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

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Chapter 7

Differences in De-Collectivisation in the Czech and Slovak Republics

The two parts of the country – Masaryk’s country – grew apart at extraordinary speed.

Timothy Garton Ash, 1999

7.1 Introduction

When Czechoslovakia split in 1993, the agricultural sectors in its two successor states were left with identical formal institutional legacies. Both came from a rigidly centrally planned system with, in agriculture, virtually no private farming other than garden plots before 1989. Both implemented restitution and de-collectivisation schemes that were identical in institutional detail and timetable in the crucial and initial phase up to 1993. Both privatised virtually all farm land and assets. However, de-collectivisation (in the restricted sense of individualisation) of farming has been more limited in the Slovak than in the Czech Republic (table 7.1).

Table 7.1: Private Land Ownership and Individual Farming in the Czech and Slovak Republics

<table>
<thead>
<tr>
<th>Year</th>
<th>% of ag. land privately owned</th>
<th>% of ag. land individually worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovak Republic</td>
<td>7</td>
<td>80</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0</td>
<td>94</td>
</tr>
</tbody>
</table>

* This excludes land nominally privately owned, but in practice used by traditional farms.

The combination of close institutional similarity and different outcomes makes for an interesting comparison. The research question that will be addressed in this chapter is therefore: how do we account for the differences in structural change in the agricultural sectors of the Czech and Slovak Republics? We start with some brief background information on both countries. Then the theory outlined in chapter 4 will be used to identify causes of institutional change or stability. The theory will be fleshed out with information from secondary literature, statistical sources, and data from the surveys among traditional farms in both countries collected by the author.
Chapter 7

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7.2 Background Information

In addressing this question, several key similarities and differences between the Czech and Slovak Republics (features that go beyond agriculture as such) should be briefly noted.

7.2.1 History

It was a far from homogeneous state that split on January 1, 1993. The Slovak and Czech parts of Czechoslovakia (later Czecho-Slovakia) had always been different in many respects such as language, religion, international orientation, and economic development. The first Czechoslovak state, created from the Austro-Hungarian empire in 1918, united the Czech lands Bohemia and Moravia with Slovakia and the Sub-Carpathian Ukraine (also called Ruthenia). Moravia and, particularly, Bohemia were rich and industrialised regions, oriented economically and culturally towards Western Europe, especially Germany. Slovakia and Ruthenia were poorer, largely agricultural, dominated by its Hungarian nobility élite, and oriented towards Hungarian and Slav culture. During the Second World War Bohemia and Moravia were absorbed by Nazi Germany in 1938-1939 and Slovakia granted formal independence as a Nazi puppet state in 1939. In the second Czechoslovak republic founded after the war, the above differences still existed. Dostál (1996) describes the tension between the two related, but distinct peoples in all three Czechoslovak states as centre-periphery interactions.

One important difference was that the Czechs, although they had never had a modern independent state before 1918, by then and afterwards had a clearer sense of nationhood, developed during a centuries-long emancipation and, occasionally, liberation struggle against the cultural, political and economic dominance of Germans and Austro-Hungarians. The efforts towards the 1918 independence, the shaping of the first Czechoslovak state, and its administration were very much (not exclusively) Czech endeavours.

The same was true of post-war socialist Czechoslovakia and, though to a clearly lesser extent, of the 1989 Velvet Revolution and the subsequent re-design of the Czechoslovak economy and society (Dostál, 1996:114). Economic vitality, the development and dissemination of ideas and ideologies, and political and cultural innovation in all three (pre-war, socialist and post-socialist) Czechoslovak states were largely Czech-dominated. In view of this dichotomy in
the nation, some observers interpret the 1993 split, which appears to have been pushed by Slovak leader Mecíar rather than by the future Czech PM Klaus or by President Havel, as an effort towards Slovak emancipation from Czech dominance, something that had never really started before (e.g. Garton Ash, 2000:387; Dostál, 1996:143).

7.2.2 Political-Economic Development
The relevance of the above for this study is that the economic history of the two new states after 1992 reflects these general differences. Compared to the Czechs, the Slovaks started with a different economic legacy; they evolved a different economic-political system; they pursued different policies; and they showed a different economic performance (e.g. Commision, 1998b:13-20; OECD, 1997:11).

First, the economic structure of Slovakia was characterised mainly by heavy industry (e.g. armaments) and agriculture, much less by the production of other consumer goods and services. Second, the Slovak economy was influenced by a post-1992 political system that was less tolerant and diverse, and more oriented towards corruption, cronyism and intimidation than the Czech system, described by Garton Ash (2000:390) as a demokratura. Only with the downfall of Prime Minister and quasi-dictator Mecíar in 1998 did a new chapter in Slovak political history start. The economic consequences of that system were rent-seeking, a lack of competition and of innovation, an interdependence of the polity and the economy resulting in soft budgets and corruption, and a general failure to support market development adequately. These weaknesses, characteristic for most of the less successful post-socialist states, were not as damaging as in the Balkan countries or in the former Soviet Union. But the situation was clearly worse than in the Czech Republic.

Third, the Slovaks pursued policies that were more nationalist, less open economically and less oriented towards the West in general, and more designed to preserve existing structures and slow down the transformation process. In the area of economics these partially reversed or halted Czechoslovak transition policies aiming at privatisation and liberalisation. The second wave of privatisation planned for 1994 was postponed. Fast voucher privatisation was replaced by slower ‘employees’ privatisation’ and ‘direct sales’, both of which gave the state a larger role in the process. There was an ideological shift away from private initiative and small business and towards state directives for and administration of businesses, and also towards preservation of large industrial conglomerates.

This tendency, as exemplified by state interference with the investment funds created under Czechoslovak legislation, discouraged foreign investment. Meanwhile on the firm level,
extensive state support through tax deferrals, loans and subsidies continued. Privatisation sales suffered from a lack of transparency, capital markets remained underdeveloped, enterprise restructuring was limited, and payment arrears and associated insolvency problems endemic.

Fourth, a related observation is the difference in economic performance since 1993. The Czechoslovaks experienced not only a Velvet Revolution but also a velvet transition: economic hardship in the transformation was relatively moderate and lasted only a few years, which compares well with developments in most other countries in the region.

Surprisingly for many observers, the Slovak economy did quite well also in the first few years after independence up to 1998. In trade, it capitalised on existing trade relations with Russia for gas and oil imports, developed intensive trade with Germany and Austria, and profited from the customs union with the Czech Republic. Tight monetary policies brought inflation down from 23 % in 1993 to 6 % in 1996 and 1997. It did not suffer from the volatility of foreign portfolio investment that caused the Czech currency crisis in 1997. It gave no large role to voucher privatisation and investment funds in the restructuring of firms, avoiding the associated governance problems that became evident in the Czech Republic. With its relatively protectionist agricultural trade policies it also avoided the onslaught of Western European imports that the Czechs experienced as a result of their initially extremely liberal policies. Slovakia after 1993 reversed the economic contraction of Czechoslovakia, experiencing GDP growth rates of 5 % in 1994 and around 7 % afterwards, with stable unemployment around 13 %.

In the medium term however, Slovakia suffered from high and volatile interest rates in support of the Slovak Koruna, a deterioration of its trade balance, postponed reform of the fiscal system and lax fiscal policies, and in consequence a widening budget deficit and rising debt. These circumstances, in combination with (and partly resulting from) the firm level problems described above, reversed economic prospects temporarily in 1998, and the political changes were accompanied by economic reform.

The Czech Republic, in comparison, operated a very diverse political system and was governed by a devotedly liberal government, continuously led by PM Klaus until 1997. Its economy was characterised by high levels of foreign (especially portfolio) investments, tight monetary policies, ongoing and extensive privatisation through the voucher system in industry (but not as much in banking), and an increase in the number of small, mostly de novo enterprises, especially in the services sector. During 1994-1997, the Czech Republic kept official unemployment under 5 % - the lowest in the region – saw a decrease in inflation from 21 % in 1993 to below 10 % in 1994-1997, and achieved a nearly balanced budget and a relatively stable Koruna. Starting from a considerably higher level of GDP per capita, it experienced lower and
more volatile growth in GDP than the Slovak Republic: 0.6 % in 1993, (the first years without contraction), 2.7 and 6.4 % in 1994 and 1995, and 3.9 % in 1996.

In 1997 structural problems surfaced. These were related to the incestuous governance structures in the banking and industrial sectors that had caused unemployment to remain hidden and had forestalled restructuring and productivity gains. Unemployment increased from 3.5 to 5.9 % in 1996-1998, while growth dipped to 1.0 and 1.9 % in 1997-1998, also because of a deterioration of the trade balance, a large increase in foreign debt and a reversal of portfolio-related money flows (Commission, 1998b: 113-14).

In sum, both countries were successful initially in achieving growth and monetary stabilisation. Slovak growth was driven by trade and, later on, by domestic demand; the Czech success rested largely on capital inflows, private sector growth, and also trade gains. In retrospect, firm level restructuring was limited in both countries, notwithstanding the contrast between, on the one hand, the Czech extensive nominal privatisation programme and its liberal rhetoric, and, on the other, Slovak state interference, isolationism and economic conservatism. Both growth paths needed to be adjusted to the structural situation, as increasing macroeconomic imbalances indicated. These corrections were precipitated by a currency crisis and political scandals in the Czech Republic in 1997, and by the downfall of the Mecíár regime in the Slovak Republic a year later.

Such were the political and economic settings in both countries in which the agricultural transformation process took place. We will now study how this general economic environment, in combination with other factors, affected that process, using the analytical framework outlined in chapter 4. We subsequently review the impact of informal and formal institutions and natural conditions on the level of transaction and transformation costs in the de-collectivisation process.

7.3. Norms, Beliefs and Ideologies

Several informal institutions that define the preferences of decision makers in the institutional change process were different in the two countries. These are by definition rather elusive in the sense that their impact cannot easily be proven or quantified. Nevertheless, they plausibly have been relevant.
7.3.1 Historical Roots

First, before the war the Czech lands of the first Czechoslovak Republic operated a more diversified, industrialised, and sophisticated market system, compared to Slovakia. There was a tradition of market institutions and of private entrepreneurship that had been rooted in the population until only one generation before the reforms. The norms associated with such a society such as personal responsibility, competition, thrift, and risk taking were probably more prevalent among the Czechs than among the Slovaks. Plausibly, they also facilitated the decision to start individual farming.

A related observation is that the Reformation, in the 16th century, has left its mark in the Czech lands, while the Slovaks remained largely of Roman Catholic persuasion. It can be argued, in line with the writings of Weber (1930 ed.) and Tawney (1948), among others, that also this religious difference has produced a difference in economic values favouring private entrepreneurship and individualism in the Czech Republic.

Third, in consequence of the large difference in the average size of private farms before 1948 (itself further explained below), there was a tradition of commercial farming in the Czech Republic, but one of predominantly peasant production in the Slovak Republic. Also this historical market orientation in agriculture most likely increased the relative viability of private farming in the Czech Republic.

Fourth, in the Czech Republic there was less support for farming by public opinion. One reason is that this sector - as in all socialist states in the region - used to be the most conspicuously socialised, which to many gave it a communist odium that did not appeal to liberal politicians and their constituencies. This negative image and its possible impact on the speed of structural change were more relevant in the Czech Republic, because economic and political liberalism were initially more strongly pursued politically and more widely supported by the population than in Slovakia (and, for that matter, most other Central and Eastern European post-socialist societies). A related observation is that there was possibly less empathy with the farmer in general because the Czech lands have long been industrialised, again in contrast to Slovakia.

7.3.2 Capitalism and the West

These factors coincided with political economy factors to produce not only a low level of popular support of, and affinity with agriculture, but also political choices that disadvantaged the sector compared to Slovakia. Such political economy factors include the historically small contribution of agriculture to the Czech economy, decreasing from 6.2% of GDP in 1989 to 2.1
% in 1998 (OECD, 1997; MASR, 1998). This prompted Minister of Agriculture Lux in 1994 to note, in the introduction to a survey document on the state of agriculture, that “only a fraction of society is concerned with agriculture and the question can arise of whether there is any point in devoting so much attention to agriculture when the world today is at our doorstep” (MACR, 1994:3). In contrast, no Slovak official in the period felt obliged to address this question. The phrasing of this quote suggests a tension between the process of international integration and attention to the agricultural sector. Although there is no reason to pose this contradiction – the post-war Western world provides a persuasive counterexample - the perception of contrast does fit well with the image of agriculture as something from the collectivist past, at a time when Czech society was very oriented to the capitalist future.

In addition to this domestic attitude, a second and related major political economy factor explaining policies is the Czech desire, again both on the official and the popular level, to join the European Union – a desire that was especially ardent in the first years of the transformation. As in the other post-socialist states in Central Europe, agriculture was, and is, a major obstacle for accession, both because of its perceived threat to Western European farmers and because of the large consequences for the Union budget of extending present EU support levels to farmers in new member states. Czechoslovak, and later Czech agricultural policies, which had dramatic consequences for the size and viability of the sector, sometimes appeared equally motivated by the official rationale of market adjustments as by the wish to please Western European politicians and, by showing how insignificant and harmless the sector was, to speed up accession. And with success: in 1996 Minister of Agriculture Lux could report that the European Commission was of the opinion that “agriculture should not pose a problem for accession” (MACR, 1997:1).

That there was more than political economy behind the markedly different approaches to agriculture in both countries is clear when we turn to Slovak policies. Also in Slovakia the sector was relatively small, although appreciably larger than in the Czech Republic. And also there the desire to join the Union was great. Yet the Slovaks after 1992 until 1998 embarked on a course of conservatism and nationalism. State media and speeches by officials frequently emphasised Slovakian independence in many areas, often also asserting the merits of things Slovak compared to those of foreign origin. To some extent this development was related to the attention that PM Mečiár claimed for his own person and qualities, combined with his tendency to identify Slovakia with himself. On a less personal level, this new political course, as much as the very decision to split, could well be explained by the Slovaks’ earlier lack of emancipation.
However that may be, all observers agree that nationalism and conservatism characterised the episode. A noticeable consequence of these values in the agricultural area is that the government of the Slovak Republic, while formally endorsing the neutrality towards different farming modes and the market orientation of the sector originating in Czechoslovak policies, in fact propagated conservation of existing structures and limitation of the market mechanism by state paternalism. This difference in policies with the Czech Republic is not so much itself a difference in societal values, as above, as a consequence of them. In both countries, values and attitudes towards agriculture that had deep historical roots were intensified during the transformation, reinforced by political economy conditions, adopted by the respective governments, and used as guidelines for policies. To these we now turn.

7.4 Authority and Agricultural Policies

7.4.1 Slovak Policies

After the first few years of extremely liberal agricultural policies, with dramatic consequences for the sector, the government of the Slovak Republic within the Czech and Slovak Federative Republic in 1992 adopted the so-called ‘Concept and Principles of the Agricultural Policy’, which it started to implement in 1993. As the Ministry of Agriculture later put it, it was “based on the review of the impact of the reforms but also on the experience of the European Union and global agriculture…” (MASR, 1998: 176). Consider some passages from this document (MASR, 1993 in the original translation published by the Ministry):

“The primary task is to stop the present decline of the Slovak agriculture, and to create conditions for its stabilization and further development (p. 5). Agriculture justifiably belongs to the priorities of the economic policy of Slovakia (p. 8). Slovakia’s agrarian policy will, in the nearest future, focus on the following strategic goals: state food security; economic stability, appropriate agricultural income and balanced development of the regions; improvement and protection of farmland; and preserving agriculture in the low-competitive, hilly areas” (p. 9).

In the document a range of instruments to achieve these goals were proposed such as “increasing the price level to the level of covering costs of production, tax reduction, and subsidies on interest rates and on fuel”. It also contains an analysis of the dietary habits of the Slovak population (characterised by “nutritive imbalance, excessive energetic value, and high salt and alcohol consumption”), leading to the statement that “the food security of the country.
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and the quantitatively and qualitatively balanced food [consumption] for the population belongs to [the] strategic aims for the agrarian policy." Specifically, "production sources and the volume of production are intended to be kept at minimally the level of 90 % of projected real consumption"(p. 10-11). Moreover "it is necessary to stop the uncontrolled decrease of herds of milk cows and to stabilise their inventories..." (p.15), and "desirable to increase sheep inventories by at least 30 % ... and poultry rearing by 21-24 %" (p. 16). Also detailed suggestions for the location and intensity of the different crop and livestock products are included.

The authors notice the "exodus of qualified workforce, including management", suggest that "a supplementary source of employment and financial means in the form of subsidies may stabilize rural employment", and assert that "the parity of earnings of people employed in the agricultural sector should not decline below 90 % of the average salaries in the other branches of the national economy" (p.18). Also the need for up-to-date technology, self-sufficiency in energy use [sic!] and environmental improvement are emphasised (pp. 18-19).

'Stabilization' is the key word, and in economic terms this is defined as "the state when a majority of agricultural economic units will be able to produce with profitability" (p.23). The above citations demonstrate that the avowed policy goal from the very beginnings of the Slovak state was to maintain the size of the sector and improve its profitability — or, more accurately, its financial viability. The means were both financial support and detailed prescriptions of investment strategy, herd sizes, land use and output mix — in short, indicative planning.

This programme is indeed reflected in agricultural policies in subsequent years, although its ambitious aims were not achieved. First, Slovakia in 1993-1998 operated a price intervention system that was stepped up after 1993 rather than scaled down, as in the Czech Republic. Second, direct payments per hectare were allocated to support farming in less favoured areas. Third, a relatively large and gradually extended system of input subsidies was in use during the period under study. Fourth, credit extension was supported either through favourable interest rates or through the State Support Fund for Agriculture and the Food Industry providing collateral. In comparison to the Czech system it allocated more credit, and accorded a larger role in the credit extension decision to the Fund, which could overrule a negative assessment by a bank. While saving farms and supporting output levels, these interventions also decreased incentives to restructure for reasons of competitiveness and created resource misallocation (OECD, 1998:18-19).
7.4.2 Czech Policies

In contrast, the Czechs after 1992 continued with reduced state support for agriculture. The Czech counterpart to the Slovak document quoted above, the ‘Basic Principles of the Agricultural Policies of the Government of the Czech Republic’ (1994) states that “it would be a mistake to copy strongly protectionist policies, such as those in Bavaria or Austria” and that “foreign competition is the sole [sic] guarantee that quality and economy will become features of our agriculture”. It asserts “equality of status for all forms of private management in both agriculture and forestry” and notes that “government subsidies [should] not preserve the survival of non-profitable agricultural production in a number of agricultural concerns and areas”. Moreover, “the development of agriculture from 1990 to the present can be considered positive since it has involved the removal of overproduction and unproductive output” (MACR, 1994:4.5.6) – a rather different assessment than the Slovaks’ aim to “stop the present decline” in 1992.

The Czechs were to partially reverse these liberal policies a few years later, after experiencing the losses from trade with subsidised competitors. In 1995 Minister Lux admitted that “we allowed ourselves to go too far in opening up our markets to a world which we found soon enough was not going to open up so much for us” (MACR, 1995b:5). And in 1996 he “(saw) a solution … for the enduring pain of our agriculture … in improved protection of agricultural markets and also in a greater state involvement…”(MACR, 1996:2). But also after 1995, Czech policies remained less interventionist and protectionist than Slovak policies.

7.4.3 A Comparison of Outcomes

Some figures from these later years can serve to illustrate the consequences of different political choices in both successor states (MASR, 1998:13-14,19). In the year 1997, the shares of Slovak agricultural output in GDP and in employment both decreased by about a tenth; but subsidies increased by 20 % and investment by 22 %. Budget outlays for agriculture, in relative terms, were roughly double those in the Czech Republic in 1993-1997, and the ratio increased over the years. In the year 1997 Slovakia spent 136 ECU per hectare of agricultural land on budgetary outlays for agriculture, in comparison to 57 in the Czech Republic (and, incidentally, 390 in the EU). In the same year, state support as a percentage of gross agricultural output (including direct payments), if expressed in the conventional measure of Production Subsidy Equivalent (PSE) was 25 in Slovakia and 11 in the Czech Republic (and 42 in the EU).

Also in the survey data the larger Slovak state intervention, as experienced on the farm level, is evidenced. A first indication is Czech and Slovak farm managers’ subjective evaluation
of the importance of several factors affecting decisions on product selection and farm expansion. The options included input and output prices, changes in area, workers and technology, and changes in subsidy allocation policies. There were no statistically significant differences in the 'score' between Czech and Slovak managers of traditional farms (at $\alpha = .05$), except for the subsidy factor. On a scale of 1 (very important) to 5 (not important), Slovak and Czech farmers ($n=88$ and $n=66$) ranked this factor on 2.6 and 3.3, respectively.

So Slovak managers reported more influence from changes in subsidy allocation policies; and indeed, they did rely more on subsidies. For a second survey finding is that subsidies as share of total financial revenues in 1997 was on average 20-30% in Slovak farms and 10-20% in Czech farms. It should be noted that these figures are subjective assessments and likely underestimate indirect subsidies, which constituted a larger share of total subsidies in Slovakia.

Third, clear differences were also found in the percentage of managers reporting access to subsidies for each of the years 1993-1997. That figure varies between 77% and 85% in the Slovak sample ($n=92$) and between 22% and 50% in the Czech sample ($n=60$). The average number of years with access to subsidies in this 5-year period was 1.6 for Czech farmers and 4.1 for the Slovaks. In contrast, access to credit over these years was reported by between 54% and 69% of the Czechs, and by between 43% and 52% of the Slovaks.

How problematic were restrictions on access to such funds? Czech ($n=64$) and Slovak ($n=89$) managers, when asked to rank several potential problem factors for operating their enterprise on a scale of 1 (big problem) to 5 (no problem), showed differences in both 'access to subsidies' and 'access to credit'. In both cases, Czech managers reported less of a problem. On the subsidy factor they scored an average 3.2 compared to 2.8 for the Slovaks respectively. For access to credit, the scores were 2.8 and 2.3, respectively. (Differences are statistically significant, $\alpha = .05$).

The first inference from these figures is about the relative importance of subsidies in Czech as compared to Slovak farms. We know, both from official sources and from the percentages reported above, that access to subsidies was better for Slovak farm managers. If the Czech managers still scored higher on average, this implies that, although they had more limited access to subsidies, they still thought this was less of a problem than did the Slovak managers. It follows that the subsidy factor was less important in the operation of Czech farms, a result that supports the first of the survey results reported above on page 134. Czech farm managers had substituted dependence on factors such as prices and available technology for reliance on subsidies, to a larger extent than Slovak farm managers.
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A second inference is about the relative importance of the two sources of liquidity within a given farm. The Czech managers reported that the credit factor was more important (because more constraining), while the Slovaks reported that the subsidy factor was more important. Since for Czech managers credit allocation was (partly) predicated on their profitability (as will be shown in chapter 9), the difference in relative importance of credit and subsidies also likely reflects differences in the orientation on, and restructuring towards, profitable farming.

7.5 Production Costs

7.5.1 Natural Conditions
Natural circumstances include production conditions and location. Production conditions in the Czech Republic are generally more favourable for agriculture. There is relatively better agricultural land, as indicated by the factors soil types, nutrients and relief. Moreover environmental problems are larger in Slovakia. Over half of Slovak agricultural land in 1998 was threatened by water erosion, while 31% was contaminated with hazardous substances or at risk of contamination (MASR, 1998:50).

Location as such, apart from the consequences for physical production circumstances, is another natural endowment, although its impact on economic success is largely controlled by human factors. The closer geographical and cultural proximity to Western Europe (particularly Germany) of the Czech Republic facilitated a more rapid move to market conditions and better opportunities for technology transfers and trade than was the case in Slovakia.

7.5.2 Relative Prices and Technology
Wages in agriculture relative to those in other sectors developed similarly in both countries. In 1989/90, the ratio of Czechoslovak agricultural wages to the national average was 1.07 in Slovakia and 1.04 in the Czech part of the federation. Subsequently, the Czech ratio decreased steadily to 0.85 in 1995 and 0.80 in 1998, while the Slovak ratio decreased to 0.80 in 1995 and 0.78 in 1998 (excluding individual farms). This means that the relative wage level in both countries constituted a similar incentive to quit a job in a traditional farm (Kabat and Hagedorn, 1997:234; MACR, 1998; MACR, 1996; MASR, 1998).

However, because the Slovak economy as a whole transformed more slowly than the Czech Republic, the alternative to employment in traditional agriculture was less often employment in another sector of the economy. There were no (or only small) dynamic new
sectors (such as telecommunications and financial services in the Czech Republic), nor reinvigoration of old ones (such as the Škoda rebirth) which could absorb redundant labour from rural areas. In comparison to the Czech Republic, this reinforced the larger role for Slovak agriculture in maintaining employment, already evidenced by the continuously higher proportion of the Slovak labour force in agriculture compared to the Czech proportion.

In addition, also opportunities for finding a new agricultural job were more limited. Job security was smaller in Slovakian agriculture, as evidenced by the relatively larger decrease in agricultural employment, both in relative and absolute terms, compared to the Czech Republic (Csaki et al., 1999; OECD, 1998). Hence, Slovak conditions may have led workers and managers of traditional farms to be more hesitant in quitting their traditional-farm job.

Another factor in the relative persistence of traditional farming in the Slovak Republic was that the standard of living of the population was lower, and the overall level of unemployment higher. Moreover, the regional disparities in both employment and standard of living were larger in the Slovak economy, to the disadvantage of rural areas (OECD, 1997; MASR, 1998). This implied, from a farm management point of view, that the relative costs of labour in agriculture were lower. Because individual farms of viable size typically rely on technology because of the limits on their labour supply, relatively cheap labour is a disincentive to start such a farm and compete with wage-labour farming.

In the survey, managers were asked to indicate their agreement with the following statement: “With current machinery prices and wages, I would like to purchase more machinery and reduce the number of employees.” On a scale of 1 (I agree) to 5 (I disagree), Slovak managers scored an average 3.1, their Czech colleagues 2.5. Labour saving investments were not attractive in both countries, plausibly because of the adverse economic conditions; but they were even more unattractive for Slovak managers – a statistically significant (α=.05) finding in line with the above argument about cheaper labour.

Finally, Slovakia’s lower standard of living (overall and especially in rural areas) also constituted a larger incentive for owners of land to use it for subsistence production rather than rent it to an individual farm. This meant that land in the individual sector more often continued to be used in small plots rather than in larger individual farms. In this way, also differences in welfare had a negative impact on the viability of the Slovak individual farm sector compared to its Czech counterpart.

As to technology, this was, first, more intensively used in Slovak farms because of the historical legacy of a larger orientation to livestock production, which is generally more capital-intensive than crop production. Second, the technology used was also more suited for large-scale
production, simply because Slovak farms were larger (see below). This aggravated the asset divisibility problem that individual farmers relying on restituted or de-collectivised farm assets face.

Third, despite the larger amounts of technology used on Slovak farms, technical efficiency was lower than in Czech farms (e.g. Mathijss et al, 1999). For instance, 1998 per hectare yields of potatoes, rape seed, legumes, sugar beet, milk yields per dairy cow and weight gains in pig and beef fattening were all higher in the Czech than in the Slovak Republic (MACR, 1998). For individual farmers, using existing technology through the de-collectivisation process was thus less attractive, and investments in new technologies more necessary. It may be remembered that obtaining non-land assets (i.e. technology) in the de-collectivisation process was found to be important for success in individual farming in the Czech Republic (see table 6.4). The more limited usefulness of assets obtained in the de-collectivisation process in Slovakia thus implies a relative disadvantage for individual farmers there. In short, also the factor technology constituted, in various ways, a barrier for individual farming in Slovakia relative to the Czech Republic.

7.6 Formal Institutions

Several factors in both the formal institutional legacy and the evolution of formal institutions in the agricultural sectors affected de-collectivisation levels. These include farm size and land ownership patterns and the effectiveness of legislation concerning bankruptcy and contract enforcement.

7.6.1 Traditional Farm Types and Sizes

The initial structure of the agricultural sector was one of larger farms in the Czech Republic, mainly because there were relatively more state farms. In 1989, there were 71 state farms with an average size of 5,094 hectares in Slovakia and 636 collective farms working on average 2,642 hectares. In comparison, in the Czech Republic in 1989, 174 state farms worked an average of 6,259 hectares, while Czech collective farms numbered 1,024 and were of similar size to the Slovak collectives, averaging 2,561 hectares (OECD, 1998:32; 1995:3; MACR, 1994 and Kabat and Hagedorn, 1997:233).

The size difference of the average traditional farm was reversed during the transformation, because Czech farms were more often divided into several successor
organisations (see section 5.4.2. for details). In 1997, Slovak traditional farms worked 1,425 hectares on average. Co-operative farms worked 1,567 and farming companies 1,170 hectares. For Czech traditional farms the figure was 906 hectares on average: 1,349 for co-operatives and 666 for corporate farms. The latter type was by then about twice as numerous as co-operatives in the Czech Republic, while in Slovakia the reverse was true (MASR, 1998; MACR, 1998).

7.6.2 Land Ownership Patterns
A second factor resulting from formal institutions was that plot size of individually owned land was much smaller in Slovakia as a result of the restitution system. This revived 1948 ownership patterns which had evolved in accordance with the Napoleonic inheritance code, under which in each generation farm land was divided. In contrast, in Bohemia and Moravia the same legislation revived 1948 ownership patterns that reflected inheritance based on primogeniture, allowing farm land to be passed on to the next generation without divisions. By 1948 average Bohemian and Moravian farms cultivated between 20 and 50 hectares of land, compared to between 2 and 5 hectares for Slovak farms (Kabat and Hagedorn, 1997:231). The number of landowners in Slovakia, a country with a 5 million population, was estimated at 2 million in 1998, the number of plots at 7 million (Wolz et al., 1998). In the Czech Republic there were 3 million landowners on a 10 million population (Csaki et al., 1999).

Also in the survey data the difference in the size of restituted plots was clear. The distribution of Slovak farm land owners (numbering 548 per farm on average) over the three plot size categories 0-5 hectares, 5-10 hectares and more than 10 hectares was 84 %, 15 % and 2 %, respectively. In the Czech sample, the figures were 70 %, 20 % and 9 %.

7.6.3 The Farm Size Gap
In consequence, Slovak traditional farms were larger (1,425 hectares in 1998 compared to 906 for Czech farms) while individual farms (of all sorts and sizes) were smaller than in the Czech Republic. In 1998 there were probably around 20,000 Slovak and 93,000 Czech individual farmers and gardeners, which compares to 1,346 Slovak and 3,464 Czech traditional farms (Blaas, 1999; MACR, 1999). According to Wolz et al. (1998:75), only 7,500 of the Slovak individual farmers were 'genuine' farmers (i.e. not just garden cultivators), while the Czech number of market-oriented individual farmers is 22,971 (MACR, 1999:A2.1/04).
The average size of the Slovak individual farms was only 11 hectares in 1998, which compares to the Czech 26 hectares average. Still, 62% of the 7,500 Slovak farms worked less than 5 hectares, and only 5%, or less than 400 farmers, worked over 50 hectares. In the Czech Republic, ‘only’ 53% of the 22,971 ‘genuine’ individual farmers worked less than 10 hectares, and 12% (or about 2,700 farmers) had over 50 hectares (MACR, 1999). So the number of Czech individual farmers working over 50 hectares, a size that might be considered as constituting an economically viable farm, is nearly seven times the Slovak number. These figures indicate how little mere numbers of individual farmers say about their importance for market-oriented agricultural production. They also show that the farm size gap caused Slovak individual farmers to remain less important – both in terms of land and number of commercially viable businesses - for commercial agriculture than their Czech colleagues.

The fragmented land ownership pattern and the size gap between traditional farms and the overwhelming majority of individual farms has plausibly hindered de-collectivisation in Slovakia more than in the Czech Republic, in several ways. First, there was the administrative challenge of defining ownership rights and shares in co-operative farms, largely based on ownership of tiny plots of land. “Consolidation of land titles is a long term process” (MASR, 1998:51). In 1995, 48% of Slovak restitution claims were settled, increasing to 78% in 1996 and 80% in 1998. This compares to over 90% in the Czech Republic already achieved in 1996 (MASR, 1995:41; 1996:34; 1998:51; Csaki et al, 1999:27; MACR, 1996:3). Given the apparent importance of the growth of the individual farm sector in the first transformation years (see chapter 6), the slower restitution process in Slovakia can be assumed to have hindered de-collectivisation relative to the Czech Republic.

Also the formal process of de-collectivisation, i.e. the legal settlement of claims by Slovak citizens to a share in a co-operative farm, was progressing rather slowly. While a total of 980 agricultural co-operatives were obliged to issue shares during the transformation process, by June 1998 only 521 had done so. A mere 137 had actually transferred shares to claimants, while in only 5.2% of co-operatives shares were traded (MASR, 1998:166). It is therefore doubtful that these shares represented full ownership, at least if that is defined as the right to use, to profit from, and to dispose of, the good (here: farm land and other assets).

Privatisation of state farms was more successful. By the end of 1997, 405 of the 438 state farms had been sold off. State farms in the socialist era were deliberately located in areas were natural condition were less favourable, or were established in place of failed collective farms. In consequence, their production conditions were worse than average, which is one of the reasons that state farms were the least efficient farming modes under socialism (OECD, 1998: 32). To
the extent that the factors behind that poor performance are permanent (such as natural conditions), those individual farms that had been established with land and assets formerly in use by state farms now faced the same problems. The fact that de-nationalisation of state farms was implemented speedier than the effective (and even the legal) de-collectivisation of co-operative farms meant that effectively the worse part of Slovak farm land and other assets passed into effective individual ownership, while the best part largely remained in the traditional sector.

Another result of fragmented ownership in Slovakia was that de-collectivisation in the sense of the transfer of land from farms to individuals did not assist the emergence of a viable individual farming sector because the plots involved were so tiny. This is evidenced by the official data cited above, and also by survey data. In the Czech sample, an average of 26 people had taken out their land from the traditional farm in 1992-1998. In Slovakia, this number was 43. Yet the number of ‘genuine’, viable individual farms per traditional farm in 1998 was much lower in both countries, and this ratio was again lower in Slovakia than in the Czech Republic. Land and property transfers in most cases merely increased the number of gardens or plots used for subsistence production, and did so more in Slovakia than in the Czech Republic.

Apart from land, the fact of large traditional and small individual farms aggravated the size gap in non-land assets noted earlier; and also the human capital compatibility problem that is part of the de-collectivisation challenge. Finally, in cases where the interests of prospective individual farmers and traditional farm management clashed, small restituted properties have strengthened the position of the latter party. We will analyse these relative power positions in more detail in section 7.7 below.

7.6.4. Bankruptcy Procedures

Another institutional feature - part legacy, partly new - that hindered the individualisation of traditional farms was constituted by what might be labelled the Three B’s: Bad debts, Bad bills, and Barter. In the Czech and Slovak Republics, the bad debt problem had never really been solved (Csaki et al., 1999:32). Most traditional farms still had liabilities dating from the central planning era, which came to be considered as commercial debts after 1989. Farms were unlikely ever to repay them, and so these debts blurred the solvency situation of traditional farms. It became hard to distinguish between solvent and insolvent farms. Hence the criteria for bankruptcy were extremely vague and its implementation was problematic. In addition, especially Slovak bankruptcy and mortgage legislation was completed only late in the transformation period (OECD, 1998:14). Czech legislation was completed earlier, but also had little practical effect. at least in agriculture.
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The consequence was that especially in the last years of the period studied here, the number of 'inactive' agricultural co-operatives increased. For example, in Slovakia it rose by 68 in 1997 to a total of 260. These farms then comprised of 23% of all co-operative farms, and 89% of all inactive companies in agriculture. Production was usually terminated because of the accumulation of untenable amounts of debt (MASR, 1998:167). A clear sign of the defective legislative process is that only 123 of these companies were formally in the process of liquidation or bankruptcy, while only 4 had actually been liquidated and one declared bankrupt (MASR, 1998:167).

The others were in reality not inactive at all, but simply continued to produce, employ, and transact. Although filed for bankruptcy or liquidation, they were not legally forced to end their activities, and could continue as long as at least wages could be paid. Obviously there was sufficient incentive to attempt this for those directly involved, i.e. management and members/workers. Given soft state and bank budgets and given unclear farm solvency, such farms typically managed to continue operations, capitalising on 'soft' credit and subsidy flows.

7.6.5. Arrears and Barter

Another and related institutional anomaly, typical for many transition economies, assisted the prolonged survival of these farms. Farm managers often ran arrears in the payment of bills from input providers - sometimes also from the tax authorities - in order to create extra liquidity. In turn, they typically also faced payment arrears from their output buyers, so that chains of payment arrears developed and this transaction behaviour became endemic and self-enforcing – a problem existing in the entire Slovak economy (Commission, 1998c). Although the net effect of arrears on liquidity was thus not always positive, the phenomenon did cause a further blurring of solvency boundaries. In addition to 'bad' debts, there were now also 'bad' bills: receivables and payables that were difficult to value and the eventual payment of which was doubtful.

Yet another, though less important, strategy for survival was barter. Although in Central Europe this was not practised as widely as, for instance, in the former Soviet Union or Romania, the direct exchange of goods rather than using money was another factor in relieving the liquidity squeeze for weak farms. This was mainly used in inter enterprise transactions, but also in the payment of wages to employees or - as we shall see - of land rent to private landowners.

7.6.6. Consequences for De-collectivisation

Debt default, payment arrears and barter were induced by the disastrous financial condition of most farms and made possible by the ineffectiveness of contract legislation and enforcement (see
e.g. Gow et al. (2000) for the Slovak case). In many cases both parties to the transaction (bank and farm; or firm and farm) had a net gain from payment delay or accepting barter instead of enforcement of bankruptcy or payment in money. But even if one did not, there was no effective third-party enforcement of contracts through legal redress.

These practices disadvantaged individual farmers compared to traditional farm managers, for two reasons. First, the continued operation of legally or factually bankrupt farms was assisted by their blurred solvency boundaries initially caused by bad debts. Individual farmers did not have a debt overhang from the socialist era and could not blur their solvency boundaries. Second, survival without solvency was predicated on the use of subsidies or on (further) accumulation of debts and of payment arrears. These ‘settlements’ were possible either because of mutual agreements between the farm management and the transaction partners (bank, tax authority or firm), because the partner’s stake in the farm was too large to allow bankruptcy. Or it was unilaterally imposed upon the partner because the farm was in a powerful position and the partner could not make a credible threat in order to enforce payment.

Both situations more often applied to large and long-established farms. In comparison to smaller and newly established farms, they did less often depend on just one input provider or output buyer. They catered for a larger share of produce to an output buyer or processor, or of inputs to an input seller, thus making such firms more dependent. They were also more important in supporting local employment, which facilitated subsidy allocation, sometimes through commercial banks.

And indeed, in the Czech survey traditional farms reported that payment arrears were (statistically significantly) more of a problem for operating their businesses than did individual farmers, scoring 1.5 and 1.9 on a scale of 1 (big problem) to 5 (no problem), respectively. This means that payment arrears problems are more convincingly explained by the degree of integration of the farm into the local economic network (through which arrears are transmitted) than as mainly resulting from the market power of the stronger transaction partner. In the latter account, individual farms would typically suffer more, while in the first explanation traditional farms would be more involved – as was indeed found to be the case. (Additional evidence for the role of local economic networks will be considered in chapter 9.)

If we compare the relevance of the above breeding grounds for such transaction behaviour in both countries, it is clear that the relative survival advantage of traditional farms based on it was larger in Slovakia than in the Czech Republic. Slovak traditional farms were larger. The higher level of Slovak state support offered more opportunities for access to subsidies in various forms. Slovak contract and bankruptcy legislation and enforcement came later and
was less effective. And competition on input and output markets was smaller: the concentration of upstream and downstream industry was larger in Slovakia than in the Czech Republic, and while most enterprises were privatised, Slovak anti-monopoly and anti-trust legislation had limited effectiveness (OECD, 1998).

7.7 Power and the Polity

In the explanatory model suggested in chapter 4, the distribution of power in the short term is based on agents' control (1) over wealth and (2) over formal institutions. Note that under the second heading we study not the evolution of formal institutions as such (which may be similar in both countries) but rather the ways in which formal institutions were used by actors in the transformation process.

7.7.1 Control Over Wealth

Control over wealth, and over the future income stream that may increase it, is either a control over present endowments, or control over means to create wealth in the future (through market transactions or otherwise). In the farm de-collectivisation process, wealth is embodied in endowment of farm land and farm assets, and in access to profitable transaction relations and to financial resources (from banks, other firms, or the state).

As to present endowments, traditional farm management were obviously in a better position to control these sources than (prospective) individual farmers, the difference being larger in Slovakia for reasons explained earlier. As to transactions, access to existing transaction relations was more important for successful market operation in Slovakia because there were fewer new companies in the up- and downstream industries. Likewise, existing relations with banks and (other) subsidy allocators gave management an advantage in capturing the gains from protectionist policies, for instance through payment delays and soft budgets, as explained above. Because these policies were more important in Slovakia, also the advantage of Slovak traditional farm management relative to individual farmers in profiting from them were larger, compared to the Czech case.

In addition, there are several reasons to assume that the power of traditional farm management based on wealth control was larger in the Slovak than in the Czech Republic. some
of them already noted above. The larger scale on which non-land assets could be used decreased their usefulness for individual farmers, and thus their bargaining position in acquiring non-land assets. The larger divisibility problems allowed more discretion for traditional farm management in devising procedures of division. Smaller plot size likewise implied that management could more effectively influence the transfer of farm land, thus better controlling this source of wealth. Owners of only a tiny part of farm assets (including, and mostly largely comprising of, land) cannot make credible threats if their attempts at taking out their share are obstructed. Small land properties for citizens also meant that their stake in the farm was smaller, and so were both their efforts to exert influence on farm policies and the effectiveness of these efforts.

In relation to this, an interesting detail in the survey data is that land owners in Slovak traditional farms were mostly (in 80 % of the cases) paid their rent in kind rather than money. In the Czech sample, the figure was 59 %. In-kind payment is more convenient for the management if liquidity is tight, although it is not always attractive for owners. In such situations the more frequent use of this payment method in Slovakia may therefore indicate larger managerial discretion.

But in-kind payment may also be preferred by owners, for instance if they live in the vicinity of the farm. In that case in-kind payment of, for instance, food, valued by the land owner at retail prices, may exceed the extra transaction costs (mainly of travel) of in-kind over monetary payment. Indeed, in the Slovak sample the share of rural rather than urban landowners was larger (73 %, n=87) than in the Czech sample (60 %, n=67). Given the limited mobility of the rural population, plausibly Slovak land owners lived on average closer to the farm. The benefits from owning the land are thus partly specific to the owner’s relation to the farm, which both decreases owners’ negotiation position and their willingness to participate in de-collectivisation procedures. This specificity was more important in Slovakia than in the Czech Republic.

7.7.2. Control Over Formal Institutions
Control over formal institutions comprises, in our case, control over implementing the formal procedures of de-collectivisation and over agricultural policies. The implementation, though not the design, of the formal de-collectivisation process differed appreciably (section 7.6.3). and this may indeed be interpreted as an indication of the larger discretion of Slovak farm managers, relative to their Czech colleagues. The fewer and larger Slovak traditional farms, representing relatively larger economic interests, can be assumed to have had more political leverage, particularly on the local and regional level, to curb or obstruct the de-collectivisation process.
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The management's more powerful position within Slovak traditional farms is perhaps also evidenced by employment developments reported in the survey. In line with the official data, total farm employment since the start of the transformation decreased, on average by 49% in the Slovak sample (n=95) and by 34% in the Czech sample (n=66). In both samples the average decrease of both the number of workers and of technical or administrative personnel are close to the above figures for the overall decline. But the average size of the Czech management teams decreased from 6 to 5, while the Slovak management increased from 6 to 7. In circumstances of relatively more labour shedding, they not just preserved their position; they improved it. This appears to imply that Slovak managers had relatively more power within the farm to protect their jobs. They were plausibly also in a better position to use this larger power in the de-collectivisation process.

In combination with other evidence, it is therefore reasonable to assume that the slower de-collectivisation process in Slovakia in general noted above was partly caused by a lack of cooperation from traditional farm management, rather than resulting only from administrative complexity.

7.7.3. The Political Constellation

The second form of control over formal institutions is influence on the policy creation process. On the national level, in Slovakia there was a larger indirect influence of the traditional-farming sector through the larger share of agriculture in employment and GDP, and through the larger impact of food prices on household budgets, compared to the Czech Republic. Traditional farms also exercised more power in a direct way, through their political representation in the Slovak Chamber for Agriculture and Food.

This body played a significant role in the sector (and still does, at the moment of writing). It is a self-governing public service institution independent of the state, whose role is to act and lobby on behalf of its members, to represent their interests in the formulation of economic and social polices, to participate in the implementation of these policies, to support its members in their business activities, and generally to promote the development of agriculture and the agro-food industry. The Slovak Association of Agricultural Co-operatives, representing the co-operative farms that operate the bulk of agricultural land, has a much stronger negotiating position than the other agricultural interest groups within the Chamber, including the Association of Landowners and Private Farmers in Slovakia, representing the interests of individual farmers and land owners (OECD, 1998:85).
In comparison, the Czech counterpart organisation, the Agrarian Chamber, is less effective. This organisation representing farmer interests with the government includes the Czech-Moravian Union of Agricultural Entrepreneurs (representing former state farms), the Czech-Moravian Union of Agricultural Co-operatives (representing corporate and co-operative farms), and the Association of Private Farmers of the Czech Republic (representing individual farmers). Earlier interview findings by the author suggest that representatives of all three constituent bodies view the Chamber as ineffective in representing their interests, perhaps because of the larger diversity of interests within the Chamber compared to the Slovak situation (Bezemer, 1999).

So there are two differences in political representation. First, the Agrarian Chamber, mainly furthering the interests of traditional farms, is less effective in the Czech Republic. Second, in the Slovak Chamber individual farmers play practically no role; in the Czech Chamber they play a minor, but not an insignificant role. This situation constitutes a relative advantage for Slovak traditional farms.

### 7.8 Summary and Conclusions

#### 7.8.1 Summary

We have applied the theory of systemic change outlined in chapter 4 to an empirical comparison of the Czech and Slovak de-collectivisation experiences. We have evaluated the impact of the historical and political-economic setting in general; of informal institutions and their expression in policies; of natural conditions and relative prices of factors of production; of the legacy of land ownership patterns and farm sizes; of other formal institutions such as bankruptcy and contract legislation; and of the distribution of power, both on the level of the farm and of the polity. In all of these areas, we find elements that help explain the more limited de-collectivisation in the Slovak Republic. Two factors appear most important.

First, there is the difference between Czech and Slovak agricultural policies, which reflect more general political attitudes and which seems to be rooted in informal, historically determined institutions as well as political economy conditions. The political situation in Slovakia also impeded transparency in both politics and economics, increasing the opportunities for rent seeking by established interest groups. For both reasons, Slovak traditional farmers seem to have been in a better position to apply survival strategies based on payment arrears, soft state
budgets, and bad debts, and also to have enjoyed more effective political representation and support.

Second, there is the extremely fragmented land ownership pattern and larger size gap between traditional and individual farms in Slovakia, and in consequence, the incomplete transition to effective individual ownership of land. This caused a host of barriers for the prospective individual farmer, including larger asset divisibility and compatibility problems, higher land acquisition costs, and a weaker negotiating position vis-à-vis traditional farms, industry, and in the political arena. The extreme fragmentation of land ownership appears to be a major reason for the near-absence of professional (rather than hobby or subsistence) individual farmers in Slovakia.

A more general reason may also be the larger institutional uncertainty in Slovakia. Whereas institutions are designed to reduce uncertainty (North, 1990), their transformation or replacement increases uncertainty. In Slovakia the prolonged process of definition and transfer of ownership titles (to land and assets) in agricultural co-operatives may be one reason for the weakening performance of that, the most prevalent, type of farm. The Slovak Ministry of Agriculture suggested that “the weaker competitiveness of the agricultural co-operatives is also due to the unsettled ownership rights and interests … which influence the thinking and acting of the members” (MASR, 1998:167). If such general institutional uncertainty ‘influenced’ members of existing farms, it has probably also discouraged those considering to start up a new farm, which by its nature is already a risky endeavour in mature stable institutional conditions.

7.8.2. Conclusions

In terms of the theory of systemic change used here, it is evident that the institution of the individual farm has remained more rare in Slovakia than in the Czech Republic because of current formal and informal institutions as well as technological and natural factors. Barriers in the latter category include the less favourable natural conditions in Slovakia, the larger orientation towards livestock production and the larger scale of traditional farms. As to formal institutions, the legacy of land ownership patterns and farm sizes implied a larger size gap in farm operations; and agricultural policies combined with a less transparent political and economic system implied more support for traditional farms. As to informal institutions, both the conservative political climate and the lack of a history of commercial and technologically advanced family farming are relevant.

Finally, does the continued dominance of the traditional farming type in both countries reflect a durable institutional lock-in, or is the process of individualisation temporarily halted? A
first observation is that the high level of state support in Slovakia, which ensures dominance of co-operative farms, can probably not be maintained over the longer term. Second, what happens when support will be reduced can be partly seen in the Czech Republic. Individual farming will probably become more important, but need not completely, or even largely, replace wage-labour farming. Farming companies, smaller in area and workforce and technologically better equipped, appear to constitute the 'third way' of agricultural development. The explanation may be that farms in the transformation economies, if they are to be viable, must strike a balance between technical efficiency and negotiation power vis-à-vis industry and the polity.

In sum, co-operatives up till now (the year 2000) have survived with relatively low technical efficiency and hence high transformation costs. Other things equal, this circumstance would foster individualisation of farming. However, traditional farms balance high transformation costs with low transaction costs, because of their larger access to state support and better opportunities to survive under insolvency. In this they succeeded better in Slovakia than in the Czech Republic, but in both cases the strategy is probably not sustainable in the longer run.

Individual farms, on the other hand, for the larger part find the barriers to operating on a viable scale insuperable and will not become important players in commercial agriculture in the foreseeable future. The minority of individual farmers that does manage to reach a viable size have high efficiency and low transformation costs, but generally face higher transaction costs - partly because of their problems with fitting into the agro-food chain, partly because of their more limited access to state support, partly because they cannot easily create extra liquidity through payment arrears and barter. Since these limitations are likely to become less constraining over time, these farms will probably establish themselves as durable productive institutions. The larger part of Czech agriculture is presently characterised by farming companies. These structures are the most dynamic type, and a further decrease of their transaction and transformation costs in the near future is likely.

It follows that in the short term, all four types - companies, co-operatives, large individual farms and small individual farms or gardeners - will continue to contribute to agricultural output. In the longer term, a still dual structure of farm companies and large individual farms is likely, with co-operative farms and small individual farms diminishing in importance (cf. Commission, 1998a:9). This development will be faster and more complete in the Czech Republic, given the long-term influence of especially land ownership patterns and informal institutions that will continue to inhibit commercial individual farming and market development in general in Slovakia.
Notes to Chapter 7

1 Unemployment further increased in 1999-2000, which is however outside the period studied here.

2 Its share in Slovak GDP went down from 9.3% in 1989 to 5.5 in 1995, remaining roughly stable since (5.2% in 1998). The share in employment remained stable at 12.1% till 1991 and then decreased constantly to 5.0% in 1998 (OECD,1997; MASR, 1998).

3 During my fieldwork in 1997 there was a book on sale with Mr Meciař on the cover, leaving barely room for the background of majestic (and presumably Slovak) mountains, covered with snow. Its title: “Super Slovakian” probably referring to both the landscape and the person.

4 The figures exclude farms with only livestock production and no land (of which there were 50 in 1997 in Slovakia). In general, measurement in hectares understates the size difference between Czech and Slovak farms because of the larger livestock orientation in Slovakia.

5 Percentages do not sum to 100 due to rounding.
