

ORGANIZATION, PERFORMANCE, & SYSTEM CHOICE

**East European
Agricultural Development**

Michael L. Boyd

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Michael L. Boyd

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Economic Organization and System Performance: The Options for System Choice

1. Introduction

We live in a world dominated by competition among different political, social, and economic systems. Although the actual differences among systems are often blurred by the rhetoric of ideological competition, the various existing systems represent alternative visions of how the world works, or how it ought to work. Because the outcome of this competition affects the lives of everyone, it is extremely important to increase our understanding of the differences among economic (and their accompanying political) systems — in particular, differences in performance. Current debate about and active pursuit of systemic change in the Soviet Union, Eastern Europe, and China show vividly that these issues are of more than academic interest. In addition, many of the world's developing countries are in a position consciously to choose one or another system. In all of these situations, the need to understand as completely and accurately as possible the comparative characteristics of different economic and related political systems is clear and compelling.

In order to produce informed evaluations of the strengths and weaknesses of different economic systems, it is first necessary to confront a set of complex and confounding questions that center on system definition and description. These questions involve issues that, although familiar, must be carefully considered in order to define clearly both the objects of and the context for comparison. Suitable opportunities for empirical investigation which allow one to assess the relative merits and drawbacks of different types of economic organization can be identified by considering these issues. I make this overly simplified description in order to emphasize that such measuring and comparing must be carried out and evaluated in full recognition of their inherent limitations. Nevertheless, only by conducting such exercises can we accumulate sufficient evidence to reach even tentative conclusions about the controversial and important questions of relative system performance.

In this work, I present the results of three case studies of East European agriculture. These cases were chosen because they allow me to compare the performance both of different types of organization and of economic systems. Also, because these cases describe the performance of different agricultural organizations in developing countries, I can and do use them to consider some key issues in agricultural development. In particular, I examine the relative performance of different types of agricultural organization (state farms of varying types, cooperatives, and private farms) in Yugoslavia, Poland, and Bulgaria. My first goal is to provide the kind of evidence required to evaluate the relative strengths and weaknesses of different systems of organization. Although I examine specific productive organizations in only one sector of these three economies, there is significant variation in organizational forms both among and within cases and these forms may also be evaluated within different systemic environments (i.e., centrally planned versus market socialist economies).

Given the numerous dimensions available for comparison, these cases are particularly well suited to an evaluation of the relative merits of system performance. Further, as mentioned previously, the focus on agriculture is of particular importance. Because improving agricultural productivity is a key element in all attempts to raise incomes and transform developing economies, understanding the relative performance of different types of organization in this sector is vital. I discuss more fully later my choice of the specific types of organization found in this sector, asserting here only that they are particularly useful cases for the type of empirical exercise explained previously.

Before I examine these issues, or even begin to describe the case studies themselves, I first consider several fundamental questions of system definition and description. In the next section I examine these issues with the goal of providing a description of the general framework within which the choice of cases and the measurement and evaluation of performance were conducted. I then consider some specific aspects of system performance and choice in the contexts of less-developed countries (LDCs) and of centrally planned economies. This discussion leads me to examine recent trends in system choice and reform in the Soviet Union, Eastern Europe, and China and to make specific reference to those issues of organization and performance that the case studies of Yugoslav, Polish and Bulgarian agricultures can be used to evaluate. In conclusion, I summarize the issues of relative system performance, comparison, and choice to which I return after presenting the case studies.

2. Defining and Evaluating Economic System Performance

In order to establish the appropriate context for comparing systemic performance, two fundamental questions must first be addressed: What is an economic system? And how can one compare the performance of different systems? I do not attempt to establish a definitive or exhaustive set of criteria for answering such questions, a job that has been taken up well in numerous basic texts on the subject (e.g., Gregory and Stuart 1985). Rather, I work to identify the basic points of contention in these questions and the particular choices I make in regard to them. Only within the framework of these choices can the case studies of Yugoslav, Polish, and Bulgarian agricultures be evaluated to draw inferences concerning relative system performance and to make informed choices regarding organization and systems.

Defining anything as complex and ambiguous as an economic system is exceedingly difficult. Traditional definitions focus on stylized economic systems such as feudalism, capitalism, socialism, fascism, and communism. The principal drawback of this "isms" approach is its failure to distinguish adequately the functional differences among systems, although it does clearly emphasize the important link between political and economic systems. Contemporary approaches to system comparison (following, e.g., Montias 1976a and Neuberger and Duffy 1976) attempt to identify specific characteristics, such as property rights, the mechanisms employed to generate and transmit information, and the organization of decision-making and of incentives, and to use these to define economic systems. Yet another approach identifies an economic system as "a set of mechanisms and institutions for decision-making and the implementation of decisions concerning production, income, and consumption in a given geographic area" (Lindbeck, 1977, as modified by Gregory and Stuart, 1985, p. 12). This approach combines a focus on the basic problems of economics (choice and distribution) with an emphasis on the institutional forms within which such activities occur. Numerous other definitions can be identified, but in general all can be reduced to variants of these three.

Simply enumerating alternative definitions demonstrates clearly the complexity of the problem. I identify my preferred definition by describing two extreme points of view that I reject. The first is that an economic system can be completely defined only in reference to the entirety of its historical, political, social, and cultural context. This matrix of factors defines the setting within which economic systems operate and as such does constrain the performance and structure of any system. Moreover, in many instances these factors play a critical role in determining specific characteristics of the form of a particular

economic system.¹ But they do not represent a system's substance, by which I mean the fundamental institutional arrangements governing economic interrelations. This substance can be similar across widely different historical, geographic, social, and cultural contexts, each with its own particular forms of behavior.

The second perspective I reject is one that defines an economic system as a constrained optimization process. Although I accept that an economic system does embody a set of fundamental interrelations and agree that all societies face the equivalent of a constrained optimization problem, it is obvious that not all societies produce the same solution to that problem, even when facing constraints that are substantially the same. It is precisely these differences in solution mechanisms that constitute substantial differences in economic systems. The significant differences among economic systems lie not in outcomes resulting from differences in basic resource endowments or other constraints on a society's optimization problem, that is, in differences in form. Rather, the substance of an economic system lies in the set of institutions devised to resolve the constrained optimization problem faced by a society. Thus, my preferred definition of an economic system focuses on the distinction between differences arising out of the constraints of situation (i.e., of form) and differences in the underlying solution mechanisms embodied in institutions (i.e., of substance).

Like all definitions, this one has advantages and disadvantages. Its principal advantage lies in the distinction between form and substance. By focusing on the institutional interrelations for resolving the basic "economic" problem of optimization subject to constraints, this definition provides a framework for separating the economic system per se from factors influencing it (i.e., the matrix of historical, political, social, and cultural forces), that alter form but not substance. The primary disadvantage is that this definition does not specify the source of differences in economic systems, that is, in institutional solution mechanisms chosen. Although it could be argued that such differences arise from differences in history or society, this argument would reduce the definition to a tautology. That there can be no logical refutation of such an approach shows only that the sources of differences in economic systems cannot be discovered through abstract generalization but rather by consideration of particular case studies. Furthermore, this weakness (if such it is) inheres in all

¹ For example, it is obvious that historical, social, political, and cultural forces played primary roles in determining the forms of economic systems as diverse as market capitalism in England in the Industrial Revolution, centrally planned socialism in the Soviet Union, and market-based socialism in Yugoslavia. But although these particular historical cases of economic systems are often used as theoretical models (and are empirically interesting because they are manifestations of different models), failure to maintain the distinction between form and substance can undermine the conclusions based on study of these cases.

attempts to explain where systems come from in terms of their own basic principles.² Thus, this definition commends itself primarily because its focus on the institutional mechanisms by which production is organized provides a clear way to characterize the different types of agricultural organization as representative of different systemic variants.

Although not definitive, this approach to economic systems can be used to consider comparative system performance. The central goal of system comparison is to increase our understanding of the potentials and problems of alternative modes of organization. This is important because the relative performance of the alternative institutional mechanisms used to resolve society's economic problems is an urgent, practical issue in many societies. For countries in a position to make a choice of economic system, it is vital to have more and better information about which arrangements solve particular problems well or poorly and to know whether these outcomes are inherent in a system or can be altered. Only then can one identify viable alternatives for economic organization, the choice of which can affect the lives and futures of millions.

As we turn from general issues to the consideration of key technical details, it becomes clear that measuring and evaluating the performance of economic systems is almost as complex as defining a system. It is relatively simple to list the indicators used most frequently to measure performance: levels and growth rates of output or income per capita; the distribution of income; allocative (i.e., Pareto) efficiency; and factor productivity growth. This is not an exhaustive list, but it shows clearly the nature of the standard measures used to capture system performance. The first point to note is that focusing on these (or any other) particular outcomes as standards of performance limits the scope of comparison. Although each of these measures captures an important aspect of those fundamental interrelationships that constitute the performance of an economic system, to focus on outcomes alone implies that these measures of performance adequately capture the differences in the systems themselves.

Because economic systems are fundamentally distinguished by differences in their mechanisms for solving problems of scarcity and choice, comparisons that focus solely on the outcomes produced by these mechanisms are incomplete. If different systems were to produce comparable performance in terms of output, choice of production techniques, and income distribution, there would still be the potential for differences in systemic evaluation. Such a potential would lie in evaluation of so-called "noneconomic" aspects of systems. It is possible to define these noneconomic aspects as differences in form and not substance, but

² That this is not necessarily a weakness and that it is not unique to the question of defining an economic system can be seen by reference to the controversy in economic history over so-called "neoclassical institutional economics." See North and Thomas (1973), North (1981), and Field (1981) for a brief introduction.