A Response

Agricultural Reform in the Soviet Crisis

by Stanley Fischer

In the long run, privatization and market-oriented agricultural reforms will turn the former Soviet Union into an agricultural powerhouse. The precedent of Chinese agricultural reform offers a glimpse at the productivity increases that can be expected from even partial privatization of agriculture.

However, the Soviet reforms will have to be implemented in a far less favorable setting than the Chinese reforms. In the short run, the specter of hunger amidst growing political and economic disorganization haunts the area. And the economic and political framework within which the longer-term reforms will be implemented has still to develop.

Problems May Be Understated

As Professors Johnson and Nikonov emphasize, the likely immediate food crisis poses formidable difficulties. They propose a short-run strategy that combines rapid price liberalization and sizeable food aid. Gloomy as they are, they probably understate the problems of food production and especially distribution during the next two years.

The economic policy of the central government of the Soviet Union has broken down, and there is no inter-republican structure to replace it. The republics are determined to assert their independence. They have weak tax systems and, for the most part, no experience of macroeconomic policy-making. They also want to introduce independent currencies. This combination guarantees macroeconomic instability in most republics.

In principle, an independent currency can be introduced without interfering with trade and factor movements among the republics. In practice, the most likely outcome is a decline in trade and severe recession, similar to the results in Eastern Europe with the breakdown of Comecon at the beginning of 1991.

As Professors Johnson and Nikonov suggest, both short- and longer-term reform would be easier if there were stable currencies in the republics, which would encourage the agricultural sector to market their output. As the political situation develops, the West will no doubt work with the currency-issuing units to try to stabilize currencies. The West will also work with the republics to try to prevent the breakdown of trade.

The greater the instability of currencies, and the more trade is disrupted, the more likely it is that segments of the population will not get food. It is worth emphasizing the point made so forcefully by Dreze and Sen, in their book, *Hunger and Public Action,* that hunger is rarely a result of any absolute shortage of food, and that famines can be prevented through public action. Professors Johnson and Nikonov advocate food coupons. This method will likely work in the major cities, provided there is an adequate supply of food. If the domestic supply system breaks down, then the supplies will have to come from the West. Western food stocks and willingness to provide food aid are sufficiently large to deal with the problem, if the aid agencies can solve the distribution problem within cities.

Importance of Local Authorities

Fortunately, the local authorities still seem capable of managing their cities, so that the rationing and distribution scheme, presumably for a very basic ration, can probably be handled at the municipal level if republican level control is not possible. At the same time, price decontrol, accompanied by rapid privatization of truck transport—for instance by selling off military trucks—will help move domestic supplies from the farms to the consumers.

Such general principles for short-run assistance are essential, but not very helpful in practice. Actually dealing with the threat of hunger and consequent civil unrest requires far more detailed and down-to-earth plans than can be offered from the ivory tower. The West should by the end of November have worked out contingency plans with the republics and municipalities for the delivery and distribution of food aid for this winter. Coordination among the different countries and agencies supplying the aid will be essential; the G-7 should lodge the responsibility for coordination and supervision of food aid firmly with a single agency.

Longer-Term Reforms

Many details of the longer-term reforms remain to be worked out. The extensive debate over privatization in both Eastern Europe and the Soviet Union has focused virtually entirely on the industrial sector. The joint agency (IMF, World Bank, OECD, and EBRD) study examined alternative methods of privatization. It distinguished among land, machinery and farm structures, agro-industrial facilities, and housing. It urged consistency of agricultural privatization with the strategy followed for the economy as a whole.

The joint study recommended giving members of state and collective farms the choice of staying within a restructured collective arrangement, or working independently. It did not take a stand on sale or leasing of land, noting that there was much opposition to private land ownership. Long-term leasing may be sufficient, as the Chinese example suggests, but political developments since the report was published in February should make private ownership more acceptable. The joint study also makes suggestions for the privatization of farm service organizations, and presents a detailed proposal on the sequencing of land privatization. All of these issues will have to be discussed, and decisions taken, before agricultural reform can go very far.

Despite the complexities of agricultural reform, price decontrol alone is likely to lead to a significant improvement in the supply of agricultural output to the rest of the economy.

The longer-run success of agricultural reform in the former Soviet Union is tied to progress not only in overall economic reform in the area, but also in the Uruguay Round. Much of the comparative advantage of Eastern Europe and the former Soviet Union is in agriculture. Whether the rest of the world will in the long run gain as much as it should from the extraordinary economic developments in those countries depends on the success of the Uruguay Round negotiators in opening up international trade in agriculture.

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