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Acta oeconomica et informatica 1  
Nitra, Slovaca Universitas Agriculturae Nitriae, 1998, s. 16—20

## MACROECONOMIC ADJUSTMENTS: EFFECTS ON THE VENEZUELAN AGRICULTURAL SECTOR MAKROEKONOMICKÉ ZMENY: DOPADY NA VENEZUELSKÝ POĽNOHOSPODÁRSKY SEKTOR

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Práca analyzuje priebeh transformácie venezuelského poľnohospodárstva prebiehajúcej na pozadí makroekonomických zmien od začiatku osemdesiatych rokov. Zlepšenie výkonnosti venezuelského poľnohospodárstva sa neuskutoční pokiaľ nenastane makroekonomická stabilita a neprijmú sa zodpovedajúce makroekonomické politiky. Je potrebné pokračovať v trhovo orientovaných reformách, aby sa realizovali zisky z medzinárodného obchodu založeného na komparatívnych výhodách. Reformátori musia brať do úvahy náklady spojené s transformačným obdobím.

Kľúčové slová: poľnohospodárstvo, Venezuela, makroekonomická politika, poľnohospodárska politika, transformácia

### Introduction

Venezuela is an economy whose development model has depended on the oil rent<sup>1</sup>. For the main part of this century, the rent distributed by the state through different ways reproduced a particular capital accumulation model, opened to imports, but closed to non oil exports (the so-called "Dutch disease"). This model had problems to absorb and use productively invested capital, leading to a fall in the rates of profits and private investment. This pattern of capital accumulation was mainly based on revenues not generated by the domestic economy, but the oil rent (Baptista, Mommer, 1989). Since this model collapsed when the rent was not enough to sustain it, Venezuela is trying to get the path to build an economy less dependent on the oil activity, more diversified and more efficient, in order to get to steady and sustainable growth.

This paper will analyze the recent past of the Venezuelan agricultural sector, within the framework of the macroeconomic adjustments implemented since the early eighties. First of all, the characteristics and effects of macroeconomic adjustments on the Venezuelan agricultural sector will be analyzed; second, a brief description of the most important transformations of the Venezuelan agricultural sector will be included. These changes are considered a consequence of the new economic environment created by the so-called "orthodox" adjustment started in 1989; third and finally, this paper will discuss some of the main public policies needed to improve the performance of the sector, within the framework of the new national and international realities, will be proposed.

### The heterodox adjustment (1983-1988): The resistance to change

#### A. Macroeconomic policies and main results

The Venezuelan capital accumulation model based on oil rent collapsed during the early eighties. The crisis became visible when

it was impossible to execute the payments of the external debt service, and macroeconomic imbalances persisted. To deal with the crisis, in 1983 and 1989, Venezuela implemented two macroeconomic adjustment programs. The first started in 1983, and it was not subject to the requirements of the International Monetary Fund (IMF). The orientation of this program was heterodox, combining orthodox policies to reduce aggregated demand with controls on prices, the exchange rate and external trade.

The heterodox adjustment program put the emphasis on the stabilization of the economy. However, it did not attempt to produce structural changes within productive sectors and did not eliminate distortions on prices due to subsidies and protectionist policies. Moreover, the adjustment did not propose reforms either in the fiscal and financial sector or in external trade policy. Thus, its main goal was to reduce internal aggregate demand and the fiscal deficit in order to improve the situation of the balance of payments and to pay the service of the external debt.

The stabilization program obtained some positive results by reducing the fiscal deficit and improving the balance of payments. Nevertheless, the economy was affected by a recession. Due to the recession, the government decided at the end of 1985 to change its economic policy. A vast program of investment based on increasing public expenditures was implemented. Monetary discipline was ignored, while at the same time both oil and fiscal revenues decreased due to the fall in international oil prices.

#### B. The "Booming" of agriculture

The agriculture was stagnant in years before 1984. Thus, the new government that started to manage the country in 1984, set as one of the main objectives to restore the growth of the agricultural sector.

1. Agricultural minimum prices were risen, and as a consequence there was an increase in real producer prices.
2. Subsidies to the main agricultural inputs were put in place.

<sup>1</sup> The concept of rent is used in the Ricardian sense.

3. Since the internal prices of many agricultural products exceeded international prices, a discretionary system based on quotas, prohibitions and other non tariff barriers was implemented to protect domestic agriculture.
4. Nominal interest rates on agricultural loans were fixed at the maximum level of 8.5 %.
5. Agricultural public expenditures and investments grew.

It should be noted, however, that the agricultural policies causing the tremendous growth of the sector during this period were adopted within the context of macroeconomic policies that failed. This failure led the economy to unsustainable imbalances, and toward a crisis that forced the country to adopt a new and more radical adjustment program in 1989. Furthermore, although the agricultural policies had a positive supply response they introduced distortions which prevented efficient allocation of resources and improvements in productivity. This was because high rates of protection isolated national production from foreign competitors, and the exaggerated subsidies caused a wasteful and inefficient use of inputs without encouraging increases in productivity

### The orthodox adjustment (1989-1993): The time for economic reforms

#### A.- Setting macroeconomic policies

The government that started to run the country at the beginning of 1989 found a dangerous economic situation due to the persistence of macroeconomic imbalances. Moreover, cash international monetary reserves were almost exhausted, while the country had to carry out payments to the rest of the world. Thus, the new government did not hesitate in negotiating an agreement with the IMF, to foster the international monetary reserves and to implement a macroeconomic adjustment program to stabilize the economy. The adjustment aimed at restoring macroeconomic balances, but also marked the beginning of a vast program of market oriented reforms, in order to produce structural changes in the economy. The main objectives of this adjustment program were the following :

1. To restore basic internal and external macroeconomic equilibria.
2. To recover economic growth within the framework of financial and price stability .
3. To diversify the economy making it less dependent on oil revenues.
4. To develop social programs to reduce poverty and to mitigate the impact of the adjustment on the lower income sectors of the population.

The strategy to reach these objectives consisted of:

1. Liberalization of prices, reduction and elimination of generalized-indirect subsidies.
2. Liberalization of the exchange market, unification and flotation of the exchange rate according to the movement of supply and demand for foreign exchange. In addition to that, a real devaluation of the currency was carried out in 1989 and 1990.
3. Implementation of a deep reform in international trade policy, the so-called commercial reform. The objective was

to create the conditions to increase the competitiveness of the economy by eliminating the restrictions to import and export. The goal was to increase the efficiency of the productive sectors and to get a better allocation of resources toward the production of goods in which the country has or could develop comparative advantages.

4. Carrying out a deep reform of the fiscal and financial systems to reduce the dependence on oil income.
5. Carrying out a program to privatize public enterprises and reorganize the public sector. In addition to that, reforms to the law of foreign investments were introduced to encourage the flow of capital from abroad.
6. Monetary policy was restrictive to prevent increasing inflation and permit interest rate to rise to real positive levels. This should become positive in real terms (nominal interest rates higher than the expected rate of inflation) in order to stimulate the increase of national savings and the entry of foreign capital.
7. Wages had to be fixed taking into account the improvements in productivity and through the negotiation between entrepreneurs and worker's unions. The goal was to avoid inflationary pressures and loss of competitiveness by increasing real wages without rising productivity.
8. Re-negotiation of the external debt.

Although the reforms were not completely achieved and there were delays in the implementation of some of them (for example the fiscal and financial reforms were passed by Congress at the end of 1993), there is no doubt that as a consequence of the new policies, the economic environment changed dramatically.

#### B. New sector policies and results : the pain of changing

Agriculture was strongly affected by the change in macroeconomic policies and the reforms introduced by the orthodox adjustment. First, the fall and the change in the orientation of public expenditures, by reducing or eliminating general subsidies, meant that overall government spending on agriculture declined.

Second, the agricultural commercial reform caused the opening of the sector by reducing tariffs and eliminating non tariff restrictions to import. A price band scheme was implemented for some products considered sensitive (corn, wheat, rice, animal feeds, milk and sugar), in order to protect national production and to avoid the transmission of the international price instability within the economy. Restrictions on exports were also removed. The agricultural commercial reform advanced faster than the others, and it is considered one of the most radical executed by any Latin American country.

The main objectives of the agricultural commercial reform were : a) increasing the competitiveness of the agricultural sector and getting an improvement in the allocation of resources toward the production of agrifood goods in which the country has comparative advantages; b) improving consumer welfare by allowing the import of cheapest agrifood goods and reducing the pressure of food prices on the rate of inflation, and c) increasing the agrifood exports. In other words, it was expected net gains in economic welfare would be derived from gains in efficiency and a better allocation of resources.

Third, at the beginning of the program, in 1989, there was a real devaluation of the currency in order to offset the

overvaluation of the Bolivar, increase the competitiveness of tradable sector and encourage the growth of exports. The aim of the exchange rate policy was to maintain a competitive real exchange rate.

As a consequence of the radical changes in both macroeconomic and sector policies, total harvested area and total agricultural production declined. Agricultural employment also fell.

### **The main transformations of the Venezuelan agricultural sector**

It is noteworthy that despite the decline of total agricultural production and employment, the new economic environment created by the reforms has caused some positive structural changes within the sector. The main ones are the following:

1. An increase in production and an improvement in the expectations to continue to produce some agricultural goods in which the country has comparative advantages (rice, tropical fruits, bananas and plantains, tomatoes, cocoa, coffee, livestock and fishery). That pattern reflects a change in the structure of agricultural production<sup>2</sup>.
2. There has been an improvement in productivity and yields of almost of all agricultural products. This is explained by reducing or taking away less productive lands from cultivation, and by the introduction of technological improvements and innovations.  
In summary, the opening of the sector and the reduction in agricultural input subsidies has caused an increase in yields and efficiency which compensated at least partly, the fall in real producer prices
3. There now exists a more rational use of agricultural inputs
4. Imported inputs per unit of output has decreased.
5. Agricultural and food exports have had a steady growth since 1989. They have not only grown, but also diversified.

Those results can be mainly attributed to : a) the commercial reform that dismantled restrictions to export and encouraged the participation of the country in regional free trade agreements, and b) the existence of a real exchange rate less appreciated than in the past.

The improvement in the agrifood commercial balance is explained not only by the growth of the exports, but also because agrifood imports fell as a consequence of the decrease in per capita food demand. Therefore, this achievement to be properly assessed has to take into account the negative effects on the population of the reduction in food consumption.

### **The policies to be addressed in the future: The hard task of continuing the reforms**

In the future, Venezuela will continue the opening of the economy and the implementation of economic reforms as a way to increase efficiency in its allocation of resources, improve its

competitiveness, attract foreign investments, and in general, realize gains from trading on the basis of static and dynamic comparative advantages. However, the big challenge after the reestablishment of macroeconomic balances, is still the need to spread the gains in economic growth to the population. Income distribution and poverty have worsened since the late seventies; likewise real wages have shown a clear tendency to fall. There is no doubt that without addressing this problem, political stability will be compromised, and therefore, the political feasibility of economic reforms may well decline.

Taking into account the framework of restrictions and the challenges the country faces, it seems that the main agricultural public policies should address:

1. Increasing public expenditures in areas such as agricultural research, technology transfer, rural roads, irrigation, land recuperation, plant and animal health, human resources (human capital), personal security and improvements of public and social services in rural areas. This can be achieved by using the already approved credits from the World Bank and the IADB, complemented by adequate budget resources. In addition, the Venezuelan agricultural sector needs a legal framework that assures a minimum flow of resources to be invested in rural areas. This will avoid the sudden fluctuations that have characterized the recent pattern of public expenditures in the sector. While increased support of the State to small producers will be necessary, this must be accomplished but without the paternalistic and populist behavior of the past.
2. Improving the financing of agriculture. Since financing the sector has become an important issue which avoids a better performance, important reforms must be introduced. A fund of mutual guarantees must be created in order to assure the repayments of loans to private financial institutions and to stimulate their willingness to lend to the agricultural sector. Also, strengthening the regional and national public institutions dedicated to finance small producers will have to be a priority. Public agricultural credit should be conducted within a framework that stimulates the implementation of credits tied to insurance, technical assistance and marketing services. There have been successful experiences which should be properly adapted and adopted.
3. Improving and increasing the State's capacity to regulate and control market failures and imperfections derived from the existence of an agroindustry highly concentrated with oligopolist and oligopsonist power (Nielson, 1996). In addition, proper policies has to be tailored to improve internal marketing of fresh products and make more transparent the process of forming prices along the whole agrifood chain. Selling or leasing public storage capacity

<sup>2</sup>The case of cereals is illustrative of changes in the structure of production. Due to the opening and the other reforms corn and sorghum production has declined while rice has risen. Then, the share of rice in the productive structure of cereals has grown (Gutierrez, 1995). Furthermore, it is notorious the change in the use of land in some regions of the country. For example in the south of the Lake of Maracaibo live stock and milk production now is frequently combined with the introduction of tropical fruits, plantains, banana and cocoa.

to producers seems a correct change, in order to improve the bargaining power of agricultural producers. Removing administrative barriers and improving the infrastructure to export is also necessary.

4. The land market needs to be made more orderly because the sector is affected by the insecurity of property rights, even for small and larger producers<sup>3</sup>. A program to assign land and credit to technicians and young producers in some strategic border areas of the country needs to be implemented. Land property is an important issue to be addressed, because legal insecurity in property rights has become an important obstacle to carry out investments and to the obtaining of credit. A land reform program should be reactivated under a new approach in specific areas of the country where rural poverty is an increasing problem.
5. Temporary protection and support of the State has to be given to some strategic-staple products in order to increase their competitiveness. Products such as maize, beans, coffee and other staple crops, very important for small producers and in the food intake could be included in special programs to improve its performance. However, rather than protection on the border through high tariffs or quantitative restrictions, what is required is the implementation of special and targeted programs to improve the performance and the welfare of small producers. In order to reach that goal technical assistance and technology transfer combined with supervised credit, marketing, improvements in infrastructure and in the access to basic services (education, health, water, etc.) should be implemented.
6. Restructuring and modernizing public institutions that execute agricultural policies has to be continued. Decentralization of public agricultural expenditures by giving more decision power to regional governments is recommended. Likewise, a better relationship and new linkages between the public sector, the producer's organizations and the civil society of rural areas needs to be developed.
7. Increasing attention to the problems that jeopardize the sustainability of the environment and the capacity of the country to produce foods in the future will have to be taken into account.

### Concluding remarks:

#### What reformist policy makers must not forget

Three final concluding remarks are necessary. First, despite efforts the government could do to improve the performance of Venezuelan agriculture, they will not yield the expected results if economic stability and macroeconomic policies are not adequate. It must be remembered, that most important than specific sector policies is the discrimination against agriculture which arises from macroeconomic policies, such as the

overvaluation of the currency, the excessive protection to industry, and the misguided intervention of the State through the control of food prices and other forms of taxing the sector. Thus, a proper macroeconomic environment that avoids discrimination of agrifood tradable goods is a necessary condition to restore a steady and sustainable growth of the whole food system.

Second, there is no doubt about the need to continue with market oriented reforms, given the need to obtain the economic gains that yield trading on the basis of comparative advantages, and the way the international arena is changing. Nevertheless, reformers have to remember and to learn the lessons from the recent Venezuelan experience. There will not be progress in introducing economic reforms, if the people feel that the gains the reforms yield are not better distributed. Poverty is still a big challenge and a main obstacle to accomplish market oriented reforms. The conclusion is that the political legitimacy of the reforms must not be neglected.

Third and last, reformers must be aware of the costs of the transition and the need to minimize them. Thus, big challenges in the case of agriculture are: a) the proper allocation of public funds to make changes easier and painless, and b) the building of proper, modern and efficient institutions to design and execute new policies. As FAO (1994) has pointed out, opening the economy seems not to be enough to overcome structural obstacles in the agricultural sector. At the same time it is necessary for State to correct market failures, build infrastructure, spread technology and create new institutions.

The Venezuelan case shows that despite market-oriented economic reforms implemented under the framework of an orthodox adjustment program since 1989, neither the costs of the transition nor the lack of financial resources and a proper set of policies to adapt the sector to the new situation were properly considered. The consequence was a lack of political support to continue with those reforms and some attempts to get back to the old policies. However, the Venezuelan case also shows that despite those attempts to get back, they could not be accomplished. Since the economic and social costs of coming back to the old model are larger than its benefits, and due to the macroeconomic imbalances that affected the economy, Venezuela had to adopt a new adjustment program, based on market oriented economic reforms in the first semester of 1996. Thus, policy makers should learn from the lessons of the Venezuelan recent past, in order to set proper policies that allow steady economic growth at the same time social welfare of the population improves within the framework of an open economy. In the case of agriculture, it is necessary to implement policies to improve the efficiency and competitiveness of the sector, but also it is still necessary to defeat poverty and improve social welfare in rural areas.

### Summary

The paper analyzes the recent transformation of the Venezuelan agriculture within the framework of the macroeconomic

<sup>3</sup>This situation limits the possibility of getting agricultural credits and increasing capital investments.

adjustments implemented since the early eighties. The improvement of performance of the Venezuelan agriculture can not take place unless there is economic stability and adequate macroeconomic policies are undertaken. There is need to continue market-oriented reforms to gain from trade based on comparative advantages. Reformers must be aware of costs associated with the transition period.

Key words: agriculture, Venezuela, macroeconomic policy, agricultural policy, transformation

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Acta oeconomica et informatica 1  
Nitra, Slovaca Universitas Agriculturae Nitriae, 1998, s. 20—22

## OBILNINY V AGRÁRNOM OBCHODE SLOVENSKEJ REPUBLIKY CEREALS IN AGRARIAN TRADE OF THE SLOVAK REPUBLIC

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Cereals have an important position on the agrarian market both in the Slovak Republic as well as in the world. Cereals market considerably contributes to the financial resources of producers. The market of wheat and food wheat for the period of time 1994-1996 has been analysed. The questions of sale and marketing chains of these commodities in the Slovak Republic have been considered. 1 339.3 ths.tons of wheat were sold in 1994, 1 444.4 ths.tons in 1995 and 1 112.6 ths.tons in 1996. The most productive area is the western part of Slovakia that produces 68 % of total production. Market of food wheat has an increasing tendency, in 1994 it accounted for 35% and in 1996 50.6%. The food wheat price does not correspond to the prices in the EU. The state intervention purchase of food wheat is realized for a minimum guarantee price, that is 3 630 Sk per 1 ton. The requirements of producers as well as autonomous institutions in agriculture are about 4 300 - 4 800 Sk per 1 ton.

Key words: market, wheat marketing chains, wheat price

Obilniny patria medzi najvýznamnejšie komodity agrárneho trhu. Vo svete sa obilniny pestovali v roku 1995 na ploche 692,8 mil.ha, z toho rozvojové krajiny 434,4 mil.ha a 258,4 mil.ha rozvinuté krajiny. Najviac obilia sa pestuje v Ázii 305,3 mil.ha; ďalej v Afrike 88,1 mil.ha; v Severnej Amerike 78,0 mil.ha a v Európe 64,6 mil.ha. Celková produkcia obilia v roku 1995 dosiahla 1 909,4 mil.ton, z toho pšenice 28,6% a ryže 28,9%. Rozvojové krajiny dopestovali 1 134,4 mil.ton, čo je 65,6% a zostatok rozvinuté krajiny. Z údajov vyplýva, že rozvinuté krajiny dosiahli vyššiu produkciu z 1 hektára o 0,39 tony ako rozvojové krajiny.

Podiel jednotlivých krajín na svetovej produkcii obilnín poukazuje na vhodnosť agroekologických podmienok na jej pestovanie, ale i na celkovú potrebu základných druhov skladového obilia. V roku 1995 najväčší podiel zo svetovej produkcie dosiahla Čína 21,9%; ďalej USA 14,5%; India 11,3%; Rusko 3,3%; Brazília 2,6% a ostatné krajiny s nižším podielom.

Z obilnín najvýznamnejšie miesto patrí pšenici, ryži a kukurici. Pšenica sa vo svete pestuje na ploche 221 mil.ha, z toho najviac v Ázii 39,2%; bývalé ZSSR 20,5%; Severná Amerika 16,2%;

Európa 12,2% a ďalšie krajiny. Európska únia v roku 1995 pestovala pšenicu na ploche 16,5 mil.ha. Významným pestovateľom sú ďalej Rumunsko, Poľsko s 2,4 mil.ha, ďalej nasledujú Bulharsko a Maďarsko s výmerou 1,1 mil.ha. Produkcia pšenice vo svete v roku 1995 dosiahla 547 306 mil.ton. V Európe sa dosiahla priemerná produkcia 4,62 t z hektára, ale EÚ 5,30; Rumunsko 3,08; Poľsko 3,59 a Maďarsko 4,17 tony z hektára vzhľadom na limitovaný rozsah príspevku k ďalším významným komoditám obilnín sa vrátíme v nadväzných prácach.

Komparácia dosiahnutých výsledkov vybraných komodít obilnín Slovenskej republiky s vyspelými agrárnymi krajinami poukazuje, že naši prvovýrobcovia dosahujú vyššiu úroveň priemerných hektárových úrod ako v krajinách CEFTY, ale nižšie ako v niektorých krajinách EÚ. V roku 1994 sa podľa PODOLÁKA (1997) vyprodukovalo 699 kg na 1 obyvateľa. V roku 1995 sa dosiahla produkcia 539 kg a v roku 1996 618 kg na 1 obyvateľa. Problematikou agrárneho trhu sa zaoberajú KRETTNER (1997); VICEN (1996); MIŽIČKOVÁ (1996); BIELIK (1995), ktorí vo svojich prácach analyzujú ponuku vybraných komodít. Produkcia obilnín, ale