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Article — Published Version

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European Planning Studies

Suggested Citation: Rizov, Marian (2006) : Rural development perspectives in enlarging Europe: The implications of CAP reforms and agricultural transition in accession countries, European Planning Studies, ISSN 1469-5944, Routledge, London, Vol. 14, Iss. 2, pp. 219-238, <https://doi.org/10.1080/09654310500418101>

This Version is available at:

<https://hdl.handle.net/10419/193787>

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Rural Development Perspectives in Enlarging Europe: The Implications of CAP Reforms and Agricultural Transition in Accession Countries

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[Received May 2004; accepted September 2004]

ABSTRACT *The purpose of this paper is to put into an appropriate theoretical frame the rural development issues in enlarging Europe and to analyse the rural development perspectives in the European Union (EU) accession countries. Based on comparisons of developments in the Common Agricultural Policy (CAP) and features of the rural areas in incumbent EU member states with the status of the rural sectors in accession countries, implications for the future of CAP are discussed. It is argued that despite coming from different development doctrines, the dominant rural sector—agriculture—in both eastern and western Europe is similarly characterized by dual structure. Thus, emphasis on rural development structural policies currently being promoted by the reforming CAP can be fruitful in both new and incumbent member states.*

Introduction

The accession of central and eastern European countries (CEECs)¹ into the European Union (EU) has significantly affected their agricultural and rural development policies. First, the level of support to agriculture and rural areas, in general, has increased for the majority of CEECs, and secondly the composition of the policy instruments has changed. One of the most debated issues on enlargement has been whether the CEECs should get full access to the Common Agricultural Policy (CAP) support, in particular structural funds and direct payments. There is a growing literature on the impact of EU enlargement on CEECs' agriculture. Recent studies assess the effects of EU budgetary expenditures, on protection levels in CEECs and on commodity markets and trade

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(e.g. European Commission, 1998; Hertel *et al.*, 1997; Tangerman & Banse, 2000). However, the impact of accession on rural development has attracted much less attention. This is surprising given the prominence of this issue in the debate on reforming CAP among the incumbent member states (e.g. Lowe *et al.*, 2002; Rizov, 2004).

As the EU has become increasingly involved in the global economy and the World Trade Organization (WTO) regime, rural areas must adapt to liberalized trading conditions and lower commodity price supports. In particular, these perspectives present new challenges for farming households and agricultural support system. For many farming households, the availability of off-farm employment and the earnings it offers may be of more significance than trends in farm income (see Figure 1). Furthermore, it has been argued that throughout the evolution of the CAP a distinction has been made at state level between “development” and “non-development” farmers, or commercial and subsistence farmers which exacerbates the dual structure of EU agriculture (e.g. Bonanno, 1990; Crowley, 2003; Deverre, 1995).

Efforts to diversify the rural economies of incumbent EU member states are in the focus of the current policy agenda as well as of the localized rural development strategies outlined in the Rural Development Regulation (RDR), hailed by the European Commission as the “second pillar” to the CAP (European Commission, 2003a). At the same time, supporting good environmental management is also an important policy objective. These concerns have parallels in the accession CEECs where the EU has already been involved through the Special Accession Programme for Agriculture and Rural Development (SAPARD) (European Commission, 2003b).

The purpose of this paper is to put into an appropriate and contemporary theoretical frame the rural development issues in enlarging Europe and to analyse the implications of CAP reforms and the agricultural transition in CEECs for rural development. Based on comparisons of developments in the CAP and features of rural areas in incumbent EU member states with the status of the rural sectors in accession CEECs, policy

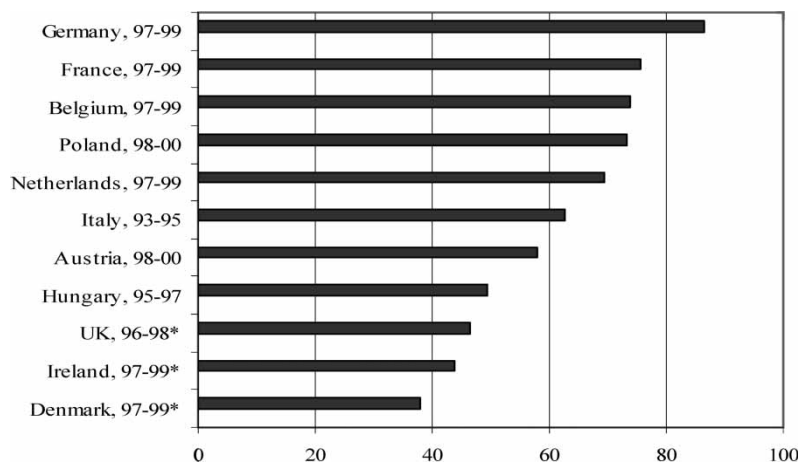


Figure 1. Farm income as a percentage share of total income of farm households. *Note:* The period covered by the data is indicated after the country's name. *Denotes that broad definition is applied to farm households. *Source:* Eurostat, National Statistics, OECD

implications related to the future of CAP are discussed. Furthermore, it is argued that despite coming from different development doctrines, the dominant rural sector—agriculture—in both eastern and western Europe is similarly characterized by dual structure. Thus, emphasis on structural policies currently being promoted by the reforming CAP can be fruitful not only in incumbent member states but also in the accession CEECs.

The paper is organized as follows: in the next section the features of a successful rural economy in the today's dramatically changing world are outlined. In the third section, the CAP evolution is critically reviewed and evidence of the resulting dual farm structure highlighted. In the fourth section, an analysis of the main features of the rural sectors in accession CEECs is presented. The last section, offers a conclusion and draws some policy implications.

A Theoretical Framework: Towards Understanding of Rural Development

The long-term history of economic and social fragility of many rural areas reflects the declining capacity of supported industrial agriculture to sustain the rural economies. As Ray (2002) argues orthodox agricultural sector policy is not only prone to criticism of budgetary cost but may also be itself a reactionary force preventing the adaptation by rural society to the contemporary conditions. Experiments such as public interventions and quasi-autonomous activity into alternative approaches to rural development have been indicating the feasibility of a new, "territorial" or "neo-endogenous", approach (Ray, 2001).²

This territorial/neo-endogenous approach as a mode of production is potentially applicable to any sub-national geographical scale and it is characterized by three main components. First, it suggests that development is best managed and sustained by focusing on territories of need rather than on certain sectors of the rural economy. Moreover, the scale of territory must be smaller than the national or regional level. Second, economic and other development activities are re-oriented to valorize and exploit local resources—physical and human—and thereby to retain as many of the resultant benefits within the local area. Third, development is put in context by focusing on the needs, capacities and perspectives of local people; the principle of local participation is emphasized in the design and implementation of action and through the adoption of cultural, environmental and community values within a development intervention.

How Does a Successful Rural Economy Work?

Many factors have been advanced to explain economic development, in general, and rural change and advancement, in particular. Most often trade and market liberalization is considered the dominant force (Krugman, 1991). Trade among communities, regions or nations allows, first to increase specialization which has the effect of increasing efficiency and volume of output, second to access goods and services that are not locally available, and third to exchange new ideas. Each of these outcomes has important impact upon the societies involved. Furthermore, an important induced effect of the process is the faster technological change.

However, because rural economies have always been highly exposed to the adverse effects of changes in trade policies or in the terms of trade, benefits from trade for rural areas are disproportionate (Krugman, 1991). Even as the rural areas change in terms of economic function from primary industries to manufacturing, the sensitivity of rural

economy to trade does not. This is so because almost by definition rural areas have small, specialized economies that only produce a small fraction of the goods and services their residents want to consume. Small size means they cannot produce everything and the requirements of the market to produce efficiently mean that any rural area tends to be pretty specialized in the goods and services it is able to produce and sell.

The economy of a community grows when local businesses sell goods and services of value to buyers elsewhere and thus, bring new money into the community. Such businesses are part of the “economic base” or “traded sector” of the community (Freshwater, 2000; Shaffer, 1989). Not every business in the community works this way, however. Some, the grocer, the dry cleaner, the car repair shop, simply provide services inside the community. These “local market” businesses are important; after all they employ people, pay taxes and provide many of the essential things that make life both possible and pleasant. But they really only circulate money that already exists in the community; they do not bring new money in from elsewhere, except when they sell their services to tourists.³

How does a community get richer? By expanding its economic base. What kinds of businesses are in the economic base? Obviously, a commercial farm or a processing plant that ships products elsewhere is, but many other businesses are too. Professional service companies (consultants, accountants, lawyers and the like) are part of the economic base when they sell their services to outsiders. Tourism, while it does not send anything elsewhere, brings people from elsewhere to the community and with them their money, so it is part of the economic base too. People who live in the community but commute somewhere else can be part of the economic base to the extent that they spend their earnings in the community. In fact, even people who do not work at all, for example retirees, are part of the economic base to the extent that they receive and locally spend their income from retirement investments, social security, or even welfare payments.

Thus for rural areas a critical question is, how well are the sectors that generate external income for the local economy doing? While the nature of export base industries may change over time, rural areas remain trapped between the necessity of specialization to be competitive and the resulting exposure to external threats from changing terms of trade. An optimal response could be to both specialize at enterprise level and diversify at community level thus striking a balance between traded and local-market sectors of the resulting “two-track” economy (Rizov, 2004).

Rural Development in a Changing World

Barkley (1995), among others, has argued that communities’ perceptions of their future development opportunities are conditioned by their past experience. The economic function that a community once performed is typically the starting point for any discussion of its future function. Moreover any adjustment in its function is typically seen as involving marginal change from the current position. Barkley also suggests that while this is a sensible strategy in a stable economic environment, it is likely to be inappropriate in an economic environment that is changing rapidly.

The list of significant changes impacting on both rural and urban areas seems to keep expanding. It includes; globalization, rapid technological change in all sectors of the economy, changing organizational structures within firms and industries, falling transport

costs, more intense competition among areas for growth, the influence of advanced telecommunications and information systems, declining political influence of rural residents, and a reduced demand for raw materials (Freshwater, 2000; Sweet, 1999). Each of these factors has a significant impact on rural economies and their cumulative effect will necessitate change in most rural areas.

The key feature, however, that remains the same in both old and new environments is the dependence of rural areas on external markets as the source of both products and services that are not produced locally, and as the destination for most local production (Krugman, 1995). If anything this dependence has increased because over time rural communities have tended to become more specialized in their economic activities, and because the range of available goods and services that consumers have access to has also increased over time.

A major difference for rural areas (in industrialized countries) is that in the past much of their economic structure was oriented around the extraction and processing of natural resources. This included renewable resources such as agricultural land, forests and fisheries, as well as non-renewable resources, like crude oil and minerals (Sweet, 1999). Indeed the primary sector was often the principle contribution that rural areas made to national economies. Because these resources are site specific there was little possibility of domestic competition in their production so while rural areas might experience variability in demand and income due to business cycles they could be fairly certain that given time, an economic recovery would occur. In the new environment the primary sector plays a much smaller role, and primary product markets become global in scope (Freshwater, 2000; Sweet, 1999). As a result many rural areas find that their resources are too expensive to produce.

Another aspect is that the rural labour force has always been characterized by a lower level of educational attainment and formal skills compared with labour force in urban areas. Historically because of the spatial division of labour this was not a major impediment to rural development (Todaro, 1995). The activities that took place in rural areas tended to offset lower formal skills with either location or occupation specific experience that came from informal training provided within the family or community. High rates of occupational succession reinforced this process, as did a more limited set of occupational choices. However, now many of these employment options are scarce and new opportunities require more formal training (Sweet, 1999; Todaro, 1995).

Furthermore, the employment problem of rural areas is exacerbated by the fact that in the past urban areas provided an almost perfectly elastic demand for rural labour. Rural residents could leave the countryside and expect to find reasonable jobs in urban centres. Indeed, much of the expansion of the urban manufacturing sector relied upon internal labour flows from rural areas to cities. Now, however, the jobs for the unskilled are scarce relative to the supply in both rural and urban environments, so there is little scope for a nation to resolve rural unemployment problems by encouraging out-migration to its cities (Todaro, 1995).

An important difference between the old and new socio-economic environment has been the advancement of technology leading to falling cost of transport, increasing efficiency of capital markets and better access to communications (Freshwater, 2000; Sweet, 1999). The effect of cheaper and faster transport has been a large expansion of effective market areas. Goods and services can now be obtained from farther away at lower costs. For some rural people this has brought benefits in the form of more sales

for their products, or cheaper purchases of goods and services. For others it has meant the loss of employment and wealth if the firm they owned or worked for was uncompetitive and lost its market.

Clearly, all these changes have led to increased competition and specialization which further accelerate the duality of traditional rural sectors such as agriculture. Nowadays, besides, the usually large, profitable commercial farms, a spectrum of smaller, less efficient, and economically non-viable as agricultural production units, rural holdings exist. Rizov (2004) shows that an optimal solution for such rural operators could be to specialize in something else than farming while contributing towards the diversification of the community.

CAP and Rural Development Policy in the EU

The concept of rural development support is not recent. In 1964 the fund for supporting agriculture was divided into guarantee and guidance sections to create the still existing European Agricultural Guarantee and Guidance Fund (EAGGF). The guidance section has been intended for rural development targeting farm restructuring and the guarantee section funds the market support mechanism of the CAP. However, Nunez-Ferrer (2004) argues that the distinction between the two sections has become blurred as rural development needs and environmental concerns increased in importance and depending on the area of intervention, the same rural development measures were funded by either or both of the EAGGF sections. Despite the fact that the scope of rural development measures has widened substantially, it has not broken free from the original purpose of supporting the agricultural sector. Except for minor interventions, the policy has remained mainly sectoral, while it is now generally recognized that the development of rural areas requires a more holistic approach.⁴

Evolution of CAP and the Dual Structure of EU Agriculture

The vision of agriculture as a sector characterized by progressive, self-reinforcing improvement in its total factor productivity through research and organizational upgrading of farms and agro-food firms is defined as “productivism” (Buttel, 1994). This has been the underlying ideology, which has bolstered commercialized agriculture in the EU since the establishment of the CAP (Cummins, 1990; Ward, 1993; Crowley, 2003). The effects of productivism can be summarized as follows:

- capital-intensive technologies progressively replacing human labour and the consequently raising productivity and output;
- farming activities coming under the influence of agro-industrial systems in terms of both inputs and outputs, i.e. upstream and downstream;
- production becoming more specialized and concentrated, in fewer and larger units.

Thus, the improved access of commercial farmers to credit and vertical integration are key elements, which transform agriculture into agri-business. This is a major outcome of CAP since its inception in 1962. At that time food security was prioritized as the EU [then European Community (EC)] was producing only 80% of its food demand (European Commission, 1996). This concern led to encouragement of highly intensive farming

methods and as a result agricultural production was increasing by 2.5% per annum between 1960 and 1980 (European Commission, 1980). This growth was founded upon the guarantee of high prices for agricultural producers despite the fact that it was clear that such policy could not be sustainable in the long run (Ward, 1993; Scott, 1995).

Adverse and perhaps unintended effect of this policy was that a distinct pattern emerged throughout the EC, in which most of the benefits accrued to intensive farmers in the more prosperous EC core regions (Scott, 1995). This was directly contradicting the EC regional development objectives. Considering that only 25% of EC farmers accounted for over 80% of its total production at this time, one can infer that CAP has exacerbated the already existing duality in the farming sector (Bonanno, 1990). Eight hundred thousand agricultural holdings, or 10% of total EC farms exited commercial production between 1970 and 1987 (Scott, 1995). Leeuwis (1989) argues that farmers who were slow to take up the suggestions of farm advisory bodies were "ideologically marginalized" and their way of life undermined in public discourse.

Agricultural funding has been distributed through the guarantee section of EAGGF representing 95% of total funds; the remaining funds were devoted to structural measures through the guidance section of EAGGF. Clearly such a development strategy tended to favour larger producers because they possessed larger acreages and could adapt more readily by increasing their scale of production, while smaller farmers often did not have the resources to bare substantial investment and risk (Breen *et al.*, 1990).⁵

In the mid-1980s it was recognized that more farmers existed than were necessary for the EC's food needs, therefore the definition of uses of the countryside had to be broadened and alternative occupations of the rural labour identified accordingly (O'Hara, 1986). Land was now becoming a diversified space, with competing demands being placed upon it (Crowley, 1998; Curtin *et al.*, 1996). Since then agriculture has no longer enjoyed the monetary and ideological primacy that it did in the past. Deverre (1995) distinguishes a new set of actors such as peasants or small farmers, wealthy farming class, and counter-urban former city-dwellers, who began to place new demands on an increasingly diverse countryside.⁶

This change of emphasis has served as the cultural-political context for the reform of the CAP. The more tangible factors calling for reform were the burden of the high costs of storing food surpluses, political dissatisfaction with the high consumer costs for food, and the international political tension that resulted from the EC's financial support of its exports (Cummins, 1990). By the mid-1980s the CAP was absorbing 70% of the EC's budget, which was completely disproportionate to the agricultural sector's relative economic importance to the EC (Whitby, 1996). The main function of CAP reform was, therefore, to cut the cost of maintaining farming, thus reducing the burden on the European taxpayers, who "... were no longer prepared to underwrite capitalist accumulation in the agro-food system" (Ward, 1993). Clearly, this round of CAP reform was primarily concerned with cutting down on costs.

In designing the 1992 CAP reform, the European Commission had to handle and ameliorate the structural dualism and environmental destruction that had become characteristic for European agriculture. A key feature of this reform was the "environmentalization" of agricultural policy (Buttel, 1994). A concrete result of this was that funding had to be cut for production, and simultaneously an alternative source of income had to be provided for those who could not compete in an increasingly deregulated market, in order to preserve the fabric of rural society (see also Figure 1).

Cummins (1990) asserts that a pattern of land use was being established throughout the EU, whereby a category of productive farmers coexists with a growing proportion of holdings that must be “allocated other roles” as “resource managers” in the rural economy. Farming is not quite like any other industry, where workers can simply be entreated to seek alternative work outside of an unprofitable sector. This is only an option for those with ready access to training and/or employment. An alternative is for the majority of rural population to use their land for the production of “environmental goods”, and let the most intensive and efficient large farmers produce the “food goods” at lower cost. Arguing from within a British context, Ward (1993) suggests that the designation of some areas as environmentally sensitive, and others as cores of efficient agricultural production has produced a “two-track countryside”.

Three approaches of cutting the amount of funding that farmers get have been applied. These are relying on price mechanism, placing limits on volume of output, and placing limits on amounts of agricultural inputs. Thus fiscal and environmental reforms were combined. Lowe (1992) argues that this change came about “... not necessarily through any deep convictions”, but rather as a cost-cutting exercise for the CAP. The proportion of overall EU expenditures on the guarantee section of EAGGF dropped from 64.2% in 1988 to 50.5% in 1996 (European Commission, 1996).

With the adoption of the EU regulation 2078/92, it was recognized that it is neither economically nor politically feasible to continue to support agricultural production. However it is argued that funding being provided for agro-environmental schemes, such as the Rural Environment Protection Scheme (REPS) maintains the division between “development” and “non-development” farmers which has characterized the EU agricultural policy since its inception (e.g. Crowley, 2003). It seems that dualism in farming sector serves better the sustainable rural development ideology while cutting down on cost for the EU budget.

To illustrate the dualism in EU agriculture, the farm size distribution in the 15 incumbent members of the EU is depicted in Figure 2 where land concentration is presented by a standard Lorenz inequality curve. The vertical axis shows the cumulative percentage of

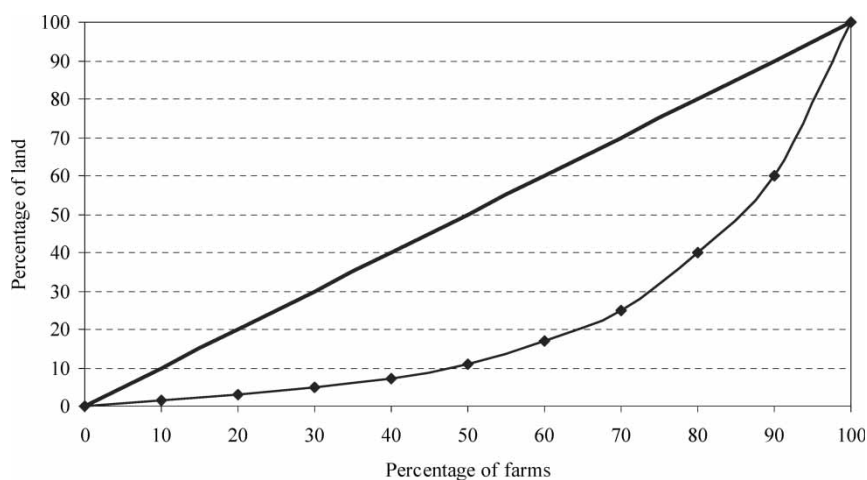


Figure 2. Concentration of farmland in EU-15 (1996–1997). *Source:* Lerman *et al.* (2004), Eurostat

land in farms and the horizontal axes shows the cumulative percentage of farms of all types, ranked by size. The straight diagonal line represents the situation of “ideal equality”, where land is uniformly distributed over all farms so that 50% of farms, say, account for 50% of land. The downward-bulging curve reflects the actual farm structure, with land distributed non-uniformly over small and large farms. From the curve in Figure 2, the bottom 50% of farms (the smallest farms by size) account for about 10% of land, while the top 10% of farms (the largest farms by size) account for 40% of land.⁷

European Model of (Sustainable) Agriculture (EMA)

The factors affecting rural development, identified in the last section, and the outcomes of CAP analysed above are reflected in the current model of agriculture that is being presented in a series of EU documents related to Agenda 2000 (European Commission, 2003a). From the perspective of transforming CAP from a sectoral policy of farm commodity support into an integrated policy for rural development and environmental enhancement, the most significant feature of the Agenda 2000 reforms is the RDR 1257/99 (Lowe *et al.*, 2002). Although a novel departure, RDR incorporates several existing CAP measures, including: structural adjustment of the farming sector; support for farming in less favourable areas; remuneration for agro-environmental activities; support for investments in processing and marketing; and forestry measures. The distinctly new set of measures is that promoting “the adaptation and development of rural areas” (Article 33). This extends both the scope of and the eligibility for CAP support to make them of wider benefit, including the prospect of non-farmers and non-agricultural activities having access to the central part of the CAP budget (Lowe & Ward, 1998).

The model referred to as the European model of (sustainable) agriculture (EMA), ignoring the variations in interpretation and actual implementation at country level, consists of three components, the last of which is not, or is only partially, agriculture.⁸ These are:

- competitive farms, actively and aggressively competing on the world market;
- other, by implication smaller, farms which are not output-oriented and seek to maintain the visual amenity of the countryside;
- non-agricultural, rural businesses generating and maintaining employment and creating vibrant and active rural communities, into which farmers are encouraged to diversify either wholly or as part of a multi-functional agriculture.

The attitude to non-agricultural rural development in this model is somewhat ambiguous by referring on occasion to aid for farmers diversifying rather than promoting the non-agricultural activities of those who are not farmers. A farming bias is perhaps also visible in the aid headings introduced in the SAPARD programme for the accession CEECs. The programme envisages a long list of activities legitimate for funding ranging from investments in agricultural holdings and improving the processing and marketing of agricultural and fishery products to promoting agricultural production methods that aim to protect the environment; diversifying economic activities in rural areas; improving vocational training; developing and improving rural infrastructure; financing technical assistance, including studies (European Commission, 2003b).

Diversification is treated somewhat superficially in comparison to agricultural measures and improvements to the basic infrastructure, and, in some cases, advice provided to

CEEC ministries and other bodies active in implementing the SAPARD programme has even directed countries away from diversification measures to more traditional agricultural approach. Nevertheless the change of emphasis in the CAP since the Cork Conference of 1996 taken together with the recurring emphasis in EU publications on rural development as the “second pillar” of the CAP, suggest that, despite a lack of clarity (doubtless the result of unresolved political struggles), non-agricultural actors in the rural economy should not be ignored (Lowe & Ward, 1998; Lowe *et al.*, 2002).

The three logical actors in the rural economy under the EMA model are: (i) commercial farmers, (ii) “custodian-of-the-countryside” farmers, and (iii) non-agricultural businesses generated by local (farming) people exploiting their local development potential. These functions could combine in the real world in a number of ways. Mixing custodianship of the countryside with a non-agricultural business might be an effective way of maximizing returns, although references to safeguarding the earnings of farmers suggests that it should not be impossible to live from the custodianship-of-the-countryside farming alone.

Non-farming Aspects of Rural Development in the EU

Since the end of the 1980s, the Structural and Cohesion Funds (SCFs) established to facilitate social and economic cohesion of the member states have had, as widely acknowledged, a positive impact on rural development in the EU (Getimis, 2003).⁹ The key objective of structural and cohesion policy is to tackle the grass-root causes of regional imbalances and provide the prerequisites for sustainable regional development, e.g. improving infrastructure networks, supporting small and medium-sized enterprises, improving innovative capacity and entrepreneurship, strengthening education and training systems, protecting and improving the environment, and promoting territorial development and planning.

In addition to the mainstream SCFs, there are four sets of Community Initiatives (CIs) adopted. These include: the URBAN initiative covering priority urban areas, the LEADER Plus initiative prioritizing initiatives at local level in policy areas not covered through the mainstream EU funds, the EQUAL initiative to address equal opportunities, and the INTERREG initiative for interregional collaboration. However, Shutt *et al.* (2002) argue that combining the CIs with the rural development measures related to the Agenda 2000 reforms of CAP which shift resources away from direct commodity price support towards measures, which will promote rural development through the rural areas of the EU yet remains to be operationalized. To ensure effectiveness, there needs to be closer integration between the goals of national socio-economic strategies and regional strategies and those which are intended to guide the EU’s SCFs. This requires coordination within a strategic regional planning framework.

Furthermore, Getimis (2003) shows that despite the considerable progress in reducing regional inequalities disparities remain across the regions of the EU. The average income per capita of the 10% of the population living in the most developed regions is 2.6 times larger than the average income per capita of the 10% of the population living in the most lagging regions. There are also wide disparities with regard to unemployment and poverty. Furthermore, it is argued that these are territorial imbalances across the European space, as the EU lacks polycentric pattern of development (Getimis, 2003). The concentration of activities and population has negative implications not only at the periphery of Europe but also in its “central core” such as decreasing economies of scale, congestion,

pressure on environment and health. Important reason for existence of these territorial imbalances in Europe's sustainable development is that they have been neglected in the programming and implementation of regional policy.

The European Spatial Development Perspective (ESDP) adopted in 1999 emphasizes the concept of polycentric balanced sustainable development, improved accessibility to infrastructure networks, diversification of rural areas and new urban–rural relations, elimination of isolation through cross-border, transnational and interregional cooperation and the importance of Europe's natural and cultural environment. In the light of the issues outlined, an immediate challenge is the enlargement of the EU with 10 (12, in 2007) new member states which has dramatically increased regional and income inequalities. This suggests that the role of the SCFs is becoming even more important and provides an argument for the inadequacy of policies envisaging reduction of funds beyond 2006. Furthermore, important impact of enlargement on the eligibility of regions for funding under Objective 1 or 2 can be expected, with the poorest accession countries' regions gaining most of the funds. It is even more important, however, as argued by Getimis (2003), to establish institutional structures at all the levels of governance that can ensure effective use of structural funds and, at the same time, allow for increasing political legitimacy and democratic participation in the accession countries (see later).

Rural Development in Accession CEECs: How are they Different?

The question for this paper thus becomes how the evolving EU rural development policies can be successfully tailored and implemented in the accession CEECs. From the perspective of the EMA and in line with the territorial/neo-endogenous approach to rural development, it is important to understand who are the actors in the CEECs' countryside and what are their characteristics. Are there commercial farmers who are potentially competitive on world markets? Are there less production-oriented farmers who might act as custodians of the countryside? Are there people in local communities who have the skills and experience necessary to exploit the development potential of their localities, and how can they be mobilized?¹⁰

The Duality of CEECs' Agriculture

Despite privatization and radical restructuring of agricultural sectors in the CEECs since 1989, there has been a tendency for the dual structure of the socialist years to be preserved (e.g. Buckwell & Davidova, 1993; Sarris *et al.*, 1999; Swain, 1999; Swinnen *et al.*, 1997). That is to say, the division of agriculture into a relatively few very large-scale farms on the one hand, and a myriad of tiny family plots on the other hand, has been maintained. Medium-sized, family run farms are still the minority taking the CEECs as a whole, although they are more numerous in some countries than others (Lerman *et al.*, 2004).

The units that emerged from the cooperative and state farms of the socialist period might be smaller than the units from which they developed, but they are still big (Table 1). Furthermore, they have usually retained a corporate form of some kind ("cooperative" or "limited liability company") rather than the "sole trader" basis on which most western family farms operate, and they have a relatively high number of employees. They are farming businesses still rather than farmers (Lerman *et al.*, 2004). In terms of their size

Table 1. Average farm sizes by organizational form and concentration of land in CEECs

| Country | Collective/ cooperative farms | | State farms | | New corporate forms Current | Individual/family farms | | Concentration of land Current |
|-------------------|----------------------------------|---------|-------------|---------|--------------------------------------|----------------------------|---------|-------------------------------------|
| | Pre-1990 | Current | Pre-1990 | Current | | Pre-1990 | Current | |
| Bulgaria | 4 000 | 637 | 1 615 | 735 | — | 0.4 | 1.4 | 90 |
| Czech Republic | 2 578 | 1 447 | 9 443 | 521 | 690 | 5.0 | 34.0 | 82 |
| Estonia | 4 060 | — | 4 206 | — | 449 | 0.2 | 19.8 | 60 |
| Hungary | 4 179 | 833 | 7 138 | 7 779 | 204 | 0.3 | 3.0 | 92 |
| Latvia | 5 980 | — | 6 532 | 340 | 309 | 0.4 | 23.6 | 20 |
| Lithuania | 2 380 | — | 1 880 | — | 310 | 0.5 | 7.6 | 30 |
| Poland | 335 | 222 | 3 140 | 620 | 333 | 6.6 | 7.0 | 40 |
| Romania | 2 374 | 451 | 5 001 | 3 657 | — | 0.5 | 2.7 | 50 |
| Slovakia | 2 667 | 1 509 | 5 186 | 3 056 | 1 191 | 0.3 | 7.7 | 97 |
| Slovenia | — | — | 470 | 371 | — | 3.2 | 4.8 | 40 |

Note: Farm size is measured in hectares. Concentration of land is calculated as percentage of agricultural land in top 10% of largest farms. The EU-15 concentration of land is 40.

Source: Lerman *et al.* (2004), European Commission, National Statistics.

and technology they have a very real potential for profitable farming in an increasingly competitive market environment (e.g. Mathijs & Swinnen, 2001).

While the very large socialist farms have become smaller, the average size of individual holdings, be it household plots or other family farms, has increased substantially across the region, from 0.5 hectares to 5–20 hectares on average (Table 1).¹¹ However, the individual farming sectors in CEECs are undergoing a process of polarization (European Commission, 1998; Lerman *et al.*, 2004). There is evidence that the individual farms are gradually differentiating into two distinct groups. There are large commercially-oriented full-time individual farms, which may reach substantial sizes and are in fact responsible for the observed increase of the average size in the individual farm sectors in CEECs.

Alongside these few large farms are the many, the vast majority of those involved in agriculture some way and for whom the word “farmer” is a misnomer. For these people, agriculture is neither a commercial nor a large, nor even medium-scale, activity. It is “self-supply” activity, necessary as a source of livelihood for the household, and it takes place on a tiny scale. Indeed, it is the existence of such plots, which, among other things, allows the large-scale farms to keep their labour costs low. These “farms” are non-viable by any “productivist” criterion. But they are unlikely to disappear quickly because of their importance to household survival (Kostov & Lingard, 2002).

In Figure 3 land concentration curves are presented that demonstrate, the rather diverse, farm-structure patterns for some representative CEECs (for which data was available), to be compared with Figure 2 presenting the EU-15 “market” pattern of land concentration. The CEECs land concentration curves are based on Lerman *et al.* (2004) and include household plots, semi-commercial and commercial individual farms, and the larger corporate structures.¹² The case of Bulgaria sharply deviates from the market pattern. Here 90% of farm units—the household plots and small family farms—control less than 10% of land, and the top 10% of farm units—the largest individual and corporate farms—control about 90% of land (see also Table 1).

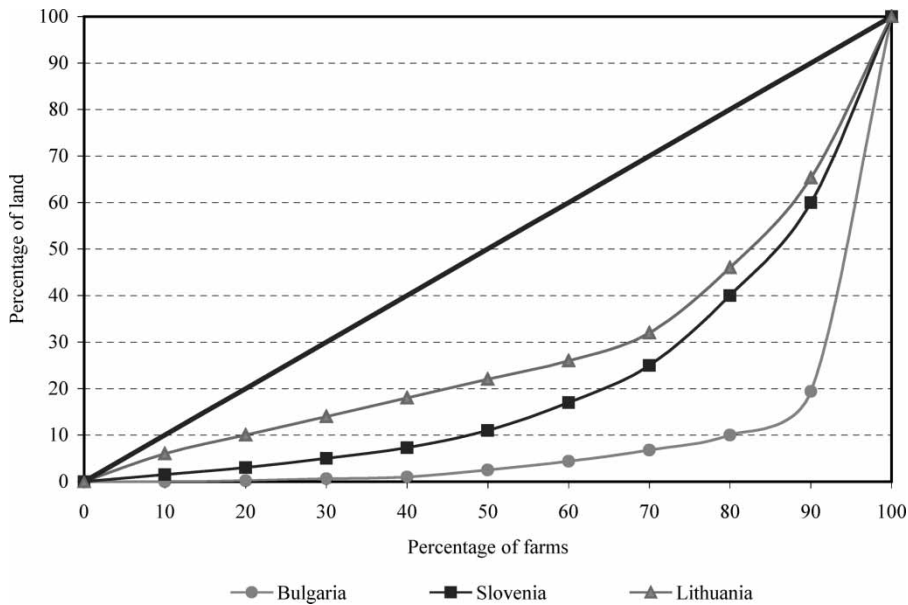


Figure 3. Concentration of farmland in selected CEECs (1996–1997). *Source:* Lerman *et al.* (2004), National Statistics

This pattern is manifestation of a sharply dual structure that is also observed in Slovakia, the Czech Republic and Hungary. Slovenia as well as Poland, Romania and Estonia display “normal” land concentration curves, although this clearly is a result of different adjustment paths. Specifically, Romania and Estonia starting with a sharply dual pattern have developed in the process of transition farm structures that are close to the market pattern of land concentration. Lithuania as well as Latvia, however, seem to have overshot in the process of adjustment, and their large-scale farm structures today are over-fragmented compared with market economies.

Thus, the actors in the contemporary CEECs countryside are:

- very small scale, usually pluriactive (but often state-benefit dependent) subsistence oriented producers, who constitute everywhere the bulk of those engaged in agriculture;
- small to medium-scale private/individual farms;
- large-scale private corporate (successor to socialist production units) farms;
- “socialist-type” farms, either “post-socialist” restructured cooperatives or, increasingly rarely, state farms.

Large-scale individual and restructured corporate farms are potentially viable, although in need of modernization and improvement in efficiency (e.g. EBRD, 2002; Rizov & Mathijs, 2003). They can constitute the basis for a new class of commercial farmers capable of competing aggressively on world markets, as EMA requires. Non-viable farms, however, will persist in the CEECs alongside the commercial ones, and they are less in line with the expectations of EMA. The difference from EU small farms is that they are too numerous, too small-scale, too much on the fringes of the measurable economy to be

either competitive in the production of premium products (organic farming, local speciality products) or to form the basis of a “custodian-of-the-countryside” class of farmer. However, this difference is expected to diminish with improving the functioning of rural factor markets (e.g. EBRD, 2002; Lerman *et al.*, 2004; Rizov *et al.*, 2001; Swinnen *et al.*, 2000).

Rural Diversification

Due to the policies of overinvestment in industry and underinvestment in housing and infrastructure combined with inconsistent attempts to eradicate the distinctions between the town and the countryside during socialist years, rural areas in CEECs have been characterized by poor infrastructure and employment opportunities.¹³ However, rurally located industry was not uncommon, and large numbers of rural dwellers commuted to industrial centres where, because unemployment was unknown and socialist economies suffered from persistent labour shortage, they found secure employment (Ofer, 1987; Wadekin, 1990).

Swain (1997) reports that in the former Czechoslovakia by the 1980s, 34% of the population lived in villages, but only 12% of the economically active population was employed in agriculture. In Slovakia, whose only industrialization had been socialist, 47% of the population was rural, but only 15% of the active population was employed in agriculture. In Hungary in 1970, some 50% of the working class lived in villages, compared with 21% in Budapest and 29% in other provincial towns. Conversely, 55% of the village population worked in industry and under 30% in collectivized agriculture. In Poland, by the end of 1984, 58% of people living in the countryside made a living from non-farming occupations compared with 51% in 1978, 42% in 1970, 30% in 1960 and 22% in 1950. Thus, during 1980s in the four central European countries (CE-4) 23% of the rural population was employed in agriculture, 50% in other sectors, and 27% were pensioners. Similar was the picture in Bulgaria and Romania (EBRD, 2002; European Commission, 1998).

Furthermore, in many countries, the agricultural cooperatives themselves had diversified into non-agricultural production, offering a variety of local, non-agricultural jobs (Lerman *et al.*, 2004). The collapse of socialism meant, on the one hand, that there was a huge job to be done bringing the infrastructure up from scratch and plugging the “service gap” locally. On the other hand, it also meant, as industry shed labour and especially commuting workers, and the non-agricultural ventures of cooperatives closed down, that large numbers of villagers who had spent their working lives in industrial centres and only evenings and weekends in their villages, were now in their villages full-time, but with no industrial job to perform and only self-supply (or at most very small-scale) agriculture to fall back on (Kostov & Lingard, 2002; Swain, 1994).

As far as non-agricultural activities in the rural communities of the CEECs are concerned, the socialist inheritance is one of opportunity, capacity, ingenuity but inadequacy. The opportunity comes in the form of the service gap, which had to be filled, and many family businesses have already jumped into service provision business. Throughout the countryside of all CEECs thousands of new businesses have been emerging to provide shops, bars, hairdressing salons and so on previously lacking, although most are too small to have a significant impact on employment and do not effectively contribute yet to the economic base of rural communities. However, the capacity that is inherited from the socialist years, i.e. the experience of non-agricultural employment and also relatively high levels of educational attainment start playing a role. The share of the population of rural areas that is professional, managerial or/and entrepreneurial or “white

collar” is quite high. In CE-4 30% of rural population fall in this category. Further 34% are manual workers employed outside agriculture (Swain, 1997).

All countries have a large proportion of the population with either vocational, secondary (leading to a university entrance exam) or craft training. Findings for central Europe show 35% of the rural population was with basic education or less, 54% with secondary, and 11% with post-secondary, vocational or university and higher vocational education. These figures are particularly impressive when compared to roughly similar figures from western Europe as reported by Van den Bor *et al.* (1998). Their findings taken as a whole were that 61% of the rural population had primary education or no full-time education, 32% had secondary education, and 7% had tertiary education. Data do appear to indicate unambiguously that the share of rural dwellers with a completed secondary education is considerably higher in central and eastern Europe than it is in western Europe.¹⁴

Ingenuity was the consequence of the service gap and other forms of shortage, which characterized socialist economies (Kornai, 1986). Rural households were confronted with an absence of services with which they had to cope by improvising solutions of their own. The resourcefulness of CEECs labour force as compared with western countries’ rural population came as a surprise to managers of western companies investing in the regions (e.g. EBRD, 2002; Petit & Brooks, 1994). Villagers in the CEECs have long experience of improvising to achieve their desired ends, a not inconsiderable skill in an economy, which increasingly demands flexibility.

Community Development

There was an ultimate inadequacy caused by the “democratic deficit” of socialist societies, especially at the grass-root level, and an absence of managerial knowledge. As Swain (1994) asserts, rural societies in the CEECs during socialist years were not devoid of solidarity and involvement in local organizations, official and unofficial. But the focus of unofficial activities tended to be defensive, whilst in official activities initiative-taking was not actively encouraged. Given the democratic deficit, social self-organization was all but impossible during the socialist era, especially in rural communities. In addition, and not entirely independent of this, knowledge, both technical and in terms of how to get things done, was confined to a small group of people who, post-reform capitalized on that knowledge obtaining for themselves the key resources of the old society (Blacksell & Born, 2002; Swain, 2000).

The majority, without these resources and with weak traditions of democracy, and restricted concepts of solidarity and mutual trust (except in opposition to “them”—trust was defensive and not something that underpinned all social and economic relations) could do little more than watch it happen (Swinnen, 1998; Eyal *et al.*, 1998). The literature on grass-root development programmes is well aware of the difficulties of “animating” local populations and the dangers of projects being “captured” by local elites. These problems are likely to be magnified many times over in societies, which have experienced this particular form of socialist democratic deficit with its consequent weak traditions of initiative-taking. The danger is not so much of capture, although that too is real, as of there being no elite at all to even try to capture a project. A related issue is the weakness of traditions of business cooperation, which can be exacerbated by rivalries, jealousies and antagonisms stemming from the socialist years and the privatization process of cooperative and state assets (e.g. Eyal *et al.*, 1998; Swain, 1999).

Several studies and the European Commission itself have recognized that many of CEECs, especially at regional level, are characterized by weak institution building and limited administrative capacity despite the implementation of steps towards decentralization (European Commission, 2001; Getimis, 2003; Marcu, 2002; Raagmaa, 2002). The process of institutional restructuring remains piecemeal and contradictory as the reproduction of the top-down, command-and-control decision-making processes hinder the establishment of a solid multi-level governance system of accountable institutions capable to enhance the capacities of local and regional government. Furthermore, difficulties have existed in establishing networks of partnership and cooperation between public and private actors and non-governmental organizations (NGOs) in projects and programmes that are eligible for assistance (e.g. Phare, ISPA, SAPARD).

The process of institution building is directly connected with the consolidation of democracy and citizenship rights as a prerequisite for adaptation to the “European acquis” as Getimis (2003) asserts. This implies that efforts are needed to establish democratic institutions and procedures at all levels of government in order to create new forms of governance in the enlarged Europe. In the process of accession and integration, it is not only important to increase and use effectively all the European funds but also to undertake common initiatives with incumbent member states, especially at cross-border regional level, and gain experience from partnership and networking.

Conclusion

This paper has had two goals. First, it is shown that trade, globalization, and technological change have induced specialization at farm level and diversification at community level which led to duality of agriculture as an optimal response. Further, it is argued that the introduction of the CAP have exacerbated the dualism in EU agriculture as distinction has been made at state level between “development” and “non-development” farmers, or commercial and subsistence farmers. The reforms and evolution of the policies have been broadly in line with the imperatives of development theory of the day which also proved to be cost efficient at the EU level. The current EMA and specialized rural development initiatives are broadly compliant with the rural development principles promoting multifunctionality and diversity conditional on well functioning markets and on a highly specialized economic base.

Second, it is suggested that the structure of agriculture in accession CEECs, despite the several decades of central planning and the resulting dual features, is potentially compliant with the EMA and the broader EU rural development policies. Being outcomes of different socio-economic conditions and policy doctrines, agricultural sectors in both East and West ended up with two-track farms and large proportion of the rural populations involved in non-farm occupations (see also Figure 1). Furthermore, the rural populations of CEECs are well-placed to adapt to SAPARD-like rural development policies. They are relatively highly educated. They have extensive experience of non-agricultural employment. They have long juggled with making a living from a variety of income sources. These characteristics equip rural populations of CEECs particularly well for post-socialist and post-accession economic and social development.

Notwithstanding the common features, differences between incumbent EU members and accession CEECs are still important. The duality in the CEECs’ agriculture is much more extreme and less adequate, markets ill functioning, viable alternative rural

occupations limited and society still characterized by “democracy deficit”. The reality is that roles of the actors in the accession CEECs’ countryside are still to be clearly defined and new institutions developed. Therefore, undertaking common initiatives between incumbent member states and accession CEECs would increase efficiency of EU resource utilization and facilitate enlargement and cohesion through partnership and networking.

Acknowledgements

The analysis in this paper is related to the work by the author on the 2002 EBRD Transition Report. The author would like to thank the contributors to chapters “Agriculture” and “Rural Transition” of the report for useful discussions.

Notes

1. Eight of the accession CEECs, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia became new EU members in May 2004. The accession of Bulgaria and Romania is envisaged for 2007.
2. At the EU level this approach refers to rural development interventions such as Objective 5b programmes and the LEADER initiative, interventions to encourage cultural diversity such as Culture 2000 programme, and institutional innovations for European regional governance such as The Committee of the Regions. National and regional governments have also launched territorial rural development initiatives such as PRODER in Spain and Contrat de Pays in France as an outcome of decentralization within European national states. There also is a plethora of initiatives emerging from the voluntary sector in the form of village- or district-led development activities.
3. It should be recognized that economic function of many rural areas in industrialized countries is increasingly dominated by the service sector. This tendency is related to the policy of spatial decentralization of economic activities in these countries (Freshwater, 2000).
4. See Saraceno (2003) for a description of the historical context and the need of compromise to allow transfer of EU funding from the first pillar of CAP (direct payments) to the second, rural development pillar. Rizov (2004) analyses the welfare and rural development implications of CAP reforms resulting in effective income transfer from commercial farmers to other (small) rural producers.
5. Matthews (1981) found that in Ireland the top 17% of farmers gained 40% of the guarantee funds in the 1970s.
6. The development of new interests and functions in rural areas such as tourism or alternative lifestyles illustrates aspects of the “post-rural” or “post-productivist” countryside (Halfacree, 1997). In particular this has included attention to the cultural meanings and discourses associated with rural life and communities (Halfacree, 1993). Furthermore, when considering the experiences associated with change, there is an ongoing need to take into account local power relations and processes of exclusion (Murdoch & Marsden, 1995). For example, specifically with respect to rural development policy in Europe, there is evidence that structural funds have favoured those regions that already had an innovative milieu and experience in innovation networks (Cooke & Morgan, 1993; Cooke, 1996).
7. Land concentration curves for farms in other market economies such as the US and Canada, despite large differences in average farm sizes, are virtually identical. It is noted that there is a regional dimension to the unequal distribution of farm size which may have important implications for identifying which areas will benefit or lose out from CAP reforms.
8. For detailed analysis of the British and French approaches to the RDR implementation see Lowe *et al.* (2002).
9. Differences in income per capita between Objective 1 regions and the EU-15 average have been narrowed substantially, however, not all regions benefited from the same positive impact. A similar positive impact has been identified in Objective 2 and 5b regions in which employment and unemployment changed more positively than in the rest of the EU.
10. The structure of analysis here approximates the three-axes approach of Ray (2002) where besides physical capital, human and social capitals are considered as important determinants of rural development. In

the context of economic transition, Rizov (2005a) also applies such a three-axes approach in explaining the agrarian structure while Rizov (2003) emphasizes, in addition, the importance of entrepreneurship.

11. The importance of individual farming, measured as a share of total agricultural land (TAL), has increased substantially during the first decade of transition. Rizov (2005b) shows that this individualization of agricultural production has positively contributed to productivity growth of the sector.
12. The land concentration curves are based on the actual use of land and are not directly related to land ownership. "Small" and "large" are defined in strictly relative terms and do not provide an indication of average farm sizes in different countries.
13. Rizov and Swinnen (2004) analyse the labour re-allocation in rural areas in transition countries and show that for the case of Hungary the functioning of the labour market is less imperfect than usually expected. This, however, may not be the case in other less advanced transition countries.
14. Despite these results have to be taken with caution due to variations in education-level definitions, the general picture should not be doubted.

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