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SUSTAINABLE AGRICULTURAL DEVELOPMENT: THE ROLE OF INTERNATIONAL COOPERATION

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Decollectivization in East and Central Europe

INTRODUCTION

The agricultural transition is approximately a year and a half old, if we date its start from the Polish 'big bang' of January 1990. Like many a recalcitrant toddler, it refuses to behave as expected. A properly behaved agricultural transition is a cornerstone of the framework of stabilization and structural adjustment in East and Central Europe. The agricultural 'supply response' should be an early bright spot in an otherwise bleak picture of slow and costly industrial restructuring and deteriorating real incomes. The supply response is to result from better incentives for producers of food, achieved largely by giving them ownership of land. The redistribution of agricultural land is viewed as simple compared to the complexity of industrial privatization and restructuring, because rural people are close to the land. Once people have possession of their land, they are expected to welcome their unemployed relatives, dismissed from defunct factories.

Agriculture is thus to defy the laws of gravity that pull down production in other sectors. It is to absorb unemployment while contributing to an improved trade balance. These feats are to be accomplished largely on the strength of the land reform and the improved efficiency that new land ownership brings. The foreign community assists this process by encouraging the land reform, lending to the 'emerging private sector', providing newly private farmers appropriate machinery and access to better processing, and offering temporary food aid.

REALITIES OF THE TRANSITION

This is the agricultural transition that many people expect, but it is not the one that we have. Rural people produce less, rather than more, food and have increasing difficulty selling their products. The land reform does not produce many individual private farmers, because few individual farmers can survive the harsh economic realities of the early transition. Consumers would like to have more food, but cannot afford to buy what is available. Donated food aid

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sits in warehouses unless it is priced significantly lower than international trading prices, raising uncomfortable questions of fair trade practices.

These are not the attributes of a conventionally well behaved transition, but they are fully consistent with the economic logic underlying the process. The supply response needed throughout East and Central European agriculture is a contraction coupled with restructuring to increase efficiency. Both within and outside the country, the need for greater efficiency is recognized, and the resources of the donor community are directed towards this goal. Recognition of the needed contraction has been slow to come, yet its logic is inescapable. Domestic average disposition of food in each of the countries has been close to that of Western Europe, although real incomes are much lower. Price liberalization raises the relative price of food and reduces domestic demand. Intraregional trade in food has collapsed and access to world markets is poor. Traditional collectivized agriculture was enticed into capital intensive production practices by negative real interest rates. The combination of declining domestic demand, poor export prospects, positive real interest rates and discriminatory partial price liberalization overwhelms any positive response that might come from land reform. The contraction is in progress, and in some places it is severe.

In the medium and longer term, domestic demand for food will recover, along with the economy more generally, but economic growth will have to be quite substantial before domestic consumers buy the amount of food they formerly bought at subsidized prices. If the Soviet economy turns around, the USSR can resume its position as a major buyer of East and Central European food. Both the Middle East and Western Europe are potential customers for East and Central European food, depending on economic growth and trade restrictions. With favourable developments in export markets, the traditional supply response, that is more food produced more efficiently, would be good for the sector and the economies as a whole. At present, however, both domestic and export markets are depressed, and will remain so throughout much of the transition.

Depressed demand and falling farm incomes impede the institutional change necessary for the sector's eventual recovery. Before price liberalization, the lack of economic infrastructure supportive of small-scale private farming was enough to keep all but a few producers within the cooperative (Brooks, 1990). Now that the contraction has begun, life as an independent producer is even grimmer. Private producers report that they cannot sell their animals because, with declining demand, processors can get adequate quantities from the cooperatives. As interest rates rise, demand for agricultural credit has fallen. This factual statement inadequately conveys agricultural producers' astonishment and apprehension as they observe the impact of decontrolled interest rates on the capital-intensive farming practices they were encouraged to adopt in the past. The cooperatives have inherited capital assets and a potential to grow their own animal feed, and are thus better able to wait out transitory increases in nominal interest rates. Most private producers do not have that capacity.

COOPERATIVES

In the current contraction, an agricultural sector is emerging that is private in name, but largely collective in fact. Genuine private producers will be squeezed out by the economically stronger cooperatives. Households will receive their land rights and sign much of the land in use back to managers of voluntary 'private' producers' cooperatives. These cooperatives will be private in the sense that they will be required to pay dividends to their owners and will operate without automatic state subsidy. They will nonetheless have the conflicts between collective and individual incentives that have impeded the competitiveness and long-term economic viability of agricultural producer cooperatives throughout the world (Bardhan, 1989).

These cooperatives, moreover, will not represent a clear enough break with the institutions of the past to bring about new behaviour. The new cooperatives will resemble collective farms of East and Central Europe in the early period after collectivization, when they were relatively small, still paid rent for land and had a greater degree of managerial autonomy and financial independence than they retained later. These may be the necessary institutions of the transition; forced decollectivization should not be pushed on rural people. Surely they are not the foundation of a competitive market-oriented agriculture in the future?

As new producers' cooperatives appear through the land distribution, many observers both within and outside the countries mistake them for the private voluntary marketing cooperatives that have served agriculture well in many economic settings. As long as the new cooperatives have major activities in agricultural production, they should not be grouped with that loose agglomeration of firms called 'the emerging private sector'; they should be sympathetically recognized for what they are, 'the receding collective sector'. Their divestiture of collective production and transformation into marketing and service cooperatives should be assisted.

The contraction is worsened by poor access to European markets, and by the collapse of the Soviet market for East and Central European food. Governments would be well advised to make a strong united regional statement in support of agricultural trade liberalization, and furthermore to demand that food assistance for the region during the transition be purchased from the excess supplies of the region whenever possible, instead of the storehouses of North America and the European Community.

DISTRIBUTION OF AGRICULTURAL LAND

It is in this atmosphere of acute economic uncertainty and declining farm incomes that the distribution of agricultural land is proceeding. Romania leads with swift implementation of a land law passed in February 1991. Many owners expect to take possession of their land after the harvest in the autumn of 1991, although few will farm individually thereafter. The Bulgarian land law was also passed in February 1991 but implementation has been delayed

and the approach taken implies a more lengthy process. Land laws in Hungary and Czechoslovakia were passed in April and May, respectively, 1991.

The following paragraphs trace the progress of liberalization of food prices and distribution of agricultural land to date. A detailed exposition of the general framework for the agricultural transition is beyond the scope of this paper, but it is necessary for understanding the origin of the contraction and its impact on the land programmes (Brooks, *et al.*, 1991; Brooks, 1991). The essence of the agricultural transition is the state's withdrawal from its traditional role as residual claimant of (positive and negative) rents to use of agricultural resources. That role will pass in stages to owners of land, where it ordinarily resides in a market economy. A discussion of the new land laws and distribution of land is incomprehensible without attention to conditions that shape the value of land and the income that owners can earn from it.

Czechoslovakia, Hungary, Romania and Bulgaria have each passed laws restoring rights of those who owned land at the time of collectivization. Debate on the legal foundation for re-affirming property rights in land proceeded throughout the region in 1990, and until late in the process it was not obvious that restitution would be the outcome. Parliaments passed land laws in Romania and Bulgaria in February 1991, in April in Hungary, and in May in Czechoslovakia. Since most agricultural land is being returned to people perceived to be rightful owners, recipients do not pay, and the land distribution has little impact on macro-economic balances. In the parts of the Soviet Union in which land was nationalized in 1917 and collectivized between 1929 and 1933, it is difficult to imagine how rights of former landowners could be re-instated. The course of decollectivization is thus likely to be quite different in much of the USSR.

The Romanian land programme embodies the judgement that costs of delay are greater than those of moving ahead before all complications are foreseen and forestalled. Local land commissions in each district were established quickly after passage of the law, and began receiving claims. Households can claim a maximum of ten hectares, and can submit a variety of evidence to support their claims. The period for submission and judgement of claims ended on 20 May, at which date the land commissions were to post their preliminary rulings.

When possible, claimants will be given the land actually owned prior to collectivization. When this is not feasible, a piece of equivalent size and quality will be returned. When the original land was divided into parcels, the process is deliberately duplicated in the returned land. Many households in the Danubian plain area will receive four or five hectares divided into several parcels. Holdings in the hill areas will be larger, and broken into more parcels.

Romanians who receive land through restitution of their rights can sell it immediately if they so choose, or buy more, up to a maximum holding of 100 hectares per household. Family members and neighbours have rights of first refusal on farm land for sale, and this restriction on free sale is intended to address the fragmentation problem. Since in the densely settled areas of intense agriculture almost all land will be distributed through restitution, an active land market could develop rather quickly.

There appears to be little intent in the law or its implementation to create farms of an optimal size, or to look forward to the way in which farming will take place after the land is distributed. This at first appears economically myopic, but may in fact show a much more profound sophistication. The Romanian approach to the land distribution is more like a voucher scheme than a land reform, since it widely disperses claims to the land, but carries little expectation that people will work the land in the units they receive. A small number of people receiving large holdings (for example, eight to ten hectares) plan to manage them as households. Most people plan to keep the land in collective management this season and next. The distribution thus opens a trading period during which households can buy and sell their land, consolidate holdings and prepare to leave the collective when the infrastructure for individual management is more developed. In the meantime the collective will continue to work the land, and land owners will receive a share of returns to land proportionate to their share of the farm's total area.

The IMF/IBRD/OECD/EBRD joint mission to the USSR suggested that the collective serve in a transitional period as a vehicle for the trade and consolidation of members' shares after an initial apportioning (IMF/IBRD/OECD/EBRD, 1991). This role for the collective may be emerging spontaneously from the Romanian land distribution. It is not a consciously assumed role, however, and there is no indication that the new collectives see themselves as transitory organizations. It is thus important that the land distribution be accompanied by new regulations easing procedures by which members can withdraw and take their share of non-land assets with them. Cooperatives should be discouraged from taking on debt that will complicate the future exit of members.

People who worked on cooperative farms in Romania but cannot claim any land through restitution can claim on the basis of their labour input. Since even those with prior claims will receive small allotments, the holdings distributed purely for labour will be quite small. People receiving land in recognition of their contribution of labour cannot sell their land for ten years. This is a curious provision, since young people who chose to remain on collective farms are probably the least likely of their cohort to be the universally despised 'speculators', who might acquire and sell an asset purely to make some money. The quantity of land tied up by this restriction is not significant.

The Romanian approach to land distribution appears to have broken through the confusion about how to start the process. Its progress, and that of the land programmes in Bulgaria, Hungary and Poland, will be monitored in a study jointly undertaken by the World Bank and the member-countries.

The fragmentation of very small holdings implicit in the Romanian approach could plague agriculture in the future. Market-based solutions to fragmentation of farm land in Western Europe after the Second World War were not adequate to consolidate holdings, and administrative consolidation was necessary. The chance for success in market-based consolidation is greater in Romania now, since all rights are distributed simultaneously and many recipients will be trying to adjust their initial claims before removing the land from collective management. Special programmes to promote purchase, sale and trade over the next year could be highly productive in the longer run. Financ-

ing for land acquisition may be necessary, and subsidized interest rates for land consolidation would be justifiable. Since the quantities of land traded will be small and the value of land relatively low during the contraction, many buyers will probably choose to pay cash.

The Bulgarian parliament also passed a land law in February 1991, but political stalemate and administrative inertia has delayed its implementation. The National Land Council, the main administrative organ of implementation, was not appointed until 31 May 1991, and appointment of the 248 municipal land commissions was attendant upon the formation of the National Council. As a consequence, people who wanted to claim land in the first half of 1991 had nowhere to take their claims.

The philosophy of land distribution embodied in the Bulgarian law and the implementing regulations is by nature a slow one. Rather than relying on market trades to improve a quick and imperfect distribution of rights, the Bulgarian approach attempts construction of appropriate holdings through administrative assignment. Local land commissions accept and adjudicate claims and, when a substantial number of claims have been verified, turn them over to a team of specialists who draw up a local map of the allocated holdings. This approach is deemed necessary for several reasons. The Bulgarians want to avoid dividing land up into parcels, and doubt the efficacy of market-based consolidation. Market-based solutions are, indeed, unlikely to work, since the law prohibits purchase and sale of land by private individuals for three years, the prime trading period. In many places the amount of land that can be restored is only a proportion of that claimed, since development has changed the contours and use of land, and agricultural area has declined. In these areas all claims will be prorated by the necessary proportionate adjustment. The effort to achieve justice and economic efficiency through administrative meticulousness can be contrasted with the Romanian priority on speed. The costs and benefits of each approach are not yet clear. It is certain, however, that the Bulgarian distribution is much delayed and, three months after passage of the law, not yet ready to move into high gear.

In Hungary, the initial attempt to return agricultural land to prior owners in 1990 was struck down by the constitutional court, with the ruling that restitution of ownership of agricultural land must be considered along with that of other assets. In April 1991, landowners, along with dispossessed owners of other property, were granted vouchers redeemable for agricultural land or other assets. The restitution for those who relinquished title is essentially monetary, and the impact on demand for land depends on economic agents' assessment of the value of land compared to other assets. Landowners who continued to hold title to lands managed by the cooperative are granted the return of their managerial rights unconditionally. This law, too, must pass the constitutional court, and that hurdle remains.

In Czechoslovakia, a law mandating return of agricultural land to prior owners who will cultivate it was passed only in late May 1991, and at the time of passage, little interest in claiming land was reported. Food markets in Czechoslovakia approximately cleared even prior to the price liberalization, and few citizens of the country perceive that they have had or now have a 'food problem'. Thus recognition of the need to change the inherited structure

of agricultural production has been late in coming, although a fully open trade regime would demonstrate its high cost relative to world levels. The contraction is just beginning in Czechoslovakia, and difficulties marketing meat and milk are pulling farm incomes down. Pressure for change is increasing, but it is early yet to predict whether the form of change will be protection of the old structure, or the start of decollectivization.

In Poland, the state sector owns only about 20 per cent of agricultural land, since the remainder of land was never collectivized, and remains in fragmented private ownership by smallholders. Although the proportion of marketed output that originated in the state sector was greater than its share of land ownership, the excess supply of food occasioned by the Polish 'big bang' diminished the perceived urgency to reorganize state farms. Those most agitated about the fate of state farms were their employees, who favoured transfer of land and assets to the workforce. The disposition of land in Polish state farms has thus been delayed. In general, property rights on land held by state farms have been considered separately and later than for cooperative land.

In summary, the land distribution programmes in practice are quite diverse, and are not what most people outside the region expected. In surveying the economic options, few outside economists would have chosen physical restitution of rights of prior owners as the preferred solution. The economic difficulties are evident. Moral issues are also relevant: what about the rights of people killed or dispossessed before 1946, or 1948, or the date that serves the interests of those now represented politically? These issues have been raised, but not resolved, in Hungary and have been absent from public debate in other countries.

The restitution approach has an economic advantage to complement its apparent political appeal, and counter some of the economic problems it raises. Had land been distributed without payment to the agricultural workforce with no higher principle than 'land to the tiller', it would have been easy to exclude rural people from further distribution of state-owned assets, on the grounds that they already received their share. Since landowners have instead received back property that was rightly theirs all along, there can be little justification for excluding rural people from a fair share of assets accumulated by the state. Thus, when privatization swings into full force through vouchers or distributed shares, rural people will be integrated into the new capital markets.

PRICE LIBERALIZATION

The speed and apparent success of liberalization of retail food prices is surprising and poorly recognized. Even a year ago the liberalization of retail food prices was considered a political minefield. Governments entered it with great trepidation and varying degrees of caution. All (except Albania and the USSR) are now either in the midst of the process or essentially through it. Curiously, no one has noted that nothing exploded.

The success of the food price liberalization is in part explained because it came first. To that ambiguous honour, plus the fact that the liberalization is in

general partial, can be attributed many problems, but the problems must be viewed in the light of the original pessimism that food prices could never be changed without social upheaval. In a world of partial price liberalization with immature markets, many products are sold at essentially world prices, while others are little changed from the days of high Stalinism. A consciously-designed, clean transition would not include price distortions of the kind that are appearing now. Despite the longer-term costs of these price distortions peculiar to the early state of the transition, they explain in part why food price liberalization did not elicit the feared reaction. The retention of controls on other items raised the real value of monetary compensation. These wider distortions increased the relative rise in food prices at the retail level compared to what it will be after a full adjustment.

Since the food processing and retailing industries are not yet privatized and a number of distortions remain throughout, it would be erroneous to argue that retail food prices are free market prices. Prices are free to fluctuate, however, and governments are paying little if anything in direct food subsidy. Few observers would have predicted *ex ante* that this could have been done in a short time without triggering widespread protest.

The success of the price liberalization is all the more remarkable in that it was done in the virtual absence of any safety net to cushion the impact of much higher relative prices for food. Despite widespread discussion of the need for selective food assistance, programmes of direct food relief were not attempted anywhere. In the wealthier northern countries of Poland, Czechoslovakia and Hungary, full liberalization of food prices without directed assistance appears to have been accomplished; generalized compensation was adequate and prices are now largely free. Selective assistance is clearly needed for humanitarian purposes, but in the northern countries it does not appear to have been a political precondition for liberalization.

In Romania and Bulgaria, where consumer incomes are lower but fully free prices will be approximately at world levels, the liberalization which has taken place is incomplete at this writing, in June 1991. Consumers absorbed a large increase when the explicit subsidy was removed, and were compensated through partial adjustment of wages. Governments with shaky political mandates, however, were unable to risk freeing prices to world levels, and retained administrative pressures on wholesale prices. Wholesalers and processors pushed the controls back to the producer level.

In the southern countries, therefore, the contraction is greater and distress at the producer level is more extreme than in the northern countries, where price liberalization has been more complete. Continued sectoral adjustment in Romania and Bulgaria will have to include further freeing of wholesale and producer prices, and introduction of cost-effective selective assistance for needy consumers. The Romanian and Bulgarian experience is likely to be replicated in the USSR unless the harmful impact of partial liberalization on agricultural production can be demonstrated.

The actual course of liberalized food prices is difficult to trace because of the current general weakness in statistics. Both the record and the course of liberalization in Czechoslovakia seem most straightforward. Food prices were raised administratively in July 1990, by 26 per cent on average, to remove the

direct budgetary subsidy. Prices were controlled at the new higher levels and consumers received partial compensation. In January 1991, prices were liberalized and jumped quickly by about 30 per cent, before levelling off in March and starting to decline in response to excess supply, particularly of beef.¹

These price increases, although large by world standards, are modest in the East and Central European current context. Moreover, the larger Czechoslovak incomes, and smaller share of food in family budgets, eased the absorption of the shock. In Romania, in contrast, with partial price liberalization that drives producer prices of grain to approximately half of world levels, the consumer price index for food is reported to have risen in April 1991, to 255 compared to 100 in October 1990.²

The announced liberalization at the retail level in Romania and Bulgaria is difficult to reconcile with the continued reports of shortage and declining production. The explanation lies in the considerable degree of control that remains behind the retail level.

CONCLUSION

Return of land to private owners is proceeding in East and Central Europe, and the political commitment behind restitution is strong. The change in property rights, however, will not quickly produce the decollectivization that many observers expect. Under current conditions of acute stress caused by depressed domestic and foreign demand, positive real interest rates and partial liberalization of prices, few producers will leave the cooperatives. Decollectivization will gain momentum as the economic outlook for the sector improves, market infrastructure develops and cooperatives are given incentives to divest their collective production activities. The land programmes are thus important, but are by themselves inadequate to initiate and sustain the dismantling of collectivized agriculture.

NOTES

¹Interviews during May 1991, Ministry of Finance, Czechoslovakia.

²Interviews, May 1991, Romanian National Commission for Statistics.

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DISCUSSION OPENING – RICHARD L. MEYER*

Our speakers have provided an extremely interesting account of the speed and extent to which agricultural reforms are occurring in Eastern and Central Europe. Their central argument is that a deep and well behaved transition in the agricultural sector is the cornerstone for stabilization and structural adjustment in the region, and that a positive supply response would be interpreted as a bright spot in the bleak picture of slow and costly industrial restructuring and deteriorating real incomes. A positive supply response is expected to occur through redistribution of agricultural land, with land ownership providing an associated incentive effect for farmers. Deregulation of product prices, which is also expected to give added incentive to producers, proceeds in parallel.

However, the agricultural transition is not occurring in the expected way. So far agriculture is producing less rather than more food, and is having difficulty in selling what is produced. Individually operated private farms are not emerging, and in several countries collectives appear to be the preferred way to farm for the foreseeable future. This needs explanation.

Brooks and Braverman argue that price liberalization has moved surprisingly quickly and with less social and political upheaval than might have been expected. Furthermore, few social security nets have been provided for those expected to be most seriously affected. Some evidence is provided of the impact of these changes on consumer prices, but nothing is said about producer prices. We are left to assume (as reflected in sketchy media reports) that they have risen as well, particularly for those producers able to sell directly to consumers.

The problem in the agricultural transition, therefore, does not seem to be with price policy but rather, as the authors argue, with the land redistribution process. The land laws passed in 1991 by Romania, Bulgaria, Hungary and Czechoslovakia provide for the restoration of land rights to those who owned land at the time of collectivization. The Romanian programme appears to have progressed most quickly as land commissions were rapidly put in place to receive claims. While the programme runs the risk of creating uneconomic farm sizes, through fragmentation of plots provided to claimants, there is little expectation that people will actually work the land they receive. Most are expected to keep it in collective management in the near future. A market-based process of subsequent land transfers is also expected. The other countries are proceeding more slowly, with systems relying less on market transfer and more on administrative procedures.

Although it is not discussed by the authors, a process of land redistribution with restitution of land rights would seem to introduce great uncertainty about identities of the rightful owners, evaluation of their claims, sorting out competing claims, and determining the interests of recipients, especially if they are not currently farming. The Asian land reform programmes, which are credited with

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improved productivity and efficiency, appear to have had a simpler administrative task when they were designed to provide land to the tiller.

The second major problem identified by the authors as impeding decollectivization, in my view, may be the most important. That concerns the lack of economic infrastructure and supporting institutions for small-scale private farming. Cooperatives rather than individual farmers may have advantages in gaining access to productive inputs, credit, markets and information. The mere transfer of land ownership rights does not automatically create the supportive environment needed for productive farmers, as any land reform planner in a developing country is painfully aware. It should be no surprise if, during a fairly long transition process, cooperatives and collectives continue to be a preferred method to organize production. Where else are the individual farm owners going to obtain their production inputs and credit until such time as the necessary input systems are being developed? Where else are they to get market information and transport services? Where else are representatives of external markets going to turn to negotiate contracts for purchase of commodities?

While I found this paper an interesting description of the problems being encountered in decollectivizing agriculture, it is not particularly illuminating for anyone who has thought carefully about implementing land reform. It would have been useful if the authors could have given us a more complete understanding of the nature of the economic infrastructure required to support more rapid decollectivization, and their professional assessment of the key bottlenecks faced in each country. What is surprising to me is not that these bottlenecks exist, but that the authors seemed to have expected a smoother or more 'properly behaved' agricultural transition. By definition, an important structural change such as decollectivization, like any profound land reform, is not likely to be a smooth process. Rather, it is likely to be one filled with uncertainty and discontinuities, with short-term disruptions in production and distribution being the price to be paid to achieve long-term growth and efficiency.