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Communities after Markets

A Lesson from Post-Communism on the Institutional Preconditions of 'Governing the Commons'

Abstract

What does post-communism teach us about the institutional preconditions of successful self-organisation by economic actors? The performance of post-communist countries in building institutions for 'governing the commons' has been meagre. While previous studies have emphasised weak social capital and bad policies, we propose a different argument: market-supporting institutions are often a precondition for the self-organisation of producers. We should expect that common-pool resource users self-organise only after private enterprises and their markets are in place. Our theory-based conjecture of institutional sequentiality – communities after markets – is tested by two case studies about the institutional development of local communities of winemakers in Hungary between 1990 and 2014. The cases validate our perspective of institutional dynamics.

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1. Introduction

Why is successful self-governance of common-pool resources (CPRs) rarely observed in the former communist societies of Central and Eastern Europe? While many of these countries performed well in building a broad set of market-supporting institutions since 1989 (Murrell 2008; Johnson et al. 2002; Aslund 2012; Hare & Turley 2013), the empirical literature suggests that they have largely failed in similarly effective institutions for 'governing the commons' (Sikor 2002; Theesfeld 2004; Schlüter et al. 2010; Prager et al. 2010; Schmidt & Theesfeld 2012). What explains this puzzling difference?

Many authors claim that the broader cultural and institutional context of post-communism is unfavourable to the emergence of robust self-organising communities. Institution-building efforts are hindered by both low levels of social capital within communities (Theesfeld 2004; Upton 2008) and the lack of external support due to dysfunctional state institutions (e.g. Sikor 2002; Theesfeld 2004; Schlüter et al. 2010; Sutcliffe et al. 2013). However, social capital and good policies are also prerequisites of well-functioning markets. This suggests that the real question is why problems due to weak social capital and bad policies were more successfully surmounted for the institutions of market enterprises than for the institutions of CPR self-governance in the past two and a half decades. Our answer – which is certainly only partial – is that the establishment of market institutions had to precede institution-building for self-governance for many types of resources.

Individuals and their private enterprises were able to turn to pursuing complex, multilateral efforts to create self-governing associations only *after* the basic rules of the game for private property rights had been laid down and the organisations and market relationships of private enterprises had been established. Communism destroyed markets as well as communities. The first decade or so after its collapse was spent building basic market-supporting institutions (Murrell 2008). The lengthy 'struggle' (Dietz et al 2003) to create self-organised communities of market actors could commence only afterwards. At least for some collective resources, their users may not be so much on different paths of institution-building than their counterparts in Western Europe. Rather, they may still be at early stages of similar paths.

We revisit the theory of the self-governance of common-pool resources to explain why the existence of market-supporting institutions is usually a precondition for the self-organisation of CPR users (Section 2). This provides a new insight for interpreting the parallel empirical observations of relatively successful market-building and unsuccessful efforts at CPR self-governance in Central Eastern Europe (Section 3). Our theory-based conjecture of institutional sequentiality – communities after markets – is then tested by two qualitative case studies. We track the institutional development of two local communities of winemakers in Hungary between 1990 and 2014, who struggled to build and maintain their collective reputation as an immaterial common-pool resource (Section 4). Although, the presented cases are not (yet) unambiguous 'success stories', they validate our perspective of institutional dynamics and lead us to conclude (Section 5) that more optimism about the self-governing capacity of communities in this region is in order.

2. Market-supporting institutions as preconditions for CPR self-governance

The classical explanation for the over-exploitation of the commons is that if it is the common property of a group[3] and its members have free access to it, they will externalise some of the costs of its use on each other (Gordon 1954; Demsetz 1967; Hardin 1968). However, as Fennell (2011) noted, the problem is 'just as much a result of the rancher's ability to fully *internalise* the grazing benefits associated with adding an animal' (37). This assumes that the rancher holds private property rights in his animals. A commons problem will *not* occur unless there exists a mix of individual and common ownership. Cole et al. (2014) add that it is not simply the private ownership of cattle that motivates the exploitation of the common-pool resource but also the

[3] The group may be infinitely large, turning the property into an open-access resource.

ability to sell them. The latter depends on the existence of market institutions, which recognise and protect private property rights and enforce impersonal contracts. A possible conclusion is that markets can have a destructive influence on CPRs. Indeed, this has long been asserted in the empirical literature on ecological problems. The increased involvement of resource users in product markets is expected and often shown to put 'pressure' on and possibly destroy community governance (Young 1994; Agrawal 1997; Taylor 2005).

However, the more general lesson is that, no matter what form the governance of a CPR takes and what level of success it achieves, *market-supporting institutions are likely to be constitutive elements of the broader institutional structure of its governance*. To continue with Hardin's original example, not only is it true that the depletion of a common pasture would not occur if ranchers did not privately own and market their produce. Forming a community and crafting its regulations would probably be meaningless in that case, too. Both the dilemma of 'overexploiting' the common pasture and the challenge of self-organisation would disappear. For most CPRs of economic significance, market-supporting institutions are *preconditions* for self-governance.[4]

In principle, users of a CPR could attempt to craft a governance structure for self-organisation and develop institutions for related markets at the same time. However, many of the market-supporting institutions belong to the broader institutional environment (Williamson 2000) of a region or a country, on which a group of local actors have little influence. This suggests that potential users of a CPR are more likely to self-organise *after* a basic, stable institutional order for markets has been established in their environment.

[4] One can, in principle, imagine common-pool resources whose use is unrelated to market activities. For example, a fishing lake may be enjoyed by hobby fishermen consuming their own catch. However, most CPRs of economic significance in a modern society do not fall into this category. And even the exceptions assume certain individual property rights – for example, in the catch and, probably, boats and weekend homes near the lake.

3. The institutional trajectory of post-communism

Although markets in constrained forms existed even under the communist rule (Kornai 1992), the institutional system of a market economy had to be created anew in each Central and East European country after 1989. Central planning and state ownership were dismantled by legislation. As a corollary, corporate governance structures, contractual relationships and reputational mechanisms that had operated in the *ancien régime* became obsolete and were largely disrupted. Thus, an institutional void formed at several levels (Cooter & Ulen 2004: 230; Murrell 2008). For the new market economy to start functioning, this void had to be filled by new legislation, mechanisms enforcing it as well as lower-level institutions governing property and contractual relations. All this took time. Although the formal constitutional and legal institutions of the new politico-economic order were swiftly adopted in a few years,[5] it soon became clear that institution building would be a more time-consuming task (Kornai 2000; Voigt & Engerer 2002). Privatisation of state enterprises (Brown et al. 2006) and land (Burger 2001) continued into the second half of the 1990s. Lower-level institutions based on private ordering, such as the internal governance of firms and non-legal enforcement mechanisms of their contractual relationships, including relational or self-enforcing arrangements, social norms, reputational mechanisms (e.g. brands) and business communities (Brousseau 2008), needed time to develop, as well. Since these institutional solutions are typically based on repeated play among actors participating in relatively stable relationships, it was unsurprising that they took more time to develop than one-off regulatory reforms (Humphrey and Schmitz 1998; Kovách & Csite 1999; Lengyel & Janky 2004).

Despite many difficulties and protractions, a functioning institutional order for markets emerged by roughly the end of the first decade after 1989, at least in the countries to the West of the

[5] In Hungary, where our case study is situated, legislation securing private property and introducing Western-style corporate law was adopted by the outgoing communist and the first democratic government (Sárközy 2012).

former Soviet Union and the Baltic states (Campos 1999; Crafts & Kaiser 2004; Beck & Laeven 2006; Murrell 2008). Although several imperfections remain, especially in terms of state administrative capacity and corruption (Knack 2007; Kaufmann et al. 2009), these countries were up and running as market economies by the turn of the millennium. With unavoidable setbacks, the process continued, reflected in the fact that by 2011 the region's EU member countries overtook the worst-performing older EU Member States in terms of ease of doing business according to the World Bank's expert assessments (Aslund 2012).

There is much less systematic evidence on the development of institutions of CPR self-governance than about market-supporting institutions in this region after 1989. The knowledge we have is from case studies on specific types of natural common-pool resources. A common thread through almost all cases is that they were top-down initiatives by central governments or external NGOs to foster or even oblige (partially) self-governing bodies at the local level. The contrast is striking with the cases analysed by Ostrom and her colleagues, which mostly deal with locally driven, bottom-up efforts of communities (Ostrom 1990; 2005). Theesfeld (2004) studied the Bulgarian government's policy to found water user associations, while Gorton et al. (2009) examined similar intervention in Macedonia. Summarising the experience of four case studies about the management of localised natural resources in Central and Eastern Europe, Sikor (2002) also focussed on political, legislative and bureaucratic actions and their consequences. Schmidt and Theesfeld (2012) provided a critical account of the decentralising efforts of the Albanian fishery administration. In the broader post-communist region, Upton (2008) explored the experience of donor projects of an international NGO for Mongolian herders; while Horlemann and Dombrowsky (2012) documented government efforts to organise water resources management in the same country. Schlüter et al. (2010) discussed the Uzbek government's reforms of water resource management that involved partial decentralisation. Bottom-up self-governance were only found amidst traditional forms of agriculture (Sutcliffe et al. 2013; Mearns 1996), with the exception of Schleyer (2009) who documented the renewal of a drainage or reclamation infrastructure by a modernised community of Polish agricultural producers.

Almost all studies documented failures or meagre results. The reasons given for the fiascos were closely linked to the top-down nature of institution-building. Governments intent on encouraging self-governance proved to have insufficient authority or capacities (Sikor 2002; Horlemann & Dombrowsky 2012); left their own rules unenforced (Sikor 2002; Theesfeld 2004; Schlüter et al. 2010), lacked accountability in decision-making (ibid.); financed make-believe activities on the ground (Sutcliffe 2013); and disregarded local variations by applying 'blueprint' solutions (Schmidt & Theesfeld 2012). Bottom-up responses to government initiatives were weak. Local communities had insufficient internal resources because communism's assault on civil society had led to low levels of trust and depleted social capital (Theesfeld 2004; Upton 2008).[6] In some cases, drastic changes in market demand undermined existing production processes and attending rules to govern common-pool resources (Sikor 2002; Schleyer 2009; Sutcliffe 2013). The outcome was often an incongruous mixture of formal and informal rules that encouraged opportunistic individuals strategies and undermined attempts of value-enhancing collective action (e.g. Sikor 2002; Theesfeld 2004; Schlüter et al. 2010). Theesfeld's metaphor summarises much of the findings of the literature: 'formal attempts do not fall on fertile ground where collective action can grow' (2004: 268).

Overall, the empirical evidence points to three sets of factors retarding the emergence of successful CPR self-governance: (1) weakness of intra-community social capital, (2) failed government policies, and (3) unfavourable market conditions. The rare exceptions of viable self-governance presented reinforce their importance: high levels of intra-community trust (Gorton et al. 2009; Upton 2008[7]), good policies overcoming government failures (Gorton et al. 2009;

[6] For similar observations in China, which follows a more gradual transition path, see Qiao (2013).

[7] Though Upton (2008) notes that exclusionary patterns of trust in subgroups may be harmful for disadvantaged members of a community.

Schleyer 2009), and favourable market conditions (Schleyer 2009) mattered. It is hardly debatable and entirely in line with the general literature on CPR self-governance that both social capital and public policies concerning resource management greatly matter for self-governance (Ostrom 1990, 2005; Wade 1989; Baland & Platteau 1996; Agrawal 2002). We acknowledge their importance but would like to expand upon the third factor: market conditions. We propose to go beyond the focus on temporary dramatic drops or shifts in market *demand*, and explore the underlying institutional cause of these allocational phenomena: the collapse of state-controlled markets and their gradual replacement by new market-supporting institutions of capitalism. These had to reach a degree of maturity before communities could respond to facilitative policies positively or initiate self-organisation themselves.

Two conjectures can be formulated:

1. *Institutional sequence*. In the first phase after communism, CPR users focussed on creating institutions that enabled production for and trade in markets, such as property rights, firms and reputation-supporting institutions. Meanwhile initiatives to self-organise for CPR use remained absent or weak. They appeared or gained strength only in the second phase, after private enterprises and their markets were in place.
2. *Bottom-up institution-building* by CPR users became feasible in the second phase and are potentially more productive than top-down initiatives by central governments.

4. Tracking institution-building for self-governance in two Hungarian winemaking communities, 1989-2014

We investigate two local communities of winemakers in Hungary who have struggled and, to a considerable extent, succeeded to build and maintain their collective reputation as an immaterial common-pool resource. Although the most studied examples of CPRs are natural or man-made agricultural resources, many other phenomena can be successfully analysed as CPRs[8]. The collective market reputation of producers in a geographic area is one type of immaterial common- pool resource. For small firms, conveying reliable and easy-to-digest information about their quality may be prohibitively costly. They may opt for creating a joint brand with similar producers (Tirole 1996; Fishman et al. 2010). A collective label such as 'Parma ham' or 'Bordeaux wine' may provide economies of scale in investing and maintaining market reputation. Collective reputation is a common-pool resource inasmuch as it is characterised by both the difficulty of exclusion and subtractability (Patchell 2008; Megyesi & Mike 2016). First, if a region is famous for its good wine, no local winemaker can be excluded from the benefits of its good reputation, unless there are special rules to exclude him. Second, lowering individual quality can lead to increased private profit at the expense of decreasing the value of collective reputation to the entire group. In other words, the abuse of quality subtracts from the stock value of the common-pool resource. Hence, a fundamental collective challenge is to design and maintain institutions of quality assurance to prevent free-riding.

Megyesi and Mike (2016) analysed how attributes of the producers' social groups and features of their collective reputation as a CPR influenced the establishment of quality assurance systems in Tihany and Csopak. We build on this study but go beyond it to analyse the broader institutional dynamics of the case. By tracing the process (Gerring 2007) of institution-building, we explore the sequence of and links between developing institutions for market activities and CPR governance, and the top down or bottom-up nature of institution-building. Both communities managed to organise themselves but Tihany implemented a top-down government initiative at an early date while Csopak created a bottom-up alternative later on. The comparison of the two adjacent cases reveals what was common in their institutional dynamics as well as the differences between top-down and bottom-up institutional solutions.

[8] They include technological resources [e.g. frequency spectrums (Wormbs 2011)], services [e.g. healthcare (Jecker and Jonsen 1995)] and immaterial goods [e.g. scientific information (Hess and Ostrom 2006)].

Field-work was conducted in both places in March-May 2012. After studying each community's history and geography, statistical data on wine production as well as official and press documents, 18 semi-structured interviews were conducted with local winemakers, officials of the wine communes and representatives of local governments. In December 2014, follow-up information on the self-governing initiatives observed in 2012 was collected through the websites of interviewed winemakers, their associations and professional wine-related media.

4.1. Initial conditions

The two communities, Csopak and Tihany, are located in close proximity (cca. 12 kilometers from each other) in the Midwest of Hungary. Both are part of a historical wine region around Lake Balaton. Csopak is famous for its white wine, especially *olaszrizling*, throughout Hungary. Tihany is known for its high-quality red wine, produced in the special climate of a peninsula, in a region otherwise associated with white wines. The two communities are characterised by similar social environments and cultural traditions. Before communism, the region was dominated by church holdings, which were confiscated by Communists and turned into large state farms (Molnár et al. 2009). At the same time, private holdings were forced into cooperatives. Although technological innovations were introduced, state farms and cooperatives focussed on quantity rather than quality (Megyesi & Mike 2016). The main reasons were muted profit incentives, underdeveloped domestic markets and the insatiable appetite of the Soviet Union's market for cheap wine (Kovács 2011). Members of cooperatives were allowed to engage in de facto private production on 'household plots' (Róna-Tas 1997) but had no opportunity to market their products under private brands.[9] Some improvement of collective reputation would have been possible even under such circumstances. The economic potential in such a move was

[9] As often, there was an exception that strengthened the rule. A few winemakers in the wine-region of Villány in the South-West of Hungary were allowed to market bottled wine with labels carrying their own names in selected (state-owned) hotels already in the 1980s. As a consequence, they enjoyed a first-mover's advantage in the national wine market after 1990 (Kovács 2011).

apparently perceived already in the 1980s by managers of cooperatives and state farms, who established a 'Wine Knighthood' in the wine region in 1984. However, both the old system of property rights in land and capital and the former markets that could underlie any collective effort were swept away after 1989. Land and assets of state farms and cooperatives were privatised through a mixture of sales, land restitution and distribution in kind (Macours & Swinnen 2002), backed by a legislative process up to 1997 (Burger 2001). The former wine markets of communist countries virtually disappeared. Thus, the two communities arrived in the early 1990s with a highly depleted common-pool resource, no institutional structure to improve it and few enterprises having stakes in crafting such institutions.

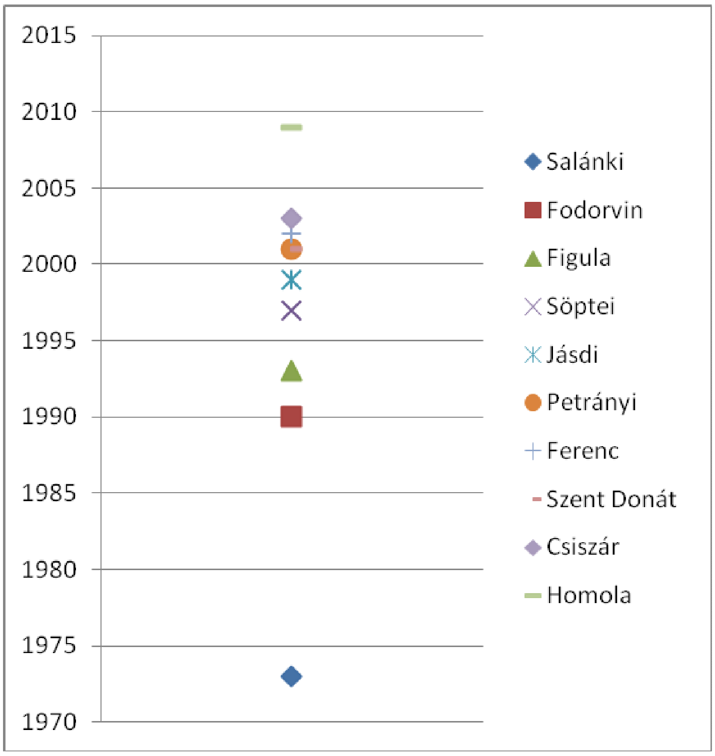
4. 2. Phase 1 of institution-building: The establishment of product markets and private enterprises

The lengthy and complex process of privatisation created a mixed group of winemakers in both localities (Megyesi & Mike 2016). In 2005, the great majority of vineyard-owners (95%) produced wine on a domestic scale. Hence, they had no stake in either individual or collective market reputation. A few large-scale wineries, based outside the localities, focussed on mass products and showed no special interest in *terroir* reputation. Had a third faction not emerged, we would have no story to tell: this was a group of medium-sized private wineries, consisting of 10-15 cellars/community at most, who started to build their own brands and target quality. Some of them were local 'self-made men', who started winemaking in the 1980s as employees of a cooperative or state farm, engaged in individual production on household plots, and acquired estates of 5-25 hectares after de-collectivisation. Others were non-local investors who arrived in the area mostly in the 1990s and early 2000s. They collected financial capital in other activities, and bought a cellar and land with the aim to produce high-quality wine.

We plotted the founding dates of medium-sized wineries that operated in Csopak or Tihany or both and appeared in professional wine guides as brands with notable reputations in 2012

(Graph 1).[10] With two exceptions, all wineries started operation between 1990 and 2005. Salánki (est. 1973) apparently gave the year when the family started winemaking as a side-activity beside work at a state farm. Homola (est. 2009) shows the continuing potential for new endeavours. The period roughly between 1990 and 2005 was an era of setting up structures of business governance (in the form of limited liability companies), investing in productive assets (land, cellars, technology, know-how) and building up market relations. Private wineries began to bottle their own wine and establish their individual reputation.

Graph 1. Founding years of notable private estates in Tihany and Csopak



This was facilitated by the circumstance that market institutions for high quality wines emerged slowly but steadily in Hungary (Megyesi & Mike 2016). Market intermediaries, including professional wine merchants and caterers with reputation, began to organise markets for demanding customers (Tóth 2010). Such actors do not only reduce transport and marketing

[10] We plotted their founding dates as they were given on their websites. For one notable winery (*Tamás*), we found no date. Some wineries referred to earlier family tradition but gave the year that appears in the graph as the starting point for their current, market-oriented enterprise.

costs but also provide reliable information on quality. Several other reputation-supporting institutions (Milgrom & North 1990) were created, including professional wine guides, prize contests and winemakers' awards. Overall, these developments reduced information and transaction costs for consumers and gave incentives for winemakers to build up their market reputation.

In stark contrast with the burgeoning of private enterprise, the first one and a half decades after the end of communist rule saw no successful coordinated efforts by local producers to improve collective reputation through quality assurance. Although a number of civic associations were established to promote local wine or local tourism (e.g. in the form of 'wine routes'), these initiatives attracted little support within the local communities and served mainly the interests of a single stakeholder. In the entire period, the most important occurrence was a top-down attempt by the national government to instigate community governance. National legislation obliged both Tihany and Csopak to establish an official wine commune in 1994. These communes were created with the explicit goal of promoting self-governance but the supposed beneficiaries regarded them as dysfunctional, externally imposed state institutions. In 2003, a change in the law even forced Tihany to join its larger neighbour Balatonfüred–Szőlős. The president of one of the communes recalled lasting grievances in an interview: '*Wine communes were established by fiat. In 2003, the system was reorganised without asking us, regardless of local interests*'. By law, all winemakers in a given geographic area became members of the commune with equal votes. The vast majority of (mostly small, nonprofessional) winemakers had no interest in self-governance. To quote the president of the commune once again: '*Out of several hundreds of registered members, no more than thirty participate regularly in our meetings. Absentee owners are hard to reach and even medium-sized producers are not interested.*' The activities of the wine communes were thus reduced mostly to carrying out administrative duties delegated to them by the government, such as registering vineyards and issuing certificates needed for wine sales. In short, there was no community governance of quality assurance in any meaningful sense of the term.

4. 3. Phase 2 of institution-building: CPR self-governance by mature private enterprises commences

Things began to change one and half decades after the fall of communism. By this time, the development of market-supporting institutions had enabled entrepreneurs to establish several mid-sized business enterprises in both places. They had acquired the initial assets and market relations to target quality-minded customers. Thus, they developed an economic interest in improving *terroir* reputation.

Tihany moved first by adopting a regulation for a Protected Designation of Origin (PDO) of 'Tihany wine' in 2008 (Megyesi & Mike 2016). Under such a regulation, the name of an area or specific place, used as a designation for an agricultural product or a foodstuff, may be attached to a product only if the production process is located in the specified area and follows specific methods (Van Ittersum et al. 2007). The concept was introduced into the Hungarian legal system by a new national Wine Law in 2004 (Act XVIII of 2004). Wine communes were allowed to define a PDO for their produce and propose detailed rules for its enforcement. Tihany winemakers took the opportunity: they prepared their own proposal for a self-governing system of collective quality assurance and had it accepted by the ministry in 2008. They were given the exclusive right to decide who can attach the name *Tihany* and the acronym *DHC* (*Districtus Hungaricus Controllatus*) to his wine. The regulation defined rules of production and quality parameters.[11] An elected official of the commune (*hegybíró*) became responsible for monitoring the plantations and the processing of grapes in the cellars. A wine testing committee was set up, too.

By contrast, Csopak winemakers made no serious attempt at crafting their own rules for a PDO. As a prominent local winemaker recalled in an interview, he had worked on a proposal and sent

[11] The regulations prescribed eligible plantations within the cadastral land register, eligible grape varieties, a ceiling yield (55 hl or 8 tons per hectare, compared with the legal maximum of 100 hl for the wine region), a minimum sugar content at harvest as well as cultivation and processing technologies.

it to some official but '*there was no response and it all came to nothing*'. However, it only took four years until a group of quality-minded winemakers established a quality assurance system called 'Csopak Codex' in 2012 (Megyesi & Mike 2016). While Tihany responded to a top-down initiative of the nationaI government, Csopak winemakers proceeded in an entirely bottom-up way. The latter designed procedures for monitoring and testing, and set up a Producers' Committee to manage the process. The label 'Csopak Codex' was registered under general trademark law with support from the municipality. Thus, the initiative was created outside the organisation of the official commune and independently of the national regulatory framework for PDOs. The Codex procedure was first applied in 2013, when basically all medium-sized cellars with a quality orientation participated.

Self-governance was not an automatic response to the institutionalisation of markets; social capital clearly played an important role. As Megyesi & Mike (2016) show, both communities enjoyed a relatively high level of internal trust and had some prior organisational experience. Two other aspects of social capital help explain the different starting dates of institution-building. Tihany was (1) fortunate to have a local leader and (2) was characterised by a common understanding about the ways collective reputation should develop (cf. Ostrom 1990, 2005)[12] already in the 2000s. Led by a respected local winemaker, the community could quickly agree on focussing on quality red wines (of different varieties) as the basis for their reputation. Csopak producers lacked such a leader and were divided whether to focus solely on *olaszrizling* or a broader range of white wine varieties. This only changed around 2010, when views converged around *olaszrizling* and a young institutional entrepreneur appeared on the scene. The institution-building process was also clearly affected by at least two fields of government policy: PDO legislation and trademark law. The precise role of policy will become clearer if we look into and compare the details of institution-building in the tewo communities.

[12] These factors are analogous to user attributes identified by Ostrom (1990, 2005) as generally conducive to the self-governance of natural CPRs.

4. 3. Comparison of top-down and bottom-up institution-building

As the examples of Tihany and Csopak reveal, institution-building based on both top-down and bottom-up initiatives became feasible in this period. Which was more successful? Only a few years have passed since their inception and it would be premature to make a final judgement. Nonetheless, the details of institutionalisation already reveal some relative strengths and weaknesses.

4.3.1. A response to a top-down initiative in Tihany

The national law on PDOs enabled the wine commune of Tihany to obtain an exclusive and clear property right to the name of 'Tihany wine' and its use on wine labels.[13] While the legal acknowledgement of this collective property right helped self-organisation, the mandatory use of the organisational framework of the official wine commune created problems. We noted that the centrally prescribed creation of communes was itself a failed attempt of top-down institution-building in the 1990s. How was it possible for Tihany producers to establish self-governance in this organisational frame? Part of the answer is that self-organisation was, to a significant degree, founded on informal mechanisms rather than the formal rules of the commune. Another part is that the success of self-organisation was limited: the institution of the wine commune proved to be a serious constraint. As we noted, Tihany was forced to join the neighbouring, much-larger wine commune of Balatonfüred-Szőlős in 2003. Its winemakers lost their formal independence and became a relatively small informal group of about 60 people within the larger official membership (250-300 people). It was this group, led by their leading personality, who initiated the PDO recognition. They needed the formal support of the commune but its members outside Tihany had no particular interest in the issue and were accommodating to the proposal. Once the PDO system of quality assurance was adopted, enforcement was also formally delegated to the wine commune. Besides the commune's elected official, however,

[13] Decree of the Ministry of Agriculture and Rural Development 99/2009. (VII. 30.)

'*members of the formerly independent Tihany commune*' also participated informally in the monitoring from the beginning.

Although informal mechanisms partly made up for the weaknesses of the official commune, the latter's externally imposed, rigid institutional frame did prove to be a constraint on self-governance. After all, the right to award PDO recognition effectively rests with the commune. The monitoring official is accountable to the board of the commune, whose members are elected by and accountable to the general assembly. As we noted, the large and compulsory membership of the wine commune makes collective-choice arrangements rather ineffective. This compromises the accountability of the commune's official and its wine testing committee. There is also no working forum for internal conflict-resolution. Conforming to the general character of the commune, the established system of PDO governance resorts to simple administrative procedures. The institution proved capable of assuring a basic, non-conflictual level of quality but no apparent mechanisms exist for continuous problem-solving and the improvement of collective reputation, which would be necessary in a market with evolving preferences and technology. Overall, the community became rather passive after the adoption of the official PDO regulation. Even a winemaker who supports and uses the PDO system is ambivalent about its merits: '*Because of the PDO label our administrative work has increased but perhaps also the prestige of Tihany wine has grown. Although we can hardly see it in the prices*'. Nonetheless, the system still exists six years after its adoption, and the labelling '*Tihany DHC*' is in use.

Tihany's example shows that a top-down initiative to introduce self-governance *may* work under favourable conditions. It is worth noting that, from a national perspective, Tihany's response was the exception, not the rule. Only a small fraction of winemaking communities (9 out of 37)[14]

[14] The number of PDO requests by 2009 was nine (See the government website at http://boraszat.kormany.hu/jogszabalyok, accessed on 15.12.2014). With the administrative introduction of PDOs to cover all Hungarian wine regions, the number of PDOs rose to 37 (http://boraszat.kormany.hu/termekleirasok2, accessed on 15.12.2014). We must note that even some of the requests before 2009 did not include self-governing systems of quality assurance.

applied for a PDO before 2009. Our findings also draw attention to the limited effectiveness of top-down institutionalisation even where it takes root. In particular, 'blueprint thinking' (Korten 1980) took its toll: as in many instances of economic development around the world, policy makers relied 'on some formula […] rather than learning the specifics of a particular setting and enabling participants to experiment and learn from their own experience and that of others' (Ostrom 2005: 275). Here, this formula was the official wine commune. In legislative imagination, it was a true community. In reality, it was an artificially created organisation with no autonomy in determining membership or basic collective-choice rules. Hence, it was a rigid, inconvenient and highly constraining institutional basis for self-organisation.

4.3.2. Bottom-up creation of self-governance in Csopak

Soon after the missed opportunity to craft their own PDO regulation, a few winemakers began to stir in Csopak. By this time, the PDO regulation adopted by the government in the form of a ministerial decree defined the formal quality requirements of Csopak wine.[15] It did so for all wine communes who did not put forward their own proposal until a deadline in 2009. However, the government established no effective system of quality assurance. In a half-hearted attempt, it introduced a distinction to promote quality: wines that used the name of a locality, such as Csopak, had to fulfil higher standards than wines that used the general name of the wine region. The name 'Csopak' could only be attached to wine made of Riesling, which echoed the thinking of quality-minded local producers about the terroir. However, the regulation was rather lax.[16] What was even more important, even these less than serious requirements were not enforced. An official of the wine commune revealed the state of affairs: '*If the client comes in and gives certain numbers for the sugar content of the harvested grape and the average yield of his estate, we believe*

[15] See previous footnote.

[16] The ceiling yield was a non-prohibitive 75 hl/ha, compared with 55 hl/ha in Tihany. Moreover, 15 percent of the wine could originate from elsewhere.

him. If he gives an extreme number, which is wildly out of line with the annual average, we go out for an inspection.'

Winemakers could, in principle, try to change this regulation and set up a self-governing PDO system assuring higher quality. However, this was not the path they chose. The institutional entrepreneur (Li & Jiang 2006) of Csopak Codex saw no hope that they could succeed within the unfavourable organisational frame of the wine commune: '*the official wine region would have never accepted [the stricter quality criteria]*'. In addition to its ineffective collective-choice arrangements due to compulsory membership, an additional obstacle was posed by the fact that the agreement to focus on high-quality Riesling as a base for reputation did not initially extend beyond a smaller circle of 8–9 quality-oriented winemakers. This led them to embark upon institution-building outside the official PDO system. As the supportive mayor put it: *'We should be left alone and it should be accepted that there is a community of producers who create a unique good. We don't want others to cheapen it, to gain positions at our expense. The municipality [in its efforts to help the winemakers] struggles with the authorities and the wine law.'*

The search began for institutional alternatives. Inspiration came from the Austrian wine region of Wachau, whose producers were equally dissatisfied with the official Austrian system in the early 1980s and established an independent and self-governing system of quality assurance outside national regulations. The 'Wachau Codex' became a model for the 'Csopak Codex' adopted in 2012.[17]The goal was to introduce a quality standard that was significantly stricter than the official prescriptions of the official PDO regulation and also enforced in an effective and accountable way. Grapes, solely of the Riesling variety, must come entirely from first-class vineyards that belong historically to the Csopak wine commune. Very strict rules apply to the

[17] About the Wachau Codex, see their website: http://www.vinea-wachau.at/ (accessed: 17.12.2014). In Wachau producers were equally dissatisfied with the official Austrian system in the early 1980s and established an independent and self-governing system of quality assurance outside national regulations. The 'Wachau Codex' became a model for the 'Csopak Codex' adopted in 2012

production process.[18] The regulation clearly tries to set standards for the highest quality wines. Therefore, its aim is not to replace the official PDO system but introduce a quality category over and above it. It is to serve as a 'flagship' of the producer community.

The founders of the Codex enjoyed full autonomy in determining rules for membership and collective choice. A Producers' Committee is formed each year to monitor the entire production process and carry out controls at four points (Megyesi & Mike 2016). The Committee of the Codex is based on 'direct democracy', reflecting the small number of participants. Vineyard owners who satisfy the quality requirements of vineyards and pay the registration fee have the right to participate in the Committee.

A key challenge for the community was to have their collective brand publicly recognised. Whereas the wine commune has effective ownership of the brand 'Csopak PDO', an independent group of producers has no comparable rights. Therefore, they face the danger that a rival system of quality assurance may develop and appropriate some of the fruits of their efforts. A partial solution to this was found by involving the municipality (Megyesi & Mike 2016). The trademark is owned by the municipality of Csopak and its regulations are adopted as a resolution of the village-council. The municipal commitment to Csopak Codex reduces the probability that competing initiatives and trademarks will pop up in the broader community. Nonetheless, one problem remains: the PDO regulation for Csopak cannot be influenced by the Codex group,[19] which limits their ability to influence the collective reputation of Csopak since wine consumers continue to see the name of 'Csopak' on bottles not certified under the Codex rules.

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[18] For example, only natural fertilizers and environment-friendly herbicides and pesticides may be applied; neither sugar, nor any other additives (except sulphur, a traditional preservative) may be used; the wine must not subjected to concentration or fractionalisation or any other 'improvement' of an industrial type; it must be aged for at least 9 months. The ceiling yield is 6 tons per hectare, which is significantly lower than the 10 t/ha yield allowed by the PDO (and stricter than in Tihany). Further details of the regulation are available at the website of the initiative http://csopaki.hu/ (accessed 27.12.2014).

[19] Although they can influence it as members of the wine commune.

Although the involvement of the municipality strengthens the property right, it poses a potential threat to self-governance. The regulations of the Codex and the enforcement of the trademark rights and obligations were adopted and are maintained formally by the village council rather than the producers' community. This restricts the participation of winemakers in the collective choices that affect their own well-being. A great deal depends on the positive attitude of the mayor and the village council. The process of conflict-resolution remains unregulated, too. The institutional entrepreneur explained that the whole initiative is 'based on trust and agreement'. This is probably the appropriate attitude in the initial phase of institution-building but may not be sufficient if and when the Codex brand becomes truly valuable.

Despite the noted shortcomings, the overall level of winemakers' commitment and personal involvement in both collective choices and monitoring seem much stronger in Csopak than in Tihany. The latter seems to lose its original impetus, while in Csopak the focus is on a dynamic improvement of collective reputation rather than mere administrative assurance of basic rules. Defiant of top-down administrative efforts, it exudes a true spirit of bottom-up self-governance. Participating winemakers are active in creating a network of Riesling producers in the region and beyond. An annual event '*Riesling According to Us*' is organised to bring together the best Hungarian Riesling producers, wine lovers and professionals. Most recently, initiators of the Csopak Codex have teamed up with twenty high-quality wineries around Lake Balaton, to form the civic association *Balaton Circle* with the aim of introducing a regional system of private quality assurance. Local systems, such as the Csopak Codex, could be nested in it in the future.[20]

A quotation from Csopak' most successful private winemaker, resigned and hopeful at the same time, sums up the institutional developments of the past two and a half decades and the present situation: '*I must now work around my house. Fortunately, the estate and the winery are working. The enthusiasm of young professionals in my vicinity has led to initiatives, such as the Csopak Codex*

[20] The press release about the founding event of Balaton Circle can be read (In Hungarian) at http://www.hirado.hu/2014/10/12/olaszrizling-lesz-a-balaton-bora (accessed 27.12.2014).

and the Badacsony Circle[21]*, that are independent of the broken official quality regulations that level down… All I can now do for our common case is to keep my things in order. I acknowledge that this is the failure of my efforts to protect our interests in the last eight years.'*[22] He successfully established his private enterprise and reputation but was unable to go beyond this and promote collective action to improve quality assurance and thereby collective reputation. He now looks with hope to the coming generation of winemakers who are leading bottom-up efforts of self-governance. What we identified as a sequentiality of institution-building is mirrored in the changing tasks of generations. Fathers have devoted their lives to stake out economic positions in a new society based on private property rights. Sons can now build on this heritage by engaging, among other things, in more effective collective action to craft institutions for self-governance.

5. Conclusions

Hungarian winemakers in Tihany and Csopak spent the first one and a half decades after the fall of communism establishing private property rights to estates, founding private enterprises and securing their individual economic positions in the emerging market economy. This was possible thanks to the emergence of a market-supporting legal order as well as lower-level institutions, such as market intermediaries, contracts and reputational mechanisms, within that order. Although the national government created official 'wine communes' with the purpose of introducing self-governance for collective quality assurance as early as 1994, these bodies remained 'empty shells' and for a long time restricted their activities to administrative tasks prescribed by national law. Until the larger institutional order of the market economy and

[21] Badacsony is another famous winemaking locality at Lake Balaton. Badacsony Circle is an informal association, similar to but less developed than Csopak Codex.

[22] Jásdi, István: *Vitát és válaszokat vártam* [*I expected debate and answers*]. 29 January, 2013. An open letter by the winemaker on a wine-related website: http://borravalo.hu/jasdi-vitat-es-valaszokat-vartam/ (accessed on 08.01.2014).

producer's private positions within this order had become relatively stable, the costs of local self-organisation remained prohibitively high. There were simply no stable communities of producers with clear common interests. Once product markets were by and large in place and private enterprises were up and running, producers could meaningfully consider collective action. Whether, when and how they engaged in building institutions to overcome free-riding depended on the characteristics of the community and the policy environment.

While the empirical literature on common-pool resources in post-communist countries has so far documented mostly top-down initiatives, Csopak's example proves that bottom-up institution-building for self-governance is now a real possibility in Central and Eastern Europe. It may also be preferable, as the weaknesses of self-organisation in Tihany, which followed the top-down path, attest. Our findings suggest that an important advantage of bottom-up institution-building may be that, if a community can define its own boundaries and set its own internal rules, it may more successfully overcome the hurdles of collective action. A potential weakness may be the limited legal recognition of its property right in the common-pool resource.

Elinor Ostrom drew attention to a harmful mistake committed by many development economists and Third World governments: assuming that local communities are unable to define or enforce rules for the effective management of their common-pool resources and only externally imposed and enforced rules can solve their dilemmas of collective action (1990). In reality, a 'Leviathan' is rarely informed or motivated enough to fulfil this role well and may even destroy more effective local institutions. A similar danger in post-communist countries is that the widespread failure of robust institutions of self-governance to emerge in the two and half decades since the end of communism leads economists and policy makers to presume that self-governance is all but impossible in this socio-economic context. This would resonate with the influential idea in development economics that 'late-coming' countries should rely more than their developed counterparts on conscious social planning by governments and less on private initiatives that emerge more slowly and less predictably (Rosenstein-Rodan 1943; Gerschenkron 1962). The argument developed in this article and its empirical findings suggest that such a presumption is questionable. Not only does it neglect the general experience that robust self-organisation typically emerges in a lengthy trial-and-error process. Complex, multilateral efforts to craft institutions for self-governance are likely to gather strength only *after* elements of the larger institutional order and individual rights and economic positions in this order have become sufficiently stable. This consideration should provide a healthy dose of optimism.

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