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NCSEER NOTE

This is the third of three papers based on the last three chapters (X, XI, XII) of the author's book on collectivized agriculture in some 30 countries. These three deal with the issues of decollectivization, and are being distributed by the Council (and paginated) sequentially to preserve the line of logic. The rapid course of events, especially in the USSR area, has overtaken the text but only in minor particulars while most of the critical issues and the analysis still obtain. The book, THE RED AND THE GREEN: The Rise and Fall (?) of Collectivized Agriculture in Marxist Regimes, Frederic L. Pryor, Princeton University Press, is forthcoming.

ABSTRACT

Chapter XII:

Some Broad Issues of Agricultural Reforms

Economic Values

Political Factors Revisited

Economic Policy Strategies and Dilemmas

The Rise and Fall (?) of Collective Agriculture

In this chapter the author discusses briefly some broader issues of economic reforms, e.g., the extent to which the economic values of the population are appropriate to a market economy, the phasing of political and economic reforms, and the beneficiaries and the constituencies of the agricultural reforms. The author also examines a number of general problems of reform such as achieving monetary and fiscal stability and price reform for the economy as a whole, linking these to the specific changes of the agricultural sector.

Chapter XII

SOME BROAD ISSUES OF AGRICULTURAL REFORM

For many Marxist regimes such as China and Vietnam the agricultural sector has been a logical place to start a general economic reform: economies of scale are generally not great so that small units of production are viable; and, as indicated in previous chapters, central overview of agricultural production is difficult.

The agricultural sector is not, however, hermetically sealed from other sectors of the economy; and for reforms in the agricultural sector to be successful, account must be taken of outside influences. This is especially true in more advanced economies where agriculture is heavily dependent upon industrial inputs, so that in East Europe the reforms in agriculture have generally paralleled changes in other sectors of the economy.

In this chapter I deal briefly with a series of the most important factors, starting with some general issues about economic values and political factors, and then turning to the reciprocal influences of reforms in agriculture and in the rest of the economy. The chapter ends with some brief reflections on the rise and fall of collective agriculture.

ECONOMIC VALUES

To what extent have economic values changed in the various Marxist regimes over the last four decades? To what extent is any change in values important to take into account in carrying out economic reforms, particularly in the agricultural sector?

Extreme opinions can be found regarding the question of fundamental value shifts occurring during Marxist regimes. In East Germany, for instance, an official in the secretariat of the Central Committee of the communist party (now called the Party of Democratic Socialism) told me in 1990 that the party erred in believing that it had made a revolution since "the people think exactly the same now as they did 40 years ago." In Bulgaria in the same year, on the other hand, a sociologist argued to me that the value shift has been enormous, citing such evidence as a public opinion survey in that year revealing that 64 percent of the respondents agreed with the statement that maximum incomes should be no more than three times the minimum income, an attitude hardly congruent with a free enterprise economy.¹

Much of the evidence on values is highly ambiguous. For instance, various public opinion polls and political manifestations in the Soviet Union have revealed considerable popular discontent with the urban

"cooperatives" (actually small private enterprises). This may reflect unhappiness with the fact that many of these enterprises have taken advantage of the many scarcities in that economy to charge extremely high prices or that many of them earn profits by selling products which were not obtained in legal channels, rather than any fundamental views toward private enterprise per se.

From visits to Marxist countries in various parts of the world I have two general - perhaps superficial - impressions. In most of the third world countries, specifically "Marxist values" play little role except among the political games of the educated elite, in good measure because of the lack of resources to fund a serious indoctrination program.² In Eastern Europe, any such value shift occurring under a Marxist regime was probably much less in the rural than in the urban sector and it seems likely that the long tradition of small-scale selling of agricultural products will serve rural population well for participating in the rebirth of the market. Some apparent evidence to the contrary is available, for instance, many farmers do not want to leave the collective farms; as indicated in Chapter X, however, this has more to do with practical than ideological reasons. Unfortunately, a definitive resolution of the extent to which a value shift has acted as a constraint or a lubricant for economic reform can only be made some years from now after sifting out what has really happened in the crucial years following the political changes.

Undoubtedly 40 or more years of intensive Marxist indoctrination has had some impact on the values of the population³. From the rapid liberalization occurring in 1990 in East Germany and Poland, however, any such value shift does not seem to have acted as much of a constraint on governmental actions to liberalize the economy. In contrast, the difficulties the Soviet Union has had in reaching consensus on economic reform and the relatively hesitant steps toward economic reform taken by Bulgaria and Romania in 1990 suggest that economic values have played a constraining role. What is unclear is whether such values in the latter three countries arose as a result of Marxist indoctrination or are part of the national heritage.

Since entrepreneurs represent only a small portion of the population, the impact of any value shift on them seems even more problematic. In visiting collective farms in 1990 in Bulgaria, Czechoslovakia, East Germany, and Hungary, I met some extremely entrepreneurial top or middle farm managers who seemed both ready and willing to meet the challenges of the market economy. Indeed, it could be argued that in the past the constraints on their decision-making were so great that they have had to develop a high degree of ingenuity and entrepreneurship in order to be able to survive in the system. I also met farm

managers who seemed to be spending most of their time wringing their hands, paralyzed by the enormous economic uncertainties facing them; or who seemed incapable of thinking in market terms in order to make their production plans so as to maximize profits.

POLITICAL FACTORS REVISITED

Three issues deserve discussion: the phasing of the political and economic reforms; the political strength of the beneficiaries of economic reform; and political factors underlying the consistency of the reform. Since the range of possibilities are so great, it is useful to examine these problems in a concrete context and, for this purpose, I have chosen Hungary, China, and the Soviet Union as my examples since their experiences have been so different; a more rounded picture of the agricultural reforms in these three pictures is presented in Research Note B.

The Phasing of Economic and Political Reforms

The problems arising from the phasing of economic and political reforms are most quickly revealed by a chronological survey on some major aspects of the reform process. The political and economic changes in Hungary and most other East European nations have occurred either simultaneously or with economic changes taking precedence; agricultural reforms have also preceded reforms in other parts of the economy. In China or in such nations as Vietnam, the government has placed much greater emphasis on economic reforms, particularly in agriculture, than on political reforms. By way of contrast, up through 1990 the Soviets have placed more emphasis on political than on economic reforms.⁴ Relations between economic and political reforms in the two countries have been, however, somewhat more complicated than this brief summary, so that further attention to each country is required.

Hungary

The stream of systemic changes of the Hungarian economy from the mid 1960s up to 1990 can be dealt with quickly. Clearly these changes were closely tied to the political problems of the government in keeping the nation together after the revolt of 1956 and the economic problems of maintaining agricultural exports, which at that time were a significant share of total exports. The Kádár government slowly relaxed both political and economic restrictions simultaneously; the presence of the Soviet army constrained any political difficulties, either from the population or from the demoralized party and government apparatus, so that problems of phasing of economic and political reforms were of secondary importance.

The most important economic reforms came in the 1965 - 68 period, when the yearly plan was abolished and in January 1990 with a dramatic liberalization of agricultural prices in January 1990. The former represented a case where economic reforms preceded political reforms; indeed, they were probably acceptable to the Soviets exactly for this reason. In preparing for these reforms the country was too small to try them out first on any particular geographical area; instead, in 1965 the entire agricultural sector served as the experimental field for the more widespread reforms of 1968. The price reforms in 1990, which essentially allowed most agricultural prices to float, were a decision taken by the transition government composed in large measure by members of communist party. Allegedly they are a precursor to a wider price reform at a later time. Their adoption was apparently impelled more by a fiscal crisis and the necessity of reducing subsidies than by any close considerations of the phasing of economic and political reforms.

China

Because of its size, Chinese provincial economic authorities have had more authority to institute experiments than their counterparts in the Soviet Union. Chinese reforms began, as it were, on the periphery of the economy in the poor and hilly province of Anhui (and, to a lesser extent, Sichuan).⁵ The extensive experimentation and the successes enjoyed in these remote areas provided some dramatic reasons for their adoption throughout the country in the early 1980s during Deng's first years of power. (Chevrier, 1988).

Certain types of political reforms preceded these changes. After the death of Mao in 1976, several important political changes occurred. The "Gang of Four," which was attempting to carry on the leftist legacy of Mao, was quickly arrested and placed on trial; and, in the next two years, the battle "to seek truth from facts" and to fight against the "two whatevers" (to believe whatever Mao had proclaimed; to follow whatever he said) were some of the slogans indicating that an important expansion of intellectual freedom was occurring, and with it a greater tolerance for intellectual and social diversity, a declining emphasis on the class struggle, and a rethinking of many basic issues (Halpern, 1989). This was a Chinese version of glasnost': more controlled and focused, less noisy and dangerous. It was accompanied by certain political reforms which, during the late 1970s, included an increase in citizen rights, due process guarantees in the legal sphere, a strengthening of popular representation in the political arena by allowing competitive elections at a provincial level, the rewriting of legal codes, and the reduction of party interference in social life (Clarke, 1987; Raum, 1986; Womack, 1984). At this time the government carried

out some economic reforms in the countryside in 1977/78, but they were unexceptional, e.g., to reduce non-productive cadre in the agricultural sector.

In late 1978 Deng and his group began to gain key party and governmental positions to allow them to carry out the agricultural reforms. They consolidated their hold on the party with the removal of Hua Guofeng from the premiership in 1981 and his chairmanship of the party in 1982 and through renewal of the party leadership, bringing into positions of power a new generation of officials (Clarke, 1987). Although the degree to which Deng had an exact blueprint of changes is not known, his general ideas appeared well known during his manoeuvring for power. Party support for his program played an important role in his political ascendancy; and such support meant that an entrenched old-guard was less in position to bloc important changes.

The first steps toward decollectivization was the reorganization of the internal management system of the communes through the introduction of the contract system; although it does not appear a very radical step to Western eyes, it was a direct repudiation of the "learning from Dazhai" approach upon which the Maoists laid so much emphasis (Zweig, 1989). What was crucial in the decollectivization process was that the property rights reform was taken in small steps, each "unworthy of a major fight" (Zweig, 1987).⁶ Deng and his colleagues had a consistent vision of what they were after but were quite flexible in the manner in which they allowed the various policy measures to be implemented. The successes achieved at each step, however, allowed a more radical further step to be taken quickly until the cumulative effect of the changes totally changed the system.

During the first half of the 1980s when decollectivization was taking place, few major political changes occurred; and thereafter political changes were minor. Deng appeared to envision a more flexible and liberal economy, gradually spreading out from agriculture to the other sectors, combined with relatively tight political controls, albeit looser than during the reign of Mao. Such a strategy ran into three major difficulties during the second half of the 1980s: agricultural stagnation; inflation as the result of fiscal deficits combined with inadequate controls on bank credit; and a growing discontent with the slowness of liberalization in the political realm, which culminated in the Tiananmen Square massacre in 1989.

Soviet Union

The constellations of political and economic factors were much different in the USSR than in China. When Gorbachev came to power in March 1985, he appeared to have a much less specific pro-

gram of change than Deng in December 1978. He had made his reputation in the field of agriculture, where his name was associated with two quite contradictory organizational innovations: the Ipatov system of harvesting, a centralizing measure by which harvesting in a given region is coordinated by a single party office which is able to coordinate the work force and the machinery for these operations around-the-clock; and a contract system, a potentially decentralizing measure whereby teams of workers or even individual families receive contracts and resources (including land and machinery) for a particular amount of work with their income based on contract fulfillment.

Gorbachev faced a political elite still composed of many supporters of the Brezhnev approach (Åslund, 1989); thus considerable maneuvering was first necessary before dramatic changes in agriculture could be introduced. His early conception of economic reform appeared, at least on the surface, as relatively traditional: for instance, a tightening of labor discipline, a streamlining of administrative organs, creating super-Ministries to coordinate more effectively the complex interrelations between industries (including agriculture), and raising plan goals for the 1986 - 90 plan period. In his first few years, most of his statements on agriculture followed the lines of the 1982 Food Program; and the government bureaucracy interpreted the contract system in agriculture in a conservative fashion as more a payment-by-results compensation system than as a first step toward decollectivization.

Gorbachev's reticence for radical reform in agriculture can be attributed either to his desire to minimize the economic and political costs of reform, or because of an initial belief that only minor policy tinkering was required, or because he did not place the highest priority on agriculture. At no point did he seem to encourage a general decollectivization; rather, he envisioned an institutional pluralism with state farms, collective farms, and individual farms which, to a certain extent, would specialize on different crops appropriate to their size. The competing goals that he pursued led to a program with many inconsistencies, which not only raised the risks for a successful decollectivization, but also raised the specter that the socialist agricultural sector would always receive priority of inputs and resources over the individual agricultural sector. For instance, in 1986 in an effort to enforce the decrees against "unearned income," party and state officials in various areas closed down various private markets for agricultural produce, reduced the availability of transportation of privately produced goods to such markets, and conducted a "pogrom against private hot-houses" (Åslund, 1989, p. 158 citing Soviet sources). Such measures, of course, increased the risks of individual farming even more and, although halted, left a bitter memory. This policy ambivalence continued through 1990, with Boris Yeltsin announcing a plan which would

permit massive privatization of agriculture, Nikolai Ryzhkov resisting, and Gorbachev appearing to temporize by announcing a referendum to approve privatization of agricultural land, a step already approved in principal by the Soviet legislature in March 1990. (Curiously, this law never used the term "private," and "private property" appeared to be the "institution that dares not say its name.")

The U.S.S.R., like China, had numerous agricultural experiments, but their scale was smaller and their successes were less convincing before they were implemented in a frontal assault on the rest of the country. It is noteworthy that the tenancy contracts in the U.S.S.R., upon which Gorbachev placed so much political capital, originated from the sparsely populated northern areas, far from the economic and political center of the U.S.S.R.⁷ Top policy makers, however, did not view the agricultural sector as the forerunner of economic reform.

These early tepid attempts at economic reform produced little change in economic performance and, in considerable measure, a major stumbling block in their implementation lay in the conservative bureaucracy which had little to gain by carrying out such changes. By 1987, Gorbachev began to talk about more radical economic reforms and, moreover, to obtain more grassroots support by his program of glasnost', a major political reform which in considerable measure was aimed at overcoming bureaucratic and political resistance to the proposed economic reforms.⁸ It should be noted that if political reforms precede the economic reforms and if a large bulk of the farm population fears decollectivization or other radical reforms in agriculture, such reforms may never occur.

Beneficiaries of Reform

The rural party apparatus can play a major role in agricultural decision making. In some countries such as Bulgaria, China, or the U.S.S.R. it participates actively in day-to-day decision-making on the farms, as well as in long-run agricultural policy making; in other countries such as Czechoslovakia or East Germany, its role was confined more to the latter activity.⁹ As a beneficiary of the system, the rural party apparatus has considerable incentive to prevent a marketization and decollectivization of agriculture.

Hungary

In Hungary the rural party apparatus played a much smaller role in economic decision-making than in the Soviet Union or China; in considerable measure this arose because the party was relatively centralized and led by urban oriented politicians. As a result the rural party groups could not convince the urban party leaders to move slowly on the agricultural reforms (Comisso and Marer, 1986). Although the local government apparatus subverted the intention of the central government in eliminating

most mandatory crop deliveries during the late 1950s and early 1960s, the central government managed, before the 1968 reform, to change the parameters of their authority in a manner so that local resistance to economic decentralization was significantly reduced. Since the overwhelming majority of farmers had recently been coerced into joining the collective farms, they had little desire for heavy-handed government intervention into their sphere of decision-making so they did not resist such easing of regulations either. There was, in short, a tacit alliance between the farmers and the central party apparatus.

China

The Chinese reforms also had a large rural constituency, even though they encountered considerable local resistance (Bernstein, 1984; Burns, 1985-6; Unger, 1985-6; Zweig, 1983 and 1987) among agricultural cadre. Of the latter, most greeted the reforms "with less than enthusiasm," not only because such reforms would result in the reduction of their ranks but also because their relative incomes would (and did) suffer (Latham, 1985). Several political measures taken by the government, however, allowed such local resistance to be overcome.

Most importantly, the agricultural reformers of the central government took steps to separate local party and governmental officials from economic management. For instance, the amount of grain sold to the state no longer served as the major measure of cadre performance and village officials did not suffer a shortage of funds if a harvest of a certain size was not produced (Oi, 1989a).¹⁰ The consolidation of power at the top ranks of the party of the agricultural reformers, combined with the rapid rise in peasant incomes and their push for further reforms, also placed pressures on both sides of the cadre to implement even those reforms which ran against their interest (Zweig, 1987). Furthermore, many local agricultural cadre, who appeared to have a great deal of political power to lose by the reforms, could be "bought off" with increased economic power since the reforms placed them in a position to achieve considerable income:

(a) In the process of distributing farm assets among peasant households, they were in a position to gain a favorable allotment (a case study for Chen village is found in Chan, Madsen and Unger, 1984). Those farm families in the most favorable position to gain wealth were the so-called "specialized households," which allowed them to engage in certain economic activities allowing them considerable access to credit and high incomes. Of such families, 45 percent were said to be former agricultural officials (see Research Note B for more details).

(b) Such rural cadre had a broader network of contacts outside the farm and, for this reason,

they were in a better position to engage in trade, not just of farm inputs but also of consumer goods than the average peasant.

(c) Marketization of the countryside was not complete and clientelist politics remained important. As Oi (1989a) has noted, "The reforms did not take power away from cadres so much as they merely redistributed power among cadre and modified the list of resources they control.... the peasants are more vulnerable to the market and, most importantly, to the local agents of the state - both within the village and in the larger market environment - who are charged with implementing the directives of the state."

This buying-off of the cadre has occurred in other Marxist regimes as well. For instance, in Hungary, some of the most fervent advocates of marketization have been the party cadre who also have high managerial positions in industrial enterprises and who could solidify their position in the latter (not to mention increase their income) in a fully marketized economy by various types of manipulations during the privatization process.

It should be emphasized that although the Chinese reforms were imposed from above, a major part of the reorganization of agriculture was implemented from below by the farm workers themselves following general guidelines issued by the highest party organs. For instance, the teams divided a major share of the commune's assets among their members following general rules, but in a manner to take close account of local circumstances and desires. Such a procedure represented an alliance, as it were, between the farm households and the reformers over the heads of the local farm bureaucracy and party apparatus (Unger, 1985-6; Zweig, 1987).

With each step and the success that followed, the scope of the changes and the pressures against the cadre intensified. Such key economic measures as changing the unit of production in agriculture from the commune to the farm household, increasing economic incentives for agricultural production, and introducing market elements into the sales of agricultural produce through elimination of the previous production quotas and dissolution of the monopoly purchasing agency fed upon political changes in 1986 and 1987, which resulted in a further split between party and government. The economic reforms were introduced in a manner to avoid a massive resistance on the part of local agricultural officials who had to administer the reforms so that the center could guide the changes.

Soviet Union

Gorbachev's greater stress on political than on economic reforms may reflected, in part, the fact

that the Soviet Union has a much more educated population, which has felt the political oppression more keenly than much less educated Chinese population. It has meant, however, that the rural population in the U.S.S.R. has been less an economic beneficiary of reform efforts than their counterparts in China.

The Soviet organizational reforms have been in large part imposed from above and implemented by the agricultural hierarchy, especially by the farm managers and the party representatives at local governmental levels, rather than the rural population. Such cadre had a long history of resisting agricultural reforms¹¹; and the reforms met many roadblocks. For instance farm managers have still tried to assign farm workers to jobs where they feel such workers are most needed, payment systems within the contract-groups have been too complex for members to understand, and difficulties have arisen when farmers in contract-groups have earned too much (Laird and Laird, 1988). Furthermore, Gorbachev seemed of two minds about increasing farmer decision-making autonomy. For instance, in a June 1987 speech he stressed the increasing of individual initiative of family farmers and, at the same time, noting the importance to increase party influence in all aspects of economic work; and in a March 1989 address, he noted the serious food supply problems and rhetorically asked where the party organization was to resolve them (Laird, 1990).

The Soviet agricultural bureaucracy is formidable in number, particularly on a local level. Many regional agro-industrial committees have several times more bureaucrats than the number of farms in their region (Shmelov and Popov, 1989, p. 273). Even more important, the Soviet government did not structure incentives to these cadre to cooperate. For instance, despite official denials such cadre still appear to be judged by grain and other production in the farms under their jurisdiction. Further, the possibilities of buying their support by placing them in a position to increase their income through the reforms did not seem to occur to the Soviet reformers.

The deterioration of the economy in the late 1980s also did not reinforce popular or party support for the tepid economic reforms; although the economic downturn may have introduced a sense of crisis to encourage more radical reforms, it may also have encouraged greater bureaucratic resistance. In sum, Gorbachev was unable to institute Deng's virtuous circle of economic successes, which reinforced and encouraged further economic and political reforms.

Consistency of Reform

Inconsistencies within the reform lead to ever changing governmental rules and regulations, which,

in turn, imply weak property rights, a topic receiving attention in the previous chapter. Such inconsistencies arise either from the conception underlying the reform; or from lack of agreement by the various political groups formulating and implementing the reform program; or from difficulties in administering and implementing the reform plans because of their complexity.

Clearly it is impossible to change an entire economic system at once; and the higher the level of economic development, the more complex the economy, and the more difficult it is to achieve consistency when dramatic changes are made. The key is to put in place a critical mass of reforms at one time and then adjust the rest of the economy in the succeeding years to bring it into consistency with the basic vision. If the initial reform conception is flawed, or if factions with different views about the nature of the reform gain temporary victories, or if the top leadership is unable to enforce its vision, then the reform program faces serious dangers: inconsistent measures will be issued, then more adjustments will have to be made to correct for the flaws, and more uncertainty will result.

The Soviet experience provides some interesting data on the problem of achieving a consistent reform (all documented by Litwack, 1990). For instance, the 1987 Law on State Enterprises (which affected state farms) made defunct over 1200 previous all-union plans, many of which appeared after 1985, as well as 7500 republican-level decrees, not to mention 31,000 all-union and 800,000 republican ministerial rules and regulations. In 1989 this law was altered and amended. The 1987 financial norms, which were supposed to remain stable for five years, were overhauled in 1989 and 1990. In the two years following the 1987 Law on Cooperatives legislation, which provided for stable tax rates and regulations for these organizations, the law was amended in December 1988, February 1989, August 1989, and October 1989. These restricted cooperative activities, changed tax rates, and limited price-setting possibilities. Other examples of inconsistency arose from Gorbachev's own actions, e.g., he ordered lease contracting before laws were passed making it legal; furthermore, once made legal, it was discovered that the laws conflict with both governmental regulations and the constitution guaranteeing free use of land by collective farms (Mustard, 1989). Indeed, it was not until March 1990 that laws regulating leaseholding were finally passed.

In Hungary after several years of preparation, the major pieces of the 1968 economic reforms were introduced at one time. The reforms had been carefully prepared and "sold" to the major groups in the party so that there was general agreement with what was wrong with the economy and how the reforms would address those problems (Comisso and Marer, 1986). As a result, the changes had sufficient co-

herence so that the stream of corrections in the succeeding five years to resolve contradictions and inconsistencies that cropped up did not change the basic thrust of the reform program. It was only in 1972/3 that important reversals to the reforms took place, under the false assumption that the disequilibria appearing in the economy were of a temporary nature that could be handled by administrative restraints. By 1980, however, most important political figures had a more realistic appraisal of the current economic problems and the role of the reforms so that the reform program appeared on track again.

For the Soviet Union the problem of consistency has been particularly severe. Despite the encouragement provided by the 1982 Food Program of private agricultural production, local officials continued to stop peasants from selling their produce in regions other than where the farms were located. Other policy inconsistencies are chronicled above. It is also difficult to give much independent decision-making authority to the work units if the units of production receive a rigid plan and if supplies are difficult to obtain. It is difficult to give flexibility to an agricultural supply system if the system continues to be centrally run so that local conditions can not be carefully taken into account. It is difficult to produce the food really wanted by consumers if the farms must produce according to a rigid plan or state orders. Finally, it should be noted that the 1988 appointment of Yegor Ligachev, an experienced politician with little taste for the market mechanism, breaking up of the collective and state farms, or family leaseholds as the Central Committee Secretary for agriculture neither encouraged the peasants to take up leaseholding nor advanced any significant agricultural reforms.

In China the problem of consistency was less severe. The various measures changing the farm and changing the degree of marketization were in much greater synchrony. In the six year period of reform, of course, complete consistency in a static sense was not achieved at any point; but the broad and rapid reforms on a number of fronts mutually reinforced each other and this dynamic consistency provided a key element of the success of the entire package. For this reason it is also impossible to specify which of the many changes was most responsible for the remarkable increase in production since 1978.

ECONOMIC POLICY STRATEGIES AND DILEMMAS

In discussing the phasing of political and economic reforms, I described how agriculture has or has not been viewed as a leading reform sector. Two other broad economic issues with important political overtones also require examination, the creation of a stable monetary and fiscal framework for reform and the promulgation of a price reform.

Monetary and Fiscal Stability

In a government trying to reform agriculture at the same time as inflation is raging, it is quite likely that the latter will take precedence over the former, especially because rising food prices are a hot political issue.

As many observers in both East and West have noted, several of the East European governments have been running governmental budget deficits or have been recklessly issuing credit for years. As others have pointed out (especially McKinnon, 1990), the transition to the market raises some serious fiscal problems because changes in the current tax structure to make it congruent with a market economy usually leads to a loss of revenue unless tax rates are raised. This is because tax rates of certain important sources of government revenues, especially from enterprises, must be lowered so that they will have an incentive to earn high profits and to invest and in many Marxist regimes must be restricted so that the tax rate is fixed and retained profits are no longer a residual.

Combined with this tax problem are additional expenditures arising from picking up certain traditional social and cultural functions of government that had previously been performed by state and cooperative enterprises such as welfare measures for the rural aged. Moreover, although the ease of transition from a centrally planned to market agriculture can^{be}/eased by a flow of funds to the agricultural sector, in the early 1990s few governments of the country under review have the fiscal strength to carry out such a program, as China did in the early 1980s when it increased agricultural subsidies.

As a result of budgetary deficits in the past, many of these countries also have a large monetary overhang, i.e., bank balances and money holdings are especially high because people are unable to find goods they wish to buy with their money. Any floating of prices will result in a one-step price increase. Unfortunately, the extent of the problem is not easily amenable to statistical analysis because for most Marxist regimes the data on budgetary deficits or credit conceal more than they reveal (for the Soviet Union, Birman, 1990, has a useful discussion); because saving and money stock data are incomplete; and because it is difficult to make direct estimates of the monetary overhang. An indirect method is available, however, if we are willing to assume that the quantity theory of money roughly describes the behavior of price increases in these countries.

More specifically, let us compare the rise in disposable income of the population in current units to the rise in total personal consumption in constant prices. A large difference denotes a problem arising from excess money creation (either as a result of a government deficit or excess credit) that can be resolved by a rise in prices. My indicator for monetary or fiscal "looseness" is a difference of 4 percent

or more. For the period for 1980 through 1987 such calculations for the East European nations (except Albania) reveal that monetary or fiscal looseness was particularly serious in Poland, the Soviet Union, and Yugoslavia; and to a mild degree, in Hungary. Some of the countries such as Bulgaria had an important fiscal deficit in the latter part of the 1980s, but my data did not cover these last few years.¹²

The existence of an important monetary overhang is more difficult to determine; and in various experiments with different data sets and methods I obtained quite different results for the various countries. My difficulties with such estimates were paralleled in the countries themselves; for instance, in Czechoslovakia I heard estimates of the monetary overhang ranging from 15 to 600 billion crowns. We must, therefore, rely on informal evidence. For instance, in May 1990 the Czechoslovakia the government announced that food prices would rise in July. Consumers did not strip the stores of durable foodstuffs and, during a visit to a neighborhood market in June I found only sugar to be in short supply (since it was the beginning of canning season, even this shortage might have another explanation). Several months earlier in the Soviet Union a similar announcement occasioned a run on the grocery stores. Such evidence suggests that problems resulting from a monetary overhang were much more serious in the latter than in the former nation. Such evidence is, however, not incontrovertible: One public opinion survey asking about motives for saving found no evidence that forced savings was important (Shiller and others, 1990).

The consequence of a monetary overhang after a liberalization of prices is simple: prices take a one time jump upward and if overall wages and salaries remain roughly constant, many population groups experience a fall in real income. If wages also rise and if the government is not absolutely ruthless in preventing an increase in the money supply, an inflationary price spiral can ensue, as in Yugoslavia. Poland had a monetary overhang and, during the first few months after the price reform at the beginning of 1990, the general price level increased considerably. The government, however, was able to contain wage increases and, as a result, the price index leveled off in May and the inflation problem appears to be solved, at least in the short run. Such a one-time jump in the general price level would, as the table shows, also be serious in the Soviet Union; in the other East European nations the problem does not appear as severe, although one time price shocks of 30 to 50 percent are possible.

Price Reform

Until 1990 governmental price controls in most East European nations were extensive. As a result, in all countries relative prices did not reflect the forces of supply and demand; and in some countries the general level of prices was also below what it might have been if people could find goods upon which

to spend the income they had been forced to save. Although general price changes took place from time to time, prices were generally designed to cover average costs, rather than to reflect the forces of supply and demand.

A crucial step toward a market system is the freeing of prices to respond to market forces; the crucial question is how this can be achieved without creating chaos or very high social costs. Price reforms, of course, also imply reforms in the systems of subsidies and taxes. At the same time, price reforms and the elimination of subsidies ease fiscal difficulties and some of the problems involved in introducing a new tax system.

To the extent that a price reform involves higher prices of necessities, which have been subsidized, is the population ready for such a reform? Gorbachev's personal economic advisor, Nikolai Y. Petrakov, discussed public opinion polls showing that people prefer low prices of goods, rationing, and queues (especially during work time) to high prices and full stores (Keller, 1990). It is difficult to know the accuracy of this assessment, and whether it will continue if the store shelves are relatively bare for several years. It should be added during my visit to Bulgaria, Czechoslovakia, East Germany and Hungary in the spring of 1990, I was repeatedly told that the people of that country had quite different opinions; that they wanted a market so that the shops would be full; and that they recognized that a price reform would be necessary. Several political/economic issues are necessary to discuss.

Speed of the Price Reform

A major dispute in East Europe is the speed at which market prices should be introduced. Advocates of a price shock, or big-bang, argue that piecemeal price reforms can never be completed because entrenched interests are too strong and that letting all prices float allows fewer "exceptions" so that the reform is more consistent. Opponents of such an approach point to the unnecessary economic disruptions and general chaos, which increases uncertainty, raises information costs, and reduces both investment and the ability to obtain additional inputs in order to increase production. They argue that if all prices are left to float at the same time farmers may face extraordinary risks because they lack any kind of market signals which can be used to make decisions about what the situation will be in four months when they harvest their crops. They generally advocate a phased liberalization: the first phase would be a resetting of fixed prices to eliminate subsidies and to take account of either a value-added tax or a unified turnover tax; the second phase would be a floating of prices in those sectors where competition is assured (agriculture, services, light industry); and the third phase would involve a floating of all

other prices, generally after the currency has become convertible so as to permit foreign competition to influence price setting of domestic oligopolies.

By the middle of 1990, Poland and East Germany were the only countries to have undertaken a big-bang approach. In the former country inflation had raged during the late 1980s. On January 1, 1990 the government of Tadeusz Mazowiecki liberalized almost all prices, drastically cut subsidies including those on food, let the exchange rate float, tried to hold down wage increase and followed a policy of tight monetary and fiscal controls. By early summer price increases had been effectively stopped. Nevertheless, between 1989 and this time wages had increased 7.4 times, while retail food prices increased 13.8 times, so that the share of worker budgets going to food increased from 38 to 52 percent (New York Times, July 29, 1990, p. 4) At the same time on the farm, incomes were also being pinched because of a more rapid rise in farm input than farm output prices.

It is useful to consider why such economic policies were politically acceptable and the population was willing to put up with such hardships. Most Poles were fully aware that their economy was in desperate shape and that the previous reform drives aimed at improving the administered economy had not worked. The non-communist government also had a great deal of popular support and the church supplied an additional unifying element. The Polish nation is also relatively homogeneous so that ethnic tensions are not important; and to a certain degree the economic pain of the reform could also be blamed on the Soviet Union.

In East Germany, the price shock was provided by the currency, economic, and social union with West Germany, which occurred on July 1, 1990. With the introduction of the West German mark as currency, prices began to converge toward West German levels. In contrast to Poland, domestic price changes did not reflect domestic forces of supply and demand but rather market forces of all Germany. This means that quantity adjustments were be more important, and that unemployment was be considerably higher than in Poland. For instance, even before the introduction of the West German mark, unemployment more than quadrupled in East Germany and reached about 2.5 percent of the labor force; several weeks after, it rose to about 5.0 percent of the labor force; and I have seen estimates for unemployment at the end of the year reaching one quarter of the labor force. Retail food prices also rose as food subsidies began to be eliminated and the prices began to approach West German levels. Such a shock was politically acceptable only because of an implicit offer made by the West German Christian Demo-

cratic Union during the election: German unity as quickly as possible and, although this would be economically painful, West Germany would provide a social net to ease the transition. The East German voters entered into this agreement, fearful but with their eyes open.

The assessment of the population of the seriousness of the economic situation is a critical element in the acceptability of a big-bang approach. Czechoslovakia is proceeding with considerable speed in its price reforms: it raised a considerable number of prices in 1990 in order to cover average costs before letting almost all prices float on January 1, 1991. During the election Civic Forum emphasized the gravity of the situation and, according to public opinion data, the public expects and appears willing to accept lower real incomes and price increases in the future if the long-run economic situation improves and the country "returns to Europe."¹³ Hungary, on the other hand, already experienced a certain price shock in January 1990 with the floating of agricultural prices and does not seem ready for another one. During the election campaign in March and April 1990 the Democratic Forum claimed that the economic problems of the nation were short-term so that a big bang was not necessary, while the Free Democrats argued that the economic problems were structural and long term so that a major price shock would be crucial for economic revitalization. A number of analysts (this interpretation is controversial) have attributed the victory of the Democratic Forum over the Free Democrats because the former reassured the population, while the latter scared them. In Bulgaria before the election the transition government (composed of members of the communist party) pulled away from a price reform freeing about 40 percent of all goods; and the Union of Democratic Forces, which originally favored a price shock, began to tone down such calls more than a month before the June election when it became apparent to them that such talk lost them votes.

Some Other Important Price Problems

A large number of other problems accompany the creation of a price system to support a market system. For agriculture, three particular problems of importance deserve brief mention: subsidy policies, the use of price policies to solve certain production difficulties, and the terms of trade between agriculture and other sectors. Subsidy policies toward agriculture have already been addressed in the previous chapter, but the other two topics deserve brief attention.

*** Price Policies to Solve Production Problems**

Many political leaders in the world have an irresistible urge to solve production problems by manipulation of prices, especially because such aid does not burden the state treasury and provides

extra financial resources to the industry in distress. Of course, consumers bear the ultimate burden of such aid, but such costs are "invisible."

Certainly, as I have indicated in previous chapters, a number of East European nations have serious production problems in the agricultural sector. Although agricultural production in all of these countries is growing faster than the population, the growth of output is decelerating in some countries, the growth of agricultural productivity (measured in terms of total factor productivity) is low or is decelerating, and emigration from the farm sector is so great in some of these countries that the average age of farmers is rising and villages are becoming depopulated.

In some countries such as Bulgaria, Poland, or the USSR, the long run movement of relative agricultural prices without government interference is probably upward, as I argued in the previous chapter, so that the market may resolve certain agricultural problems without the need of special governmental price manipulation; and in other countries such as Czechoslovakia and East Germany where the movement of relative agricultural prices is probably downward, agricultural problems have not been serious. It is in countries such as Hungary or Yugoslavia, which have some serious agricultural problems but where long run prices are probably going to remain roughly the same or decline where politicians will be especially tempted to use special price interventions to solve such problems.

Many general arguments can be made for such aid to one or another sector. The agricultural sector is especially attractive since it is a useful place for starting general economic reforms in any socialist country: Any successes in increasing production are quickly reaped by the entire society; economies of scale are not so important in agriculture so that production units can be made smaller and the nexus between effort and outcome can become immediately observable for all workers in the sector; the input-output relations are less complex (backward and forward linkages with other sectors are more straightforward); and fewer competing ministries are involved in the changes; and on an ideological plane, it is easier to define reforms of agriculture in terms of adjustments in management procedures, rather than in changes of property relations since in the industrial sector state ownership is more closely tied to detailed central planning and control (Lin, 1989).

Although industrial nations throughout the world have aided agriculture by price manipulations such as setting high fixed prices for agricultural produce, this does not seem wise advice for those nations in transition from a planned to market economy. Their price structures are sufficiently distorted and they have too many industries in both the urban and rural sectors for which costs are too high and for which

the country does not have a comparative advantage to risk adding to the list.

If it is decided to aid some industries, then let it be done through direct subsidies so that the costs of such aid can be carefully monitored. Better yet, if the government wishes to encourage agriculture by high prices, then let it devalue so that such agricultural products are competitive on the world markets; such a policy would not only aid agriculture, but also (under normal conditions) improve the balance of payments situation as well. It is unfortunate that some of the East European governments are loath to devalue, fearing that such a step would move the economy away from its purchasing-power-parity rate. In talking with East European economists I repeatedly met this irrelevant argument.

*** The Terms of Trade between Agriculture and Other Sectors**

If a big-bang approach toward price reform is adopted, then it could be argued that no special governmental attention needs to be paid to the terms of trade between agriculture and other sectors since this problem will be solved through the market. Advocates of such benign neglect implicitly assume, however, that the economy is competitive.

If the farm faces monopolistic sellers of farm inputs or monopsonistic purchases of farm outputs, then normal farm profits may be considerably squeezed, a situation which seemed to be occurring in Poland in 1990. Similarly, if prices are left to float in agriculture and light industry, but not in other industries, such a profit squeeze may also occur. "Solving" such problems either by setting fixed agricultural prices or by setting up mechanisms to take agricultural problems into account when establishing the prices of the monopolists or the regulated, both of which solutions are politically attractive, merely reintroduces the system of planned economy through the back door. The solution of these difficulties in any of the countries in transition from a centrally planned economies is, at the time of writing, quite unclear.

THE FALL (?) OF COLLECTIVE AGRICULTURE

I do not believe that collective farming is a closed chapter in the book about the evolving economic history of the world.

The problems of transition to a market economy are too great to be easily overcome and some countries now undergoing economic reforms such as Bulgaria, Romania, and the Soviet Union may fall back and return to a modified centrally planned economy with collectivized agriculture, albeit with a somewhat larger share of private agricultural production. In 1990 Chinese authorities were seriously discussing recollectivization as a means for overcoming the production stagnation in agriculture and the

neglect of the common irrigation facilities. If a nation recollectivizes, it is scarcely believable that it will ever be able to privatize agriculture again, for the perceived risks facing some farmer in the future will simply be too great to induce him to become a full-time private farmer. It is further possible that some nations such as Albania, Cuba, and North Korea may not attempt to decollectivize or to reduce the scope of central planning in agriculture, at least in the next few decades.

Other situations encouraging collectivization can also be imagined. If rich corporate farms and plantations account for a large share of total agricultural production, they may provide a tempting target for politicians wishing to obtain new revenues without raising taxes. Or some would-be political dictator may believe that although collectivized agriculture has many economic costs, it is an effective means of subjugating the peasantry. Or still others may believe that many of the economic problems of collectivized agriculture which I have discussed in the previous pages can be overcome if such farms are properly organized. And finally, as capitalist agriculture inevitably fails in some countries, the political elite may come to believe that this sector can only achieve economic growth when production is directed by the state, especially if they are able "to avoid the mistakes" of collectivized agriculture in other countries at other times.

Collectivized agriculture represents one of the largest social experiments in history. The system can be described in highly idealistic terms, even though millions died and other millions suffered greatly in its creation and implementation. As I have tried to show, the organization of agriculture in various Marxist regimes and the ways in which collectivized agriculture has been administered, has been quite different in the various countries. Thus collectivized agriculture is not just one phenomenon, but rather a series of related organisms.

In contrast to reports in the popular press, the growth of aggregate agricultural output has been quite adequate in industrialized Marxist economies. In third world Marxist regimes, the relative organizational costs of such an economic system may be too high for most countries to bear and output growth is lower than in comparable non-Marxist nations. The economic performance of agriculture appeared lower than in other farming systems when we turn to success criteria more difficult to observe, such as static efficiency or growth of total factor productivity.

Although this book is but one of many about collectivized agriculture, much still remains to be learned about their creation, development, and impact. Perhaps the greatest lacuna of knowledge is in the social realm: What kinds of people did such a farming system produce? How did they structure their lives

and were they any happier than farmers in other countries, who face much greater economic uncertainties?

I have tried in this book to make understandable the forces of the creation, management, and reform of collective and state farms. I have also tried to separate those causal forces related to the national traditions, level of economic development, and other local conditions on one hand, and more general ideological forces on the other in order to gain perspective on this complicated and fascinating set of institutions. Many issues concerning collectivized agriculture are, to my regret, still left to be resolved.

Footnotes

1. The public opinion poll was directed by Andrei Reichev, the head of a public opinion research group operated by the Bulgarian State Council.

2. One example among many underlying this generalization occurred during a visit to São Tomé, when I was being shown a large and beautiful garden attached to one of the largest state farms. Since the garden was originally the private preserve of the colonial owner, I remarked that the workers must now enjoy walking in it during their leisure time. One of the managers replied that the garden was not for the workers "who would wreck it" , but for the managers and visitors, a statement telling more about the management values and the social relations on that farm than any direct statement he might have made about the matter.

Cuba, which I have not visited, might represent an important exception to this generalization.

3. Whether this impact increases over time is another controversial issue. In some countries such as Czechoslovakia, for instance, it can be argued that "Marxist values" actually declined in importance in the last few decades. Certainly public demand for a "third way" between capitalism and communism or for "socialism with a human face" was much weaker in 1989/90 than in 1968.

4. Laos and Vietnam have also placed much greater emphasis on economic than political reforms, although a small measure of glasnost' has appeared in Vietnam.

5. Bernstein (1984) tells of how the household contracting system had been quietly introduced in a number of districts in the 1960s. Aubert (1988) notes how Deng Xiaoping sent trusted allies such as Wan Li and Zhao Ziyang to Anhui and Sichuan in 1977, in part to carry out a set of agricultural programs exactly opposite those being organized at a national level by Hua Guofeng. Chevrier (1988) argues that in the U.S.S.R., this would have been akin to Trotsky or Bukharin experimenting with anti-Stalinist economic policies in some remote republic in the Soviet far east. Wan returned to Peking in 1980 to become Deputy Premier in charge of agriculture and to extend the family contract system to the whole nation; Zhao returned to become Premier.

6. An interesting account of the ways in which the small steps took place in a single village is provided by Huang (1989), Chapter 9. This account also illustrates how a brigade functionary who opposed the contract system stalled in implementing it, but was finally forced to comply.

7. Yanov (1984, p. 60) notes that the "link reform" in the early 1960s "roared from east to west like a forest fire" from the obscure Amur region to the Omsk province to the Altai territory to Kazakhstan until finally reaching the north Caucasus and Ukraine, the main breadbaskets of the nation.

8. Since 1986 Gorbachev's statements about agricultural reform have been considerably in advance of the measures actually taken, and two interpretations can be offered: Although by 1988 he had the political power to ram through a series of radical agricultural reforms, he has preferred a Fabian approach in order to preserve his political capital for reforms in the urban sector. This means that for agricultural policy he has been trying instead to build a consensus around his proposals; quietly removing opponents to such ideas; and slowly but systematically preparing the groundwork for some dramatic change. An opposite interpretation is that Gorbachev's has not yet consolidated his power to the extent that he can significantly change the structure of the agricultural sector and that his agricultural initiatives have been continually sabotaged by an entrenched bureaucracy.

9. East German economists told me that it was the party, not the government apparatus, which was responsible for the policies to amalgamate collective farms; to split crop growing and animal raising activities; to build open-air stalls for cattle and later barns housing 2000 or more cows; and other policy disasters. The government apparatus, of course, had to implement such policies.

10. Hartford (1985) argues that top Chinese party leaders instructed local party cadre not to interfere with economic management in agriculture. Nevertheless, these party leaders, rather than the government, proclaimed the major lines of agricultural policy and held the local party cadre responsible for its implementation. Still, local party cadre were not responsible for production goals.

11. Yanov (1984) provides details on the vital support these provincial and district elites provided for the ouster of Khrushchev in October 1964. Brezhnev reverted from Khrushchev's strategy of organizational changes in agriculture to large investments in this sector instead, pouring unprecedented resources into agricultural investment. This approach had little success and capital productivity fell.

12. The data underlying this exercise come from: Alton and others (1989); and McKinnon (1990). For the Soviet Union direct evidence from Birman (1990), rather than the indirect approach was employed.

13. According to a public opinion poll of 2700 Czechoslovak citizens that was reported in the Frankfurter Allgemeine Zeitung, June 29, 1990, 70 percent expected a noticeable reduction in their income, 80 percent believed that an increase in unemployment would occur, and 44 percent declared themselves ready

to work harder. About half expected price increases of roughly 50 percent for necessary goods and, moreover, were willing to accept such price increases as long as they felt that these measures would lead to an improvement of the economy and a "return to Europe."

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