

THE PRIVATISATION PROCESS IN THE CZECH AGRICULTURE THROUGH AN INSTITUTIONALIST'S EYE

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Looking to restitution, transformation and privatisation in the Czech agriculture, this article tries to understand the driving forces of institutional change during transition period. Realising that the results of the formal process on the central level are very different from the process observed on the local level, the article looks to both of these levels, applying a case study approach. As the observed process consists of a huge variety of different property rights changes, it is extremely suitable for testing different theories of institutional change, namely the efficiency, the public choice and the distributive bargaining theory. The article explains the observed process through the eyes of new institutional economics. It shows that in the specific case of transition the distributive bargaining approach, which understands institutional change as an outcome of different actors' power resources, is most fruitful. Nevertheless, factors like path dependencies and ideology need to be integrated into the approach, to be able to understand the property rights change in the Czech agriculture.

Introduction

The article, which summarises the findings of a research project¹, tries to understand and to explain a process of institutional change during the transition from a system of central planning to one of a market economy. It looks at restitution, transformation and privatisation within the Czech agriculture. Knowing that this property rights change is far from being defined only by a change in formal laws on a governmental level, but that an important part is determined by numerous formal and informal institutions governing the use of assets, the article tries to explore the whole process at its various levels in order to obtain a complete picture of the process of property rights change during transition in its entirety.

One single theory of institutional change does not exist within new institutional economics. Moreover, various competing approaches exist side by side. As the privatisation process in Czech agriculture comprises so many different forms of institutional change, this case is especially suitable for testing the applicability of the various theories to specific phenomena of institutional change regarded. Therefore, the first and foremost three main theories applied are presented briefly. As the study uses a qualitative case study approach, which is not very common in economics, the next section explains the methodological approach of the study. In the last section the findings are presented and discussed.

Theories of institutional change

The theories of institutional change applied are the range of approaches offered by new institutional economics. I subdivide the theories following the classification of Alio et al. with respect to their different mechanisms and effects of change they focus on, what classifies the approaches into the efficiency theories, public choice theory and the distributive bargaining theory of institutional change:

1. The first group of theories, what I call "efficiency theories", is using mainly direct institutional competition as the mechanism of selection of new institutional solutions. Their main focus is put on the evaluation of the process regarding efficiency. On the one hand, there were early contributions made by Alchian (1950), Demsetz (1967/1988) and others, which according to Eggertsson could be entitled "Naïve Property Rights Theory" (Eggertsson, 1990, p. 249), which still have much faith in the efficiency-enhancing contribution of a process of institutional change. On the other hand, the contributions of Libecap (1989/1993), Barzel (1989) and North (1988, 1990) also fall into the category of efficiency theories, but they portray a more doubtful view about the positive efficiency effects of institutional change. The determinants those theories mainly analyse are transaction costs, path-dependencies and ideology. The two latter ones were introduced when scholars started to question the prevailing optimistic view about institutional change.

¹ This whole study is available as a book or as an online version (<http://www.shaker.de>). The study was written within a research project called KATO (Comparative Analysis of the Transition Process of the Agricultural Sector in Selected Central and Eastern European Countries) (<http://www.kato/projekt.de>), which analysed the transition processes in three countries (Poland, Czech Republic and Bulgaria) in three policy fields of transition (liberalisation, privatisation, restructuring). The study has greatly profited from comments and help by my supervisors and colleagues at the CZU, namely Jaroslav Homolka, Jiri Tvrdoň, Josef Vavřík, Jarmila Curtissova and Vladia Jaeger. This study would not have been possible without the openness and help received from all my Czech interviewees.

2. The public choice theory of institutional change, which is characterised by authors like Sened (1997) or Riker and Weimer (1995), mainly focuses on institutional choice processes in political markets, placing the political entrepreneur into the centre of its interest. Competition via election and via interest groups – what I call 'indirect institutional competition' – is the mechanism of selection, leading hopefully to efficiency-enhancing institutional choices. Obviously, there are both optimistic and pessimistic representatives of this theoretical approach. This is possibly most noticeable when comparing the conclusions drawn by the two scholars of Interest Group Theory, Becker and Olson. Therefore, the conditions on the market for voters and the ability of different groups to organise their interests are the main determinants analysed by the public choice theory of institutional change.
3. The distributive bargaining theory, mainly presented by Knight (1992), was developed with the aim of showing that even informal institutional changes, whereby the general wisdom was that such changes could be a result of "human interaction, but not of human intention" (Hayek, 1967/1969), are led by the self-interest of powerful actors. The distributive bargaining theory argues that institutional alternatives might be characterised by different degrees of efficiency, but the driving force for institutional change is the fact that institutional alternatives are nearly always characterised by different distributive effects for the actors involved. On the other hand, Knight shows that the preconditions necessary for institutional competition are not given in the majority of settings of institutional change. Therefore, he describes institutional change as a bargaining game with different pay-offs for each actor involved. The actors try to put their bargaining resources into play and, in this way, influence the selection of institutions. According to Knight, the determining bargaining resources are, for example, different exit options of actors, differences in time preferences or risk-taking possibilities.

Reading the contributions from authors using these different theories, I got the impression that each of them was able to explain very convincingly the various processes of those institutional changes which were chosen as examples by the respective authors. Consider, for example, the development of beaver rights explained by Demsetz (1967), the emergence of property rights on theatre seats by Barzel (1989), the development of land rights at the Amazonian frontier by Alston et al. or the selection of measurement units for grain described by Knight (1992). However, what is not told is why those partly contradicting theories are able to explain one phenomenon of institutional change, but are powerless in explaining another.

Empirical methodology employed

Another challenge of the study was that within institutional economics the empirical analysis of processes of institutional change is still in its infancy (Alston, 1996). Because of the lack of methodological tools within economics I had to refer to other social sciences, which have experience in using qualitative methods in research. As we are looking at a process of institutional change – a complex social phenomenon – it seems to be essential to apply the case study approach as an empirical method (Alston, 1996; Libecap, 1989/1993). The exploratory approach of the research and the uniqueness of each case in question makes an abductive approach – which invariably oscillates between reality and theory (Froschauer, Lueger, 1998) and which consists of inductive and deductive elements – indispensable (Flick, 1995, pp. 57–61; Truzzi, 1985) (see Fig. 1). Qualitative research, with the help of interview guidelines, allows for an open research process (Laschewski, 1997, p. 69).

The empirical work on the central level was based on document analysis (laws, commentaries, parliamentary debates, etc.) as well as on qualitative interviews. The political community directly dealing with the privatisation process in agriculture in the Czech Republic is a very small and stable group of about 50 people, most of whom were interviewed. The sample was successively designed with the help of document analysis, expert interviews and a pre-study (Miles, Huberman, 1994). I interviewed politicians (mainly members of the parliament's agricultural committee), interest group representatives, bureaucrats (mainly from the Ministry of Agriculture and the Land Fund) and experts from universities or research institutes.

The empirical work on the local level was based on qualitative interviews. With the help of the knowledge base I had accumulated during the pre-studies and under the assistance of some experts, I selected three cases – former socialistic production units. I interviewed on average 15 people for each case: the managers, those who started private farming, workers of the co-operatives or state-farms, restitutions who just lease their land to the old organisation, restitutions who lease their land to private farmers and, finally, the mayors.

The interviews were transcribed² into a database, enabling me to organise and to retrieve the amount of data handled. Each statement was allocated a theoretical code and a content code. The theoretical code corresponded to the different determinants described by the various theories, for example transaction costs, path dependencies, ideology, exit-options, and so on (Flick, 1995). The content code classified the statement concerning the topic being dealt with (land, leasing contracts, dead and live inventory etc.). Those interview

² On the local level most of the interviews were recorded, on the central level recording was not useful. Most transcriptions were carried out immediately after the interview with the help of notes and records, if they were available.

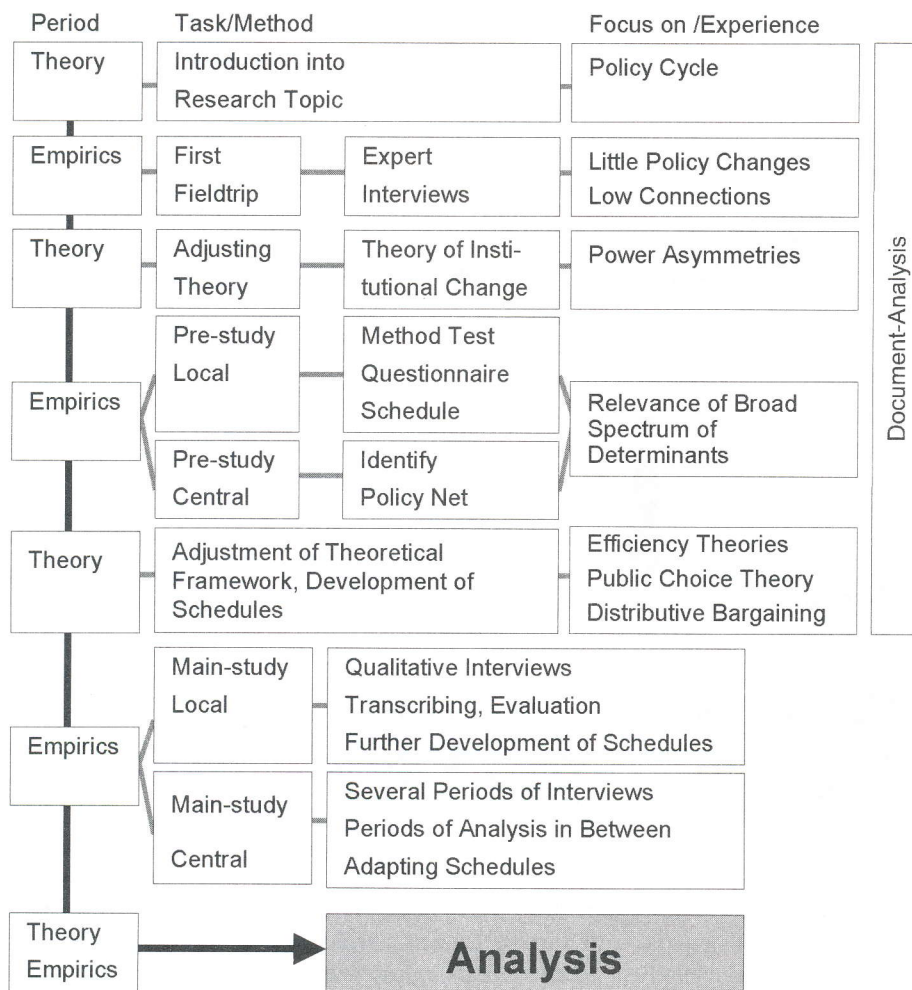


Fig. 1. The research process between theory and empirics

fragments were then used directly for description and analysis of the empirical cases.

Results: institutional change and privatisation in Czech agriculture

The empirical work was based on a conceptual framework (see Fig. 2), which was applied similarly to the different cases under investigation. In the first step, a description of the processes was given, showing the structure, the actors, the development and the outcome of each process of institutional change. In the second step, the mechanisms of change were tested using a developed set of criteria for finding out which role direct and indirect institutional competition and bargaining had played in the different sub-processes of institutional change on both the central and the local level (see Table 1).

After having classified each process or sub-process according to the mechanism involved, the different determinants focused on by the different theories were analysed on both the central and the local level, looking to their importance and the way in which they could be used as a power resource within the bargaining process for a new institutional equilibrium.

On the *central level* direct institutional competition was unimportant. The kind of institutions dealt with –

such as the land law – were very complex. Therefore, direct institutional competition could only develop over a longer time period. As numerous institutions were characterised by indivisibilities, it was not possible to create various institutional alternatives and to let them compete. There was only one way of restitution, but in privatising state farms, for example, five methods were offered by the law (92/1991) and economic actors could choose according to their preferences. A lot of the institutions were “single event” institutions. For example, restitution only took place once, therefore the learning possibilities of applying an institution time and time again were limited.

In the crucial phase of the development of the land law indirect institutional competition had not yet developed. Neither a broad party structure, nor clear policy programs existed after the revolution. But the first elections were mainly dominated by a coalition of anticommunists, who were not comparable to political entrepreneurs offering different institutional alternatives to their “customers”.

Looking at the two proposals of the land law made (one was made by the federal and the other by the national ministry of agriculture), it is obvious that they were both characterised by contrary distributional outcomes. The former favoured largely the managers of the

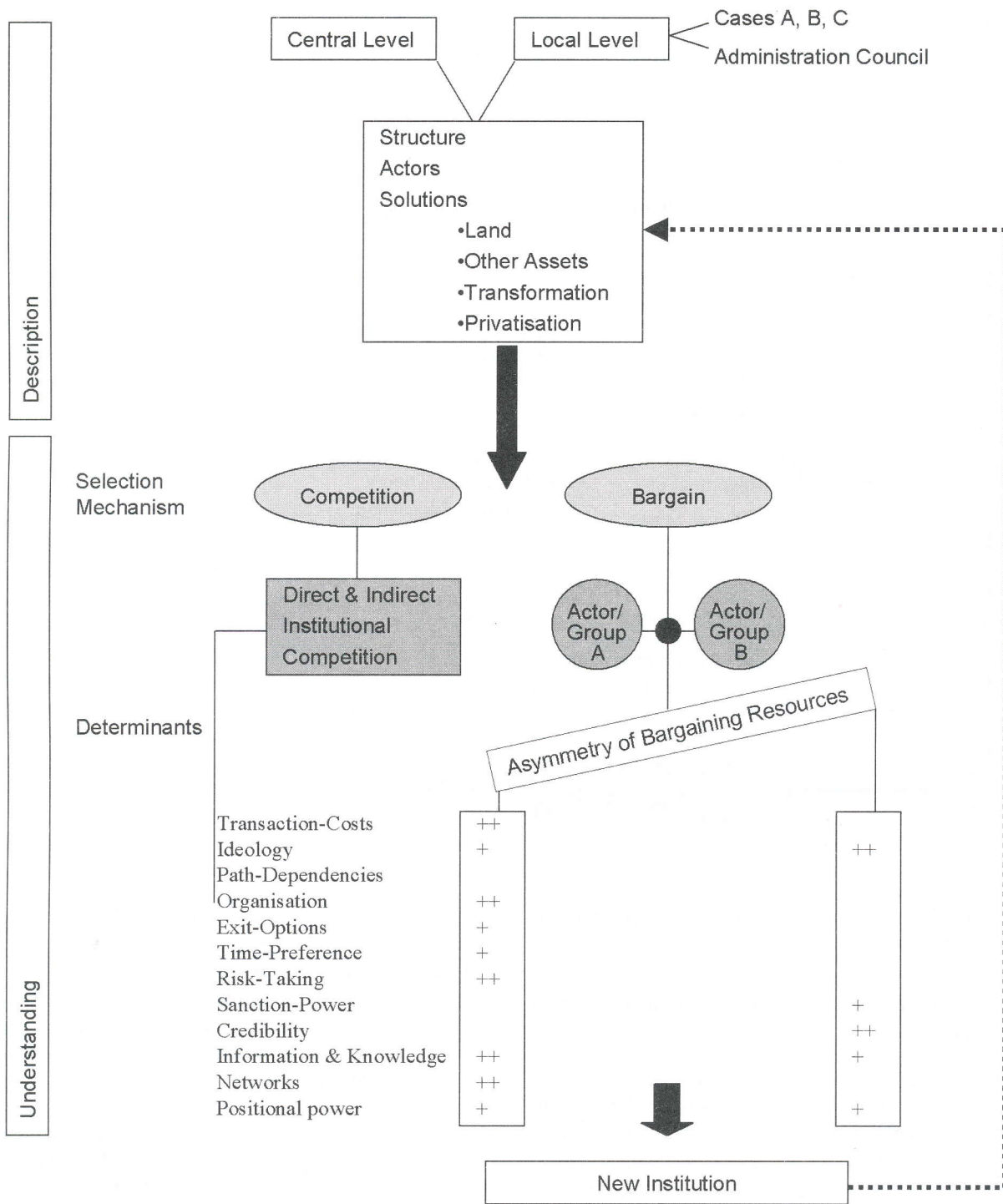


Fig. 2. Conceptual framework for the analysis of the privatisation process
 Source: Schlüter (2001, p. 142)

old farms and the latter favoured the restituted. The restituted could clearly win the battle on the central level as most institutions passed in the land law favoured the restituted. However, bargaining resources used by

the restituted were not the same ones explained by Knight. Mainly determinants mentioned in the other theories are of importance on the central level. Ideology³ as emphasised by North⁴ played a crucial role in the

³ The word ideology is used in a very broad sense by Douglas North, risking the inclusion of everything. Therefore, I subdivided the term ideology into three parts. Ideology consists firstly of a set of shared mental models, which give a group of people an explanation of how the world works. Secondly, it gives us a set of values about how the world should work. And the third ideology has a legitimation function, in supporting actors' interests.

⁴ See mainly North (1988) and Denzau, North (1994).

Table 1. Questions for checking applicability of different theories

Direct Institutional Competition	<ul style="list-style-type: none"> • Were there various institutional alternatives? • Were not they characterised by indivisibilities? • Did each actor have an exit-option? • Did the relevant markets work? • Was the complexity of institutions regarded low? • Was institutional selection repeated various times? • Was the transaction often repeated, which was governed by the institution?
Indirect Institutional Competition	<ul style="list-style-type: none"> • Were there different institutional proposals competing with each other? • Did the voters' market function effectively in the processes of collective decision-making?
Bargaining	<ul style="list-style-type: none"> • How important were the different determinants of institutional change? • Were the bargaining resources distributed asymmetrically? • How important were the determinants compared to each other? • Were certain asymmetries in a determinant outweighed by other asymmetries, or were they increased?

Source: Adapted from Schlüter (2001, pp. 109, 110, 115)

beginning of the process. Due to the Velvet Revolution, old shared mental models were destroyed and the people were looking for new ones in a phase highly characterised by uncertainty. At that time, everybody and every idea which seemed to be linked to the old communist regime was stigmatised as being evil, therefore paralysing the elbow room of the managers on the central level, who, on the other hand, were characterised by a much better ability to organise themselves, being a long established and well organised interest group. Path dependencies played an important role – had there not have been old land registers of an Austrian kind, with still formally existing private land titles, the possibility of an extended restitution process would not have been given (Swinnen, 1997). All those determinants together led to the outcome that restitutions have been able to influence many institutions to their advantage.

This outcome was heavily contrasted on the *local level*. In nearly all interactions restitutions had to step back and the resulting institutions largely represented the preferences of the managers, whether it concerned the emerging rent contracts, the contract for restitution or other such issues. In the early stages of transition markets did not work – managers were often in a monopolistic situation, dictating the institutional choice to the restitutions and new institutions were so complicated for most restitutions that they relied heavily on the manager's knowledge and information. Therefore, the mechanism of bargaining dominated the institutional choice on the local level. In order to be able to understand the process, it was crucial to look to bargaining resources different actors employed for getting their preferred institutional alternative implemented.

However, there has been one field of institutions emerging which has developed after a while in the direction predicted by the efficiency theories. This change in direction was due to the specific characteristics of the market these institutions regulate. In the beginning all people who started newly private farming were heavily

dependent on services provided. At that time, only the old socialistic organisations and their managers were in a position to provide those services. This was reflected impressively in the contracts offered, which discriminated heavily against those newly emerging private farmers. But within a few years, a very well functioning and vital market of service contractors emerged (Csaki, 1999) and none of the actors involved reported any longer about discriminating service contracts. Unfortunately, most of the other relevant markets are far from being developed even 10 years after the Velvet Revolution (Schmied, 1998; Voltr, 2000).

The cases analysed showed that the mechanism of bargaining was most powerful in explaining the processes of institutional change. However, it also became very clear that the determinants analysed by the distributive bargaining theory were too narrow and it was therefore necessary to enclose the determinants favoured by the other theories. We can also conclude that the dominance in explanatory power of the Distributive Bargaining Theory was not due to its general superiority, which is what Knight also states (Knight 1992/1997, p. 92), but moreover, due to the specific characteristics of the process regarded. As we have seen on the market for services, processes actually **do** exist, which are the best explained by the efficiency theories of institutional change. Considering the diversity of the processes of institutional changes, one single theory of institutional change might never emerge, various approaches might always exist, which might then be applied to the wide range of processes of institutional change observable, with the aid of a clear catalogue of criteria.

Discussion

The study shows that it was very fruitful – and may have indeed been the best choice – to apply qualitative empirical methods to this process of institutional change

and that institutional economics can still learn a lot from other disciplines which are mainly using qualitative methods. As there are advantages and disadvantages of each empirical method – e.g. qualitative methods do not offer the same possibilities of testing hypotheses as quantitative methods do – it would be necessary in the future to investigate different methods with respect to their usefulness in analysing the various phenomena of institutional change.

The factual outcome of the process of institutional change on the local level contradicted widely the intentions of the policy makers on the central level. Therefore, one could recommend for planners of processes of intended institutional change that the actual characteristics of each process of change are analysed on the various levels of interaction and, if necessary, that the distribution of power resources among the actors are assessed in advance. Knowing those characteristics might not enable policy makers to determine completely those processes of institutional change, as this would go beyond human abilities, but the characteristics could be taken into account while designing policies or at least could prevent major disappointment.

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Received for publication on January 7, 2003

Accepted for publication on April 28, 2003

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Privatizační proces v českém zemědělství očima institucionalisty.

Scientia Agric. Bohem., 34, 2003: 105–111.

Článek, který sumarizuje závěry doktorské práce, se pokouší o pochopení a vysvětlení procesu institucionálních změn v době přechodu od systému centrálního plánování k tržní ekonomice. Zabývá se restitucemi, transformací a privatizací v rámci českého zemědělství. Protože víme, že změna vlastnických práv je daleko od toho, aby mohla být definována pouze jako změna formálních zákonů na vládní úrovni, a že důležitá část této změny je určena radou formálních a neformálních institucí řídicích užívání majetkových hodnot, tento článek se pokouší prozkoumat tento proces na různých úrovních, aby získal kompletní obrázek o změnách vlastnických práv v průběhu transformace v její celistvosti.

Mezi novými institucionálními ekonomy neexistuje jen jediná teorie institucionální změny, ale existuje celá řada konkurujících si přístupů. Konkrétně jsou to tyto teorie institucionální změny: teorie efektivnosti (Eggertsson, 1990; North, 1990), teorie veřejné volby (Sened, 1997) a teorie distribučního vyjednávání (Knight, 1992). Protože privatizační proces v českém zemědělství zahrnuje tolik různých forem institucionální změny, reprezentuje mimořádně vhodný případ pro testování aplikovatelnosti různých teorií tohoto specifického jevu týkajícího se institucionální změny. Proto jsou v práci nejprve stručně prezentovány zmíněné tři základní teorie. Protože práce dále uplatňuje přístup kvalitativní případové studie, která v ekonomii není příliš běžná, je tento metodický přístup studie popsán podrobněji.

Analýza ukazuje, že změna vlastnických práv na centrální úrovni a změna vlastnických práv pozorovaná na lokální úrovni zvyhodňovala odlišné zúčastněné skupiny aktérů. Na centrální úrovni se podařilo restituentům zajistit si mnoho významných vlastnických práv k zemědělskému majetku. Avšak na lokální úrovni to byli především manažeři bývalých produkčních jednotek, kteří si pro sebe v tomto procesu mohli zabezpečit mnoho vlastnických práv. Analyzované případy ukázaly, že teorie distribučního vyjednávání, která chápe institucionální změny jako výsledek zdrojů moci různých aktérů, byla nejvhodnější teorií pro vysvětlení procesu institucionální změny. Přesto se také ukázalo, že determinanty analyzované teorií distribučního vyjednávání byly příliš zúžené, a bylo proto nutné vymezit determinanty prosazované jinými teoriemi. Především Northovy oblíbené determinanty závislosti na minulosti (path-dependencies) a ideologií hrály významnou roli v pochopení různých procesů. Různé zkušenosti před socialismem, v jeho průběhu a po něm, které byly rozhodující pro mentální modely převažující v různých případech, ovlivnily ve velké míře existující volný prostor pro různé aktéry v usilování o novou institucionální rovnováhu.

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