

Socio-economic aspects of transformation processes in Central and Eastern European Agriculture - Sociaal-economische aspecten van transformatieprocessen in de Midden- en Oost-Europese landbouw

Hoogleraar: prof. dr. K. Hagedorn (sinds 1 januari 1994)

Although the privatisation procedures in Central and Eastern European Agriculture, which have been organised very differently in the transformation countries may, in principle, follow the logic of institutional innovation, the concrete phenomena of the processes reveal many characteristics of **incremental decision making**, i.e. permanent revisions and corrections are made on the basis of the new experiences and changing combinations of interests. The following reasons are mainly responsible for this feature of the process:

- (1) The initial choice of a privatisation strategy (after 1989) usually made by reform-oriented governments suffered from considerable deficiencies, which were due to particularly two reasons: First, at that point of time the political decision-makers only had insufficient notions of the main properties of a market economy, and their conception of what this actually meant improved step by step in the following years. Secondly, politicians and other decision makers had only insufficient knowledge about how to deal with the new political system, and how they might be able to use it for their individual or collective objectives. Thus, processes of searching and learning began - so to say a „reconstruction of human capital“ -, and as a consequence, former individual decisions were revised and completed. This explains why the process of privatisation is organised according to the principle of trial and error to a large extent and has become incremental and evolutionary in nature.
- (2) The process of transformation causes - and this is particularly true for privatisation - high transaction costs, for example, for investments of society in the creation of rules and institutions, in training and education, clarification of property rights, solution of social conflicts, acquisition of equipment and buildings, infrastructure and information systems etc. Such costs of abolishing old and establishing new institutions usually have to be written off, because they belong to the „sunk transaction costs“. In other words, they are irreversibly lost, because they serve as a primary investment of society into a system of basic institutions. In contrast, so-called „permanent transaction costs“ result from the manifold interactions, which are coordinated by those basic institutions. At each point of time during the transformation process, both the sunk transaction costs (caused by changes of institutions) and the permanent transaction costs (when institutions are given) are jointly subject to the same calculus of economic rationality made by the economic actors involved. For this reason, the changes of the institutional and organisational structure of agriculture will occur the slower, the scarcer the resources required for these changes (transaction costs) are and the higher the time-preference rate is, although in the end (i.e. when the transaction costs of change will finally be sunk) a renewed structure will be much more efficient. Therefore, searching for transi-

tional forms and reorganising them stepwise are systematic elements of privatisation and restructuring agriculture.

- (3) Transformation processes of this sort are not only restricted to the change of single institutional arrangements or organisational solutions, e.g. to the privatisation of land or the reorganisation of agricultural enterprises, but they also include relationships to other agrarian institutions and organisations, for example, purchasing and marketing co-operatives, training institutions, knowledge and information systems, etc. In other words, the whole network of interrelationships between the many institutional and political elements of the agricultural system has to be taken into account. With regard to the feasibility of transformation, this means that all elements and relationships within the institutional network must change in harmonious manner when passing from collective to state ownership to private land-ownership or from collectivised to decollectivised agricultural structures. Some of the components may have to change quickly, others more slowly. Some may have to be reformed in early, other in later stages of the process. This depends on the question what kind of evolutionary interaction will maintain the workability of the system. Furthermore, this means that all actors in the various parts of the system must be willing and must be able to perform these changes in a co-ordinated or even co-operative way and do not act against the transformation process (institutions as collective goods).
- (4) Finally, the impact of „political opportunism“ plays an important role. At the beginning of the transformation process, the reform-oriented politicians in most of the countries could make use of large freedom of action, because the anti-reform politicians were more or less paralysed by the particular circumstances of the fundamental changes which had occurred. In addition, the interests of the winners and the losers of the privatisation process became clear only successively, but then they motivated the individuals and groups concerned to demand changes of the privatisation policies. The sudden reconstruction of the economic order which takes place in the transformation countries requires a broadly organised redistribution of ownership titles and entitlements for income streams; and for interest groups it may be very attractive to invest in rent-seeking activities particularly in this historical situation. However, first they have to find out, which distributional position they would obtain in the case of alternative privatisation policies. According to the principle that „politics determine policies“ they will exert influence in political processes (politics) in order to stabilise those privatisation strategies (policies), which define them as winners, and to change those ones, which leave them as losers. Here we find an additional important explanation for the incremental characteristics of the privatisation process.

Explanations like these have been discussed in the course which was offered each trimester and was supposed to improve students' understanding of the difficult processes of transformation in the countries of Central and Eastern Europe. It provided students interested in this field of knowledge with a basis of information which en-

ables them to initiate their own studies and to develop projects of their own. In particular, the seminars were oriented toward the following **objectives**:

- to become familiar with theoretical approaches which are suitable to analyse the transformation process in agriculture, and with corresponding empirical results;
- to learn about the concepts and tools developed to shape the transformation process in agriculture, and about the success or failure of these instruments;
- to find ways for dealing actively with the problems of transformation both within the framework of the course and by means of additional activities as well.

The course usually consisted of several **elements** which were not completely identical every year:

- (1) Lecture: An introduction into the main issues, theories, developments and facts of agricultural transformation ran over the three trimesters and was repeated every academic year.
- (2) Country studies: This provided information on the social and economic situation, historical background, concepts of de-collectivisation and privatisation, and other policies for restructuring and institutional innovation in Central and Eastern European Countries.
- (3) Special topics: These referred to the results of research projects in the area of transformation processes, to important current events and major policy changes in Central and Eastern European Countries.
- (4) Participation: Students were asked to contribute to the course in an active way, i.e. by preparing and presenting papers on subjects they chose or by reports about their own experience in Central and Eastern European Countries.
- (5) Discussions and planning: Students were encouraged to express their opinions, preferences and wishes, e.g. if they wanted to gain practical experience or to write their thesis in the field of Central and Eastern European Countries.

According to the sequence of trimesters, the course was usually divided into three **components**:

First trimester: History and ideology of collectivisation and nationalisation, recent policies of de-collectivisation and privatisation, expected process and desired outcome of transformation and the resulting organisation of farms, determinants of economic and political feasibility of de-collectivisation and privatisation, re-establishment of property rights and emerging land markets.

Second trimester: Introduction of market mechanisms, necessity of competitive market institutions in the upstream and downstream sectors, price information, agricultural market and price policies as a part of the transformation strategy, protectionism or liberalisation of agricultural markets, impact on trade relations, relationship between the transition countries and the EU.

Third trimester: The „institutional environment“ of farms in transition, e.g. macroeconomic conditions, political stability and political protection of private agriculture, ac-

cess to inputs by decentralised marketing channels, self-help organisations like marketing co-operatives, extension and training, rural banks and co-operative banking, availability of credits, social security system.

In addition, two special aspects which were increasingly important for the transformation process were integrated in the lectures and discussions: first, access of a group of transition countries to the Common Agricultural Policy of the European Union, and secondly, the conflict between transformation and sustainability, in particular with regard to protection of natural resources.

Examination: Examination was based partly on students' activities during the course and partly on the oral or written examination at the end of the course.

Coordination: The course was coordinated by Dr. Alison Burrell, Department of Agricultural Economics and Policy, Room 424, Leeuwenborch.

In 1998, the seminars focused on the following **topics**:

1. The political and ideological background of collectivisation and nationalisation of agriculture in the history of Central and Eastern European Countries
2. The historical process of collectivisation and nationalisation in Central and Eastern European agriculture and major differences between the former Soviet Union and other countries
3. Policies of privatisation of agriculture: the determinants of the choice between efficiency, equity and doing historical justice
4. Policies of de-collectivisation of agriculture: the economic and political feasibility of „transforming a network“ and the role of transaction cost
5. The process of restructuring of agriculture: determinants of changes in size and organisational forms of farm enterprises and present results of the restructuring process
6. Theories and interpretations of privatisation, de-collectivisation and restructuring of agriculture: the political economy of transformation explained by public choice and policy-analysis approaches
7. Observed policies of privatisation, de-collectivisation and restructuring of agriculture: empirical examples from Central and Eastern European Countries and the former Soviet Union
8. Privatisation and restructuring of agriculture in Russia and other former member states of the Soviet Union
9. Agricultural policy reforms in Central and Eastern European Countries in the process of transformation: objectives and instruments and the impact on agriculture
10. Changes in price and income policies in Central and Eastern European Countries: some examples and problems

11. The political economy of changing agricultural price and income policies in the countries in transition: can „Western“ approaches be applied?
12. Consequences of the Eastern enlargement of the EU for the Central and Eastern European Countries and the necessity of pre-accession policies
13. Consequences of the Eastern enlargement of the EU for the Western European Countries and the future of the Common Agricultural Policy
14. The impact of the changes in Central and Eastern European agriculture on international trade
15. Development and insufficiencies of factor markets in the process of agricultural transformation: land, labour and capital markets
16. Markets for agricultural products: How can marketing channels be designed in transformation countries?
17. Opportunities of and barriers to the development of co-operatives in transition countries: the different roles of production and service co-operatives
18. Social consequences of the transformation process and social security of the rural population in Central and Eastern European Countries
19. Conflicts between „transformation and sustainability“: agriculture and protection of natural resources in Central and Eastern European Countries

The students who participated in the course were very interested in these topics. Group discussions were integrated in the course, e.g. on particularities and new developments of agricultural policies in Central and Eastern European countries, changes in market and price policies in those countries and problems of the Eastern enlargement of the EU and issues of European integration. Participation of students was encouraged and their activities were supported, for example, when they were looking for contacts in Central and Eastern Europe. Several students spent a practical term in a transformation country and prepared papers which they presented in the course, for example, on organic farming in The Czech Republic, the situation of private farmers in Russia, agricultural structures in Romanian villages, social conditions of people in an Eastern German village, etc. Two students were integrated in a larger **project** on agricultural cooperatives in the five Central and Eastern European Countries which have applied for membership in the European Union. They spent some time in these countries and also at Humboldt University in Berlin. The activities of students are co-ordinated by dr. Alison Burrell (Department of Agricultural Economics and Policy).

Although the special chair has formally expired at the end of 1998, the well-established and friendly relationships between Wageningen University and Humboldt University will continue to serve as an excellent basis for joint teaching and research. This does not only apply to transformation processes in agriculture, but also to other important fields like agricultural policy reforms and innovations in environmental programmes. Students and researchers of Wageningen University are very welcome to contact Professor Hagedorn in Berlin.

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