

Institutional Change in Agriculture and Natural Resources

edited by  
Volker Beckmann & Konrad Hagedorn

Volume 15

**Markus Hanisch**

**Property Reform and Social Conflict**

A Multi-Level Analysis of the Change of Agricultural  
Property Rights in Post-Socialist Bulgaria

Shaker  
Aachen 2003

**Bibliographic information published by Die Deutsche Bibliothek**

Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the internet at <http://dnb.ddb.de>.

Zugl.: Berlin, Humboldt-Univ., Diss., 2003

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Printed in Germany.

ISBN 3-8322-2093-3

ISSN 1617-4828

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen

Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9

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## Preface of the Editors

Privatization and land reform are phenomena of institutional change that accompany economic development. More often than not, results challenge economic theorists and scholars of the policy sciences. The debate focuses on the Coase Theorem, whose main tenet stipulates that “if transaction costs are zero, the initial allocation of a property right (...) will not affect the efficiency with which resources are allocated” (Posner 1993: 195). Coase’s (1959: 12) intention was to disprove Pigou’s explanation for the role of the state in the economy. He argues that “a private-enterprise system cannot function properly unless property rights are created, and when this is done, someone wishing to use a resource has to pay the owner to obtain it. Chaos disappears; and so does the government except that a legal system to define property rights and to arbitrate disputes is, of course, necessary”.

During forty-five years of debate Coase’s arguments have been subject to both narrow and wide interpretations and some claim, “the conventional interpretations that focus on the preconditions for efficient resource allocation (property rights) appear to have exhausted their meanings” (Cooter 1987: 457). However, during transition, normative interpretations of the Coase Theorem regained prominence among policy makers and their advisors from the economists’ camp. A good example is Antony Chubais, who is known as the architect of the Russian privatization program. His analysis strictly follows a normative interpretation of the Coase Theorem: “They steal absolutely everything (...) But let them steal (...) They will become owner and decent administrator of this property” (cited from Hoff and Stiglitz 2002: 2).

Markus Hanisch’s *Property Reform and Social Conflict* poses a challenge to economists who believe that the Coase Theorem could produce straightforward policy recommendations. He discerns three alternative methods for drawing policy conclusions from the theorem and later criticizes indiscriminate generalization of Coase’s arguments and their utilization for normative policy advice. In his theory discussion he demonstrates how efficiency-based explanations of institutional change on different levels of social interaction may fail to explain reform results. His empirical analysis of Bulgarian land reform goes on to exemplify the reason for their failure and the necessity of including power aspects and the dynamics of institutional change into the property rights theory.

Three arguments underpin these results: Firstly, in the early years of reform, assuming market competition, voluntary choices and low transaction costs offer an inadequate description of the environment in which new property rights emerge. If this holds true, it is wrong to assume that choice alternatives on the

markets could level power differentials between actors in the property rights process and open the way to so called “Coasian bargains.”

Secondly, it is reasonable to assume that informal institutions that have had stabilized socialist hierarchies in the past will change at a slower rate than formal institutions, such as land and privatization laws. This is especially true for paternalistic structures in rural areas and contributes to the explanation of institutional outcomes.

Thirdly, it is argued that transaction cost explanations in a historical perspective are as tautological as power arguments: social outcomes appear *ex post* as the result of rational decision making within the realm of the prevailing institutional constraints. Bad outcomes are not as bad as they look and by adding enough constraints to the optimization problem, analysts always manage to rationalize a supposed governance structure as ‘efficient.’

Hanisch develops his arguments on a very broad theoretical and empirical basis. In addition to the rich and original discussion on the theories of property right changes, the book offers an innovative methodological approach by combining his empirical analysis with the logic of Bates et al. (1998) analytic narratives. Narratives based on empirical work and disciplined by economic models help to distinguish among alternative explanations for property rights emergence and change. The approach has proved to be successful in structuring and analyzing the process of property rights formation in Bulgaria.

Markus Hanisch’s work is the last in a series of books to emerge from the research project “Comparative Analysis of the Transition Process in the Agricultural Sectors of Selected Central and Eastern European Countries” (KATO), on which researchers from Eastern and Western European countries collaborated. We like to take the opportunity to thank all of the researchers who participated in KATO: Mieczysław Adamowicz, Alexi Alexiev, Ivan Boevsky, Silke Boger, Markus Brem, Jarmila Curtiss, Stephan von Cramon-Taubadel, Dorota Czerwinska-Kayzer, Paul Hagelschuer, Markus Hanisch, Jaroslav Homolka, Gabriel Hughes, Marketa Johnova-Jammalova, Krassimira Kaneva, Dieter Kirschke, Erik Mathijs, Michael D. Michailov, Dominika Milczarek, Ferdinand Pavel, Walenty Poczta, Ewa Rabinowicz, Achim Schlüter, Günther Schmitt, Miroslav Svatos, Todor Todorov, Rangel P. Trendafilov, Jiri Tvrdon, Peter Wehrheim, Jerzey Wilkin, Axel Wolz, and Sabine Zillmer. Their efforts made KATO successful; their ideas, concepts, and results contributed to a better understanding of institutional change in transition agriculture.

Finally, we would like to express our gratitude to the project’s sponsor – the Volkswagen Foundation. We hope that Markus Hanisch’s book and the other publications in this series will find interested readers and stimulate further research.

## Acknowledgements

Through the financial support of the Volkswagen Foundation, the KATO research network enabled 11 students from Germany, the Czech Republic, Poland and Bulgaria to exchange research experience and jointly explore the agricultural transition process of the late 1990s. I am grateful for having been a member of this group and for the unique opportunity to write my dissertation in a very friendly and interdisciplinary research environment. I heartily thank my supervisor Professor Konrad Hagedorn, the initiator of this project, for being a continuous source of optimism and inspiration in the time of writing the research application and afterwards.

Dr. Volker Beckmann had the sometimes difficult task of coordinating the efforts of eleven young researchers. His critical perspective and broad theoretical knowledge have been of benefit to KATO studies, with my work as no exception. Dr. Achim Schlüter was for most of the time my 'colleague next door.' Together with my friend Dr. Dominika Milczarek, we formed the Privatization and Property Rights group of the KATO project and I owe both of them a lot for sharing valuable personal and professional experiences with me.

Judging from my own greenness back in 1996 when I had decided to write my Masters Thesis on the political economy of Bulgarian land reform policies, it sometimes seems to be a miracle to me how the often very specific information I processed in my Ph.D.-Thesis became available to me. Although Bulgarian hospitality is well known, I feel as though I was extremely lucky to have found new friends and so much support from Bulgarians of very different regions, social backgrounds and professions. Dr. Ivan Boevsky traveled 6000 (!) miles in a rental car with me and accompanied me more than 90 days in three field trips all over Bulgaria. His knowledge of the country, his expertise, and his personal research interests were an invaluable contribution to my research. Professor Michael Michailov and Professor Alexi Alexiev coordinated 105 interviews. The former understood how to sensitively open the doors of the political scene and of the Bulgarian Parliament in Sofia. The latter contributed rich field expertise and intimate knowledge of regions and individuals to my work. To Dr. Ivan Penov, I am strongly indebted for giving valuable comments after having reviewed and commented on most of the work in January 2003.

I owe a lot to Theodora Tzankova who transcribed my tapes and fieldnotes into a beautifully organized 500 pages document while meticulously checking the German translations to clarify misunderstandings I encountered during field work. There is, of course, not enough room to name each of the 105 Bulgarian individuals I spoke with during my trips. However, their true hospitality and friendliness I will never forget.

My colleague Marlis Werner provided a great level of support during busy times at the end of the process. She worked fastidiously through these nine chapters. I am filled with gratitude and amazement towards the professionalism of her editing work on my manuscripts.

Writing all of this in English language was a challenge and a burden to me. Rebecca Blum gave me more than one lesson in how to write in American English. I honestly appreciated the way she did her job without giving up on me. My Australian friend Kobi Leins reviewed and edited an earlier version of the thesis and I am likewise grateful for her ‘Aussi’-comments.

Friederike von Klinski-Wetzel has become a close friend through our time as university students. It is due to knowing and working with her that I became an engineer and economist and a strong believer in teamwork.

This last sentence belongs to my parents Brigitte and Dieter Hanisch and to a number of supportive unmentioned friends who never gave up on motivating me though this work consumed much time we would have otherwise spent together.

Berlin, November 2003

Markus Hanisch

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