



IMPACT OF THE ADMINISTRATION STRUCTURE AND TRANSACTION COSTS ON THE AGRICULTURAL LAND MARKET

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ABSTRACT

The regulatory approach in institutional economics shows the relationship between formal institutions and structure, distribution and location of actors. This research analyzes the number and value of fees accompanying the land market transactions. The assessment is made through measuring transaction costs in different time periods. It is shown how these transaction costs affect the market equilibrium. Increasing the amount of transaction costs always increases the level of society's total losses. If transaction costs are reduced dependence is reversed. Transaction costs are more flexible with increasing market demand and less elastic with decreasing market demand.

REGULATORY APPROACH TO TRANSACTION COST ANALYSIS

In this study through a normative approach is explaining the relationship between market equilibrium and transaction costs. The transaction costs are presented as a consequence of the distribution of participants and fees in contracts. The problem is addressed by the agricultural land market in Bulgaria in period (2000- 2013).

In economic literature could be considered that the creator of the regulatory approach is Commons. The author sets the direction for the analysis of the behavior of economic agents as a consequence of the rules. "...An institution is defined as collective action in control, liberation and expansion of individual action." (4, p.658).

Control of social groups and rules guiding human behavior carried out by institutions. Recent infiltrate inside individual choices (8) thus creating conditions to occur individual acts - the actions of economic actors. "... The transaction is the smallest unit associated with

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each activity - participants in transactions " (4, pp.658-57).

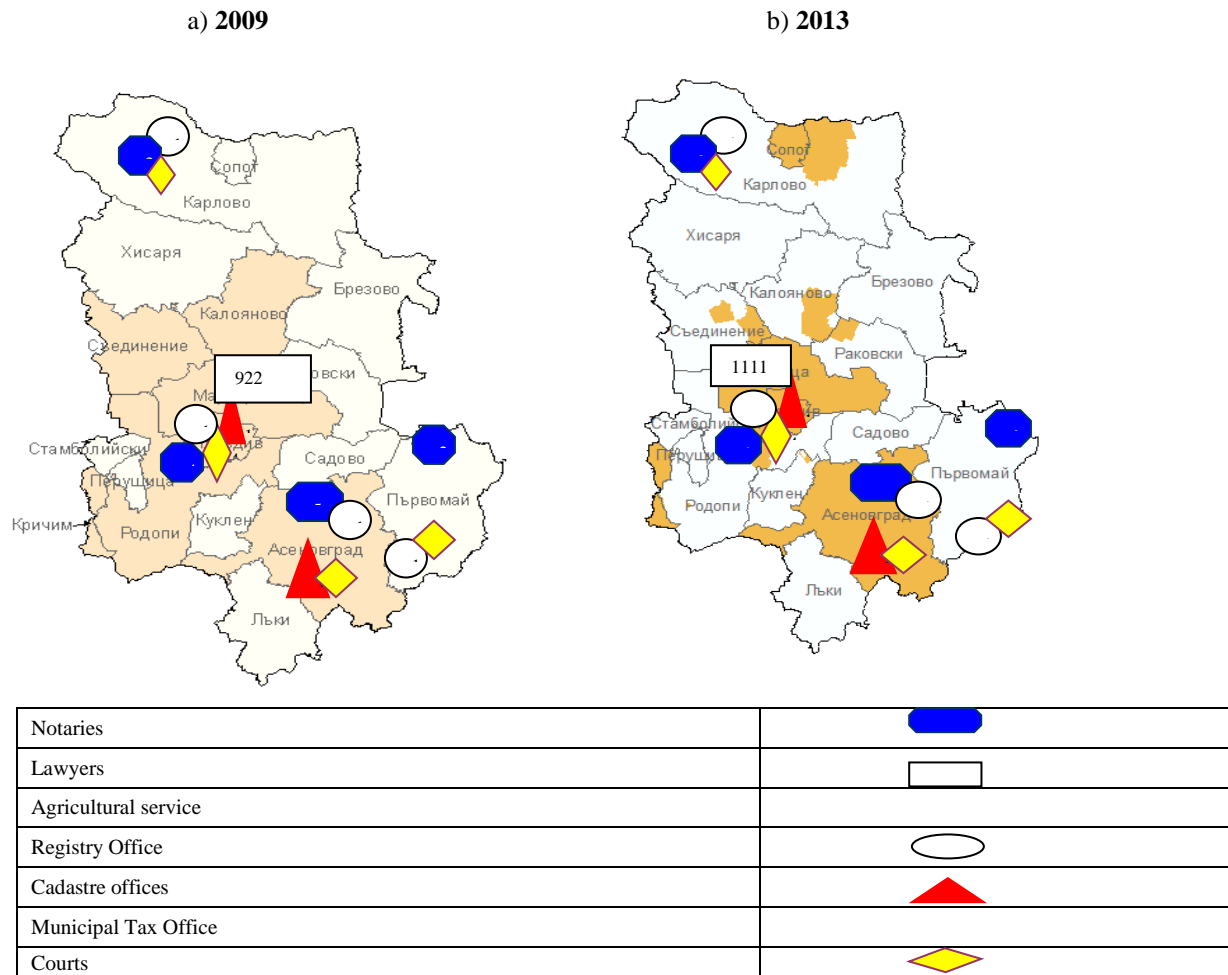
Transactions, however come with a price. Hicks (7) believes that there are certain specific payments of service charges of manufacturing processes. The approach was further developed by Demsetz (5). Coase (2) speaks for this costs as a reason for existing of firms. This type of payment is linked to the organization of price mechanisms (3). Williamson (13), (14) creates transaction cost economics. The transaction costs are based on behavioral solutions - actions within the contract organization. In this approach, the result from transactions are always costs, but rationality is open question. On the issue (9), (10), (6), (15). Transaction costs include payments for administrative fees related to the exchange and protection of rights in the organizations. These should be regarded as a negative effect on the market (11).

ANALYSIS OF ADMINISTRATION STRUCTURE OF TRANSACTION COSTS - FOR TAXES AND FEES

The period, after 1989, especially after 2007, is characterized with many institutional changes (1). **Figure 1** shows the change of the distribution of administrators in one of the regional centers. It is seen that the participants

have mainly located in big cities. This kind of locations is a reason for long administrative

processes. From this arises a need for more administrators to service contracts.



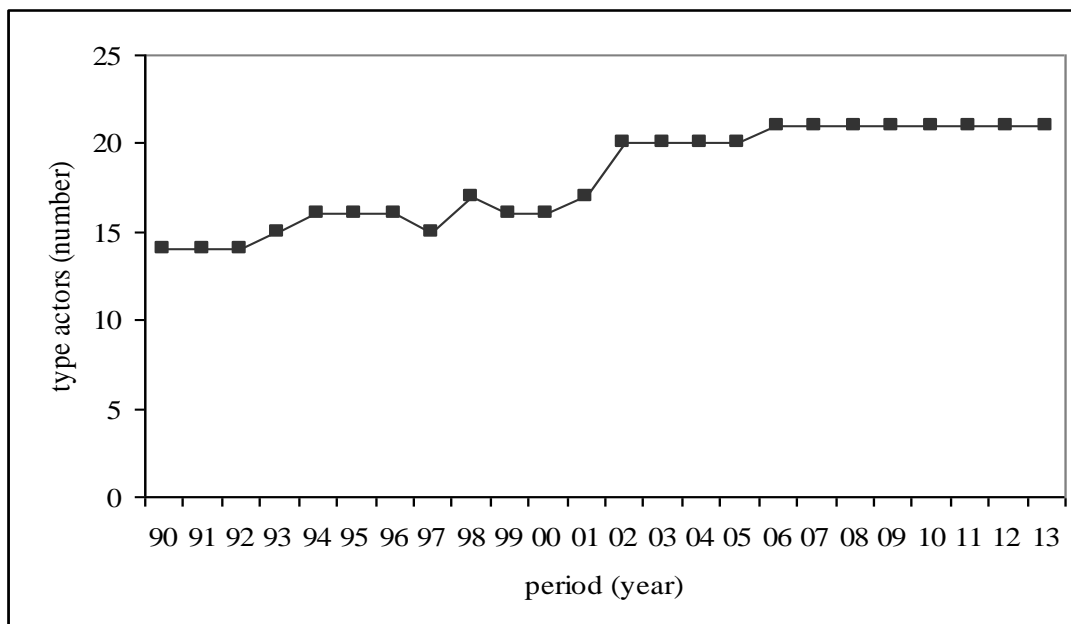
Note: The dark color indicates effective cadastral plans (08.11.2010 last update).

Source: own study

Figure 1. Map of the "centers" of administrative services in region Plovdiv

The increasing need for administration services creates the need for specialization of players. This occurs through the division of administrative activity in two or more types. However, it does increase the number of types of administrative actors and click on the corresponding total number of types of actors in the contract. A drive each activity to be monopolized. This allocation of property rights on the basis of process institutionally imposed monopolies is ensured "refitted" to rent seekers (12) monopolies should be considered "process monopolies."

This allocation of rights has led to the **materialization of benefits. Administrator** through formal institutions guaranteeing them more and higher fees. A review of the laws relating to the market of agricultural land, shows clearly that they depend on: (1) notary tariffs, (2) legal fees, (3) tariff collected from land authorities, (4) tariffs collected by the Registry agency, (5) municipal charges, (6) fees collected by the courts.



Source: own study

Figure 2. Number of type - Administrators in contract

Table 1. Total number of Administrators- Plovdiv region

Indicators	region Plovdiv			
	Year	2009	Year	2013
Actors - Administrators				
Notaries		63		64
Lawyers		922		1111
Agricultural service		19		19
Registry office		4		4
Cadastre offices		2		2
General. tax office		18		18
Courts		7		7

Source: own study

The two rates are directly related to the material interests of the contract for performance scheme (Table 2 and Table 3).

This type of monopoly distribution rights is a prerequisite for increasing the number of administrative fees and taxes. Monopoly distribution rights leads to guaranteed cost escalation effects.

Besides all those charges, reduced the lower limit of the required fees, such as those (lawyers and notaries). Ultimately, increased fees for the period (2000- 2013). Some fees during the period 2000 – 2013 have increased 1,5 – 2 times. The increase of the described transaction costs in buying and selling, the first change is in size 28%, and 13% for the second lowest in value properties. In medium-size property price increase was 35% and 8%, while the largest corresponding figures are 30% and 14%.

Table 2. Notary fees and taxes in the contract

price the transferred rights BGN	fee BGN - <i>BEFORE</i> mid 2009		
From 100	15		
100 - 1 000	15	+1,5%	more 100
1 000 - 10 000	28,5	+1	more 1000
10000 - 50 000	118,5	+0,5%	more 10 000
50000 - 100 000	318,5	+0,2%	more 50 000
Over 100 000	418	+0,1%	more 100 000
Within 3000			

price the transferred rights BGN	fee BGN - <i>AFTER</i> mid 2009		
From 100	30		
100 - 1 000	30	+1,5%	more 100
1 000 - 10 000	43,5	+1,3%	more 1 000
10000 - 50 000	160,5	+0,8%	more 10 000
50001 - 100 000	480,5	+0,5%	more 50 000
100 000 - 50000	730,5	+0,2%	more 100 000
Over 500 000	1530,5	+0,1%	
Within 6000			

Source: Tariff (Law - Notary's activity)

Table 3. Attorneys fees in the contract

price the transferred rights BGN	fee BGN collected <i>BY</i> mid 2009		
До 100	15		
101 - 1 000	15	+1,5%	more 100
1 001 - 10 000	28,5	+1	more 1000
10 001 - 50 000	118,5	+0,5%	more 10 000
50 001 - 100 000	318,5	+0,2%	more 50 000
Over 100 000	418	+0,1%	more 100 000
There is no limit			

price the transferred rights BGN	fee BGN collected <i>AFTER</i> mid 2009		
До 1 000	50		
1 001 - 10 000	150	+1%	more 1000
10 001 - 50 000	250	+0,5%	more 10 000
50 001 - 100 000	500	+0,2%	more 50 000
100 001 - 500 000	700	+0,1%	more 100 000
There is no limit			

Source: Tariff (Law -Attorney's activity)

Data for rent out is similar. When appropriate a material interest, lease contracts (equal amount to the purchase) and relevant, such as size property legally imposed change fees and it is 7 – 42 % of small, 23 – 27 % on average and 23 – 28 % for the largest amount of property. The changes accompanying institutional environment, gradually excluded most of small parcels from the land market.

The cost structure for administrative participants shows (Table 5 and Table 6) the highest shares in the total costs involved are those for lawyers and notaries. These two actors are private. So are banks. Other participants are public authorities (services) that impose charges "to assist" the process. Structure of Transaction Costs seemingly indicates that private rights cause higher transaction costs from the public.

Table 4. Costs for fees and taxes - sale

	Period <i>property price (BGN)</i>	I. 2000 - 2005			II. 2006-2009			III. 2010-2013		
		150	500	3000	150	500	3000	150	500	3000
DOCUMENTS AND FEES										
1	act of Agriculture Office	1,5	1,5	1,5	2	2	2	2	2	2
2	bank tax – 1	2	2	2	2	2	2	3	3	3
3	Map Property	1,5	1,5	1,5	3	3	3	4	4	4
4	Certificate heirs	2	2	2	2	2	2	3	3	3
5	Certification card	2	2	2	2	2	2	2	2	2
6	Certificate of tax assessment	0	0	0	10	10	10	20	20	20
7	Certificate of Property	4	4	4	0	0	0	0	0	0
8	Certificate for irrigation	12	12	12	0	0	0	0	0	0
9	Certificate of weights	10	10	10	10	10	10	12	12	12
10	bank tax - 2	2	2	2	2,5	2,5	2,5	3	3	3
11	Preparation of documents (lawyer) in practice	50	100	100	100	200	215	100	200	250
12	Privacy marital status	0	0	0	0	0	0	0	0	0
13	Declaration by owner	0	0	0	0	0	0	0	0	0
15	Declaration of consent from her husband - seller	0	0	0	0	0	0	0	0	0
16	Receipt for the buyer that is counted sum	0	0	0	0	0	0	0	0	0
17	Declaration of public duties	0	0	0	0	0	0	0	0	0
18	Request of the parties to the notary	0	0	0	0	0	0	0	0	0
19	Proxy	0	0	0	0	0	0	0	0	0
20	Other notarizations total of 3 units	3	2	2	3	3	3	4,6	4,6	4,6
21	bank tax - 3	2	2	2	2,5	2,5	2,5	3	3	3
22	Notary fees	16	21	49	16	21	49	31	36	64
23	A copy of the contract (when 2 copies 2 - pages)	4	4	4	4	4	4	5	5	5
24	Fees for registration	5	5	15	5	5	15	5	5	15
25	Local taxes (if there are) calculated at purchase 2%	3	10	60	3	10	60	3	10	60
26	Other (certificate of corporate status)	3	3	3	5	5	5	0	0	0
27	bank tax - 4	2	2	2	2,5	2,5	2,5	0	0	0
	Total fees	125	186	274	174	287	389	200	313	450
	% land	83	37	9	116	57	13	134	63	15

Source: own study

The reasons for this are: (1) costs paid to lawyers and notaries are associated with the highest specificity and uncertainty of transactions, generated by institutional conditions and

increased specialization, (2) administrators of the land market are numerous types: banks, notaries, etc. They have a monopoly rights in the process. Difference between the imposed institutional public and private monopolies do not exist.

Table 5. Costs for fees and taxes – rent out

	Period <i>property price (BGN)</i>	I. 2000 - 2005			II. 2006-2009			III. 2010 -2013		
		150	500	3000	150	500	3000	150	500	3000
DOCUMENTS AND FEES										
1	act of Agriculture Office	2	2	2	2	2	2	2	2	2
2	bank tax – 1	2	2	2	2	2	2	3	3	3
3	Map Property	2	2	2	3	3	3	4	4	4
4	Certificate heirs	2	2	2	2	2	2	3	3	3
5	Certification of Sketch	2	2	2	2	2	2	2	2	2
6	Certificate of Property	4	4	4	0	0	0	0	0	0
7	Certificate for irrigation	12	12	12	0	0	0	0	0	0
8	Certificate weights (in writing)	10	10	10	10	10	10	12	12	12
9	bank tax - 2	2	2	2	3	3	3	3	3	3
10	Preparation of documents (lawyer) in practice	50	50	70	70	100	150	150	150	200
11	Declaration of art. 4a OUFLLA (repealed)	0	0	0	0	0	0	0	0	0
12	Declaration co-owner	0	0	0	0	0	0	0	0	0
13	Request of the parties to the notary	0	0	0	0	0	0	0	0	0
14	Proxy	0	0	0	0	0	0	0	0	0
15	Other notarizations total of 3 units	3	2	2	3	3	3	5	5	5
16	bank tax - 3	2	2	2	3	3	3	3	3	3
17	Notary fees	16	21	49	16	21	49	31	36	64
18	A copy of the contract (in 2 pieces Copies, 2 pages)	4	4	4	4	4	4	5	5	5
19	Fees for registration	5	5	15	5	5	15	5	5	15
20	Local taxes (if paid)	3	10	60	3	10	60	3	10	60
21	Other (certificate of corporate status)	3	3	3	5	5	5	0	0	0
22	bank tax - 4	2	2	2	3	3	3	0	0	0
	Total fees	125	136	244	134	177	314	230	243	380
	% land	83	27	8	90	35	10	154	49	13

Source: own study

Table 6. Cost of fees – purchase %

	Period <i>property price (BGN)</i>	I. 2000 - 2006			II. 2007-2009			III. 2010 - 2013		
		150	500	3000	150	500	3000	150	500	3000
Actors		% of total fees								
Cadastre agency		1,22	0,81	0,55	1,17	0,71	0,52	1,02	0,65	0,45
Registry agency		14,60	9,76	10,29	11,68	7,05	7,77	8,66	5,51	6,05
Municipal services		4,06	6,50	22,79	8,76	7,76	18,65	13,24	10,69	18,61
Agriculture services		3,25	2,17	1,47	0,00	0,00	0,00	0,00	0,00	0,00
Lawyers		40,57	54,20	36,76	58,39	70,55	55,70	50,93	64,81	56,04
Notaries		20,08	15,72	20,77	14,45	10,58	14,90	21,57	15,42	16,83
Banks		6,49	4,34	2,94	5,55	3,35	2,46	4,58	2,92	2,02
other		9,74	6,50	4,41	0,00	0,00	0,00	0,00	0,00	0,00
Total cost		100	100	100	100	100	100	100	100	100

Source: own study

Table 7. Cost of fees – rent out %

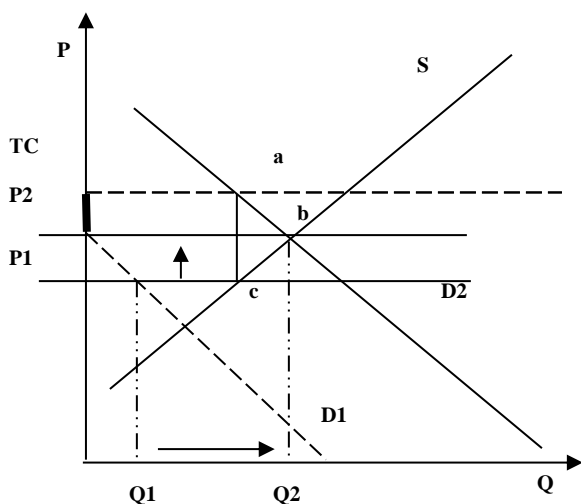
Period property price (BGN)	I. 2000 - 2006			II. 2007-2009			III. 2010 - 2013		
	150	500	3000	150	500	3000	150	500	3000
Actors	% of total fees								
Cadastral agency	1,20	1,10	0,62	2,23	1,70	0,96	1,74	1,65	1,05
Registry agency	13,23	12,13	10,88	12,66	9,63	8,60	8,25	7,83	7,63
Municipal services	4,01	8,82	25,46	3,72	6,80	19,75	2,60	5,36	16,57
Agriculture services	3,21	2,94	1,64	0,00	0,00	0,00	0,00	0,00	0,00
Lawyers	40,08	36,76	28,75	52,14	56,66	47,77	65,12	61,83	52,62
Notaries	19,84	21,32	23,20	18,44	17,00	18,31	18,39	19,62	19,76
Banks	6,41	5,88	3,29	7,08	5,38	3,03	3,91	3,71	2,37
other	12,02	11,03	6,16	3,72	2,83	1,59	0,00	0,00	0,00
Total cost	100	100	100	100	100	100	100	100	100

Source: own study

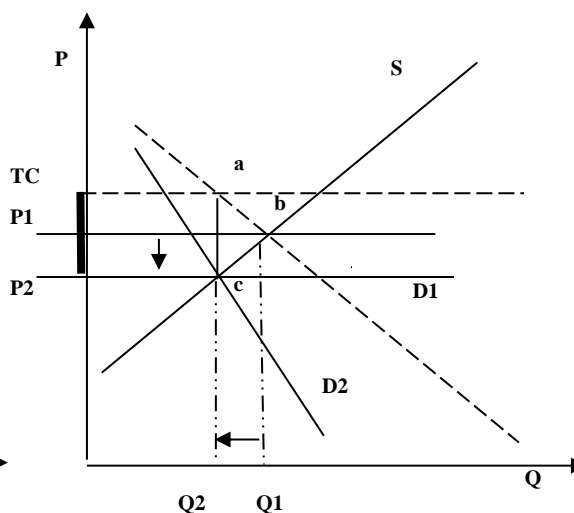
EQUILIBRIUM IN THE MARKET OF AGRICULTURAL LAND

Figure 3 shows market equilibrium associated with transaction costs.

a) market with increasing demand



b) market with declining demand



- P1 - price of land before - (increase / decrease in demand)
- P2 - the price of land after (increase / decrease in demand)
- TC - transaction costs
- Q1 - before the amount of land - (increase / decrease in demand)
- Q2 - after the amount of land - (increase / decrease in demand)
- D1 - through demand of land (beginning of period)
- D2 - through demand of land (end of period)
- S - supply of land
- a, b, c, - triangle of the total (public) lost

Source: own analysis

Figure 3. Market and transaction costs

In the event of a relatively constant supply with demand reduction market prices will be reduced, but this will not automatically reduce the amount of taxes and fees, or the transaction costs. This is because there are institutional barriers to reducing transaction costs (the threshold of the amount of administrative prices), and because of constantly increasing amount of fees required by law, as explained above. From the figure 3 could be seen that along with the level of public spending appears increase in the land market prices. Market equilibrium is related to the continuous increase of the losses.

CONCLUSION

First: When the distribution of rights impose “process monopolies” and “rent-seeking” the number of actor types increases, which creates more and higher fees.

Second: In this market model the level of the transaction costs and total social losses will be always high.

Third: The transaction costs are more flexible with increasing market demand and less elastic when decreasing market demand.

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