

PERSONAL AGRARIAN EXCHANGE AND UNCERTAINTY

**Dimitar Terziev²¹, Mariya Peneva²²,
Silvia Tomova-Zaharieva²³**

ПЕРСОНАЛНАТА АГРАРНА РАЗМЯНА И НЕОПРЕДЕЛЕНОСТТА

**Димитър Терзиев, Мария Пенева,
Силвия Томова-Захариева**

Abstract

The last two years (before the war started) was totally dominated by the pandemic. A new virus, no drugs, no treatment, no knowledge on proper administrative measures, various controversial opinions. The result – high level of uncertainty. It was a unique economic situation. Only one factor – uncertainty changed, other remained relatively stable. Something like Economics in a lab. At that time, we started our study on business reactions in high uncertainty. Here we present some results for farming sector. Especially in a case of farmers used mainly personal form of agrarian exchange.

Key words: alternative farmers, personal exchange, uncertainty, governance modes

JEL code: D80, L14, Q12

Introduction

In recent years, we have been conducting research on a particular group of farmers that we called Alternative (Terziev, Radeva, 2016). We defined their economic nature (Terziev, Radeva, 2018) and described their preferred governance modes (Terziev, Zhou, Terziyska and Zhang, 2018). Here, for a better understanding of the text below, we will indicate the business characteristics of these farmers again. They (Terziev, Radeva, 2018):

- are farmers, not followers of modern life style ideas;
- are producers, not just nature keepers and beauty makers;
- are market players, not big but not self-sufficient;
- prefer personal instead of impersonal exchange;
- try to develop exclusive personally designed connection to their clients;
- use intensively unformal institutions – trust and confidence at first place;

²¹ Assoc. prof., Research Center Agrobusiness and Nature Use, Department Economics of Natural Resources, UNWE.

²² Assoc. prof., Department Economics of Natural Resources, UNWE.

²³ Ph.D. student, Department Economics of Natural Resources, UNWE.

- do not believe in government support programs.

Our research over the past three years has pointed to uncertainty as a major problem for these farmers in times of crisis, in this case a pandemic:

- for achieving resilience (Terziev, Bachev, 2021);
- for increasing competitiveness (Terziev, 2022).

Our research so far on the competitiveness of alternative farmers concluded with the following (ibid.): *Clearly, some farms have advantages over others. Here we call them prosperous, which is another way of indicating their high competitiveness. The factors behind their success are varied. We will continue and deepen our research. However, several conclusions can be formulated today:*

- competitiveness is related to transactional innovation;
- organizational ones are easier and faster than institutional ones;
- uncertainty, in the current situation, is the same for everyone and does not depend on the level of competitiveness;
- with high uncertainty, traditional informal institutions are the preferred means of dealing with emerging problems.

Moving forward, the goals of this paper are:

- to clarify, more thoroughly, from a theoretical point of view, the role of uncertainty in personal exchange;
- to present and try to explain the reactions of Bulgarian alternative farmers in a situation of high uncertainty.

Personal exchange in economic theory

In 1776 Adam Smith wrote: *In civilized society [one] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons* (Smith, 1776, Book 1, Ch. 1, I. ii, p22). Thus began the tradition of economic science being exclusively interested in the impersonal, anonymous exchange and ignoring that between just of *few persons*. For traditional economic theory (the neoclassical school), exchange is an automatic, guaranteed-to-happen process (supply and demand always meet somewhere). Towards the middle of the last century, ideas began to appear and develop, describing the exchange as a personal act (therefore – difficult, expensive and often not happening). Such are the views on the existence of transaction cost, bounded rationality, asymmetric distribution of information, behavioral characteristics of economic agents, and others. Gradually, they were all united by the school of New Institutional Economics (NIE) into a comprehensive model for economic analysis. In our research we use the achievements of this school²⁴.

²⁴ Sociology was the first to leave the world of impersonal exchange (Social Exchange Theory). It was followed by a number of economic schools and theories – Experimental Economics, Business Culture, Law and Economics, and etc.

The distinction between personal and impersonal exchange is of essential theoretical and methodological importance (North, 1990). Personal is driven by informal institutions – confidence, trust, behavioral codes. Formal institutions underlie impersonal exchange – legislation, regulation, organizations. That is why the research approach in both cases is different.

The economic situation in the last almost three years has been unique. For impersonal exchange, nothing changed – supply chains were not interrupted, big stores were open, inflation and unemployment were low, incomes were stable²⁵, i.e. supply and demand were not significantly negatively affected by the pandemic.

The picture was different with the personal exchange. Unpredictable and of arbitrary duration travel bans and restrictions on the operation of markets and small shops were imposed. A fear of personal contacts appeared. Namely, alternative farmers rely on them – for their supply transactions (labor, seeds, various adding) as well as for their output (marketing) transactions (Terziev, 2022). Thus uncertainty settled into the world of agrarian personal exchange.

Business decisions in crisis

Crises are a constant companion of economic development. That is why economic theory has been dealing with them for a long time. The reasons for their appearance and their course, as well as the reactions and actions of economic agents in such a situation, have been studied. In the agricultural sector, well known decisions are:

- public private partnership (Marbaniang at all, 2020) – work in public parks and gardens (Build-operate-transfer), cleaning and maintenance of the street and road network (Operational/service management contracts), food supply to municipal organizations (Joint ventures), organized markets (Space and facilities leasing), ecosystem services (Build-operate-own) and disaster relief (Informal public-private co-operation);
- polycentric governance initiatives (Ostrom, 2010) – safety food movements, agri-technologies innovations, nature-based educations, agri tourism;
- Community (Complementary) Currency. This is mechanism in which individuals (mainly), businesses (sometime) and local authorities (rarer) voluntary create and use self-established and self-regulated currency in order to isolate themselves from downturns of general economy (Gómez, 2010). It was an exotic idea for a long period of time but today we found such schemes in more than sixty countries. They are popular and effective namely in rural areas;

²⁵ All this has changed dramatically in recent months. But the reason is different, not the pandemic.

- other (popular not only in agriculture) – organizational (mergers and alliances), contractual (various type of contracts), social (festivals, fairs, holydays), and etc.

Missing formal agri-governance innovations

All of respondents in our study declared that the last two years have been difficult – broken contacts, decreased number of customers visits, downward income. But our investigation during 2022 year (including an intensive field study) did not find even one case of business decisions of the types mentioned above with Bulgarian alternative farmers relying on personal exchange. Interesting were they answers (Table 1) on the question Why you do not apply ... (business forms mentioned above)?

Table 1. Reasons to not apply various business forms

Business forms	Main reasons to not apply	% of all respondents
Public private partnership (various type)	Complicated procedures	100
	High cost	80
	No guarantees for success	50
	Corruption	70
	Dislike of this form	90
Polycentric governance initiatives (various types)	Broken contacts	60
	Lack of partners	80
	Low personal initiative	60
Community Currency	No knowledge	100
	No partners	100
Organizational	No experience	50
	Lack of partners	80
Contractual	Negative experience	80
	Dislike of this form	80
Social	Interrupted initiatives	70
	Low results	90

Source: authors investigation.

It is obvious that in the situation of high uncertainty Bulgarian alternative farmers are:

- not able – complicated procedures, high cost, lack of partners and knowledge;
- not ready – corruption, broken contacts, no or negative experience;
- unwilling – dislike this form, low personal initiative, to apply such business decisions. It does not mean that they are passive. Just the opposite – all of them (100%) declare their strong efforts for using of various modes to

govern their transactions, but only of market type. They try to renew their former business contacts and establish new, to participate in e-commers and distance delivery, to develop direct marketing and etc.

Economic reasoning

Our study was carried out based on Discrete Structural Analysis (DSA) which is the main NIE methodological approach. Emphasizing exchange as a personal act, DSA points to uncertainty as its main critical dimension, along with asset specificity and frequency (Williamson, 1996). These three factors act together with a few others and define a proper mode for various transactions. But each of them has its own separate way of influence. Generally speaking, uncertainty (no or low ability to predict the future) excludes contractual forms (developing good enough contracts is impossible). Two are the possible directions for searching of effective organization of transactions – market or internal organization. In this logic:

- the fact that Bulgarian alternative farmers in situation of high uncertainty intensively use market mode is understandable. Even the market is not perfect it gives the farmers a chance to sell their products and to save on transaction cost. Some help is needed of course – strong personal contact, positive reputation, good references;
- more hardly to explain is the refusal of organizational modernization. A part of relationships of these farmers are business-to-client and there is no sense of any integration (division of labor is more effective). For the other (business-to-business) the reason has to be search in psychological direction. Bulgarian alternative farmers (as the most of Bulgarian people) are individualistic. They do not like and have no experience in collective action and cooperation.

Conclusion

There is a widespread perception of personal exchange as a long-gone stage in the economic development of human society. But recent years (decades in developed countries) show a different picture. More and more people prefer a personal exchange when it comes to food, prestigious restaurants list the names of the suppliers on their menus, large retail chains describe in details the producers they work with in their brochures, and etc. Of course, modern personal exchange is not the same as it was centuries ago. But it is always distinct from anonymous, impersonal exchange.

Studying the work of people who actually apply it is the best approach to understanding it and creating mechanisms to support it. This type of research is not easy. Farmers hardly agree to discuss their business activities in detail. But there is no other way in order to see the real picture, not to transfer automatically models from other countries and economic situations. We were surprised to see rejected some of

our expectations from the previous stages of our project – organizational modernization for example.

Acknowledgement

This paper presents results from the research project НИД НИ-17/2020: Governance in Crisis. Bulgarian Alternative Farmers, funded by the University of National and World Economy

Bibliography

Arruñada, B. 2012. Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries. University of Chicago Press.

Gómez, G. 2010. What was the deal for the participants of the Argentine local currency systems, the Redes de Trueque? *Environment and Planning*, vol. 42, No. 7: 1669 – 1685

Greif, A. 2002. Institutions and Impersonal Exchange: From Communal to Individual Responsibility. *Journal of Institutional and Theoretical Economics* (JITE) / Zeitschrift Für Die Gesamte Staatswissenschaft, 158 (1): 168 – 204.

Kimbrough, E., V. Smith and B. Wilson. 2007. Building a Market: From Personal to Impersonal Exchange. *Free Enterprise: Values in Action Conference Series, 2005 – 2006*, Paul J. Zak, ed., Princeton University Press.

Marbianang, E., JK Chauhan and K. Pynbianglang. 2020. Public Private Partnership (PPP) in Agriculture: A step towards sustainable agricultural development, *Agriculture and Food*, vol. 2, iss. 2: 387-391, e-ISSN: 2581 – 8317, Article id: 22905.

North, D. 1990. *Institutions, institutional change and economic performance*. Cambridge University Press, Cambridge.

Ostrom, E. 2010. Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100 (3): 641 – 672.

Terziev, D., D. Radeva. 2016. Studying the New Agriculture. ICODECON, 9 – 12.06.2016, Thessaloniki, Greece. *Conference proceedings*, ISBN 978-618-82146-3-7: 175 – 179.

Terziev, D. and D. Radeva. 2018. Economic Viability: Sustainability and Food Safety through Human Values and Economic Modes. in Bachev, H, C. Shengquan and S. Yancheva eds. *China-Bulgaria Rural Revitalization Development Cooperation Forum*, Book of Proceedings, IAE Sofia: 136 – 143, ISBN 978-954-8612-13-5.

Terzievq, D., P. Zhou, R. Terziyska and D. Zhang. 2018. Food Safety: Technologies and Governance. *Yearbook of UNWE*, 2018: 121-140.

Terziev, D. and H. Bachev. 2021. Studying the Resilience of Farming Systems. Economic Theory Point of View. *178th EAAE Seminar*. <https://178eaaeseminar.org/wp-content/uploads/2021/05/20.05.2021-Terziev-D.pdf>

Terziev, D. 2022. Agrarian Competitiveness and Uncertainty. in Popov and Iochevska eds. *Understanding, Assessment, and Increasing the Competitiveness of Bulgarian Farms*. IAI, Sofia, ISBN 978-954-8612-37-1, Bulgarian Language.

Smith, A. [1776], 1982. Campbell, H and A. Skinner (eds.) *An Inquiry into the Nature and Causes of the Wealth of Nations*. The Glasgow Edition, LF publ.

Williamson, O. 1996. *The Mechanisms of Governance*. Oxford University Press, NY.

Contact person information: Assoc. prof. Dimitar Terziev, Research Center Agrobusiness and Nature Use, Department Economics of Natural Resources, UNWE, e-mail: dterziev@unwe.bg