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# GROWTH AND EQUITY IN AGRICULTURAL DEVELOPMENT

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VICTOR NAZARENKO

*Economic Development and Social Justice: Experience of Developed Countries within the Socialist System*

This presentation sets itself as an object the analysis of some essential features of the experience of some European countries, that is the Soviet Union and socialist countries of Eastern Europe. With all their diversity of historic, natural and economic conditions they are characterized by a number of general regularities of socialist development in agriculture, its role under conditions of developed socialism and the state of economic development and social justice.

The presentation is dealing with a most important subject: how to solve the problem of stimulation of agricultural production development under conditions of the developed socialist society within the framework of the general economic development, and to make this development correspond to general social objectives of the socialist countries and achievements of the aims of the society.

First of all it should be mentioned that stimulation of the agricultural production development, in particular of food products, belongs to the most important tasks of the developed socialist countries. The recently adopted Food Programme of the Soviet Union proves it most expressively. It is the central economic objective of the 1980s.

It should be emphasized that total and per caput increase of agricultural production are major factors not only of economic but also of social policy in the development of socialist countries, as they are concerned with the problems of the living standards of the population, the rural population included.

The rise of farm production is achieved first through substantially increased capital investments into this branch of economy, through a shift to industrial production methods in agriculture. At the beginning the industrialization of agriculture was a source of capital investment in industry, now with the improved general economic potential it is used in general to supply capital investments in agricultural production.

TABLE I *Capital investments in agriculture*

(millions of national currency)

| Countries      | 1960 | 1970  | 1975  | 1980  |
|----------------|------|-------|-------|-------|
| Bulgaria       | 405  | 559   | 783   | 385   |
| Hungary        | 6271 | 21970 | 26187 | 30997 |
| G D R          | 1898 | 4281  | 4906  | 4883  |
| Rumania        | 5431 | 13102 | 18540 | 28008 |
| Czechoslovakia | 9753 | 9757  | 16558 | 16355 |
| U S S R        | 5473 | 14401 | 23432 | 27020 |

*Note:* Table I is compiled on the basis of a uniform approach to agriculture and the data reflect only production capital investments.

These capital investments make up about 27 per cent of total capital investments in the economy of such a country as the USSR. One cannot help recognizing that it is a high level of investment, judging by the historical and current levels in many other countries. This development of capital investment apart from the development of agricultural production has created conditions for the partial release of working power, replacing labour by capital. In that way introduction of additional capital into this branch took place against a background of the movement of population from rural areas and in particular when the amount of people employed in agricultural production decreased.

The decreased number of people engaged in agriculture and the increased total agricultural production have made it possible to raise substantially labour payments in agriculture, the differences being observed in different countries. The additional sources of income for rural population, utilization of production from private plots and so on, are not taken into consideration in estimations.

It should be mentioned that the growth of the rural income has resulted not only from the objective rise of labour productivity, but also due to purposeful policy aimed at bringing closer the living standards of urban and rural populations; it is reflected, for example, in the system of purchasing prices, subsidies, cheaper credits, different budget assignments.

One of the methods to increase and maintain the level of labour payments in agriculture was the introduction of guaranteed minimum labour payments. This system was first introduced in the 1950s in the GDR and then it was spread in other socialist countries. For these purposes some countries are practising either the establishment of public funds or allocation of State credits to low profit farms for keeping up the level of labour payments. As a result the level of money payments in agriculture in some countries has approached that in industry, and in some cases it is even higher.

TABLE 2 *Average monthly level of labour payments in agriculture and in industry**(in units of national currency)*

| Countries      | 1960                | 1970                | 1975                | 1980                |
|----------------|---------------------|---------------------|---------------------|---------------------|
| Bulgaria       | <u>74</u><br>80     | <u>107</u><br>124   | <u>138</u><br>150   | <u>167</u><br>197   |
| Hungary        | <u>1416</u><br>1604 | <u>2122</u><br>2089 | <u>2717</u><br>2816 | <u>3822</u><br>3883 |
| G D R          | <u>370</u><br>467   | <u>529</u><br>588   | <u>700</u><br>748   | <u>727</u><br>783   |
| Rumania        | <u>703</u><br>829   | <u>1205</u><br>1288 | <u>1531</u><br>1602 | <u>2160</u><br>2307 |
| U S S R        | <u>55.2</u><br>91.6 | <u>101</u><br>133   | <u>127</u><br>162   | <u>149</u><br>185   |
| Czechoslovakia | <u>1113</u><br>1442 | <u>1806</u><br>1967 | <u>2221</u><br>2338 | <u>2488</u><br>2653 |

*Note:*

numerator – agriculture,  
denominator – industry.

A number of countries manifest the tendency to more rapid rates of wage growth in agriculture as compared to industry. If we assume that the level of 1970 is 100, then, consequently in the Soviet agriculture, money payments have increased during the decade by 49 per cent and in industry by 39 per cent, in Czechoslovakia by 42 per cent and 36 per cent correspondingly, in G D R by 37 per cent and 32 per cent and so on. So, as a whole, the levels of labour payments in agriculture and in industry are approaching each other, although the corresponding differentiation in the complicity character of operations and so on should be taken into consideration. In agriculture itself the level of payments in the public sector is approaching that of the co-operative sector. For example, in Czechoslovakia these levels became equal in 1972, in some countries in co-operatives the same level of payments is practised for agricultural operations on co-operatives and on state farms.

However the rise of money payments, important as it is, is not sufficient to fulfil the task of bringing closer the living standards of the urban and rural populations.

In this connection the progress of pensionary and social insurance systems are of great significance in agriculture. Initially this system was implemented on a wide-scale on state farms and then it was also introduced in co-operative enterprises. For instance since 1965 this system has been functioning in the Soviet Union on the basis of centralized funds for social

insurance originating from the state budget and farm allocations. It should be emphasized that two-thirds of these expenses are covered by the state budget. Actually the process of unification of social insurance systems is proceeding in the urban and rural areas.

A similar process takes place in other countries as well. By the present time the terms of social insurance of the co-operative peasantry have been practically levelled with those of workers engaged in the government sector of the national economy. The centralized pensionary insurance of the co-operative peasantry has been under progress in Bulgaria since 1957, in Hungary since 1959, in Rumania since 1967 and in Czechoslovakia since 1964. Until recently there were differences in the age and rate entitlement for pension granting and this fact has brought about the difference at pensionary levels between co-operative peasants on the one hand and workers and employees on the other; the level of the former being much lower than that of the latter.

In accordance with new legislative acts, adopted in the COMECON countries in the 1970s, a uniform system of granting pensions and allowances for co-operative peasants has been introduced. This system offers equal opportunities for the utilization of social funds, allotted for the social needs of the population. In this way since 1975 pensions for co-operative peasants in Bulgaria have been calculated according to the same scale as for workers and employees. In Czechoslovakia since 1976, on the basis of the new pension law, the differences observed until recently in the field of social insurance between state and co-operative enterprises have been eliminated. In general the process of bringing the systems of social insurance for peasantry up to the level of the urban population is under way.

The solution of social problems of the rural population is now becoming an important factor in the state policy of stimulation of agricultural production. Technical progress is closely connected with the ever increasing importance of the human factor because of the ever growing role of highly skilled labour. At the same time the objective of the general social plan for bringing closer the living standards in the town and in the village should be implemented. It is being reached to a great extent due to the improved levels of incomes of enterprises and of individuals. However, in those zones and farms where it is impossible to solve the problems of production and social infrastructure by their own means, the state performs budget financing of these measures. This practice applies in all socialist countries. The most recent measures in this respect in the USSR are related to the Food Programme.

The Food Programme allocates 160 billion roubles for social development in rural areas in the 1980s, including special capital investments in areas showing unfavourable economic conditions.

An important aspect of state stimulation of agricultural production within the framework of the social policy is the integrated growth of the public and private sectors in agriculture.

There is a common feature – the constant tendency to an increased share of gross agricultural production coming from the state and co-operative

sectors. This occurs due to the introduction of modern industrial production methods. In this connection the importance of private subsidiary farms has considerably declined within the total income of peasants.

In the past years this share was about 30 per cent in the USSR, 25 per cent in Bulgaria, 35 per cent in Hungary and over 50 per cent in Rumania. In the GDR in the overwhelming majority of co-operatives and in Czechoslovakia private subsidiary farms of the co-operative members do not play a significant part in the income of peasants, their commercial capacity being low in comparison with most COMECON countries. In those countries where private subsidiary farms play an important role in production, a policy of their production encouragement is practised. In this case private and social farms are not opposed and the process of integration takes place, specifically by means of agreements between co-operatives and peasants. Great experience in this respect has been accumulated in Hungary. In the USSR during recent years important measures have been adopted for the stimulation of the development of private subsidiary farms as an essential source of income for the rural population and food supply. But the main source of commercial produce is and will be large socialist agricultural enterprises – state and collective farms.

From the point of view of economic development concepts the problem of maximum stimulation of production is to be solved within the framework of implementation of the general social tasks of the society, involving the rural population. Some trends can be formulated which serve to fulfil the state regulation in developed socialist countries for the implementation of the objectives. First of all this is a system of planning, which with a certain difference among the countries, makes up the fundamentals of the mechanism.

The most important problem is the implementation of the entire process of planning as well as the economic activity on the basis of the applied economic instruments. They involve first of all the system of prices and price formation, establishment of conditions for profitable activity of the enterprises, having different specificities and located in different zones. So, the economic instruments of the state have to fulfil the functions for stimulation of production as well as for providing social justice.

The most important function among these economic instruments is the system of prices and the mechanism of price formation. In this case the most important task is stimulation of agricultural production and providing a definite level of profitability for different branches and areas. It is clear that this task is a complicated one and its solution depends on concrete economic conditions of some countries. Two main trends are to be observed: one of them is characterized by a high flexibility of the price organism, instability of purchasing and retail prices for agricultural raw materials and food. This system is mostly typical for a country such as Hungary. In some other countries, for example in the GDR and Czechoslovakia, a system of stable purchasing and retail prices is functioning and the state interferes in the price mechanism through periodical price correction and identification and a widely developed system of state grants and subsidies.

This system of price formation has also been set up in the USSR, where retail prices for food products do not change for long periods. Reconsideration of purchasing prices for agricultural produce, taking into account the changes in cost price for its production, periodically takes place. In practice it often means a periodical increase of purchasing prices for a number of farm products. The recent increase in prices was carried out in the USSR in May *this year* when the Food Programme was adopted. It is natural that conditions of stability of state retail prices for food products are connected with considerable budget subsidies intended to maintain price levels.

The price mechanism as a whole is orientated towards keeping low retail prices for food products and to a certain extent purchasing prices, reflecting cost price of agricultural production and an adequate profitability level. Of course it would be wrong to say that in such a complicated process as price formation all problems have been solved. In fact it is one of the most important trends of research in the USSR and in other developed socialist countries, since many economic problems of production, consumption and agrarian policy must be treated as a whole. One of the most important aims is the achievement of relatively equal economic conditions of production for various branches of agriculture.

This problem is treated in the regional plan. Differences in the location and in natural soil fertility create different conditions for profitable production and levels of incomes by the enterprises. Therefore different economic methods are used for levelling the conditions of farming. The system of zonal prices is functioning in the Soviet Union due to substantial climatic differences. This system reflects the conditions of production and the level of cost price of agricultural production in a certain zone. In some republics, for instance in Lithuania, differences in prices exist even inside the price zone. In other socialist countries uniform price systems for the entire country are used. However, in some countries, for example in Czechoslovakia, special grants are provided for farms located under the most unfavourable conditions – in mountains. Such levelling of conditions is promoted by land and income taxes, being one of the components of the funds for grant aiding farms under more unfavourable conditions. This practice is applied in the GDR and Czechoslovakia.

In the Soviet Union the system of income taxes was introduced into collective farms not long ago. In this case net income is taxable. Adequate income taxes were also introduced into state farms. These measures promote the allotment to the state of a part of differential land rent, which later on is used for other purposes in agriculture.

The analysis of a number of major trends in the economic and agrarian policy of developed socialist countries shows that they all put forward the objective of stimulating agricultural production. This stimulation proceeds first of all through intensification with wide utilization of capital investments and modern means of production. This development, however, is proceeding within the general social and economic framework of the society and simultaneously it is expressed by the achievement of social justice. Different as they are the means of state influence are directed just at this



aim. However all this is an expressive creative process, which constantly puts forward new objectives for the government bodies and for economists. Therefore, the fulfilment of these tasks is a complicated process of scientific research.

## DISCUSSION OPENING – S.R. SEN

Yesterday afternoon, we had three papers on the experience of developing countries regarding growth and equity relationship in agriculture. There was evidence of a high degree of diversity. This morning we had first a paper from Dr Van der Meer regarding the experience of eight developed market economy countries. There was also diversity but it was somewhat less.

We have now a paper from Dr Nazarenko regarding the experience of six developed socialist countries. The diversity was relatively much smaller. I am thankful to Dr Nazarenko for providing us with some very interesting statistics about these six socialist countries. But all his figures are in current prices and different national currencies. This makes comparison over time and between countries very difficult. I wish Dr Nazarenko had used some common denominators in both these respects (for example 1960 prices and roubles) to facilitate comparison. However three facts stand out from his figures.

- 1 Agriculture is now getting a large inflow of capital from industry, which is a contrast with earlier years when capital used to flow from agriculture to industry. For example in the USSR agriculture now gets 27 per cent of total national capital investment, which is high by any standard.

- 2 The gap in per caput remuneration or income between industry and agriculture has narrowed down very considerably between 1960 and 1980, thanks, among other things, to this flow of investment to agriculture.

- 3 Fiscal measures are now playing a much greater role than physical controls in ensuring this greater equity, as compared to the practice in earlier decades.

The first set of questions that I have for Dr Nazarenko is: What difference has this made to the rate of growth of agricultural production? What is the rate now? Is it significantly higher than (a) what it was in earlier decades in these six socialist countries or (b) what it is now in non-socialist countries in comparable stages of development? If not, why?

Dr Nazarenko has mentioned that agricultural price policies are quite different in more industrialized socialist countries like the USSR and the GDR as compared to less industrialized socialist countries like Hungary and Rumania.

My second set of questions to Dr Nazarenko is: what is his evaluation of the relative merits of stable (or rigid) and flexible (or responsive) price policies? Yesterday Professor Ranis observed that flexibility is the name of

development. Does Dr Nazarenko accept that as a proposition applicable only to underdeveloped market economy countries, or does he think that it is applicable also to underdeveloped socialist countries? Making the needed adjustment through subsidies, as in the USSR, instead of prices, may make for equity. But does it also make for economic efficiency?

As I was listening to the discussion yesterday afternoon and this morning, one thought occurred to me. Under certain circumstances, growth and equity moved in the same direction. Under other circumstances they moved in opposite directions. The stage of economic development, the trend of terms of trade, the readiness to adjust with changing circumstances, the nature of social control have all considerable relevance in this content.

My third set of questions is: what is the right combination and in what time horizon? *Prima facie*, it appears that possibly an undue stress on growth may result in greater inequity and an undue stress on equity may slow down growth. Each has its own short and long-term problems. Avoidance of extreme steps may have, therefore, some merit from this standpoint, whatever their other advantages may be.

#### GENERAL DISCUSSION\* – RAPPORTEUR: BRUCE L. GREENSHIELDS

In the general discussion it was suggested that one should not infer from Professor Van der Meer's paper that the growth experience of developed market economies is necessarily transferable to developing countries, because the latter group is getting a late start and is on a different track. Population and its rate of growth, concentration of market power, and capital needs are greater now. Also, the developing countries have no colonies to exploit, although the contribution of past exploitation to the agricultural development of developed countries was questioned.

Professor Van der Meer defended his use of a single-factor measurement of agricultural productivity because the contribution of land was relatively stable, as was the capital/labour ratio, but the latter assertion was questioned.

Nazarenko's data on capital investment were in current dollars; but they nevertheless depict real trends because prices were relatively stable over the period. The data on the changes in distribution of income show only intersectoral trends and they exclude off-farm income and income inputted from home production of food. If these sources were taken into account, it is possible that household income in the agricultural sector would exceed that of the non-agricultural sector. That would probably not be the case, however, on a per-hour basis.

Policies to raise the income of the agricultural sectors in socialist countries have favoured input subsidies rather than output price increases

\*Papers by Van der Meer and Nazarenko.

that would raise retail prices. That agricultural productivity has increased in socialist countries in response to increased investment can be seen if the effects of weather and the time it takes for an increase in capital to bring about an increase in production are taken into account.

Participants in the discussion included Don Paarlberg, Frank Baffoe, George H. Peters, Ferenc Fekete and B.N. Verma.