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## **Changing Farm Structure In Transition Countries In The Light Of World Experience**

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## **CHANGING FARM STRUCTURE IN TRANSITION COUNTRIES IN THE LIGHT OF WORLD EXPERIENCE**

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The farming structure in market economies is characterized by a number of strongly pronounced features:

- Farmland is privately owned
- Farmers are independent to make decisions on disposition and use of land
- Viable farms span the whole spectrum from very small family units to large corporate organizations
- Farm size adjustment proceeds through the medium of land markets
- There is no sharp concentration of land in farms of any particular type or size category

The post-socialist transition countries in Europe and Central Asia emerged in 1990-91 from the era of central planning with an entirely different heritage:

- Land was state owned (FSU) or deployed and cultivated in accordance with strict state guidelines (CEE)
- Production and marketing decisions were generally made according to a central plan
- Small private farms were suffered (mainly as a safety net for the population), but clear preference was given to very large corporate farms (cooperatives and state farms)
- Farm sizes were predetermined by state plans and policies: no land markets existed
- The farm structure was characterized by sharp duality with most land concentrated in a relatively small number of very large farms

The inefficiency of the Soviet agricultural model was universally recognized by local scholars and politicians in all post-socialist countries. The overriding objective of the transition from plan to market was therefore to emulate the more successful market economies by adopting (or at least approaching) the model of market agriculture. This was the underlying rationale of the agricultural reform programs in all transition countries, although the implementation widely differed.

The post-socialist transition countries have achieved significant convergence with the market model during the last 15 years:

- Land has been largely privatized or returned to individual landowners
- Central planning and state orders have been largely abolished: farmers are now free to make their own production and marketing decisions
- New legislation and government policies accept (at least on paper) the existence of various farm types and assure (again at least on paper) a level playing field for farms of all types
- Land markets have begun to emerge as a medium for farm size adjustment (meanwhile mainly through leasing)

Yet transition agriculture to this day is characterized by excessive concentration of land in a small number of very large farms. This phenomenon is not restricted to CIS: it is also observed in many

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CEE countries. Figure 1 shows how the land concentration curves for Russia and Hungary differ from the market pattern of land concentration. In transition countries we still observe a clear duality of farm structure: a large number of small farms control a small fraction of land and a small number of large farms control a disproportionately large fraction of land. No doubt, large farms exist also in market economies, but they do not control the bulk of agricultural land. In market economies, land is mainly cultivated by medium-sized farms, which have not yet appeared in transition countries. The divergence between transition countries and market economies is thus a question of proportion: what share of land should the very large farms control?

Figure 1a. Land Concentration: Russia and USA

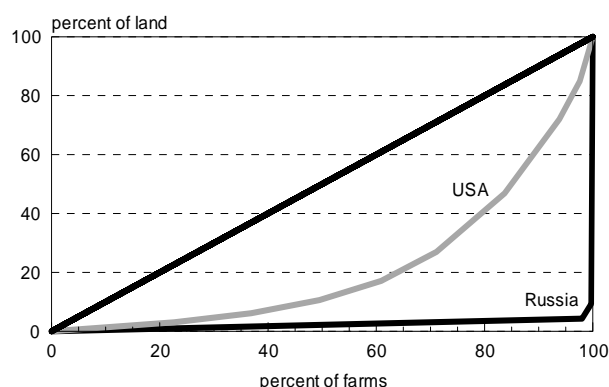
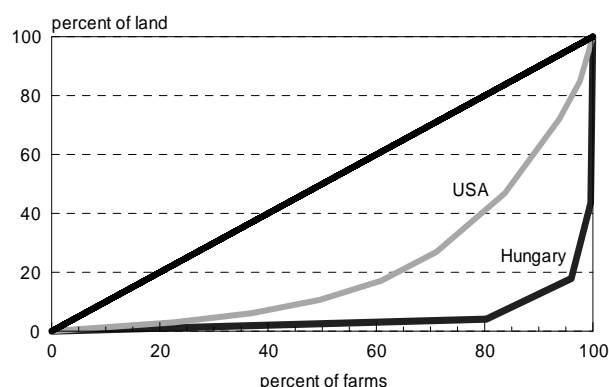


Figure 1b. Land Concentration: Hungary and USA



The skewed farm structure in transition countries is unfortunately reflected in grossly inefficient use of land in large corporate farms. In market economies, large corporate farms typically produce much more than their share in land. In transition countries the situation is reversed. Large corporate farms control most of the agricultural land, but produce much less than their share in land. This situation is illustrated in Table 1, where we see, for instance, that in Russia and Ukraine corporate farms produce around 40% of agricultural output on fully 80% of agricultural land. The inefficiency of the corporate farm sector is actually becoming more pronounced over time, as its share in agricultural output continues to decline while its share in agricultural land remains fairly constant (in recent years).

**Table 1. Inefficiency of land use by large corporate farms**

	Share of corporate farms in agricultural land, %	Share of corporate farms in agricultural output, %
Russia	88	45
Ukraine	83	44
Azerbaijan	26	3
Slovakia	90	70

It is often argued that low efficiency of large corporate farms is a feature of CIS, where these farms are direct successors of former collectives that have undergone minimum organizational restructuring. In the same vein, it is argued that the situation in the CEE countries with a dominant large-farm sector (Hungary, the Czech Republic, Slovakia, Estonia) is entirely different: in these countries the large farms have undergone meaningful organizational restructuring and have achieved significant efficiency improvements. Unfortunately, this repeating claim has never been substantiated



with facts (at least not to the present author's knowledge). On the contrary, a recent analysis for Slovakia shows that the situation is fundamentally the same as in CIS countries (see last row in Table 1). Analysis of FADN data for Slovakia furthermore shows that the profit performance of the large corporate farms is substantially inferior to that of the small individual farms. It is most desirable to extend the Slovak analysis at least to Estonia, Hungary, and the Czech Republic, which are usually cited (without proof) as examples of countries with a successful large-farm sector.

The discussion naturally leads to the question of average farm sizes. What do we mean by "large corporate farms"? How large is large? The late William Thiesenhusen, an acknowledged authority on land reform in all parts of the world, used to stress that the average farm size is a relative notion that depends on the local conditions (national land endowment, rural population, etc.). There is no universal optimum, and average sizes can be compared only for countries with similar natural conditions. It makes no sense to compare the farm size in Russia and Ukraine (both land-rich countries) to that in Portugal or The Netherlands. Russia and Ukraine should be compared to USA and Canada; Portugal and the Netherlands may be an appropriate benchmark for Moldova and Armenia. The size of the large corporate farms in most CIS countries has not changed much during the 15 years since the beginning of transition: they average 3,000-4,000 hectares of agricultural land. In USA, large corporate farms (as opposed to family farms) average less than 700 hectares. As David Sedik of FAO often points out, the large farms in CIS are more than 6 times bigger than the large farms in USA. On the other hand, the large corporate farms in the CEE countries have undergone significant downsizing, and today they average as little as 500 hectares in Estonia and Hungary (but still over 1,000 hectares in Slovakia!). Perhaps it is time to consider carefully and seriously the impact of exceptionally large farm sizes in transition countries on productivity and efficiency. After all, established theory shows clearly that for very large farms agency and transaction costs far exceed any benefits from economies of scale. Maybe large corporate farms in CIS fall in this inherently inefficient range and the experience of market economies should be studied more closely.

In CIS, most policy makers (and many scholars) are still captivated by the old socialist notion of economies of scale in agriculture. The "Russian-Ukrainian dream" is to achieve horizontal transformation of inefficient large farms into efficient large farms, "like those in America". This is a fallacy for two main reasons. First, as we have shown, the large farms "in America" are nowhere as large as in Russia and Ukraine. Second, the vision of horizontal transformation ignores the economic mechanism by which farms grow to large size in market economies:

- Start small, make a profit;
- If no profit, go bankrupt while still small;
- Invest and grow as long as farm continues making profit
- Main factor limiting farm size: managerial skills and capacity

There is no reason to avoid large farms if good managers are available to make them profitable. Perhaps the key to the emergence and development of huge agroholdings in Russia (and recently also in Ukraine) is the ability of outside investors to attract managerial talent. But does anyone seriously think that we can find 27,000 highly qualified managers in Russia and 14,000 in Ukraine to take charge of the ailing large farms in these countries? Given the development pattern in market economies, it is probably better to let the existing large farms disappear and reenergize the market growth process from the start.

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In conclusion it is important to recall the role of land markets as a medium that allows land to flow from less efficient to more efficient producers. Land markets thus automatically take care of both efficiency improvement and farm size adjustment. Government policies should aim to facilitate the development of land markets by simplifying the transaction registration procedures, reducing the transaction costs to the absolute minimum, providing relevant public information services, and in general making the entire process as transparent and user-friendly as possible.