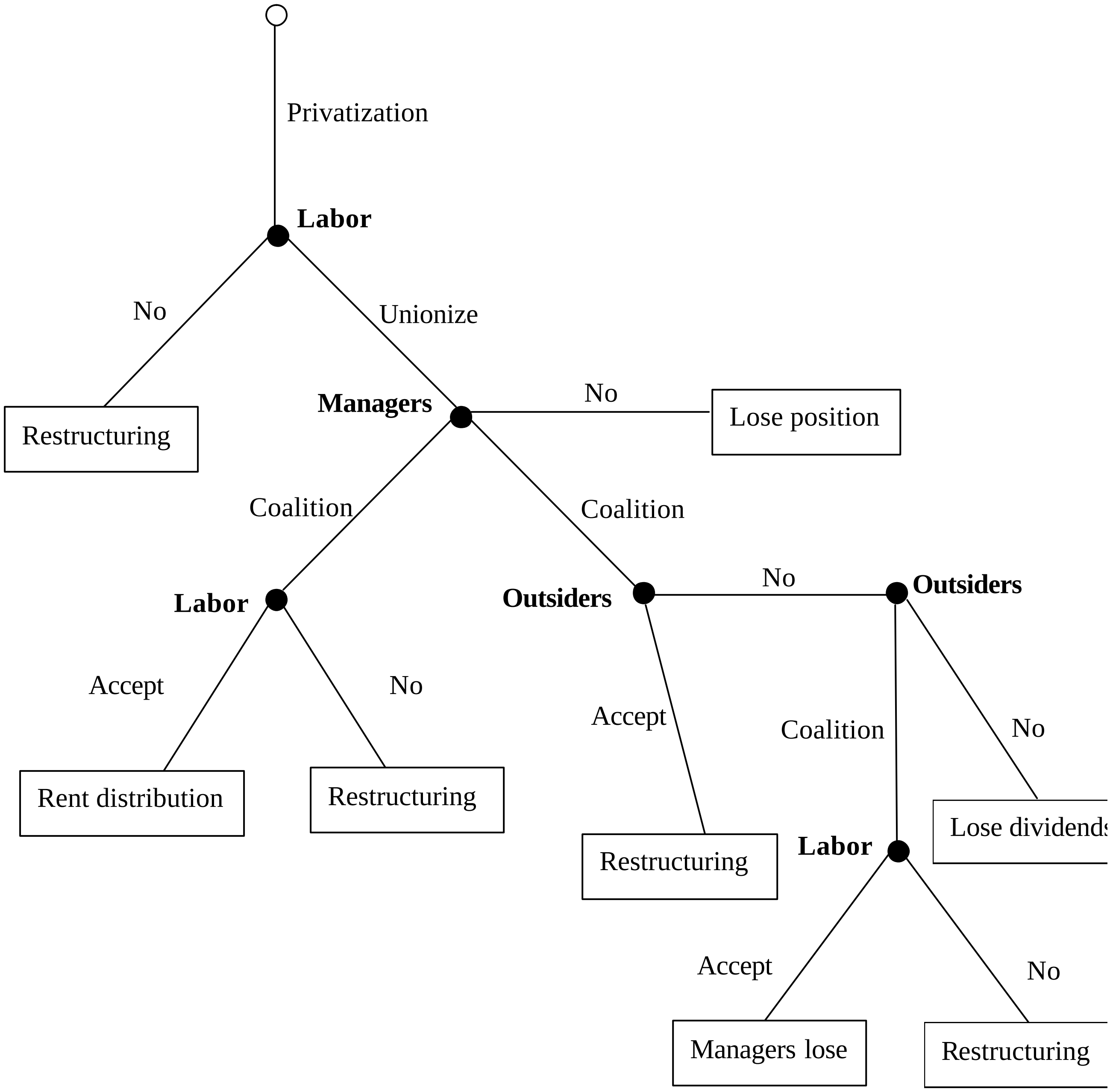
Ce travail observe la corruption qui, en tant que conséquence de la privatisation, tend à croître dans les économies en transition. Dans des conditions se caractérisant par une dispersion des droits de propriété, un marché des capitaux peu développé, une faible concurrence sur le marché des produits finis, et une forte tendance des managers à tirer profit de toute opportunité, on assiste même, aux côtés des formes déjà connues, à l'apparition de nouvelles formes de corruption. L'une d'elles est décrite dans ce travail où elle est appelée corruption endogène. En l'occurrence, dans les conditions évoquées, on constate une forte incitation des ouvriers à se rallier derrière un syndicat dont les efforts visent principalement à soustraire leur entreprise à la restructuration, c'est-à-dire à éviter les pertes d'emploi. Parallèlement, les managers s'aperçoivent que l'existence d'un

puissant syndicat ouvrier peut constituer pour eux un précieux instrument dans les litiges les opposant aux propriétaires extérieurs. De ce fait, ils veillent à accorder divers privilèges aux dirigeants syndicaux, dans la mesure où ceux-ci détournent la tête lorsqu'il s'agit de dénoncer les abus de pouvoir de la part de la direction de l'entreprise. Ces services réciproques s'exercent aux dépens des actionnaires extérieurs qui sont les principaux perdants à ce jeu. La corruption endogène consitute donc un sérieux obstacle entravant les efforts de réforme. Elle ne peut être éradiquée grâce aux méthodes classiques de la lutte contre la corruption, mais nécessite l'élaboration d'une stratégie spéciale, exposée dans la dernière partie de ce travail.

ZUSAMMENFASSUNG

Das Thema dieser Abhandlung ist die Korruption, die als Folge des Privatisierungsprozesses in den Transitionswirtschaften um sich greift. Bei so vielen Kleineigentümern (Aktieninhabern), noch nicht vorhandenem Kapitalmarkt, einer schwachen Konkurrenz auf dem Endproduktenmarkt, der Bereitschaft von Managern, sich opportunistisch zu verhalten, entstehen neben den bereits bekannten Korruptionsformen auch neue. Von so einer neuen Form ist in diesem Artikel die Rede, die die endogene Korruption genannt wurde. Durch die gegebenen Umstände werden die Arbeitnehmer starkt dazu angeregt, Mitglieder der Gewerkschaft zu werden, die um die Vermeidung der Umstrukturierung bzw. des Arbeitsplatzverlustes bemüht ist. Zum anderen sehen die Manager ein, dass eine starke Arbeitergewerkschaft im Konflikt mit den externen Eigentümern ihre starke Stütze sein kann. Daher räumen die Manager den ihnen geneigten Gewerkschaftsführern Vorrechte ein, die dafür , wenn sie mit dem Amtsmissbrauch durch den Direktor konfrontiert werden, wegschauen. Die gegenseitigen Dienstleistungen werden auf Kosten externer Aktieninhaber finanziert, die bei diesem Spiel die grössten Verlierer sind. Durch die endogene Korruption werden die Reformbemühungen sehr beeinträchtigt. Sie ist mit den klassischen Antikorruptionsmassnahmen nicht auszurotten, sondern man muss dagegen eine besondere Strategie entwickeln, wovon zum Schluss der Abhandlung die Rede ist.

Figure 1.



Privatization
Labor
No
Unionize
Restructuring
Managers
No
Lose position
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Outsiders
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Accept
Coalition
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Rent distribution
Restructuring
Lose dividend
Restructuring
Labor
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Managers lose
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