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LARGE INDUSTRIAL ENTERPRISES IN
SOVIET-TYPE ECONOMIES - RULING STRATUM'S
MAIN RENT-SEEKING AREA

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Introduction

So far only reforms of the agricultural sector in Soviet-type economies (STEs for short) brought about in some cases positive effects. No such cases exist with respect to the industrial sector (more recent literature justifiably rejected some analysts' optimistic assessments of successes of post-1968 Hungarian "regulated market economy").

This being the case, it can be assumed that industrial reforms in STEs did not go far enough toward the private ownership-based market-type economy (MTE for short). In this paper the present writer tries to answer the question why the industrial sector has been so resistant to change. The analysis is conducted from the property rights' perspective.

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Large Industrial Enterprises: A Case of Aggregate Political Clout

This author noted in his earlier articles that although there have been rather modest improvements in the functioning of agriculture in some Soviet-type economies (STEs), nowhere similar effects were achieved in industry¹. The verdict in favour of agriculture is surprising at first glance. Throughout communist rule industry has been a pampered child that received most attention and resources, first at the expense of agriculture and later increasingly at the expense of services. The whole effort to cut short the developmental distance to the industrialised West centered almost exclusively on industry.

After decades of Soviet-style industrialisation, however, the effort looks increasingly misguided. Not only demand continues to exceed supply on both producer and consumer goods' markets but also quality of STE products falls increasingly behind that of other - not only Western! - countries. To give but one example STEs that in 1965 obtained about 50% of average unit (kilogram) price got by everybody else for their engineering products on the EEC market, obtained only 28% in 1985². And not only prices they get are lower but also their shares in manufactured imports of the West fall showing STEs' inability to sell even at markedly lower prices.

An answer to the intriguing question why industrial sector has been so resistant to reforms is difficult without looking closely into the property rights structure in STEs. It is possible, of course, to obtain an indirect answer that just because industry is the core of centrally managed "socialist development", ideological purity has prevented ruling groups from making even those modest concessions to decentralised market-type economy they made in "less important" agriculture.

Ideological answers are usually unsatisfactory and this particular case is not an exception. Communists generally turned out to be very adept at resolving conflicts between requirement of their continuing rule and ideology - in favour of the former. Thus, another question arises: if the core sector turns increasingly into a problem sector why the rulers resist solutions that would make industry to perform better and accordingly facilitate their continued rule?

The theory of property rights as applied by "new economic history" school posits that in societies with a pre-representative type of government a typical conflict arises between the efficient property rights structure designed to lower transaction costs, i.e. to facilitate an increase in wealth, and actual property rights structure designed to maximise rent to the ruling stratum³. In spite of the obvious discrepancy between the two, the rulers tend to maintain the inefficient property rights structure in order to avoid offending powerful segments of the ruling stratum who benefit most from the existing arrangements. The foregoing methodological guidance makes the author to look more closely at those in the ruling stratum in the Soviet-system who benefit most from the present, patently inefficient property rights structure in industry.

This author answered already the question in his earlier writings with respect to the economy as a whole⁴. He stressed that beside the traditional mode of extracting rent under the dictatorship there exists under the Soviet-type dictatorship yet another mode. It enables to maximise rent of, primarily, two segments of the ruling stratum: party apparatchiks and economic bureaucracy.

This system-specific mode of rent maximisation occurs in two ways. The first is through nomenklatura, i.e. the right of the communist party

apparatus to "recommend" (read: appoint) candidates to all managerial positions in the economic and public administration. Since appointments are made primarily on the basis of loyalty to those who appoint managers rather than competence, apparatchiks and bureaucrats see no obstacles in appointing themselves and their card-carrying cronies to these well paid jobs.

The second rent-maximising way is through the upward flow of goods and services from enterprises to those in the party apparatus upon whose continuing favours depends the position of nomenklatura-appointed enterprise managers. The flow of underpriced goods in short supply increases wealth of those who have access to it (either directly or through higher income if goods are resold later at higher free or black market prices). Underpriced services contribute directly to apparatchicks and bureaucrats' wellbeing through building or renovating apartment or country houses, designing, manufacturing and installing the one-off, custom-built furniture, etc. A myriad of goods and services may be profitably acquired in this way in a shortage-plagued economy.

The foregoing brief outline of the property rights structure in the Soviet-system sets forth the general framework within which this author explains the place of industrial sector as the most important rent-seeking area for apparatchiks and bureaucrats.

Let us begin with official salaries. It is a well-known fact that wages and salaries in STEs are generally higher in the industry (mining, manufacturing, electricity and construction) than elsewhere in the economy. It is less well known that managers in industrial enterprises earn more than their counterparts in enterprises and institutions in the remaining sectors of STEs. A look at Table 1 yields a differential of one third to one fourth (if managerial salaries in industry are made

equal to 100%) in the case of Poland. Thus, industrial sector offers higher managerial salaries than other sectors.

Industry offers other advantages for those segments of the ruling stratum who benefit most from the present property rights structure in STEs. Extremely high level of industrial concentration in STEs, much higher than elsewhere in the world (see Table 2), leaves the industrial sector in STEs with many very large enterprises and many layers of management. With size determining to a considerable extent managerial salaries, very large enterprises offer well paid managerial jobs in large numbers. Thus, industrial sector offers not only higher managerial salaries but also more of them.

Reigning gigantomania, to the extent that it stems from grandiose Marxian dreams of an economy as a one factory, affects all sectors of the economy. However, the complexity of industrial production (a number of manufacturing phases, a number of parts and components required, etc.) makes industry particularly prone to increase in the size of enterprises. Moreover, as this author showed elsewhere⁵, uncertainty generated by the centrally planned economy is an important factor increasing the size of enterprises as each manager tries to produce as much as possible internally in order to reduce the dependence upon external suppliers. This, coupled with import substitution, results in the industry's hypertrophy. The share of industrial sector in GDP and employment is between 1/5 and 1/3 bigger than in market-type economies (MTEs) at similar development levels. Thus, industrial sector not only offers higher salaries for more managers at comparable managerial positions than other sectors but also offers to apparatchiks and bureaucrats increased number of these well paid posts in industry due to this sector's oversize.

It follows from the above that it is large enterprises in industry that are regarded as the most important rent-seeking area for apparatchiks and bureaucrats. The special position of large enterprises (which so strongly affects their performance, see following sections) is best explained by a diagram showing nomenklatura linkages between the traditional command/rationing hierarchy of central planning and various levels of party apparatus (see Figure 1). Thus, a general manager may be appointed through central committee nomenklatura, his deputies through regional nomenklatura, factory managers through district or town or county nomenklatura and divisional managers within factories through enterprise nomenklatura. Thus, rent-seeking becomes a unifying factor: every level of the communist party apparatus keeps its share of the pie.

However, higher salaries and associated "perks" (chauffered cars, etc.) that this author labeled authorised corruption are by no means the only source of income and wealth for those segments of the ruling stratum that benefit most from the present inefficient property rights structure. The second way of rent extraction, as stressed above, is through the acquisition of underpriced goods and services on the basis of personal linkages between enterprise managers and those upon whose favours their position depends. As spoils are divided locally and without the authorisation from the centre this way may be labeled unauthorised corruption (in contrast, e.g., with coupons to buy a car at much below the market price that are distributed from the top down).

Here, industry becomes an even more promising rent-seeking area relative to other sectors than in the case of authorised corruption. A plethora of durable and nondurable manufactured goods can be acquired at the source, i.e. from producers, in case of shortages. And, as a

commonly heard remark in communist countries has it, temporary shortages are most permanent feature of a Soviet-type economy ...

Industry has an advantage as a source of consumer goods in short supply (except agricultural produce) but it also has an advantage with regard to highly valued services. E.g. delegating workers to renovate an apartment or build a dacha (and adding the necessary building materials to such favour) is much easier in a large enterprise where costs of such favours can be more easily hidden among thousands of items hiding other transgressions and waste pure and simple. Moreover, beside the scale of operations that enables to hide the cost of such favours, construction divisions of manufacturing (or mining) enterprises or construction enterprises themselves are simply better supplied with labour and materials than resource-starved service sector enterprises and divisions of municipal housing authorities. Thus, they can more easily afford to give such favours without endangering the implementation of plan targets.

Altogether, given the rent extracted from industry it is not surprising that well paid managerial jobs in industrial enterprises are kept "in the family", i.e. among the party apparatchiks and their card-carrying cronies. Exact data across countries and over time are of course hidden from view (just as the whole nomenklatura procedure) but a few glimpses can be made nonetheless.

According to reports on the four country study on managers in industry⁶ prepared under the aegis of COMECON, full 100% of general managers in Czechoslovakia and Poland belonged to communist party. The same figures for Bulgaria and Hungary were 87.5% and 83% respectively. Altogether, with respect to both general managers and their deputies,

party membership figures were 95.9% for Poland, 94.4% for Czechoslovakia, 79.1% for Hungary and 77.4% for Bulgaria⁷.

This extremely high share does not seem to change much over time in spite of all "liberalisations". E.g. in Poland in the 1970s more than 90% of managers had belonged to the communist party. The percentage fell, according to one study to 75% among managers who went through competitive selection process in 1981-1983 period⁸ but this figure hides more than it reveals. It includes selection of managers in 1981 when "Solidarity"-supported self-management committees were free to choose managers, regardless of nomenklatura. In 1982-1983 period rules of competitive selection were changed, self-management committees found themselves under political pressure and secret police intimidation campaigns. The percentage of managers who are communist party members went up again. Accordingly, five years later it was reported that (again) "about 90% of managers in state enterprises belongs to PUWP (communist party - J.W.)"⁹.

They are, thus, part and parcel of the ruling stratum in the Soviet system, being recruited predominantly from its two segments: bureaucrats and party apparatchiks. Consequences of that state of affairs are very far-reaching. They belong to the world where rewards are distributed on the basis of loyalty, in fact: obedience, to those who decide about their actual position. As this author argued elsewhere¹⁰, they do not need to be exceedingly concerned about the balance sheet as long as their superiors are satisfied. They are not even expected to give the true picture of enterprise performance for their bosses are also interested in sending upwards optimistic reports on enterprises within their industry or region.

Managers that are obedient and moreover mindful of the needs of their superiors with respect to goods and services in short supply may be reasonably sure that premiums and bonuses, as well as "perks" distributed from the centre, will always be forthcoming. Not every manager may expect generous reward, of course. There are important differences in this respect and these differences result mostly from political clout of managers in the sense of belonging to a strong coterie. Being well connected means being appointed to a high position in a large, important enterprise. And the larger the enterprise, the more numerous are such nomenklatura positions and, consequently, the greater is managers' aggregate political clout.

Political Clout and Resource Allocation

This author already mentioned large enterprises as most important area of rent-seeking within the already privileged industrial sector. Salaries of nomenklatura managers are the highest there, "perks" associated with their position (authorised corruption) are most numerous and profitable, benefits from the stream of underpriced goods and services (unauthorised corruption) are greater than elsewhere. Those are components of the appropriated rent that directly affect their income and wealth. But the fact of being a manager in a large "priority" enterprise brings also other, less tangible benefits.

In the Soviet world the unlimited relativism extends also to resource allocation, which is not based upon efficiency criteria (not even those pseudo-criteria established by central planners). Consequently, political clout bears heavily upon resource allocation. And in shortage-plagued STEs it matters whether enterprise is given a preferred access to supplies of inputs, foreign exchange, investment grants, credits, and - if the need arises - subsidies. It makes all the

difference between easier and more difficult implementation of planned output targets.

Following further the trail of aggregate political clout, it is worth noting that not only plan implementation can be made easier if political clout facilitates the inflow of resources to "priority" enterprises but also planned output targets can be made less demanding as well. Bargaining with enterprise superiors is also the more successful, the stronger is enterprise managers' aggregate political clout.

Thus, aggregate political clout is positively correlated with both easier output (and other) plan targets and easier access to resources needed to implement these targets. It enables managers in large enterprises to benefit indirectly, through leisure-on-the-job, from their privileged position within the loyalty-based system of nomenklatura. Given level of income and wealth is achieved with less effort.

The privileged position of large enterprises did not go completely unnoticed in STEs. Probably the best known is a critique by a Hungarian economist Andras Hegedus in mid-1980s. He stresses vested interests of managers in large enterprises who have been primarily interested in privileged access to inputs and production factors and continued protection of domestic market for their outputs. He also points to the existence of common interest between the centre (central planners and their political masters) and managers of large enterprises but he fails to explain it convincingly. After all, the former are interested, when things go wrong, in economic reforms, i.e. modifications of the existing systems, that - they hope - will increase efficiency, while the latter are interested only in those modifications that increase their room for

manoeuvre. Thus, their respective interests in the efficiency of an STE as a whole or in improving that efficiency through economic reforms do not necessarily converge.

In fact, without the resort to Northian perspective of the inherent conflict between the actual, inefficient property rights structure (but the one that maximises the rent of the ruling stratum) and the efficient property rights structure, convincing explanations are hard to find. Only when it is pointed out that both the centre and managers of large enterprises belong to the ruling stratum and that the aggregate political clout of the latter is considerable, reasons for centre's unwillingness to press for radical reforms can be explained in terms of its unwillingness to offend powerful segments of the ruling stratum. Pieces of the puzzle fall into their proper places.

It is also worth remembering that often not managers of large enterprises themselves are so powerful but first of all people who appoint them or support their managerial position and who subsequently draw various benefits from these appointments (mainly through what this author calls unauthorised corruption). Analysing relative clout of a manager in an STE, a commentator in a Polish management journal says that "manager's stand is as solid as is the influence of those who stand behind him"¹².

Although everybody knows in STEs about various preferences for large enterprises whose managers enjoy strong political clout, the scale of the phenomenon remains unknown. To the best knowledge of the author only one little known study by Maria Csanadi ever attempted to measure it in quantitative terms. Published in Hungarian in an obscure mimeographed bulletin¹³ that study deserves more attention than it

received. Next few pages present its main results (as seen from the vantage point of property rights).

The authoress decided to answer the question which enterprises have a "priority" or - more precisely - which enjoy preferential access to scarce resources. As an object of study she took engineering industry, the most important manufacturing industry in Hungary (let it be noted that she also selected an industry which itself enjoys a "priority" at the branch level). Although she obviously recognised the close link between large size and political clout, Maria Csanadi nonetheless decided to study both variables separately, as well as jointly.

Consequently, the authoress divided engineering enterprises into three categories with respect to size: large, middle-size and small, according to size of their fixed assets. She used a dichotomous classification with respect to political clout. As a measure she used the participation of enterprise managers and/or other employees in executive and plenary bodies of the Hungarian communist party (HRWP) at central committee, regional committee and Budapest district committee's levels.

Membership in these bodies is a reasonably good proxy for the aggregate political clout as defined earlier by this author.

Nomenklatura-covered managerial positions link their holders with different executive party committees: the larger the enterprise, the more links are established at more nomenklatura levels and the greater is the aggregate political clout as a result.

But large enterprises are also formally linked with the communist party through the participation of party members from important enterprises in its executive and plenary bodies. Managers themselves

are sometimes "elected" to these bodies if they belong to an important coterie. More often, however, it is some decorative miners, steel-makers, lathe operators and others that are "elected" there. The latter, even if "elected" to the central committee, are inconsequential in terms of own political clout but their presence is a good measure of enterprise political importance. Even if Csanadi's dichotomous classification rules out measuring the aggregate political clout by degree, it is nonetheless useful in this respect.

Armed with the knowledge of size and political clout Maria Csanadi analysed seven types of preferential access to resources available to engineering enterprises in the 1970-1979 period:

(1) First came subsidies of various sorts, including tax reliefs (of which multitude exist in reformed STEs).

(2) Since 1968 reforms, long-term investment credits became the main method of affecting industrial investments by the centre. Enterprises compete vigorously for these credits characterised by low (sometimes negative) real interest rates. The repayment of principal may even be written off altogether after a few years.

(3) Certain enterprises were deemed by the centre to be important enough to get a priority access to material inputs. It was assured through the right of these enterprises to buy some inputs directly from producers rather than wholesalers. Not only they obtained them first, an important advantage in a Kornai's shortage economy, but also obtained them cheaper (prices did not include wholesalers' margin, i.e. 12% in the period under consideration).

(4) During the period of retreat from reforms (1972-1973) group of large enterprises obtained formally a special status, conferring upon them an unspecified priority: a useful bargaining chip in every effort

to extract privileges (something Hegedus, an already quoted Hungarian economist, fulminated against).

(5) Another way of increasing probability to obtain scarce resources was to be included into a group of - again almost exclusively large - enterprises which were formally involved into the preparation of national plan by the central planning board. Both routine plans and expansion programmes of these enterprises had in these cases greater probability to be realised once their needs were recognised by the centre and written into, say, import plans.

(6) Yet another preferential access - primarily to foreign exchange - resulted from having one's projects approved and included into national technological development plans.

(7) The last type of analysed preferences concerned approved requests for mergers, in fact for absorption of smaller by large enterprises. Pressure for absorbing independent enterprises (often own suppliers) stems from enterprises' tendency towards self-sufficiency in the face of the high uncertainty generated by the system¹⁴.

The study in question reveals a highly significant pattern of preferences. First of all, large enterprises obtained preferences much more often than medium-sized or small ones. The pattern is no less significant if the political clout becomes the discriminating variable.

Table 3 shows the participation of enterprises with or without the political clout in all types of preferences in percentage terms. Enterprises with political clout obtained subsidies and investments credits in about 90% of cases, while those without it is barely 20-25% of cases. The ratio between "haves" and "have-nots", already about 4:1 for subsidies and investment credits, becomes even more disadvantageous for the latter with respect to other preferences. According to yet

another calculation out of 47 enterprises with the political clout only two did not obtain any preferences (but 12 obtained all seven types of preferences), while out of 407 enterprises without political clout only one obtained all preferences (but 268 obtained none)¹⁵.

Categories of large enterprises (43 according to Csanadi classification) and enterprises with the political clout (47 according to her classification) are not identical but overlap to a large extent. In the case of one "priority" industry, as in the study in question, this stems from territorial distribution of enterprises. Usually the largest enterprise in a given territory (a region or Budapest district) is formally linked to communist party body at a given level (a regional or district committee). But if a region or district does not have a large enterprise it may confer the formal political importance on a medium-sized one and the vice versa - the existence of a few large enterprises in another territory deprived some of them of the formal status of political importance.

Let it be noted, however, that the territorial distribution explains differences between size and political clout in the case of that particularly important industrial branch. Where all industry is taken into account another factor has an even greater impact in this respect. It is central planners and the political masters' obsession with heavy industry. Thus, say, a medium-sized engineering enterprise may have the formal status of political importance while large textile enterprise may not (and higher salaries and "perks" may be allocated to the former).

Nonetheless in the case of a "priority" industrial branch heavy industry obsession did not affect preferential access and large enterprises without political clout, as measured by Maria Csanadi, did

well in terms of their ability to enjoy preferential access to resources. According to the study in question, a large enterprise that did not possess formal status of political importance obtained on the average the preferential access in 64.3% of cases. At the same time a medium-sized enterprise with the said status obtained on the average the preferential access in 44.4% of cases¹⁶. Thus, the latter did less well in relative terms.

As I stressed already, the measure of political clout used by Maria Csanadi excludes the possibility of measuring aggregate political clout by degree. Therefore, a relatively smaller middle-sized enterprise from, say, a district where there were no large enterprises appeared in her dichotomous classification as the one that has political clout, while a large enterprise from another district with a few large enterprises appeared as the one that has not. The data quoted in the preceding paragraph point to a different ranking according to the aggregate political clout as defined by this author. Links of a greater number of managers with many levels of nomenklatura (often up to the central committee level) in a large enterprise proved to be more efficient in rent-seeking terms than links of a smaller number of managers with fewer levels of nomenklatura in middle-sized enterprises within the same industrial branch.

Csanadi study reveals a highly significant effect of the symbiosis of politics and economics on preferential access to resources. Wherever enterprise is simultaneously both politically important and large, the probability of obtaining preferential access becomes certainty in the case of subsidies and long term investment credits and increases sharply with respect to all the remaining types of privileges. Table 4 shows unambiguously results of such synergy.

However, generalisations formulated by Maria Csanadi are less unambiguous than results. She clearly sees the complementarity of general rules and individualised decisions creating together highly interventionist mechanism of hands-on management. This mechanism is working within the interlinked political and economic power structure, with the dominant role of the political component.

This author agrees with the descriptive aspects of the model outlined by Maria Csanadi but not with its motivational aspects. It is not completely clear why apparatchiks intervene in the affairs of enterprises. In an article generalising the results of her study¹⁷, she explains interventions in terms of both superior motive of trying to correct the outcomes of an inefficient economic system and ulterior motive of exercising their power over enterprises (showing "who is the boss"). This exercise of power forces enterprise managers to conform to the unlimited relativism of their bosses. Nor it is clear which of the two motives prevail.

Of course, the belief in being able to correct the increasingly unwieldy economic system through individualised decision may linger on among bureaucrats and apparatchiks. However, the fact that it is more or less the same enterprises in the same industries that are favoured by these interventions year by year casts serious doubt upon the validity of this explanation. Since corrections are systematic, it should not be difficult to modify the system accordingly.

Thus, it must be the exercise of power that really motivates party apparatus. But even this explanation is not wholly satisfactory. Maria Csanadi points out that throughout the whole post-1968 period communist party never loosened control over enterprises (the view shared by many of her compatriots). This statement, however true, begs the question

why the control has been so important to them? Surely it could not be only for the fun of it!

Seen from the vantage point of property rights the answer is clear. Control over enterprises enables those in the ruling stratum who exercise control over the inefficient economic system to appropriate rent. The rent is mainly appropriated in large enterprises in "priority" industries. Therefore it is these enterprises that are accorded not only higher salaries and "perks" for managers (as a part of their pecuniary rent) but also various preferences with respect to scarce resources (as a part of their non-pecuniary leisure-on-the-job kind of rent).

Managers who overwhelmingly are a part and parcel of the ruling stratum do not need to be forced to conform to the hands-on management. They play the loyalty (read: obedience) game not only because it is the only game in town, as Maria Csanadi rightly suggests, but also because this is the only game most of them are able to play. Thus, bureaucrats, apparatchiks and their colleagues who switched to managing enterprises all stand to loose from the substitution of efficiency for loyalty game. The structure of property rights would change, then, to their disadvantage.

Soft Budget Constraint and Aggregate Political Clout - A Reinterpretation

Managers who are reasonably sure they will be able to obtain inputs they need due to their political clout cease, with time, to regard resources as scarce. They demand more and more - and get what they want most of the time. In consequence, they can afford to use resources inefficiently, wastefully even, for their immediate benefit.

Thus, the author arrived - via another route - at the famous soft budget constraint formulated by Janos Kornai¹⁸.

Kornai stated that repeated interventions of bureaucrats (he was less explicit about apparatchiks), which alleviate difficulties encountered by enterprises, give managers an idea that such behaviour is by and large a norm. Enterprise managers become convinced that the state, paternalistically helping every enterprise (both good and bad), is a general insurance agency of sort. This in turn gives rise to near insatiable demand of enterprises for inputs of all kinds facilitating the implementation of plan targets. Kornai's lucid analysis outlines vividly the mechanism of soft budget constraint. It is much more vague with respect to the rationale of the phenomenon in question.

Kornai points to paternalistic attitudes of bureaucrats towards enterprises they guide. In case of difficulties enterprises will be helped with subsidies, credits and/or permission to raise prices. Why? Because, according to Kornai, the multi-level bureaucracy identifies itself strongly with roles it plays and, consequently, intervenes benevolently in the affairs of subordinate enterprises. Bureaucrats seem to maximise their utility through the sheer fun of giving. Non-pecuniary benefits of that sort are the only ones that appear in Kornai's rationale.

The main weakness of his rationale lies in the fact that it is able to explain any allocational pattern, not only the real one outlined in the preceding section. It does not explain preferential access of "priority" industries, large firms within these industries, etc. A closer look at Kornai's rationale reveals that it is not a rationale at all.

Some other East European economists who accept the basics of the shortage economy with its corollary, i.e. soft budget constraint and near insatiable demand, suggest another rationale. E.g. Tamas Bauer¹⁹ points to mistaken calculus of central planners and their political masters who are ready to accept output realised at any cost ("after all, we need lathes, tractors, houses..."). Therefore they are ready to validate excessive costs of realised output through subsidies, tax relief, etc.

This author agrees that the economic illiteracy in STEs is endemic among bureaucrats and apparatchiks (and each year party schools and economic schools turn out new economically illiterate alumni!) but this is not the only, may be not even the main explanation. If output is so important, then all producing enterprises should have equal access to resources, say, in proportion to their size. This is not the case, as Maria Csanadi study tells us in no uncertain terms.

This author's approach suggests that bureaucrats and apparatchiks accord privileged access to scarce resources to those enterprises with the highest aggregate political clout, i.e. overwhelmingly to large enterprises in priority industries. The rationale for such a pattern of resource allocation is that it is in their own interest to do so. Their colleagues, representatives of the same ruling stratum, who were appointed managers, benefit materially from their position directly (best paid jobs, "perks" associated with their position) and indirectly (acquisition of goods and services in short supply at below market prices), while bureaucrats and apparatchiks benefit from having their colleagues there indirectly (from the flow of these goods and services arranged by their colleagues-managers). Let us add in passing that both managers and bureaucrats and apparatchiks benefit also from the former

ability to appoint their relatives to relatively well paying non-nomenklatura jobs with a large room for shirking.

In this way bureaucrats and apparatchiks maximise pecuniary benefits in their utility function, apart from maximising non-pecuniary benefits (the fun of meddling). The pattern of resource allocation outlined above has yet another advantage. It does not contradict the one explained by the economic illiteracy. The allocational pattern stemming from the property rights structure favourable to powerful segments of the ruling stratum is superimposed upon that based on inability to apply fundamental microeconomic criteria of efficiency. While the latter spreads scarce resources more or less at random, the former spreads them in accordance with the rent-seeking principle outlined earlier.

The pattern of resource allocation based upon rent-seeking is stable and changes only slowly over time. Laszlo Csaba²⁰ stressed that after introduction of 1968 reforms in Hungary a group of enterprises emerged that were perpetual loss-makers. Similar lists were drawn in 1979 and 1982 and they were near identical consisting of the same large enterprises that traditionally received a lion's share of scarce resources. According to another source²¹ they are in the same loss-making condition now. Similarly, lists of 500 largest manufacturing enterprises published in Poland since 1983²² show year by year highest subsidies for largest enterprises.

Maria Csanadi calculations give the same picture - and more systematically at that. 43 large enterprises obtained over the 1970-1979 decade 79% of the value of all subsidies and 76.5% of the value of all preferential credits allocated for 454 engineering enterprises (Table 5). This pattern changed only marginally over the 1970s, e.g.

the largest 43 enterprises in question obtained 83.6% of the value of subsidies in 1970 and 79% in 1979²³.

Soft budget constraint is typical for all STEs, not only for persistent tinkerers with the economic system such as Hungary and Poland. In traditional STEs, however, the range of preferences is somewhat different. Rather than give subsidies afterwards, plan targets are revised downwards during the year so that managers obtain expected bonuses for plan fulfillment.

According to a Soviet source²⁴, bureaucrats changed enterprise plan targets in 1980 in 57% of all industrial enterprises. Moreover, in every third of these plans revision took place in December. It was a retroactive validation of lower than planned effects at planned (or above planned) costs. And the year 1980 was not unusual in this respect. "The practice of (downward - J.W.) plan revisions within a planned period continued in 1981 and was widespread" - said the same source²⁵. Although the above mentioned figures are unrelated to the size of enterprises, it is assumed that those with the high aggregate political clout are the ones that obtain downward plan revisions most easily.

Closely related to the reinterpretation of soft budget constraint proposed here is another reinterpretation, i.e. one of Kornai's near insatiable demand of STE enterprises. This author, who accepts the thesis, used standard neoclassical price/quantity space to present it²⁶. The vertical demand line in Figure 2a indicates that demand of enterprises is completely price inelastic.

The question arises how that explanation accords with the rent-seeking perspective outlined and evidenced so far. Another look at Table 4 tells us that large enterprises with the political clout operate

in the environment where they have near-certain preferential access to scarce resources. The management there does not need to concern itself with prices for demanded inputs. Their purchases at whatever price will be validated ex post one way or another. Demand line of these enterprises is vertical, i.e. price independent. It is reflected by D_1 line in Figure 2b.

Other categories of enterprises in the revealing Maria Csanadi study present a different picture, though. Large enterprises that enjoy no political priority or medium-sized enterprises with the political clout have both relatively high probabilities of such ex post validation but no certainty. Thus, under certain circumstances, they may face budget constraint that makes their demand price elastic to some extent. This is reflected by D_2 and D_3 demand lines in Figure 2b.

Finally, medium,-sized and small enterprises without the political clout can only rarely count upon largesse of bureaucrats and apparatchiks. They count for little from the rent-seeking perspective. Rare subsidies they obtain are due to economic illiteracy of their superiors or their (randomly applied) fun of meddling rather than rent-seeking manoeuvres of the latter. Budget constraint of this last group of enterprises is relatively hard and, consequently, demand line is relatively price elastic, i.e. its slope does not differ much from that on a neoclassical diagram in economic textbooks. It is reflected by D_4 demand line in Figure 2b.

Differing degrees of softness of STE enterprises' budget constraint diagrammatically presented above apparently require some modifications of the completely price inelastic demand line reflected in Figure 2a. Collapsing all four demand lines from Figure 2b into one results in a very steeply sloping demand line, such as in Figure 2c, but

nonetheless not a vertical one. Thus, a rent-seeking perspective, by differentiating softness of budget constraint, suggests modifications in the concept of near insatiable demand.

However, the need for modifications is - in view of this author - more apparent than real. Privileged access to scarce resources is an important but not the only factor determining soft budget constraint of STE enterprises. Given the exorbitant transaction costs of monitoring enterprises under the distinctly non-exclusive, collective property rights, managers are able to soften their budget constraint in other ways as well.

One such way is hidden inflation²⁷. Changing output mix toward higher-priced goods, lowering quality of inputs without the commensurate reduction in price and, finally, pseudo-innovations that rise prices without commensurate improvements in product quality - all loosen enterprises' budget constraint. They enable enterprise managers to cover costs without subsidies.

No less importantly, ability of enterprises to loosen their budget constraint through price manipulation is by and large the greater, the more varied is its product mix and the less control is exercised over changes in that mix. Since large enterprises in "priority" heavy industries usually turn out homogeneous or at best moderately differentiated products, other smaller enterprises producing a wide range of differentiated products and having greater ease of changing their product mix have correspondingly greater room for manoeuvre. Contrary to privileged access factor, price manipulation factor compensates to some extent smaller, underprivileged enterprises for their lack of political clout. Thus, aggregate demand line for all STE

enterprises becomes near vertical again, almost as in the original explanation reflected in Figure 1a.

Generalizing the reinterpretation made in this section, it is the rationale for soft budget constraint and near insatiable demand that was substantially modified. The phenomenon itself represented by a vertical, price independent demand line in the price/quantity space withstood the reinterpretation very well, requiring only marginal modifications (if any).

Thus, we know by now why bureaucrats and apparatchiks defend the patently inefficient Soviet-type economic system particularly strongly with respect to the industrial sector and within that sector with respect to large enterprises - their main rent-seeking area. The property rights approach explains that well enough. We also know how the rent-seeking is affecting allocation of resources to maximise both pecuniary and non-pecuniary benefits of bureaucrats, apparatchiks and their colleagues appointed to managerial positions. This shift of emphasis from the traditional critique of the Soviet-type economic system to neo-institutional property rights-based critique did not require substantial changes in explanations of the mechanics of distortions generated by the system.

As it often happens, real-world situations can be explained by more than one theory. A rationale supplied by property rights approach is, however, more coherent and explains more of the real-world (or rather unreal world, as many would have it!) than competing rationales.

Long-Term Decline of the Soviet System And Recent Manoeuvres around Property Rights Structure

The fact that bureaucrats and apparatchiks treat the industrial sector in general and large enterprises within that sector in particular

as their main rent-seeking area should not be construed to mean that their parasitic role and property rights structure supporting that role are immutable. It explains only why past market-type reforms failed. The future may be different.

The by now well recognised decline of STEs spanning the whole Soviet world²⁸ increases the pressure for change. The change will of necessity affect the economy and within economy the industrial sector. The pressure generated by the width and (accelerating!) speed of decline will not allow the ruling stratum to avoid for long the discussion about the destructive features of the present property rights structure. The call for change will be the louder, the longer is the record of failure of past economic "reforms" that carefully avoided this fundamental issue. Consequently, such calls and ruling stratum's reactions to it have been visible most clearly in Yugoslavia, Poland and Hungary.

Leaving aside Yugoslavia that already tried one alternative to the Soviet-type economy and failed (although its masters did not admit it yet), recent developments in Hungary and Poland are in a sense pointers to the future elsewhere in STEs. Manoeuvres around the issue point to the classical Northian impact of two constraints²⁹. The accelerated decline forces the rulers to change property rights structure to lower transaction costs. The stiff resistance of the two powerful segments of the stratum ruling the Soviet system who may threaten the rulers directly by turning to their competitors within the ruling stratum ties rulers' hands. The outcome is changes that are marginal if not purely fictional.

This is probably most clearly visible in Hungarian changes introduced after 1984. Hungarian central planners and their political masters faced the pressure of decline visible since late 1970s without

facing yet the pressure from the dissatisfied population. Thus, their measures taken in an unhurried manner reflect most clearly their real preferences for marginal change in efficiency without any change in property rights structure in the case of industrial enterprises that mattered most.

The legislation of 1984 established three types of state enterprises. Largest enterprises (13% of all enterprises employing million people) remained under direct control of bureaucrats. Also their managers continue to be appointed by a superior ministry (with the nomenklatura procedure in the background, of course).

The bulk of state enterprises (70% of all employing 2/3 of labour force) were put in the second type, with rather peculiar institutional traits. On the surface they are self-managed enterprises. In reality they are controlled from above, albeit indirectly. Although a manager of an enterprise of this type is appointed by an Enterprise Board through the competitive selection procedure, all candidates have to be approved in advance by a superior Ministry (and, again, vetted and approved through the nomenklatura procedure).

Thus, in spite of the competitive selection, preferences of bureaucrats and apparatchiks with respect to managerial appointments are revealed directly through the right of exclusion and indirectly through informal suggestions as to the "desirable" candidates that are so easy to make given all the linkages between bureaucrats and apparatchiks on the one hand and members of an enterprise board on the other. The chances of the "desirable" candidate are made all the stronger by a rather curious composition of the board. According to the regulations in question only half of the board is elected by the employees while the

other half is appointed by a general manager from the ranks of enterprise managers.

In theory, then, the incumbent general manager could stay indefinitely in his post since his hand-picked colleagues would not vote to fire him, especially since important matters, including those of hiring a general manager, have to be settled by a qualified 2/3 majority vote. In reality, it does not matter at all because in the system of predominantly political resource allocation his ability to perform without the privileged access to scarce resources is very low. Thus, once he is told that his successor has been decided upon, he will resign. Moreover, his deputies and other managers are also nomenklatura people even if formally appointed by him and they would vote against him the moment they learned about the decision of their political masters.

The last type of enterprises, exclusively small ones, has their managers appointed by a general meeting of employees. In reality this type is nearer to self-management concept than the previously analysed one. But even in this residual category (13% of enterprises employing barely 100 thousand people) bureaucrats and apparatchiks retained the indirect control. Just as in the previously analysed type all candidates in the competitive selection process have to be approved prior to the selection.

Altogether, little changed in substance after 1984. The parasitic ruling stratum preserved intact its rent-seeking rights it had before, and the only difference is a somewhat more cumbersome procedure through which these rights are exercised.

In Poland long term decay coupled with the above average incompetence of the then ruling group accelerated the decay rapidly and led to the emergence of well organised opposition demanding some real

changes. An economic order negotiated in 1981 threatened the ruling stratum with losses of large chunks of their rent-seeking preserve. Out of about 6000 industrial enterprises only some 300 or less of so-called "strategically important" enterprises were to remain under the direct control of bureaucrats and apparatchiks while rights of the self-management board were strongly circumscribed. As for the rest, it is self-management board that was to select managers through the competitive process and appoint them to managerial positions. Very few party recommended candidates won the competition in 1981.

Demands for change spilled over to political arena as well.

Threat to both political rule and to favourable property rights structure were met with the imposition of the martial law. Under its shield property rights of bureaucrats and apparatchiks to the unconstrained rent-seeking upon the economy were restored in two ways.

Firstly, the number of "strategically important" enterprises where self-management was not allowed to appoint managers more than quintupled in 1982. Thus, a majority of large enterprises returned under the direct control of bureaucrats and apparatchiks. Secondly, self-management board's right to select and appoint managers was curtailed elsewhere as well. On the one hand, superior ministry was given the right to appoint a candidate selected by a self-management board (an effective veto), on the other the selecting committee was enlarged to include representatives of the communist party and some satellite organizations. As a result the power of the self-management board has been diluted and it can be outvoted even at the selection phase saving bureaucrats and apparatchiks the inconvenience of openly exercising their veto power.

The pre-1981 property rights structure was thus restored. In fact, the rate of rent appropriation increased because the parasitic ruling stratum tried to compensate itself for the fall in total supply of goods and services by increasing its share in the total. The number of managerial posts that need communist party recommendation, i.e. have to go through the nomenklatura procedure, increased from 100 thousands under the previous Gierek regime to a quarter of a million in 1986³⁰. And the share of card-carrying members of the communist party among those appointed again exceeded 90%. At the same time parasitic ruling stratum's share in various scarce goods also rose sharply. E.g. the share of cars allocated to the privileged through coupons at a below equilibrium price increased from about 20% in late 1970s to 35-40% in mid-1980s³¹.

An interesting gimmick was to shift the distribution of many scarce goods from producing to trading enterprises. Since self-managing bodies in industrial enterprises were largely in the hands of the opposition ready to make a lot of noise about continued rent appropriation by the ruling stratum, the distribution of scarce goods was shifted to wholesalers where no self-management existed. According to Polish controlled press³² the share of durable household goods allocated through non-market channels on the basis of personal lists approved by a general manager of the Cracow region wholesale enterprise dealing with those goods was about 45%!

The foregoing developments are undoubtedly a foretaste of things to come in other STEs as well. The decline, often an accelerating one, generates reactions, the simplest of which is to maintain one's level of wealth by increasing own "take" in the face of falling supply. Another development more important for the purpose of this industrial sector-

centered article is the shift away from the industrial sector of a part of rent appropriating activities. As the industrial sector comes under closer scrutiny during various economic "reforms" and the general public begins to be more sensitised with respect to rent-seeking, unauthorised corruption in that sector becomes increasingly awkward for the ruling stratum. One of the gimmicks is to move it - to an extent possible - from the production phase to distribution phase.

While considering various gimmicks through which bureaucrats and apparatchiks defend the favourable property rights structure existing in the Soviet-type economic system, a most recent one used by Polish communist rulers is also worth noting. At the time of writing this article (Winter 1988/89) official propaganda changed the tune and began stressing the withdrawal of the party from nomenklatura-type control of the economy. This propaganda tailored for both domestic and foreign consumption, maintained that very few posts were retained under party control.

It was stressed that a number of nomenklatura covered posts was sharply reduced to barely a few hundreds³³. In fact nothing has changed in comparison with the period until September 1988 when 250 thousand posts were officially under control at various nomenklatura levels (see above). The trick was, first, to talk only of central committee level nomenklatura conveniently forgetting about those much more numerous posts within lower levels of nomenklatura and second, more ingeniously, of creating a two-step nomenklatura procedure of sort.

While claiming that there is no special oversight by the communist party, the right to appoint some managers was transferred to the heads of the regional (voivodship) administration³⁴. However, since all heads of the regional administration are appointed (and recalled) through the

nomenklatura procedure, they are subject to the rule of loyalty, i.e. obedience, and will make appointments in accordance with party recommendations. Thus, recent manoeuvres in Poland increased to some extent the amount of effort on the side of bureaucrats and apparatchiks but left the property rights structure in industry intact. The industry remains the most important rent-seeking area for bureaucrats and apparatchiks almost as completely as it was before the tremors of 1980-1981 - and that in spite of the accelerated decay in many walks of life (not only in the economy).

It is beyond the aims of this article to analyse why parasitic ruling stratum in Poland living off the decaying system does not yield even to the smallest extent where their rent-seeking interests are concerned. Nor is it important in this context to consider how much longer they will be able to maintain their diehard stance³⁵.

This author tried to explain why this resistance to change in the property rights structure is the strongest with respect to industry and within industry to large enterprises that offer greatest opportunities for appropriating the rent by bureaucrats and apparatchiks. He also explained why political clout of nomenklatura nominees affects resource allocation and how politically-determined resource allocation is translated into pecuniary and non-pecuniary benefits of bureaucrats and apparatchiks together with their colleagues appointed to managerial positions. The property rights approach was shown to be in accord with the widely accepted description of the mechanism of the Soviet-type economy while supplying a markedly more coherent rationale for its continuing existence.

Finally, in this section the author presented certain case studies of the defence of status quo in property rights structure in the 1980s -

and did so for two reasons. The first reason is predictive, as stressed already in this section. Given the pattern of "reforms" in STEs, non-solutions tried earlier by persistent tinkerers with the economic system are usually repeated later elsewhere (as e.g. now in the USSR). The second reason is to show that non-solutions can be selected on purpose if their choice serves the interests of those appropriating the rent from the existing economic system. Interests of the powerful segments of the ruling stratum are more important than the substantial reduction in transaction costs. Competitive constraint is still stronger than transaction cost constraint in the Soviet system.

Notes

¹ J. Winiecki, Pourquoi les réformes économiques échouent-elles dans les systèmes de type soviétique? Revue d'études comparatives Est-Ouest, Vol. 18, 1987, No. 3 and Why Economic Reforms Fail in the Soviet System? A property rights-based approach, Economic Inquiry, 1989 (forthcoming).

² For 1965 data, see J. Winiecki, The Distorted World of Soviet-Type Economies, London, Routledge, 1988, p. 161; for 1985 own calculations from OECD statistics.

³ See e.g. D.C. North, A Framework for Analysing the State in Economic History, Explorations in Economic History, Vol. 31, March 1979.

⁴ See articles quoted in note 2 but also J. Szymanderski and J. Winiecki, Dissipation de la rente, managers et travailleurs dans le système soviétique: les implications pour un changement du système, Revue d'études comparatives Est-Ouest, 1989 (forthcoming) and J. Winiecki, Gorbachev's Way Out?, Centre for Research into Communist Economies, London 1988.

⁵ See J. Winiecki, The Distorted World..., op.cit., chapter III.

⁶ Actually four branches of manufacturing: electrical and non-electrical machinery, textile, clothing, and footwear and food industries. For the source, see the next note.

⁷ Zarzadzanie, 1985, No. 11, p. 27 (in Polish).

⁸ According to a survey covering 404 general managers and their deputies, M. Kasten, Professional Careers of the Winners of Competitive Managerial Appointments (A Sociological Survey), Materiały i Studia IPPS, No. 14, Warsaw 1986, p. 12 (in Polish).

⁹ M. Gorynia and W.J. Otta, Do Enterprise Have to Export?, Zycie Gospodarcze, 1988, No. 9 (in Polish).

¹⁰ See J. Szymanderski and J. Winiecki, op.cit.

¹¹ A. Hegedus, Large Enterprises and Socialism, Közgazdasági Szemle, Vol. 31, 1984, No. 1 (in Hungarian). This was, in fact, Hegedus' considerations on the book by Erzebet Szalay (also in Hungarian) about investment preferences accorded to large enterprises.

¹² A. Wieczorkowski, Guiltless Galley Slaves, Zarządzanie, 1984, No. 12, p. 24 (in Polish).

¹³ M. Csanadi, Dependence, Consensus and Selection. The relationship between economics and politics in the decision-making system, Institute of Financial Research, Study No. 3, Budapest, 1984, mimeo (in Hungarian).

¹⁴ See J. Winiecki, The Distorted World..., op.cit., chapters I and III.

¹⁵ M. Csanadi, Dependence, Consensus and Selection..., op.cit., p. 227.

¹⁶ See M. Csanadi, On the Mechanism of Decision-Making, Társadalomkutatás, 1987, No. 4 (in Hungarian) on the basis of data from her study quoted earlier.

¹⁷ See M. Csanadi. On the Mechanism of Decision-Making..., op.cit.

¹⁸ See, first of all, J. Kornai, Resource-Constrained versus Demand-Constrained Systems, Econometrica, Vol. 47, July 1979, No. 4.

¹⁹ T. Bauer, Investment Cycles in Planned Economies, Acta Oeconomica, Vol. ..., 1978, No. ...

²⁰ L. Csaba, New Features of the Hungarian Economic Mechanism in the Mid-Eighties, The New Hungarian Quarterly, Vol. 24, Summer 1983, No. 90.

²¹ Zycie Gospodarcze, 1988, No. 52 (Eugeniusz Mozejko's report on Hungarian reforms).

²² Zarzadzanie, June issues each year since 1984.

²³ M. Csanadi, *Dependence, Consensus and Selection...*, op.cit., p. 232 and Annex Table 8 and 20.

²⁴ See the report of the deputy of the Committee of National Control (i.e. the Office of Comptroller General), A. Shitov, *Raising the Discipline of the Plan: The Requirement of Our Times*, Planovoye Khozyaistvo, 1981, No. 11, p. 17 (in Russian).

²⁵ Ibid., loc.cit. See also Planovoye Khozyaistvo, 1980, No. 6, p. 22, where another author shows the numbers of enterprises that had their plan targets changed in the last month of the year in 1977 (up to 2.3 thousand enterprises), 1978 (up to 2.5 thousand) and 1979 (up to 3.8 thousand).

²⁶ J. Winiecki, *The Distorted World...*, op.cit., chapter I.

²⁷ See i.a. J. Winiecki, ibid., chapter II and the literature quoted therein.

²⁸ See early assessments emanating from Eastern Europe: T. Bauer, *The Second Economic Reform and Ownership Relation*, Mozgo Vilag, 1982, No. 1 (in Hungarian), and later East European Economics, 1984 ann J. Winiecki, *Economic Trends and Prospects in Comparative Perspective: East*, Warsaw, 1984 (mimeo) and later Soviet Studies, 1986, Nos. 3 and 4, as well as *Economic Prospects: East and West*, C.R.C.E., London, 1987. Recent years brought a spate of studies in both East and West on the subject of the systemic decline.

²⁹ See D.C. North, *A Framework for Analysing the State...*, op. cit.

³⁰ See sources quoted in J. Winiecki, *Why Economic Reforms Fail in the Soviet System...*, op. cit.

³¹ For cars, a memo of Consultative Economic Council (unpublished) for 1986 figures and J. Winiecki, Gorbachev's Way Out..., op. cit. for 1983 estimates.

³² Zycie Gospodarcze, 1984, No. 40.

³³ According to a statement made by Mr. Jerzy Swiderski, the head of the personnel department of the Central Committee of the communist party only 800 positions are subject to nomenklatura at the Central Committee level. Zycie Warszawy, December 16, 1988. Until September 1988 there were about 4500 positions. Most probably the remaining positions are included into the regional level nomenklatura.

³⁴ See a statement by Mr. Leszek Miller, the then regional party secretary for Skierniewice (later promoted to a position of Central Committee secretary), about transferring the right to appoint managers to the head of regional administration. An interview with Mr. Miller, Polityka, 1987, No. 34. This gimmick was more recently played elsewhere as well.

³⁵ This author tried to outline some scenarios with respect to Eastern Europe elsewhere, see J. Winiecki, Soviet-Type Economies: Considerations for the Future, Soviet Studies, 1986, No. 4, and Economic Prospects - East and West, C.R.C.E., London 1987. See also J. Szymanderski and J. Winiecki, Gorbachev's Challenge to the West and Western Responses, The World Today, 1989 (forthcoming).

Table 1

Salary Differentials between Comparable Managers in Industry and Managers Elsewhere (Outside Agriculture) in Poland in 1987 (monthly salaries in units of national currency)

Managers	Range	Average (unweighted)
1.1 General managers in industrial enterprises	56647-70035	63341
1.2 General managers in some other so-called productive sectors (railways, post, telecommunications, forestry)	39245-44212	41219
1.3 General managers in some so-called non-productive sectors (municipal administration, justice, public health, banking)	40164-46876	43248
2.1 Divisional managers in industrial enterprises	37521-42116	38953
2.2 Divisional managers in some other so-called productive sectors	25918-38936	30581
2.3 Divisional managers in some so-called non-productive sectors	27925-32915	29568

Source: Extracted from data on salaries of non-manual workers,
Ministry of Labour and Social Affairs: March 1987 Survey.

Table 2

Structure of Employment in Industry^a. According to Size of Enterprise Establishments in Selected European STEs and MTEs, in percentages

Country, year of the census	Up to 50	51-200 persons employed	201-500	500 and over
GDR (East Germany), 1970	5.6	10.9	10.2	73.3
Hungary, 1970	3.9		27.3	68.8
Poland, 1970	7.4	14.8	13.2	63.6
Germany F.R. of, 1967	10.1	17.1	15.0	57.9
Sweden, 1973	19.7	16.6	11.5	52.2
Italy, 1951	27.6		34.2	38.2
Belgium, 1961	31.7	18.6	12.8	36.9

^a Mining, manufacturing and utilities (excl. construction).

Note: STEs passed in the 1970s through yet another concentration drive,

while MTEs in general moved at least both toward and later away from greater concentration. Thus, comparable data for the 1980s would show even greater differences in this respect.

Source: E. Ehrlich, G. Kramarics and L. Tuu, Enterprise Establishment Size in Industry in East and West, Wiener Institute fur Internationale Wirtschaftsvergleiche, Forschungsbericht No. 61, 1980.

Table 3

Share of Enterprises With and Without Political Clout Having
 Preferential Access to Resources (classified by type of access) in
 percentages

Type of Preferences	Enterprises	
	With political clout ^a	Without political clout ^b
Subsidies (incl. tax relief)	93.6	22.9
Long-term investments credits	87.2	24.3
Preferred supply of inputs (bypassing wholesalers and paying less)	78.7	15.5
Special status (priority formally conferred)	48.9	6.1
Coordinate plans with central planners	51.1	1.7
Participates in technological change programmes (i.a. preferential access to foreign exchange)	53.2	2.4
Accepted requests for absorbing smaller enterprises	48.9	0.7

^a 47 enterprises with political clout.

^b 407 enterprises without political clout.

Source: M. Csanadi, Dependence, Consensus and Selection...,
 op.cit., p. 228.

Table 4

Share of Large Enterprises With Political Clout Having Preferential Access to Resources (classified by type of access) in percentages

Type of Preferences	Share
Subsidies (incl. tax relief)	100.0
Long term investment credits	100.0
Preferred supply of inputs (bypassing wholesalers and paying less)	92.0
Special status (priority formally conferred)	72.0
Coordinate plans with central planners	76.0
Participate in programmes of technological change (i.a. preferential access to foreign exchange)	84.0
Accepted requests for absorbing smaller enterprises	92.2

Source: M. Csanadi, Dependence, Consensus and Selection..., op.cit., Annex Tables.

Table 5

Shares in Total Value of Subsidies and Long-Term Investment Credits
Extended to Enterprises in Hungarian Engineering Industry According to
Their Size and Political Clout, in percentage

Size ^a	Subsidies		Credits	
	With political clout	Without political clout	With political clout	Without political clout
I	63.9	15.1	60.3	16.2
II	5.0	14.2	6.2	16.3
III	-	1.9	-	1.0

^a 43 large enterprises (group I), 120 middle-sized enterprises (group II) and 291 small enterprises (group III).

Source: M. Csanadi, Dependence, Consensus and Selection..., op. cit.,
Table 25.

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