Structural change in the post-socialist transformation of Central European agriculture: Studies from the Czech and Slovak Republics

Bezemer, D.J.

Citation for published version (APA):
Chapter 1

Introduction

1.1. Defining the Subject

The topic studied in this thesis is the structural change in Central European agriculture during the post-socialist transformation period up till 1998. By way of introduction to the book, a clarification of the central terms in the title may be helpful.

1.1.1. The Transformation

The ‘post-socialist transformation’ in this study covers the 1989-1998 years. The earlier, socialist period is only relevant insofar it shaped the initial circumstances for the transformation. Later years are still unknown future at the moment of writing, and are relevant only insofar they are the subject of scenario studies or other expectations referred to in this study. As such, this thesis is a study in recent history.

The qualification of the period under observation in the title, namely the years following the socialist era, is meaningful in two ways. It emphasises the relevance of history and of the inheritance of the socialist years. These were the post-socialist rather than the pre-capitalist years (even apart from the fact that the Central European economies were capitalist systems before the socialist take-overs in the 1940s). This is by now a broadly accepted view in the field of transition economics, but it was not so in the early transformation years of, roughly, up till 1995. It is precisely these early beliefs, and the policies they shaped, that still have an impact on the post-socialist economies and also on the structure of the agricultural sectors in the various countries. Because of these strong links, we will be exploring history as much as actuality - or, as the historian Timothy Garton Ash (2000) has put it, the ‘history of the present’.

Second, and related, the reference is to transformation rather than transition. This term is avoided because of the connotation of a clearly defined goal to which the economies are in transit. Ideologically, opinions about the desired outcome differ too widely to define one such final state of the economy without serious controversy. Factually, we simply do not know what the features of the economic systems in Central Europe will be once the transformation years are over.
Another reason for using the term ‘transformation’ is to emphasise its continuing character. The first post-socialist years were years of drastic economic reform. These are now history, and the Central European economies broadly function on the basis of market principles. That is not to say that they are identical to any of the Western capitalist systems. Rather, it means that they are now experiencing profound and continuing changes within an environment of capitalist conditions. This change stands midway between the fundamental reforms that directly followed the political revolutions in 1989-91 and the more gradual evolution that characterises mature capitalist economies.

1.1.2. Structural Change

‘Structural change in agriculture’ is here defined as the change in size and organisation of the units of primary production in the food and fibre sector of the economy (informally known as farms). In the context of the post-socialist transformation, the most important form that this development takes is the transition (or lack thereof) from large, formerly collectively or publicly owned and managed farms to either privately owned, wage-labour farms (which can formally still be co-operative ventures), or individually operated structures such as family farms.

The last type of change, ‘individualisation’ of farming (Lerman, 1999), is the main focus of this study. It will be referred to in this study as ‘de-collectivisation’, even though conversion of collective into corporate (limited liability or joint stock) companies would formally also qualify as such. However, ‘de-collectivisation’ in the post-socialist agricultural transition already early acquired the meaning of ‘the process of break-up of collective production units into individual farms (Brooks, 1991; Machness and Schnytzer, 1993; World Bank, 1995; Mathijs, 1998; and Sarris et al. 1999). Does). One aim of this study is to investigate why de-collectivisation in this sense was deemed desirable, and also why it was a general expectation among politicians and analysts early in the transformation. I furthermore investigate how this expectation influenced reform packages for the agricultural sector; what actually happened since; and how this could be explained.

It may be objected that this focus is overly narrow. Most books dealing with agriculture in the region or in other post-socialist countries written from an economic perspective address several aspects of the ‘agricultural transformation’, such as agricultural policies, legislative reform, property rights, market development, the changes in the agribusiness chain, and rural development. Furthermore, by ‘structural change in agriculture’ these books often understand changes in the structure of output and inputs.
In fact, all of these aspects are covered in this thesis (with the exception of rural development, at least when broadly defined). It will become clear that structural change, as defined in this thesis, can only be understood in the context of the above factors. However they are not the object of analysis. As far as explicit analysis and explanation is the aim, I have selected what I think is the central dimension of the micro-economics of agricultural change in the transformation process, namely the transformation of production units.

This is the pivot of other aspects of the evolution of agribusiness and rural areas. On the one hand legislation, property changes and market developments both in the input- and output industries are factors controlling the extent and nature of structural change. On the other, rural development (comprising employment conditions, the emergence of rural industries, the social situation, opportunities for rural tourism development etc.) will be greatly affected by structural change of farms. This process may or may not free resources, land and people for rural industries; it has large consequences for the qualities of the landscape and rural infrastructure; and it is a major determinant of rural unemployment and the availability of social services.

Apart from being central, either as a condition or as a consequence in the transformation process, structural change is also interesting for other reasons. It is relevant to economic development at large in the Central European countries. Moreover, it has also held a special fascination for agricultural and general economists for over two centuries now, and continues to do so today. These circumstances render the subject the more suitable for analysis in a thesis in applied economics.

1.1.3. Central Europe

‘Central Europe’ appears to be an extremely elastic term with geographic, economic, political and cultural connotations that are not always identical, although largely overlapping. It is part of the region often termed ‘Central and Eastern Europe’, most often used to refer to countries east of the European Union and west of Russia. The ‘Eastern’ part comprises the Balkan countries Albania, Romania, Bulgaria and the states on former Yugoslav territory, as well as the European post-Soviet states Moldova, Ukraine, Belarus, and sometimes also European Russia. ‘Central Europe’ includes Poland, the Czech and Slovak Republics, and Hungary, and often (not always) also the Baltic states Latvia, Lithuania and Estonia. Germany is geographically obviously central in Europe, but in analyses of post-socialist issues often excluded from the area because of its high level of integration with the traditionally capitalist Western part of Europe.

In this study the focus is most directly on Central Europe, while the problems studied and conclusions reached will also be relevant (though with qualifications) to the wider area of
Central and Eastern Europe. This relevance will be argued more specifically for several descriptions and conclusions in subsequent chapters.

There are two general qualifications. First, in Poland and former Yugoslavia, individual farming was dominant throughout the socialist era, and post-socialist individualisation is not an issue there. Second, in Ukraine, Belarus and Moldova the economic context and political circumstances differ too much from conditions in the other Central and Eastern European countries. Crucially, they do not share the pre-socialist history of industrialised, capitalist and democratic development, nor the geographical and/or cultural proximity to Western Europe that characterises, to varying extents, all of the other Central and Eastern European states. The same is true for the many other post-socialist (and a few socialist) countries for which structural change in agriculture currently is a highly relevant policy challenge, such as the other post-Soviet states, Vietnam, and China.

This common history has influenced initial conditions for the transformation process in Central and Eastern Europe in myriad ways. Its impact is most visible in Hungary and the Czech and Slovak Republics, and less in the Balkan and Baltic states. Still, the transformation experience there is much more like that of the other Central and Eastern European states than it is like the situation in neighbouring Russia, Moldova or Ukraine. Arguably, this combination of a common past and the location accounts for the fact that, compared to post-Soviet, Asian and African transformation economies, these countries now have stable democracies, positive GDP growth rates, developed formal social security systems of some sort, and market institutions.

With these qualifications, I shall continue to use the term ‘Central Europe’ and ‘Central and Eastern Europe’. The presumption of this thesis is that the Central and Eastern European countries, so defined, reflect highly similar problems also in agricultural structural change, although the differences are appreciated. It is this position that underlies the title of this book. The general approach and theoretical analyses are relevant, particularly, to Central European agriculture; and so are the original data presented in this book, even though these are survey findings from the Czech and Slovak republics only. This position will be elaborated and qualified in chapter 3 (section 3.7.4.).

One might wonder at the reasons for selecting these two countries, out of all the states in the region, for fieldwork. Given the fact that the research topic was initially loosely defined as ‘agriculture in Eastern Europe’ and the author’s affinity with the region developed during previous research in Hungary, there were still 15 states to choose from. An interest in institutions led to a comparative study rather a focus on one country. Study of the literature suggested the
central importance of structural change, which excluded those countries where this was not an issue in the transformation (Poland and former Yugoslavia).

As there were no research contacts in the region at the start of the fieldwork planning in 1996, the expectation was that it would be too demanding to run a solo project in one of the post-Soviet states or one of the Balkan countries and complete it successfully and within the time limits set. Moreover, Hungary was (and is) a country very well covered by empirical research, and I naturally did not want to duplicate existing work. That left me with the Baltic states and the Czech and Slovak Republics. The latter two countries were attractive for several reasons. Contacts there already existed; they are representative for Central Europe, more so than the very small, post-Soviet Baltic states; and they are successor states to the same country. Especially the latter circumstance was appealing, as it provided an opportunity to study both the impact of identical (i.e. pre-1993) institutions in different environments, and the consequences of the later divergence in institutions.

1.2. Methodology and Methods

The nature of the data used and as the methods employed to present and analyse them are both diverse. The material analysed includes historical writings and seminal works in political economy and economics; secondary academic literature on agriculture in the transformation and on the problems of post-socialist economies in general; statistical sources and specialist reports produced by national institutes, universities, interest groups and governmental bodies in Central Europe; reports and data from international institutions such as the World Bank, EBRD, and OECD; and original fieldwork data.

Also the analyses are diverse, both with respect to their methodological background and the techniques used. This is, I hope, not due to a lack of methodological reflection; rather the contrary. The problems addressed are sufficiently diverse to merit separate analytical treatment: it would not have been appropriate to apply a single analytical framework - e.g. optimising individual-choice models, or descriptive institutional analysis - to all selected problems. This position will be elaborated in chapters 4 and 11.

In keeping with this methodological diversity, I have tried to include in the book various genres of economics writings. There is a theoretical discussion of the research topic against the background of the history of economic ideas. There is a survey and assessment of the empirical literature. There are original data from fieldwork, and analyses based on them deriving from both
institutionalist and neo-classical backgrounds, employing descriptive, graphical, statistical and formal methods of analysis.

1.3. Overview of the Book

The subsequent chapter 2 is based on a survey of the theoretical literature and traces the intellectual history, within the area of political economy/economics, of the research question addressed in this study. In chapter 3 the reader is introduced to the main trends in the post-socialist transformation of Central European agriculture, based on a survey of the empirical literature. In chapter 4 a theory of structural change is outlined. This is in the spirit of institutionalist economics, both of the ‘classical’ and the ‘new’ variety. In chapter 5 the primary data, collected by the author, which are used in the analyses in subsequent chapters are described and their validity evaluated. The theoretical framework is then applied in comparative analyses of Czech individual as compared to traditional farms (chapter 6) and Czech as compared to Slovak traditional farms (chapter 7).

Chapters 8 presents an introduction to one important factor in structural change: credit markets for agriculture in the transformation context. Chapter 9 follows up with an analysis of credit allocation mechanisms in Czech agriculture and their implications for both individual and traditional farms. In chapter 10 the impact of risk on the individualisation process is investigated. Since the focus here is on individual decisions within a market context (rather than on the change of those market institutions), these problems of credit and risk lend themselves to a neo-classical approach characterised by assumptions of methodological individualism and profit optimisation. Chapter 11 concludes with a synthesis and discussion of the findings.