PANEL REPORT: POLITICAL ECONOMY OF AGRICULTURAL REFORMS IN CENTRAL AND EASTERN EUROPE

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PANEL DISCUSSANTS

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The panel discussion began by looking at aspects of transition (Swinnen, Serova and Ferenczi) before moving on to the particular problems of enlargement of the European Union as it will affect some of the countries of central and eastern Europe (Rabinowicz and Tangermann).

Johann Swinnen compared agricultural reforms in the acceding countries and member states of the Commonwealth of Independent States. He explained that initial conditions, the way land and the agricultural capital stock were privatized, agricultural policies and macroeconomic conditions explain a large part of the differences found in the performance of agriculture in transition countries. There is a fuller report of this material in a conference plenary paper (see above).

In similar vein, Eugenia Serova, also the author of a plenary paper, provided further insights into the evolution of Russia's reforms in agriculture and the food industry. She emphasized that Russia moves slowly forward on the path of agrarian reform but with its own special trajectory. Important historical factors include the fact that Russian peasant households almost never owned much land. When serfdom was abolished in 1861, ownership was transferred from landlords to the communes. In the first decade of the 20th century, Prime Minister Stolypin tried to implement an ambitious land reform, introducing individual property rights, but it was halted by the revolution. In the 1920s, during the New Economic Policy, there was a brief period when peasants enjoyed the full user rights for lands but this period was confined to five or six years. Lack of a landholding tradition was reinforced by the collectivization implemented in the 1930s. Since that time, three or four generations have lived in the *kolkhoz* system. This affected the mental make-up of rural populations as well as making land restitution in the countryside impossible.

In addition to the resistance to change, there are also geographical barriers. Owing to the huge area of the country, a very specific hierarchical system of administration evolved. As a result of this, the impact of any reform process decided on in the centre of power is reduced when it has to pass from one administrative level down to another one. At the lowest end, the impact is hardly felt. In addition, Russia consists of a huge number of nationalities with their own traditions, customs, attitudes towards land tenure and ways of farming. That explains the diversity of approaches in agrarian reforms in various parts of the country. It is also aggravated by the federal structure of the country. In accordance with Russia's constitution, land tenure is regulated by both federal and regional legislation. Since the various legislative bodies quite often pass laws which contradict each other, the process of agrarian reforms leads to much frustration.

It was never going to be easy to alter a sector with so complex a legacy, and so it is proving. However, to reinforce Swinnen's point about initial conditions, attention then turned to the political economy of agricultural reforms in Hungary, explained by Tibor Ferenczi. For decades Hungarian agriculture was considered to be efficient by comparison with other communist countries. This general view made it difficult to understand the policy objectives of transformation. Why should the sector be transformed and how should it be done?

Emerging political parties before the democratic elections in 1990 proposed two completely different approaches on farm restructuring. The Independent Smallholder Party wanted to accomplish two main objectives: first, to 'restitute' the land according to the ownership structure of 1947, the year before collectivization attempts started; second, to eliminate all collective and most state farms. All the other parties recognized the right for individuals to farm on their own account, but did not want to institutionalize the demolishing of the structures found then. The Independent Smallholder Party joined the governing coalition, which nominally accepted its policy but actually pursued a compromise in which nobody was satisfied. The main controversial issues for debate were land fragmentation and separation of land ownership from agricultural production. Land was distributed in three main parts: in a compensation process to individuals, to members of collective farms on their land titles, and to landless members and employees of collective farms and state farms. Following the compensation process and land restructuring, about 90 per cent of land is owned by individuals, with the rest remaining in the possession of the state. Joint stock companies and production cooperatives can only lease land from individuals (and from the state). The end result was that, by 1995, the area of individual holdings expanded, approaching half of the total, and later went above that figure. Other 'owners' still farm as cooperatives (though the area involved is now down to about 17 per cent of the total) or company shareholders.

The restructured sector now faces the challenge of accession to the European Union and the threat of competition in the enlarged market, with very uncertain rules of the game. This is a matter both of how price levels will be affected and of whether the principle of financial solidarity will apply to new member countries. It is very largely a debate about eligibility for 'direct payments', of the type introduced in the European Union in its 1992 'reform'. These were designed to compensate farmers (particularly grain producers) for reductions in supported selling prices. Farmers in the new member countries fear discrimination if they join a single market. They lack capital in the emerging structures, and such discrimination would weaken their ability to compete even for their domestic markets.

At this stage the panel turned to adjustments to be made in the Common Agricultural Policy (CAP) arising from the eastern enlargement. Ewa Rabinowicz stated that everyone is very well aware of the unfortunate consequences which the application of the CAP, as it is now, would have for the CEECs. One of the most central issues here is the eligibility of the CEECs for direct payments. All of them have demanded full participation in the CAP from day one. However, there is no money. In the financial perspective (budget) agreed in Berlin in 2000, provisions are not made for (compensatory) direct payments (DP) to the CEECs. The EU budget is annual. Hence possible savings arising from postponement of the accession cannot be rolled over.

One solution could be for the acceding countries to join, without their farmers receiving direct payments, in the belief that there would be general benefits from enlargement. But this is extremely unlikely. Taking Poland as a case in point, the large rural constituency (40 per cent of the population), being aware of the existence of direct payments, would never vote 'yes' in a referendum if farmers were denied equal treatment. It would also be difficult simply to add more money to the budget. The willingness of EU member states to contribute to common financing is low and even more pronounced in agriculture, where the legitimacy of the CAP is fading.

If any sort of compromise is possible it might lie in reduction and/or renationalization of compensation payments, while increasing funds available for rural development and environmental support. There are some signs that the CAP could move in this direction. The unequal distribution of direct payments is striking, while large farmers who are the main beneficiaries are not a politically strong group, especially in a Europe dominated by left-of centre governments. Environmental and rural groups are gaining momentum and might well form an alliance with small and middle-size farmers (who receive less from direct payments) to back a redirection of support mechanisms. In effect, the problem of dealing with the financing of enlargement could lie 'outside' the CEECs and within the existing EU.

The discussion turned finally to the potential contributions of Western countries in supporting the transition process. Stefan Tangermann elaborated on this topic. He began by asserting that Western countries wanted, and still want, to support the transition process in the countries in Central and Eastern Europe for clear-cut foreign policy reasons, but also for ideological reasons. The EU responded quickly, originally with Co-operation Agreements, but then with Europe Agreements (EAs), opening up the way towards membership of the EU for some countries. The first EAs, with Hungary and Poland, were signed as early as December 1991, soon after the process of transformation had started. These agreements provided for a gradual movement towards free trade in most sectors (it was 'asymmetric', in that CEECs could delay liberalization of their imports); for free movement of services, investment and, to some extent, of workers; and for a political dialogue (through association councils, association committees and joint parliamentary committees). Most importantly, the EAs explicitly opened up the possibility for the CEECs to become members of the EU at some stage. Accession negotiations are now proceeding.

Other Western countries also made efforts to integrate the CEECs fully into the Western world, thereby also supporting the process of political transformation. The steps taken included the offer of membership in NATO, preparations for WTO membership and support provided by the IMF. Support for transformation also came in very practical form, through instruments such as technical and financial assistance, for example provided by the EU through the PHARE programme. Some assistance may have been wasted because of a lack of experience in how best to foster the unprecedented process of transformation. Overall, however, it is probably fair to say that support provided by the Western countries was successful.

When it came to agriculture, the EU (on which these comments will concentrate) was in two minds. It was happy and quick to provide support for institutional development and structural improvement. The SAPARD programme has the potential of becoming an important element of that type of help. When it came to fostering the development of agricultural markets in the CEECs, though, the EU response can best be described as equivocal. Some preferential access to EU agricultural markets was provided, though it was mostly constrained to limited quantities. At the same time, however, the EU continued to ship agricultural exports, with heavy export subsidies, both to domestic markets in the CEECs and to third country markets in which there was EU/CEEC competition (including markets in the region of the former Soviet Union). Continued export subsidization by the EU was deplored by the CEECs.

Partly in response to such criticism, the EU has started to negotiate 'double zero' agreements under which the CEECs promise to allow for duty-free treatment of certain agricultural imports from the EU, while in exchange the EU promises not to grant export subsidies on its corresponding exports to the CEECs. These 'double zero' agreements are an interesting example of the strange economic consequences that response to political economy factors can have. The political attractiveness of this type of arrangement for the CEEC governments is that their farmers can no longer complain about their domestic markets being eroded by EU export subsidies. However, in economic terms, the elimination of EU export subsidies, in exchange for tariff elimination, means that the CEECs as nations now pay higher prices for agricultural imports that they continue to buy anyhow from the EU. This type of arrangement is analogous to a food consumer who goes to his food store and suggests that the shopkeeper should sell him food at double the normal price, because otherwise he tends to eat too much! For the shopkeeper, this arrangement would certainly be attractive – as it is to the EU, which now no longer needs to pay export subsidies on some exports to the CEECs. However, they suffer a terms of trade loss, and CEEC governments forgo tariff revenue. Indeed, it is possible that the losses will be as great as the financial assistance under SAPARD.

Such can be the undesirable economic consequences of arrangements that look attractive, to both sides involved, from a political economy perspective. Under the heading of 'preparations for EU membership', agreements are concluded that result in economic losses for the CEECs. If EU membership were to come soon, this would probably not be too disastrous. However, unfortunately it is still not clear when the first round of accession will take place. If the EU really wanted to support political and economic transformation in the CEECs to the maximum extent possible, it would make sure that accession happens soon.