

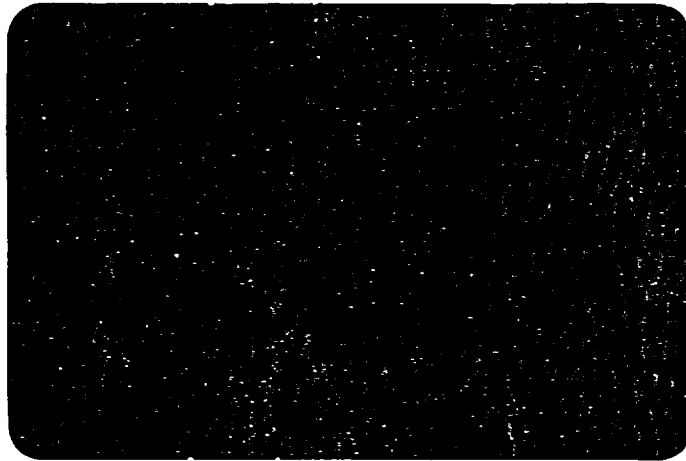
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RESTRUCTURING AGRICULTURE IN  
CENTRAL EUROPE AND THE SOVIET  
UNION; BUDAPEST, OCT 21-23/90

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RESTRUCTURING AGRICULTURE IN CENTRAL EUROPE AND THE SOVIET UNION;  
BUDAPEST, OCTOBER 21-23, 1990

**Briefing Note**

The Conference was well organised and attended by some 300 delegates in all. Virtually all the East or Central European countries were represented at Ministerial level (most commonly at Vice-Ministerial level, although the new Polish Minister of Agriculture attended and the Hungarians as hosts provided a range of Ministers, the most senior being the finance Minister, Mr. Rabar). For the USSR, Mr. Siderenko (Ukraine) and a Lithuanian Minister were the Ministerial representatives. Apart from Walter, Kittel (German Ministry of Agriculture) and Denise Norman (Minister of Transport, Zimbabwe), Ministers from Western countries did not attend. However there was a good level of representation by top managers from the commercial sector (particularly the US) and senior officials from agricultural, trade and overseas aid departments. The UK was well represented, amongst others and Canada was represented by Mr. Allan Gratias and Mr. Maurice Hladik and Sam Elkady.

Lord Plumb, Chairman (IPC), kept the Conference hard at work in formal session for the two full days of the formal agenda (copy attached, amended to show last-minute drop outs) and Sunday evening. Despite the attempt to concentrate on specific aspects of the reform process, each of the six sessions tended to produce messages for the USSR, East and Central European delegates, namely that only commercial activities, founded on mutual benefit, will be able to provide the scale of investment and technology transfers needed to achieve the desired economic reforms; that the reforming countries are competing not only between themselves but with other overseas countries for Western commercial capital and resources (whose investment has to be justified to shareholders and very critical stock markets); that political, economic and legal uncertainties or changes of approach discourage commercial interest; that changing management attitudes as well as aptitudes and skills will be needed at all levels, over a much longer time scale than might at first sight appear; and that the right macro-economic policies must be adopted to support the move to a market economy.

If anything the Conference perhaps rather over-emphasised the need to progress on all these fronts, with the business sector in particular, tending to press for minimal risk whilst continuing to seek profits more compatible with high risk ventures. It was not until the last session, with a very impressive address and responses to questions by Mr. Rabar of Hungary (whose performance apparently did much to restore his flagging personal prestige in Hungary) that the balance was redressed to some extent.

The final session was also notable for the emergence of the GATT negotiations, and the Community's non-position, as a substantive conference issue (although it had been keenly debated on the margins of the conference. Walter Kittel (Germany) spoke a great deal on the German Resolution adopted at the Agriculture Council of EEC on 19 October. Brian Chamberlain (Special Trade Envoy for New Zealand) led the attack, referring to the CAP as a "monster" despised by the rest of the world" whose cost was carried by the farmers of the rest of the world, particularly developing country farmers. The Americans (surprisingly) and Japanese kept their heads down in this session; the East and Central Europeans made clear (picking up Bylinski's response from the first session) that they would develop their own market institutions having regard to their circumstances as well as their objective of EC membership, but would use these mechanism to support prices at levels they could afford. (This is likely to be much closer to world prices than to EC prices).

The final communique (attached) was agreed to without debate. Despite pressures for a further similar conference in 12 to 18 months' time, to review where the reforms stand, I gained the impression from private discussions that the IPC at present is thinking more in terms of organising an annual summer school for either government officials/policy makers from these countries, or possibly for enterprise managers, to enable experiences to be shared on the conduct and promotion of the reform process. I consider this would be a valuable initiative, particularly if concentrated on policy makers, and we should consider supporting in view of the likely spin-off in terms of influence and contacts it could generate for us.

A session by session summary report along with the text of a most interesting speech are also available.



Sam Elkady  
Agri-Food Division



RESTRUCTURING AGRICULTURE IN CENTRAL EUROPE AND THE SOVIET UNION:  
IPC CONFERENCE, BUDAPEST: 21-23 OCTOBER 1990

SESSIONS SUMMARY

GENERAL

1. The Conference proceedings will be edited by the IPC Secretariat and published as a book at the end of November. The price is \$35.00 and a copy can be obtained.
2. The IPC produced extremely useful country papers as background, outlining the development of agriculture and food production; policies; and structures since the end of the First World War (or earlier for some countries). These are attached. They should be retained for background briefing/speech material/country papers for the trade.

FIRST SESSION

3. Sir Michael Franklin, former Permanent Secretary of Agriculture, Fisheries and Food (U.K.) got the formal agenda off to a good start with some penetrating questions to be addressed and good control over his speakers and time. Mr. Bylinski's (Minister of Agriculture, Forestry and Food Economy (Poland)) speech was read over by Jerzy Ruzzkowski. It contained no new information (text available if required) although clearly drew heavily on the World Bank/Government of Poland/EC Commission Agricultural Strategy Report.
4. Dr. Nicholeae Stefan (ex Minister of Agriculture (Romania)) spoke authoritatively about the agricultural policies being adopted in Romania, particularly in relation to foreign investment which seems to attract very generous tax and repatriation terms. A copy of his speech is attached. I consider this would be a very suitable document to make available to the trade. The Americans are pouring commercial effort into Romania if the Company representatives I met in Budapest were to be believed.
5. Federal Vice Minister Adamec gave an equally detailed speech (attached) about Czechoslovakian reform. This also could be disseminated to our trade. However, the Czechs are clearly still proceeding very cautiously and will keep subsidies in operation. He explained some very interesting policies on establishment of a market based economy in land.
6. John Mitchell (ICI) responded by warning that consumer demand might not emerge as quickly as hoped from its present depressed state. He made his usual points about the even greater need to demonopolise distribution systems than production systems. Bill Mason (also reacting) made clear that Western food processors' initial interest in Eastern and Central European countries would

be as sources of supply of primary commodities provided quality and safety standards could be met. He fired the first shots on investment protection.

7. In the Q&A session (the only substantial one of the whole conference), von Cramon-Tabadel (Kiel University) asked the \$64,000 question on the support price objective E/C European countries were aiming at, i.e. Community or world. Bylinski gave a good answer, that they wanted similar support mechanisms to the Community which they would use to defend prices they could afford (politically as well as economically).

## SECOND SESSION

8. Preceded by an address from Richard Crowder (USDA Under Secretary) who touched on GATT and the impact of the CAP on developing countries (and, by implicit analogy, E/C European countries).

9. Piquantly, Claude Villain chaired the following session. He explained fairly gently that the Americans always oversimplified things, did not understand the rural social perspective in Europe and invited the delegates to consider not whether the US, EC or New Zealand economic models for agriculture should be adopted by E/C (East and Central) European countries but whether there were lessons or aspects from these different systems which could be useful (and applied) in E/C Europe and the USSR.

10. Professor Csaki's speech (copy available if required) was more analytical than prescriptive. The really interesting point that emerged was that the Hungarian agricultural land reform compromise had been stopped dead in its tracks by the highest constitutional law body in Hungary ruling that the Government could not draw an arbitrary line, based on a date, between those land owners who could apply to have their land back and those (the Church, aristocracy and large estate owners) who could not.

11. Vice Marshall of the Polish Senate, Stelmachowski again gave a consummate political speech (text available) without taking us much further forward. A welcome and enjoyable contribution nevertheless.

12. Alexi Emeljanov (member of the Supreme Soviet) gave a highly political speech. Much of the initial impact was lost due to translation difficulties, in the course of which it was revealed by the interpreters that Russian to English translation was being accomplished by our Hungarian to English translator to his colleague translating from Russian to Hungarian!

13. By the time Gale Johnson (University of Chicago), Judith Symonds (Ruder-Fin, USA), Brian Fisher (Australian Bureau of Agriculture and Resource Economies) and Gerard Viatte (OECD) had reacted, no time was left for questions. The reactors divided their comments between protection of commercial investment and the



extent to which agricultural production and protection and enhancement of rural environments and economies could be addressed through the same policy mechanisms.

### THIRD SESSION

14. David Swanson (Central Soya, USA) spoke eloquently but the content failed utterly to register in my notes. Dale Hathaway (National Centre for Food and Agricultural Policy, USA) emphasised the need for healthy macro-economics if commercial relations were to succeed; and developed from this a coherent distinction between the paper and separate roles of government and commerce in economic affairs. However, this was by no means an academic treatise since Mr. Hathaway has clearly had direct experience of the oft-blurred dividing line between Government and commerce in the field of overseas (and possibly domestic) trade promotion.

15. Reacting, Gabriel Janovski (Rural Solidarity) entered his routine pleas for support to their European Union Bank (text of speech available) and his pitch that they are the only true representative of the rural economy in Poland. Mr. Penn (Sparks Commodities Inc.) gave a lengthy shopping list of commercial desiderata to be met to attract overseas investment. Oleg Klimov (Exporthleb, USSR) spoke most interestingly about the managerial vacuum in Soviet farming, presumably starting from Stalin's deliberate extermination of the Kulegs (peasant gang masters) and the need to tackle the lack of storage, high wastage, high inflation, etc. affecting Soviet agriculture. It was a very realistic speech whose text is very interesting to read.

16. In questions, Mr. Fryer from Monsanto said Western Governments should do more to guarantee commercial investments by Western companies seeking profits in the USSR. Mr. Senn (India) berated governments and companies who sought to interfere in the Soviet Union's internal affairs by dealing directly with the Republics and by passing the centre.

17. Mr. Siderenko gave a good speech at the Conference dinner, essentially pleading for sectoral aid but steering away from the Food Consortium's activities (attached).

### FOURTH SESSION (TUESDAY 23 OCTOBER)

18. Emil Dufala (Agricultural Co-operative Association, CSFR) outlined the history of Czechoslovakian co-operatives, and sketched out possible future developments, including evolution into Agrarian Chambers of Commerce and Industry and the overseas financial and technical aid needed to achieve these aims. Laszlo Sarossy (Hungarian Secretary of State (Agriculture)) outlined plans to abolish subsidies in three years and, pace the Courts' ruling to restore private land ownership. Aid priorities were management training, professional training, establishment of an advisory service, and concentration on high value export crops. George

Osypowicz (Donau Trading Corporation, Poland) described the constraints his company perceived in the organisation and structure of Polish agriculture which prevented restoration of their post-war export position (text available).

19. Reacting, Mr. Maki (Japan International Co-operation Agency) explained what aid Japan had provided (no surprises). Mr. Hawrylyshyn (IMI, Kiev) urged overseas governments and companies to work directly with the Soviet Republics (particularly Ukraine) within an All-Union macro-economic framework. He was particularly keen to see large numbers of Ukrainian farmers and students working abroad to gain practical management experience (and a foreign currency stake!) to bring back for the benefit of the Ukraine. Marc Franco (Commission) gave a customarily level-headed and sensible performance on the PHARE programme approach and G24 co-ordination and the need to let the E/C European countries determine their own priorities and approaches. For this he won praise from Mr. Semm. Mr. Lafourcade (World Bank) also addressed the session, outlining the World Bank's involvement with the USSR/E/C European countries. A Bulgarian academic offered to host the 1991 version of the present conference.

20. Mr. Denise Norman (Zimbabwe) explained some of the problems encountered in Zimbabwe in achieving agricultural potential amongst the range of farmers found in the country and made a plea for Southern Africa to be fully accepted in the world community.

#### FIFTH SESSION

21. Mr. Johnson (Pioneer Hibred) managed to find a further commercial requirement for investment - intellectual property protection and adequate plant breeders rights (text available). Simon Harris (British Sugar) quite obviously drawing on joint venture experience in Poland, provided another daunting list of criteria to attract investment, as did Marcia Wiss (Kaplan, Russin and Vecchi, Washington).

22. Mr. Dabrowski made little impact on me, other than by losing his Vice-Ministerial post in the Polish Ministry of Finance after the programme had gone to print. Andrei Sizer (Soviet Academy of Sciences) spoke well, putting the centralist argument and the critical need to do something about food processing and distribution in collaboration with the West. However, the star turn was Ferenc Rabar (Hungarian Minister of Finance) who turned in a very adroit, sure-footed and humorous performance, particularly on questions, which disarmed his audience and certainly helped redress the concept of mutual benefit (and risk) in joint ventures and other forms of commercial co-operation which had been somewhat obscured. Mr. Rabar also dealt very well with the justifiable criticism from the floor that environmental considerations and concerns had also been overlooked during the discussions.

SIXTH SESSION

23. A commendably high turn out for this session too. Unfortunately, it was poorly chaired by Janos Nyerges and perhaps had too many main speakers. A text is available of the speeches by Mr. Cosse (General Planning Commission, France). The texts of Mr. Kittel's speech (attached) and Brian Chamberlain's (attached) were pruned heavily as shown. My separate note to the Minister gives the flavour. Laszlo Vajda (Foreign Trade Section, Hungarian Ministry of Agriculture) gave a very competent speech outlining the advantages of investing in Hungary. Mr. Heikki Haavisto (IFAP) drew attention to the need to involve farmers in the debate on policies. Mr. Zorregueto (Argentinian Sugar Producers) gave a very long speech criticising world sugar pricing and production policies. Mr. Yakar (IPC, Algeria) from the floor gave an even longer speech promoting his North-South Conference (and book) in Hungary in December. The Chairman then attempted to control questions from the floor and was eventually put out of his misery by Lord Plumb who steered the final communique.

**Final Communique  
from the  
Conference on Restructuring Agriculture and Food Systems: Central  
and Eastern Europe and the USSR**

- 1) Delegates, meeting in Budapest on October 21-23, 1990 at the conference organized by the International Policy Council and hosted by the Budapest University of Economics, share the universal enthusiasm for the economic and political transformation now taking place in the countries of eastern and central Europe and the USSR.
- 2) In this process, the success of reform in the food and agricultural sectors is vital. Given the political significance of food prices and supplies, the sector's importance to the overall economy, its ability to produce a rapid economic response, and to improve standards of living and the balance of payments, the conference delegates believe that the agriculture and food system has a leading role to play in the economic transformation of the region. It is therefore appropriate that it receives priority attention in both domestic policies and international assistance.
- 3) All countries in the region share the wish to develop a market-based agriculture and food sector. Each will pursue these goals differently, according to their individual circumstances and the political consensus which they

## Final Communique...

secure. But all governments need policies which are clear and consistent, leading to price and market liberalization, the creation of competitive conditions, and a stable framework, notably for the right to land and other assets. Reform must cover not only production, but the whole food chain, from field to shop. There was general agreement that a successful development of the sector will be possible only if governments provide a sound macro-economic base.

- 4) The task of bringing about these necessary reforms lies mainly with the government and peoples of eastern and central Europe and the USSR. Clearly, transitional measures will be required because of the magnitude of the changes involved. However, care should be taken that transitional measures do not undermine the objectives. Governments must create a proper institutional environment, including banking and credit facilities, marketing structures, and ready access to market information. Producers and others involved in the sector will need to be able to create cooperatives and other types of commercial ventures. Success will depend on the skills and attitudes of all those involved in the sector whether as farmers, processors, or distributors. Thus, technical and management training has a key role to play.
- 5) Much of the investment required will be generated internally. However, outside investment and assistance plays and will continue to play an important role. Both public and private investors will need a secure legal framework within which to operate. If this is put in

## Final Communique...

place. delegates to the conference can see many opportunities for useful business development, foreign investment and trade, with downstream investment in food processing and distribution being at least as important as in agriculture itself.

- 6) While the West can certainly increase financial and technical assistance, delegates believe that of even greater importance is the creation of greater market access for exports from central Europe and the USSR, and the maintenance of a liberal trading system. This gives added urgency to a successful outcome to the current agricultural negotiations in the Uruguay Round of the GATT.
- 7) Delegates recognize the magnitude of the tasks involved in bringing about the transformation of the agricultural and food sectors in the region but are encouraged by the changes that have already begun. No one model or panacea exists but the exchange of ideas and experience can help to produce good results and avoid the mistakes of others. The conference has contributed to this process by providing a timely opportunity for government, farm, business and academic leaders from all countries in the region to have a serious exchange of views, and by increasing Western countries' understanding of the problems and opportunities which are developing. This process of communication both internally throughout the whole of society and among nations remains important, and the International Policy Council intends to continue to facilitate that communication.

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## A BRIEF OVERVIEW OF HUNGARIAN AGRICULTURE

Darren Walhof

Summer Associate, International Policy Council on Agriculture and Trade

### 1918-1939

During the interwar period, Hungary remained an agrarian society with an agricultural system that was largely feudal in nature. Sixty percent of the working population was engaged in farm-related work, growing over thirty different crops and producing enough to make Hungary a net exporter of agricultural products. The vast majority of farm workers, however, owned no land, while roughly four percent of the population owned two-thirds of the land (Fischer and Uren, 19). Yet, this concentration of land ownership did not result in the advantages usually associated with large-scale operations. Productive efficiency was very low, and production was not adjusted to the demand for food of nutritional value. Of those who owned the remaining third of the land, most owned less than six hectares (Volgyes, "Modernization" 109). So, as Ferenc Fekete observes, "at the same time, Hungary experienced the prevalence of farms which were too large to cultivate intensely and of farms which were too small to operate efficiently" (Fekete 23).

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Paper prepared for International Policy Council on Agriculture and Trade Conference on Restructuring Agriculture and Food in Central Europe and the USSR, Budapest, Hungary, October 21-24, 1990.

Land reform was promised to the landless peasants again and again during the interwar period. A few feeble attempts were made at reform, most notably in 1920, but for the most part, the promises were used as a tool by various political parties to gain electoral support among the peasants, and few structural changes were made prior to World War II.

### World War II and Early Stalinist Period

The war devastated rural Hungary. One half of the livestock and one third of the machine and tool equipment were destroyed. Total material losses for the nation were estimated to be about seven years' aggregate national income. The death of over 400,000 Hungarians caused a severe labor shortage, and food distribution came to a standstill (Fekete 25).

In 1945 another land reform program was initiated by a ruling coalition of the Smallholder, Social Democratic, National Peasant, and Communist parties. This time the effort was relatively successful, and by the end of the year, 34.6 percent of all arable land had been divided up. Holdings of less than eleven acres increased from 19.2 percent to 39 percent, and the acreage held in estates of more than 284 acres decreased from 43.1 percent to 16.5 percent. Those who benefitted most were the landless peasants, although the quality of life for most did not improve noticeably, mainly because the plots given them were too small to provide adequate income. More than one million peasants still owned less than 2.5 hectares, and over 500,000 peasants were still without land. Consumption levels were no higher in 1949 than they were in 1940. Livestock production reached pre-war levels by 1949, but grain yields remained low (Volgyes, "Dynamic Change" 367).

By August 1949, the Hungarian Workers Party had gained sole control of the Hungarian government and had set up a government and economic system

closely modeled after its Stalinist prototype in the Soviet Union. The first five-year plan called for the intensive development of heavy industry and for the collectivization of agriculture. The methods of collectivization were cruel and coercive. Peasant farmers were given compulsory delivery figures at very low prices. If the peasant failed to make delivery, his land and property were confiscated. If he somehow managed to make the delivery quota, his quota levels were raised. Ivan Volgyes writes, "And while it is true that [the brutality in Hungary] did not match the brutality of the Soviet collectivization drive of the 1930's, it certainly came close to it" (Volgyes, "Dynamic Change" 372).

The attempt at collectivization was an abysmal failure. By 1953, only one third of the peasant population had joined the collective farms, many of whom had been landless. Of those who had owned land, many were so demoralized at the loss of their land that they refused to work. Private peasant households produced twenty percent more per hectare than did the state and collective farms. Total agricultural production volume in 1950 was 89 percent of what it had been before the war, and Hungary became a net importer of grain (Fischer, "Agriculture and Rural Development," 32).

After the death of Stalin in March 1953 and with the ascent to power of Imre Nagy, forcible collectivization was ended. In May 1954, the Third Party Congress decided to focus on strengthening existing cooperatives while allowing anyone who wanted to leave a cooperative to do so. The number of cooperative members soon decreased from over 369 thousand to just under 230 thousand. Forcible collectivization was resumed in August 1955, however, at the order of Matyas Rakosi who replaced Nagy as General Secretary of the Communist party. Again, the collectivization program failed as many peasants who were forced to give up their land simply moved to the urban centers to seek jobs in the industrial sector. The

collectives were left with poor leadership, demoralized workers, and a severe labor shortage.

### Revolution and the Early 1960s

By July 1956, Rakosi had been removed at Moscow's order, and Nagy was again in charge. Collectivization was abandoned, and Nagy, under pressure from the revolutionaries, instituted a number of economic and political reforms. The amount of socialized land fell to eleven percent of the total, employing 6.1 percent of the agrarian workers. Private farmers enjoyed standards of living equal to or better than industrial workers and much better than those on collectives. These farmers also enjoyed freedom in marketing almost seventy percent of their agricultural products (Volgyes, "Dynamic Change" 385).

After suppressing the Hungarian revolution in November, the Soviets established Janos Kadar as head of the Party. It was not until December 7, 1958, however, that the Central Committee announced that its goal was the "socialist transformation of the countryside." A new collectivization campaign was launched, using incentives and increased investment along with "administrative pressures." This time collectivization was swift and complete: by 1962, over ninety percent of arable land had been socialized and over one million farmers were members of cooperatives. In November of that year, the Eighth Congress of the Hungarian Socialist Workers' Party (formerly the Hungarian Workers' Party) declared that collectivization had been completed and that the foundations had been laid for the construction of a fully socialist society (Kovrig 80).

Between 1962 and 1968, the agricultural situation in Hungary changed little. Grain production had reached pre-war levels by 1959, and more or less stayed at these levels through 1968. Grain imports slowly decreased

and livestock exports slowly increased. The cooperatives and state farms continued to be plagued by poor leadership and a lack of sufficient capital for inputs such as machinery and fertilizer. Morale was low among workers which led to poor performance and inefficiency. The small number of private farms continued to produce proportionately more than the collectives, especially in livestock and fruits and vegetables.

#### The New Economic Mechanism

Partly in response to economic stagnation and decline in Hungary, a reform of the entire economic structure, called the "New Economic Mechanism," was launched in 1968. The NEM introduced some elements of a market economy, including decentralized planning and an emphasis on managerial expertise, productivity, and competitiveness in the world market. In the agricultural sector, the government proclaimed that state farms and cooperatives were equally valuable (the Soviets maintained that state farms were superior), and the amount of state investment in the cooperatives increased significantly. Cooperative members were given the right to elect their own officers, and the work week was limited to 48 hours. Cooperatives were also allowed to make decisions about what to produce, to make contracts with state enterprises, and to purchase and own machinery. Prices for many commodities were freed of centralized regulations and allowed, for the most part, to follow the market. In an effort to eliminate the negative agricultural trade balance, incentives were introduced for the production of exportable commodities.

What followed was several years of rapid growth in Hungarian agriculture. Fertilizer use increased from 112 to 276 kilograms per hectare between 1968 and 1975. Total grain production rose from 7.6 million tons in 1970 to 13.8 million tons in 1980. Wheat yields increased

from 2.14 to 4.76 tons per hectare over the same period. Hungary once again became a net grain exporter, after having been a net grain importer since the war. Meat and vegetable production also grew quite rapidly, as did consumption of these products (Agricultural Statistics 40,42).

An interesting aspect of the tremendous growth in Hungarian agriculture in the 1970s is the role of the household plots of the cooperative members. As a means of transition during collectivization, the government allowed the peasants joining a cooperative to retain a very small piece of land, usually located immediately around the peasant's house (hence the term "household plot"), for the purpose of growing products for consumption by the peasant's family. The small-scale production of livestock and fruits and vegetables on these plots continued during the sixties as a more or less unrecognized portion of the agricultural system.

As part of the New Economic Mechanism in 1968, however, the government officially recognized the household plots as an important part of the Hungarian agricultural sector and began to seek out ways to integrate these private efforts into the national productive effort. For example, the 48-hour work week aided in this effort by giving agricultural workers more time to work on their own plots. Furthermore, official recognition by the government led to easier access to capital and inputs, particularly fertilizer.

The direction of small-scale and household plot farming changed from economic self-sufficiency to market orientation. Their output is impressive. In 1975, small-scale production activities, which took place on about 15 percent of the total arable land, accounted for 36 percent of all agricultural output. In 1976, such plots produced more than forty percent of all livestock products, 58 percent of potatoes, and more than half of all fruit crops. During that same year, small-scale plots produced



more than 53 percent of Hungary's total pork products--a very significant figure when one considers that Hungarians consumed 92 lbs. of pork per capita that year, and that pork and pork products accounted for fourteen percent of the agricultural and food exports in 1977 (Volgyes, "Dynamic Change" 431).

The key to the relative success of the reforms of 1968 was the government's recognition of the place for small-scale, private production alongside large-scale, collectivized production. The Hungarian government made a pragmatic choice by recognizing and supporting the small-scale production of livestock and fruits and vegetables--products that can be produced relatively efficiently without large capital or machinery inputs--and by concentrating its investments in the large, collectivized production of grains. Furthermore, by allowing the workers to retain ownership of the plots and the products produced, the government tapped into a labor resource that otherwise would have been idle: Had the workers not owned the plots, they wouldn't have worked any longer than the 48 hours required of them (as demonstrated by earlier attempts at collectivization). Now, however, they worked the set hours for the cooperative and also several more per week on their own plots, producing food not only for themselves, but also for the urban-dwellers and also some for export.

During the 1970s, new types of agricultural organizations were launched. These include agricultural associations, agricultural combines, and agro-industrial collectives. The horizontal integration of several collectives or state farms to accomplish a certain task constitutes an agricultural association. For instance, three cooperatives, a state farm, and the State Meat Trust joined together in the early eighties to build a large slaughterhouse. Combines, on the other hand, are typified by vertical integration. Their focus is the planting, production,

marketing and distribution of a single product. Agro-industrial collectives are usually cooperatives which have expanded their activities to include part of the industrial sector, such as manufacturing implements or food-processing equipment.

### The 1980s

Since the late seventies, agricultural production in Hungary has more or less been stagnant. Corn production peaked in 1982 at 7.9 million tons and has since remained near 7 million tons per year. Barley yields reached 4.5 metric tons per hectare in 1984, but have since declined. Livestock production has also stagnated, with slight gains in pork production. Meat and meat product exports have declined significantly, from 347 thousand tons in 1980 to 172 thousand tons in 1987 (Agricultural Statistics 48,54).

The stagnation has been caused by several factors, the most prominent of which is a lack of capital and hard currency. Like other countries in the region, Hungary's stock of machinery is largely outdated. Parts for machines produced in socialist countries are chronically unavailable, and Western machinery and parts must be purchased with scarce hard currency. Hungary's external debt is roughly 20 billion US dollars, the highest per capita debt of any of the Central European countries. The lack of capital has also caused fertilizer and pesticide shortages.

Another factor in the stagnation is the continuing problem of an aging agrarian work force, and poor leadership. For the last two decades, most of Hungary's young people have been moving to the urban centers, unwilling to devote themselves to a life of difficult agricultural work and a lower standard of living. As a result, the average age of the agrarian worker has been steadily increasing, and the number of pensioners on the cooperatives has also continued to rise. Furthermore, the farm sector has

had difficulty attracting highly educated Hungarians to take leadership positions in the cooperatives and state farms.

The food processing industry suffers from low productivity in comparison with Western countries. Part of this is attributable to poor management, but the main problem, again, is insufficient capital. Modernization of outdated technology would greatly increase efficiency and allow for more flexibility to match demand. Modernization is costly, however, and Western technology demands hard currency. Another major problem in the food processing industry is the lack of domestically produced, high-quality packaging materials. The poor quality of packaging hinders Hungary's ability to expand into Western markets, where consumers are accustomed to more attractive and functional packages.

In the late 1970s and early 1980s, the Hungarian government began a series of trade reforms designed to increase integration with the West. The goals of the reforms were to bring domestic prices in line with world prices, to achieve complete convertibility of the forint, and to increase hard currency trade with the West, while at the same time decreasing trade with other members of the Council for Mutual Economic Assistance (CMEA). Formerly, trade was governed by several foreign trade organizations, each with a monopoly in a given commodity. The Hungarian government ended these monopolies, allowing production enterprises to choose among existing foreign trade organizations, or to apply for their own foreign trade rights. By 1986, over 250 enterprises had attained such rights (Situation and Outlook Report, 32). Export agreements with members of the CMEA still received first priority, however, and competition between enterprises was discouraged.

In 1988, Hungary continued its push towards greater integration with the West by becoming the first Warsaw Pact country to sign a bilateral

trade agreement with the European Community. The agreement went into effect on December 1, 1988, and included a three-stage lifting of all European Community quotas on Hungarian exports. In turn, the agreement requires increased Community access to the Hungarian market. Furthermore, Hungary has called for an increase in hard currency trade among CMEA partners.

Until 1989, Hungary's step-by-step economic reform was not accompanied by political reform. This failure to reform the political process has hindered the effort toward a freer economy. As Csaba Csaki has said, "Politics seeped into every cell of the economy and prevent efficient decision-making" (Greenhouse D1). The Communist government's bureaucratic meddling imposed upon the freedom of business leaders to make investment decisions. Also, the government refused to close down inefficient operations, particularly heavy industries, which hurt the overall economy.

The rejection of the Breshnev Doctrine of limited sovereignty by General Secretary Gorbachev in July 1989 paved the way for political reform in Hungary. On October 7, the Communist Party of Hungary voted to reorganize and change its name to the Socialist Party, signalling its break with the Soviet Union. Eleven days later, the Hungarian Parliament voted to change the Constitution of Hungary and to change the country's name to the Republic of Hungary. The next day, Parliament voted to legalize opposition parties.

On March 25 and April 8, 1990, Hungary held its first free elections in over forty years. The Hungarian Democratic Forum, led by Jozsef Antall, captured a plurality with 25 percent of the vote. The Democratic Forum is a center-right party which favors full transformation to a free-market economy, although at a slower pace than proposed by its main opposition, the Alliance of Free Democrats who won 21 percent of the vote. The

Independent Smallholders, who strongly advocate the return of collective land to the workers, also won a sizeable percentage of the vote, as did the Socialists. Prime Minister Antall currently heads a coalition government consisting of the Democratic Forum, the Smallholders, and the Christian Democrats.

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## Background Paper on Polish Agriculture

### PREWAR ERA

Prior to World War II, Polish agriculture was perceived as a stagnant industry. Poor agricultural growth was attributed to the feudal structure of the rural land. Large landowners were predominant in prewar Poland: they held more than 47% of the agriculture land, while 65% of the rural population controlled only 15 percent of this rural area. Before 1938, out of a total of 3.2 million individual farms, 1.9 million (60%) had less than five hectares (12.5 acres). In addition, it was estimated that approximately one million rural families were landless and, along with a large group of small farmers, were dependent on only 15,000 wealthy land owner families.<sup>1</sup>

Polish agriculture was unable to take advantage of economies of scale, given the conditions of the feudal system. Underemployment in agriculture was so high that it was estimated that if one third of the rural population had left the rural areas, agricultural productivity would not have changed.<sup>2</sup> Renovation and improvement of agricultural practices were unknown concepts. Farm machinery, if available at all, was obsolete; fertilizers were used in very low quantities and without any technical assistance; and the condition in which the rural labor worked and lived was among the very worst in Europe.

Despite all this, Poland managed to be one of the leading agricultural producers and exporters of foodstuffs in Europe. Excluding the Soviet Union, Poland had the largest land

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<sup>1</sup>J.P. O'Hagan, p 69.

<sup>2</sup>Ibid., p 69.

area devoted to agriculture. This allowed Poland to be the largest producer in the Eastern Bloc (excluding the Soviet Union) of rye (6.8 million tons), barley (1.6 million tons), oats (2.8 million tons), potatoes (38 million tons), sugarbeets (5.9 million tons), rapeseed (canola), cattle, milk, pork, eggs, as well as other agricultural commodities.<sup>3</sup>

During the interwar period, Poland largest trading partners were western neighbors such as Czechoslovakia, Austria, and particularly Germany. Agricultural exports played a major role in foreign trade and subsequently in Poland's balance of payments. During the years preceding War World II, food represented approximately 37% of total exports and, combined with fuel and timber represented four fifth's of Poland's total exports.<sup>4</sup> Poland's food imports prior to the war consisted only of tropical foods and vegetable oils. During the same period, western Europe as a whole relied heavily on food imports.

Although Poland had higher levels of food production than most of its eastern neighbors, food consumption figures were not superior to those found in countries such as Czechoslovakia and Hungary, and were definitely lower than those found among western Europeans. Before World War II, Polish food consumption consisted mainly of grains and potatoes.

### POSTWAR ERA

During World War II, 470,000 peasant farms were either destroyed or severely damaged.

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<sup>3</sup> 1934-38 average. ERS "Agricultural Statistics".

<sup>4</sup>Zauberman, p 283.

The number of horses declined by 45%, cattle losses were 60%, the pig population dropped 72% and 63% of the sheep were lost. In addition, 20 percent of the houses and farm buildings were burned down by Nazi or Soviet troops.<sup>5</sup> Hence, the foundation on which agriculture was to grow after the war was very weak.

In 1944, land reform was one of the first socialist changes undertaken by the new communist government. Land reform affected all landowners with more than 50 hectares, new farmers could not own more than 5 hectares of agricultural land. Over one million rural families benefitted from land reform: the majority were landless rural families, agriculture workers, small tenants and owners of small farms. The reform created 814,000 new farms and enlarged 254,000.<sup>6</sup>

In 1948, Poland came under Stalinist influence. The government of President Bierut became heavily dependent of Soviet authority. Those who disagreed were expelled or censured. Wlaksylaw Gomulka, a prominent member of the Polish communist party, an advocate of private agriculture and a fervent believer in the existence of a distinctive Polish socialism, was among the most outstanding examples.

Following the Stalinization of Poland, the Polish government nationalized the Catholic church land, and all small peasants plots were forced to merge into cooperatives. The entire rural infrastructure was absorbed by the communist government. Prices, allocation of outputs,

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<sup>5</sup>O'Hagan, p 70.

<sup>6</sup>O'Hagan, pp 71.

and source of inputs were all arranged by the state. These measures received a strong resistance from the peasants. By 1956, despite government efforts there were only 10,000 collective farms compared to 3 million private farms.<sup>7</sup> Following riots and protests in Poland, and Stalin's death in the Soviet Union, Wlaksylaw Gomulka returned as a hero and was reinstated as the leader of Poland. This marked the end of collectivization in rural Poland.

### AGRICULTURAL STRUCTURE

Hence, due to the Polish peasants resistance and Gomulka's postulate on rural land, Poland generated a different agricultural structure and land ownership system than is typically found in communist countries. Eighty percent of Polish agricultural land is in private hands; only 16.6 percent is managed by state farms, and 1.5 percent belongs to cooperatives. In addition, cooperatives and state farms contributed only 18.9 percent of total agricultural production while private farming was responsible for 79.7 percent.<sup>8</sup>

State farms are under the management of the director general of the Ministry of Agriculture. The farms are organized in regional boards, national boards, regional experimental farms and farms run by institutes of the Ministry of Agriculture. State farms are operated under a system of centralized management where the director decides the

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<sup>7</sup> Andrzej Korborski, p 172.

<sup>8</sup> Maly Rocznik Statystyczny, p 138.

commodities and the quantities to be produced according to the central government purchasing contracts. Cooperatives are small family-owned units, which merged for production and purchase purposes.

Table 1 shows the structure of individual farms in 1974 by their dimensions. Although all farms are relatively small (less than 50 hectares), farmers with 10 or more hectares account for 34.2 percent of all agricultural land, followed by farms with 7 to 10 hectares, which control 22 percent of the land. Furthermore, almost sixty percent of the farms fall within the categories of 0.5 to 5 hectares, together holding almost 28 percent of the land.<sup>9</sup>

Table 1. Structure of Individual Farms In 1974.

Size Hectares	# of Farms percent	Area of ag.land percent
under 0.5	n.a.	0.6
0.5 - 2.0	28.4	6.5
2.0 - 5.0	31.0	20.6
5 - 7.0	13.8	16.1
7.0 - 10	13.6	22.0
over 10	13.2	34.2

<sup>9</sup>Source: O'Hagan, p 100, (table 5.2)

Despite private ownership, the small scale of Polish agriculture structure has resulted in

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<sup>9</sup>There has been little change in structure since 1974. However, today the government is encouraging small farmers to sell their land to more efficient farmers. This will eventually modify the structure of the agricultural land.

an inefficient system. Lower yields in Poland than most other countries in the Eastern Bloc have been a consequence of small farm size and the lack of a coherent flow of agricultural inputs toward the farm. Table 2 compares yields for several commodities among several eastern European countries.

**Table # 2. Crop Yields In 1974 Eastern Europe**

Tons per hectare

	Czechos.	GDR	Hungary	Poland
Barley	3.89	4.12	3.05	2.92
Rye	3.06	3.06	1.65	2.51
Oats	3.04	4.15	2.36	2.74
Canola	2.09	2.42	1.36	2.03
Wheat	3.96	4.33	3.75	3.17

\*Source: ERS Agricultural Statistics

During the communist era, major crops in Poland did not differ very much from the years prior World War II. Nevertheless, production of these commodities improved significantly. For instance, the average production of wheat for 1934-1938 was 1.9 million tons, by 1966,

wheat production reached 3.6 million tons. Rapeseed had the largest advancement with nearly 350 percent more tons harvested than before World War II (average 1934-38). Production of sugarbeets was boosted by 128 percent, while a more moderate increase was seen for potatoes (22%) and barley (31%).

This quarter century of increases in agricultural production followed the devastation of the second World War and the reconstruction of the Polish economy. Adverse times, however, came in the 1970's during global food shortages. During this period a number of countries instituted policies to stimulate agricultural production. However, Polish agricultural production slumped severely during the same period. For instance, wheat production in 1985 was 4 percent less than in 1972, production of potatoes dropped by 20 percent, in contrast to the 22 percent increase seen during the early communist years. Rapeseed increased by only 16 percent between 1972 and 1985 and there was no change in the production of barley.<sup>10</sup>

Agricultural exports were insignificant during the communist period primarily due to government regulations which encouraged domestic consumption over exports, and which subsidized imports which provided food at prices lower than the world prices.

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<sup>10</sup>ERS "Agricultural Statistics".

## ORGANIZATION IN THE CENTRAL PLANNED ECONOMY

### Transportation

After World War II the railroad system was reconstructed and the lines most frequently used were converted to electric power. Polish railroads continue to play a meaningful role in the flow of products within the Eastern Bloc, especially between East Germany and the Soviet Union and Czechoslovakia and the Polish ports. The highway system is multilane near Warsaw with projects underway to link Warsaw and the provincial centers. Shipping is well developed and there are three major sea ports; Szczecin, Gdynia, and Gdansk as well as smaller fishing and coastal navigation ports. Domestic and international air transportation is provided by the state government. Inland water is not considered an important means of transportation.<sup>11</sup>

### Agricultural Marketing

Despite the private nature of farming, the flow of agricultural products both upstream and downstream has been controlled by the government. Animals and commodities were ordered and purchased by the state. Polish agriculture was and still is primarily a integrated system. However, unlike free market systems in which the basic purpose of vertical integration is to offer better quality, reasonable prices, and reliable supplies of products, vertical integration under centrally planned economies has disrupted the flow of products, disregards any

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<sup>11</sup>Britannica Encyclopedia, p 451.



incentives for quality, and allows prices to be controlled by the central administration. The government "provided" farmers with seeds, fertilizers, pesticides, farm machinery, and other agricultural inputs, however the quality of these inputs was poor. Payments for crops were unstable, and credit for new machinery was not available. The state purchased about 70 percent of all agricultural production and distributed this among the food industry and retail markets.

#### Agricultural Inputs

Not only was farm machinery in Poland outdated, but there were very few machines per hectare of agricultural land, in large part because the small farm size did not justify such equipment. For instance, Polish agriculture in 1966 had 6,106 grain combines for 15.6 million hectares of arable land. By contrast, East Germany had 16,776 grain combines with a total arable land of 4.9 million hectares.<sup>12</sup> Tractors when measured by number per hectare, follow the same pattern. Fertilizer availability was higher in Poland than most other eastern European nations, but the quality of fertilizer was generally inferior.

Polish citizens were better fed than most of their eastern neighbors. Food consumption patterns match those found in some of the most developed industrialized nations. Table 3 shows comparisons of daily caloric intake by several developed nations, including Poland and the Soviet Union.

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<sup>12</sup>ERS Agricultural Statistics

**Table 3. Average Daily Caloric Intake, 1984-86.**

Country	Total	Animal Products	Vegetable products
West Germany	3,475	1,295	2,180
Poland	3,298	1,081	2,217
USA	3,642	1,228	2,414
USSR	3,395	911	2,484

\*Source: Food and Agricultural Organization.

### Impetus for Change

Poland's economic stability came to an end for the second time in the communist era (the first was in 1956) under Gomulka in 1970. Food price increases led to riots, and strikes and left the nation with dozens of dead. These political uprisings ousted Gomulka and established Gierek. The following years were difficult times for Poland: without hard currency to import basic foodstuffs and with no incentives for farmers to increase production, food shortages became a component of Polish life.

### POLAND IN THE 1980'S AND 1990.

Lech Walesa, leader of Solidarity in 1980 guided workers of the most important shipyards in Poland to go on strike. Following two more walkouts, the government signed an agreement

granting all major demands from Solidarity. By the end of the decade, the communist government collapsed which led to a transitional administration under General Wojciech Jaruzelski (Former president of the last communist government)-as chairman and Tadeusz Mazowiecki as Prime Minister.

Between August 1989 and January 1990 Poland began a major reorganization of its social and economic system. The government of Tadesz Mazowiecki introduced a series of economic reforms which intend to convert the old centrally planned economy into a dynamic market oriented economy. Emergency measures suggested by the IMF were implemented by the Polish government. Among the most important are: the devaluation of the zloty to narrow the gap between the official exchange rate and world market rates, and the introduction of the first convertible currency from the Eastern Bloc. Strict wage controls were implemented. Taxes of 100% - 200% on wage increases exceeding 80% of the monthly rise in the cost of living were levied to slow wage price inflation. Most prices were freed up, including coal and foodstuffs. Tax payments were accelerated and subsidies and others budget expenditures were cut, which helped to reduce the prospective budget deficit from 10 to 7% of GDP.<sup>13</sup>

Opening the economy to a market based system over time will lead to a better allocation of resources and unquestionably, an increase in production in most sectors of the economy. Agriculture however has a peculiar situation; although Poland produces more or as much as its eastern neighbors, greater production is only a consequence of more area planted,

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<sup>13</sup>Rosati & Rembisz p 8.

since yields are lower than those found in other Eastern Bloc countries. In addition, Polish agriculture faces a serious lack of infrastructure which inhibits the flow of products from the farm to market shelves.

The economic policies of the second half of 1989 and 1990 constitute a peculiar combination of some bold institutional changes transforming many crucial aspects of the formerly centrally planned economy, and of conservative, and mostly politically-motivated policy measures.<sup>14</sup>

In a country where the price of wheat had been higher than the price of bread, where farm inputs were subsidized and where any distortion in the economic system was absorbed by the central government, allowing the market overnight to establish its own supply, demand and therefore prices has thrown Polish agriculture into a serious crisis. These events in Poland have left the nation with an unusual and difficult environment, especially in agriculture where the upstream and downstream marketing are still significantly linked to state-owned or state monopoly enterprises. Consequently, it is expected that agricultural production will drop this year, after having seen record production of rapeseed and other commodities in 1989.

The implementation of market prices has been bad news for farmers in Poland. Commodity prices increased by 90% from Jan - June 1990, but agricultural input prices rose by more than 170% in the same period.<sup>15</sup> As a result farmer's income have been reduced

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<sup>14</sup>Rosati & Rembisz, p 4.

<sup>15</sup>Rembisz, & Rosati, p 12.

drastically. Fertilizer utilization has experience declines of up to 90 percent, resulting from the increase of prices from \$4 a ton in January to \$60 a ton in July 1990.<sup>16</sup> The government has implemented export controls of agricultural commodities to partially contain the escalation in food prices. Moreover, for the first time the government has suspended current tariffs for agricultural inputs. However, farmers declare that this measure is too late for this year's crop, and they demand that the government institute an accurate, impartial and adequate agricultural policy.

The Solidarity-led Polish government is facing criticism from all economic, social and political sectors in Poland. On one side peasants, workers and journalists have opposed the procedures used on the implementation of the current measures. They argue that people's expectations will be crushed, and that the social cost of recession will be too high a price for the Poles to pay. Nevertheless, Lech Walesa and his supporters has announced his candidacy for president of Poland, advocating that changes have not been implemented fast enough.

Dr. Leszek Balcerowicz Deputy Prime Minister and Finance Minister, has said that the current recession will benefit the nation because it will permit the extermination of inefficient industries and will allow Poland to institute a new era with a preferable allocation of its resources.<sup>17</sup>

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<sup>16</sup>Richmond Times, Sunday July 29 1990.

<sup>17</sup>Jeff Madrik, New York Times May 20, 1990.

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## A BRIEF OVERVIEW OF CZECHOSLOVAK AGRICULTURE

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### Interwar Period

The typical Czechoslovak farm before World War II was a privately-owned "family" farm of less than five hectares. In 1930, there were 1,530,000 such units, accounting for 71 percent of all farms. Most farmers in this group could not derive sufficient income from farming alone, however, and often supplemented their farm income with income from other activities. Owners of medium-sized farms--5-20 hectares--usually had enough work and income to support their family throughout the entire year. These farms made up 25 percent of all farms, using 42 percent of all agricultural land. Farms of more than 20 hectares accounted for only 4.3 percent of the total farms, but they occupied 35 percent of the total agricultural land (Lazarcik 4).

Farmers had complete freedom in making decisions about what to produce, how much to produce, and what to do with the products. In 1934, however, the government introduced fixed prices for most crops, protecting the large-landholders who marketed mostly grains. The small farmers, who depended primarily on the sale of livestock products, were subject to sharp price fluctuations.

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Land reform was attempted during the interwar period, but was only partially successful. By 1938, the share of land in farms of more than 100 hectares had decreased from 16 percent to 10 percent, while that in farms of 2-20 hectares had increased from 58.4 percent to 65.3 percent (Lazarcik 5). Insufficient capital remained a major problem for most farmers.

#### Postwar and the Communist Takeover

Damages sustained during World War II severely hurt the agricultural system in Czechoslovakia. Indeed, Joseph Hajda claims that "no meaningful comparison between prewar and postwar production trends can be made without accounting for the substantial reduction in productive capacity" (Hajda 131). In 1945, agricultural production was 56 percent of what it was before the war (Hajda 131).

Anti-German sentiment and gratitude to the Soviet Union for its role in defeating Hitler's army helped boost the membership of the Communist Party of Czechoslovakia from its prewar number of 80,000 to over one million by 1945 (Ulc 101). In the first post-war government, the Communists were part of a ruling coalition that included the Social Democrats, the Socialists, and the Catholics in Bohemia and Moravia, and the Democrats in Slovakia. The popularity of the coalition was enhanced in the rural areas by a massive land transfer, headed by a Communist party member, in which the property of German and Hungarian nationals and other "enemies and traitors" was confiscated and transferred to small Czechoslovak farmers.

In May 1946, the Communists won 38 percent of the vote in freely held parliamentary elections and gained control of key ministries within the government: interior, information, agriculture, education, and social

welfare. Their popularity was slipping, however, as postwar euphoria faded. Faced with the prospect of losing at the polls in the May 1948 elections, the Communists staged a political crisis in February of that year. The Communist Minister of Interior refused to comply with a cabinet decision regarding the reinstatement of noncommunist police commissioners. The twelve noncommunist ministers resigned, hoping to force immediate elections. Instead, after a visit from the Soviet ambassador, President Eduard Benes issued a mandate for one-party rule. Several noncommunist leaders fled the country or were arrested. A new constitution was adopted in May, and Klement Gottwald, long-time leader of the party, became president after Benes refused to sign the constitution.

#### Collectivization

In imitation of its Stalinist model in the Soviet Union, the Czechoslovak government's first five-year plan called for the nationalization of all economic endeavors, rapid expansion of heavy industry, and the socialization of agriculture. The methods employed to collectivize the land were ruthless. Joseph Hajda writes, "The guiding principle in liquidating the private-farm sector and replacing it by agricultural cooperatives and state farms was 'the end justifies the means'" (Hajda 133). By the end of 1952, almost one-third of all agricultural land had been collectivized (Lazarcik 12). The continued emphasis placed on heavy industry, however, resulted in the neglect of the agricultural sector, especially in terms of state investment in the state farms and collectives.

Collectivization was discontinued in 1953 following the deaths of Stalin and Gottwald in March, and the area held by collectives actually declined by almost one-fifth by 1955 (Lazarcik 12). In 1956, however,

collectivization was resumed under the leadership of Antonin Novotny. The government used heavy price discrimination against private farmers and the nationalization of all machinery, among other coercive measures, to force farmers to join the cooperatives. The methods were successful. By 1958, 76.8 percent of all agricultural land had been collectivized, and by 1961, that figure had risen to almost 88 percent (Agricultural Statistics 25).

During collectivization, state investment in the cooperatives and state farms also increased. Total investment rose from 3.2 billion crowns in 1955 to 6.4 billion crowns in 1961 (Agricultural Statistics 27; crowns in 1960 prices). Production and yield increases did not nearly match investment increases, however. Decision-making on the collectives was often left in the hands of those with little background in farm management, and the farms were plagued by inefficiency and waste. Morale among workers was very low and passive resistance was common. The average annual growth in agricultural production between 1950 and 1960 was only 1.4 percent. More striking is the fact that annual growth between 1958 and 1962 averaged -0.8 percent (Hajda 133).

#### The 1960s and the Prague Spring

Faced with severe economic problems, the Twelfth Party Congress, meeting in 1962, announced a program of rural development. The program's goal was the "industrialization" of agriculture to help facilitate the recent collectivization and to help cope with labor shortage problems in all sectors. It was also hoped that such industrialization would eventually lead to complete food self-sufficiency for the nation. Investment was shifted away from heavy industry and was directed toward agriculture, particularly toward grain production. Fertilizer use on the state farms and cooperatives increased from 106 to 167 kilograms per

hectare between 1963 and 1966 (Agricultural Statistics 29). The number of tractors increased dramatically, and emphasis was placed on scientific research and agricultural education for farm leaders.

Czechoslovak agriculture entered a period of growth that lasted through the first years of the 1970s. The average annual growth rate in agricultural production between 1966 and 1971 was 3.5 percent (Hajda 138). Total grain production rose from 5.2 million tons in 1965 to 9.7 million tons in 1973. Wheat production accounted for much of this, with total production increasing from 2 to 4.6 million tons over the same period. Barley production doubled. Livestock production growth was steady, but did not keep pace with the growth in grain production. Fruit and vegetable production remained at 1965 levels (Agricultural Statistics 33, 36, 91-95). By 1968, state farm workers and members of agricultural cooperatives had standards of living equal to those in urban areas.

Yielding to increasing criticism for its failure to deal with continuing political, social, and economic problems, the Central Committee of the Communist Party voted in January, 1968, to replace Novotny as party leader. The appointment of Slovak bureaucrat and compromise candidate Alexander Dubcek marked the beginning of what has become known as the Prague Spring. The reform-minded Dubcek and his followers began their pursuit of "socialism with a human face" by combining elements of democracy and market economy with the Marxist system. In the agricultural sector, managers of state farms and cooperatives were given more power to make decisions in an effort to increase efficiency. Cooperatives were also given the right to conduct business in other sectors of the economy, particularly food processing and distribution, and a new price regulation system freed about 15 percent of commodities (Fischer 30).

The reform was short-lived, however. On August 21, 1968, Warsaw Pact troops invaded Czechoslovakia. A process of "normalization" was imposed and most of the previous reforms were annulled. In April 1969, Alexander Dubcek was replaced as party leader by Gustav Husak. Karl-Eugen Wadekin writes, "Once 'orthodoxy' was reinstated, the Czechoslovak reformers were accused, as far as collective farming goes, that by too great an emphasis on farm autonomy and its truly cooperative elements, they had adopted a rightist, destructive, and anti-socialist stand. Their critique of the pre-1967 agrarian policy now was labelled 'revisionist.' Worst of all, they were accused of wanting to weaken the role of the state in controlling agriculture and propogating a market mechanism instead, although these were not in fact their aims" (Wadekin 211).

#### The 1970s

In the early 1970s a plan of reorganization of the agricultural sector was implemented in an effort to increase productivity and efficiency. The plan emphasized consolidation along with specialization and increased investment. Its goal was the creation of large and sophisticated "super farms".

Consolidation was carried out quickly. The number of collective farms decreased from 6,200 in 1970 to just under 2,000 by 1976. State farms decreased from 336 to 213 over the same period. The average size of collective farms jumped from 677 hectares to 2,257 hectares, and that of the state farms rose from 4,265 to 6,545 hectares (Agricultural Statistics 16-19)

Investment in the state farms and collectives increased. Fertilizer use rose to 320 kilograms per acre in 1976, up from 223 kilograms per acre in 1970 and second only to East Germany (Agricultural Statistics 29).

Larger and more powerful tractors were purchased--their use made possible by the increased size of farms. Some specialization took place on an intrafarm basis, but the different divisions within each farm lacked managerial independence, and efficiency remained a problem.

By the mid-1970s, Czechoslovakia had achieved self-sufficiency in meat, dairy products, and eggs, with consumption of these products steadily increasing. Total grain production peaked in 1974 at roughly 10 million tons, and total grain imports declined somewhat, but still remained over one million tons per year. Per capita grain consumption remained at about 110 kilograms per year which was lower than most of the other central European countries (but still significantly higher than Western nations where per capita grain consumption is usually between 60 and 70 kilograms). Fruit and vegetable consumption remained relatively stable (Agricultural Statistics 124). Vladislav Bajaja writes in 1980 that "the quantitative side of the Czechoslovak diet is no longer a serious problem. But high quality foods are rather scarce . . . In this respect socialist agriculture bears responsibility for some of the present failures . . . However, a great part of the fault is to be attributed to the technological gap in the socialist food industry, which organizations suffered from a lack of appropriate innovations, as well as from restrictions on imports and rather unfortunate export policies of the foreign trade organizations" (Bajaja 268-69).

In October 1975, the Central Committee decided that integration rather than amalgamation should be pursued as a means of increasing efficiency and productivity. No significant structural changes were made before 1980, however. Agricultural production and yields remained steady, as did grain imports. Total agricultural and agro-food products exports accounted for 3.8 percent of total exports in 1979, down from 6.8 percent in 1960 (OECD 31).

### The 1980s

Throughout the last decade, the Czechoslovak government has continued to emphasize the production of grains and to somewhat discourage livestock production. Total investment in the agricultural sector steadily increased and fertilizer use remained very high through the first half of the 1980s. In 1984, Czechoslovak farmers used 341 kilograms of fertilizer per hectare--the highest in Eastern Europe and higher than many Western European nations. In January, 1986, however, the government abolished state support of fertilizer prices, causing a 15 percent rise in prices, which it hoped would result in more efficient use of fertilizer by farmers (Situation and Outlook Report 11).

In 1985, state and collective farms were granted more freedom in determining what commodities to produce. Also, in January of that year, the government implemented a plan to reduce overproduction of meat. Farms which exceeded their targets for feed use or produced more meat and eggs than the plan stipulated lost production premiums and received a 20 percent cut in prices for those products.

This emphasis on grain production has produced some of its desired effects. In 1989, total grain production was roughly 12 million tons and Czechoslovakia achieved about 94 percent self-sufficiency in grains. Grain

imports fell to 317,000 tons in 1989--a considerable drop from the more than 1.5 million ton average of the 1970s. Corn imports continue to be the bulk of total grain imports. In 1989, Czechoslovakia exported almost 88,000 tons of wheat (Szabo 6).

Problem persist, however. Grain production suffers from a lack of effective plant protection agents such as herbicides and insecticides. This problem is intensified in that the varieties grown have a relatively low resistance to pests and diseases. Also, as in other countries in Central Europe, the quality of the machinery on many farms in Czechoslovakia is low. Very large and heavy machines, introduced with the consolidation drive in the 1970s, are still in use despite the fact that they damage the soil, thereby decreasing yields. Damage to the soil has also been caused by years of inefficient use of fertilizers. Storage facilities for grain are inadequate in many areas.

Czechoslovak agriculture has the potential for increased productivity and efficiency. According to Arpad Szabo, Director General of the Department for International Economic Cooperation of the Ministry of Agriculture, the difference in yields between state variety tests and those obtained on the farms has been increasing over the past several years. Closing this gap will demand large amounts of scarce capital. Szabo claims that, "the yields of cereals harvested until now in [Czechoslovakia] suggest that cereal production has reached its maximum with the existing quality of agricultural inputs. No substantial increase beyond this level can be expected in the long-term outlook" (Szabo 7).



Current Political Situation

On June 8 and 9, 1990, six months after the Communist party resigned from power, Czechoslovakia (now officially the Czech and Slovak Federal Republic) held free Parliamentary elections. The coalition of Civic Forum (from the Czech republic) and Public Against Violence (from Slovakia) captured 47 percent of the vote and 87 out of the 150 seats in the House of the People. The Communist party and the Christian Democrats capture 14 and 12 percent of the vote, respectively. Currently, Vaclav Havel of Civic Forum is President, and Marian Calfa of Public Against Violence is the Prime Minister. The country has applied to join the International Monetary Fund (IMF), the World Bank, and the Council of Europe, and is also preparing to sign an trade agreement with the European Community.

# R E P O R T

*of the Head of Ukrainian State Agri-Industrial  
Committee*

*Mr. N. SIDORENKO*

*at the conference "Reconstruction of the agri-industrial sector  
in Central Europe and USSR - strategy of politics, investments  
and support"*

*held in Budapest on October 21-25, 1990.*

*Dear ladies and gentleman*

First of all I would like to thank for the invitation and the opportunity to speak at this international forum. We appreciate this opportunity as recognition of those positive changes in socio-economic sphere in the Ukraine and throughout the Soviet Union.

Ukraine is a republic with enormous economical potential, century-old traditions of hard working people and particularly peasants. In spite of all hardships our nation suffered during the wars and the domination of "administrative-command" system the potential of agriculture is growing. Nowadays our Republic produces 1 ton of grain, more than 100 kg of sugar, 85 kg of meat, 21 kg of oil per capita. But it is not enough. Storage and processing of agricultural foods are the most vulnerable elements in the present situation. The losses during harvesting of some crops especially potatoes, tomatoes, fruits exceed 25 %. Due to lack of fodder protein there is more consumption of feed of growth unit of livestock products. The population is also in trouble caused by ecological problems and especially Chernobyl disaster and development of heavy industry. The unbalanced monetary system, devaluation of money, destabilise the situation in the market of food-stuff and people are not motivated to increasing the output. Thus despite a good crop, many shelves of state shops are almost empty. Our main task is to make radical changes in agro-sector and bring the agroindustrial complex nearer to the level of highly-industrialized European countries, ascertain adequate supply of quality foodstuff for our people and export such products as: high grade varieties of wheat, buckwheat, eatable lupine, tomato paste, vetch, oil, sugar, hides, mineral waters, salt, sport and meat horses, etc.

The Republic has all the necessary conditions. The adoption of Declaration about State sovereignty of the Ukraine will give the possibility, starting from 1991 to conduct independently external economical activities and use enormous industrial potential of the Republic for solving agrarian problems.

Moreover, on 17-th of October of current year a law was adopted about priority of social development of village and agroindustrial complex of the Ukrainian economy. This law envisages considerable increase of state capital investments in agroindustrial complexes as well as privileged conditions for use of energy, significant reduction in taxes.

New individual farms, for instance, will be free of taxes for 5-10 years. Collective and state farms will pay only 1.5 % out of the profit as taxes. The laws about property, ownerships of land, individual farms, will be also adopted in the immediate future. All these measures will facilitate the moves to denationalization and privatisation, this creating conditions for development of a market economy.

However we realize that to convert Ukraine with its big human, natural and industrial potential into a prosperous state in a short period of time and to make it reliable a partner for European and American countries, radical changes in our international economical relations need to be brought about. We believe that our market will become one of the substantial stabilizing factors in the world market. One of our priority objectives is the creation of joint ventures with western partners. We are particularly interested in manufacturing of equipment for processing industry and storage of agricultural products. For instance, we are ready to create joint ventures for

manufacturing of extruders for soya processing, and preparation of some foodstuff made of grain. The Republic is interested in the creation of joint ventures for production of up-to-date, ecologically safe pesticides, and various agricultural machinery.

It would also be useful to have joint ventures for production of foodstuffs made of potatoes, buck-wheat, vegetables, sugar beets, fruits, berries, meat, milk etc. as well as flax fabrics, leather articles. Currently only half of these raw materials are used for the production of these foodstuffs and other articles. Coupling

of foreign capital and expertise with reserves of qualified manpower and great demand for many products, through creation of joint ventures, should result in higher profitability in our Republic than in the home countries of our potential partners.

The Republic will also adopt the laws about protection of foreign investors, creation of shareholding associations, joint ventures with foreign firms and associations, creation of paper instruments securities, stock exchanges, Ukrainian State customs, bank for foreign economic relations etc. We have, by the way, created a special organization called UKRAHRO-IMPEX, which regulates and coordinates foreign economic relations.

We shall assist in the creation of associations and joint ventures with the participation of foreign firms, which will introduce advanced technologies for getting high and stable yields of agricultural crops.

A special program for the increase of corn yield and particularly soya is already adopted in the Republic. The question of high quality corn seed has also to be solved.

The joint venture with an Austrian firm "Pioneer" is producing 10 thousand tons annually of early-ripening hybrids. But for our own needs and for export to other Republics we should need more than 200 thousand tons of seeds annually.

Seed-farming of soya, rape, hybrid sunflower, sugar beet, vegetables has to be upgraded to use modern industrial technology. Special attention will be paid to soya, since its increased production is the critical factor for solving the problems of fodder protein. For the solution of all these problems we are ready to widen the cooperation with any country and any corporation. Those foreign firms which are interested in our subsidiary enterprises and handycraft will find in us an enthusiastic partner also. Nowadays the number of these enterprises in collective and state farms is about 50 thousand and their annual volume of production is worth approximately 5

billion of roubles.

I am not going to describe our accomplishments in embroidery in Poltava region, pottery, paintings, wood-carving, bucket willow wattling, high artistic quality of porcelain, glass and metal items. After all these articles can be found in the shops all over the world and meet the standards of refined lovers of folk art. I use this opportunity and urge the foreign firms for effective cooperation in this fertile field. With some foreign capital investments we could easily triple the output of folk craft.

We realize that raising the efficiency of entire agroindustrial complex entails also the knowledge of world markets. We are therefore eager to set up joint trading companies and associations.

Our Government has the intention to purchase with hard currency, or credit on favorable terms, the up-to-date equipment, advanced technologies, highly grade genetic stock of cattle and poultry. We are particularly interested in dairy Holstein and Angler cattle, and high productivity beef cattle. We are eager to buy pedigree young stock of Hampshire breed.

The Republic is open to scientific cooperation in agrisector. Our scientific institutions that have recently united in Ukrainian Academy of Agricultural Sciences have already achieved some real successes in breeding of high-yield varieties of winter wheat, frost-resistant varieties of durum winter wheat bred (a first in the world) sunflower hybrids, early-ripening soya varieties, edible lupine, buck-wheat, drug plants. A unique genetical material is also bred in animal-breeding. The researches of our scientists in other fields of agrarian science are worthy of being studied.

In this transition period to market economy, and new forms of farming, we have an urgent need of efficient managers, specialists on cooperatives, expert farmers. To cope with this we intend to invite foreign experts for direct participation in our farming and training of our young farmers and entrepreneurs

abroad.

We are interested in training our farmers to be managers and other students abroad. We would like some 1.5 - 2 thousands of our trainees to work abroad on the farms, in cooperatives, processing enterprises for periods of 3-4 months each year.

In our opinion it would also be most useful to promote the exchange of students and scientists between educational institutions and scientific organizations.

In short, we have a common, great and fertile field waiting for us to be ploughed together.

I tried to describe only part of ways in which we could join hands, join our respective capabilities for fruitful cooperation. Among all these many problems there is one that can be solved only by mutual efforts.

Chernobyl disaster became a tragedy not only for Ukraine but for the world community. Suffering knows no borders if it concerns people. It is of great importance to save our common House. Use of new technologies marshalling of financial and technical resources are all necessary to create reasonably safe living conditions for those living in polluted areas. These are the measures urgently needed now.

Dear ladies and gentlemen, let me thank you for the opportunity to address you and share my thoughts on the current state and problems of agro-sector of Ukraine.

Thank you for your time.

## A BRIEF HISTORY AND OVERVIEW OF SOVIET AGRICULTURE

The Soviet Union has approximately 551 million hectares of agricultural land. Twenty-two percent of the country's total land area is very high to mediocre soil fertility. With careful management, large amounts of additional areas could have fair soil fertility. Most farming takes place in the western region of the country, but farming reaches almost every area of the country. Approximately fifty percent of the agricultural land is devoted to grain crops, primarily wheat. Approximately thirty percent of the land is planted to fodder, and the remaining twenty percent is planted in industrial crops, fruits and vegetables.

### The Emancipation Act of 1861

In the 1860s, the Russian rural population was comprised of serfs, and peasants who farmed their own land but who could be made into serfs at the Tsar's wish. The Emancipation Act of 1861 abolished serfdom and sold the former serfs small allotments of land from their previous landlords. Each peasant made installment payments to the government for the land, but the title to the land was held by the village. Not surprisingly, the land the peasants were given was most often poor quality and brought low yield. Combined with the installment payments and taxes paid to the state, this "privatization" placed a great

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strain on the peasants. Famines in 1891, 1897, and 1901 further eroded the peasant's living conditions. By 1901, the peasants were in revolt. Simultaneously, revolutionary movements were spreading propaganda among the peasants calling for the redistribution of the land and the overthrow of the tsar.

The peasant movement began in earnest in 1902 with a raid on an estate in the Ukraine. Raids swept through the south of Russia with peasants seeking redistribution of land. The government attributed the peasants unrest to poverty caused by inefficient farming practices. In response, the tsar enacted the Stolypin Reform in 1905 which called for the consolidation of the peasants small strips of land into large lots growing only one commodity. The Stolypin Reforms reduced the role of the village in rural Russia and undermined the peasants traditional practices. In addition, the peasants were required to continue their payments for land and taxes.

Peasant revolts again broke out again, but this time at much greater numbers. In 1905 there were 3,228 large-scale peasant outbreaks. Between 1907-1913 there were 20,000 large-scale violent rebellions. On the strength of Lenin's promise of land redistribution, the peasants joined the Bolshevik Revolution and seized the countryside.

### Leninism

By 1921, when the Bolsheviks were clearly in power, they began to implement policies to develop large-scale Socialist style farming. The peasants again resisted this change in their

way of life. They revolted, preventing food from reaching the cities. In response, Lenin slowed collectivization and adopted the New Economic Policy. The NEP relieved the peasant's financial burden by replacing monetary taxes with requisition of part of the peasants' crops. The new policy also allowed freer trade in agricultural products. In 1922 under the Land Reform Act, the peasants were given further autonomy.

### The Stalinist Era

The New Economic Policy was meant to be temporary, however because of Lenin's death in 1924 it was not dismantled until later. After Lenin's death, the price disparity between agricultural goods and industrial goods began to widen substantially. As the peasants' purchasing power decreased, they began to hoard their grain and sell it through unofficial channels. This created a grain shortage in the cities. To counteract the peasants Stalin started a procurement campaign in 1928 and 1929 enforced with threats. In response, the peasants destroyed their crops, and rioted. The Soviet Union was forced to import grain that year.

The grain crisis and peasant political upheaval caused Stalin to implement new, far-ranging agricultural policies. In 1929, he initiated the first of four Five Year Plans. The objective was to collectivize all arable land. Collectivization would take two forms: state farms and collective farms. The large state farms were to specialize in and expand grain cultivation. The smaller collective farms were to substitute for

the village, and hopefully to quell further dissatisfaction. The government approached the plan with such force that by the end of the first five years approximately four-fifths of the peasant's acreage had been collectivized. By 1939, peasant farming had ceased to exist.

Although collectivization met its goal at the end of the plan period, production had actually declined. The first Five Year Plan resulted in a drastic reduction in food supplies and severe local famines. To compensate for the declines, exports were sharply reduced and the standard of living dropped dramatically, particularly in the villages. The peasants refused to work to capacity, and refused to relinquish their means of production and livestock (Strauss pg.101) The struggle between peasant and government peaked in 1932-33 where four to five million peasants were killed.

The Five Year Plans were characterized by central planning in which the government determined the amount of produce to be supplied by each farm and how many rubles would be received in exchange. The prices paid by the government for the agricultural products were low and became almost worthless with the growing depreciation of the ruble. Farm worker's wages dropped continuously from 1928 to 1940. Because farms had to meet procurement quotas, the farm administrators often inflated yields to meet the quota. In reality, actual production had fallen below the crisis yields of 1927 and 1928. The end results of

Stalin's Five Year campaigns were sharp declines in food production and living standards.

### World War II

World War II cost the agricultural sector a great deal. Approximately 20 million lives were lost during the war, mostly from rural areas. Officially, agricultural output dropped 40% during 1940-1945. Grain production fell by one-half, sugar beets by two-thirds, and potatoes by one-fourth. Farm equipment was also decimated. Many tractors were converted into tanks. Enemy looting took an estimated 137,000 tractors, 49,000 combine harvesters, 46,000 drill ploughs and 35,000 threshing machines. Lack of spare parts and fuel also diminished production.

After the war, Soviet agriculture had to be rebuilt with a loss of millions of farmers, virtually no fully functioning farm equipment and scarce livestock. The recovery was slow and patchy.

### Khrushchev

In 1953, when Khrushchev came to power, he attacked the desperate agricultural position with exuberance. Khrushchev's agricultural policy can be broken into two separate periods, the 1953-1958 "Reform Period" and the 1969-1964 "Regroupment Period". Khrushchev believed in collectivization, and wanted to increase the number of large-scale state farms. The state farms, their staff and farm equipment grew rapidly during the reform period. While increasing the number of state farms, Khrushchev reduced the number of collective farms by 3,000 a year from 1953-1956, consolidating them with state farms.

Khrushchev's stated goals for his reform were to "re-establish the principle of material incentive to the farm workers to increase output, strengthen the administrative and technical support on the collective and state farms, remove the bureaucratic distortions in planning, increase capital investment, and expand the grain area through a "New Lands Campaign" (Strauss, pg. 170). The New Lands campaign was Khrushchev's greatest endeavor. Since grain production was insufficient to supply all of the Soviet Union's needs, Khrushchev planned to increase production by cultivating the semi-arid "virgin land" of Siberia and Kazakhstan. Between 1954 and 1956, 36 million hectares of grain were planted in this region. The results up until 1962 were impressive. In 1958, the new lands produced over one half of the grain in the Soviet Union. Khrushchev invested great amounts of machinery, money and labor into the new lands. 18 million hectares of wheat were added in four years, with the concentration of production in the new lands region.

However, dependence on grain in the semi-arid land would prove to be inadvisable in the long run. The plowing of fragile soil sharply reduced its fertility. And, since the new lands in Siberia and Kazakhstan, were in principle meeting the Soviet Union's demand for bread and grains, the land that was traditionally planted wheat was diverted to maize production to alleviate the shortage of fodder. Maize was planted in the Ukraine, the central black earth belt and the North, which had

been some of Russia's highest wheat producing regions. Average national wheat yields declined and by 1963, acreage planted to wheat was half of what it was in 1953. At the height of the maize campaign in 1962, 37 million hectares were under maize, only of which 7 million hectares were suitable for maize production. (Strauss, pg. 176).

"The reinstatement of producer prices as an effective part of agricultural policy was one of the most sustained changes introduced by the Khrushchev government. Price adjustment was virtually complete for cereals and other agricultural products by 1958" (Strauss, pg. 200). Financial returns to the collective farms increased threefold.

#### Brezhnev

But, the exploitation of land from Khrushchev's "New Lands" and the Maize campaigns took its toll after 1958. When Brezhnev came to power in 1964, agriculture was still in crisis, although at a somewhat less critical juncture. Like Stalin, Brezhnev instituted Five Year Plans. The first Five Year Plan for 1966-1970 invested 71 billion rubles into the collective and state farms. It tackled the agricultural pricing system in an effort to make farms more profitable.

The plan included increasing the prices paid for produce, increasing wages, and decreasing the price for farm equipment and manufactured goods. Brezhnev condemned Khrushchev's unrealistically high quota system, and introduced a new lower quota system that would not be changed for the five years. Also,

he promised to invest 4 billion rubles in new farm equipment plants during the plan period.

The first Five Year plan lasted for only one year because 1966 brought such a bumper crop that the produce shortage was alleviated. Assuming the agricultural crisis was past, money budgeted for agriculture was funnelled to industry, consumer goods, and defense. By 1970, agriculture was again in crisis. The inattention to agricultural policy meant that the agricultural sector had fallen behind in equipment and technology. In addition, the country had a meat shortage.

Brezhnev's second Five Year Plan invested heavily in farm equipment, livestock complexes, and irrigation. Nevertheless, the 1970's proved to be a very difficult decade. While enormous amounts of money were invested in capital, output was still low. The cost of production was rising especially in the livestock area. Farm workers wages were increased and subsidies to the state farms increased to cover the gap between retail prices and procurement expenditures. In addition, by the end of the decade the Soviet Union was importing grain on a regular basis to meet the increasing demand for livestock feed. Agriculture had become a serious drain on the Soviet economy.

The early 1980's saw continued declines in production caused by low yields. This "contributed to the decision to devise new approaches to the problems of agriculture. The result was the 1982 Food Program". (Nove, pg. 12) The Food Program's main goal, like the plans and campaigns before, was to increase production.

The plan called for substantial increases in feed, irrigated land and drained land, and the delivery of 26.5 million tons of fertilizer.

The Food Program also was to invest heavily in infrastructure, approximately 35% of national investment was to be directed to the agro-industrial complex, particularly in transportation, packaging material, storage, farm machinery, and housing. The problem of inadequate coordination between the bureaucracies was to be resolved by changing the agro-industrial complex so that all agencies were linked within a hierarchical structure. As overseer of the food program, the newly reorganized agro-industrial complex "insured the coordination of activities of farms and service agencies, supplies, repairs, rural construction, procurements, transport and food distribution". (Nove, pg. 26 )

The first years of the Food Program did not meet the planned results but there were successes. There was a substantial amount of fertilizer delivered to farms, up from 18.76 million tons in 1980 to 25.39 million tons in 1985. The numbers of tractors, combines, and harvesters was increased. On the other hand, there was a continuing downward trend in land improvements and the cost of production continued to rise. Grain imports reached an all-time high in 1984 and the new hierarchical structure of the agro-industrial complex was also failing. "The reason for the failure was due to the separate organizations keeping their own plans and financing, therefore continuing there old practices of



fulfilling their own quota with disregard to the higher final production at least cost". (Nove, pg 40.)

### Gorbachev and Perestroika

By the time Gorbachev entered into power, problems were abundant. The lack of coordination between bureaucracies in the central planning system, forced collectivization and large state farms had destroyed incentives. Machinery was in short supply and often poor quality, compounded by severe shortages of spare parts. Technical advancement was slow, with many tasks that are mechanized in the West still being done by hand. The infrastructure was underdeveloped; transportation, storage facilities, refrigeration facilities, packaging, were all in poor condition.

Since 1986 Gorbachev has taken measures to strengthened the Food Program through labor reform and introducing elements of the private sector. Because of his role as Minister of Agriculture during Brezhnev's Food Program Gorbachev appreciated the important and complex role that agriculture played in the economy. Since coming to power, he has been making steps to improve the agricultural situation. He has advocated small, autonomous work groups with contractual relations with farms. He has encouraged the growth of private sector by making it legal to own land and encouraging the expansion of private production.

In 1985, Gorbachev made Agroprom a superministry with hundreds of subordinate district agro-industrial committees. Gorbachev has also realized the inadequacy of industrial inputs.

and has made far reaching plans to build the country's infrastructure. These plans however, have been received with mixed review.

In September, 1990, Gorbachev announced his intention to move the entire Soviet economy toward a free-market system, however a heated debate has ensued over the shape and pace of reform. One plan, known as the 500 Day Plan would dismantle the large state farms and would give farmers "their share of the land". As of September 24, 1990 the 500 day plan had failed to be agreed upon by the legislators, but the legislators gave Gorbachev sweeping new powers for eighteen months to make the transition into a free-market economy. It remains to be seen how President Gorbachev will choose to transform Soviet agriculture.

## The State of Agriculture in East Germany

Courtney Harold

The reunification of the two Germanies adds an element to the restructuring prospects of the East German agricultural sector that sets it apart from the rest of eastern Europe. The sector is faced with the need to adjust to sudden massive competition from the West and the transition will be difficult. But the transition will be facilitated by favorable prices offered with the EC's Common Agricultural Policy and the greater availability of inputs and financing from the West.

### **The Pre-War Years**

Eastern Germany was a primarily rural region in the early 20th century. The primary farm type in the early 20th century was the diversified family farm. Large land owner/tenant farms also existed.

Prior to World War II in the area of Germany that subsequently comprised the German Democratic Republic (GDR), the average farm size was much larger than in the west, providing the east with more efficient economies of scale. Agricultural education and training was also superior in the east.

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Crop yield per hectare, livestock yield per animal, and net food production per hectare were all higher in the east than the west in the prewar years (Table 1); although fertile soils are generally found only west of the Elbe river, particularly in the areas surrounding Magduy, Halle and Leisig.

Table 1: East German as a Percentage of West German Agricultural Productivity<sup>1</sup>

CATEGORY	1935/38	1957/61	1965	1970
Crop Yield per Hectare	108	88	96	83
Livestock Yield per Animal	113	80	84	80
Net Food Production per Hectare	107	75	84	68

Farm land was carefully diversified among the most important crops, wheat and rye, with peas, beans, cucumbers, gherkins, tomatoes, beet root, celery, carrots, rhubarb, white and red cabbage, sprouts, and cauliflower. Farmers rotated crops seasonally to maximize yields on already marginal soils, and often intermingled fruit and vegetable production.

Average wheat yields from 1934 to 1938 were 2.46 tons per hectare in the region subsequently included in the GDR (Cochrane, p. 37). About 630 thousand hectares of land were planted to wheat in the east, more than any other crop. Average wheat production in the east was 1.5 million tons in this same period. Fertilizer in the east was intensively used at an

<sup>1</sup>SOURCE: Reprinted from Ronald A. Francisco, Betty A. Laird, and Roy D. Laird, eds., "The Political Economy of Collectivized Agriculture", adapted from Konrad Merkel, "Neuere Entwicklungen in Produktion und Organisation der DDR-Landwirtschaft in der Diskussion, eds. K. Merkel and H. Immler (Cologne: Verlag Wissenschaft und Politik, 1973), table 2, p. 33

average of 0.72 million tons per year. The east was a net agricultural exporter and the west an agricultural importer.

The transportation and marketing structure at this time was decentralized, and although small scale, was quite efficient. Private producers often made contracts with wholesalers who arranged for the transport of commodities to cities and surrounding regions.

#### Post World War II

Following the war, Germany was divided into zones administered by the four victors, the British in the northwest, the French in the southwest, the U.S. in the west of West Germany, and the Soviets in the largest region, the east. The western zones were subsequently merged and became the FRG. On October 7, 1949 the Soviets established the German Democratic Republic (GDR) as a separate country, ruled by the "Socialist Unity Party" (SED) following the forced merger of the Socialist Party (SPD) with the Communists, wielding the red power. A constitution was adopted eight months later by a People's Congress of 1,525 members.

#### The State of Postwar Agriculture

The agricultural infrastructure of East Germany was all but destroyed in the final fighting of the war, many farm buildings and villages were burned, crops and livestock pillaged or requisitioned by the Soviets, and the shortage of working age men was severe (p. 65, Francisco et al.).

During the period of military administration of the Soviet zone (1945-49), one-third of the land was held in large scale farms, and land owned by prominent Nazis, absentee owners, religious organizations, and, farms of 100 or more hectares were seized. Most of the land was redistributed to

landless farm workers, and refugees.<sup>2</sup> The East German government believed that "the proletariat must play a leadership role in the economy" (Rothnauer, 1988).

The initial redistribution effort did little to change farmers' practices. The few who did voluntarily collectivize at this time, 5 percent of farmers, produced for the market (where prices were controlled). Following the establishment of the GDR, the Association of Mutual Farmer Support was organized in 1950 by the government to enable authorities to maintain control of the allocation of materials and incentives, and to enact reforms at the local level (Francisco et al.). The regime tightened controls further by introducing the system requiring farmers to register all privately owned goods. This was followed by the creation of machine loan stations, creating a state monopoly of machinery.

#### Collectivization Goes Full Force: 1952 to 1961

The drive towards collectivization accelerated in 1952, when smaller landowners not touched by the expropriations of 1945 were targeted. Collectives were designed to appear economically attractive to farmers. They were favored by subsidies, lower taxes, minimum income guarantees, and cancellation of debts.

There were three types of collectivized farms in the early 1950s: In the first, the farmer retained nominal claim to the land and control of machinery, livestock, and buildings. In the second, the farmer retained nominal claim to the land but all machinery was collectivized. In the third, all property besides a 0.5 hectare plot and a limited number of

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<sup>2</sup>Previously in the hands of 3,000 landlords, this land was transferred to 544,000 farm workers (Francisco et al.)

livestock were collectivized. This effort in 1952 led to an initial wave of collectivization but many still resisted.

The riots and unrest following Stalin's death in 1953 slowed down the collectivization drive. Only after 5 years did significant efforts resume. In 1958, the government sweetened the incentives even more in a final attempt to attract farmers to join voluntarily. In 1959, after this effort failed, farmers were given no choice. They were forced to either sign the forms to collectivize or leave the farm for the city or West Germany. Table 2 displays the sharp drop in private land ownership in 1959 and 1960. Nearly one-half the country's agricultural land was forcibly collectivized in just three months (Francisco, p. 68). This decision, known as the blitzkrieg, appears to have been Party Secretary Walter Ulbricht's alone. He went over the heads of both the Agricultural Ministry and Minister-President Grotewohl.

Table 2. Index of Private Agricultural Area (1950=100)<sup>3</sup>

1950	100.0	1958	65.1	1966	6.2
1951	99.0	1959	54.1	1967	6.1
1952	98.8	1960	7.9	1968	6.1
1953	78.2	1961	7.6	1969	5.9
1954	79.6	1962	6.9	1970	5.9
1955	76.5	1963	6.7	1971	5.7
1956	73.2	1964	6.5	1972	5.6
1957	70.6	1965	6.3	1973	5.4

Farm size also changed under collectivization. The Soviets imposed a Moldavian system of agriculture, devoting gigantic tracts of land to single

<sup>3</sup> SOURCE: Reprinted from Francisco et al. 1950-70 from Gregor Lazarcik, East German Agricultural Production, Expenses, Gross and Net Product, and Productivity, 1938 and 1950-1970 (Columbia Research Project on National Income in East-Central Europe, Occasional Paper No. 36, 1972). 1971-73 calculated from Statistisches Jahrbuch der Deutschen Demokratischen Republik (East Berlin: Staatsverlag der DDR, 1972-1974).

crops (Fisher, 1990) which replaced small, multi-crop farms. From 1952 to 1966 the average size of farms more than tripled in size, from 114 hectares to 383 hectares (USDA, 1969).

An important aspect of collectivization was the focus on maximizing physical production (Heym, 1989). Total production dictated farmer income received by the government, with no consideration of quality. The seasonal rotation of crops was also cast aside.

Productivity actually declined as a result of forced collectivization. Total net output fell 30 percent from 1960 to 1961. The GDR was not equipped to centrally manage complexities of farm production, harvesting, machinery and food distribution. There were severe food shortages all over the country as the increase in farm machinery demand went unmet.

The largest migration ever of farmers to the west did not help the already stunned agricultural system. Thousands of East Germans fled to the west in 1959-60, including many of the younger farmers, despite the fact that escape had been declared a crime by Ulbricht in 1953 and police were stationed along the East-West border to prevent it. In total, it is estimated that 3.5 million people left East Germany for the west from 1945 to 1961.<sup>4</sup>

#### **The Wall and Revitalization of the Economy, 1961-1972**

To quell the westward migration of both farmers and industrial workers, the government constructed a guarded barbed wire zone 3 miles wide all along the east-west border. The isolation of East Germany from the

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<sup>4</sup>500,000 of these eventually returned but the majority who left permanently were highly specialized, technical workers. This brain drain severely damaged the economy.



West became complete with the construction of the wall dividing East Berlin and West Berlin.

To the surprise of the west, the construction of the wall was followed by an economic revival in East Germany. The cities of Leipzig, Dresden, East Berlin, Magdeburg, and Halle were rebuilt. And in the now collectivized agricultural sector, productivity soon climbed back up. Compared to other East European countries, yields in East Germany were already high.<sup>5</sup> There was a higher proportion of tractors to arable land, more fertilizer consumed per acre and a more stable yearly production level than in other communist countries.

Catching up with West Germany in per capita food production and consumption seemed within reach. There was no apparent reason the GDR shouldn't succeed: the land was just as fertile; farm sizes were larger and presumably more efficient; two times as much capital was invested in agriculture than the West Germany; more labor was employed; and more fertilizer was used (Francisco, p. 78, 1977). One researcher claimed that trying to surpass West Germany motivated the farmers to work hard and helped to instill a feeling of nationalism in the people for the first time in the post war era: East Germans began taking pride in their recovering economy and strong industrial base (p. 78 Francisco). Others interpret the increase in production much more negatively; since farmers were now trapped in East Germany, they were forced to produce and improvements in technology led to increased output despite the collective system and inefficient uses of fertilizer and labor.

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<sup>5</sup>However for some crops, East Germany was behind Yugoslavia and Poland, two countries that maintained a portion of their agriculture in private farming.

Although, East Germany never realized its goal of surpassing the west in per capita food production, let alone consumption, increased use of fertilizer and machinery increased in yields sufficiently to make East Germany nearly self-sufficient in potatoes, sugar beets, and grains. Exports to COMECON countries increased significantly as did exchanges of agricultural products for Soviet fuel. However, by the time West Germany officially recognized the GDR as an independent country in 1973, its agricultural hey-day was over and it never came close to being competitive with West Germany.

#### Agriculture in the 1980s

Under collectivization wages, salaries and bonuses were related to work performed and performance standards met. However, adjustments were usually made when worker performance failed to meet the prescribed levels or when production fell short of what could be expected from increasing inputs.

#### Turbulent transition: 1989 to the present

On the eve of November 9, 1989, the day the wall came down, 12.5 percent of the labor force were still employed in agriculture. Almost all of East Germany's farms were collectivized, and had been for nearly 25 years. There were a total of 5,800 collectives and state farms, and 660,000 of East Germany's 800,000 farmers belonged to collectives.

Agriculture comprised only 5 percent of the GNP in East Germany, but that figure understates agriculture's importance to rural East Germany. In addition to providing food and employment, collective farms had become the focus of East German rural life. They were responsible for administering kindergartens, schools, community centers, medical facilities, and more.

Dismantling the collective farm system will have profound effects, and huge adjustments will need to be made to adopt a free market system, with privately owned farms.<sup>6</sup> Even though East Germany's most important crop, wheat, is projected to reach a record (11.5 million mt) this year, it is difficult to approach short-term agricultural prospects in the GDR with any optimism.

As a result of reunification it is estimated that up to half of the East German farm population will out of work -- 400,000 of 800,000 farmers will be forced to leave the farm.<sup>7</sup> Last winter, the East German wholesaling and price control systems broke down. And since the currency union with the FRG mark on July 1, 1990, East German food products have encountered severe competition from the West. Whether quality differences, superior packaging and selection or the pervading notion that "West is Best" are motivating the switch, the market for East German agricultural products has plummeted.<sup>8</sup> As a result, East German milk is being poured out in the streets, some crops are not being harvested because the farmers claim they won't be able to sell the product.

That some farmers are not harvesting their crops demonstrates that commonly understood free market notions such as opportunity cost are foreign to East Germans.<sup>9</sup> In the west those crops would be harvested and put on the market at reduced prices because any revenue earned would

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<sup>7</sup>In the general economy it has been estimated that 4 million of the 8.9 million workers will be jobless by the end of the year. ("East German Economy Far Sicker than Expected," Ferdinand Hotzman, NYT 9/4/90)

<sup>8</sup>East Germans are also crossing the Polish border to buy goods made cheap by the strong German mark.

<sup>9</sup>per conversation with Ulrich Koester, professor, Kiel University, September 17, 1990.

contribute towards the farmer's fixed costs. Even selling food grain for feed would be better than not harvesting it at all.

The sharp drop in demand is compounded by the first exposure to West German prices. For some products such as fruits and vegetables, producer prices in the West are lower than they were in East Germany. For example, the GDR paid farmers £160 a ton for potatoes and then sold them for £45 per ton. East German producer prices have now dropped in line with the EC intervention price and collectives receive only £65 per ton, a decrease of 40 percent. (Richardson, 1990). The EC suggested a transitional program to ease the shock to farmers, with income payments to East German farmers that would be phased out over a period of four years (Buchan, Dickson, NYT). On the other hand, consumer prices are up, dampening demand.

The loss of consumer price subsidies will affect not only the demand for food but also employment. Because food prices were generously subsidized under communist rule, excess workers could be kept employed at low wages (Financial Times, p. 31, Richardson). There was no incentive to use labor efficiently. Of the 1 million workers on East German farms, West German officials say only 250,000 are needed (Richardson, 1990). A significant cut in labor employed in agriculture appears necessary if the sector is to be competitive in the EC; however in the short-term such a cut would be painful.

It is easy to understand why 90 percent of collective farmers resist private ownership -- small farmers would be faced with losses while adjustments to competition within the EC. On August 15 1990; 250,000 farmers protested in Berlin, calling for higher farm gate prices (NYT, Binder). Farmers claimed present payments aren't enough to cover the

higher prices being charged for food and other basic items since the West German mark became the official currency (Garcia, 1990). Already wages and salaries in the east are only half those in the west.

At present, agricultural products that cannot be sold in East Germany are exported to the USSR under existing trade agreements. The EC has assured Germany that this trade can continue but they will want to know quantities, prices and qualities to ensure the 1989 EC-Soviet trade accord is not undermined and that there is no back-door favoritism (Richardson, Financial Times). However, the shift to world prices may slow demand for East German agricultural products in the East. On the other hand, East German agriculture will benefit from its inclusion in the EC price support system and from EC as well as West German structural assistance.

Reunification comes at a time when the Common Agricultural Policy (CAP) of the EC is attempting to curb budget expenditures, however, the EC is obliged to grant the same types of aid to East Germany as it provides to other less developed regions of the EC. The EC has estimated the cost of this aid at \$9.6 billion a year; about half would be paid by West Germany (Agricultural Outlook, May 1990, USDA).

It is important to recall that under communist rule maximizing the quantity of production or yield was the only goal for agriculture. Quality, innovative marketing schemes and packaging, and cosmetic presentation have been absent from the farmer's production decisions for nearly 50 years. This is yet another adjustment that must be made before the GDR's agricultural sector is revitalized. It must adjust to win back the consumers who turn west for better quality products. The least optimistic critics have said that the entire East German farm structure may

have to be destroyed and rebuilt from scratch (Richardson, Financial Times).

Others believe East Germany can adjust and eventually compete in the east if reform measures and transitional assistance are implemented quickly. The influx of private and government investment from West Germany puts the agricultural and food processing sectors in East Germany at a significant advantage over other reforming east European economies, and will allow the transition to take place relatively quickly.

ROMANIA'S AGRICULTURE -  
THE STRATEGY OF TRANSITION TO  
THE MARKET ECONOMY

BY

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BUCHAREST

1990

ROMANIA'S AGRICULTURE  
THE STRATEGY OF TRANSITION TO THE MARKET  
ECONOMY

This conference, organized under the high patronage of International Policy Council on Agriculture and Trade allows me to present to the distinguished participants the problems concerning the strategy of transition to the market economy of Romania's agriculture. I hope the exchange of opinions will open new horizons and new solutions for our future activity, concerning broader international trade, investments and finance, know-how, better scientific relations. etc. From the very beginning I should like to mention that we are now facing extremely difficult economic and social problems. We are confronted with an economic crisis that needs investigation on its genesis, manifestation, dimensions, e.s.o., not only to get a realistic image of the economy Romania has inherited, but to become aware that this crisis will still probably last, a part of the future period, too. The character extremely centralised and bureaucratic of the state monopolistic socialism, that acquired incredible forms, paralysed the initiative and creativeness of the society, led to lack of logic and efficiency in using the resources,



diverting the economic activity from its normal social finality - human needs.

Great imbalances appeared in economy, reflected by the lagging behind of agriculture, an oversized heavy industry, the aggravation of the problems of energy and neglecting the services. The competitiveness of Romania's economy was severely affected by its isolation from the world and European economic, technical and scientific circuit.

In view of the transition to the market economy, new Romania's fundamental option, which meets a national consensus, the parliament and the government have elaborated a strategy of gradual but quick transition, with main characteristics: decentralization of the economic activity, privatization, price liberalization, which of course leads to an open economy. The parliament and the government are opening wide horizons to the market economy considering the needs, possibilities, traditions and interests of the Romanian people and adopting from the experience of developed countries those practices considered suitable to the Romanian conditions.

The change in agriculture play a major part within the strategy of transition to the market economy, as the evolution of the entire national economy depends upon the solving of the agricultural problems.

In order of the integration of agriculture into the market economy, the government has elaborated a strategy with the following main components:

- a new agricultural structure, by changing the forms of property of the land and of the other production factors;
- a new mechanism of organization and functioning of the food markets;
- the modification of the financial and tax system;
- the technological reshaping of agriculture, correlated with the farm supplies and the training of the farmers.

In order to achieve these targets, laws have been elaborated. Also the role of the governmental and nongovernmental institutions in supporting the development of agriculture and in assisting the farmers have been determined.

This is a long term strategy, gradually improved, according to the economic and social changes which will occur in the entire national economy.

As it is not possible to present all the details of this strategy, we will try to tell you what has been done and what is still to be done in agriculture with the hope that your suggestions and observations will be a real help for us.

Shortly after the 1989 December Revolution, the provisional government decided to take resolute steps for the transition of agriculture to the market economy. These steps were legally stipulated by the Decrees-laws nr. 42 and 43/1990 <sup>and</sup> they provide land allotment to the cooperative members and to other categories of people

represents about one third of the agricultural area of the country); the abolition of the state monopole on the trade with agricultural products; the liberalization of the agricultural prices; the abolition of the state monopole on the production means and the selling of tractors and other production means to the private farmers; the granting of total autonomy to the farmers and cooperatives, to determine the crop structure, yields and its utilisation; the writing off the debts of the cooperatives; the increase of the pensions of the cooperative members, etc.

These measures have determined a revigoration of the agricultural production; by increasing the producers' interest in selling their products on the market. The supply of vegetables, fruits, eggs, meat, milk and dairy products has been improved. The prices of certain products (cereals) have decreased as compared to last year, while the prices of other products (vegetables, fruits, dairy products, s.o.) have been maintained within acceptable limits. In order to ensure the normal supply of the population, the export of food products has been stopped. Moreover, besides the food aid granted by the European Economic Community, and the U.S.A., we imported great quantities of food stuffs.

At the present time, the government is working on the new land law which will be submitted to the parliament.

The main principles of this law are:

1. - the recognition of the right of property on the land owned by the peasants at joining the agricultural production cooperative and the granting of the property title;

2. - the recognition of the right of option of each owner how to use his land. He can decide:

.. to work his land in association, in the existing cooperatives, but on new principles, mutually agreed upon;

.. to withdraw from the cooperative and to individually work his land.

3. - the allotment of the land to the land owners is suggested to be done in compact lots and not on the old locations, making thus possible a more efficient land use. This will be carried out, if wanted, by kinship or by neighbourhood, in order to create the best association conditions for working the land;

4. - the peasants with no or very little land will be given land from the existing reserves, or resources that will be created for this purpose;

5. - the land owner will have the legal right to lend, mortgage or sell the land he owns, according to the provisions of the law.

According to the above-mentioned measures, about 80 % of the agricultural land will become private property. About 20 % of the agricultural land will be private state property or to the other public agents.

More or less, the same trend will affect the ownership structure of the other production factors (tractors, machines and equipment, buildings for agrozootechnical use, etc.).

Changes in agricultural ownership structure will reshape today's organization forms, and will allow the transition to a pluralism of social organization forms, and these will be the following:

- a) family farm;
- b) production, processing, marketing, etc., associations made out by the association of the independent owners (private, public, etc.);
- c) agricultural enterprises, organized as autonomous units or commercial societies and based upon private state properties or mixed ones.

The policy of the government is to facilitate these changes, so that all forms of agricultural ownership and exploitation structure may have equal chances on the agricultural market and work out their organization and development strategies.

At the same time, we intend to introduce a new organization and functioning mechanism of the food products market, and a new financial system. The future organization of production, processing, storing and marketing will be based upon the vertical and horizontal integration, in which the processing and marketing associations of agricultural production play the main role.

Abolishing state monopoly on the trade with agricultural products and liberalizing the prices, we will stimulate the initiative of the farmers. Simultaneously with the price liberalization, the government plans to take compensatory steps, to protect the consumers' purchasing power.

The diversification of the forms of property and of the types of farms, the development of their economic activity on the basis of autonomy and efficiency require that investment decisions be transferred to them.

The investment funds will be made out of the financial resources of the private owners, of the co-operatives units, state units, etc., and of credits from the domestic and foreign banks.

The government will mainly finance activities and objectives of national interest in agriculture, namely:

- investments for scientific fundamental research;
- land reclamation (large irrigation systems, soil erosion and drainage, saline soils reclamation, etc.)
- environment protection.

As regards the credit and financial system with the general reform of the financial and bank system, we have in view the following main forms:

- long-term credits for technological reshaping (purchasing of machines and equipment, animals, etc.);
- long-term preferential credits for the new family farms, especially for the young families (agri-

cultural equipment, buildings, animals, houses, etc.);

- special long-term credits for producers in unfavourable areas;

- short-time credits for current expenditures.

Within the tax system, we shall have in view the application of incentive taxes for production increase, especially technical crops.

The fundamental characteristic of the agricultural development will be the transition from the predominantly extensive to the intensive system.

At the present, we are at the beginning of a technological reshaping process in agriculture, a long-lasting process that will require large funds, namely in the field of:

- mechanization, the modernization of the existing tractors and agricultural machines and their adjustment to the new farm structures;

- land reclamation, especially the modernization of the irrigation systems on about 3 million hectares;

- food industry, the modernization and development of the processing sector of all the agricultural raw materials, of vital necessity. A new system of agricultural products marketing must be introduced and able to meet the requirements of the consumers;

- scientific research, endowment with and modernization of the research equipment, especially for bioengineering and biotechnology;

- informatics, endowment with equipment for the automatic processing of data.

In view of harmonizing the development of agriculture with the environment, we shall reconsider our conceptions on the technical progress and, first of all, on the production techniques, and we shall increase the part played by the biological factor in the vegetal and animal production.

The development of the new structures of agricultural property and their integration in the market economy require a new strategy and long-term actions, due mainly to the biological processes determining the agricultural production. At the same time, the way of thinking and action of the farmers must be changed, as for more than 35 years they have been accustomed with economic and social concepts different from those of the market economy. A particular attention must be paid to the training of the young farmers, characterized by sound technological, economical, marketing and management knowledge, by initiative and creativity. The most important problems to be solved are those concerning the improvement of the age and sex structure, the complete and efficient use of the man power, the increase of the professional training, the introduction of a mechanism able to stimulate the private initiative and the decision making.

The fundamental changes in Romania's agriculture will create the necessary conditions for an accelerated



increase in the agricultural production, able to meet both the home and the export requirements. According to some estimations, in the future, Romania will produce important quantities of wheat, fresh and frozen vegetables, dried vegetables, fresh fruits, high quality wines, meat and meat products, etc.

Romania intends to develop its commercial relations both with the western countries and with its traditional partners in Eastern Europe and the USSR to facilitate the import of some raw materials.

We wish to extend our relations with the European Economic Community countries and to negotiate with them long-term agreements in the field of food trade, joint ventures, investment of capital in the technological reshaping of agriculture, especially land reclamation, horticulture, food processing, as well as export on third markets.

To stimulate the foreign capital investments in Romania, the government and parliament have recently created the legal framework allowing the organization of economic units with up to 100 % foreign capital, free of taxes and taxes on incomes, capital transfer facilities, incentive interest, etc.

At the same time, external credits are stipulated, especially for carrying out some development, technological reshaping and modernization programs, as well as for supporting the development of the private system in agriculture and the food industry.

We hope that a main source of financing will be the international systems IMF, BIRD, IFC, etc., Romania being a member of all these organizations.

The experience of other countries indicates that the transition to the market economy is accompanied by the emergence of some negative economic and social phenomena, economic stagnation or recession, inflation, unemployment, aggravation of the social contradictions.

Considering all these, the government plans to intensify the rhythm of reforms, by an active intervention in the economic and social field, in order to diminish the magnitude of these phenomena, to shorten their manifestation period.

Finally, I should like to mention that the effort made by our government, having in view the transition of the Romanian agriculture to the market economy and its development, could have good results only if this agriculture is integrated into the European and world economy.

We hope that the exchange of opinions at this Conference will be helpful in shaping our strategy, and, at the same time, it will be beneficial both for Romania and for the European and international community.

THE CONTRIBUTION OF AGRICULTURE  
IN A RESTRICTED POLISH ECONOMY

Janusz Bylinkski  
Minister of Agriculture and Food Economy  
Poland

The Polish economy is undergoing a fundamental transformation. We are committed to the rapid transition from a centrally planned economy to one based on free market principles. This implies a radical legal, institutional and economic restructuring. Our goal is a strong, stable, market oriented economy, based on principles of private ownership, liberalised trade and increased integration with Europe and the rest of the world.

A enormous amount has already been achieved. The 'Balcerowicz Plan' has succeeded in rapidly stabilising the economy: the hyperinflation of 1989 has been defeated and the budget balanced. In addition tremendous progress has been made in economic transformation: prices have been liberalised subsidies removed, and central allocation of resources abandoned. Our trade regime has been fully liberalised, the zloty is convertible for trading purposes and the exchange rate is stable. The result has been a significant increase in net exports, and an economy that is truly open to the world.

The legal and institutional restructuring is also well underway. The Ministry of Ownership Transformation is charged with the large-scale privatisation of state enterprises; considerable measures have been taken to break up the monopolies that characterised the previous regime; banks are legally independent and plans for a thorough reform of the banking system are well underway. These factors will encourage the development of wider capital markets. Laws aimed at liberalising the regulatory environment and encouraging

foreign investment have been passed.

Although the existence of a suitable legal and institutional environment is a prerequisite for the growth of a true Western-style market economy, it is clear that the process of restructuring goes well beyond the creation of suitable institutions. The restructuring process will not be completed overnight. It will also not be achieved without costs. The rapid increase in input prices, the high cost of credit and the drop in domestic demand have already caused major problems for Polish agriculture. The adaptation to the challenges of the market, of private ownership and of international competition in a period of economic recession is not an easy task.

Polish agriculture, however, is well placed to face these challenges, and we are confident of being able to make an important contribution both during the process of restructuring and in the long term restructured economy. Poland has a unique advantage in its predominately private agricultural structure. Over 75% of Poland's arable land is farmed by private farmers. Under the previous regime, characterised by a policy promoting heavy industry, the agricultural sector suffered from input shortages, a largely state-controlled and monopolistic processing network, and distorted access to export markets. There was low labor and capital mobility, little progress in structural development, and little incentive to diversify or improve production. In the processing industry, monopolistic state enterprises had no

incentive to improve efficiency or quality. Marketing channels and techniques remain highly underdeveloped. These factors have made it impossible for Polish farmers to realise their full potential.

Despite these problems, agriculture can make a major contribution to a restructured Polish economy, guided by the broad principles that are being applied to the overall economic reform. As in all other market economies, there will of course be a need for specific measures in agriculture, designed to prevent excessive market fluctuations and encourage stability.

Agriculture is a vital part of our national economy: over 40% of the Polish population live in rural areas, of whom 88% derive all, or part, of their income from agriculture. It contributes 12% to our gross domestic product and agro-food exports make up 20% of all hard-currency exports. At the same time food purchases currently account for 55% of average consumer expenditure. If one adds the additional linkages with industries producing agricultural machinery and providing services, then it becomes clear that agriculture is an extremely important sector of the economy.

The contribution of the agricultural sector will be achieved at various levels. It will contribute to exports, it will provide employment and will improve domestic food supply. These goals are not mutually exclusive. Poland is committed to promoting the development of agriculture on a broader

basis. We want to create an agricultural sector based on technically efficient and economically viable farm units. We want to create competitive agro-industries producing high quality products both for the domestic market and for export. We want to promote the development of a strong rural sector, based on private enterprise in agri-servicing, in small-scale industries and in tourism. In achieving all of these goals, we are determined to place the highest priority on protecting and enhancing our rural landscape and environment.

This broad vision can be broken down into three main areas: the contribution of the rural sector as a whole, the contribution of agricultural production and processing specifically, and the role of trade. In addition there are two time-frames: the contribution during the restructuring process, and the expected contribution in a restructured economy. Finally, it is important to lay out the mechanisms by which these goals can be achieved.

In the short-term, the restructuring of industry implies significant, transitional unemployment. This is likely to imply a temporary increase in the number of people involved full time in agriculture. Part-time farmers, who lose their industrial jobs, will rely primarily on their farms for income. This is an important means of cushioning the overall transition of the economy, but it also implies a temporary set-back for agrarian restructuring. It is important to look beyond this transitional phase for a long-term agricultural role. Agriculture will not be an 'artificial employment sponge' in the long-term. As in other sectors, its employment level will depend on its overall competitiveness.

In the long term the contribution of the rural sector as a whole should be considered, rather than simply agriculture. Agriculture is the backbone, but not the only component, of the rural economy. The examples of other industrialised countries show that the contribution of agriculture to GDP is likely to decline as wider economic development occurs. Our current farming population is relatively old, and many farms are too small to be viable as long term economic units. There will undoubtedly be a gradual shift in our agrarian structure towards larger farm units. This will inevitably mean a reduction in the number of farmers in Poland. Thus in the long term there will be a decline in the apparent importance of agriculture, both as an employer and contributor to GDP.

However, this does not mean a decline in the importance of the rural sector. There will be a major increase in non-farm rural employment, particularly in the service sector of the rural economy. Currently the ratio of employment between production and service sectors in the rural economy is 4:1. Within the next decade it is foreseen that this will shift to 3:2, as increasing numbers of the rural population find jobs outside the directly agricultural sector. The importance of fostering this non-farm rural sector cannot be overstated. It will be based on private enterprise, it has the potential for generating considerable employment, for attracting investment and for maintaining (and indeed increasing) the attractiveness of rural life.

Fostering this sector demands substantial investment in rural



infrastructure, which is currently at a very low level in Poland. Improvement in the water supply, the supply of gas, telephones etc are vital if rural life is to be attractive. Similarly initiatives to foster rural enterprise (credits, tax exemptions, training programmes etc) will increase these opportunities. An effective rural banking sector is a vital ingredient. The overall approach should be a decentralisation of initiatives, with regional and local rather than 'government' development programmes.

The goal of agricultural production itself will be to improve the competitiveness, quality and variety of its products. This will enable a strengthening of domestic self-sufficiency, an improvement in the Polish diet and the development of a solid export base. For the Polish farmer the discipline of the market, of a demand barrier and of competition from imports, will imply a shift in production patterns. The role of the government will be both to improve the efficiency of the market and stabilise excessive fluctuations, as well as improve technical assistance and extension services. Poland has a strong tradition of agricultural research and a high level of technical expertise. The increased contribution of farm production depends on the effective dissemination of this know-how.

Achieving a more varied, more competitive and high-quality level of domestic production also implies considerable change in Poland's food processing industry. A restructured domestic processing industry, supplemented by new private micro-food

processing plants, is expected to be one of the most dynamic branches of the Polish economy in the future. There is considerable room for growth in almost all areas, from meat-processing to fruit & vegetable processing to the dairy industry. We expect that competition from foreign imports will force an improvement in efficiency, in quality, in variety and in marketing. Already Poland's considerable potential in this sector has been recognised: over 1/3 of all foreign companies involved in Poland have invested in this area.

The government's main contribution to achieve this goal will be the rapid privatisation of old state-owned processing enterprises, as well as the creation of an economic climate favourable both to new private domestic initiative and foreign investment. In addition we hope for considerable cooperation with foreign capital, and with representatives of foreign governments.

An agricultural sector and agri-food industry that achieves these goals will certainly be able to make a considerable contribution to Poland's exports. Geographically Poland is ideally placed for serving both the Western and Eastern markets. There has been a dramatic increase in agricultural and agri-food exports since January 1st 1990. It is expected that the level of exports will increase in future, though their structure will change. Currently the majority of exports are of raw agricultural products. However, in a restructured agricultural economy, we expect an increasing emphasis on the

export of high value-added processed goods.

From January 1st of next year, the transition to trade based on convertible currencies with our COMECON partners, presents a major opportunity for increased exports in agricultural products. Geographical proximity and existing ties make Poland an attractive and competitive trading partner.

As I mentioned before, we are aware that foreign imports will accelerate the speed with which Poland's agro-industry is restructured and modernised. Polish agriculture will have to become increasingly efficient in order to compete.

We expect considerable benefits from free trade and support the liberalisation of world trade in agricultural products in the Uruguay Round of GATT negotiations. But the unique nature of the agricultural economy makes a total reliance on the market unrealistic and undesirable.

Nonetheless, we realise that the protectionist policies of the European Community with regard to agricultural products are a considerable barrier to our liberal trade policy. We are therefore interested in developing wider associations with Western Europe, resulting in increased openness in agricultural and agri-food trade. We endeavour to achieve the abolition of existing barriers.

In conclusion, it seems clear to us that agriculture has a major contribution to play in a restructuring and restructured

economy. It has the advantage of a historically private production structure, it provides an immediate export base and it can absorb some of the urban unemployed. The restructuring of agriculture itself will, no doubt, imply high costs. Already these costs have been considerable.

Our goals are not overambitious, but rather an indispensable condition for our adaptations to a severe economic reality. Polish agriculture will certainly be a major factor in our country's economic development. At the same time we hope it will achieve a permanent position in the international economic community.

WHAT DOES INTEGRATION INTO THE WORLD

ECONOMY MEAN?

Speech to the International Policy  
Council on Agriculture and Trade

Conference on Restructuring Food and  
Agricultural Systems in Central Europe  
and the U.S.S.R. on 23 October 1990  
in BUDAPEST

by Brian Chamberlin

Immediate Past President Federated Farmers  
of New Zealand & Special Agricultural Trade  
Envoy for New Zealand.

MR MODERATOR - LADIES AND GENTLEMEN

IN MANY WAYS IT IS APPROPRIATE FOR A NEW ZEALANDER TO BE ASKED TO COMMENT IN THIS SESSION.

OUR COUNTRY EVEN WITH ITS DEPENDENCE ON TRADE TRIED TO DIVORCE ITSELF FROM WHAT WAS HAPPENING IN THE REST OF THE WORLD AND OVER THE LAST FEW YEARS WE HAVE HAD TO BRING OURSELVES BACK INTO REALITY.

IN EFFECT WE HAVE INTERNATIONALISED OUR ECONOMY.

I FEEL THEREFORE, THAT OUR EXPERIENCES MAY BE HELPFUL IN JUDGING WHAT SHOULD BE DONE AND INDEED WHAT SHOULD NOT BE DONE.

IT IS ALSO APPROPRIATE FOR A NEW ZEALANDER TO COMMENT BECAUSE WE HAVE ENJOYED VERY GOOD TRADING RELATIONSHIPS WITH THE COUNTRIES CONCERNED FOR A NUMBER OF YEARS.

WE ALSO VERY MUCH WELCOME THE PARTICIPATION OF HUNGARY IN OUR "CAIRNS" GROUP OF COUNTRIES FOR THE URUGUAY GATT ROUND.

THERE IS NO WAY I CAN DETAIL THE NEW ZEALAND EXPERIENCE IN THE SHORT TIME AVAILABLE BUT I HOPE I CAN GIVE A SHORT

SUMMARY WHICH WILL CONTRIBUTE TO THE DEBATE.

NEW ZEALAND IS AN EFFICIENT PRODUCER OF A NUMBER OF AGRICULTURAL PRODUCTS. ITS FORTUNES HAVE FLUCTUATED. HIGHPOINT WAS IN THE 1950S WHEN THERE WAS SEEMINGLY UNLIMITED DEMAND FOR OUR PRODUCE.

LOWPOINTS WERE THE DEPRESSION OF THE THIRTIES WHEN THERE WAS VERY REAL POVERTY AND THE RECESSIONS OF THE SEVENTIES' AND EIGHTIES AS AGRICULTURAL PROTECTIONISM AND SUBSIDISATION BY THE WEALTHY INDUSTRIAL COUNTRIES RUINED WORLD AGRICULTURAL MARKETS.

NEW ZEALANDERS RESPONDED IN A NUMBER OF WAYS.

FIRSTLY A MANUFACTURING INDUSTRY WAS ESTABLISHED USING VERY PROTECTIONIST POLICIES.

THE WEALTH WHEN IT WAS THERE WAS CHANNELLED INTO GENEROUS WELFARE SYSTEMS THROUGH HIGH RATES OF PERSONAL TAXATION. THE SCHEMES STAYED IN PLACE ONCE THEY WERE ESTABLISHED IRRESPECTIVE OF THE STATE OF THE ECONOMY.

THE LEVEL OF INTERVENTION IN THE ECONOMY WAS HIGH WITH THE EXCHANGE RATE BEING CONTROLLED. GOVERNMENT OFTEN BECAME IN THE CENTRAL WAGE FIXING SYSTEM.

WAGES AND PRICES WERE FIXED ON A COST-PLUS PRINCIPLE. THEY GENERALLY REFLECTED AND SOMETIMES EXCEEDED THE RATE OF INFLATION.

EXPORTERS, MOST OF WHOM WERE FARMERS WERE SEVERELY AFFECTED BECAUSE THEY HAD TO BUY ON A PROTECTED NEW ZEALAND MARKET AND SELL ON A COMPETITIVE INTERNATIONAL ONE.

FARMERS WERE COMPENSATED FOR THIS STATE OF AFFAIRS BY PERIODIC DEVALUATIONS AND BY AN INCREASING ARRAY OF SUBSIDIES. GOVERNMENT DID ITS BEST TO HELP BUT THE SUBSIDIES WERE NEVER REALLY ADEQUATE.

DEFICIT BUDGETING BECAME THE NORM AND THE COUNTRIES DEBT INCREASED AT A RAPID RATE THROUGH A 15 YEAR PERIOD WHEN THE CUMULATIVE RATE OF INFLATION WAS 450%.. MOST OF OUR TRADING PARTNERS HAD RATES OF MUCH LESS THAN HALF THAT.

U.S.A. HAS 128% AND JAPAN JUST 78% OVER THE SAME PERIOD. THESE WERE 2 OF OUR LARGEST TRADING PARTNERS.

UNEMPLOYMENT GREW BUT THE TRUE FIGURES WERE' DISGUISED BECAUSE GOVERNMENT DEPARTMENTS AND CORPORATIONS WERE ASKED TO EMPLOY MANY MORE PEOPLE THAN THEY NEEDED.

IN THE EARLY EIGHTIES WE FINALLY REALISED THAT WE COULD NO



LONGER AFFORD SUCH EXTRAVAGANT AND UNREALISTIC POLICIES AND WE HAVE EMBARKED ON A MAJOR RESTRUCTURING OF OUR ECONOMY.

MOST OF OUR FORMERLY CONTROLLED INDUSTRIES HAVE BEEN DEREGULATED. THESE INCLUDE TRANSPORT, MEAT PROCESSING, AVIATION, BANKING AND A NUMBER OF OTHERS.

MANY OF THE FORMER SUBSIDIES INCLUDING ALL THOSE PAID TO FARMERS HAVE BEEN PHASED OUT AS GOVERNMENT HAS FOUGHT TO REDUCE THE DEFICIT THROUGH REDUCED EXPENDITURE.

GOVERNMENT DEPARTMENTS HAVE BEEN COMPLETELY RESTRUCTURED. SOME HAVE BEEN CORPORATISED OTHERS HAVE BEEN SOLD. FUNDS RECEIVED FROM THE SALE OF THESE DEPARTMENTS HAVE BEEN USED TO RETIRE DEBT.

THE TAXATION SYSTEM HAS BEEN CHANGED SO THE DIRECTION HAS BEEN CHANGED WITH A GREATER EMPHASIS BEING PLACED ON INDIRECT TAXATION WITH THE INTRODUCTION OF A SPENDING TAX AND A REDUCTION IN INCOME TAX RATES.

THE MANUFACTURING INDUSTRY HAS HAD ITS PROTECTION CONVERTED TO TARIFFS AND THE TARIFFS ARE BEING PROGRESSIVELY REDUCED.

THE CURRENCY HAS BEEN FLOATED AND THE CENTRAL BANK GIVEN A SPECIFIC RESPONSIBILITY TO CONTROL INFLATION. IT HAS ADOPTED A TIGHT MONETARY POLICY AND INTEREST RATES HAVE BEEN AT VERY HIGH LEVELS.

THE MEASURES HAVE BEEN HARSH. IN RETROSPECT MOST PEOPLE WOULD AGREE THAT SOME OF THE REFORMS HAVE BEEN CARRIED OUT IN THE WRONG ORDER. THIS HAS MADE THE MEDICINE MORE BITTER THAN IT MAY NEED HAVE BEEN. MANY WOULD ALSO SAY THAT OUR LABOUR MARKET IS STILL TOO PROTECTED AND INFLEXIBLE AND THAT THIS HAS MADE THE REFORM LESS SUCCESSFUL AT THIS STAGE THAN IT SHOULD HAVE BEEN.

WE HAVE FINALLY GOT INFLATION DOWN TO A REASONABLE LEVEL AND ACHIEVEMENT OF OUR GOAL OF 0 TO 2% IS IN SIGHT BUT THE POPULATION IS VERY UNEASY BECAUSE THEY HAVE HAD TO ENDURE REAL HARDSHIP WITHOUT MUCH REWARD AT THIS STAGE.

WE HAVE BEEN HIT VERY HARD BY AGRICULTURAL PROTECTIONISM AND SUBSIDISATION. IT IS NOT AN EXAGGERATION TO SAY THAT IF WE DON'T HAVE REAL LIBERALISATION THROUGH THIS GATT ROUND OUR ECONOMY WILL FAIL.

MANY DEVELOPING COUNTRIES ARE IN A SIMILAR SITUATION.

THEY HAVE BEEN LENT MONEY BY WEALTHY COUNTRIES.

THEY HAVE BEEN TOLD TO ADOPT ORTHODOX ECONOMIC POLICIES.

THEY HAVE DONE THIS AND THEN BEEN TOLD THAT THEY CANNOT HAVE ACCESS FOR THEIR EXPORTS.

IT IS AS DISASTER FOR THEM.

THE DEVELOPED WORLD MUST NOT MAKE THE SAME MISTAKE AGAIN. THE WONDERFUL OPPORTUNITY OF BRINGING THE COUNTRIES OF CENTRAL EUROPE AND THE U.S.S.R. INTO THE WORLD TRADING SYSTEM MUST NOT BE LOST..

I BELIEVE THAT IT CAN BE DONE IN A WAY WHICH WILL IMPROVE THE LIVING STANDARDS OF THE GREAT MAJORITY OF US.

THESE COUNTRIES MUST BE INTEGRATED INTO A WORLD TRADING SYSTEM WHERE THE RULES ARE FAIR FOR ALL.

THE SYSTEM MUST BE FREED OF SUBSIDIES AND PROTECTIONISM SP RESOURCES CAN BE DEVELOPED. THE PRINCIPLE OF 'COMPARATIVE ADVANTAGE SHOULD APPLY SO PEOPLE EVERYWHERE CAN AFFORD TO BUY THE PRODUCTS THAT ARE PRODUCED AND DEVELOPED THROUGH THIS SYSTEM.

ASSISTANCE WILL BE REQUIRED BUT IT MUST BE PROVIDED IN SUCH A WAY THAT ALLOWS MARKET RELATED DEVELOPMENT.

THE ASSISTANCE SHOULD BE GIVEN IN SUCH A WAY THAT IT IS NOT PERMANENTLY BUILT INTO THE COST STRUCTURES OF FARMING OR BUSINESS.

FOR EXAMPLE, IF IT IS DECIDED THAT SUBSIDISED LOANS ARE NEEDED THE SUBSIDY SHOULD BE FOR A FINITE PERIOD.

CAN I MAKE A PLEA THAT NO MORE AID BE GIVEN IN THE FORM OF GIFTED OR CHEAP FOOD. NOTHING DAMAGES FARMERS MORE THAN THIS. AN ARTICLE BY BARRY NEWMAN IN THE WALL STREET JOURNAL OF 25 SEPTEMBER 1990 DESCRIBING EVENTS IN POLAND SHOULD MAKE US ALL AWARE OF HOW DISASTROUS THAT FORM OF AID IS.

I BELIEVE THAT THE MOST IMMEDIATE MARKET IF THE STANDARD OF LIVING CAN BE RAISED IS IN THE COUNTRIES CONCERNED. THERE CERTAINLY WOULD BE AN OPPORTUNITY TO PROVIDE A MUCH GREATER VARIETY OF FOOD THAN HAS BEEN AVAILABLE TO MANY OF THE PEOPLE IN RECENT YEARS.

MUCH OF THIS DEMAND WILL BE MET BY THE FARMERS IN THOSE COUNTRIES BUT SOME WILL COME FROM IMPORTS.

THE FARMERS OF CENTRAL EUROPE AND THE U.S.S.R. MUST NOT BE FORCED TO COMPETE AGAINST SUBSIDISED IMPORTS. ON THE OTHER HAND THEY SHOULD FACE COMPETITION FROM UNSUBSIDISED IMPORTS SO THEIR EFFICIENCY CAN BE MEASURED AND SO THEY CAN GET AN ACCURATE MEASURE ON WHAT THEY SHOULD BE GROWING.

THEY MUST ALSO BE GIVEN ACCESS TO WORLD MARKETS SO THEY CAN HAVE AN OPPORTUNITY TO PROSPER THROUGH TRADE. THEIR EXPORTS SHOULD NOT BE SUBSIDISED.

COUNTRIES ARE ALWAYS GOING TO HAVE AN ADVANTAGE IN THEIR OWN MARKETS. ONLY A REASONABLY SMALL PORTION OF THE WORLD'S FOOD PRODUCTION IS AND WILL BE TRADED. HOWEVER FARMERS EVERYWHERE SHOULD BE ABLE TO LOOK UPON THE WORLD AS THEIR MARKET.

OTHER COUNTRIES SHOULD BE ABLE TO HANDLE THE COMPETITION AND TAKE THE OPPORTUNITIES WHICH WILL COME FROM SUCH A SYSTEM.

NO COUNTRY HAS ANY PLACE IN THE INTERNATIONAL MARKET PLACE IF IT CHOOSES TO PROTECT OR SUBSIDISE ITS AGRICULTURE.

THIS IS THE DILEMA FOR THE EEC AND THE EFTA COUNTRIES.

ARE THEY PREPARED TO MEET THIS CHALLENGE OR ARE THEY GOING

TO TRY AND KEEP A COCOON OF PROTECTION ROUND THEMSELVES.

I KNOW THAT A NUMBER OF EEC PERSONALITIES HAVE PUT CONSIDERABLE TIME AND RESOURCE INTO PERSUADING PEOPLE FROM CENTRAL EUROPE THAT THE COMMON AGRICULTURAL POLICY IS THE MECHANISM THAT SHOULD BE USED FOR DEVELOPING THEIR AGRICULTURE.

I CAN SEE THAT THIS WOULD HAVE SOME ATTRACTION TO CENTRAL EUROPEAN AND U.S.S.R. FARMERS WHO HAVE OBSERVED THE WEALTH WESTERN EUROPEANS WERE ABLE TO CAPTURE THROUGH THE SEVENTIES AND EARLY EIGHTIES.

I ASK OUR FRIENDS TO THINK VERY CAREFULLY BEFORE THEY TAKE THAT STEP.

I CAN UNDERSTAND THE REASON THAT THE C.A.P. WAS SET-UP IN THE FIRST PLACE. THOSE CONDITIONS NO LONGER APPLY AND THE C.A.P. HAS DEVELOPED INTO A MONSTER WHICH CUTS RIGHT ACROSS THE PRINCIPLES OF FREE AND FAIR TRADE.

IT IS NOT AN EXAGGERATION TO SAY THAT IT IS DESPISED BY MOST OF THE REST OF THE WORLD. IT IS VERY EXPENSIVE TO ADMINISTER AND IT IS CERTAINLY NOT FULLFILLING THE SOCIAL OBJECTIVES PEOPLE HAVE FOR IT.

THE COST, IS IN MANY RESPECTS, CARRIED BY THE FARMERS OF THE REST OF THE WORLD. IT IS A COST THAT THEY CANNOT BEAR NOW AND IF IT WAS EXPANDED TO INCLUDE CENTRAL EUROPE AND THE U.S.S.R. THAT COST WOULD BE INTOLERABLE.

THE ANSWER IS FOR AGRICULTURE INTERNATIONALLY TO BECOME MUCH MORE MARKET ORIENTATED. THE SYSTEMS OF CENTRAL AND WESTERN EUROPE HAVE BOTH FAILED IN THEIR OWN WAYS.

WE NOW HAVE A WONDERFUL OPPORTUNITY THROUGH THE GATT NEGOTIATIONS WHICH COULD ENABLE EFFICIENT FARMERS EVERYWHERE TO PROSPER.

I BELIEVE THAT WE NEED A DIVERSE FORM OF FARM OWNERSHIP BUT I AM SURE THAT IT IS THE FAMILY FARMING SYSTEM THAT WILL BE ABLE TO ADAPT BEST TO THE CHALLENGE AND BECOME DOMINANT.

IT WILL NOT BE EASY FOR THE ECONOMIES OF CENTRAL EUROPE AND THE U.S.S.R. TO INTERNATIONALISE.

SUCH A CHANGE HAS CAUSED US GREAT DIFFICULTY IN NEW ZEALAND AND I DO NOT THINK OUR PROBLEMS, DIFFICULT AS THEY WERE ARE NEARLY AS DIFFICULT AS THOSE FACED BY THE COUNTRIES OF CENTRAL EUROPE AND THE U.S.S.R.

I BELIEVE THAT THESE COUNTRIES DO HAVE TO DO MANY OF THE THINGS WE HAVE DONE SUCH AS MAKING COSTS LAY WHERE THEY FALL, ELIMINATING DEFICIT BUDGETING AND FLOATING THEIR EXCHANGE RATES.

I AM SURE THE WEST WILL WISH TO HELP WITH FINANCE AND TECHNICAL ADVICE.

THE WEST HOWEVER, IN MANY RESPECTS HAS AN EVEN GREATER CHALLENGE.

IS IT PREPARED TO OFFER FREE AND FAIR TRADE?

IS IT PREPARED TO OPEN ITS BORDERS?

IS IT PREPARED TO PHASE DOWN ITS MASSIVE MARKET DISTORTING INTERNAL SUPPORT?

AND PERHAPS MOST IMPORTANTLY IS IT PREPARED TO GIVE UP ITS EXPORT SUBSIDIES?

IT WILL HAVE TO DO ALL THESE THINGS IF CENTRAL EUROPE AND THE U.S.S.R. ARE TO BE SUCCESSFULLY INTEGRATED INTO THE WORLD TRADING SYSTEM.

ANYTHING LESS WILL END IN FAILURE AND DESPAIR.



THIS WOULD HAVE GRAVE IMPLICATIONS FOR THE PEACE OF THE WORLD AND THE CAPITALIST SYSTEM.

MY COUNTRY IS PREPARED TO MEET THE CHALLENGE.

WE ARE PREPARED TO MEET THE COMPETITION AND TAKE THE OPPORTUNITIES THAT WILL ARISE FROM SUCH INTEGRATION.

WE WILL BE HAPPY TO BUY AND SELL IN THE EXPANDED MARKETPLACE.

WE ARE ONLY A SMALL COUNTRY.

WE WILL PLAY OUR PART BUT THE INTEGRATION CAN ONLY SUCCEED IF THE EEC AND THE USA ARE PREPARED TO REALLY MEET THE CHALLENGE.

IT IS VITAL FOR THE REST OF THE WORLD THAT THEY DO.

Walter Kittel

State Secretary

Federal Ministry of Food, Agriculture and Forestry

The Importance of the integration of the countries of Central and Eastern Europe into the global trading system, in particular with regard to their relationship with the EC

First of all, I would like to express my most sincere thanks to the organizer, the International Policy Council on Agriculture and Trade, for affording me this opportunity to set out, in this forum, my thoughts on the subject: "The importance of the integration of the countries of Central and Eastern Europe into the global trading system, in particular with regard to their relationship with the EC".

I am in the fortunate position that this is no academic question for me; on the contrary: at present I am quite practically and intensively involved in the current process of the integration of the former GDR's economy into the economic system of the Federal Republic of Germany and the European Communities. And although I am still under the pressure of the requirements of political day-to-day business, which force me to take quick decisions and initiatives in agricultural and trade policies, I have nevertheless not ceased to try and orient my actions at well-established economic policy principles. So I would now like to try and present my experience, also in the case of the former GDR, in concrete terms, as a model for a practical work of reformation.

The former situation in the Central and East European COMECON region

The familiar situation of the external trade relations formerly prevailing in the Central and East European COMECON countries needs only a few words of explanation;

Centrally planned economy, whose goal of production was autarky, was characterized by;

- a foreign trade state monopoly;
- bilateralism of trade relations;
  - = including the control of foreign trade by agreed selling and buying quotas;
  - = hence, imports only served as a stopgap;
- the absence of convertible currencies and
- the refusal to grant access to foreign capital.

However, the attempt was made to achieve a division of labour by regions within the COMECON, which meant that certain COMECON countries had to develop certain key industries in order to supply the rest of the COMECON area. As to the necessary imports, preference was given to commodities from other countries of the COMECON region.

This economic and external trading system, which wanted to evade integration into the global trading system for fear of becoming dependent, had certain implications which must be rated in a negative way from our point of view:

- a small volume of foreign trade as against that of free world trade, which, in addition, was not determined by comparative cost advantages;
- trade and prosperity grew to a minor extent only in comparison with the market economy of the Western industrial nations with its division of labour;
- an alarmingly great loss of international competitiveness, as is now becoming evident in the economic and, in particular, in the agricultural sectors of the former GDR;
- thus, a vicious circle developed: the hardly competitive industry of the COMECON countries lost its international competitiveness to an ever-growing degree, since it closed itself off from the free international trading system.

Reform programmes en route towards a market economy system according to the Western model

Analyzed by numerous economic scientists from Western and also from Eastern Europe, this development, for reasons of situational constraints, finally called for economic reform programmes with a view to achieving the aim of supplying the population with foodstuffs and consumer goods at reasonable prices; not to mention all the other economic policy growth objectives.

Hence, the last few years have seen a real wave of efforts at both economic and political reforms sweep through all Central and East European

countries, which is now carrying us - through quite a dramatic stage of transition - towards new shores.

All COMECON states launched legislative reform measures and reshaped a number of economic instruments which had partly been sacrosanct for a long time: central economic policies were made, part of the land became freely available, enterprises were given an opportunity to trade with foreign countries, a transition to convertible currencies took place, and capital for investment into joint ventures was invited.

However, all these reforms differ as to their extent and rate of realization, i.e. the approaches made by the various countries are either radical or moderate.

The most radical transition is currently underway in the former GDR where the switch to the EC internal market and to free international trade is taking place, so to speak, from scratch. Here the "moment of truth" has come, which means that the economic competitiveness of the 5 new Federal states - the former GDR - is put to the test on the markets of the entire Federal Republic of Germany and of the other EC member states as well as on the international markets. And it has shown that agriculture in the former GDR, for example, is characterized by much too high a number of labour per hectare and that its division into arable and livestock farming is far from being optimal under economic efficiency aspects; hence, the cost of production is much too high as well.

At the same time this means for the former GDR's economy that trade flows which had been internationally agreed and existed for years - as, for

instance, in agriculture - could no longer be maintained within this liberal economic system. The reasons is that there is no "market" any more in the former GDR for imports from other COMECON countries, i.e. the buyers developed different preferences, and that the previous buyers in the COMECON countries can no longer pay the DM prices charged for exports from the former GDR.

Even Poland and Hungary have set a quick pace in implementing their reform measures, knowingly accepting the "frictional losses" of an economic restructuring process as, for example, manifested in a decline in purchasing power and in employment. The result was protests on the part of farmers and consumers.

The other COMECON countries prefer a moderate pace of reform in order to avoid social tensions and to keep the repercussions on the income of the population, on the employment situation and on the economic output as small as possible.

I should perhaps point out that a number of German economic scientists just use the example of Poland to defend their view that an economic reform should have to be carried out quickly and on a large scale, that subsidies would have to be reduce speedily, that strict monetary and wage policies had to be applied with a view to avoiding inflation, that the state monopolies be abolished at once, that comprehensive privatization measures would have to be initiated, and that the foundation of new enterprises would have to be promoted on a large scale. The conflicts- including declines in agricultural incomes and drastic rises in prices-, which would

inevitably ensue from such measures, would be a more bearable social burden than a long-term reform in small steps without any noticeable effect.

The stance may be plausible from the scientists' point of view- those, however, who are politically responsible in the Central and East European COMECON countries will have to develop their own course of action, optimally adapted to their respective situations, and will then have to take full responsibility for it.

In this connection, I consider it important to draw your attention to the following: It will not be sufficient to create a legislative framework by adopting pages and pages of new legal provisions. What will be much more important is to lay a foundation of reliability and legal security, in particular for international business. A solid basis of confidence, a reliable climate of investments and - last but not least - a real chance to make profits are indispensable for international cooperation. This means that:

- legal provisions must become an economic reality;
- currencies must be fully convertible. This would, at the same time, mean that foreign investors would have to be able to fully transfer their profits;
- we must push on with bringing up and educating suitable qualified workers. For the highly developed global economic system will require thousands of specialists with a lot of technical know-how, experience and a well-balanced sense of judgment.

To put it in a nutshell: market economy is not just some form of economy but a style of economic management, which means that the framework must be imbued with the spirit of market economy.

The success of an economic reform and of the integration into the global economic system will, to a considerable extent, depend on the expansion of the respective service sector in the Central and East European COMECON countries. Here I still see an important weak point.

#### Guidelines for the integration into the global trading system

This brings me to another recommendation with regard to the question of our East European partners which ways and means they should preferably apply on their road towards integration into the global trading system: to orient foreign trade and payments policy as closely as possible at the principles of the General Agreement on Tariffs and Trade (GATT) - not because they would make a perfect system but because they have time and again proved their effectiveness over decades of practical world trade policy.

These GATT principles are sufficiently known. Let me just mention;

- the most favoured nation clause;
- trade control by tariffs and levies rather than by quantitative import quotas;
- the prohibition of excessive export subsidies;
- the phasing-out of trade barriers;



- the permanent world trade dialogue;
- the settlement of disputes with binding effect.

All these GATT rules are based on the unwritten principal of pragmatism. It implies not only the dialectic contrast to the doctrine of monopolistic state trade but it is also- and actually- the wise expression of fair partnership: living conditions- also within the network of international economic cooperation- are too diverse to be controlled by a simple system of regulations. Time and again, it will be essential not to fail to imagine oneself in the situation of the foreign partner and to find solutions providing an opportunity of reconciling the various economic policy interests, which may not fully satisfy anybody but which all those concerned will finally be able to live with. This will certainly require much experience, a lot of tact and sensitivity, a high degree of understanding, much coordination among the partners sharing the same interests, and a great deal of economic diplomacy. But in my opinion this are of continuously reconciling different trade policy interests is one of the cornerstones of our global economic system.

A particular feature of the principle of pragmatism is the necessary special treatment of the agricultural sector.

Agriculture in the EC, for example, which has grown over centuries, which is characterized by small-scale farms in ample parts of the area and which is practiced in many regions less favoured by nature, is, after all, competitive to a limited extent only. No politician can assume the responsibility for exposing agriculture to the free play of international

trade, when in doing so one third of half of this farming population would be expelled from the ancestral farming profession and the character of landscapes and of the land cultivated by man in the densely populated European regions would suffer permanent damage. The EC must expect in this case that its partners will be understanding while we shall offer as a price for this understanding attitude our assistance for structural changes also in agriculture, and thus for a slow process of shifts socially tolerable. Within the EC we are also ready to support these structural changes by precisely measured governmental interventions in the agricultural market. Complicated instruments such as direct quantitative restrictions of the production of milk, sugar, cereals or wine equally form part of these interventions. This is the EC's contribution towards a stabilization of world markets. And we consider it legitimate that this should be acknowledged in the Uruguay Round, too.

I would like to mention what the situation of agriculture is like in the former German Democratic Republic: here we are confronted with enormous difficulties of adaptation. Following the elimination of free peasantry 30 years ago about 4,000 large farms have been set up, a very little percentage of which are competitive within the EC. According to our assessment half of the persons hitherto employed in the agriculture of the former GDR will have to give up farming in the near future in order to ensure an adequate income to the remaining other half of the farming population.

I already notice manifold approaches of the Central and East European states to orient their economic and foreign trade and payments policies along these GATT principle. Some of these countries have been members of

GATT for quite some time. The Czechoslovak Republic was a founder member in 1948. Poland, Romania and Hungary have later acceded to the Agreement. Even the Soviet Union recently applied for an observer status to GATT.

However, membership of GATT merely offers the formal setting; it is decisive and much more important for the states of Central and Eastern Europe to equally translate the material contents of the GATT regulations into their actual business life. In this respect I notice, in fact, a great number of approaches in compliance with my definition of a "philosophy of pragmatism". Therefore, I am confident- with due care and quite a few reservations- that the countries of Central and Eastern Europe are on the right track for integrating their countries into the international economic system- to their own benefit as well as to that of their trading partners all over the world!

#### The Relations of the EC to the Countries of Central and Eastern Europe

I have been asked- and I also feel urged to do so- to deal with the relations of the EC to the countries of Central and Eastern Europe. The countries of Central and Eastern Europe are not alone in their reformatory efforts; they have helpful partners in the EC- and also in the other countries of the Western world.

We experience, in fact, an important phase of radical change. The present stage can be outlined as follows:

In the meantime, a whole network of trade and cooperation agreements exists between the EC and this region. According to the joint declaration of EC and COMECON dated 25 June 1988, the overdue normalization of relations was

completed. Trade and cooperation agreements have been concluded with Hungary, the Czechoslovak Republic, Poland, the USSR and recently with Bulgaria and the former GDR. Negotiations are going with Romania.

The agreements are focussed on a far-reaching liberalization of imports from the respective countries into the EC; namely for Poland and Hungary with immediate effect, for the other countries step by step until 1995. Furthermore, Poland and Hungary have been admitted, for five years for the time being, to the "General Customs Tariff Preference Scheme" of the EC; and they have been conceded a further facilitation of imports.

These trade policy aids have been supplemented by a new important instrument, i.e. a financial aid for the economy. For 1990 the EC made available from its budget:

- a credit line of 200 million ECU for Poland,
- a credit line of 100 million KECU for Hungary,
- a further total sum of 200 million KECU for Bulgaria, Romania, the Czechoslovak Republic, for Hungary, Yugoslavia and the former GDR.

(For those who are not familiar with the ECU, I should mention that the value of 1 ECU is more than 2 German Marks.)

It is intended to increase this economic assistance, in 1991, to the amount of 850 million ECU and, in 1992, to 1 billion ECU. In addition, the EC gives guarantees for loans to the amount of 1 billion ECU granted by the European Investment Bank to the countries of Central and Eastern Europe.

Moreover, the Commission of the EC coordinates the aid measures of the 24 Western industrial states, in the main identical with the OECD member states, in favour of the countries of Central and Eastern Europe.

Which are the motives and goals behind these trade policy measures and these economic measures?

- These states of Central and Eastern Europe wish to speed up their economic and political integration into the EC and Western Europe, wishing to become full members of the EC in the foreseeable future.
- Both sides feel urged to hold a regular economic and political dialogue.
- There is the solidarity of the European Communities with the democratic forces in the reformatory states of Central and Eastern Europe.
- And furthermore, it is imperative to intensify cooperation in the field of environmental protection to a considerable extent.

Of course, the EC equally places expectations in the countries of Central and Eastern Europe that they will, in the course of their reforms oriented along democratic and market economy principles, take further steps towards

- the rule of law,
- the respect for human rights,
- the introduction of multiparty systems,
- free and confidential elections,
- an economic liberalization aiming at a market economy system,

- the transition to a free convertibility of the currency,
- the transition to an undistorted internal price formation,
- an equal treatment of the different forms of property, including private property.

All of these considerations have induced the Commission of the EC to elaborate a concept for the future organization of its relations to the states of Central and Eastern Europe, in fact considerably influenced by the political initiatives of the Federal Republic of Germany in particular.

The main item of this concept consists in the further development of the existing network of trade and cooperation agreements to become agreements of association under Article 238 of the EEC treaty, namely so-called "European Agreements", according to the progress of the reformatory efforts in these countries.

The essence of these European Agreements is intended to consist in:

- A regular political dialogue,
- The free movement of goods, similar to the existing Free Trade Agreement of the EC with the EFTA states; here a faster pace of liberalization in the EC and a slower pace of liberalization in the different states of Central and Eastern Europe should be quite possible;

- a large-scale economic cooperation, f,i, for modernizing agriculture and the food industry, also with the regard to the protection of the environment;
- a comprehensive assistance for the training and further education of specialists;
- a close scientific and technical cooperation;
- a financial cooperation - in this context the recently founded European Bank for Reconstruction and Development with a capital stock of 10 billion ECU will play a particular role;
- and finally a cooperation in the cultural sector, too.

The European Council which is the supreme political supervisory organ of the EC in essence approved of this concept in Dublin in April 1990, thus paving the way for appropriate negotiations which are to start soon.

The European Parliament, too, delivered a favourable opinion in the form of a comprehensive resolution comprising 57 paragraphs in a session held from 9 to 13 July 1990. This opinion is an extensive political programme for the creation of a peaceful and democratic Europe; it is at the same time visionary and pragmatic. I consider it to be a decisive document of this significant year.

The Czechoslovak Republic, Hungary and Poland have submitted concepts of their own for an association to the EC which are, in the main, in

compliance with the concept of the EC. Therefore, the success of the forthcoming negotiations is foreseeable by now.

The concept elaborated by the Commission of the EC does not yet comprise the Soviet Union. Here specific circumstances will have to be taken into account, for example the size of the Soviet economy. The Commission of the EC has held exploratory talks on this subject in Moscow and will, in the near future, submit an appropriate supplementation of its concept. I consider it to be essential to find a solution on the basis of fair partnership, aiming at a balanced compensation of interests. It will be necessary, for example to sound out whether and to which extent the instrument of a financial aid can be contemplated.

#### Possible Consequences?

The question was put forward whether data are available already on the consequences of this development. How will be the expansion of trade among the countries of Central and Eastern Europe or with the EC or with the other countries of the world?

At the present time of transition it is difficult to derive specific conclusive assumptions. Also recent experience concerning the changes in the foreign trade of the former GDR provide only limited scope for doing so. However, my personal- and optimistic- assessment suggests for the agricultural sector the following probable trends:



- The big agricultural production capacity existing in the states of Central and Eastern Europe which at present is not fully used, will be made better use of. The market orientation will be particularly improved, i.e. the quality of products will be improved.
  
- This will lead to an increased performance of the individual, all the more, if we succeed in creating tangible incentives.
  
- When the purchasing power of the population increases, the agricultural policy goal of good-quality food, in adequate supply and at reasonable prices in the countries of Central and Eastern Europe will be more and more within reach.
  
- it will probably be possible to increase agricultural trade not only within this region but also towards other countries and the EC; however, according to market requirements the flow of goods will have to be considerably restructured. In this process high-quality processed goods will enjoy best opportunities. By the way: My assessment is confirmed by the recent increased of Hungarian agricultural exports to Western Europe.

I would like to conclude with the following remarks:

According to the Swiss cultural historian, Jacob Burckhardt, European history as a whole can be interpreted as a permanent change in the strive of specific states for hegemony and of a subsequent period of equilibrium in the European family of nations.

We experience a decisive and singular moment in history: There is at present no state in Europe striving for hegemony in one or the other way, neither for political, nor for military or economic hegemony.

The vision of a pan-European equilibrium emerges, based on the peaceful striving of partners for economic welfare, for the conservation of the European environment, and for the care for the cultural heritage. One of the essential elements is the vision of an all-European trading and economic system oriented along market economy principles and integrating the countries of Central and Eastern Europe, a vision which, in the main, can be traced to the father of modern European integration, Jean Monnet.

This is a challenge for the politicians in Western, Central and Eastern Europe to proceed, with lucid minds and cool heads, in their efforts towards gradually translating this vision into reality.

For the achievement of this goal, I wish all among us bearing political responsibility the best of luck and success!

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