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From Subsistence To Efficiency In The Romanian Agriculture During Transition

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„What was expected, what we observed,

the lessons learned."

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ABSTRACT

In Romania's farming sector are currently working 3.6 million people, representing 32.1% of the total country's labour force. Yet, they contribute by only 8.5% to total GDP (2005). Besides the sectoral restructuring efforts, there are at present social problems that have to be solved up, namely the diminution of the huge agricultural labour force and the improvement of life quality in the rural areas. The importance of completing the tasks that remained uncompleted during the transition period, namely the privatization of land still in state ownership, competitiveness improvement, development of a market-compatible institutional framework became a pressing need at present, in spite of the many difficulties.

Keywords: subsistence, labor excedent, net importer, quality of life, rural areas, Romania

1 INTRODUCTION

The paper presents the huge efforts that Romania has made in order to adapt its agri-food sector to the requirements imposed by the near accession to the European Union.

In Romania's farming sector are currently working 3.6 million people. If we add Poland's agricultural workers to this figure, only in these two countries from Central and Eastern Europe, the number of people employed in agriculture is almost equal to that from the European Union-15 (6.3 compared to 6.7 million people). Yet, the 3.6 million people employed in Romania's farming sector, representing 32.1% of the total country's labour force, contribute by only 8.5% to total GDP (2005). The productive capacity of land, expressed by the gross agricultural production per hectare, is about 500-700 €, which represents less than 30% of the productivity level in the EU (~2300 € per hectare in 2005). This low productivity of land is combined with the extreme low labour productivity levels, that was 1700 € per worker on the average in 2005, i.e. only 7% of the labour productivity level in EU agriculture (23200 € per worker in 2005).

It is worth mentioning that, under visible forms, the crisis was felt long before 1989; as regards the farm production level and dynamics, the signs of decline are perceptible by the middle of the '80s (POPESCU 2004). In these conditions, after 1989, as regards the main components of the operating capital and the technical-economic performance, the traditionally marginal position of Romanian farmers in an European context was perpetuated, while for certain structural elements of resources, i.e. of the result of resources allocation, it became more evident (DAVIDOVICI et al. 2002). The direct consequence of the revealed situation is represented by the generalized poverty condition of most farmers (CHIRCA et al. 1999) and, which is most critical, the transformation of the poverty vicious circle into an increasing spiral of pauperization in the Romanian rural areas.

We are convinced that this brief presentation of some of the defining characteristics of the Romanian farmers' situation contains enough arguments for underlining the fact that at present, we are at a crossroads. The direction that we will follow will greatly depend upon the management of governmental action during the first year of membership to the European Union.

2 LAND FARMING STRUCTURE IN ROMANIA

The agricultural and food products have by tradition played a great role in Romania's foreign trade. Starting from the year 1990, Romania became a net importer of agri-food products, and in 1997 an increasing trend was noticed in the deficit of the balance of trade, that reached a peak level of 1.35 billion Euro in 2005 and 1.97 billion Euro in 2006.

The agricultural and food sector reform in Romania and the agricultural policy framework went through several stages since early transition. In the first years (until 1997) important sectoral reforms were initiated, yet their implementation was slow. The implementation of the Stabilization Plan in 1997 gave an impetus both to the general economic reforms and to the specific reforms in agriculture.

Besides the sectoral restructuring efforts, there are at present social problems that have to be solved up, namely the diminution of the huge agricultural labour force and the improvement of life quality in the rural areas.

After 1989, in Romania's agriculture a dual land operation structure was established and consolidated: on one side the great number of small peasant household farms and on the other side, a relatively low number of large-sized farms organized along the private firm principles. On an intermediary position, we can find a still relatively low number of individual farms that have a production potential and an economic activity orientation that are quite similar to those of the family farms from the European Union countries.

According to the data of the agricultural census of December 2002 – January 2003, in our country there were 4462.2 thousand individual agricultural holdings (99.5% of the total number of agricultural units) operating a utilized agricultural area (UAA) of 7708.8 thousand hectares (55.4% of UAA from Romania). This sector of Romanian agriculture is characterized by a strong land fragmentation. An individual agricultural holding operates 1.73 ha on the average. From the same census it results that 26.2% of total individual agricultural holdings operate, each, an area less than 0.3 ha; on a cumulated basis, these holdings use about 1.6% of UAA from the sector of individual holdings. Besides the controversial provisions of Law no.166/2002, it has to be mentioned that in our country there is no functional definition of the agricultural farm concept. Thus, it is rather doubtful that the economic entities operating less than 0.3 ha (according to the 2002-2003 agricultural census data the average land area of such agricultural units is 0.11 ha) could fall into the category of farms; as regards the engaged resources and the resulting output, these units distribution into the category of farms generates great doubts. In this context it has to be also mentioned that it is not very clear which economic entities might be defined as subsistence farms, semi-subsistence farms respectively.

It is worth noticing that almost half of the number of individual agricultural holdings (45.4% of these) are into the size category 0.31-2.0 ha; these units operate 24.7% of UAA from the sector of individual agricultural holdings. Each unit from this category has 0.98 ha on the average.

The largest part of UAA from Romania operated in the individual agricultural holdings system (37.6% of UAA) belongs to the agricultural units from the category of size 2-5 ha/per holding; this represents a farm size that is much lower than the average family farm from the EU with a great land fragmentation.

The agricultural units from the category 5.1-10.0 ha account for 5.0% of total individual agricultural holdings and operate 18.4% of total UAA of the individual holdings; this represents 6.6 ha UAA per agricultural unit on the average. As regards their land area, the agricultural holdings in this category are comparable with the average area of family farms from certain European Union countries, namely Greece (4.4 ha/farm), Italy (6.1 ha/farm), Poland (8 ha/farm), Portugal (9.3 ha/farm), Slovenia (5.6 ha/farm).

It is worth mentioning that the individual agricultural holdings with an area of over 10.1 ha, representing only 1.1% of total individual agricultural holdings, operate 17.6% of UAA from the individual holdings.

Thus, in an optimist evaluation, it can be considered that as regards the land resources – as one of the main determinants of the production potential of economic operators – only about 6% of total agricultural individual holdings from our country are in a position that can be compared to the family farms from the EU countries with the greatest land fragmentation level. This figure is quite relevant and it does not ask for additional comments regarding the efficiency of land resources allocation by the largest mass of farmers from our country. In the same respect, we consider it necessary to underline – on this occasion, too – the necessity of speeding up the process of land concentration into viable agricultural holdings in the context of competition environment prevailing in the European Union countries.

The poor endowment in land resources of individual holdings is accompanied by the scarcity of operating capital. Thus, on the average, an individual agricultural holding (that operates about 1.73 ha UAA on the average) has: 0.61 bovine heads; 1.57 hogs; 1.74 sheep and goats; 13.4 poultry heads. One tractor serves 33 individual agricultural holdings, one plough 41 holdings, one seeder 114 individual agricultural holdings. As regards the production infrastructure, mainly animal shelters, the individual agricultural holdings do not have a more favourable situation either. In this respect, it is worth mentioning that there is one stable for bovines in 2.1 individual agricultural holdings, one pig sty in 1.7 holdings, a sheep pen in 10.1 holdings, one poultry house in 2.5 holdings.

The only plentiful resource (a significant surplus) that the individual agricultural holdings have is labour. The surplus labour generated a strong underutilization of this resource, a genuine hidden unemployment, as the cause of a generalized poverty condition. According to NIS data the average size of a peasant household farm in the year 2006 was 3.51 persons; as a demographic structure, an average farmer household consists of 23.2% children under 15 years old and 7.1% persons aged 65 and over. On this basis, we appreciate that 30.3% of the members of one peasant household consist of persons unable to work; it would result that the labour resources would represent only 2.4 people. The data of the general agricultural census 2002-2003 reveal that on an average individual agricultural household 138 work days were worked (8 hours/day), out of which 132 by the family members. We can thus appreciate that each family member able to work had the possibility to work 55 days work/year in the agricultural activities within the household.

3 COMPETITION ENVIRONMENT

The importance of completing the tasks that remained uncompleted during the transition period, namely the privatization of land into state ownership, competitiveness improvement, development of a market-compatible institutional framework became a pressing need at present, in spite of the many difficulties.

Romania's accession will undoubtedly have a series of beneficial effects in the agri-food sector: stability of agricultural prices, access of 450 million consumers to market, possible increase of exports, improvement of the agri-food products quality, increase of farmers' incomes, increase of investments in agriculture and food industry, diminution of the number of people employed in agriculture, agricultural production concentration on commercial family farms.

At present, the competitive environment continues to be underdeveloped and strongly unbalanced to the detriment of agricultural producers. The same undesired characteristics have been perpetuated for years both in the field of demand and of supply, despite some visible progress in the legislative field. Referring to this we have in view the regulations adopted in the field of agricultural markets, producers' groups, professional associations, etc.

The largest part of the agri-food supply continues to be pulverized and goes to segmented markets. There are few concerns in relation to the control and respect of quality standards. The problems of preservation, of conditioning and primary processing respectively – as premises of supply scheduling, of a more adequate correlation of supply and demand have not found an adequate solution yet. The legal framework created in relation to the producers' groups, a real opportunity in supply organization, is still mistrusted by agricultural producers.

The marketing activities have not acquired their right meaningfulness and place yet: on the individual holding, due to production fragmentation, the supply is under the opportunity threshold of engaging resources in marketing actions (product promoting included); on the large farms, due to more general deficiencies of the economic activity management. The lack of specialists in the field is not on the last place among the causes of the present inadequate situation – these do not find their place on the peasant individual farm, while on larger farms they are not integrated, due to either the neglect of this activity field, or to the lack of necessary resources for hiring agricultural specialists.

At the same time, the non-traditional forms of agricultural production marketing (that practically have not existed in Romania for the last 60 years) through the commodity exchanges and the futures market continue to be blocked despite the adoption of the necessary legislative framework. The absence of stock markets deprives the producers of the signals necessary to orient their production activity, facilitates the transfer without equivalent of the newly-created value in agriculture towards other sectors, maintains the rigidity of financial flows and circuits, etc. The connection to foreign markets is maintained at a low level.

The necessary demand demonopolization process is far from the level of a functional market economy. As a result, the speculative transactions, to the detriment of farmers, still prevail in the case of many agri-food products, with a significant impact upon the agricultural incomes. The present demand situation makes the market signals be pale and sometimes distorted. As a consequence, the agricultural producers act in an opaque environment, where it is extremely difficult and risky to adopt decisions, in particular decisions that engage the agricultural holding on a longer term.

In the conditions of a market where the purchasing power is maintained at a low level, the demand has not become a quality vector yet. Under the pressure of the selling price to consumers, most of these having a low purchasing power, the purchasers of agricultural products (for processing or for direct sale) have an extremely reduced margin of action to the benefit of quality. In these circumstances, the agricultural producers are “stimulated” to focus their efforts upon quantitative aspects (volume of obtained production) and less upon quality.

The revealed drawbacks significantly impact the competitiveness of products and of domestic producers. These are mainly exercised through costs, prices and supply quality of the Romanian agri-food products. At present, due to the existing situation, these act as restrictions to competitiveness, generating or maintaining a handicap compared to the other European Union countries. Some other aspects should not be overlooked, mainly: the negative consequences induced by the underdeveloped and imbalanced competition environment upon the transfer of newly-created value without equivalent from the agricultural holdings to other sectors and on this basis the limitation of the development and adaptation capacity of agricultural holdings to the challenges of an increasingly open economy; the negative impact of the lack of incentives for quality; the negative consequences of the lack of incentives for quality; the negative consequences of a weak connection to foreign markets, of an adequate concern for promoting the Romanian products, etc.

4 A SIGNIFICANT LABOUR SURPLUS

One of the most powerful restrictions to performance and at the same time a potential threat to the Romanian farmer's fate is represented by the significant labour surplus in the farming sector.

With a 32.1% share (in the year 2005) of the active population employed in agriculture, Romania has at present a unique position compared to the European Union countries, an economic zone where the overall share of the population employed in agriculture is 4.3% (EU-15) of total active population. In Romania, at a population of 2939 thousand people (in 2005) employed in agriculture (hunting and forestry included) and a utilized agricultural area (UAA) of 13939.5 thousand ha – 4.74 ha per agricultural worker on the average, compared to the overall figures in the European Union (6770 thousand people employed in agriculture and 130443 thousand ha UAA) – under the conditions of a much higher level of production intensification, each worker operated 19.3 ha UAA.

Under a simplifying hypothesis, if in our country a level of labour productivity (expressed by UAA operated by an agricultural worker) were ensured similar to that from the European Union, the active agricultural population could be reduced from 2889 thousand people to only about 722 thousand people.

The perpetuation of an important labour surplus generates blockages that maintain a low level of labour employment and of labour productivity, with a direct negative impact upon the competitiveness of Romanian farmers' products and incomes. At the same time, one should not overlook the negative consequences of the present situation upon the possibilities of land and operating capital concentration into competitive agricultural units, in an increasingly open economy, of increasing the technical endowment/modernization level on farms, of labour price increase, of the best use of the financial opportunities provided by the Common Agricultural Policy (CAP) to farmers, etc..

All the above-mentioned issues are arguments that make us state that continuing to maintain a strong labour surplus on agricultural holdings represents a determining factor of the rural population's poverty increase, that at present excessively depends on the farming sector. Without the significant diminution and eradication, as soon as possible, of the handicap generated by the extremely high share of agricultural labour compared to the other EU Member States, it would be difficult to believe that in Romania viable solutions could be identified and promoted, that are socially bearable, as regards: concentration of land and operating capital into competitive agricultural holdings in an increasingly open economy, increase of the technical endowment/modernization level of agricultural holdings, labour price increase, etc.

5 POTENTIAL RISKS OF ROMANIA'S ACCESSION TO THE EUROPEAN UNION

Romania's joining the European Union makes the Romanian farmers face a great challenge, that is mainly manifest on two plans:

- Capacity to face competition on the European Single Market, to which Romania's domestic market is integrating;
- Possibility to fully valorize the advantages obtained by our country during the accession negotiations and the facilities provided by the Common Agricultural Policy.

The impact expected to be created by the domestic market opening together with acquiring the right of non-discriminating access to the markets of the other European Union Member States will result in winners and losers among the Romanian farmers. This is a normal

process. Yet, considering the present situation of agriculture and – in a larger context – of the rural areas from Romania as regards the competition potential of the economic operators, the whole set of factors limiting competitiveness should represent reasons to worry about. Among these, the following stand out: low productivity of resources utilization; high production costs in the conditions of inadequate capacity to manage the resources; production quality – in frequent cases low; persistence of a significant labour surplus; inadequate infrastructure related to the storage, conditioning and marketing of products; underdeveloped competition environment, strongly imbalanced to the detriment of farmers; poor managerial act quality, mainly in the marketing field, etc.

A special place among the factors limiting Romanian farmers' competitiveness is held by the degradation of natural resources (mainly land resources), during the transition period in particular, and on this basis the diminution of their yielding capacity.

The way in which the relevant restrictions will be surpassed will depend upon the will, skills and financial possibilities that condition the adaptation efforts of economic operators, on one hand; on the other hand, upon the management of governmental action materialized into the priorities (objectives, actions) of the agricultural policy in the pre-accession period and in the first years after the accession.

Sufficient reasons to worry about are also generated by the Romanian farmers' capacity to take advantage of the EU budget payments. In this respect, we have in view: the risk of not being able to valorize the production quotas or the respect of base area for which the direct payment scheme is to be applied; the capacity to comply with the EU environmental, food safety, and animal welfare norms that condition the access to budgetary subsidies; continuing the current practice of direct sale on the market of products that makes farmers non-eligible for the CAP price and market support measures, etc.

After the review of some of the potential risks that could accompany the EU integration process, we are convinced that it is not difficult to notice the role of governmental action in correcting the above-mentioned restrictions as fast as possible. Without the removal of these hindrances, the integration costs may exceed the benefits. In these conditions, what could be done, or in other words – what would be the priority directions of action in the years to come?

6 POSSIBLE WAYS OF ATTENUATION AND GRADUAL REMOVAL OF RESTRICTIONS

The failure of agricultural policies in promoting Romania's farming structural adjustment, and at the same time, as regards agricultural growth, to which the potential risks incurred by Romania's accession to the European Union are added, plead for the necessity to focus the management of governmental action in the very next period upon the resources allocation issue and implicitly upon the increase of farmers' capacity to face competition.

Placing at the core of agricultural policy of issues related to efficiency and competitiveness entails a series of directions of action focusing upon the development of the determinants of a dynamic competitiveness, such as: concentration of land and operating capital into viable agricultural units in an increasingly open economy; increase of technical endowment/modernization of agricultural holdings; promoting a set of agro-soil-and hydro-melioration measures meant to stop the land degradation and to increase soil fertility implicitly; organization of supply through the establishment and development of rural co-operation in the supply and marketing sector; development of a "critical mass" of genuine wholesalers, development of stock markets, of futures markets (financial markets) included; occupational diversification in rural areas, etc.

It is easy to notice that the presented problems and the directions of actions focus upon two critical aspects of the structural reforms – drastic diminution of the extremely high share of subsistence agriculture by the diminution of the number and increase in size of the agricultural holdings and at the same time the diminution of the number of population employed in agriculture. We have to highlight again that without a great number of agricultural operators getting out of the farming activity, the problems of efficiency in resources allocation and of agricultural holding productivity and competitiveness will not be favourably solved up. In this context, we must not overlook that ensuring the necessary conditions for getting out of the agricultural business of a large number of operators – without generating great discontent and social convulsions – is less a task of the agricultural policy, but rather of the rural development policies.

It is not difficult to notice that a large part of the directions of action at the level of structural reforms are closely linked to, we may say even conditioned by the revigoration of the investment process in the agri-food sector and, in a larger context, in the rural areas. At present, the development of this process is largely conditioned by two factors: on one hand the low savings capacity on the agricultural holdings, as well as of the mobilization of capital from other activity sectors; on the other hand, the dissipation of budgetary funds and their priority use for the financial support to an agricultural policy oriented to production increase. As a result, the investment process is trapped into a vicious circle: the lack of financial resources blocks the investment process; in its turn, this blockage perpetuates the chronic shortage of financial resources. The weak capacity of the present agricultural holdings in relation to capital formation and mobilization of financial resources from other economic sectors makes it difficult to figure out solutions for surpassing the present difficulties, based upon the forces of agricultural holdings as a determining factor. Yet, a positive contribution – that must not be underestimated in breaking this vicious circle – could be provided by the priority use of the budgetary funds allocations for the directions of action meant to create or develop the determinants of dynamic competitiveness of Romanian agriculture, rather than for financial support to the current production and farmers' support measures; the latter might find a better place in the social protection measures. Thus, favourable premises would be created for the completion of the structural reform of agricultural enterprise/holding and of specific markets.

Of course, no spectacular results on short term can be obtained by this approach. But it is true that each step made in this direction, during the first years after Romania's accession to the European Union, represents a further opportunity for the Romanian farmers. Hence, a first direction of action might be the shift from an agricultural policy that is strongly oriented towards production growth to a policy meant to lead to the creation, or, according to the case, development of competitiveness determinants.

The experience accumulated in the period since 1990 proves that the efficiency in the budgetary funds allocation is closely conditioned by the criteria that lie at the basis of the allocation of these resources; it is on these criteria that the winners or gainers are selected. Positive results have been obtained when, under transparency conditions, well-defined criteria have been used, with a neutral character in relation to the different categories of agricultural holdings. At the same time, rural development projects will provide new opportunities for the rural areas to try to catch up in a medium term with the current development levels in the other EU countries.

Finally we would like to highlight that we are aware that the present evaluations, as well as the proposals made are debatable. Our objective was to signal out the acuity of certain fundamental problems existing in the Romanian agri-food sector at the moment of accession to the European Union. On this basis we tried to initiate a possible debate among specialists.

We would like that the results of this study, as well as of the efforts made by other specialists in the field would serve the decision makers to make the best policy choices during the first years of membership.

Time has become such a rare and obviously increasingly expensive resource!

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