Main Elements of Agricultural Reform in Transition Economies

Reform of the agricultural and food systems of the transition economies has involved four main elements: (1) market liberalization, (2) farm restructuring, (3) reform of upstream and downstream operations, and (4) the creation of supporting market infrastructure. *Market liberalization* involves removing government controls over the allocation of resources and output, thereby allowing the market to become the main means of allocation. It includes the key reform policies of liberalizing prices and trade and eliminating subsidies to agricultural producers and consumers. By changing prices, incomes, and other key monetary values that influence the market decisions of producers and consumers, market liberalization has substantially altered the volume and mix of countries' agricultural production, consumption, and trade. Liberalization and its effects thereby mainly address the question of *what* goods are produced and consumed in the agricultural economy. Market liberalization also links the macroeconomy to agriculture. Macro developments, such as inflation and movement in the exchange rate, affect the key variables (prices, consumer income) that drive agricultural markets.

Farm restructuring changes the nature or system of production at the level of the actual producer. It involves how farms are owned, organized, and managed—that is, *how* goods are produced. Key policies of farm restructuring are privatization and land reform, which directly affect incentives for using labor and other resource inputs.

The difference between market liberalization and farm restructuring in terms of their effect on output and consumption is as follows. Market liberalization changes the mix of goods produced, as well as how goods are distributed, in a way that better satisfies consumers' desires for goods. Farm restructuring entails changes by producers that could increase productivity. This would allow more output to be produced from a given amount of input, which would increase the total quantity of goods available for consumption.

Market liberalization and farm restructuring are interrelated, in that market liberalization can help motivate farm restructuring. The desire to increase profit, or fighting just to stay in business, can spur producers to reduce costs by changing their system of production. The pressures from market competition are the key to the relationship between the two elements of reform. Market liberalization by itself, however, will not inevitably lead to farm restructuring—producers must still make the actual changes in how they produce.

Reform of upstream and downstream operations (upstream activities involve the supplying of agricultural inputs, while downstream activities involve storage, transportation, processing, and distribution) would turn the previously state-run enterprises and systems responsible for these matters into market-oriented and competitive enterprises. Such reform could improve the productivity and performance not only of the suppliers of upstream and downstream goods and services, but also of the farms they serve.

The creation of supporting market infrastructure entails establishing the institutions and services, whether commercially or publicly provided, that a well-functioning, market-oriented agricultural economy needs. This infrastructure includes systems of agricultural banking and finance, market information, and commercial law that can clarify and protect property, enforce contracts, and resolve disputes. Development of market infrastructure and the transformation of upstream and downstream operations are closely related, and, in some respects, hard to separate. For example, in many isolated regions of countries, the collapse of the planned economy has deprived farms (especially small ones) of any channels for obtaining inputs, or for selling, storing, or processing output. In other words, upstream and downstream linkages, as well as the market infrastructure (such as market information) that could allow farms to find new linkages, are completely lacking.

The four elements of agricultural reform identified in this report are roughly comparable to the taxonomy of reform elements for transition agriculture by the World Bank (Csaki and Nash, 2000): (1) price and market liberalization, (2) land reform and privatization, (3) privatization and reform of agroprocessing and input supply enterprises, (4) rural finance, and (5) institutional reforms. Market liberalization corresponds to WB element #1, farm restructuring to WB element #2, reform of upstream and downstream operations to WB element #3, and market infrastructure to WB elements #4 and #5.

The World Bank report not only identifies the main elements of agricultural reform, but also grades the agricultural reform effort in all transition economies with respect to its five reform elements. Unlike the World Bank study, the focus of this ERS report is not on determining which transition economies have performed better in agricultural reform, and why they have done better. Rather, this report focuses on identifying the agricultural reform experiences and problems that have been most common to all transition economies.

Nonetheless, it should be kept in mind that the reform experience and progress of countries have differed. The CEECs (including the Baltic States) have generally reformed faster and more successfully than their NIS counterparts. In the World Bank grading system, out of a maximum total score of 10, Hungary (8.8) and the Czech Republic (8.6) lead all countries, followed by Estonia, Latvia, Slovenia, and Poland. Russia and Ukraine receive scores of 5.6 and 5.4. The lowest scores go to Turkmenistan (2.0), Uzbekistan (2.0), and Belarus (1.8). (The differing reform progress of countries, particularly as reflected by productivity growth, is discussed later in this ERS report.) The problems of transition agriculture examined in this report therefore hold more strongly for the NIS countries than for the CEECs.