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AGRICULTURAL COMPETITIVENESS: MARKET FORCES AND POLICY CHOICE

PROCEEDINGS
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*Where is Agriculture Heading in Central and Eastern Europe?
Emerging Markets and the New Role for the Government*

The agrarian economy in the Western world, in many developing countries, as well as in Central and Eastern Europe, is in a state of ferment and is changing rapidly. Markets and competitive forces are gaining more ground, and the role of governments is being redefined accordingly. The main theme of our Congress reflects these tendencies. That theme is a complex one, and it can be approached from several directions. Being the first President of the International Association of Agricultural Economists ever elected from a Central/Eastern European country, let me contribute to the theme of our Congress by discussing the most critical issues of the ongoing reforms in this region.

As we all know, the agriculture of Central and Eastern Europe is going through a painful and difficult transformation, which is intended to make it a more competitive, market-based agriculture. There are few, if any, agrarian reforms comparable in scope and character to the changes that are taking place in this region. The *transformation is unparalleled*, above all with regard to its scale. Central and Eastern Europe has around 20 per cent of the world's agricultural production potential and approximately 8 per cent of the world's population (Table 1). The *character of the task* is also unique. This is the first time in history that a planned economy is being replaced by an agriculture that is expected to operate according to market rules; the first time that farms based on state and collective ownership are giving way to a structure in which the production units are privately owned. The change of economic regime is also unique with regard to the *economic and political environment*. The agrarian transformation in Central and Eastern Europe is taking place under rapidly changing economic and political conditions. The general crisis of the economy as a whole is an especially unfavourable factor (Table 2). Another important feature of the transformation is that, apart from the relative stability of the Central European democracies, the region as a whole is marked by a high

*Budapest University of Economics, Hungary and World Bank, Washington, DC. This paper is largely based on the findings of extensive and still far from finished investigations of the World Bank on monitoring the transformation of agriculture in the countries concerned. A large international team is contributing to this work. I wish to emphasize that the statements and conclusions in this address express my own opinions and cannot be regarded as the official or semi-official position of either the World Bank or any of its affiliated organizations.

TABLE 1 *Global role of Central and Eastern Europe (1990)*

Country	Share in global population (%)	Share in global agricultural land (%)
Bulgaria	0.18	0.3
Czechoslovakia	0.31	0.4
East Germany	0.33	0.3
Hungary	0.21	0.4
Poland	0.74	1.1
Romania	0.45	0.7
Soviet Union	5.55	16.6
Central and Eastern Europe (including Soviet Union)	7.76	19.7

Source: UN statistics.

TABLE 2 *Growth and inflation in Central European countries and the former USSR, 1975 to the present*

Indicator	Central Europe			Former USSR		
	1975–89 (act.)	1990–92 (act.)	1993–94 (proj.)	1975–89 (act.)	1990–92 (act.)	1993–94 (proj.)
Real GDP/NMP (% p.a.)	2.9	-9.5	0.5	3.7	-9.9	-7.7
Inflation rate (% p.a.)	21.3	156.1	69.5	1.5	198.6	240.0

Source: IMF, *World Economic Outlook*, May 1993, statistical appendix, various tables.

degree of *political uncertainty* fraught with serious dangers, by an intense struggle between the democratic and conservative forces.

An agenda for transforming food and agriculture in Central and Eastern Europe should include the following elements:

- (1) macroeconomic stabilization, liberalization of domestic markets and de-control of prices, freeing of external trade and phasing out of producer and consumer subsidies;
- (2) demonopolization, privatizing and encouraging entry into production, processing, importing and marketing of agricultural input and output;
- (3) land reform encouraging the development of a sector of viable farm management units by establishing the institutional basis for division and privatization of large farms and for acquisition and use of state lands;

- (4) establishing a framework of financial services, education, extension, information services and regulation consistent with a market economy;
- (5) building a system of physical and human infrastructure consistent with the needs of a market-oriented production, processing and distribution system;
- (6) rationalizing and restructuring government institutions in a manner consistent with their new roles;
- (7) protecting living standards of vulnerable groups in society from the effects of rising food prices.

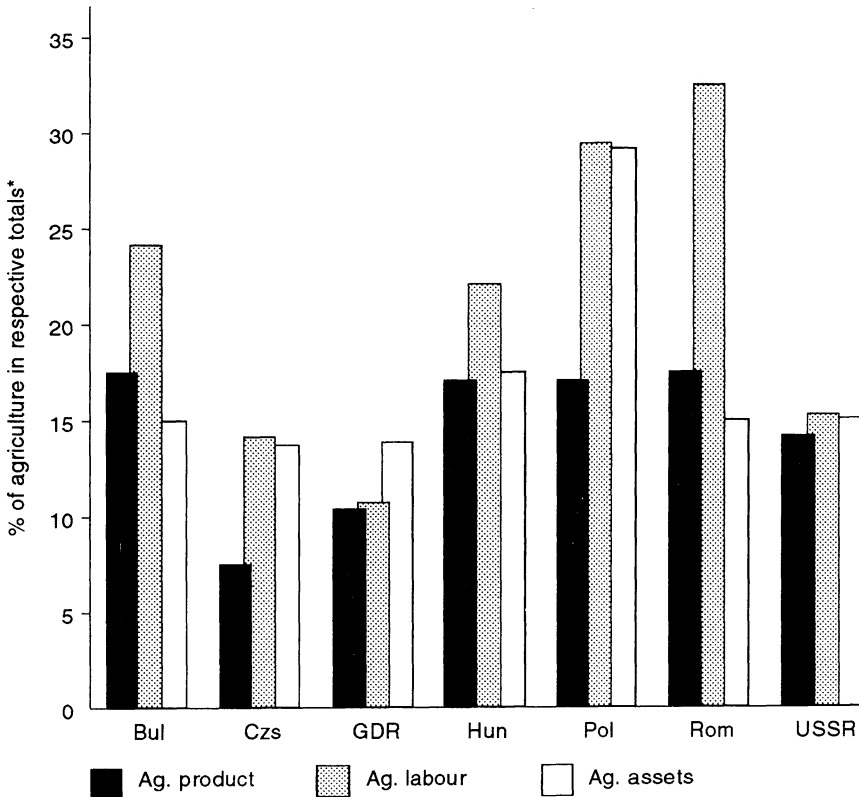
Given this many-sided and highly complex process, it is difficult to arrive at an unequivocal and final answer to the question in the title of my address: not only because so far only the main outlines of the future are beginning to take shape, but also because a comprehensive discussion of the subject would far exceed the time available for a lecture. For this reason, I shall deal in any detail only with the question of land reform and challenges to governments. Within this topic, I will concentrate on three main issues from the list provided above: the creation of private land ownership and land markets; restructuring of farming organisations, specifically the problems of transforming large-scale farms; and reshaping the functions and the role of governments. In addition to presenting an assessment of the reform process, I will emphasize the lessons that appear relevant for regional governments in shaping future agrarian policies.

MAJOR DIRECTIONS OF REFORMS

Agriculture is traditionally an important sector of the economy in the region. In 1970–88, it contributed more than 15 per cent to the national income and around 20 per cent of the population found work in the sector (Figure 1). It is worth noting that in practically all the countries in the region agriculture accounted for a higher share of the labour force and of the stock of fixed assets than it did of the national income, indicating the relatively extensive character of agricultural production.

Problems with the functioning of socialist agriculture surfaced as early as the 1950s and the 1960s. The first reform attempts also date from this period. The history of socialist agriculture is a history of reforms that proved unsuccessful or produced only partial results. At that time, the agricultural reforms could not step beyond the limits of the socialist economy as a whole. The political changes that swept through the entire region in the late 1980s and the early 1990s created new conditions also for reforms in agriculture. The former goal of reforming the socialist agricultural systems was replaced throughout the region by the new goal of changing the regime and creating a market-type agrarian economy based on private ownership.

Today, in the new situation that has emerged following the disintegration of the Council for Mutual Economic Assistance (CMEA) and the Soviet Union, *creation of a market economy and privatization* constitute the main objectives of the overall economic policy in the region. Agrarian reforms are aimed



* % of national income/total employed/total productive assets.

FIGURE 1 *Share of agriculture in the economy, 1970–88*

principally at shaping an agrarian economy built on private ownership and individual initiative, though the picture is far from uniform when it comes to the concrete forms and modes of achieving this objective. There are substantial differences across countries in price and subsidy policy, and in the practice of agricultural and trade policies. Privatization of land and restructuring of the economy are also being implemented in different ways.

Creating private land ownership and land markets

The starting point for the transformation of agriculture is the creation of private land ownership and a land market. It is around this issue that an intense political debate is raging in virtually all the countries in the region. Two closely linked tasks are involved here. One is the creation of a legal framework for private possession of land and the other is the actual transfer of land into private ownership, the concrete execution of privatization of land. In other

words, it must be decided who will receive land and on the basis of what criteria.

In Central Europe, the legal recognition of private land ownership was not a seriously debated issue. A tradition of private land ownership has always existed in these countries and the return of traditional values enjoys the support of the majority of public opinion. The situation is somewhat different in the former Soviet Union, with the exception of the Baltic states, the recognition of full private ownership of land having aroused a particularly intense political debate in these countries. The legal system of most former Soviet republics now recognizes in principle private ownership of land, but numerous regulations limit its scope and the manner in which it can be exercised. The governments are still striving to preserve the foundations of large-scale agriculture, and genuine privatization of land is, for the moment, restricted mainly to household plots, reserve land, and the so-called abandoned land.

The fate of the greater part of agricultural land in the former Soviet Union is still the subject of debate. In Russia, Moldova and Ukraine, the land of kolkhozes and sovkhoses has been transferred from state ownership to the ownership of the workers' collectives. An individual allotment of land can be taken out of this collective ownership by a departing member who intends to start independent farming, but strict restrictions are imposed on the buying and selling of land. In Belarus and Central Asia, on the other hand, most agricultural land – the land of kolkhozes and sovkhoses, and also private farm holdings above a relatively small minimum (one or two hectares) – continues to be in state ownership. Use rights to this land are granted only in the form of a long-term lease from the state. Table 3 summarizes the current status of land privatization in the former Soviet Union.

The other big issue of land reform is entitlement: who gets the land? In this respect, we find two diametrically opposite approaches: the demand that land be returned to the former owners, on the one hand, and the aspiration that land should belong to those who cultivate it, on the other (see Table 4).

In Central and Eastern European countries, reprivatization dominates, supplemented by various schemes designed to provide land to agricultural producers who were not former owners. Central Europe in general recognized the rights of former land owners. Compensation was provided in various concrete forms, ranging from the actual return of land to financial compensation to allow purchase of land if desired. Albania is an example of full and rapid privatization of the land. Here the great majority of land in former cooperatives and state farms was divided up among the rural population according to the size of the family, without regard to former ownership. In Romania, the land of the cooperatives was transferred to the use and ownership of former owners and cooperative members relatively quickly, in the space of around six months. The process is advancing more slowly in Bulgaria. Here, the declared goals also include creation of private farms of a rational size, which understandably complicates the process. In the Czech and Slovak Republics, the former owners can recover their land if they undertake to cultivate it. In Hungary, the compensation of former owners has been based on a voucher system. As a result of this process, the great majority of agricultural land in Central and Eastern Europe will be in private

TABLE 3 *Private farming sector in former Soviet Union*

Republic	Number of private farms on 1 January		Area of private land, 1 January 1993				Agricultural land in private use (%)
	1993	1994	Private farms	Private plots	Other	Total	
	1000 units		1000 hectares				
Azerbaijan	0.2	0.4	7.8	n.a.	n.a.	n.a.	n.a.
Armenia	243.0	292.3 ¹	486.0	63.1	6.3	555.4	46.3
Belarus	2.0	2.7	38.0	847.6	71.0	956.6	10.2
Kazakhstan	8.5	15.6 ¹	3 502.0	194.7	184.3	3 881.0	2.0
Kyrgyzstan	8.6	18.3	378.4	125.0	10.8	514.2	5.1
Moldova	0.5	3.1	1.5	306.4	18.3	326.2	13.0
Russian Federation	183.7	269.9	7 715.4	7 049.0	1 683.7	16 448.1	7.6
Tajikistan	0.004	0.008 ¹	0.1	54.8	1.3	56.2	1.3
Turkmenistan	0.1	0.1 ¹	1.1	95.9	5.4	102.4	0.3
Uzbekistan	5.9	6.9	47.2	491.0	13.2	551.4	2.1
Ukraine	14.4	27.7	288.0	4 400.0	426.2	5 114.2	12.3
Total	466.9	637.0	12 465.5	n.a.	n.a.	n.a.	n.a.

Notes: n.a. = not available.

¹ 1 October 1993.

Source: Statkom SNG, *Statisticheskii byulleten*, no. 15, p. 104; no. 3, 1994, p. 14.

TABLE 4 *Major features of land privatization in Central and Eastern Europe*

Country	Land privatization method	Constraints on land ownership, rental & leasing		
		Upper limit of ownership	Constraints on rent & leasing	Moratorium on sales
Albania	Distribution to collective farm members & rural population	No	No	No
Hungary	Reprivatization to former owners & collective farm members	300 ha ¹	Upper limit for length of rental or lease ¹	Foreigners are excluded as land owners ¹
Romania	Reprivatization & collective farm members	100 ha ²	—	Foreigners are excluded as land owners
Czech & Slovak Republics	Reprivatization & collective farm members	No (150–250 ha ³)	No	No
East Germany	Reprivatization & collective farm members	No	No	No
Bulgaria	Reprivatization & collective farm members	20–30 ha ⁴	—	No. Except land obtained through reprivatization
Baltics	Reprivatization & privatization	50 ha ⁵	Rent control	Yes

Armenia	Full-scale privatization for rural population	No	No	No
Russia Ukraine Moldova	<ul style="list-style-type: none"> ● Privatization of household plots ● Members can exit from collective farms with land ● Reserve land for independent private farming available on lease basis ● Most farmland in collective ownership 	1–2 ha 50–100 ha		5–10-year moratorium on sales Sales through local municipalities only
Rest of FSU	<ul style="list-style-type: none"> ● Privatization of household plots ● Farmland remains in state ownership ● Reserve land available for private farming on lease basis 	1–2 ha 50–100 ha		No Land rights can be inherited but not transferred

Notes: ¹1994 Land Law.
²Per family.
³Maximum for privatization of one farm.
⁴According to land quality.
⁵In Latvia.

ownership in the near future, although the legal settlement of ownership rights will still take some time.

In the former Soviet Union the idea of reprivatization has been almost totally rejected. Apart from land for household plots, vegetable and fruit gardens, and summer-house plots, participation in the privatization of land is open almost exclusively to those employed in agriculture or those who undertake to farm. The obvious explanation of this difference compared to Central and Eastern Europe is that there is hardly any tradition of private land ownership in most of the former Soviet Union, and nearly a century of Communist rule has washed away all traces of former land ownership. Among the countries of the former Soviet Union, voices calling for reprivatization or compensation in some form were raised in Western Ukraine, Moldova and Western Belarus, as well as in the Baltic states. In the end, though, it was only the Baltic states that opted for compensation of the former land owners and reprivatization.

Privatization of land will not be complete without a land market. The creation of such a market is only in the initial stages, even in Central and Eastern Europe, which is in the forefront of creating the legal frameworks for privatization and its practical execution. A land record system that will make it possible to keep a register of land areas, ownership rights and ownership changes is being created at a rapid pace in these countries. However, the ideas for the rules to govern the practice of land markets and private land ownership are extremely varied and not entirely reassuring (see Table 4). There are strong reservations regarding private ownership of large farms: many fear the repetition of the old system of big estates, or at least rapid concentration of land ownership. Practically all countries impose various restrictions on the exercise of private land ownership. The attitude is especially conservative in some of the former Soviet republics. Most countries have plans or even measures in force to restrict the size of farms and landholdings, and the sale of land to foreigners is generally banned. These tendencies are obviously inconsistent with the principles of market economy. There is a danger that they may become a serious obstacle to the shaping of an efficient economic structure based on private ownership and, in the final analysis, harm the competitiveness of the region's agriculture.

Restructuring of large-scale farms

The typical units of agriculture in the former socialist countries were state farms and agricultural cooperatives (Table 5). In their classical form, these units are not compatible with the functioning of a market economy. They cannot be expected to operate profitably under hard budget constraints and market competition. The transformation of these traditional farming structures is therefore unavoidable. Creation of private land ownership is the most important point of departure for this transformation, and it must be followed by privatization of assets and production equipment. Steps were taken back in the 1980s to change the operation and structure of state farms and cooperatives, even in the former Soviet Union.

These changes formed part of the series of agricultural reforms mentioned earlier, and they undoubtedly represented a shift in the direction of transform-

TABLE 5 *Socialized farm enterprises and land held in the private sector before reforms (1989)*

Country	State farms		Collective farms		Land in private sector (% of total land) ¹
	Number	Average area (ha)	Number	Average area (ha)	
Albania	70	2 400	420	1 270	—
Bulgaria ²	536	9 692	n.a.	n.a.	10
Czechoslovakia	226	6 204	1 677	2 605	9
East Germany	465	945	3 904	1 370	11
Hungary	128	7 598	1 270	4 195	15
Poland	1 258	2 665	2 342	297	80
Romania	419	4 895	4 363	2 093	15
USSR	22 690	16 051	26 660	6 370	2

Notes: ¹Land used in individual production, not necessarily privately owned land.
²Total number of agricultural units in 150 agroindustrial complexes.

Source: Csaki and Lerman (1994).

ation to profit-oriented, autonomously operating business organizations. The change of political regime accelerated the transformation of cooperatives and state farms in all countries. This transformation has taken diverse forms, including the following:

- (1) break-up of the existing units into smaller cooperatives;
- (2) continued operation in the original unit on the basis of a new structure with clear profit orientation;
- (3) creation of a closed shareholding company;
- (4) establishment of a limited-liability company;
- (5) transformation of the farm into financially separate units based on independent profit accounting;
- (6) establishment of an open shareholding company;
- (7) establishment of a cooperative based on privately owned land and equipment, in which the principle of one member, one vote applies;
- (8) full dismantling of the large farm at the decision of the members or workers involved, or as the result of liquidation of the farm.

The restructuring of large-scale farms is relatively consistent in Central Europe. It comprises the settlement of ownership relations and the creation of private ownership of land and assets, followed by substantive adaptation of the former large-scale units to the new circumstances. In the former Soviet Union, in the majority of cases, the transformation has changed only partially the essence of the kolkhoz/sovkhoz form, and the support that ties the large agricultural units to the state budget has not been fully eliminated either. Table

TABLE 6 *Percentage restructuring of farm enterprises in Russia and Ukraine*

	Russia ¹	Ukraine ²
Not reorganized	22	28
Reorganized	78	72
Keeping the old form with new charter	27	9
Joint-stock societies	9	2
Limited liability partnerships and collective enterprises	32	55
Agricultural producers' cooperatives	6	2
Associations of peasant farms	3	2
Other forms	1	2

Notes: ¹January 1993 status for all farms in Russia (Brooks and Lerman, 1994).

²January 1994 status for a sample of farms in main Ukrainian provinces, (World Bank survey).

6 presents the situation in Russia and Ukraine where similar trends can be observed. According to the recent World Bank survey, two-thirds of the Ukrainian large-scale farms had decided to reorganize by the end of the first quarter in 1994. However, among the farms that decided to reorganise, 85 per cent registered as collective enterprises, an organizational form almost identical to the old kolkhoz. The ownership structure of the new 'privatized' farms that have been created is uncertain and in the majority of cases it resembles the structures of the self-managed enterprises in former Yugoslavia. The ownership is not clearly defined, the shares issued to members are not tradeable, and the ownership status is linked to work in the particular farm unit. The recognized kolkhozes and sovkhoses still do not meet the requirements of a market economy, and it is not likely that, under such circumstances, they will be capable of operating at a profit. Further transformation of these units can therefore be expected.

First experiences with private farming

The most tangible result of the agrarian transformation in former socialist countries has been the appearance of the independent peasant farm. The number of these farms is rapidly growing both in Central and Eastern Europe and in the former Soviet Union. In Central and Eastern Europe, the transformation has involved a greater shake-up of the large units, and the private sector is evolving more rapidly. On the whole, however – apart from those countries (Albania and, in part, Romania) where all or most of the large farms have been summarily dissolved – only a small proportion (10–20 per cent) of cooperative members has so far chosen the path of independent farming. The results in the

former Soviet Union, with the exception of Armenia, are still modest, despite the spectacular growth in the number of private farms. The independent private farms account for only a small part (2–3 per cent) of agricultural land and their share in total agricultural production is also insignificant. Yet in reality the private sector in agriculture is far wider than that. The household plots and kitchen gardens are often of considerable significance, as in Belarus, the Russian Federation and the Ukraine, for example (Table 3).

The characteristics of the new private farms in the region

Recent World Bank surveys suggest the following profile of the Central/Eastern European private farmer:

- The overwhelming majority of private farmers are former cooperative members or employees of state farms who have left the large unit or have expanded their household plots. It can be anticipated that, with the settlement of land ownership relations, land holders who so far have not engaged in farming will become more active.
- The private farmers have relatively small land areas (2–10 hectares) and their main goal is to produce for their own consumption. Hungary and Poland are exceptions, since private farms are larger, and there are already signs of commercial production for the market and specialization in the production structure.
- The private farms in Central and Eastern Europe are basically family enterprises, the majority relying on the labour of one or several families. The use of outside labour is an exception. Family members supplement their income from agriculture by taking outside jobs.
- The production structure of private farms reflects the traditional production of household plots.
- The private farms have been set up mainly with the family's own savings and suffer from shortage of capital, which is exacerbated by their limited access to credit.

The private farms that are emerging in the former Soviet Union differ in many features from farms in Central and Eastern Europe:

- The private farmers in the former Soviet Union are more highly qualified and many of them were not directly involved in agricultural production prior to becoming farmers.¹
- The private farms have been set up principally on reserve and uncultivated land and only a small proportion of them have been created through departure from the large-scale farms.
- The typical Russian–Ukrainian private farm is many times larger than the Central European private farm (often as much as 100–150 hectares), even allowing for differences in land quality.
- Russian and Ukrainian private farmers are engaged in commercial production to a significant extent and have close ties to the markets.

- The production structure of these private farms emphasizes crop products rather than livestock, in keeping with the actual market relations and the price ratios.
- The average yields and production results of the private farms still do not exceed those of the large-scale farms operating in their environment.

The rate at which private farms are spreading in the region lags far behind the original expectations (both local and international) and behind the possibilities provided by the legal framework. Politicians and experts offer different explanations for this fact. It is also worth noting the opinion of those directly involved on the subject. World Bank surveys indicate that there may be a number of reasons for the reluctance to become a private farmer (Table 7).

The most important reason, apparently, is that conditions supportive of private farming exist only in a part of the region, and the cautious behaviour is thus an expression of sober and realistic judgement of the situation by the peasantry. The present generation of peasants in Central and Eastern Europe undoubtedly has only a small part, if any, of the skills that are needed for successful operation of a private farm. But this is not the main restraining factor: the main obstacle is the fact that in Central and Eastern Europe today private farming is too risky and promises relatively modest income compared to the risks. The building of a market economy will gradually produce conditions that encourage further transformation of the farming structure.

TABLE 7 *'Do you intend to become a private farmer?'* (Russian survey, 1993)

Reasons given by those answering 'NO' (85% of responses), per cent of respondents		Reasons given by those answering 'YES' (15% of responses), per cent of respondents	
Lower earnings	11	Higher earnings	58
Less secure earnings	16	Opportunity to work independently	51
Too risky	41	Children's future	64
Do not want to change	31	Creativity, initiative	29
Insufficient capital	62	Higher status	18
Insufficient supply channels	65	Forced to become private farmer by liquidation of kolkhoz/sovkhoz	10
Insufficient land	17		
Insufficient skills	17		
Insufficient legal guarantees	36		
Loss of social benefits	18		
Restrictions on buying/selling of land	12		

Source: Brooks and Lerman (1994).

New role for the government

The transition to a market agriculture based on private ownership requires a fundamental change in the role of government in the agricultural sector and in the economy as a whole. Direct government intervention in agriculture, such as establishing mandatory targets for production and/or delivery of goods and central allocation of investments and inputs, must ease. The government's role should extend beyond the management of the difficult transition process: the government should establish the general rules and facilitate the conditions for smooth operation of markets and independent business organizations. This role is not less important than the previous one; however, it requires a different philosophy, as well as different means and institutions.

The government needs to make a high-level commitment to changing the structure and scope of government organizations for managing agriculture. This change should be guided by the following overall principles:

- (1) establishing a single locus of responsibility;
- (2) dismantling the current government management structure, which still reflects the needs of a command economy;
- (3) simplifying the structure of government organizations to match the reduced responsibilities of the public sector in agriculture.

Given the uniqueness of the region, its history and politics, it is not possible to define an exact structure for a modernized government administration of food and agriculture for the countries concerned. However, within a market-driven economic system the government should continue to play three roles: regulation, provision of support services and information analysis. Regulation should include food inspection, seed inspection, establishment and enforcement of grades and standards, establishment and control of phytosanitary standards, epidemiology and livestock disease control. Essential public services to be provided by the government should include domestic and foreign market information, agricultural research, farm advisory services and higher education in agriculture. Finally, the government should monitor, review and diagnose the implication of changing circumstances and develop options for public policy.

The dismantling of the bureaucratic structure inherited from the period of central planning is a very important task. What is needed is not merely changing the names of the various ministries, but radical modification and/or merger. Units related to central command and direct intervention should be eliminated, while those remaining should be organized and managed to meet the needs of a free market system. As transition proceeds, the whole structure can be further simplified, with fewer institutional units and fewer employees.

Changes are needed also in the structure of regional units. A large bureaucracy related to the implementation of central control still exists at the regional level in many countries. There is no need for their existence in the present form. A relatively small local administration would be adequate to enforce agricultural regulations, promote development and provide extension and market information services.

The establishment of market agriculture requires the development of a new legal framework, with new laws and the adjustment of existing legislation. The most important task is revision of the land law along the lines described earlier. A law on the transformation of collective and state farms is also needed in most of the countries. Other components of the legal framework that must be completed over the next years include:

- laws establishing the basic principles for voluntary private cooperatives;
- an agricultural marketing law establishing the framework for fair competition;
- anti-cartel legislation;
- quality control regulations.

At a later stage, general regulations for agriculture, forestry, and hunting and fishing must be established according to the new ownership structure and an economic management philosophy. It will be essential to harmonize legislation on agricultural trade with that of other developed countries.

CONCLUSIONS: PROSPECTS FOR THE FUTURE

The transformation of agriculture in Eastern Europe is still far from finished. The experiences and results so far point to the difficulties of the transition from large-scale agriculture to private farming and a market-based agriculture. This transformation is further impeded by the decline in output (Table 8) which has accompanied the transition process and can be attributed only in

TABLE 8 *Decline in production of major agricultural products (1989–93), per cent*

Country	Grain	Oilseed	Potatoes	Beef	Pork	Poultry	Milk
Czech Republic	18.5	+22.0	+3.0	23.4	8.3	18.7	28.5
Slovakia	25.9	5.6	12.8	20.1	29.1	8.6	39.4
Hungary	45.6	24.7	23.0	17.3	40.1	21.4	29.1
Poland	12.8	62.4	2.0	34.0	+9.0	8.8	22.8
Bulgaria	38.7	3.7	35.3	+18.5	22.8	52.7	37.2
Romania	15.7	20.7	20.4	+14.0	10.5	34.2	0.6
Russia	15.1 ¹	27.1	+12.9	20.5	27.1	27.8	15.9
Ukraine	10.6 ¹	23.8	+8.8	30.8	34.7	42.4	25.6
Belarus	1.5 ¹	16.0 ²	+35.5 ¹	24.1	33.0	20.4	25.1

Notes: ¹1990–93.

²Vegetable oil.

Source: OECD.

part to the economic crisis and falling demand. The rebound effect of the transformation and reforms is also considerable. The shift from large-scale farming to privatization in general is a process, not of building, but of dismantling. This is especially true for the first stage of the process. Loss of a part of the stock of fixed assets and other disorders are an unavoidable concomitant of such a process. Unfortunately, the behaviour of the governments concerned has tended to strengthen rather than counterbalance these unavoidable negative effects.

There is a lack of comprehensive agrarian strategy, a carefully considered, consistent, central management of the transformation. Instead, the process is being handled in an ad hoc manner with frequent changes and amendments, both retroactively and in the course of the process. The legislation that guides the agrarian transformation is not based on clearly considered and formulated programmes reached through a broad social consensus. The execution of some of the new laws is beyond the administrative capacity of governments.

In theory, Central and Eastern Europe has the possibility of shaping a legislative and regulatory system which, combined with adequate capital, can result in the creation of a farming structure best suited to market circumstances. As yet, the region has only partly taken advantage of this possibility. What is the reason for this? One of the most important features of the past few years has been the predominance of politics over economic rationality. In all these countries, the transformation of agriculture is taking place fundamentally as a process guided by political, often short-term, motivations in which economic considerations and the effort to create an efficient new structure as rapidly as possible play a secondary role. In Central and Eastern Europe, as a result of the ideologically charged prejudices against the inherited structure and the overemphasis on seeking justice and reprivatization, output has fallen to a greater extent than necessary, the loss of fixed assets has been greater than justifiable, land ownership has become fragmented, and people not engaged in farming have acquired a substantial share of land ownership. In the former Soviet Union, on the other hand, the characteristic features are political conservatism and mistrust of private production and market relations. Here the relatively unchanged old agricultural structure, with its low efficiency and continued demand for subsidies, could also make it more difficult to achieve general economic stabilization.

On the whole, our analysis shows that the course and the results of the agrarian reform in former socialist countries do not match the original expectations of Western observers or some of the local politicians. There has been no rapid privatization, no dramatic spread of private farms in the space of a few years, no rapid expansion of private production comparable to the Chinese or the Vietnamese reform. In fact, as mentioned previously, precisely the opposite has occurred. Apart from the political and reform management problems, the cause of this undoubtedly lies in the state of the economy as a whole, the lack of capital, and the unfavourable market situation. The influence of the historical and geographical environment and the established practice of agricultural production should not be underestimated either. Despite problems with production efficiency, the agriculture of Central and Eastern Europe represents a relatively high level of output with capital a more important production factor

than manual labour. Under such circumstances, redistribution of land is causing problems over the short term instead of producing a rapid rise in output.

A further serious problem is the shortage of capital and the state of the immediate economic underpinning of agricultural production. In both Central and Eastern Europe and the former Soviet Union one of the most important restrictive factors is the undeveloped, centralized and monopolistic nature of the state-controlled trade and processing structures, and the primitive financial system. It would appear that the debate on land ownership and the transformation of large-scale farms has obscured recognition of the real impact of these areas. In the absence of a functioning market, private agriculture is defenceless. But without a stimulating macroeconomic environment and mobilizable investment sources, the development of agriculture is inconceivable. For this reason, the strengthening of the market framework with the creation of fair market competition, a functioning rural banking system, an active land market, and competitive trade and processing industry are conditions of vital importance for further advancement in the agricultural sector.

The transformation of large-scale agriculture will be a lengthy process. It is extremely difficult to foresee what type of units will emerge as dominant. The region's agriculture probably will be characterized by a variety of forms of farming operations for quite some time to come. Private farms, cooperatives, commercial farms of various sizes and small part-time subsistence farms producing mainly for own consumption will exist side by side. Applying the major lessons of the first phase of the transition to assess the prospects for the future (without attempting to make more concrete predictions), I would like to stress the following:

- (1) The region's agriculture must adjust to basically new internal and external circumstances. Rapid expansion of internal demand cannot be expected and capturing a permanent share of external markets requires a basic improvement in efficiency, quality and competitiveness. In this situation, the level of output will for some time remain lower than that reached in previous years, which means that agricultural production cannot become the engine for general economic recovery. What is even more important, private production is emerging under conditions of strict efficiency requirements, hard budget constraints and intense market competition, so that this process will have losers as well as winners.
- (2) The transition to a profitable and efficient agricultural structure should be shortened as far as possible. What is required above all is the establishment of unequivocal and clear land ownership relations. In the future, the development of the farming structure should be basically shaped by market relations and market tools, principally through an efficiently functioning land market. This means minimizing the restrictions on land ownership and land use, as well as on ownership and lease rights. The transfer of ownership and lease rights should be simple and cheap. The greater the government intervention in the operation of the land market, the slower and more costly the shaping of the new farming structure will be.
- (3) The leasing of land will have a very important role in shaping an efficient

farming structure, and the conditions for leasing must be determined fundamentally by the forces of demand and supply.

- (4) It is unlikely that family farming of the Western European type and scale will become the generally accepted mode, not even over a longer period. The countries of Central and Eastern Europe cannot afford to provide state subsidies over a long period to keep alive farms which are not viable under free market conditions. For this reason, the desirable farm size and form of farming must be capable of generating self-sustainable profits without subsidies or with relatively little support. These farm sizes almost certainly will be many times larger than the average size of private farms in Central and Eastern Europe today (2–10 hectares) and possibly larger than farm sizes in some of the Western European countries.
- (5) Despite the generous start-up support, a relatively large number of private farms will not be capable of operating profitably. It would be a serious mistake to keep these farms alive with further injections from the state budget. State support, if it is given at all, should serve to improve the general income conditions of agriculture and to enhance international competitiveness. A stratum of private farmers dependent on central government support could easily become an economic and political burden not unlike the *kolkhoz/sovkhoz* system.
- (6) In international practice, agricultural production cooperatives have proved less efficient than family farms based on individual ownership. The development of market relations will thus definitely lead to further disintegration and transformation of the relatively numerous agricultural production cooperatives that are still in existence in these countries. Precisely because of the social and political implications, it is advisable to guide this process not by administrative intervention but through market and efficiency instruments, in a manner comparable to the desired differentiation of independent private farms.
- (7) The strengthening and spread of processing, marketing and purchasing cooperatives is a desirable development and can be expected to gain momentum in the future. These service cooperatives will provide a viable framework for the growth of private farms separating from the collective sector in the process of transition. The development of service cooperatives calls for support and government attention.
- (8) Finally, special attention should be paid to the social aspects of the transformation in agriculture. The decline in production and the change of ownership structure are undoubtedly sources of social problems and tensions. It is my conviction that agriculture can only contribute to the solution of these problems to the extent that it has the opportunity to do so within the framework of efficient production. The achievement of an efficient farming structure based on private ownership should be the fundamental objective of agrarian policy. Any deviation from this direction will have measurable negative economic consequences. It is to be hoped that the governments will leave the solution of the social problems of their rural population to social policy instruments and will avoid the pitfalls of using agrarian policy decisions to resolve social issues.

The agrarian development in Central and Eastern Europe has taken the first steps towards a market agriculture based on private ownership. The economic disequilibrium and market problems, coupled with uncertainties of government policy, are making this path rougher than originally anticipated. There can be no doubt that the region has all the necessary natural conditions for competitive and profitable agricultural production, and what has to be done to exploit this potential is also fairly clear. It is to be hoped that the agrarian policy of the countries in the region will quickly shake off the illusions and prejudices and remove the barriers that are still delaying the creation of an efficient market agriculture, establishing legal and economic frameworks consistent with a market economy. The greater the emphasis on the economy and reality and the less intervention and illusions, the quicker and more economically successful will be the transition of Central and Eastern Europe to a competitive, market agriculture.

NOTE

¹According to a 1993/4 survey conducted by the Ukraine Institute of Agricultural Economics, a typical independent farmer is married, with an average of 1.7 children, is 42 years old, has lived in a rural area since birth, and has higher or secondary education. Many of them (60 per cent of those in the survey) are former members of collectives, mainly farm technicians or farm managers, who easily meet the necessary skill requirements and have good connections with local authorities. A private farm relies mainly on extended family labour. Less than 4 per cent of the farms in the sample employ permanent hired workers, but over 20 per cent use seasonal hired labour. Those farms employing hired workers are substantially larger than those depending only on family labour.

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SECTION I

Competitiveness: Domestic and International Market Adjustment

