

BOOK REVIEWS

Tangermann, S. and Banse, M. (eds): *Central and Eastern European Agriculture in an Expanding European Union*
New York: CAB International, Wellingford, 2000, 210 pp.

Agricultural adaptation is a highly complex area of the eastern enlargement of the European Union. On the one hand the Common Agricultural Policy (CAP) is of special importance among common policies (mainly with regard to the budgetary outlays but also from other aspects) so expanding it to new members raises a complex set of problems. On the other hand the acceding Central and Eastern European Countries (CEECs) are transforming economies. Agricultural transformation is an especially complex issue. One of the main effects of transformation is structural change, which is sometimes not really transparent. Market actors, institutions and co-ordinating mechanisms are most affected. Experiences show that agricultural transformation is slower than the overall economic transformation. Signs of crisis or depression can be seen also in the agricultural sector of countries that successfully managed to overcome the comprehensive transformation crisis.

It is then essential to explore the economic aspects of the CAP adaptation process of CEECs. Researchers should also take into account the internal characteristics of the countries concerned. At the same time the process of EU integration is in itself a complex field of research. Application of empirical methods, especially quantitative analyses are unavoidable to meet the objectives. Researchers developed and implemented complex econometric models, which required an extensive database on behalf of the CEECs.

This was a very demanding piece of work, which could only be performed in a joint effort of experts. The book edited by S. Tangermann and M. Banse widely meets these requirements. This work is based on the previous significant research work of the authors. A co-operative program of four research institutes (Institute für Agrarökonomie, Universität Göttingen; Why College, University of London; Institute for Agricultural Policy, Bonn University; Department of Agricultural and Environmental Economics, Katholieke Universiteit Leuven) is in the background. Besides the outstanding senior agricultural economists (S. Tangermann, A. Buckwell, W. Henrichsmeyer, etc.) well-known talents of the younger generation (M. Banse, J. Swinnen, etc.) can be found as well among the authors, forming

an attractive scientific capacity. The researchers have extensive institutional and personal relations with CEEC research institutions and researchers, which also contributed to the success of the book.

Following the logic of the research seven chapters sum up the results of the program and the last chapter contains the conclusions.

Sophia Davidova and Allan Buckwell sum up the *main developments of the transformation process* in Chapter 1. First they present a brief country comparison of the main aspects of macroeconomic transformation (GDP, inflation, FDI, etc.). Then they review some measures of performance of agriculture in the applicant countries. The authors found that there are significant differences between countries and, therefore, try to relate the differences in performance to economic development and price variables. They also compare the policy instruments and the level of support in the CEECs to those in the EU and draw conclusions about the degree of agricultural policy integration with the EU. The main findings of the authors are the following.

There were indeed sound economic reasons for differentiating applicant countries with regards to their readiness for accession to the EU. Looking at their macroeconomic stabilisation, their growth rates, the degree of privatisation, liberalisation, institutional restructuring and their success in attracting foreign direct investment, it is clear that there is a significant difference between the first- and second-wave countries. It was equally clear that the performance of the agricultural sector mirrored that of the economy at large. With some exceptions, the first-wave countries have higher agricultural labour productivity and higher (wheat and milk) yields.

There has been some convergence of agricultural policy in the CEECs towards that of the EU. This is shown in the overall level of support as measured by PSE, and by the decline in the proportion of market price support. The authors note at the same time that *there is still considerable use of non-CAP instruments* (mainly input subsidies), and the pattern of support by product is very different relative to the EU.

Chapter 2 – written by W. Henrichsmeyer, J. Köckler, T. Möllmann and A. Quiring – provides a consistent picture of the sectoral accounts in a way that is comparable with the EU. This is an important step in providing a basis for comparative analysis among CEECs and the EU. A Policy Information System for agricultural sectors in transition countries (PIT) has been created. The aim of PIT is to *provide reliable information on physical, price and profitability developments in the agricultural sector*, which focusses on the specific needs of transition countries. It represents an integrated approach combining data synthesis, diagnosis, evaluation and simulation.

The integrated approach has proved to be appropriate for quantitative analysis of agricultural developments in CEECs. The distinction of quantity and price developments for outputs and inputs demonstrates that the implications of the transition process differ for individual production activities and across countries. The authors found that in grain production farmers changed production technologies (extensive systems) according to the new economic situation. They also note that reduction of livestock numbers appears to be the only possible solution for maintaining profitability of milk and beef production.

In Chapter 3 G. Hughes examines thoroughly agricultural productivity, focusing particularly on the emerging new corporate farm structures in the CEECs. It provides evidence on the differences in total factor productivity (TFP) between organisational types and sizes of farms in the region. The *TFP index is a standardised ratio of all relevant aggregate physical outputs to all the aggregate physical inputs used in their production*. Hughes highlighted that a statistically significant relationship can be found between productivity and dimensions of structure in all the three examined countries (Hungary, Czech Republic and Slovakia), confirming the theoretical expectation that structure does in part determine total productivity, however there are significant differences.

The author concludes that *economic efficiency is not guaranteed by the innate economic superiority of any particular type of farm*. The economic success or failure of particular types of farms must be understood in terms of their origins, the wider economic environment and country-specific factors.

Chapter 4 – written by M. Gorton, A. Buckwell and S. Davidova – analyses the economic relationship between farms and the downstream sector. It shows how a combination of policies, market structures in food processing and distribution, and inefficiencies in these sectors result in large transfers between agents in the food chain. *The authors extend the Producer/Consumer Subsidy Equivalent (PSE/CSE) methodology*, so that the magnitude and directions of economic transfers between actors at each stage can be estimated.

The transfer estimates indicate that the largest net beneficiaries throughout the region have been retailers. The authors found that the data on market structures are also consistent with this: the retailing sector has grown rapidly since the outset of transition. The authors conclude that there will be a tendency for economic rents to be bid down as the sector grows and more firms enter the market.

The following two chapters (Chapters 5 and 6) are based on *econometric models and present the sectoral and macroeconomic effects of accession*.

Sectoral analysis (W. Münch) is based on partial equilibrium analysis. (The European Simulation Model – ESIM – developed by the USDA was adapted to include the Central and Eastern European Countries.) Sectoral analysis is focussed on *three main scenarios*: the CEECs are integrated into the EU though without im-

plementing the CAP; the CEECs are integrated into the EU, the CAP is extended to them but without direct payments; and finally, as the latter but with direct payments. The applied model is especially suitable for the impact analysis of agricultural market policies and for the exploration of effects caused by their change (mainly through their expansion). The study presented the *expected market developments* of the main product groups on the one hand. Adaptation of the CAP – even after the adjustments made under Agenda 2000 – results in a significantly higher level of protection relative to the CEECs' national policies. In that way a significant increase in CEEC agricultural production and export can be expected.

On the other hand the study tried to reveal the *possible budgetary implications of extending the CAP to the East*, taking into account also the consequences of the Agenda 2000 agricultural decisions. With regard to the budgetary implications the following should be stressed:

- countries with *positive agricultural trade balance* are net beneficiaries of the system, so support from the EAGGF Guarantee Section is highly dependent on the balance of trade;
- extending the *direct payments* to the East – under the Financial Perspectives for the years 2000–2006 – may cause significant budgetary complications.

A further conclusion, which affects also the sectoral impacts, comes from the *critics of Agenda 2000*. The limited reform in the dairy sector and the lack of reform for sugar sector leave these regimes highly distorted. Maintaining at the same time the current form of export subsidisation of cereals would generate additional incentives for the CEEC production and would expand net exports, especially for the more highly protected coarse grains.

Extending the CAP to the East would also have significant *macroeconomic effects*. M. Banse analysed these effects by a computable general equilibrium (CGE) analysis. The model is based on the model structure developed by Adelman and Robinson and was further developed by Banse to include four CEECs. The main macroeconomic impacts identified by the author are the following:

- extending the CAP has a positive impact on GDP in CEECs that are net exporters of agricultural products, while those countries which are net importers will suffer economic losses due to the changes;
- CAP adaptation significantly affects the non-agricultural sectors: in certain sectors non-agricultural value added and welfare of urban households may decline (although in case of direct payments welfare of both rural and urban households can improve);
- negative elements of EU accession will be compensated by positive effects, mainly by the dynamic increase of overall GDP.

Special limits of quantitative analysis should be mentioned too. On the one hand, it is not easy to collect reliable *statistical data* (of the same quality) on par-

ticular CEECs. Non-transparent structural changes may cause uncertainties in information systems. On the other hand, elasticity parameters are of special importance in partial equilibrium analysis. At the same time, after the dramatic changes that followed transition, empirically based *elasticity parameters* are not available. It is then necessary to apply calibrated parameters or elasticity matrices. Application of empirically based parameters would mean a qualitatively new phase of partial equilibrium analysis. (Cross-pooling could be used in future research.)

J. Hartell and J. Swinnen analysed *CEEC agricultural price and trade policies* from the integration point of view in Chapter 7. The analysis examined on the one hand the *level* and *mechanism* of government intervention policies and their *reasons* – with regard to EU integration and political economy on the other hand. A detailed comparative analysis provides a comparison of CEEC protection levels and instruments of agricultural market policy. Beyond a consecutive analysis the study is highly based on a collective research carried out by J. Hartell, S. Bojnec and J. Swinnen in which they used a very sophisticated regression analysis to test various hypotheses following from political economy theory. The explanatory variables in their model include proxies for the structure of the economy, relative income, deadweight and transfer costs associated with the redistribution policy and institutional structures. The results of their regression analysis explain more than 70% of the variation in CEEC agricultural protection. (It is worth emphasizing that they also analysed the changes in real exchange rates.)

This chapter confirms empirically the increase in CEEC aggregate protection levels, although average agricultural protection in CEECs is still considerably lower than in the EU. Analysis of tendencies supports the hypothesis that protection levels are to an important extent determined *endogenously*. At the same time, *exogenous* factors – among others the desire to minimise accession costs – also constrain policymaking.

Studies integrated into this book constitute complete works themselves. At the same time, iteration between particular topics can be well captured through mutual references, interlocking contents and mutual use of results.

Not even the last chapter – written by S. Tangermann and J. Swinnen – could achieve a full synthesis. Instead – as the authors write –, they adopted a deliberately selective approach: based on research results they concentrated on a set of issues. The importance of *agricultural structural change and changes in agricultural productivity* should be stressed. An important conclusion refers to the *permanent multisectoral nature* of CEEC agriculture: “Based on relative productivity it appears more plausible that *the various types of farm organizations may continue to coexist for a long time, and hence, that farming structures in an enlarged EU will be considerably more varied than is currently the case*. On the other hand it is also obvious that productivity is not the only factor that matters in this regard.

Policies directed at farming structures, access to credit, and legal conditions regarding property rights and land ownership have a significant influence. Given the economics of alternative farm organizations transpiring from the productivity analysis presented here, no clear cut dominance of any particular farming structure is suggested and *policy makers would be well advised to shape policies such that they provide equal chances to all types of farms. This applies equally to national policies in the CEECs and to EU policies in preparation for eastward enlargement*" (p. 194, italic by us).

It is worth noticing the conclusions on food market structure and on *food industry competitiveness* in the CEECs. On the basis of the research results this sector may face more difficulties than the agricultural sector.

We should stress the importance of the summary of *the possible impacts of extending the CAP*. The authors conclude: while it is expected that all CEECs joining the EU will gain in economic welfare as a result of accession, the macroeconomic implications of the purely agricultural element in EU accession will differ among the individual CEECs. Possible impacts depend on the concrete conditions of accession. A decisive factor is the extension of direct payments to the CEEC. Finally, *developments of adaptation* – as a result of agricultural policy reforms – will largely be dominated by CEEC agricultural competitiveness, rather than by concrete instruments of the CAP. However, this general result does not hold for those sectors who have not yet reformed common market organisations as dairy and sugar, where the delay in reforms may cause serious distortions with regard to the impacts of first accessions.

At the end of the study the authors sum up the ways of *future research* (first of all revealing the mechanisms of factor markets) signing that the research is still not complete.

The book consists of outstanding studies. Parts of the results have already been published elsewhere, but this book gives an overall and more complete picture of the work. The authors, the program supervisors and the collaborators deserve appreciation.

At the same time the continuation of the inspiring research topics and more detailed analysis of the already examined topics can be expected (e.g. development of elasticity parameters). Furthermore, further research – expectably based on international co-operation – provides an outstanding opportunity for overall synthesis.

Péter Halmai

**Leipold, H. and Pies, I. (eds): *Ordnungstheorie und Ordnungspolitik
(Konzeptionen und Entwicklungsperspektiven)*
Stuttgart: Lucius & Lucius, 2000, 456 pp.**

This collective volume has been published in the highly esteemed series of the publisher as the 64th item of publications devoted to various aspects of studying economic systems. As such, it is a representative volume of the German neo-institutionalist school, known as *Ordnungspolitik*. Students and followers of Hayek and Eucken, their students, and by now, the third generation of German neoliberals never ceased to reflect upon alternatives to the mainstream of the day. On the one hand they have been confronting socialist planning, both in its traditional form of the command economy, and in its more revisionist versions, still popular in large parts of the West, as the “Third Way”, an idea that has been shaping political and economic thinking in a large part of the 20th, and probably will also in the 21st century. On the other hand, systems theorists have never accepted the technicisation of economics, its own disclaimer of being a social science, inherent in many of the microeconomically oriented and formalised approaches, currently dominating the major academic economics journals in the US and Britain.

This peculiar approach seemed out of date by the mid- and late 70s, especially in view of the fact that the German “social market economy” has been increasingly resembling the socialist market economy, with the state taking on an ever growing number of functions, redistributing an ever greater share of GDP, and regulating ever larger parts of human activity, especially in the economy. However, with the changes in the international economy, technology, the advent of new industrialising countries, and last but not at all least, by the collapse of the Soviet empire, the fundamentals in economics have gained new significance. In the processes of transformation, both in Germany and in the emerging markets, issues pertaining to the quality and performance of institutions have come to the foreground. The more decision makers were confronted with institutional choices and their consequences, the more precious all insights into the workings of the institutions, conditions for their success, and the possibilities and limitations of policy initiatives, i.e. the classical themes in *Ordnungspolitik* have gained in relevance.

In the current volume, leading representatives of this approach take stock of what has remained, what needs to be updated, and – finally – what this truly German branch of economic analysis has contributed to economic science.

Part I deals with the classics of this school, Eucken and Hayek. Andreas Renner surveys the major works of Eucken and highlights the close similarity of his normative approach to constitutional political economy. Martin Leschke provoca-

tively calls F.A. Hayek an enlightened constructivist (a word Hayek used as synonymous to misconceived theory). In his view, a comprehensive understanding of Hayek's theory allows for important theoretical policy insights. On the former level, competition needs the formation of rules of the game, rather than a hands-off policy (advocated by the simplistic interpretation of some of his followers). On the policymaking level the competition among systems is perceived as useful in bridging the differences among national EU arrangements in a way that contributes to improving welfare and freedom of the individual.

The contribution of Alfred Schuller is devoted to the development of classical systems theory. Particularly interesting are his reflections on globalisation and its influence on the competition among systems. This process puts limits on the freedom of politicians to make choices of their own interest, i.e. get their endogenous preferences fully through while they continue to retain the ability to create inter-governmental regimes shaping the rules of the game in a global dimension. He considers it a great challenge to integrate cultural diversity and economic analysis, endogenising what is traditionally seen as external constraints modifying the workings of economic principles.

Carsten Hermann-Pillath provides an evolutionary theory of culture and economic systems. He raises the question to what extent cultural factors shape the ability of individual economic systems to innovate and renew themselves. He cautions of too much optimism related to the possibilities that shape culture by introducing new formal institutions. Rather, especially in the long-run perspective, it is culture and path dependency that may shape formal institutions.

Helmut Leipold goes further on this path and analyses the role of formal and informal institutions. Besides giving an overview and categorisation he presents an interesting and broad application of the concepts of such diverse areas as the tribal institutions of Africa, the dominance of religiously dominated institutions in the USA, and that of the formal social state supports in Germany. He is critical of the German systems theory's tendency of underrating the role of informal institutions, although the latter are of great significance in all phases of implementing theoretical constructs, such as constitutions or newly established formal institutions. In conclusion he raises the contested issue, if and to what degree cultural foundations allow and account for successes and failures of the same principles of Ordnungspolitik under different environments.

It would be hard to serve justice to all the 23 contributors to this most interesting collection of papers. But even such a fragmentary and highly selective review of the topics and approaches may illustrate that German systems theory is by no means out of date. It is in line with the more influential and better known new institutional economics, trying to integrate standard economics with a varying so-

cial environment in which economic theories are being transposed by policies. Theorists in Europe can only be most interested in seeing how this strand of thought is to develop in line with the manifold of new challenges, posed by welfare state reform, globalisation and restructuring for enlargement in the European Union.

László Csaba

OBITUARY

At age 81 passed away György Hajdu translator and copy editor of this journal from the very beginning until the early nineties. He had been a devoted external collaborator of the editorial staff.

Mr. Hajdu graduated at the Budapest University of Economic Sciences in 1950. As an economist, he had spent most of his lifetime with conveying to English-speaking readers information on the Hungarian economy and economics. Beyond this journal some 30 books published and several serial publications were marked by his intellectual effort. He played an important role in creating the English terminology of the new concepts that emerged with Hungarian economic reform.

After his retirement from the National Planning Office, he took over executive and editorial tasks in preparing the two volumes of the “Market Economy versus Planned Economy: An Encyclopaedic Dictionary” (English, German, Russian) published by K. G. Saur, Munich in 1992 sponsored by the Volkswagen Foundation and the Hungarian Academy of Sciences.

He did not lose interest in economics even at high age. Over forty volumes of this journal preserve his memory.

Good bye György!

Tamás Földi

