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Communities after markets. The long road of winemakers to self-governance in post-communist Hungary☆

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ABSTRACT

The performance of post-communist countries in building institutions for self-governance by users of common-pool resources has been meagre. While previous studies have emphasised weak social capital and bad policies, we focus on the dynamic effect of market institutions on self-organisation. We argue that common-pool resource users who trade their products are more likely to self-organise after private enterprises and their markets are in place. Therefore, the absence of market-supporting institutions was one of the factors that hindered the self-organisation of producers after the collapse of communism. While markets often destroy communities, we detect a positive effect in this geo-historical context. Two case studies about the development of local communities of winemakers in Hungary between 1990 and 2014 illustrate the logic of institutional dynamics.

1. Introduction

Why is successful self-governance of common-pool resources (CPRs) rarely observed in the former communist societies of Central and Eastern Europe? While many of these countries performed well in building a broad set of market-supporting institutions since 1989 (Murrell, 2008; Johnson et al., 2002; Åslund, 2012; Hare and Turley, 2013), the empirical literature suggests that they have largely failed to create similarly effective institutions for 'governing the commons' (Sikor, 2002; Theesfeld, 2004; Schlüter et al., 2010; Prager et al., 2012; Schmidt and Theesfeld, 2012; Wollmann, 1997). What explains this puzzling difference?

Common-pool resources include natural or man-made agricultural assets, such as common pastures, fishing grounds or irrigation systems, as well as great many other resources, ranging from technological resources [e.g. frequency spectrums (Wormbs, 2011)] to services [e.g. healthcare (Jecker and Jonsen, 1995)] and intangible goods [e.g. collective reputation (Patchell, 2008)]. By definition, they are goods from which it is difficult to exclude or limit users, whose consumption of the good subtracts from its value for others. These combined features often lead to overuse and underinvestment in the resource, which 'are among the core social dilemmas facing all peoples' (Ostrom, 2005, 219). Voluntary self-organisation by users is one institutional solution to these problems, which can have many potential advantages over alternatives such as privatisation or government regulation (Ostrom, 1990).

Many authors claim that the broader cultural and institutional context of post-communism is unfavourable to the emergence of robust self-organising communities. Institution-building efforts are hindered by both low levels of social capital within communities (Theesfeld, 2004; Upton, 2008) and the lack of external support due to dysfunctional state institutions (e.g. Sikor, 2002; Theesfeld, 2004; Sánchez-Hernández et al., 2010; Schlüter et al., 2010; Sutcliffe et al., 2013). However, social capital and good policies are also prerequisites of well-functioning markets. This suggests that the real question is why problems due to weak social capital and bad policies were more successfully surmounted for the institutions of market enterprises than for the institutions of CPR self-governance in the past two and a half decades. We argue that part of the answer is that the development of these two sets of institutions has been interrelated for most CPRs of economic significance because the goods they provide draw most of their value from being traded in established markets.

For such CPRs, individuals and their private enterprises are more likely to turn to pursuing complex, multilateral efforts to create self-governing associations *after* the basic rules of the game for private property rights have been laid down and the organisations and market relationships of private enterprises have been established. Communism

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destroyed markets as well as communities. The first decade or so after its collapse was spent building basic market-supporting institutions (Murrell, 2008). The lengthy 'struggle' (Dietz et al., 2003) to create self-organised communities of market actors could largely commence only afterwards.

This warrants a more dynamic and less pessimistic view of the development of CPR self-governance in post-communist Europe. The transitional weakness of market institutions was an important obstacle to the self-governance of CPRs supplying traded goods, in addition to weak social capital and low-quality policy-making. As this obstacle is now surmounted in many Central and European countries, it is reasonable to expect that a greater number of self-governing efforts will succeed.

We provide an overview of the parallel empirical observations and evaluations of relatively successful market-building and unsuccessful efforts at CPR self-governance in Central Eastern Europe (Section 2). We then revisit the theory of the self-governance of common-pool resources to explain why the existence of market-supporting institutions can be a precondition for the self-organisation of CPR users (Section 3). This provides a new insight for interpreting the empirical material. Our theory-based conjecture of institutional sequentiality – communities after markets – is then tested by two qualitative case studies. We track the institutional development of two local communities of winemakers in Hungary between 1990 and 2014, who struggled to build and maintain their collective reputation as an intangible common-pool resource (Section 4). Although, the presented cases are not (yet) unambiguous 'success stories', they support our perspective of institutional dynamics and lead us to conclude (Section 5) with cautious optimism about the self-governing capacity of communities in this region.

2. The institutional trajectory of post-communism

Although markets in constrained forms existed even under the communist rule (Kornai, 1992), the institutional system of a market economy had to be created anew in each Central and East European country after 1989. Central planning and state ownership were dismantled by legislation. As a corollary, corporate governance structures, contractual relationships and reputational mechanisms that had operated in the *ancien régime* became obsolete and were largely disrupted. Thus, an institutional void formed at several levels (Cooter and Ulen, 2004; Murrell, 2008). For the new market economy to start functioning, this void had to be filled by new legislation, mechanisms enforcing it as well as lower-level institutions governing property and contractual relations. All this took time. Although the formal constitutional and legal institutions of the new politico-economic order were swiftly adopted in a few years,[1] it soon became clear that institution building would be a more time-consuming task (Kornai, 2000; Voigt and Engerer, 2002). Privatisation of state enterprises (Brown et al., 2006) and land (Burger, 2001) continued into the second half of the 1990s. Lower-level institutions based on private ordering, such as the internal governance of firms and non-legal enforcement mechanisms of their contractual relationships, including relational or self-enforcing arrangements, social norms, reputational mechanisms (e.g. brands) and business communities (Brousseau, 2008), needed time to develop, as well. Since these institutional solutions are typically based on repeated play among actors participating in relatively stable relationships, it was unsurprising that they took more time to develop than one-off regulatory reforms (Humphrey and Schmitz, 1998; Kovách and Csite, 1999; Lengyel and Janky, 2004).

Despite many difficulties and protractions, a functioning institutional order for markets emerged by roughly the end of the first decade after 1989, at least in the countries to the West of the former Soviet Union and the Baltic states (Campos, 1999; Crafts and Kaiser, 2004; Beck and Laeven, 2006; Murrell, 2008). Although several imperfections remain, especially in terms of state administrative capacity and corruption (Knack, 2007; Kaufmann et al., 2009), these countries were up and running as market economies by the turn of the millennium. With unavoidable setbacks, the process continued, reflected in the fact that by 2011 the region's EU member countries overtook the worst-performing older EU Member States in terms of ease of doing business according to the World Bank's expert assessments (Åslund, 2012).

There is much less systematic evidence on the development of institutions of CPR self-governance than about market-supporting institutions in this region after 1989. The knowledge we have is from case studies on specific types of natural common-pool resources. A common thread through almost all cases is that they were top-down initiatives by central governments or external NGOs to foster or even oblige (partially) self-governing bodies at the local level. The contrast is striking with the cases analysed by Ostrom and her colleagues, which mostly deal with locally driven, bottom-up efforts of communities (Ostrom, 1990, 2005). Theesfeld (2004) studied the Bulgarian government's policy to found water user associations, while Gorton et al. (2009) examined similar intervention in Macedonia. Summarising the experience of four case studies about the management of localised natural resources in Central and Eastern Europe, Sikor (2002) also focussed on political, legislative and bureaucratic actions and their consequences. Schmidt and Theesfeld (2012) provided a critical account of the decentralising efforts of the Albanian fishery administration. In the broader post-communist region, Upton (2008) explored the experience of donor projects of an international NGO for Mongolian herders; while Horlemann and Dombrowsky (2012) documented government efforts to organise water resources management in the same country. Schlüter et al. (2010) discussed the Uzbek government's reforms of water resource management that involved partial decentralisation. Bottom-up self-governance were only found amidst traditional forms of agriculture (Sutcliffe et al., 2013; Mearns, 1996), with the exception of Schleyer (2009) who documented the renewal of a drainage or reclamation infrastructure by a modernised community of Polish agricultural producers.

Almost all studies documented failures or meagre results. The reasons given for the fiascos were closely linked to the top-down nature of institution-building. Governments intent on encouraging self-governance proved to have insufficient authority or capacities (Sikor, 2002; Horlemann and Dombrowsky, 2012); left their own rules unenforced (Sikor, 2002; Theesfeld, 2004; Schlüter et al., 2010), lacked accountability in decision-making (Theesfeld, 2004); financed make-believe activities on the ground (Sutcliffe et al., 2013); and disregarded local variations by applying 'blueprint' solutions (Schmidt and Theesfeld, 2012). Bottom-up responses to government initiatives were weak. Local communities had insufficient internal resources because communism's assault on civil society had led to low levels of trust and depleted social capital (Theesfeld, 2004; Upton, 2008).[2] In some cases, drastic changes in market demand undermined existing production processes and attending rules to govern common-pool resources (Sikor, 2002; Schleyer, 2009; Sutcliffe et al., 2013). The outcome was often an incongruous mixture of formal and informal rules that encouraged opportunistic individuals strategies and undermined attempts of value-enhancing collective action (e.g. Sikor, 2002; Theesfeld, 2004; Schlüter et al., 2010). Theesfeld's metaphor summarises much of the findings of the literature: 'formal attempts do not fall on fertile ground where collective action can grow' (2004: 268).

[1] In Hungary, where our case study is situated, legislation securing private property and introducing Western-style corporate law was adopted by the outgoing communist and the first democratic government (Sárközy, 2012).

[2] For similar observations in China, which follows a more gradual transition path, see Qiao (2013).