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Agriculture and Agribusiness Reform in the CEE Nations and NIS: Issues and Opportunities

Abstract

Economic transition and reforms in the Central and Eastern European nations and the Newly Independent States have been uneven and probably slower than expected by many observers, with agriculture experiencing special difficulties. Johnson says that there is a real need for practical and consistent assistance in defining strategies that will help complete the reforms while maintaining political stability and a sense of economic security.

Disciplines

Agribusiness | Agricultural and Resource Economics | Agricultural Economics | Growth and Development

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in the CEE Nations and NIS:
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AGRICULTURE AND AGRIBUSINESS REFORM IN THE CEE NATIONS AND NIS: ISSUES AND OPPORTUNITIES

Introduction

The economic reforms in the Central and Eastern European (CEE) nations and the Newly Independent States (NIS) have been uneven, and probably slower than expected by agricultural leaders in these nations and specialists in many Western countries (Braverman et al.; Csaki 1991; and Csaki and Johnson 1993). Macroeconomic problems precipitated by the transition were not fully anticipated. Reestablishing trade, privatizing enterprises, and other real sector changes also have been more complicated than expected. Advice by specialists emphasizing rapid transition, without sufficient attention to political realities and in the absence of the institutions necessary for supporting markets was, in retrospect, quite innocent. Most of these nations have conducted their reforms with high inflation and without a consistent strategy for sequencing the transition.

For agriculture, the transition has been especially difficult. Because of subsidies for food, production, processing, and distribution, agriculture and agribusiness have had to adjust significantly. Generally, the instruments for delivering these subsidies were eliminated when prices were liberalized. Because of the political pressure for food security, output prices were usually liberalized more slowly than input prices. This led to the increased use of alternative instruments for delivering the subsidies, such as direct emissions, soft budget constraints, and subsidized credit. The result has been continuing budgetary pressure from agriculture and an implicit incentive system that implies inefficiencies in production and distribution and market failure at most stages of the allocation process.

In fact, the transition patterns for both agriculture and agribusiness are reasonably consistent. Liberalizing prices often came first, in a highly unstable macroeconomic situation that required major adjustments for inflation. Relative prices also changed to better reflect opportunity costs. Privatization proceeded more slowly because of political stability, equitable redistribution, monopoly, unemployment, and food security, and because of concerns about being able to maintain a functioning economic system. Land reform and initiatives to support the development of land markets have been slower. For market development, there has been inadequate attention to enforceable contracts, limited

liability, bankruptcy law, information, competition policy, and other institutions required for creating viable and stable markets.

The current situation for agriculture and agribusiness is mixed. Most CEE nations and NIS are in the midst of the transition. Many have put off difficult decisions on agricultural restructuring and reform that will almost certainly lead to dislocation of labor and rural populations and the dismantling of many state-owned enterprises. Many inefficiencies and incentives remain that are not aligned with the transition to a market system. There is a real need for practical and consistent assistance in defining strategies that will help to complete the reforms while maintaining political stability and a sense of economic security. These strategies must concentrate on markets and their institutional settings.

Transition to a Market System

A number of themes have emerged from the agricultural reform experiences of the CEE nations and from NIS transitions (Csaki and Johnson 1993; Lerman 1994; and McKinnon 1994). These themes involve pace, the order of liberalization, and the elements of well-functioning market systems. Selected themes are reviewed that reflect this experience in sequencing reforms and problems encountered in the transition. References are included that elaborate more fully on the experience with this transition in agriculture.

Macroeconomic Stabilization and Price Liberalization

A predictable macroeconomic environment for producers and consumers is essential for success in the reform process (McKinnon 1991a, 1991b, 1994). Stability and financial balance, along with liberalized prices, require a phasing-out of producer and consumer subsidies. Generally, agriculture and agribusiness are large sectors in these nations, so macroeconomic balances cannot be maintained without sharply reducing agriculture and food subsidies. Freer trade can help to establish meaningful reference prices, and help to guide the resources toward uses more consistent with those of an open market economy. Opening borders and linking international and domestic prices can assist in “making markets” in transition economies. These nations also need capital investment and new technology. Private capital will flow if prices are liberalized, trade is relatively free, and the monetary sphere is stable. With foreign capital will come the new technologies necessary to make agriculture competitive in international markets.

The reduction and redirection of producer and consumer subsidies has been difficult. However, unless these subsidies are significantly reduced and redirected, there is little hope for macroeconomic stability, savings and domestic and foreign investment, and an orderly transition to a market system. Restructuring the remaining producer and consumer subsidies is a real issue for attention. These subsidies are often poorly targeted. In market economies, there are justifications for subsidies such as for the old and indigent, for assisting with restructuring or transition, or for support of temporarily economically disadvantaged populations. The issue is not whether societies should subsidize the at-risk groups. It involves how the subsidies are delivered and whether they are “affordable.” Subsidies that distort prices and resource allocation are flawed in two ways: they are poorly targeted and they provide incentives for inefficient resource use. Targeted, decoupled subsidies are the least obstructive to successful economic reform.

Demonopolization and Privatization

Under planned systems, much of the processing, distribution, and even basic agriculture production occurred in highly concentrated subsectors. State and collective farms, because of their size and method of operation, were types of local monopolies. Creating private monopolies by privatizing the publicly owned ones is, of course, not the answer to efficient market reform. Privatization increases the opportunity for monopoly enterprises to benefit at the expense of others. An accompanying competition or antimonopoly policy is necessary. There are established approaches to controlling monopoly: opening borders to allow for competition by foreign firms, breaking up the large enterprises, and regulation. Most market economies have a monopoly policy that incorporates a combination of these approaches (Csaki and Johnson 1993; Williamson 1975).

Often in privatization there is much concern about equitable initial asset distribution. Equity in sharing of state assets among new private owners may avoid political difficulties. But not to distribute assets to private owners because of the difficulties of equity means no markets at all. It is better to divide assets as equitably as can reasonably be determined in a short time. The markets will be able to function only when private agents have clear property rights and there is low-cost transfer (sales/purchase/lease). Conditions must also exist for transfer of property rights in the case of failed enterprises.

Attempts to control potential monopoly by maintaining partial state ownership are, unfortunately, common. Partial state ownership is an ineffective way to curb the exploitation of private market power. The efficient way to avoid monopoly is to widen the opportunities for participation in the

associated markets. In contrast, state ownership narrows opportunities for new private firms by reducing incentives for foreign investment and new entry. Partial state ownership can even be pro-monopoly, and it increases the opportunity for reinforcing exploitation through corruption. Many states have been slow to privatize or to accrue associated benefits from slow transfer of property to more capable economic agents and activities.

Infrastructure and Efficient Markets

Markets must function not only for goods and services but for property or assets. Often the different requirements for efficiency in these two types of markets are not well understood. For goods and services, public and privately supplied information is the key to broad participation. Security of contracts is also critical for efficient exchange. Various forms of arbitrage, buying and selling across regions and time, will improve the efficiency of the production and distribution system. This is not a so-called “mafia activity,” and becomes that only if governments fail to recognize it as productive, or fail to expand participation in it through an enabling regulatory and policy structure (Johnson 1993). Markets must be opened to broad participation, must be secure, and be perceived as fair. The perception of fairness can be best accomplished through measures that promote symmetric information and enforce contracts. Failing to address these institutional problems can slow the development of the services sector (such as warehousing, transport, handling, insuring, retailing), a major source of new employment.

Markets must also function for assets. Land markets, in particular, are critical to agricultural reform. The land and other resources must be easily transferable to the most productive users. The transfer taxes and fees should be low cost, as should registration and other government sanctions to ensure the validity of the contracts. Exchange of assets often involves the use of credit. Assets are also used for equity to acquire working capital. This activity exposes the lenders to repayment uncertainty. This uncertainty must be limited if asset markets are to function effectively. The major instrument required is an uncomplicated bankruptcy law. For markets to work, enterprises that cannot compete must be allowed to fail and creditors must have recourse to their assets.

Financial Markets and Credit

Credit is the “lubricant” for agriculture and agribusiness. In many CEE nations and NIS economies, credits are allocated from agricultural banks at concessionary rates. If the credit is not rationed by interest rates, it must be rationed on another basis. This other basis is usually political

and often favors partially state-owned uneconomic enterprises, inefficient use of the most scarce resource in agriculture. Privatization of land and other assets and enforceable bankruptcy law can facilitate the use of equity in rationing credit. Creditors must have the option of legally forcing payment of loans. At the same time, artificially low interest rates for agriculture are a highly distorting instrument for delivering subsidies. For credit, the tractable approach to reform has been to cap the total subsidy and agree on a phase-out.

The credit system and the banks must also be encouraged to use savings as a source of capital and be transparent to their loan and savings customers. The latter is essential to ensure that suppliers of financial services are themselves financially solvent. There is an extensive literature on alternatives for regulating financial institutions that addresses the failure of markets for credit in transition economies. One important conclusion from this analysis is that the approach to regulation of private banks should be initially quite conservative, with great attention to savings protection and the limiting of bank failure (McKinnon 1991a).

Extension, Education, and Information

The participants in transition economies may require assistance in the change to the new system. This suggests new roles for government in education, business planning, extension, and the supply of market information services. In the mature market economies, extension has been a key to the development of agriculture. Extension services supply tested research results and new information on technologies and management methods. These services also include information on improved business practices (Csaki and Johnson 1993). For example, good financial records and business planning systems are essential for firms to succeed in market systems. In economies where the private services sector is not developed, the support of business practices often must be organized initially by government agents.

Public information on prices, new technology, government policy, conditions in international markets, and other aspects of the economic environment can assist firms to make better decisions. Benefits of supplying information and education are not fully appropriable. Thus, the private sector, left to its own, will underinvest relative to the optimum for society. This is a clear “market failure” that can be addressed effectively by a newly configured public sector in transition economies. Active support of the participants in agriculture (the new private agents) and for agriculture markets is essential to the consolidation of the benefits of economic transition.

Protection of Living Standards

It is politically impossible to conduct reform on the backs of the most economically disadvantaged citizens. The living standard protection in the old system was the guarantee of a job and of artificially low prices for food and shelter. In transition, there will be unemployment and problems with pension and other safety net systems. Two aspects of the living standards protection problem merit comment. First, households at risk must be assisted through the transition. Often, these households have become vulnerable due to unemployment or underemployment and increasing food and other commodity prices. Thus, agriculture is involved. The tendency has been to hold the prices of staples artificially low as a way of providing assistance. This is very costly because it does not target the at-risk populations. Also, these policies distort the incentives and are likely the most important subsectors in agriculture—staple foods. Targeted, means-tested assistance programs are the answer. Basics for designing living standards protection programs follow directly from the modern theory of consumer demand (Deaton and Muellbauer 1980). The key is to use a household-size-adjusted lump-sum payment.

Second, there is retraining of individuals unemployed during the transition. Available idle human capital, if retooled and reintroduced into productive activity, can quickly add to output and economic growth. Thus, retraining programs, jobs programs, and other initiatives that support the reentry of the unemployed and those who have become unproductive are elements of well-designed safety net programs. These programs are not income transfers, but are investments to yield more productive participants in the economic system. Rural sector population and the number of laborers now in agriculture indicate that retraining and food subsidy programs will be important to the transition (Stuart 1984). These programs also make the application of bankruptcy law for failed firms more politically acceptable.

Rationalizing and Restructuring Government

For the rural sector of the CEE nations and NIS, public services were mainly provided by enterprises and/or collective and state farms (Brooks et al. 1994; Geets 1992; Lerman et al. 1994; and Stuart 1984). These enterprises were responsible for schooling, hospitals, roads, housing, pensions, and other services. As these enterprises are more fully privatized, there will be a natural tendency to shed their responsibility for supplying public services. The enterprises will become more purely economic entities. Yet, these public services are necessary to maintain an acceptable quality of life in rural areas. The eventual supplier of public services is local government. Local government in rural

and urban communities must have taxation authority, the authority to raise funds, and the ability to supply and administer services. The reluctance of the members of state and collective farms about restructuring has been related to uncertainties about the supply of rural public services (Brooks and Lerman 1994).

There are other new roles for government and the public sector in the transition economies. Typically, in the economic sphere of activity, these involve adopting a different orientation or culture. Government does not make things happen—it is the markets and associated incentives. Government must position itself to support efficient markets. This requires not only new policies and institutions but a new orientation for government leaders. Educational and other policies to actively change the policy culture of the bureaucracy can help to accelerate and consolidate the reform. Government bureaucrats are often the most resistant to change. Persisting with nonmarket allocations, selective subsidies, and government choice of enterprises that are to succeed is to repeat the failed experience of the mature market economies with industrial policy (Adams and Klein 1983; Grossman 1990; Johnson and Martin 1993; Johnson et al. 1989; and Krugman 1983).

Environmental Protection

As market prices for previously subsidized chemical and fertilizer inputs rise relative to output prices, incentives for lower use are transmitted. Thus, market reforms have environmental benefits for efficient use of chemicals and other variable inputs in production, processing, and distribution. But only a comprehensive legal, administrative, and regulatory framework will ensure that agriculture is not unduly harmful to the environment. Generally, in more mature market economies, agricultural and environmental policies are primarily designed to reduce off-site damage: erosion, contaminants of water and air, and noise and odor. These nonpoint source policies typically include combinations of regulation, education, and market incentives. It is difficult to monitor nonpoint source contamination and environmental damage, and to enforce regulations to reduce this damage. For this reason, much of the environmental regulation of agriculture is educational and market incentive based (CARD 1993).

Environmental regulation for agriculture often uses “best practices” concepts. One way to ensure that the environment is not damaged is to eliminate hazardous production practices. However, production occurs in different biological and geophysical circumstances. Thus, the standards or practices can be more restrictive than necessary. Concerns about the cost of environmental regulation are now leading to different concepts of intervention. Instead of regulating by media using best

practices, the idea is to regulate the integrated system, the ecosystem. Indicators of performance of the ecosystem (e.g., watersheds for agriculture) are identified. Then, through permit trading, siting, and other incentive-based systems, the agents are encouraged to organize to meet environmental standards. Regional environmental incentives in the United States, first organized to protect large water bodies (lakes, rivers, and the coasts), were among the first to use the integrated-systems approach to environmental intervention on a large scale (CARD 1993).

Consistency in Reform

Uncertainty about the course and pace of policy reform is particularly debilitating for agriculture. Agricultural production, processing, and distribution have relatively long production and planning horizons, including annual crop production cycles and investment in storage, livestock inventories, and processing facilities. It is necessary for agents in agriculture to anticipate the future. Policy uncertainty is a major problem of the transition. Of course, financial instability introduces uncertainty and adds complexity. But unpredictable reforms are especially difficult for agents that must operate on a longer term basis.

Partial regulation of output and input markets, margin controls for processing and distribution, indicative prices, and other less visible instruments of the planned system are among the transition policies that complicate the restructuring of agriculture. More consistent reform packages that are implemented on a predictable timetable, and that are transparent in their mechanisms and objectives, are essential to efficient transition. Partially enforced policies, stop-and-go actions, reversals on reform initiatives, and lack of clarity about the intent of policies and their implementation instruments are major obstacles to successful transition.

A Framework for Future Action

A reform agenda and the priorities for phasing the transition to a market agriculture have been, to an extent, anticipated by the comments on the current situation. Still, it is worthwhile to more clearly articulate the strategy that seems to have emerged from experience with the transition to date. In short, these observations can be interpreted as a read of a consensus that seems to have emerged on the priorities for action in the transition period.

Macroeconomic Stabilization and Price and Market Liberalization

Macroeconomic stabilization and price and market liberalization have proceeded most effectively in circumstances characterized by:

- Reducing inflation by restrictive fiscal policy, rigorous control of expenditures to limit government budget deficits, and tight monetary policy;
- Freeing producer prices, replacing the remnants of the system of state orders by price incentives, ceasing use of indicative prices and profit margins, and eliminating the practices linking supplies of inputs to fulfillment of procurement quotas;
- Beginning liberalization of foreign trade, including use of more uniform tariffs and export taxes instead of export quotas, licensing, and other less transparent measures;
- Dismantling “suggested” retail price systems in favor of more targeted consumer subsidies in the form of direct income or in-kind transfers;
- Ending limits on mark-ups for processing and marketing and bringing the taxes on barter and commodity exchange income into line with a consistent value-added tax;
- Phasing-out and decoupling producer subsidies linked to restructuring programs and capping the costs of agricultural producer subsidies consistent with macroeconomic stabilization targets; and
- Ensuring food supplies for domestic markets, monitoring food availability and, if necessary, using food and other imports to moderate fluctuations production and consumption.

Price and market liberalization appear to have worked best when in the following sequence: restricting the role of state orders to a narrower group and smaller percentage of products; loosening relationships between delivery on state orders and input availability including credit; setting relative procurement prices to reflect international prices as well as the domestic supply demand situation; and demonopolizing input supply and product marketing enterprises and lifting the regional responsibilities of associated enterprises.

Over a longer period the liberalization can reduce state orders to an even lower percentage of production; use state procurement prices for a more narrow group of strategic commodities and as unintrusive floor prices for producer security; entirely eliminate the relationship between delivery of product to the state and input supply; and liberalize international trade of agricultural commodities through adopting uniform tariffs and taxes as primary border measures.

Fully liberalized prices combined with outward-oriented trading regimes and government intervention only to prevent extreme price fluctuation and for delivery of subsidies that are targeted direct transfers occurs in a final phase of transition. Targeted consumer subsidies replace retail price controls. Virtually all countries in some way subsidize producers or consumers of agricultural

products. However, it is essential that subsidies distort producer and consumer prices incentives as little as possible, and policymakers know who benefits and how much the subsidies cost, both in budgetary and economic terms. Direct budgeted subsidies are more likely to meet these criteria than subsidies hidden in exchange rates, administered prices, directed credit, or segmented tax structures. Narrowly focused household-based transfer programs, such as food stamps, income supplements, or subsidized products in food shops that are only available to the poor are likely to more closely achieve the desired impacts and reduce cost. Table 1 summarizes these common threads in the agricultural reform experiences in the CEE nations and NIS.

Why the phasing suggested in Table 1? First, there is the question of political stability. Governments committed to reform must not move too fast and give way to reactionary forces. This reason is then a political practicality. Second, macroeconomic stabilization and price liberalization must go hand-in-hand with institutional reforms. Goods and services markets cannot function without enforceable contracts, or without a sound information system. Asset markets are more complicated. Institutions on titling, taxation, and transaction costs play a key role in the reform, but often take time. Step-by-step, the price and related liberalization is more likely to yield the intended consequences, if market institutions are introduced simultaneously.

Privatization and Competition in Processing and Distribution and Input Supply

Demonopolization, privatization, and increased competition will result in lower cost goods and services more attuned to producer and consumer demand. To support efficient reorganization of agricultural production enterprises, the entire processing, input supply, and output marketing sector must be made more competitive. Generally, from the design of the old system all are highly concentrated. This requires careful attention to the institutional, legal, and regulatory environment in which the enterprises or firms operate. The steps for development of a market-oriented processing, distribution, and input supply system for food and agriculture will involve:

- Privatizing of retail food outlets by auction, tender, or buy-out to create immediate possibilities for bypassing the old procurement and distribution system and commercialization of the existing larger input supply, processing and distribution enterprises;
- Reinforcing the spontaneous changes in markets that occur with price liberalization and subsidy reduction, (e.g., farmers markets, transport between regions of deficit and surplus);

Table 1. Proposed Sequence of Agricultural Price Policy Reform and Subsidy Reduction

Policy Instrument	Short Term	Medium Term	Longer Term
State Order	Reduce to 30% except for selected products	Reduce to 30% for grain	Dismantle fully
Producer Prices	Adjust relative prices to international market levels	Use state prices as floor prices	Minimize price intervention
Budget Transfers	Dismantle	Dismantled	Dismantled
Input Subsidies	Reduce in scale and scope	Confine to essential input or crisis situations	Eliminate
Input Supply Linked to State Orders	Reduce in scale and scope	Dismantle	Dismantled
Credit Subsidies	Dismantle linkage to state orders	Reduce to emergency situations	Limit to new or specifically targeted firms
Consumer Price Subsidies	Limit to bread, dairy, and products consumed by vulnerable population	Further limit commodity list and reduce to levels of subsidy	Fully replace with target transfers

- Introducing public market support services that include price information, technical assistance and training, financial and quality control, and food inspection and sanitary standards;
- Establishing a legal and regulatory framework for monopoly or competition policy and personal and property law, including contract enforcement;
- Accelerating the timetable for restructuring (demonopolization/commercialization) and privatizing the large state enterprises and trading monopolies that usually dominate processing, input supply, and wholesale trade; and
- Taking steps to authorize and facilitate new private sector entry, including programs for developing and supporting small business and entrepreneurship.

Large “agrokombinats” and most other monopolies and monopsonies will likely be dismantled, creating smaller concerns to promote competition. Hard budget constraints, subsidies targeted to households and not the firms, along with a bankruptcy law will accomplish this at a more politically tolerable cost. As an initial step, these “conglomerates” can be organized as a collection of more independent privatized profit centers (Skold and Popov 1990), communicated, management contracts let by the state are a potentially useful aid in the restructuring process.

For the short-term, delinking regional components of the input supply system and starting cooperatives to provide machinery services can be viable institutions. That is, networks of farm supply shops can be created by privatizing the existing supply network and promoting the establishment of new firms. Existing supply systems can be demonopolized by letting regional units operate as independent businesses without past territorial constraints on sales. New cooperatives emerging from the reorganization of the kolkhoz/sovkhoz sector can also become specialized input suppliers. Over the longer term, private firms, including foreign entrants, will become more involved only if appropriate measures are taken to liberalize domestic and foreign trade and secure the macroeconomic situation. In the case of this component of the system, the information and contracting systems are highly important. This is the component that in market economies performs many services that involve training, such as storage, handling, and arbitrage of various items. The system will begin to operate if it is fed by information on prices and open to entry. Contract enforcement is especially important where, in the absence of state intervention, so-called mafia activity tends to emerge. This is just a type of market failure associated with reform and it can be easily fixed before the criminal element takes over.

Rural Financial Services

Directed credit programs may have to continue to finance agriculture, at least until farms can borrow against their property (Csaki 1990). However, important changes can be made to present programs. Subsidized credits should be restricted to agriculture and to new small-scale processing and distribution activities that take place within the sector. Enterprises supplying agricultural inputs, like other nonfarm enterprises in the agro-industrial complex, should find it possible to finance operations directly through commercial banks or pay commercial rates on directed credits. Directed credits to agriculture and agribusiness should be capped and reduced over time as commercial borrowing begins to account for an increasing share of agricultural credit.

Credits also must have clearly defined terms, even if concessional, and authorities must enforce these terms as a means of instilling financial discipline. This is best done by making the costs of the concessional credits widely known (public) and bringing them under a cap. Interest rates on loans to agriculture should reflect levels in the rest of the economy. Subsidies will be more effective and less expensive if directly targeted to market failures or other problems of the transition. The subsidies must be transparent on the budget and not erode financial integrity of the credit system.

A market-oriented, competitive financial sector—in which private intermediaries determine to whom, how much, and on what terms they lend—essential to a market agriculture. Recent banking laws in the CEE nations and NIS creating a two-tier banking system have laid a foundation for independence from the government or better new roles for government and the private sectors. The rural lending system, the agricultural-bank network, must become part of a competitive banking system that provides a full range of banking services including deposit mobilization, trust and investment management, capital market operation, and low-cost enforcement of financial contracts. The rule is to be conservative in the development of the banking system, limiting leveraging and tightly monitoring banking activities (McKinnon 1991a, 1991b, and 1994).

International Trade in Agricultural Products

The prospects for agricultural export depend on trends in domestic production and consumption as well as international market conditions. Although domestic production is unlikely to grow in the near future, shrinking domestic demand and the need for foreign exchange will make agricultural products available for export in many CEE nations and NIS. Potential export markets exist among these nations, in Russia and the southern and smaller Asian nations (Johnson and Csaki 1993). For example, Belarus, Ukraine, and Moldova are likely to remain competitive in NIS markets for meat,

grains and oilseeds, dairy, and various horticultural products because of relatively higher efficiency of production and low transport costs. The exports of agricultural products from the CEE nations and NIS to Western markets will have more limited potential in the short term due to trade barriers and problems of product quality.

The initial tasks of reforming the trade system are to rationalize the border measures, facilitate the development of private-sector trading institutions, and adopt exchange control policies that lower transaction costs and encourage the integration of domestic and external markets. In most nations, the official state foreign trade monopolies have been eliminated, but associated structures remain. Quantitative restrictions and the cumbersome licensing systems for agricultural exports are major obstacles compared with a transparent system of tariffs and export taxes, and tend to perpetuate the structures that remain from the old trading monopolies. New foreign marketing structures, including competitive private trading houses, foreign participation, and direct sales by producers will emerge. Steps toward liberalization of foreign currency regulation are crucial to the development of viable agricultural trade. Control is difficult to enforce and creates fertile areas for corruption. Tariffs are better border measures than currency taxes and controls.

Land Reform and Farm Restructuring

The medium-term objective of agricultural restructuring is independent, privately owned farms that are free to change technologies and output mixes in response to the evolution of agricultural science and to changes in input and output prices. The process of restructuring agricultural enterprises will be encouraged by continued price liberalization, privatization, and the development of competitive structures for marketing agricultural outputs and inputs, and for reducing producer subsidies. However, additional action is necessary if the economic reforms in the CEE nations and NIS are to be accelerated.

The main task is to maintain the momentum of the reforms by amending existing legislation and creating the necessary overall framework for restructuring large-scale farms. Various modes of farm and agricultural enterprise reorganization are possible. Although pressure for completing the major tasks of the restructuring process should be continuous, selected significant changes can be implemented in the short term. These should include:

- Imposing hard budget constraints on all agricultural sector organizations;
- Encouraging the development of land leasing arrangements as portions of the land are put into private hands;

- Elaborating and publicizing a clear agenda for restructuring large enterprises, including amended land reform legislation to permit clear private ownership of land and other assets;
- Making early decisions on those state farms and other enterprises that will remain in the public sector, e.g., for training, extension, and research; and
- Revising and consolidating farm debt and financial accounts and transferring social assets and responsibilities for services to local municipalities or user cooperatives.

It is not possible to predict what structure of agriculture will emerge and what the mix of larger and smaller forms of enterprises will be, nor is this the key issue. In all probability, a mixture of smaller private or family farms, large corporate-type farms, and variations of cooperatives and other looser associations will emerge from the existing structure. Western European-style family farming will probably emerge fairly slowly, if at all. However, in all farm restructuring, the key to creating an efficient structure is a clear definition of ownership rights, the lack of restrictions on use (except for environmental regulation), and the low-cost transfer of titles or leases to the most efficient users of the resources.

Allocation of land for private plots has been a useful measure in many of the CEE nations and NIS. First, these plots provide a safety net by allowing families to supplement their incomes by growing their own food and marketing some products. Second, it allows households to gain experience in farming and possibly to accumulate capital without the risk of immediately losing wage employment. Promoting the development of these operations into full-fledged independent private farms and improving their efficiency through better input supplies and marketing services, along with lifting constraints on land ownership, will achieve this result. Many of these plots and small farms will fail and be consolidated. This is natural and will result in increased productivity if the land is free to move to the more able managers.

Conclusions and Speculations

The key for agricultural and agribusiness reform in the CEE nations and NIS is to complete the legal, regulatory, and administrative system necessary for broadening the scope of markets and improving their functioning (Buchanan 1989). Of course, the market economies that evolve in these nations will be different. There is no “cookie cutter” alternative for specifying reform measures or sequences. In fact, the discussion in the last section pushes this envelope about as far as possible, without much more detailed information on the customs, cultures, history, resource endowments, and political systems in these nations. There are, however, some overriding themes that can help to tailor

the kinds of measures identified in the previous two sections for supporting the transition to market economies in the CEE nations and the NIS.

First, there is the overriding issue of market failure. There is a great tendency among the agricultural and political leaders in the CEE nations and NIS to look to Western Europe, the United States, and other developed economies for ideas on agricultural policies that are consistent with a greater role for the private sector and markets. Often, these reform or transition measures are taken out of context, and in many cases, the policies identified are themselves outmoded in modern market economies. The key is to identify in the CEE nations and the NIS the particular market failures to which the policies are to be addressed. The role for government should be rationalized primarily in terms of market failure. Rather than looking to mature market economies for a selection of existing agricultural policies, the leaders and those who assist them should be focusing on the factions of government that are necessary to counter the failure of the market. Emerging informal institutions observed in the transition may highlight the areas for action and the priorities (Johnson 1993).

Second, many of the components of the agricultural and transition policies in the CEE nations and NIS have been implemented with little idea of their budgetary and nonbudgetary costs. Assistance in evaluating the costs of alternative policy measures designed to mitigate well-defined market failures or simply transfer income can provide a basis for more enlightened decision during the process of reform. Also, if these costs can be organized to pass through the budget, they can be capped. Capping the costs, or at least understanding their magnitude, can provide a beginning point for decisions on priorities for reform, budget allocation, and other public sector actions. With this information, the process of reform and adjustment proceed with the discipline necessary for maintaining a predictable macroeconomic environment. Agriculture and agribusiness in this sense are such important components of the economies of most of the CEE nations and NIS that policies implying government costs cannot be pursued without an eye on their impacts for financial balances.

Third, based on the conditioning from the old system and the problems of quickly orchestrating an economic transition, there is often a tendency of the leaders in these nations to adopt something like the “failed” industry policies that have been tried in the more mature market economies during the middle of this century. Industry policies can be classified into three broad categories: picking winners, restoration, and facilitation. There is broad evidence that the former two simply do not work. The record of government as a picker of winners is abysmal. Although there are often strong political faces for restoration policies, they ultimately do not work and are highly costly. The reason is that the circumstances that direct the attention to restoration are often out of control of the

government agents. Industry policies that facilitate change and are “light handed” in substituting government for private decision are those that have proved most effective.

Fourth, agriculture is essentially the only economic activity in the rural areas of many CEE nations and NIS. This places a special set of considerations on the agenda for the transition and reform. The issue of transition for agriculture and agribusiness is further complicated because, when these sectors are compared with those in mature market economies, large displacements in labor are indicated. Those who live and work in agriculture and the rural sectors automatically see the reform measures as a kind of package. That is, they see them naturally from the viewpoint of their impacts on their households. For this reason, reform processes that recognize the importance of agriculture and employment in agriculture to the economic welfare of the rural communities, and the full impacts of the transforming agricultural enterprises in rural community life, are most likely to succeed. Reforms for agriculture and agribusiness must thus be accompanied by measures that address the dislocation of labor, the services in rural communities, and the populations at risk as a result of the transition. In fact, this is the reason for the continuation of producer and other subsidies. The key in this packaging is to recognize that the subsidies associated with income and dislocation of labor should go to the affected parties—the households—and not to the enterprises.

Those who are involved in supporting the process of reform for agriculture and agribusiness in the CEE nations and NIS have much to learn from sharing experiences with what are, in a sense, the ongoing transition experiments. The transition process will be of significant duration. USAID and other donors might consider approaching assistance in the development of the legal, regulatory, and administrative system and transfer and other policies necessary to support transition in these economies on an alternative basis. The leaders in many of these nations are literally stumbling over policy advisors. Unfortunately, many of these policy advisors do not have the benefit of experience in similar situations in other nations. Also, there is not a coherent well-articulated framework for determining what are good and what are bad policies. Many of the advisors are too influenced by what worked back home. The clear basis for policy is market and institutional failure on one hand, and nondistorting transfers of subsidies on the other.

Practical working education programs for those of us involved in assisting the countries, as well as the leaders of the countries, are badly needed to improve the process of reform. As well, analysis (not research) to provide more accurate and comprehensive information on the costs and other consequences of the contemplated interventions and current policies could significantly inform the process of transition. Last, those who work in agricultural policy are often not very conversant in

modern political economy (McMillan et al. 1994; Spiller 1990). We also have a tendency not to appreciate the processes by which policies are actually made and the organization and functioning of the implementing agencies or bureaucracies (which themselves have cultures). Added emphasis on modern results from political economy and bureaucratic processes, which draw heavily from frameworks for analyzing strategic behavior, would help to support the transition.

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