PANEL REPORT: LATIN AMERICAN AGRICULTURE DURING THE 1990s

ORGANIZER, CHAIRPERSON AND RAPPORTEUR

C. Jaramillo (Colombia)

PANEL DISCUSSANTS

A Longer-term View of the Agricultural Effects of Economy and Sector Reforms in Chile, 1965–2000 *Lovell Jarvis (University of California, Davis, USA)*

Brazilian Agriculture in the 1990s: Impact of the Policy Reforms *Steven M. Helfand (University of California, Riverside, USA) and Gervásio Castro de Rezende (Universidade Federal Fluminense, Brazil)*

Mexico: Economic Reforms and Evolution of Mexico's Basic Crops' Subsector during the 1990s *Antonio Yúnez-Naude and Rosa Martha Guerrero (Centre of Economic Studies, El Colegio de México)*

Lovell Jarvis showed how Chilean agriculture has experienced major land and economic reforms in the last four decades. Land reform took place from approximately 1965 to 1979, including both expropriation and redistribution, and major economic reforms occurred between 1974 and 1986, with important fine-tuning afterwards. Land reform was intended to improve land management and increase economic and political equity, while trade and price reforms were intended to reduce the implicit tax on agriculture imposed by an import-substituting industrialization strategy and remove other price distortions, thereby improving incentives for agricultural development.

Under land reform, 4 per cent of Chile's agricultural land was expropriated. Eventually, part was returned to the original owners, part was auctioned and part was redistributed to former workers on the expropriated farms. Economic reforms were broad in scale, affecting trade, finance, labour, taxation and expenditure, including the privatization of many government enterprises. These reforms sought to end inflation, achieve fiscal and trade balance, and improve economic efficiency throughout the economy. Little emphasis was placed on equity, at least prior to the 1990s.

The reforms, seen today, were highly successful in many aspects, though this was not clear during the first ten years following their initiation. During

1975–85, agricultural output grew slowly, the economy suffered two major recessions and unemployment was high. Real agricultural wages fell. Although Chile devalued sharply in 1974, efforts to control inflation led to steady appreciation of the peso. A rising exchange rate, the removal of protection for the principal agricultural products, and declining domestic demand led to a decline in the prices of Chile's principal traditional crops. The fruit sector began to grow rapidly in response to rising international demand, but it was initially a small sector and its rapid growth could not offset the decline in cereals, oilseeds, sugar beet, legumes and livestock products. Forestry plantings were heavily subsidized and area forested grew rapidly.

Policy discriminated against land reform beneficiaries. This discrimination, coupled with their relatively poor levels of education and managerial experience, and also with the very high prices for land that others could pay to initiate fruit production, led most beneficiaries to sell their land by the mid-1980s. Simultaneously, many larger farms were subdivided and sold, at least in part. Thus, largely as a result of land reform, Chile developed a dynamic land market that facilitated the entrance of new entrepreneurs and the development of new crops. Major shifts also occurred in the agricultural labour force. Most permanent farm workers lost their jobs, with employment becoming seasonal instead of permanent. Many workers began to work on a contract or piece rate basis and, in response, labour productivity rose rapidly. Females entered the labour force in growing numbers, particularly during the harvest.

After 1985, macroeconomic stability was achieved. Fruit output, quality and exports continued to grow rapidly and, as the fruit sector was highly labour-intensive, employment rose. Real agricultural wages began to increase in the early 1990s. Access to new technologies led to rising yields for cereals, oilseeds and sugar beet. As these are produced only for the domestic market, rising yields were associated with lower prices and declining acreage. Livestock technology also improved dramatically and, as domestic incomes and demand grew, livestock output increased rapidly. Wine production became highly profitable in the 1990s.

Chile has a fairly narrow comparative advantage in Mediterranean-type products such as fruits and vegetables, almonds, walnuts and wine, and also in forestry (wood and wood pulp). It produces grains, oilseeds and livestock products for the domestic market. As Chile becomes increasingly integrated with MERCOSUR, its agricultural sector will probably shrink and the growth rate is likely to slow. Nonetheless, broad-based land and economic reforms will have had many positive effects. The principal goal of reform was increased efficiency, not a particularly output-oriented goal. The agricultural sector today is significantly more technologically advanced than in the past. Management and workers are more skilled and motivated. Resources are allocated more efficiently, both in terms of factor use and output mix. Productivity has increased.

There is widespread support in Chile today for maintaining a market-oriented economy with an emphasis on individual initiative. There is a strong attitudinal shift towards political and economic moderation. There is confidence in the benefits of international trade, even if individual farm groups still lobby for policies that would benefit their special interests. Exporting is seen as a potential source of significant profit. Cheaper imports are seen as attractive because they lower production costs and provide higher-quality, cheaper consumer goods. A continued emphasis is needed on assisting with the transition of many, poorer farmers and agricultural workers towards employment in other sectors of the economy. The reform process has had greater success in increasing output and incomes than in increasing income equality. Nonetheless, the benefits of reform have been considerable.

The discussion centred on two contrasting issues: (a) the possibility of Chile's high agricultural rates of growth dropping in the near future, not because of liberalization but because of a threshold beyond which growth possibilities will be lower, and (b) the need to consider the harmful effects of liberalization on small farmers and farm workers (that is, on the poorer segment of Chile's agricultural sector).

As in other Latin American countries, Mexico's import substitution model has been abandoned. Since the 1990s (especially so since the beginning of the North American Free Trade Agreement implementation in 1994), the reforms have included the agricultural sector. Antonio Yúnez-Naude and Rosa Martha Guerrero pointed to the dualistic character of Mexico's agricultural sector and noted that the sub-sector of basic crops (beans, barley, maize, rice, sorghum, soy beans and wheat) was formerly the most protected. Producer prices were settled by the government and imports controlled by CONASUPO (Mexico's major state trading enterprise). However, on the basis of statistical time series covering 1970 to 1998, it seems that producer prices did not diverge greatly from international levels; but the market share going to local farmers was protected by CONASUPO, acting as the sole importer of basic crops. There has now been little effect on domestic production, but imports have increased. This conclusion is especially marked for maize, the most important staple in Mexico. In addition, maize production has not decreased since small farmers have not been directly affected by price reforms as they face high transaction costs and produce for their own consumption.

The paper ended with the following argument. Since liberalization is promoting efficiency in the entrepreneurial portion of Mexico's agriculture, the agricultural development policy challenge lies among small-scale producers. This is particularly so when it is remembered that it is in the rural sector that extreme poverty prevails and that its farmers are still controlling a high proportion of Mexico's natural resources.

Discussion was centred on three questions: (a) the effects of PROCAMPO (the decoupled agricultural support policy designed by the government to help farmers to face liberalization), (b) the changes in Mexico's agrarian structure provoked by the liberalization of land rights of the ejidal sector, and (c) the future of small-scale farming.

The Brazilian economy began a process of significant restructuring in the 1990s as a result of dramatic changes in economic policy. The import substitution industrialization (ISI) model was abandoned and the country began to shape a new path of development. Trade was liberalized, state-owned enterprises were privatized, domestic markets were deregulated, and a South

American Common Market (MERCOSUL) was formed. Agriculture was no exception to the economy-wide redefinition of the role of the state.

Steven M. Helfand and Gervásio Castro de Rezende discussed the impact of the policy reforms, and of the changing macroeconomic conditions, on Brazilian agriculture. Four aspects of the process that were either unexpected or not emphasized by writers in the period prior to the reforms were stressed.

(1) Events outside the agriculture affect its performance but also influence the timing and sequence of policy reform. In the ISI period it was clear that *indirect* policies, such as overvalued currencies and industrial protection, played a critical role in shaping the situation in farming, and it was expected that the reform of these policies would have a positive impact on the sector. What was unexpected – and this is especially true in the case of Brazil – was the difficulty and length of time that would be necessary to stabilize the economy. The numerous stabilization plans that were adopted in the 1980s and 1990s joined the more traditional indirect policies as a key force that shaped the performance of the sector. In this context, the reform of agricultural policies was almost entirely subordinated to the reform of ISI policies and the painful quest for price stability.

(2) Policy reform involved far more than trade liberalization. Deregulation and the reform of credit and support price policy have been central as well. In fact, the most dramatic transformations in the agricultural sector have taken place with those products that were most heavily regulated, such as wheat, milk, sugar and coffee. The products that lost import protection or gained a reduction in export taxation as a result of trade liberalization have also been affected, but to a lesser degree. For this group, the evolution of credit and support price policy has been extremely important.

(3) The impact of policy reform on input markets and productivity has been one of the key components of the adjustment process. Liberalization has altered relative input prices and increased access to high-quality imported inputs. It has also exposed domestic production to greater competition. Both of these factors have led to productivity gains and falling costs. Increases in productivity and efficiency, in addition to lower consumer prices, are among the most important measures of the success of the reforms.

(4) Reform was neither uniformly beneficial nor entirely prejudicial. Thus the authors' analysis seeks to distinguish between different groups of products, such as importables and exportables, geographic regions, farm sizes, and subperiods. The authors argued further that, since not all reforms were introduced simultaneously, the 1990s should be treated as a decade of transition in which the old model was replaced, but not all of the features of the new model were firmly established.

The discussion focused on three issues: (a) the relationship between macro–economic cycles and cycles of boom and bust within agriculture, (b) the impact on small and large farms of rural credit policy reform, and (c) the importance, difficulties, and challenges of designing a viable land reform programme in Brazil.