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

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Chapter 11

Conclusions

11.1 Introduction

The aim of this book was to provide an answer to the question: why was the de-collectivisation, or individualisation of farming in Central Europe so much more limited than initially expected? In addressing that question, both those initial expectations and actual developments were investigated.

Expectations were identified on the basis of contemporary secondary, theoretical and empirical literature on the economics of the agricultural transformation in general. They were also explained by reference to ideas suggested by economists over the last two centuries on the efficiency and economic viability of different farming modes, and their relation to changes in economic systems at large.

Actual developments in the region were surveyed, and the situation in the Czech and Slovak Republics was investigated in detail with use of specialised studies and reports, statistical documents, and primary data collected by the author. Although the focus was on the issue of individualisation, a range of topics with relevance to the agricultural sector has been addressed and some of them analysed in depth.

Here we want to evaluate the contribution of this book to our knowledge of the post-socialist agricultural transformation, and to the way this has been analysed in the economics profession. We will also assess the methodological merits and drawbacks of the study.

11.2 Conclusions on the Agricultural Transformation

The findings on the actual process of agricultural transformation - more particularly: individualisation - constitute the main empirical contribution of this book. In the empirical farm-level study from the Czech Republic, the following factors where found to be important in explaining limited individualisation:

(1) The large size of traditional farms may constitute a barrier to start an individual farm in several ways. It may strengthen the bargaining position of traditional farm management, who
may be assumed to have no interest in a smooth and effective de-collectivisation process. Larger traditional farms also set the standard in transacting for firms on the input and output side of farms. Thus smaller individual farms have to bear (part of) the costs of adapting to it. Larger traditional farm size also strengthens the bargaining position of traditional (but not individual) farms vis-à-vis the agro-food industry and the polity.

2 The transformation towards new legal types of traditional farms (increasingly corporate rather than co-operative) may constitute larger legal or administrative barriers in the de-collectivisation process. Such legal transformations also often imply a split into two successor farm organisations, with a transfer of valuable assets and profitable activities to a corporate farm, while the co-operative is left with left with loss-making activities, less valuable assets, and liabilities. This latter farm typically is where de-collectivisation is implemented. The legal transformation thus decreases the attraction for prospective individual farmers to obtain assets in the de-collectivisation process, while alternatives (lease or borrow) are typically more difficult or impossible.

3 Natural conditions unfavourable to agriculture decrease the profitability of farming. This in itself discourages potential new entrants in the sector. It also appears to constitute an incentive for management of traditional farms to make more use of their discretion in the de-collectivisation process in order to discourage outflow of resources from their farms.

4 Fragmentation of land ownership within traditional farms increases search and contracting costs connected to taking out land for prospective individual farmers. Land fragmentation also weakens farm members’ or shareholders’ negotiation position (based on property), giving management larger discretion to pursue their own goals.

5 Individual farmers’ problems in obtaining adequate non-land assets, in the absence of well-developed credit and asset lease markets, constitutes a barrier for efficient farming.

6 Limited access to credit and subsidies for individual as compared to traditional farms constraint investments more for the latter group, while the need to invest is larger. In addition, the loans that are allocated to individual farmers are less efficiently allocated, at least when an efficient credit market is defined as one in which more credit is allocated to farms with better profitability records or prospects.

7 Limited opportunities to lease land are often a constraint to farm expansion to a viable size, which may be one of the reasons that so many individual farms remain small, often part-time, and non-commercial farms.

8 Human capital constraints (in experience, education, and connections) were also found to be important in explaining the success of individual farms.
In the study comparing the Czech and Slovak republics with respect to individualisation, the relevance of several of these factors were corroborated by country-level data. In addition, the importance of norms, beliefs and ideologies, the role of the authorities in this, the impact of agricultural policies and of historically determined patterns of production, farm size and land ownership, and of the political constellation, were demonstrated.

The study on credit allocation confirmed the role of limited access to credit in inhibiting individual farming and showed which criteria were used by bank managers in deciding on credit allocation. Credit markets were found to malfunction for individual farmers. The suggested reason was that, in the absence of conventional credit market instrument such as screening mechanisms and collateral, long-term relations become important in assessing applicant prospects. Most individual farmers then have no means to credibly communicate the relevant information. Another factor might be that access to credit is based on participation in the local economic network, which individual farmers may not sufficiently do. Evidence for this explanation in the survey data was found in the better access to credit for individual farmers who had a professional background as traditional farm manager; in simultaneous credit and subsidy allocation to individual, but not traditional farms; and in the link between farm size and loan allocation for individual, but not for traditional farms.

The final analytical chapter suggested that price (and other) risks induce sub-equilibrium production, and do so more in individual than in traditional farms for a variety of reasons related to both internal farm features and the economic environment.

Several (not all) of the above topics have already been studied in the literature, and this work is an elaboration of them. The contribution to knowledge of this set of studies as a whole is that an integrated study of de-collectivisation with farm level data on a wide variety of topics (rather than only technical production data) is relatively rare (see e.g. Rizov et al. 1999). Also comparative country studies based on both primary and secondary sources have not as yet appeared (see e.g. Mathijis and Swinnen, 1999 for a more general comparative overview of Central European agriculture).

Specific contributions appears to lie in the work on credit and risk. A comparative study on credit allocation and an analysis of the differential impact that risk has on the alternative farming modes are both novel in this field, to the best of the author’s knowledge. In addition, the method of analysis of the credit and profit data is an innovation, and one with a wider applicability. In situations where detailed data are not available or unreliable (as in finance in the transformation is often the case), standard methods of analyses (which are usually highly sophisticated in financial economics) are not possible or may not yield meaningful results.
Binary data like those used in this study are relatively easy to collect and could be used for a first, rough assessment of decision behaviour in credit (and possibly other) allocation situations. Both properties appear very desirable in many research areas within the field of the economic of transition.

11.3 Conclusions on Theories of Agricultural Transformation

This study also aims to make a contribution of our understanding of how economic theories and analyses have developed and how they determined policies and economic developments in the process of agricultural transformation in Central Europe.

A first conclusion is that the formation of individually operated family farms from socialist-era, collective and state farms following the 1989/1990 liberal revolutions and market reforms in Central Europe was both a main goal and a general expectation of economic analysts involved in the agricultural reforms.

A second conclusion is that this expectation was largely based on a theory of farm organisation that can be traced back to the beginnings of the economics profession, and which emphasised the technical efficiency effects of the use of wage labour while neglecting the effect on farm strategy and viability of both internal farm features and the economic environment.

A third conclusion is that the observed limitations to individualisation of farming in the 1989-1998 years imply that this theoretical basis was incomplete, the expectations insufficiently grounded in reality, and the reform measures based on the theory one-sided.

To the best of my knowledge, these points have not been made in some detail in the economics literature. Three reasons for this lacuna can be suggested. First, agricultural economics is a field that is very strong in empirical applications and testing of theory, but less so in reflection on its own place in the history of economic ideas or on methodology (not to be confused with methods). The scientific ethos of the agricultural economist is empirical rather than philosophical; he or she typically aims to be a researcher rather than a scholar. Agricultural economists mostly evaluate empirical evidence rather than documents, let alone their own writings (cf. McCloskey, 1990). This preference is actually one of the charms of the field for the present author; but it may also lead to a neglect of its intellectual history.

A second reason why these points are still new is that the economics of agricultural transformation, as a specialisation within agricultural economics, is still brand new and rapidly changing. For researchers already inclined to look at the facts in the field in order to come up
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with new findings rather than over their shoulder in order to reflect on what has been achieved. such evaluation seems even less urgent in an area where so many observations demand research and explanation. Yet this reflection is actually helpful in understanding the present ‘facts in the field’, as was, hopefully, demonstrated in this book. Third, the paucity of professional reflection on this divergence between initial expectations and subsequent developments sadly reflects the general neglect of policy surprises and failures in the field of the economics of transition (but see e.g. Ellman, 1994 and Zecchini, 1997 for exceptions). This is not to ignore the recent reconsideration of the efficacy of transformation policy in the debate on what has become known as the ‘post-Washington consensus’; but that debate started only after the period considered in this thesis.

A fourth conclusion of this book is that the difference in individualisation between the Czech and Slovak Republics can be accounted for by an institutional and systemic rather than a neo-classical and atomic theory of structural change. This is not, in itself, a new point. The inadequacies of neo-classical theories in the analyses of many transformation problems, particularly those relating to system change, have been noted by many authors (e.g. Nuti, 1996). Also the institutional approach has been applied to problems of transformation in many writings, and the present study is additional evidence of its usefulness.

A weakness of institutional analyses such as those presented here is that the explanatory factors are often not amenable to quantification. In consequence, it is often impossible to determine what the most important factor in a process of institutional change is. In our case, were the fragmented land ownership pattern, agricultural policies, and the size gap in farming modes (all quantifiable) most important for the limited individualisation of Slovak farming, or were informal norms and their historical roots, or location (both not easily quantifiable) most relevant? It seems wrong not to mention all of these factors, but also impossible to rank them in order of descending importance for the de-collectivisation process.

This might be seen as a clear disadvantage compared to the neo-classical approach, where quantification is almost always possible. It would only be so, however, if the two frameworks were indeed alternatives. In analysing institutional change they are not. Neo-classical theories presume the existence of market institutions and analyse how agents respond in a market environment to changes in relative prices. That assumption is obviously unhelpful when the aim is to understand how processes of institutional change occur. A theory cannot be invoked in order to explain the absence of, or change in, factors that are assumed present and stable in that theory. Put more generally, theories cannot explain their own assumptions.
Although attempts are made in the neo-institutional approach to bridge the gap between individual behaviour and system change, these models are still characterised by methodological individualism and have difficulties in coming to terms with systemic change. Another alternative is evolutionary economics, which relies on biological rather than mechanical analogies of economic life, and does succeed in modelling systemic change. However, these models are highly stylised and abstract, and cannot be sensibly used to understand the particularities of a concrete process of economic change such as the individualisation of Slovak agriculture in 1992-1998. As it stands, institutionalism currently appears to be the best approach for analysing system change. When investigating individual behaviour within a set of given institutions, however, methodological individualism and neo-classical analyses also become helpful (as in chapters 8, 9 and 10).

A fifth conclusion is that the lessons from development economics should be more important in the economics of transition. This is a fascinating topic. The similarities between the two fields abound. In general, both deal with problems of macroeconomic stabilisation and economic system change. Specific topics that are important in both fields are property rights, the relevance of contracting modes for transacting behaviour and efficiency, the operation of norms different from those prevailing in mature market economies, labour market adjustments due to rapidly shrinking sectors (agriculture and other primary production), behaviour under uncertainty, the creation of (and private alternatives for) social security systems, tax systems, the importance of corruption, of informal markets, of household food production, etcetera.

Yet cross-fertilisation is rare. Journals in the field of development economics do regularly publish articles on the economics of transition (e.g. Swinnen and Mathijs, 1999; Lines, 1998), but one will seldom find references to development economics papers in transition studies. Perhaps this is so because the socialist countries were already industrialised when the reforms started, and the analogies with developing countries were not directly clear (or perhaps politically too sensitive). By now it is clear that many countries ‘in transit’ are, or have become, industrialised developing countries. Yet another reason may have been that most analysts in the economics of transition do not have a development economics background.

However that may be, there are clear analogies and many relevant lessons from development economics. Obviously there are large differences from developing countries in transitional economic systems, especially for the few successful post-socialist countries in Central Europe. But on the whole economies in transformation in Eastern Europe, Asia, and Africa, are more like developing economies than like mature market economies, e.g. judged by the importance of informal sectors, the share of agriculture in the economy, and problems with
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institutional development and corruption. Analyses should take this basic fact into account. This was tried in chapter 10 on risk and household food production in agricultural production – both topics that were for a large part developed and applied in the context of developing economies.

11.4 Conclusions on Methodology

Both the use of data and the theoretical perspectives in this book merit some comments. As to the data, it could be noted that most of the analyses are based on one primary data set (the survey among Czech farmers), and that this is a rather narrow empirical basis for the conclusions. This is correct, but should be qualified by four considerations.

First, at the time of survey planning and implementation, the alternatives in data collection were scarce, as explained in chapter 5. It appeared not possible to obtain a larger data set, or several reliable data sets within the limits of time and money in this project and given the nature of the subject. Imperfections, or even inadequacies in the data are often inherent in doing empirical research on a topic in the post-socialist transformation process.

Second, official (as distinct from self collected) data sets on farms in the transformation were, and are, indeed generally larger, but also narrower in scope and confined to technical rather than institutional aspects (as discussed in chapter 5). Doing survey work rather than using existing data implied limitations to the survey sample, but also allowed for addressing a wider range of topics.

Third, throughout the book the primary survey data have been supplemented by both primary official data and aggregated, published statistical data. This has broadened the empirical basis of the analysis and given its conclusions a firmer basis.

Fourth, it is now also possible to notice an advantage of using the same data set in various analyses, namely that this has allowed us to better investigate connections between the various topics than when using different data sets for different topics. For instance, the theoretical perspective developed in chapter 4 and the analysis based on it in chapters 6 and 7 suggested the importance of networks. In chapter 9 on credit markets, this concept was shown to be relevant in explaining loan allocation patterns.

As to theory, the book addresses various topics, using different theoretical frameworks. It was argued in the introduction and in chapter 4 that such eclecticism is defendable and does not lead to inconsistencies. It seems now appropriate to evaluate that claim.
The pattern of the book is, first, the identification of the divergence between expectations and reality; then an identification of the theories underlying those expectations and of their origins; and then a suggestion for an alternative framework, which is applied on two levels of the economic system. It concludes with detailed analyses of one market (credit) and of one factor in the limitation to de-collectivisation (risk). This set-up, while unifying the analyses around one theme, itself necessitates moving from one framework, or problem, or data set, to another. It would lead to inconsistencies if either the assumptions of the different analyses were contradictory, or if their conclusions were so.

As to the consistency of the conclusions, we have seen in the overview in section 11.1 that these are complementary rather than contradictory. Also, that methodologically different approaches (because departing from different assumptions) may lead to compatible, or even similar conclusions has been illustrated with the historical comparison of the work of Chayanov and of Becker (chapter 2). Both aimed to build an economics of the family in their own time and theoretical setting, and the results were remarkably similar. If we look at the consistency of findings (rather than of theoretical assumptions), an eclectic approach need not be inconsistent, and may even be helpful in grasping one concrete economic problem.

This is also demonstrated in this book; consider, for instance, chapters 8 and 9 on credit. Here the basis for analysis is the economic theory of credit markets which, although in the mainstream, contains several elements that are prominent in institutional theory, such as the importance of relationships, uncertainty and information, of history and of transaction modes. This illustrates that the dividing line between mainstream and heterodox theory is not always clear cut. In consequence, an a priori commitment to either can be needlessly restrictive.

The suggested explanation of credit allocation demonstrates that behavioural assumptions that are often played off against one another in the methodological literature need not be mutually exclusive in this concrete example. Rational bank managers are led by interdependencies in the local economic network and, possibly, by norms grounded in history (credit was always used to provide liquidity under socialism) to allocate credit in a sub-optimal way. To blend rational choice, the operation of norms, personal relations, and history is to ignore the major dividing lines between the rival schools in the debate on behavioural assumptions in economics. But that observation says more about the – necessarily - stylised representation of behaviour in methodological debates than about the validity of such an eclectic explanation. It seems difficult not to see that human behaviour is actually controlled by such a mix of elements rather than dominated by one.
11.5 Final Remarks

Although a personal milestone, this book is just one of the, by now, many contributions to the literature on agriculture in the post-socialist transformation. This field is still rapidly expanding and the quality of its research is still improving, both because of increasingly standardised or coordinated data collection methods, and because of a shift of attention towards the themes identified in chapter 2 as neglected in initial transformation theories: governance, contracts, and information. Two promising areas of research can be identified at this point.

First, all too often the presumption has been that they will sooner or later converge towards a Western model of farm production. It may be useful to remember that this has not generally been the case in developing countries, and there is no strong case to believe it will happen in the countries in transformation. For instance, the conventional description of the Central European agricultural sectors (e.g. Mathijs and Swinnen, 1999) is a dual system of individual and traditional farms, with the two types converging over time in sizes and technology so as to become more like Western farms in both respects. In this thesis a three-tier structure of farms has been suggested, with no evidence that the third type of food production units – extremely small farms and gardens – are diminishing in importance, either in the number of people involved, or in its share in total agricultural production. If this is a persistent feature of agriculture in the transformation – and it appears to be so even in Central Europe, let alone in Eastern Europe and the rest of the former Soviet Union - that fact has implications for the feasibility and effects of policies. If economic researchers aim to provide insight into the actual situation and offer advice based on it, it may be more useful to focus analytically on the particularities of farms and the farming environment in transformation countries, rather than track their progress, or lack of it, in convergence towards the Western situation.

Second, the aims of agricultural transformation are now being re-evaluated politically, and this should be reflected in research programmes. The initial aims of agricultural transformation were an increase in technical efficiency and product quality of farm output. While indispensable for a viable agricultural sector, mere realisation of these aims is insufficient from a socio-economic point of view. Rural development and the viability of rural communities are important challenges to the transformation project, and problems in this area partly originate precisely with the increase in technical efficiency (mostly through labour layoffs). Agricultural economists working on transformation issues are challenged to widen their scope thematically if
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their analyses are to be about welfare in a broader sense than firm profitability. They should do so without giving up their tradition of detailed, empirical studies. In the economics of post-socialist agriculture, there is ample scope for academically exciting and socially relevant research.