A STUDY OF SUBSISTENCE FARMING IN EASTERN EUROPE

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What is subsistence farming?
There is no consensus definition of subsistence farming. This has two main causes:

- Subsistence can be viewed from two different points of view:
  - Consumption → Share of food consumption from own production
  - Production → Share of total production kept for own consumption
- The share of own consumption/production can range from 0-100%
  → Where put the threshold for subsistence?
The most common approach is to look at subsistence from the production side and apply a threshold of 50%. This means that:
- Production only or mainly for own consumption = Subsistence orientation
- Production mainly or only for the market = Commercial orientation

Why is subsistence farming important in Europe?
Following the fall of the Iron Curtain, Central and Eastern European countries (CEE) entered the state of transition. i.e. the process of moving from a centrally planned economy to a free market. This process involved:

- Land privatisation
- Migration from urban to rural areas
- Creation of small family farms
- Farming as a social buffer during times of economic reforms and macro-economic instability
- Emergence of a dual farm structure, with small family farms and very large farms coexisting side by side.

OBJECTIVES

- Understanding the determining factors for households:
  - Being locked in subsistence
  - Moving out of subsistence farming and into commercial agriculture
  - Identify policy measures to facilitate commercialisation of subsistence farmers

THEORETICAL FRAMEWORK

- Utility maximising households
- Subsistence households will switch to commercial orientation if $MU_c > MU_s$ where
  - $MU_c$ = marginal utility from commercial orientation
  - $MU_s$ = marginal utility from subsistence orientation

ASSUMPTIONS

- The persistence of subsistence farming is related to:
  - Imperfect markets for goods and factors, remoteness and underdeveloped market infrastructure ⇒ High transactions costs for market participation
  - Risk and risk behaviour are central for the decision of switching from subsistence to commercial orientation.

HYPOTHESES & TESTING

- Under perfect markets, farm household production and consumption decisions are made independently
  → Production and consumption decisions can be modelled separately
- Under market imperfections, production decisions are influenced by household consumption characteristics
  → Production and consumption decisions are nonseparable
- Commercial orientation = Separable behaviour
- Subsistence orientation = Nonseparable behaviour

DATA

- Data collected within the framework of EU project SCARLED – Structural Change in Agriculture and Rural Livelihoods
- Household survey performed by local interviewers during winter 2007/2008
- 5 x 270 observations = 1350 observations in total from Bulgaria, Hungary, Poland, Romania and Slovenia

Separability tests will be applied to detect the presence of market failures and permit clustering of households according to their behaviour: separable or nonseparable.

For empirical analysis, a model for household behaviour that accounts for transactions costs and/or risk behaviour will be applied.

Statistical and econometric testing with cross-sectional data. Depending on the outcome of the data collection, possible testing with pooled cross-section and panel data.

Possible case studies.