



## **THE LIMITS OF DISCIPLINE: OWNERSHIP AND HARD BUDGET CONSTRAINTS IN THE TRANSITION ECONOMIES<sup>1</sup>**

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### Abstract

This paper argues that the imposition of financial discipline is not sufficient to remedy ownership and governance-related deficiencies of corporate performance. Using evidence from the postcommunist transition economies, the paper shows that a policy of hard budget constraints falters when state firms, because of inferior revenue performance and lesser willingness to meet payment obligations, continue to pose higher credit risk than privatized firms. The brunt of state firms' lower creditworthiness falls on state creditors. But the "softness" of these creditors is unavoidable if it prevents a demise of firms that are in principle capable of successful restructuring through ownership changes.

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