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## INSTITUTION SEQUENCING AND TIMING IN TRANSITION ECONOMIES

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There is general consensus about the objective of transformation of the economic system in transition countries, namely the creation of an effective market-oriented economy. The objective of institutional reform can be defined as the quickest and largest possible reduction of transaction costs (TCs), which are the total costs of doing business. They are inversely related to (a) the efficiency of the institutional framework in terms of defining clear property rights (PRs) and protecting them, and (b) the efficiency of the enforcement and organizational arrangement. By focusing on areas where TCs can be reduced rapidly (and visibly), institutional reform can make an important contribution to economic recovery, thus increasing the political and social sustainability of transformation itself.

The vital question, however, stems from the fact that everything cannot be done at once, so what should be the sequence of measures? There is a related problem with timing. While sequencing describes when one reform, among a bundle of intended reforms, should begin, it does not look at the time required for completion. Good timing is crucial to social acceptance and to the ultimate success of the transformation process because it affects the social costs of transformation.

Theorists and policy makers argue about the optimal order of sequencing and timing in transition economies. In the literature on the appropriate timing of reforms, two diametrically opposite approaches are always distinguished, the shock strategy (also known as the 'big bang') and the gradual approach (also known as 'piecemeal' change). Nevertheless, there is an air of unreality in the debate between the two approaches. The difficulty is that stretching the premises underlying the two approaches to their logical extremes leads to caricature and untenable prescriptions. Thus the fundamentalist interpretation of shock therapy is tantamount to advocating reform of everything at once, and the fundamentalist interpretation of gradualism becomes a prescription for total immobility. To the question of what is the 'optimal pace of reform' a gradualist can only say 'it depends', which is also not a great help.

The central issues affecting the rural economy of several transition countries were explored using a manuscript on 'Institution Sequencing and Timing in Transition Economies' prepared by Gertrud Buchenrieder. The objective was to ask whether there are specific components of the reform process which are best implemented at specific stages of rural transformation. The manuscript

was organized in three sections covering institution sequencing and timing in the wider rural economy, in the agricultural sector and in the rural finance sector.

Institutional issues in reforming the rural economy were addressed using case studies from countries of Central and Eastern Europe, the former Soviet Union and China. A discussion of the applicability of theoretical ideas to the transition process of the rural economy (agricultural sector, non-farm sector and rural financial sector) began the proceedings. This was followed by two contributions, one dealing with general changes in the rural development policy framework in Russia and the other with water infrastructure in the Republic of Macedonia.

After a more general look at institutions in the rural economy, closer consideration of institutional changes in the agricultural sector followed. In three different contributions, the transformation of agricultural policy was analysed for Russia, the Ukraine and China. Common issues, objectives and different approaches in adapting agricultural policy were deduced from these contributions. There was then a contribution on sequencing and timing for the rural financial sector, which provided a detailed report on the institutional development in Romania.

The overwhelming opinion from the discussion was that the shock approach is the more promising method of transforming rural institutions because it creates the fewest market distortions and because it is virtually impossible to sequence and time reforms properly if a gradualist stance is adopted. However, detailed research suggests that, in reality, the shock approach is hardly ever followed, owing to the difficult political situation which often surrounds reform. Implementation seems to be driven more by opportunities, such as the availability of funding, or urgency of crisis management, and not by strategic choices. More strategy formulation could, nevertheless, improve the situation without going so far as rigidly to prescribe the sequencing and timing of reforms.