

*Alexander Thomka**

The Informal Economy and Viability of Small Family Farms in Romania

Abstract

Since 1989 Romania's agricultural sector has been characterised by a growing number of small-scale family farms which have turned out to be remarkably effective socio-economic actors in the present political, economic and social conditions. Due to poor financial liquidity these farms often depend on the work carried out by members of the extended family who are remunerated with farm produce. Nevertheless, this form of organisation has proved to be stable, in particular if the farms have access to speciality products or if they can provide services, e.g. transport. However, these goods and services are not traded on formal markets but exchanged in informal transactions and informal networks.

Keywords: informal economy, rural households, family farms, social networks, Romania.

Introduction

Nearly half of the Romanian population lives in rural areas (Oțiman 2000) and over 44% of the working population is employed in the agricultural sector (European Commission 2004). Over the last 14 years the urban-to-rural migration flow has increased almost tenfold, starting from 3.5% in 1990 it reached 33.8% of total migration in 2000 (Stănculescu 2002) while rural-to-urban migration changed inversely (INSSE 2002). Over 80% of agricultural land, i.e. about 10 million hectares, is distributed among approximately 4.2 million farms, with an average size of 2.4 hectares (Dumitru 2002, OECD 2000).¹

* Alexander Thomka – Department of Agronomy and Environmental Protection, Institute for Management of Rural Areas, University of Rostock, alexander.thomka@auf.uni-rostock.de

¹ A comprehensive description of the land restitution process can be found in OECD

This study is an attempt to elaborate aspects of functioning and the importance of small-scale farming, by analysing three family farms and a collective farm. Monetary and non-monetary resources of the units are quantified and discussed with concern to the ratio of formal to informal incomes as well as in the context of mainly informal economic activities. The identification of causes for the stability of these small farms is closely connected.

Conceptual Framework

Several authors describe arrears in modernisation of the institutional and economic frameworks and the absence of coherent strategies of the Romanian authorities to handle the transitional changes in the country. The work of Negulescu (2002) analyses the political situation before 1996 and finds that the political actors have only changed the name of their party, so that in the first years 'political change' and 'democratisation' were mere lip service because the communist party members remained in power and were still able to work in the networks they had established. Hence, it is not surprising that Santarossa (2001) states severe arrears in the restructuring and privatisation of Romania's economy.

The agricultural sector has been affected by these developments. Land reform is the most severely criticised issue in agricultural politics. The land restitution principles promoted the development of small farms whereby the chance to create competitive farming structures was passed (Otiman 2000, Socol 1999, OECD 2000, Dumitru 2002). Apart from the farm restructuring problems concerning mainly the physical "enabling environment" (Davis & Hare 1997: 10) for small and medium sized private farms there is one other main problem area, i.e. the so-called operational problems "concerning inadequate cash flow and profits to cover operating and investment expenses" (Davis et al. 1998: 2). A survey carried out by Davis & Gaburici (1998) revealed that capital requirements of Romanian farms exceeded income from sales approximately threefold (Davis & Gaburici 1998), or, hypothetically, the return on capital would hardly meet the interest rate charged on credits (Davis et al. 1998). A study of Buchenrieder et al. (2000) based on gross margin analysis revealed that Romanian agriculture lacks competitiveness compared to other East European countries. Agricultural economists concluded that a "catalyst credit" (Grosskopf et al. 1999) was required for agricultural firms. To assure sustainable development they estimated the credit sum at 250 euro per hectare for 50 hectare farms and at 500 euro per hectare for smaller 20 hectare farms (Grosskopf et al. 1999).

2000. Strengths and weaknesses of the restitution principles are discussed in Otiman 2000, Socol 1999 and Dumitru 2002.

This 'catalyst credit' sum corresponds roughly to the calculations by Davis et al. (1998) from information given by farmers in the survey of Davis & Gaburici (1998); the average capital requirement for all farms in the sample was 8000 euro per farm.

There are also historical and social aspects of the changes in farming structures towards small-scale farming. On the one hand, the bad experience from collectivisation might have caused the desire to run one's own farm. "There can be no doubt about the enthusiasm of many peasants experiencing the euphoria of retrieving their land." (Turnock 1998b: 232)

On the other hand, it should be said that it was laid down by law 36/1991 § 8 (Monitorul Oficial nr. 097, 05/06/1991) that the minimum number of members of a collective agricultural enterprise be ten. That in fact, meant the resources of ten families who surely would have encountered many difficulties when coordinating their plans in insecure times of transition and thus refused to join into co-operative farming. Furthermore, agriculture "acts as an occupational buffer against the socio-economic effects of the transition and absorbs the labour made redundant by urban industries and other sectors. Farming is treated as a last resort occupation." (OECD 2000: 49)

A growing trade balance deficit (INSSE 2002) during the transition period, a high share of the working population in agriculture and a relatively small share of agriculture in the country's GDP of 12.9% indicate that, on the one hand, the agricultural sector is severely lacking efficiency (Otiman 2000, Socol 1999), on the other hand, a considerable rate of subsistence farming joined with informal activities should be presumed if the results of Neef (2002), Ilie (2002) and Negulescu (2002) are taken into account, all of which relate to a high degree of informal economic activity in Romania. Moreover, the decline of the employment rate, low wages and high inflation rates in combination with land restitution lead to urban-to-rural migration because many people had no other choice but to reduce their expenditures by providing themselves with self-produced food (Stănculescu 2002).

The notions of 'informal economy' or 'informal activities' will be understood according to Castells & Portes (1989) as "unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated." (cited from Neef 2002: 3)

Other aspects that are related to informal economic activities are distrust in institutions (Schrieder & Heidhues 2000), arrears in the modernisation of the institutional and economic frameworks (Davis & Hare 1997, Davis et al. 1998, Heidhues & Schrieder 2000, Santarossa 2001, Negulescu 2002) and poverty (Ciupagea 2002, Ilie 2002, Neef 2002). A qualitative description of informal activities in rural areas can be found in Golibrzuch (2002).

Based on a quantitative household survey ($n = 1177$) in 1998 and 1999, Ilie's (2002) work revealed that on average 46% of the households performed different informal activities that helped them to live better. If agricultural self-supply was included, that share would rise to 72% of Romanian households performing informal activities.

Therefore, the aim of this work is to count formal and informal incomes of selected farms and to describe the importance of the informal economy with regard to the stability of small family farms.

Methodology

The data used in this study were collected in November and December 2002 from rural households in the counties of Vâlcea and Dolj. The intention to give a qualitative description of economic activities and monetary or non-monetary transactions as well as the income situation of family farms demanded in-depth interviews, so that case studies were carried out. Three families running small farms in Vâlcea and the manager of a collective farm in Dolj were interviewed.

The selected cases should represent a larger group of small family farms. It goes without saying that they could not represent over 4 million small family farms, yet they could help to understand the role of widespread informal activities in rural Romania. The in-depth interviews required a great part of the available time. Moreover, very few people were willing to give extensive information on their socio-economic behaviour. An important reason for only analysing four cases is the comprehensive analysis of informal economies edited by Neef & Stănculescu (2002). The four cases were selected in Stănculescu's terms (2002): "Is informality in Romania synonymous with poverty or with popular entrepreneurial dynamism or with both?" (Stănculescu 2002: 119).

Complementing that quantitative work these cases are meant to illustrate in a qualitative way that, on the one hand, low financial income increases inevitably the importance of informal activities (cf. households #1 and #2). On the other hand, household #3 shows that informal activities ameliorate the household's welfare and therefore can be interpreted as entrepreneurial dynamism.

The study on the agricultural enterprise intends to present from the households' perspective one possible meaning of de-collectivisation and restructuring in agriculture in a post-socialist country: the transformation of a collective farm into an agricultural enterprise provides the involved households as owners of the land with a common pool of resources and thereby serves as a legal disguise to take advantage of state subsidies. This is the promotion of an individual household's welfare of informal entrepreneurship.

From the scientific perspective of economics these farms were selected to describe in a managerial and microeconomic approach the behaviour and economic motivation of households as individual units in a "transitional environment" (Stănculescu 2002: 119)

Basically, the interview technique relied on informal conversation with a standardised questionnaire as a guideline. Apart from general household indicators such as household size, housing conditions, farming activities and yields, the conversation was directed towards the general economic and financial situation and non-monetary transactions.

For a better understanding, financial information given in the national currency Lei (ROL) was later converted to euro. Although the data was collected in December 2002, the exchange rate was taken from July 2002 because of the low price elasticity that was described by Safavian et al. (1998) for agricultural output markets in Romania.

In order to work out a rather complete image of a household's economic situation, an income and expenditure analysis was carried out. As there were plenty of non-monetary transactions, some evaluations had to be made for the non-monetary payments of day labourers and unsold farm produce. Additionally, reserves were estimated on the basis of the tangible asset evaluation of each household. For this purpose replacement values of assets were used, not reinstatement values since renovation and not reinstatement was assumed. Owned land was not evaluated and because of the mainly worn out assets overall depreciation and interest rates were not considered in predictable reserves.

As far as the collective farm is concerned, an income and expenditure calculation was carried out on the basis of the manager's information. That required three modifications: firstly, the introduction of the interest rate on non-depreciated assets. The 2001 medium rates were taken from the National Bank of Romania: national currency, ROL, interest rate of 45.1%, euro at a rate of 10.2% (BNR 2001). Secondly, the depreciation rates were calculated according to years of service and to the price of new machinery. Thirdly, the managers' (i.e. president, vice-president and accountant) salaries had to be estimated; this was done at approximately 150% of the average agricultural salary,² i.e. 183 euro per month.

Although all of those interviewed tried hard to provide accurate information, some more or less rough generalisations might have occurred and therefore the data should be interpreted with great caution, keeping in mind that we talk about particular cases which cannot be generalised but that do give us an impression of the socio-economic conditions in rural Romania.

² 2002 average salary in the agricultural sector: 120 euro. Information from INSSE: URL on [03/10/2003]: http://www.insse.ro/Indicatori/San_2002/rom/Indicatori_sociali_an_2002.htm and INSSE (2002).

Results and Discussion

First in this section, the economic context, the activities of small and collective farms are described and discussed. In the following section, the prospects of small-scale family farming are dealt with considering the findings of earlier scientific research.

MARKET ACTIVITIES AND NON-MONETARY TRANSACTIONS OF FAMILY FARMS

In general, all three farms have a certain amount of produce for the market, one of them even has speciality products at its disposal, namely honey and the traditional Romanian plum brandy *Țuică*, which contains up to 25% alcohol. The brandy is bartered for fruit at the local distilling plant at a rate of five units of fruit per unit of brandy.

There are still two state subsidised agro-centres, a distilling plant³ and a milk collection centre. Others, like the vegetable or animal centre have disappeared. In the surroundings of the surveyed farms the nearest market-place is about five kilometres away and is frequented every second Sunday. On the other Sundays the market is in another village. This is important because many peasants only have a horse and cart but no car.

Price information was collected during two visits to rural markets in Vâlcea county and provided by the interview partners. Urban market price information originates from the main market place in the city of Râmnicu Vâlcea. Table 1 below presents prices for land, energy, input factors, selected agricultural and food products.

Wood prices are indicative of the considerable energy costs of the farms shown later in the income and expenditure analysis. The formerly nationalised forests were restituted after 1991 but these were mostly young forests and therefore few of the new owners could cut wood for construction or heating purposes.

The average daily wage is a good indication for the comparably low labour cost in Romania's agricultural sector.

The 'Animal production' section includes 'Grazing on common land,' which is a fee paid by those inhabitants of a commune who put their cows out to pasture there. The herd has to be watched by the people themselves so that normally each participant has to fulfill watching duties once or twice a month.

Rural market prices differ from those in urban areas and they are a basis for negotiation regarding the local farm gate prices.

³ An interesting description of distilling traditions in Sub-carpathian regions can be found in Bordanc et al. (1998).

Table 1

Selected prices in the agricultural sector 2002 (euro^a)

| | Unit | Price |
|--|----------------------|---------|
| Land lease (arable land) | ha | 55.01 |
| Land price (arable land) | ha | 1528.06 |
| Wood (at forest border) | m ³ | 7.64 |
| Wood (on board) | m ³ | 12.22 |
| External labour (day labourer) | wage/day (12 hrs.) | 3.06 |
| Plant production input factors | | |
| Seeds | | |
| Maize | unit (80.000 grains) | 36.67 |
| Wheat | kg | 0.34 |
| Animal production | | |
| Piglet (8-10 kg) | head | 18.34 |
| Chick (duck, hen, turkey) (0.3 kg) | head | 1.22 |
| Grazing on common land | per month | 2.44 |
| Products (farm gate/rural market prices) | | |
| Crops | | |
| Wheat | dt ^b | 8.86 |
| Maize | dt | 9.17 |
| Sunflower | dt | 18.34 |
| Animals | | |
| Pig (100 kg) | head | 137.53 |
| Calf (150 kg) | head | 220.04 |
| Sheep | head | 15.28 |
| Hen | head | 3.67 |
| Animal products | | |
| Egg | pc | 0.05 |
| Milk | kg | 0.15 |
| Honey | kg | 2.29 |
| Market prices (urban consumer market, Râmnicu Vâlcea) | | |
| Crop products | | |
| Wheat (grains) | kg | 0.18 |
| Wheat (flour) | kg | 0.22 |
| Maize (flour) | kg | 0.27 |
| Sunflower | kg | 0.34 |
| Vegetable Oil | l | 0.98 |
| Animal products | | |
| Pigmeat | kg | 2.51 |
| Poultry meat (Broiler) | kg | 1.80 |
| Egg | pc. | 0.09 |
| Milk | kg | 0.34 |
| Honey | kg | 5.90 |

^a July 2002 average exchange rate 1 euro = 32721.31 ROL.

^b 1 deciton = 100 kg.

Source: own research.

A very frequent form of transaction on rural markets is barter – especially in autumn when people travel further than usual to go to the plains and peasants from the plains come to the markets in the hills. Generally those from the hills have fruit to barter for cereals, mostly wheat. Barter and non-monetary transactions play an important role in the household economic activity. This will be discussed later, after the discussion on the income and expenditure analysis of the three farms in tables 2 to 4.

In these tables ‘monetary income’ and ‘monetary expenditure’ specify the actual financial income or expenses of the household. The difference between these values is displayed as ‘Household profit’ or ‘financial subsidy’ respectively. Furthermore, non-monetary values, which were calculated according to the information given by the interviewed, were considered in order to come to the ‘Total household income’ and the ‘Total household expenditure,’ the difference of which resulted in the ‘Household surplus.’ ‘Predictable reserves’ and ‘Predictable household surplus’ are used to specify more precisely the surplus which remains for household consumption. It should be borne in mind that in the ‘General expenditures’-section only cash expenses are considered. Household consumption of self-produced food and fodder was not calculated and is to be made from the ‘Household surplus’ or the ‘Predictable household surplus’ respectively. Non-monetary payment here means the day labourers are paid half or two thirds of their income in cash and the remainder is either paid in kind with food or transport services, wood for construction, honey and brandy.

If we take a look at the situation in households #1 and #2, it is obvious that both of them depend on income from agriculture to cope with expenditures. Moreover, #1 depends on financial support by the extended family members who are compensated with farm produce. Theoretically, #2 can meet their expenditures but in practice they are also dependent on their relatives because most of their financial income yields in autumn while costs arise throughout the year. Normally, that has not been a problem for them. However, it has become a confirmed habit to convert larger loans to USD, so that the inflation rate can be neglected. In case instalments are paid, they are also converted to USD.

#3 could cover their expenses without income from agriculture. They produce speciality goods which generate most of the household’s income, honey nearly equalling the income from their off-farm employment. Moreover, the possibility of offering transportation services is advantageous for the household: for instance, all their heating wood comes from payments in kind for wood transport services.

Table 2

Income and expenditure analysis, farm #1 (euro^a)

Pensioner widow 76 and sick-retired daughter 49

| Income | Expenditure |
|--|--|
| Financial income | General household expenditure |
| Farm income (piglet sale) | (fuel, food, insurance, fees etc.) |
| | 426.80 |
| Non-farm income (pensions) | Heating wood (30 m ³ /year) |
| | 366.73 |
| | Farm-related expenditure |
| | Animal acquisition |
| | 37.90 |
| | Veterinary |
| | 27.20 |
| | Other animal cost |
| | 25.67 |
| | Plant protection |
| | 9.60 |
| | External labour (financial payment) |
| | 527.18 |
| Financial income | |
| 898.50 | |
| Required financial subsidy from family members | |
| 522.59 | |
| Non-financial farm income ^b | External labour (non-financial payment) ^c |
| 3,229.39 | 495.55 |
| Total household income | Total household expenditure ^d |
| 4,127.89 | 1,916.63 |
| Household surplus | Calculatory reserves ^e |
| 2,211.26 | 620.04 |
| Calculatory household surplus | |
| 1,591.22 | |

^a July 2002 average exchange rate 1 euro = 32721.31 ROL.

^b Sum of not marketed products at farm gate price (= rural market price).

^c Total day labourers: 3 meals per labourer per day, meal price estimated at 50% of urban average restaurant price: approx. euro 0.70.

^d Including non-financial payment.

^e Allocation of calculatory reserves on the basis of asset valuation.

Table 3

Income and expenditure analysis, farm #2 (euro^a)

Pensioner couple: husband 66, wife 68

| Income | Expenditure |
|--|--|
| Financial income | General expenditures (fuel, food, insurance, fees etc.) |
| Farm income (marketed products) | (fuel, food, insurance, fees etc.) |
| 6 pigs | Heating wood (20 m ³) |
| 300 kg milk | Pigsty (15 places) |
| 700 eggs | |
| Financial farm income | Farm-related expenditure |
| | Veterinary |
| | Other animal cost |
| | Seeding material |
| | Fertilizer |
| | Plant protection |
| Non-Farm income (pensions) | External labour (financial payment) |
| | Total financial expenditure |
| Financial income | |
| Household profit | External labour (non-financial payment) ^c |
| Non-financial farm income ^b | Total household expenditure ^d |
| Total household income | |
| Household surplus | Calculatory reserves ^e |
| Calculatory household surplus | |

^a July 2002 average exchange rate 1 euro = 32721.31 ROL.^b Sum of not marketed products at farm gate price (= rural market price).^c Total day labourers: 3 meals per labourer per day, meal price estimated at 50% of urban average restaurant price: approx. euro 0.70.^d Including non-financial payment.^e Allocation of calculatory reserves on the basis of asset valuation.

Table 4

Income and expenditure analysis, farm #3 (euro^a)

3-Families-household: Mother 67, son 45, wife 44, grandson 22, wife 20

| Income | | Expenditure |
|--|-----------|---|
| Financial income | | General expenditures |
| Farm income (marketed products) | | (fuel, food, insurance, fees etc.) 1,235.07 |
| Tuica | 611.22 | |
| Honey | 4,584.17 | Farm-related expenditure |
| Bees wax | 146.69 | Animal acquisition 73.35 |
| Hay | 458.42 | Veterinary 19.10 |
| Sum | 5,800.50 | Seeding material 61.12 |
| | | Plant protection 4.80 |
| Transport services | 366.73 | External labour (financial payment) 1,204.41 |
| Non-Farm income | 4,767.54 | |
| Financial income | 10,934.77 | Total financial expenditure 2,597.86 |
| Household profit | 8,336.91 | |
| Non-financial farm income ^b | 2,737.67 | External labour (non-financial payment) ^c 791.47 |
| Total household income | 13,672.44 | Total household expenditure ^d 3,389.33 |
| Household surplus | 10,283.11 | |
| Calculatory household surplus | 8,848.91 | Calculatory reserves ^e 1,434.20 |

^a July 2002 average exchange rate 1 euro = 32721.31 ROL.^b Sum of not marketed products at farm gate price (= rural market price).^c Total day labourers: 3 meals per labourer per day, meal price estimated at 50% of urban average restaurant price: approx. euro 0.70.^d Including non-financial payment.^e Allocation of calculatory reserves on the basis of asset valuation.

All three households have remarkable expenses for external labour,⁴ both the financial and non-financial payments are in the range of the general expenditures.

In the context of local networks and informal partnerships such non-monetary transactions are important to all three families: #1 and #3 placed emphasis on the transportation services and #2 accentuated the opportunity of bartering wood for other services from neighbours (tillage works, day labour). #1 are able to reward the extended family for the financial help they offer, for #2 it was possible to invest in a new pigsty. To #3 honey and brandy had additional importance for they had a major social value for the network partners. For instance, to be assured of transport orders the following year, they give honey and brandy as a gift to the wood sellers.

The financial evaluation of farm produce gives evidence of the importance of farming activity because the generated income⁵ exceeds non-farm income, which is the formal income: four times in households #1 and #2 (4.4 and 3.9 times respectively) and 1.8 times in #3, here however, the absolute value of income is to be considered. In connection with the non-monetary transactions one can estimate the high relevance of these activities for the maintenance of this form of organisation of household economic activity in the given socio-economic environment. This means that partners can rely on and be assured of each other in informal networks if they find a common denominator for their activities. At the same time the value they have at their disposal is higher than their financial (formal) income. In this context Neef (2002) finds that "The size of this economy is without question very large and [...] its importance has increased to such an extent that it is not clear which economy is in fact the 'normal' one." (Neef 2002: 1)

INTERVIEW WITH THE MANAGER OF A COLLECTIVE FARM

This formal collective farm in Dolj county was founded in 1992 according to law 36/1991. It has 153 members, 50 of whom are absentee owners. There are no animals on the farm, formally it is a 220 ha cash crop farm. However, 60 hectares of maize are for the members' consumption only. The area is cultivated by the farm service units, i.e. tillage, seeding and harvesting works, while other work such as fertilizing and pesticide application is carried out by the members. Managers must leave the whole harvest to the members. There are 55 additional hectares for fodder crops and vegetables which are cultivated by the farm but not producing any profit. This means there are 115 hectares the farm is on duty with but without any benefit. The collective farm, although a formal entity, consists of many individual farms linked together by a treaty which is of little importance to the individuals

⁴ Golibrzuch (2002) describes the situation of day labourers in rural Romania.

⁵ Financial farm income + non-financial farm income.

Table 5

Income and expenditure analysis, collective farm (euro^a)

| | Income | Expenditure |
|-----------------------------|------------------|------------------|
| Financial income | | |
| Wheat | 25,671.34 | 38,738.45 |
| Barley | 3,820.14 | 6,601.20 |
| Sunflower | 14,669.34 | 1,540.00 |
| Subsidies | 4,553.26 | 2,750.50 |
| Financial income | 48,714.09 | 49,630.16 |
| Financial deficit | -916.07 | |
| Non-financial income | | |
| Maize | 35,756.51 | 5,776.05 |
| Total income | 84,470.60 | 55,406.21 |
| Calculatory profit | 29,064.39 | |

^a July 2002 average exchange rate 1 euro = 32721.31 ROL.

since they claim much of the yields for themselves and leave little competence to the managers.

The manager's report on the general attitude of the farm members reveals much of the attitude expressed by the family farms. The members try to maximize the utility of their private activity and do not feel responsible for the collective farm's success. They extract its resources for their individual purposes.

The farm is administered by three persons, i.e. the president (aged 37), vice-president and accountant. There are some 20 permanent members who are in charge of daily work. Payment depends entirely on sales surpluses. These workers are not formally employed, they do not have jobs and so they work for the farm. They are paid in kind and in autumn when harvests have been sold they are paid from the remaining surpluses. Management salaries depend on profit from sold products.

Farm equipment consists of the worn out capital of the former collective farm as well as equipment that was bought from state subsidies. As a legal entity the farm has always had access to state subsidies (Dumitru 2002, OECD 2000, Csaki & Nash 1998, Euroconsult 1995), which have been used for running the farm according to members' wishes and not in the sense of building a market oriented agricultural enterprise. Storage facilities are limited and most of the harvest is sold off the field.

The income and expenditure analysis in table 5 shows that the farm is actually exploited by the members, since the very profitable maize crop is not commercialised. Moreover, the 55 ha of fodder crops are not yet considered, so that the farm's loss is even higher.

Although the ratio of monetary and non-monetary income is not discussed, it can be said that in this case, too, the non-monetary income is very likely to exceed the monetary (= formal) income, since in the 'Non-monetary income' section the additional 55 ha of fodder crops are not taken into consideration.

PROSPECTS OF FAMILY FARMING

The primary goals of all families were a secure livelihood and freedom of debts. None of them would agree to debts that would be risky even if the investment opportunity was attractive. In the case of the collective farm the owners' influence is obvious: management is coerced to follow the owners' decisions, which are determined by their needs; the farm's business concern is of secondary importance.

The form of organisation is dependent on the factors of production. A crucial factor is labour, i.e. the ability to hire day labourers or the labour potential of family members. They were of the opinion that they enjoyed working on the farm, for the family and as long as there was a profit at the end of the day from which they could make a living, they did not think of

evaluating their workforce or the cash value of all of their produce. This brings to mind Becker's 'use values' in his 'new home economics.'⁶ "In this approach the household is seen as a *production unit* which converts purchased goods and services, as well as domestic resources, into a set of final use values yielding utility in consumption. [...] Utility is not only, or even generally, derived directly from market commodities, it is obtained from the objects of final consumption (we shall call them 'use values') produced within the household. " (cited from Ellis 1993: 126)

A 'use value' of the interviewed households is mobility services, for instance. For farms #1 and #3 it was explicitly of great relevance to be able to offer such services. Both of them intend to expand these activities: #1 plan to establish a transportation business for patients in the nearby health resort and #3 hope to acquire some hectares of orchards from the privatisation of a state farm near Râmnicu Vâlcea so that they can enlarge their brandy business and invest the returns in transport services, to buy a new lorry, for example.

In the case of the collective farm its owners generate their use values in their households by gaining considerable amounts of needed inputs from the farm. Management is highly dependent and cannot organise the farm as a capital-oriented firm, which sells produced commodities in order to obtain a financial profit for the owners of capital (Gasson & Errington 1993). The owners prefer to extract the farm's surpluses according to their needs. In the present conditions the owners' behaviour can be interpreted as the most effective way of getting income without losing some of the profit to brokers or due to inflation. Moreover, the character of a legal entity entitles the farm to state subsidies,⁷ which in this case represent an additional benefit for the owners but not for the development of the business concern. Moreover, the members have to help themselves to products from their land because the small shops in rural areas often only sell bread, oil, margarine, tobacco and brandy.

A problem closely linked to the form of organisation and to the disposition to investments in agriculture is land fragmentation (Dumitru 2002, OECD 2000, Otiman 2000 and Socol 1999). Each of the interviewed households operates on at least three land plots which are at a distance of up to two kilometres from each other. Yet, they do not consider exchanging plots with their neighbours since their plots are either different in quality or the geographical conditions make a change difficult. In answer to the ques-

⁶ Becker, G. S. (1965): A Theory of the allocation of time, *The Economic Journal*, vol. 75, pp. 493–517, cited from Ellis (1993) and Gasson & Errington (1993).

⁷ Law 166/2002 (Monitorul Oficial nr. 256, 04/16/2002) assures only legal entities of state subsidies, others are excluded. Cf. for former subsidy measures: Dumitru 2002, OECD 2000, Csaki & Nash 1998, Euroconsult 1995.

tion regarding acquisition of additional land, #3 said they would prefer to invest in their present activities and the families of #1 and #2 would possibly agree if their own plots were enlarged. However, as members of households #1 and #2 were old and thought about retiring from farm work, they would lease the land rather than sell it – because sharecropping would bring them food; money however, would too soon be depreciated.

Nevertheless, age is an important factor when retirement from farming and selling or leasing land is discussed. Indeed, members of farm #1 and #2 have already reached or will soon reach that age barrier, yet, none of them spoke of selling their land; they estimated that in case of #1 they would lease the land for a lease in kind and in case of #2 they would rather hire some more seasonal workers; in #2 there were considerations of one of their children's families about moving to the countryside.

Regarding the farm land fragmentation and age of members are not relevant problems, at present, because it is assumed that the owners negotiate the distribution of the products according to the members' contributions of land and of work to the farm. If the farm were forced out of business it is likely that some new family farms would emerge.

Grosskopf et al. (1999) sustain the idea of Romanian farms becoming more modern and internationally competitive agricultural enterprises by the statistical evidence⁸ that some 14% of family farms may withdraw from agricultural activity in the coming years. According to the age of the members land will be sold or leased and thus will become accessible on the market and contribute to the expansion of other farms. From the point of view of statistics, more land might be available through sale or lease, however, it does not mean that the new owner would be in a position to practise more modern or efficient agriculture. The help of the legislature, land administration and cadastral authorities is required for the effective restructuring and allocation of land resources. Romania, however, is still a long way from completing the land restitution process (Dumitru 2002, Commission of the European Communities 2003) which is necessary as a preliminary step before agricultural land restructuring. Thus, the idea of the household farms becoming more modern, competitive farm enterprises in the short or medium terms⁹ as expressed by Grosskopf et al. (1999), Davis & Gaburici (1998) and Davis et al. (1998) has to be dealt with caution.

⁸ The data of Grosskopf et al. (1999) refers to Timiș county in western Romania. A survey by Socol (1999) carried out in 1993 reveals that over 50% of the people engaged in agriculture are over 50 years old and approximately 20% are over 65.

⁹ At the beginning of the 1990s, when transition research started, many people considered the transition periods as relatively short periods of mostly economic and institutional changes. This assumption was erroneous (cf. Buchenrieder 2001, Negulescu 2002).

Conclusion

The common denominator of agricultural activities in the surveyed farms is an additional supply with produce, the purpose of farming, however, is different for each of them: while #1 is heavily dependent on additional income, #2 can afford to sell some pigs and make new investments and #3 regards their agricultural activities as a business concern returning profit which in turn is used for family purposes as well as business enlargement.

The collective farm is obviously a legal disguise to take the subsidies and use them for the members' purposes.

Results indicate a path dependence of the development of informal economic activities by social networks (family, relatives, friends) which is based on non-monetary transactions and informal treaties. This phenomenon is known in other former socialist countries, too, but it was found that the importance of informal economies was subject to the success of political and economic transition. In Russia and Ukraine, for instance, non-monetary transactions are still important (Neef 2002, Carlin et al. 2000) while the importance of informal activities diminished in the course of transition in the eastern part of Germany (Kohli 1994). In the case of Romania the interviewed saw the reasons for the high rate of informal activities in very low wages and pensions. Moreover, these activities are based on mutual confidence and they have even been considered as traditions ever since – two aspects which give the actors security and stability. The income and expenditure analysis proved that non-financial income is of great importance because it exceeds financial income more than twice and as long as there are no stimuli from Romania's socio-economic framework, the concerned will not change their mode of action.

In conclusion, the causes for the stability of that new ownership and farming structure might be found on the one hand in the economic slump and general distrust in formal institutions, on the other hand in several aspects regarding socio-economic security and adequate supply of the household that can be subsumed as the path dependence of ownership and entrepreneurial activity. This path dependence explains why informal economic activities are still very important in Romania (cf. also Negulescu 2002, Neef 2002, Ciupagea 2002, Stănculescu 2002, Ilie 2002).

It can be doubted that in the short and medium term the rate of informal economies will decrease. The social implications of these activities rely on tradition and are economically essential, particularly for households with restricted financial resources.

In the present situation in Romania, the decisive factor for a successful beginning of long-term reduction of informal activities is a clear role of the state in the agriculture and food sectors.

From the beginning of transition in 1989 a large number of the state owned enterprises were kept under government control as so-called *régies autonomes* (OECD 2000) and privatised hesitantly. "They were treated as 'strategic enterprises' and kept over 50% of total assets. They were located in such branches as the defence industry, energy production and distribution, mining and telecommunication, mail and railway systems, but also trade in agricultural products and the provision of farming services." (OECD 2000: 87)

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