

Agrarian Institutions: Institutional analysis of the farm as an organisation

In the area of Agrarian Institutions one well-known approach deals with the institutional and organizational analysis of the family farm or family-managed farm or peasant farm. It is based on the (theoretically interpreted) observation that agricultural production has particular attributes due to its close intertwinement with ecological and biological processes (Schmitt 1991). These nature-related transactions (Hagedorn 2008: 179) can best be governed by family farms, which are considered as an institutional extension of the existing social institution "family" or "household". At least this seems to be true for the past and has been considered as the core reason for the "persistence of the family farm". Largely based on the transaction cost framework combined with principal agent considerations this research arrived at the conclusion that running a firm based on hired labor usually causes higher transaction costs in agriculture than in industry (Allen and Lueck, Dean 1998). Reasons are the importance of specific, traditional knowledge, the spatial dimension of farm production and the dependence on varying ecological, biological and weather conditions which explain why agricultural activities are to a large extent difficult to be organized in standardized processes. In this context family labor in small farms has a comparative advantage due to the superiority of individual ownership and low agency costs of agricultural production. However, in some agricultural production systems this does not apply, for example in intensive livestock production or plantation crops. In addition, delay in structural adjustment of family farming systems in the process of economic growth occurs because of barriers to mobility. Hagedorn (2003) has shown that the reasons for this are institutional in nature. Family farms are integrative institutions causing institutional exit barriers for farmers and give rise to intensive political preferences to establish voice mechanisms.

The master should review literature relevant for this topic and explore potential future challenges regarding the institutional design of the farm.

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Schmitt, G. (1991): Why Is Agriculture of Advanced Western Economies still Organized by Family Farms and will this be also in the Future? European Review of Agricultural Economics 18 (1991): 443-458.

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