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UKRAINIAN AGRICULTURE AND KUCHMA'S FIRST TWO YEARS OF REFORMS

by Ihor
Stebelsky

Ukraine, the resource-rich breadbasket of the former Soviet Union, suffered an increasingly severe economic downturn beginning in 1989. Even its agricultural sector was not spared, necessitating grain imports. Consequently, its first and incumbent president, Leonid Kravchuk, lost re-election in 1994 to the current president, Leonid Kuchma. Kuchma ran on a platform of radical economic reforms and closer cooperation with Russia, and raised hopes of reversing a nose-dive in the Ukrainian economy. Kuchma's visit to Canada in October of 1994, including his meeting with the G-7 representatives in Winnipeg, and especially his United States visit and meeting with President Clinton in November 1994, created a new climate of international good will toward Ukraine. Within this new favorable environment, the stage was set to push through radical reforms in Ukraine's economy and the agricultural sector.

Here I review the recent performance of Ukrainian agriculture and assess the initiatives of President Kuchma.

Politics and economics

The economic setback of Ukraine must be viewed in historical perspective, prior to and since gaining its independence from the former Soviet Union in 1991. Like the rest of the former Soviet Union, Ukraine experienced an economic slowdown in the 1980s and a decline in the 1990s. Increasing subsidies to agriculture in the late 1970s and early 1980s were showing diminishing returns. Moreover, as world oil and gas prices declined, the Soviet Union had less earnings from its energy exports to invest. Worker productivity in agriculture was very low. Consequently, in 1988 Gorbachev initiated agricultural reforms which encouraged groups of collective farmers or state farm workers to farm on contract rather than on directives from their parent

collective or state farm. In 1989 he allowed these groups to lease farmland, and in 1990 he introduced land laws that would provide for private land ownership and the establishment of family farms. These reforms, he hoped, would increase worker incentives and labor productivity (Stebelsky 1990). Although agricultural output did increase, it suffered a decline after 1989 when the government further reduced its centralized planning and price controls. Growing inflation, worsening terms of trade, reduced availability of inputs, and falling real wages and domestic demand all contributed to agriculture's downturn.

Russia's President Yeltsin, who led the demise of the Soviet Union in 1991, accelerated economic reforms in Russia. Russia's military presence in Ukraine, however, required judicious political action on the part of the first Ukrainian president, Leonid Kravchuk. His preoccupation with the political issues of independence relegated the economy of Ukraine to the back burner. It remained for his successor, Leonid Kuchma, to push for economic and agricultural reforms.

Ukraine's dependence on Russia for oil and gas caused part of that country's economic downturn. As Russian fuel prices moved toward world levels, Ukraine was caught in a price squeeze (Tarr). Moreover, Ukraine's large, specialized, and energy-intensive industrial enterprises (originally established by Moscow as centrally planned monopolies, such as steel mills; smelters; refineries; and tractor, tank, and missile plants) could no longer depend on similar Soviet enterprises for their production needs. Ukrainian government attempts to finance indebted enterprises caused spiraling inflation and currency devaluation. Agriculture was hit particularly hard because of its longer production cycle and its dependence on increasingly expensive industrial inputs.

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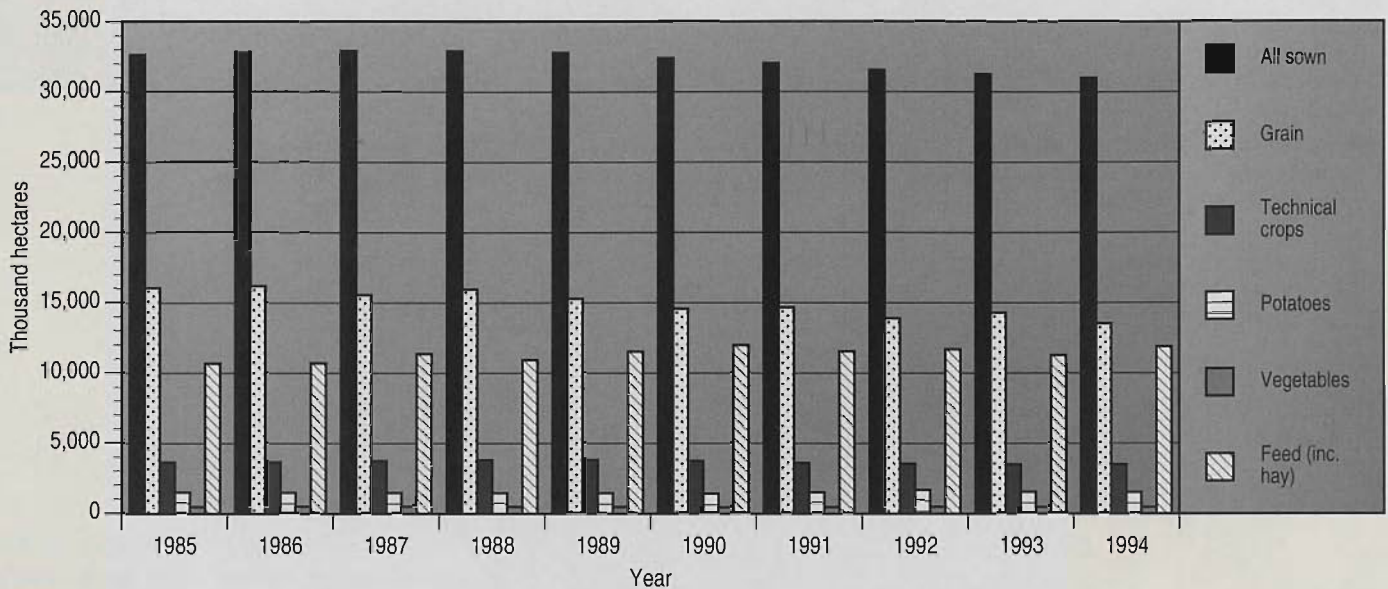


Figure 1. Sown areas of major crops on all farms

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Ukraine's agriculture

Agriculture was and remains a major sector of the economy. In 1994 it accounted for 16 percent of Ukraine's GNP and nearly 20 percent of its gainfully employed population (Statystychnyi). Under normal circumstances, the output of its grain (notably winter wheat), fruit, vegetables, industrial crops (sugar beets, sunflower seeds), and livestock has not only provided adequate domestic supply but also a surplus for export. With the downturn of Ukraine's economy, agricultural output declined in 1994 to 59 percent of its 1990 level (Statystychnyi).

Large-scale collective and state farms continue to dominate the agricultural scene, although their share in output has declined. In 1990 collective and state farms contributed 73 percent of Ukraine's agricultural production, while the subsidiary plots, which occupied 6.5 percent of the agricultural land, yielded 27 percent of the output. By 1994 the share of output for collective and state farms declined to 57.3 percent. The remaining output was attributed to subsidiary plots (42.4 percent) and family farms (0.3 percent), which held 13.1 percent and 1.8 percent of the agricultural land, respectively (Ukraine 1995b). Collective and state farms, even though equipped with machines that should make their labor productivity substantially higher, suffered from short supply and inefficient distribution of inputs, poor management, the distraction of subsidiary farming, and the burden of social services (Ukraine 1995a).

The 1991 demise of the centralized command economy left Ukraine and the other newly independent states without a marketing structure. Farm

management no longer fulfilled government quotas, but instead responded to prices in the emerging domestic market. Following the disintegration of the Soviet Union, the market also fragmented into fifteen separate national and many more regional markets within the larger countries. Within Ukraine, the administrations of twenty-five *oblasts* (provinces) attempted to continue managing the supply of inputs and the purchase of agricultural commodities from the producers. Direct marketing of agricultural commodities by producers in the large cities was increasingly controlled by criminal elements, resulting in supply shortages and a rise in consumer prices (Stebelsky 1996).

In the field crop sector, sown areas declined every year between 1988 and 1994 (figure 1). Crop yields (figure 2) also suffered (Statystychnyi). Nutrient-demanding grain corn, sugar beets, sunflowers, and vegetables suffered the most. Small grains fared better, thus resulting in all grains showing a slight decline. Only the potato sector, the crop of subsistence, appears to have escaped the downtrend in acreage and yields. Reduced availability and sharply higher prices of mineral fertilizers and especially crop-protecting chemicals cut chemical use and reduced yields. By 1994 farmers applied only about 10 percent of the 1990 levels of fertilizers and pesticides, and yields declined to 60 to 75 percent of 1990 yields (Liapis and Markish). Diesel fuel became more difficult to secure for timely field operations, but its special government allocation to farms resulted in minimal disruption. Despite a drop in production, tractor inventory on farms did not decline between 1990 and 1994. Grain combines, however, showed attrition on the farms from 1990 to 1994 (Ukraine 1995a). Tractors, built in Ukraine, could be bartered by factories for agricul-

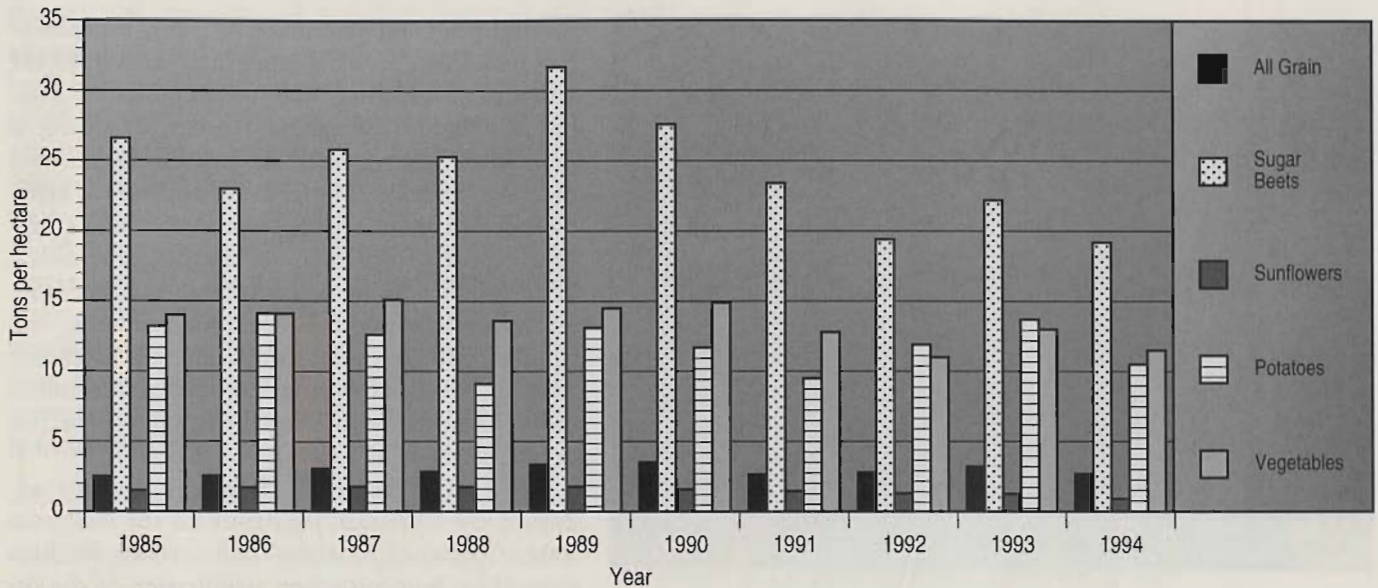


Figure 2. Yields of major crops on all farms

tural supplies from the farms, but combines were manufactured in Russia and had to be purchased for more expensive rubles in competition with Russian farms.

The livestock sector suffered an even greater downturn after 1986 (Statystychnyi). Overall numbers of domestic animals declined throughout the period (figure 3). The trends after 1991, however, differed considerably between the collective and state farms on the one hand and the individual subsidiary farms on the other. While collective and state farms reduced their animal numbers, especially pigs, sheep, and goats, the individual subsidiary farms increased their livestock numbers, especially cows and goats, sources of valuable meat and dairy products, and sheep, sources of milk and wool. Indeed, production data confirm a trend toward greater subsistence farm-

ing—a trend which hurt urban consumers.

The reduction in animal numbers and output was accompanied by a decline in animal productivity on collective and state farms (Statystychnyi). Available feed per animal declined, and workers performed their jobs poorly on collective and state farms. Even after some of these farms became “privatized” as joint stock companies, their productivity seldom improved. Cash flow problems, including delinquent payments for agricultural products to collective and state farms, often forced in-kind rather than cash payments to workers. This allowed them to expand animal production on their own subsidiary holdings. By the same token, it left them less time and interest to work in the public sector, and caused a decline in food supplies for cities and for export.

Over the past five years, urban consumers have lost purchasing power. Declining incomes and ris-

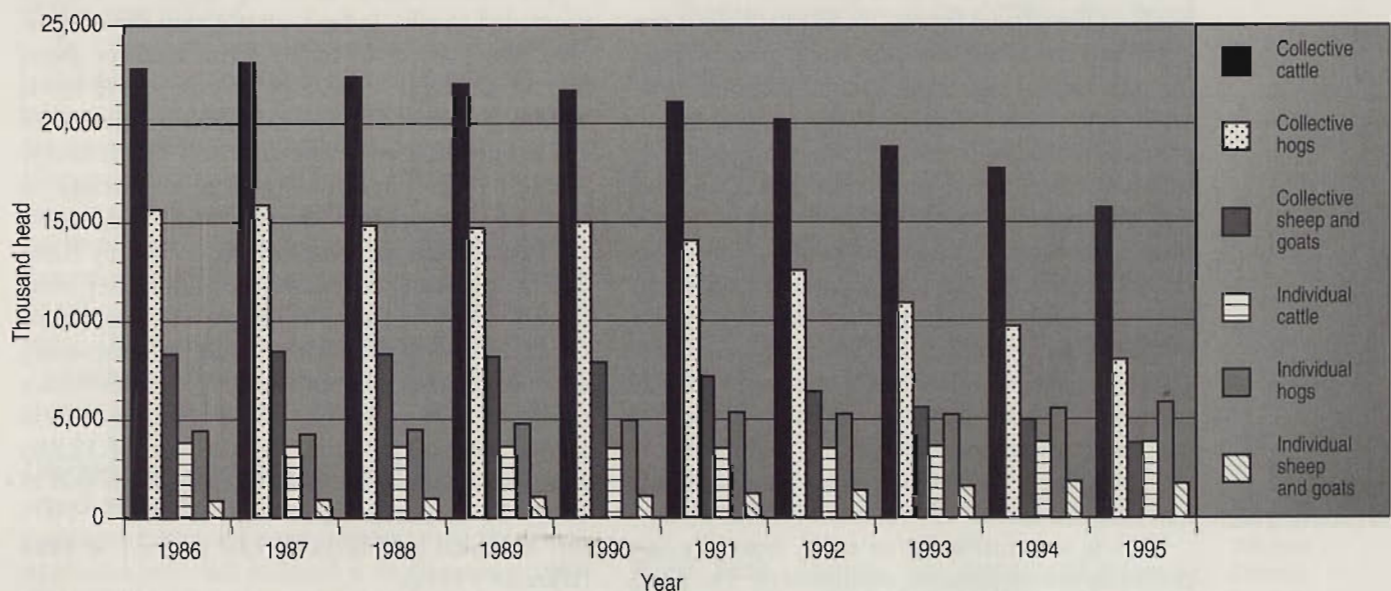


Figure 3. Number of animals on farms (as of January 1 of each year)



ing food prices caused declines in the consumption of animal products, fruit, vegetables, sugar, oil, and, in 1994, bread and potatoes (Statystychnyi). Indeed, supplies and consumption of food in 1994, especially in some parts of Ukraine, declined to the point of endangering children's health or even threatening social unrest.

In view of these disturbing trends, President Kuchma, newly elected in 1994, promised to act. But what kind of actions should or could he take?

The Kuchma initiatives and their assessment

From a Western perspective, economists at the World Bank recommended a number of measures to revive agriculture. The actions recommended included macroeconomic stabilization by limiting the government's deficit and tightening its monetary policy; replacing a system of state orders with free markets; liberalizing foreign trade; phasing out producer and consumer subsidies while protecting living standards of vulnerable groups; establishing institutions which support the division and privatization of collective and state farms and the acquisition and use of state lands; privatizing production, processing, importing, and marketing functions of agricultural input and commodity sectors; establishing institutions for agricultural credits, education, extension, information services, and regulation consistent with a market economy; building a system of physical infrastructure consistent with the needs of market-oriented production, processing, and distribution; and rationalizing and restructuring government institutions in keeping with their new role in a market environment (World Bank).

This is a daunting list of tasks, especially in a politically hostile domestic environment. The populace was thoroughly angered by their economic im-

poverishment and they abhorred radical experimentation and sought social support. A majority of the Ukrainian legislators, whether members of communist, socialist or agrarian parties, or sitting as nonaffiliated, represented the interests of the "red directors" (managers of formerly or currently state-owned enterprises) who favored Kuchma's rapprochement with Russia and sought the retention of socialized farming and state ownership of land. Kuchma's initiative to implement economic and agrarian reforms meant convincing the electorate that his proposed measures would work, and it meant outmaneuvering legislative opposition (for details, see Stebelsky 1996).

On 11 October 1994, President Kuchma addressed the Ukrainian legislature on the disastrous state of Ukraine's economy. In his speech, Kuchma focused on four initiatives: stabilization of the fiscal-monetary system; implementation of radical institutional changes, including a fundamental reform of property ownership; structural policy; and agrarian policy. He emphasized a radical land reform—conversion to private land ownership. Nevertheless, he conceded to the deputies (who had banned land privatization) by allowing all forms of ownership: state, collective, and private. Having obtained the legislature's approval for his proposed reform program, Kuchma signed a decree, published on 15 November 1994, that would accelerate and deepen his agrarian reform. Although the legislature, on 8 December 1994, lifted its four-month-old moratorium on privatization, many deputies continued to oppose private land ownership in agriculture. They feared that privatization would undermine the privileged position (such as controlling social services, input allocation, or access to the market) the "red directors" had attained.

The establishment of family farms in Ukraine proceeded slowly. Indeed, after a very slow beginning, the number of family farms grew to about 300 by the end of 1990, 2,000 by the end of 1991, 15,000 by the end of 1992, 28,000 by the end of 1993, and 32,000 by the end of 1994 (Ukraine 1995a). After an initial growth of interest in Ukraine's first year of independence, there was a visible decline in the establishment of family farms due to increasing economic constraints and resistance to the break-up of collective and state farms. Collective or state farms also could be reorganized into cooperatives or joint-stock companies whose members, as shareholders, would continue to farm a large commercial farm. From a total of 12,886 collective and state farms in Ukraine at the end of 1992, 24 corporate farms were formed in 1993 and increased tenfold to 243 by the end of 1994 (Ukraine 1995a).

In order to expedite privatization, in August 1995

President Kuchma signed a decree requiring the allocation of land shares to each member of a collective farm. The accompanying share certificate could be traded or inherited, and with proper land valuation and surveying it would become convertible into a deed of ownership for a specific plot of land. A member wishing to establish a family farm could thus purchase additional shares and then secure a deed for a specific plot of land for his or her farm. While this mechanism, in theory at least, would provide for the dismantling of collective and state farms, in practice it was difficult to implement and it was resisted by the "red directors" and their beneficiaries.

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Kuchma also tried to break, and partially did break, the state monopoly on grain procurement. To enhance the marketing of agricultural products, Kuchma issued a decree in January 1995 that freed farmers to sell their products anywhere: to the state, trading houses, or to brokerage agencies. He also instructed the National Bank of Ukraine to sell futures and forward contracts for agricultural products until the establishment of commodity exchanges. Nevertheless, the government continued to dominate the purchase of grain and reserved the right to halt the sale for export until all state purchases were fulfilled.

In 1996, with the adoption of the Constitution of Ukraine, the control of hyperinflation, and the adoption of the new Ukrainian currency, prospects for agrarian reforms improved. The constitution of Ukraine, adopted on 28 June 1996, enshrined the principle of private ownership in Article 11. Land ownership, however, was given special consideration. According to Article 14, "Land is the essential national asset, which receives special protection of the state. The right to land ownership is guaranteed. The right is achieved and realized by citizens, legal entities and the state in accordance with the law."

Ukraine's recent past and the road ahead

Agriculture, an important component of the Ukrainian economy, has suffered a decline since 1989. The collapse of the centralized industrial economy

of the former Soviet Union, high inflation, worsening terms of trade for agriculture, reduced availability of inputs, falling real wages, and a fall in domestic demand for food have worked against agriculture. President Kuchma, elected in 1994 on a platform of economic reforms, promised to act.

To help keep his economic initiatives intact, Kuchma downplayed the issue of political independence from Russia and his support of private land ownership. He thus garnered enough support from the pro-Communist deputies to pass his agrarian reform program. He publicly promoted economic and agricultural reforms, re-enforcing his position with decrees. He successfully lowered hyperinflation, stabilized the currency, and brought about policy changes to encourage privatization, including the privatization of farmland and the development of a market economy. However, an economic turn-around is still needed to raise the purchasing power of Ukraine's consumers and thus stimulate agriculture. Therefore, while the basis for an agrarian reform was created, the completion of Kuchma's promise remains unfulfilled. ■

■ For more information

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