



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

PROCEEDINGS  
OF THE  
THIRD INTERNATIONAL CONFERENCE  
OF  
AGRICULTURAL ECONOMISTS

HELD AT  
BAD EILSEN  
GERMANY  
26 AUGUST TO 2 SEPTEMBER 1934

LONDON  
OXFORD UNIVERSITY PRESS  
HUMPHREY MILFORD  
1935

Europe. Agriculture  
Depression, Agricultural. Europe  
Agricultural policy Danube

Indexed

## FIGHTING THE CRISIS IN THE PEASANT COUNTRIES OF THE DANUBE BASIN

OTTO VON FRANGEŠ

University of Zagreb, Yugoslavia

THE members of the International Conference of Agricultural Economists are already informed of the agricultural situation in *Bulgaria* by the excellent report of Mr. N. V. Dolinsky, of the problems of the agrarian crisis in *Rumania* by the admirable report of Mr. M. Serban, and of the special economic and social problems of the agrarian crisis in *Yugoslavia* by the author of the present paper. I should like to take for granted the information contained in these reports, in order to confine myself to a summary of those facts which are common to all the countries concerned, and thereby gain special importance for an appraisal of the measures taken to meet the crisis.

We must specially emphasize as a common factor in these three Danube countries the prevalence of small peasant holdings, which distinguishes them from the other countries of the Danube Basin—Hungary, Austria, and Czechoslovakia.<sup>1</sup> These countries also have in common the general impoverishment of the people, i.e. the fall in the purchasing and tax-paying power; the peasants suffer especially under the unfavourable price relationship of agricultural with industrial products, and the resulting depreciation of capital and labour invested in the land. The sale of produce below cost of production brought about, above all, severe debt difficulties for the peasants. It is significant that the governments of all the three countries concerned themselves mainly with the two last-mentioned problems. The most important and drastic regulations were made on the one hand for the purpose of raising the prices of the chief

<sup>1</sup> Of the entire area, the land owned by small peasants amounts in:

Bulgaria—in holdings of less than 30 ha—to 99.4 per cent.					
Yugoslavia	”	”	”	28 ha—to 75	” ”
Rumania	”	”	”	20 ha—to 61	” ”
Austria	”	”	”	20 ha—to 25	” ”
Hungary	”	”	”	57 ha—to 50	” ”
Czechoslovakia	”	”	”	20 ha—to 44	” ”

The figures for Yugoslavia are an approximate estimate; the others are taken from the *Annuaire International de Statistique Agricole*, Rome, 1930-1 and 1931-2, and from the report of the present author at the XIIIth International Agricultural Congress in Rome: *La Situation de l'agriculture dans les pays de l'Europe orientale*, Rome, 1927.

agricultural products, on the other hand for the protection of the indebted peasants against their creditors. It is surprising how much these measures, although called forth by identical causes, differed in their nature, and yet have led—we may say it in anticipation—to the same negative results. We will attempt briefly to describe the character of these measures and the causes of their failure.

#### I. MEASURES FOR RAISING THE PRICES OF AGRICULTURAL PRODUCTS

The governments of all three states seem to have drawn their conclusions from the following considerations: the estimated revenue from direct taxes (land-tax) cannot be collected so long as the peasant receives for his grain no price at all, or only such a low price as will hardly cover the bare cost of living. It is, therefore, to the advantage of the state finances if by a state subsidy the grain prices are raised to such an extent that the peasant can pay his taxes. Of course, the state subsidy must not exceed the estimated tax returns, as otherwise the transaction would be unfavourable to the exchequer. The manner in which prices were to be raised is different in the three countries.

Rumania went farthest. The state bound itself to pay an export bounty of 100 Lei on every 100 kg. of wheat, and 130 Lei on every 100 kg. of wheat flour. The export of maize got no bounty, but the transport rates to the export harbours and stations were reduced by 30 per cent. On all kinds of grain, oil-fruits, and legumes, the export duties hitherto in force were abolished, together with the sales tax. To raise the means for the payment of the export bounty, a tax of 0.40 Lei per kg. of flour and a stamp-duty of 0.50–1.00 Lei per kg. on all kinds of bread was imposed. On production of documents showing completed export, the Minister of Finance had at once to pay the export bounty. A union of grain exporters was set up by the new law, and was authorized to export under these favourable conditions. The union included the farm producers' associations.<sup>2</sup> The export of live cattle and meat was regulated by export syndicates with a central office in Bucharest, which distributed the quotas available for export among the syndicates.

By the law of December 25, 1930,<sup>3</sup> Bulgaria set up a corporation for the purchase and export of grain, to buy grain at a price higher than the foreign price, in order to raise the home price. Fifty per cent.

<sup>2</sup> Law for the valorization of agricultural products of Mar. 31, 1931. *Annuaire International de Législation Agricole*, XXI<sup>e</sup> Année, Rome, 1932, p. 99.

<sup>3</sup> Law for the purchase and export of grain. *Annuaire International de Législation Agricole*, XX<sup>e</sup> Année, Rome, 1931, p. 22.

of the increased price for wheat, and 25 per cent. for other grain, was paid in cash, the remainder in state bonds, with which the holder might pay his taxes. In addition to this an export bounty of 0.50 Leva was later granted for maize. The sole right to buy grain on these favourable terms was in general in the hands of the corporation mentioned above.

In Yugoslavia the law of June 27, 1931,<sup>4</sup> declared trading in wheat and rye to be a state monopoly, which was handed over to a newly-formed and privileged export company. This company was to buy wheat—no buying was ever done in rye—at a price of 160 Din. per 100 kg. to begin with, afterwards at increasing prices up to 100 per cent. above world parity, and then to dispose of it to the best advantage abroad or at home. The expenses were to be covered by rebate of duties on exports to Austria and Czechoslovakia, and by a flour-tax levied later. Any deficit was to be made good by the state, which guaranteed the business transactions of the export company.

As we said above, all the three policies have failed, involving great losses to the state finances. They had to be abandoned in the three countries, as the means at the state's disposal and the unexpectedly small returns from the action itself made it simply impossible to maintain the method of raising prices directly. Moreover, the organization failed in its main object (the increase of the agricultural producer's income) in all three countries, for the raised prices were of very little advantage to him—the profits went to the selling agencies and to the corn merchants associated with them. The insufficiency of the state's means for purchasing, the subsequent abandonment of the whole scheme, and the inevitable damage suffered by many interested parties, have left inglorious memories in all the south-eastern Danubian countries.

If we want to obtain a clear idea as to the causes which led to the failure of the well-meant government measures, we must, above all, take into account the defects of every state undertaking which is drafted on a large scale, but not sufficiently thought out; the restricted freedom of action of the responsible managers; the bringing together of an *ad hoc* organization with more or less unknown members; and their unskilled and inexperienced handling of details.

To this we must add that the years 1931 and 1932 brought very rich harvests in the Danube basin so that the surplus was unusually

<sup>4</sup> Law referring to the export and import of grain. *Annuaire International de Législation Agricole*, XXI<sup>e</sup> Année, Rome, 1932, p. 132.

large, and the state subsidy was consequently drawn upon far more heavily than could have been expected normally. The agrarian countries of south-eastern Europe, having little capital of their own, are altogether unable to raise the prices of agricultural products by way of subsidies at home; they must obtain the means for this purpose by way of preferential export agreements with other countries. The important matter is not so much the extent of the preference, but rather the certainty of being able in some way or another to get the price-depressing surpluses out of the country. For as soon as these surpluses are eliminated, the prices of the remaining stocks rise to the world-market level, plus import duty, which can of course be regulated at will in the export countries without injury to third parties, so that the desired price-level can be reached without state assistance. The kernel of the question is therefore the conclusion of bilateral, preferential, and reciprocal trade agreements between the south-eastern countries of Europe and those western countries which could take their agrarian surplus. If this condition is realized, the central export organizations will be quite able to fulfil their task, and no special state subsidies will be needed to bring the price of agricultural products up to the level which is so vitally necessary for the prosperity of the farmers.

## 2. MEASURES TO PROTECT INDEBTED SMALL FARMERS AGAINST THEIR CREDITORS

This scheme is concerned not so much with the great problem of freeing the peasant from debt, but rather with his temporary protection against his creditors during the period of the crisis. In countries without much capital, loans can be secured only at considerable sacrifices on the part of the borrower—sacrifices which, in the form of interest and security, often go far beyond the economic advantages of the loan and jeopardize the very existence of the debtor. In order to make bearable the otherwise intolerable burdens, agricultural credit institutions were established in all three south-eastern countries; their activities are beneficial but, owing to lack of means, limited. The general fall in prices—not only of products, but also of the value of the farms, land, buildings, and improvements, live and other stock—created a situation which made it impossible for nearly all debtors to meet their obligations. The creditors had a free hand to enforce their legal claims rigorously; and this they did in so many cases that the governments found themselves compelled to take special measures for the protection of the threatened peasantry.

By a remarkable coincidence, the laws for the protection of debtors

were promulgated in all three countries of the Lower Danube almost on the same day.<sup>5</sup> The most radical measures were taken in Rumania, where the transition from a primitive economic life to one based on a market and credit economy had in itself created a previously non-existent demand for credit. This demand was further increased by the need for capital arising out of the agrarian reform, so that the indebtedness of the peasants and their dependence on their creditors had assumed very grave forms. In Bulgaria and Yugoslavia things were hardly any better, but the legislative measures were not so drastic as in Rumania. In all three countries there was undeniably a pronounced anti-capitalist tendency, which brought the agricultural credit institutions into an untenable situation. But even the 'protected' peasants felt in the beginning only the unfavourable effects of the new laws, for their credit-worthiness was at one stroke wiped out: no grocer, no tradesman, no factory, and no bank would give goods on credit, or money on loan to a debtor who could really no longer be legally forced to pay his debts. The credit stringency of the peasants became so acute that in some places riotous demonstrations took place in front of public offices. On the other hand, the small village grocers, who no longer gave salt, flour, petroleum, &c., on credit, were so much pressed that they shut up their shops and moved into the towns. This unexpected result induced all three governments to make changes in the original legislation,<sup>6</sup> by which the rights of the creditors were better protected and the provisions of the law limited to the obligations already in existence, while, with regard to new credits, they left the existing laws against defaulting debtors unchanged. Even after these alterations and supplements, the problem of peasant indebtedness in the south-eastern Danubian countries cannot be regarded as happily solved.

The fact has generally been overlooked that the farmer's credit serves different purposes, and that the manner in which it is used determines the possibility and form of its repayment. Credit which is used as circulating capital, and which reproduces itself in a single period of production, must not be treated like credit used for the acquisition of land. While the working capital in the course of its employment is subject to only slight fluctuations of value, the value of land has in the last three years diminished by more than 50 per cent.

<sup>5</sup> Bulgaria: Law for the protection of the agricultural holder of Apr. 16, 1932. Rumania: Law for the regulation of agricultural debts of Apr. 14, 1932. Yugoslavia: Law for the protection of farmers of Apr. 19, 1932.

<sup>6</sup> In Rumania the court of appeal declared the law to be unconstitutional, so that it had to be altered in any case.

The repayment of debts incurred in connexion with production and consumption is not particularly difficult in the case of farmers who have adapted themselves to modern market and credit conditions. On the other hand, it is in the great majority of cases quite impossible for the farmer to make his farm yield the difference between the former market value and the present 'earning' value of his land. These differences of value and price which were dependent on, and caused by, the general conditions, and not by wrong farming methods of the individual farmer, should be taken over by the state as a burden to be borne by the community—no matter whether by conversion or by the issue of bonds which may be used as legal tender, or in some other way. In any case, it is only that form of agricultural credit, viz. the mortgage in general, which is in need of state protection in all three Danubian Balkan States; any further method of influencing the credit facilities of the farmer may do more harm than good. That does not mean that rates of interest, compulsory sales of peasant property, &c., should not be specially regulated in the interest of the farmers. On the contrary, these questions, as well as that of the 'green usury', i.e. undue profits on buying and selling, intermediate trade, &c., have to become matters of state concern and protection. But the state interference has to give full consideration to the close connexion between the interests of all classes of the people; otherwise the preference given to some, while of only slight advantage to them, is certainly always an injury to the whole nation. In the supplements and alterations of the original laws, this standpoint is taken more and more into account; and yet the desired result has not been realized in so far as, by the protection of the peasant debtors, their economic position was only partially improved, while the national economy as a whole, especially the credit system, suffered heavy damage. At the moment, however, this does not worry the people very much. In these countries the agrarian reform, and the encroachments on private property connected with it, struck a heavy blow at the people's sense of justice as regards the integrity of property and the sanctity of contracts. The demagogic successes of parliamentary democracy have greatly strengthened this feeling by now taking up, after their successful campaign against private land property, the fight against private capital. That was not difficult. The cases of usury against the peasantry, often really appalling, made it easy for the demagogues amongst their leaders to present as the aim of their fight the complete cancellation of all peasant debts. In Yugoslavia many peasants believe that they will never have to pay their debts at all, and it seems to be much the same



in Rumania and Bulgaria. With such a state of mind among large sections of the people, it is not easy in a peasant country for a responsible parliamentary government to find a way which makes it possible, uninfluenced by demagogues, to balance the interests of all classes.

The latest alterations of the original laws represent attempts to realize the expectations of the peasantry, as far as possible, without, however, injuring the interests of the creditors to the extent originally planned. The greatest difficulty in these attempts is the inadequacy of the state resources in all three countries: their budgets had to be reduced by 10-15 per cent. compared with the previous year, and it is absolutely impossible, out of the ordinary revenues of the state, to cover the extraordinary expenses involved in the cancellation of peasant debts. Nor can the necessary means be raised through internal or external loans; for in the home countries no available means exist and in foreign countries no credits are obtainable for such unproductive purposes. One way is still open; if the governments would issue stocks (debentures, mortgage bonds, notes, &c., enjoying in internal circulation full parity with the gold-covered notes) secured by mortgages on the land liberated from debt, and if further they would guarantee the conversion or redemption of these stocks by annual budget provisions, the debt cancellation could to a large extent be effected. By the issue of the new stocks, the creditors of the peasants—merchants, tradesmen, banks, &c.—would be in a position to meet their obligations to their creditors and depositors, 'frozen' capital would come to life again, and the entire economic life would be revived by this injection of new blood. Unquestionably, every expenditure of the state to this effect would release far greater possibilities than the actual sum of money would amount to. It is questionable whether such a measure could be regarded as inflation and as a damage to the credit of the country concerned, abroad or at home. If we disregard the various scientific—and so much disputed—definitions of inflation, and if we judge the problem only by the too abundant practical experiences of our post-war days, we may assume that a cancellation of debt, carried through in the manner described, could not be called inflation; for though this would mean additional money in circulation without gold cover, the amount of this money would from the outset be limited; it would be fully secured by mortgage, and its repayment would have a budgetary guarantee. Such a solution could be brought into harmony with the principles of the quantity theory of money, and only rigid supporters of the gold standard could raise objections to it. But the knowledge that the measures hitherto taken do not satisfy the peasantry, and that a

recovery of the economic life in general cannot be expected from present methods, will probably sooner or later compel the governments of the Danubian Balkan states to adopt these or similar measures. For the present, we have to note the fact that the measures of the governments in the peasant states of south-eastern Europe, with regard to the two most burning problems, the raising of the prices of their agricultural products and the protection of the indebted peasants, have led to no decisive success. The reasons for the failure are, on the one hand, the inadequacy of state resources, and on the other, the state of mind prevailing among the people. The question naturally suggests itself: how can these countries, in spite of this, improve the condition of the farmers, and thereby overcome the general crisis in its most important aspects?

The way would be, as we said above, to increase the money in circulation; but we must not hide from ourselves the fact that, while this would considerably improve the situation, it would not lay the foundation for permanent prosperity. This can only be achieved by a well-directed effort extending over many years, and for this the natural resources of the Balkan countries amply provide the necessary basis. The aim should be the organization of production in the Danubian peasant countries for exchange of goods with the import countries of western Europe; or where that is impossible, the export of surpluses unmarketable in the west, to the Near East Mediterranean countries. The former course is historically justified and economically requisite, the latter would be a last resort, if the former fails. Both demand measures which must involve considerable changes in the economic structure and farming organization of the peasantry, if the object is to be attained.

Above all, the present widespread two-field system, with its prevailing wheat and maize crops, must be modified so far as to make room for products more easily marketable and more profitable than the above-mentioned grain crops. It must, however, not be forgotten, that between wheat and maize there is an ecological connexion in the sense that poor wheat harvests are regularly supplemented by rich maize harvests, and vice versa, and that accordingly the self-supporting farms of the peasant countries are obliged, in order to provide under all circumstances grain for bread-making—which includes maize—to grow both kinds of corn. Certainly this need not be done so extensively as it happens now.<sup>7</sup> The land thus released

<sup>7</sup> The ecological relation between wheat and maize culture is specially clear in Yugoslavia, where, e.g., in 1928 there was a record wheat harvest of 28 mill. dz., whereas the maize harvest was particularly bad with 18 mill. dz. In 1932 the position was reversed:

might well be devoted to the cultivation of industrial plants (e.g. oil-seeds : rape-seed, soy-beans, sun-flowers, poppies, &c.; textile plants : hemp, flax; medicinal plants) according to the demands of the market for which they are intended, that is to say, it must be done within the framework of a plan fixed from the beginning for the mutual exchange of goods. The change from corn-growing to the rotation of crops might take place only in conjunction with fodder growing (lupins) which, in its turn, involves a transformation of the primitive breeds of cattle, which are bad fodder consumers, into better fodder consumers, by crossing and selection. The successes hitherto achieved in this respect in northern Yugoslavia and Rumania with Pinzgauers, Zimmenthalers, and, in the mountainous districts, with Alpine Gray-cattle, encourage further steps in the same direction. Simultaneously the transition must be effected from extensive pasture-farming to regulated stall-feeding, which means a revolution in the domestic economy of those districts where hitherto the cattle were kept in summer on open pastures and green fallow, in winter in most primitive shelters with the scantiest straw and hay fodder. The transition from primitive domestic cattle to more productive and finer breeds does not increase the number of the cattle, the supply does not become greater, but the value of each animal increases and their marketability rises, especially abroad. That again involves a planned adaptation to the requirements of the economic area to which the export is to be directed. Both for plant and animal production it is necessary for the Danubian peasant countries to make systematic changes in production in order to secure adequate markets for their products. But in addition to this there will have to be an improvement in the quality of the products. Thus, during the last three years, detailed regulations in this direction have been issued in all three countries in order to ensure a classification and standardization of export products. In their relation to the producer, such measures involve a far-reaching influence to be exercised by the government on the development of the various branches of farming, which are to be grouped in districts and assisted according to their maximum possibilities of profit. Everything connected with these developments, such as the distribution of seed-corn and breeding cattle, instruction and schooling, prizes and stimulation of interest, organization of co-operative societies—in short, all measures which serve

the wheat harvest yielded only 14.5 mill. dz. but maize 47 mill. dz. In Rumania the ecological connexion is clearer in the relation between barley and maize : 1930 : barley 22.1 mill. dz., maize 45.2 mill. dz.; 1931 : barley 12.9 mill. dz., maize 60.6 mill. dz. In Bulgaria the same relation exists as in Yugoslavia between wheat and maize : 1930 : wheat 8.9 mill. dz., maize 9.4 mill. dz.; 1931 : wheat 15.5 mill. dz., maize 7.7 mill. dz.

the promotion of agriculture, must be incorporated in the framework of the general plan.

The execution of the planned measures must, of course, be left to the administrations of the separate countries; but the planning itself needs the common co-operation of all three south-eastern countries, which from the outset must settle the framework of their plan in mutual agreement, if they do not want to run the risk of making their mutual competition in the market still keener by the new planning of their production. Co-operation is greatly facilitated by the present peaceful political situation in the Balkans; indeed, the political situation may be considerably strengthened by such economic agreements. But the countries to which the export of new products resulting from the changes in production is to be directed must also take part in the planning of the peasant countries. So far as the markets in the western countries, Germany, Italy, Austria, Czechoslovakia, and Switzerland, are to be retained, it will first be necessary for these countries to bring their protectionist agrarian policy within such limits as will make the eastern states desirous to maintain their existing connexions. But lately that has been the case only to a very slight extent. Only the attempt for a trade agreement between Germany and Rumania, which indeed could not be realized, and the agreement concluded between Germany and Yugoslavia on May 1, 1934, open prospects of a further development in the desired direction. It must, however, be clearly understood that preferences such as those provided by the German-Yugoslavian agreement, fluctuating round 13 per cent., are insufficient to effect that rise of prices which is the aim of the agreement. With such small preferences, the purchasing power of the Yugoslavian farmers will hardly be increased at all, because the long way back to the producer will deprive him of all beneficial effects the preferential treatment of his products may have otherwise. Nor is the industry of Germany much assisted by them, and Yugoslavian agriculture will hardly be induced to adopt a systematic reorganization giving special consideration to Germany's needs. The same is naturally true of Rumania and Bulgaria; and not only in their relations to Germany, but to all other non-self-supporting countries of western Europe. It must not be forgotten that those countries which have no colonies are increasingly dependent on the markets of the semi-developed European countries; that in these countries a hard struggle for the market has just begun among the European nations depending on it as well as between them and their Japanese competitor; and that in this struggle that country will win which is able to offer the greatest advantages to the agrarian

states. The situation of the latter seems to be approaching a complete transformation; while they were hitherto obliged to seek markets for their products, they will in future be courted by the industrial states to become efficient buyers of their industrial products. The new conditions will, however, be of benefit to the Danubian peasant countries only if they understand how to adapt their production systematically to the new market possibilities. The question whether this should be done by way of bilateral agreements or by arrangements made by blocks of agrarian and industrial groups among themselves, will probably be answered in favour of the former method. Nevertheless, it will be advisable that the peasant countries should apportion between themselves the future market requirements, as all three have exactly the same conditions of production, and therefore a surplus of the new products might easily result. In any case, it is certain that the crisis in the Danubian peasant countries can be overcome, not by palliative measures, but only by a fundamental and systematic re-orientation of their production within the framework of effective trade relations with the non-self-supporting countries of Europe. Should such a connexion not be possible, these countries will be gradually forced to loosen their ties with the west, and turn to the Near East in so far as the latter offers a market for their products. From the standpoint of Europe, from the standpoint of the west as a whole, that would be the most unfavourable solution of the problem—the peasant countries would be happy if it could be avoided.