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Silke Boger

Agricultural Markets in Transition

An Empirical Study on Contracts and Transaction Costs
in the Polish Hog Sector

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Preface of the Editors

Transformation of post-socialist economies has made economists increasingly aware of both the importance of and the challenges associated with institutional change. Today, it is obvious that institutions play a central role in economic development. Nevertheless, economists realize that many institutions cannot be established by design and implemented simply by fiat. Simultaneously, they acknowledge the lack of guarantee for the spontaneous development of institutions that foster economic efficiency and sustainable resource management.

If we want to improve the processes of institutional change, it stands to reason that we have to develop a better understanding of these processes. This is the aim of the series “Institutional Change in Agriculture and Natural Resources,” which examine the actual processes of institutional change. We focus on the determinants and actors that drive, govern and influence the processes and the economic, political, social and ecological consequences. These issues are at the heart of the series.

Silke Boger’s contribution explores an issue which is undoubtedly a core problem of transition and institutional economics: the emergence and development of markets. What kind of markets will evolve during transition? Will highly regulated markets, remnants of socialism, be replaced by spot markets? Or will relational or contracting markets emerge? Does efficiency-enhancing public regulation of markets play a role in transition? Or should regulation just wither away?

Silke Boger examines these questions for a particular market in transition—the Polish hog market. This market has undergone significant changes over the last decade. Perhaps the most remarkable is the increasing demand for high quality pork meat products. Along the supply chain, this creates a need for investments and advanced coordination mechanisms other than simple spot-market transactions.

In her analysis of market development, Silke Boger applies the Transaction Cost Approach which has become a standard tool in supply chain analysis. This study once again affirms the analytical power of this approach, offering a very suitable tool for obtaining additional knowledge on evolving market organization. From a theoretical point of view, the study reveals no less than three peculiarities. First, Silke Boger applies the measurement and the governance branch of transaction cost economics simultaneously. Production and trade of quality products require both specific investments and measurement. Accordingly, this analysis is in line with Williamson’s (1985: 83) statement: “Many of the most interesting problems of economic organization involve both asset specificity and information asymmetry issues.” Second, she investigates the relationship between investments, governance structures and prices

in great detail—a rare exception to the wealth of studies examining the relationship between investments and governance structures. Systematically including prices in empirical transaction cost economics is doubtless one of the most innovative elements of this book. Finally, her work demonstrates that actors develop mechanisms of private ordering as a way of dealing with problems of specific investments and measurement, yet these are still not efficient. She suggests a scope for efficiency-enhancing public ordering in transition, e.g. the introduction of a standardized grading system.

In summary, this book offers insights into the determinants of market development in transition. It investigates unexplored fields and arrives at useful policy implications. It is an excellent example of applied Transaction Cost Economics.

Silke Boger's book is part of the international research project "Comparative Analysis of the Transition Process in the Agricultural Sector of Selected Central and Eastern European Countries" (KATO), in which researchers from eastern and western European countries participated. The project was based on a profound theoretical and empirical analysis of institutional change in three research areas: (1) liberalization of markets, (2) privatization of land and non-land assets and (3) restructuring of farms. These research topics were investigated in the agricultural sectors of three transition countries; Poland, the Czech Republic and Bulgaria.

The project's aim went beyond its research objectives in its pursuit of an educational objective—the training of twelve junior researchers from Poland, the Czech Republic, Bulgaria and Germany. Academic training was jointly organized as an "East-West-Ph.D. Program" which proved to be very rewarding, stimulating a profitable exchange of knowledge and an intensive process of learning. We are very grateful for the opportunity to work together so closely. As KATO is brought to a close, we would like to thank the participating researchers; it was their efforts that made it a success. We thank them for their ideas and discussions, concepts and results that contributed to a better understanding of institutional change in transition agriculture. Finally, we express our special gratitude to the project's sponsor, the Volkswagen Foundation, for making the KATO project possible.

We hope that Silke Boger's work and the series itself will draw interested readers and cause lively feedback.

Berlin, October 2001

Volker Beckmann and Konrad Hagedorn

Acknowledgements

This work has made a long journey through different theoretical and empirical attempts to explain the process of economic transition in Central and Eastern Europe. That it has finally been completed is no small miracle, and I owe far more than the customary debts to the people who helped me make it possible.

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Because of my membership in the international research project KATO, this work profited much from the research network developed during the project. I was exceptionally fortunate in having Volker Beckmann as the coordinator of the KATO project. Besides solving a huge number of conceptual, organizational and personal problems, he supported my work in a particular way: His thorough understanding of new institutional economics and transaction cost economics helped me sort out a bewildering array of theoretical literature. He encouraged my research, asked insightful questions and believed in me—sometimes more than I did myself.

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Bonn, October 2001

Silke Boger

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