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# MEASURES REQUIRED TO MAKE THE TRANSITION



by D. Gale Johnson

**I** fully agree with the major points made by Johnson and Nikonov. Some of the more important bear emphasis by repetition. These include freeing all prices from governmental control, gradually bringing inflation under control by balancing governmental incomes and expenditures, and providing special food assistance for the vulnerable segments of the population (especially those on pension and the young) with international food assistance and aid to assure that those who have been most dependent upon subsidized food can obtain sufficient food. In particular the cities that have been so dependent upon the formal procurement and pricing system may have major short run problems in adjusting to free market prices.

The paper fails to provide even the broadest outline of the potential agrarian reform or what measures are required to make the transition from the current chaotic situation to the desired long-term situation. The assumptions seem to be that private farms will replace the existing state and collective farms. This is not stated specifically, but is implied by the reference to the need for governmental units to replace the governmental functions (schools, roads, and utilities) now provided by these farms.

## Prerequisite for Family Farms

I do not believe that private farms will be viable in the Soviet Union unless a date certain, such as October 1, 1993, is set for the legal disbanding of all state and collective farms. It must be absolutely clear to the officials of these farms and the local agricultural administrations that their power to dominate and control the available rural resources will come to an end, definitely, and in the relatively near future. Without such a date, it is in the interest of the majority of farm officials to impede and frustrate the establishment of private farms on their territory. This conclusion is not idle speculation; it is supported by actual events during the past few years.

On or before the date indicated, all farm land should be allocated to farm families according to locally agreed formula. In part to assure some degree of equity in the allocation of the land and in part to provide capital and resources for local governments for improvements in the rural infrastructure, the land should be sold at some small multiple of the value of the annual crop output. The ratio might be two to three, with the payment to be made over a 10-year period at the rate of 20 to 30 percent of the annual gross crop output. To help the private farms to be established, a lower rate of payment might be designated for the first two years.

The non-land productive capital of the socialized farms should be transferred to a joint stock company with the stock distributed to the current members of the collective farms and the workers on the state farms. The joint stock companies would be responsible for maximizing the value of the non-land capital assets—buildings, machinery and other equipment—through rental, sale, or productive use. With appropriate leadership and realistic incentives for management, these companies could provide the competitive marketing, transport, and processing infrastructure now so lacking in rural areas. Opportunities for productive investment would

abound once prices are freed and private property is fully protected by law and an independent judiciary.

It is essential that the companies or governmental institutions assist in organizing competitive machinery services to be available to the family farms until adequate numbers of machines of appropriate scale become available. This is not a short run problem; as much as a quarter century may be required to design and manufacture machinery in the quantities demanded by all family farms. The machinery could be rented or sold to energetic and competent workers who would make part or all of their income by providing services to farmers in the community. There must be *no monopoly* in such services; each family farm should be able to choose among several providers. If monopoly is permitted, all of the deficiencies of the old machine tractor stations will soon emerge.

## Inputs and Services Important

The viability of family farms depends upon the ready availability of material inputs and services—reliable availability of farm inputs such as fertilizer, feed supplements and pesticides, a marketing system that is efficient and responsive to changing conditions, a transportation system that is dependable and low cost, and competent and unbiased sources of information. The companies that I have suggested to succeed the socialized farms could provide the input and output marketing services and probably have most of the physical facilities required for storage and display.

***Officials must understand that their power to dominate and control the available rural resources will come to an end, definitely, and in the relatively near future.***

The structure of the socialized farms has emphasized specialization by workers. Thus many farming skills that are acquired by growing up on a family farm are not possessed by those who would now become family farmers. Consequently an early obligation of the reforms is to create an information system to serve the newly established farms. A variety of sources should be available—an agricultural press, input suppliers, and a public extension service. Khrushchev once said the USSR should copy the U.S. Extension Service, where, he said, farmers hired the extension agents and fired them if they didn't work hard or weren't helpful. He didn't get it quite right, but more importantly he never created such an extension service. But a family farm system requires something similar to an extension system.

I would emphasize two other points that I believe are essential to successful reforms. The first is that the republics must permit a relatively free flow of goods and services across their borders. The second is that the highest officials must make it clear to all that buying and selling in the hope of making a profit is not only legal and should be permitted everywhere, but is absolutely essential to a functioning market economy. **C**

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