

Aid Is Not What's Needed

By Thomas S. Sigel

WHILE Western nations are euphorically handing out food credits and granting humanitarian aid packages to what was the USSR, they need to step back for a moment to analyze the reality of the situation. The people of the Commonwealth of Independent States are far from starving. The agricultural and climatic potential of this rich and vast territory is capable of producing more than an adequate amount of food for the population.

According to figures from the old Soviet Ministry of Agriculture, over the past four years the gross product of agriculture has grown seven percent. In terms of per capita consumption and per capita production of the most important agricultural products, the Republics are on a level with many developed countries, including the United States.

For example, the production of milk per capita in 1990 in the former Soviet Union was 277 kilograms, in the United States 268, in Great Britain 263, and in (West) Germany 400. Soviets consumed 340 kg. of sugar beets, Americans 91 kg., British 140 kg. and Germans 125 kg. Vegetable and fruit consumption by Soviets was 121 kg., by Americans 106

kg., British 66 kg. and Germans 38 kg.

So what problems are the peoples of the CIS facing and why do they lack consumer food products?

First, the former Soviet food industry chronically lags behind the Western world in the technology needed to produce, store, preserve and transport food products. This results in tremendous losses of agricultural goods. Consequently, 25 to 30 percent of all agricultural harvests needlessly perish due to the simple fact that no system-wide, reliable, agricultural infrastructure exists.

Second, despite the economic reforms that have taken place, market relationships have barely been established within the agricultural sector and between the agriculture and food processing industries. Presently, more than 90

percent of food processing enterprises are state owned and part of large monopoly structures. The abilities of these enterprises to adapt to a market environment, or to serve the interests of the consumer, have been handicapped by their administrative history.

For example, until recently all state and collective farms were required to sell a large portion of their output to the state at a fixed (and generally low) price. This resulted in a product mix heavily influenced by state orders, rather than market demands (or even objective geographical conditions). It has also meant that, because state prices were out of line with potential market prices, farm managers had incentives to divert produce away from official channels into the black market, to simply withhold their produce, or to leave their crops to rot in the fields and not harvest them at all. The lack of adequate transport aggravated this problem. In addition, farms were normally supplied with their inputs (seeds, machinery, etc.) through government channels, and there is no adequate market for inputs to replace the failing state supply system. Finally, the state agriculture sector faces the problems of a diffused sense of ownership—workers on state and collective farms do not, as a result, pay much attention to improving production methods and eliminating waste.

Food processing industries face parallel problems: they too were accustomed to getting their inputs (in this case food) through the state distribution system. Transportation problems and the diversion of agricultural goods to private farmers markets (and the black market) left the state system unable to provide the inputs, such as flour for bread. There is not yet an adequate market to replace the old system. Again, in this sector, the state had set product mixes and financed operations with no regard to profitability (which had little meaning in a system of fixed prices); the result was production unrelated to market demand, as well as management and employee compensation unrelated to earnings or productivity.

As a result of large monopolistic structures and administrative compartmentalization, farms and food processing enterprises have become detached from their suppliers and customers and are unfamiliar with anything that

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resembles a market. Managers and workers in the sector have, over the years, been demoralized by the situation. With artificially low state prices, huge subsidies and a thriving black market for high quality food products, people involved in the agricultural sphere grew apathetic and self-serving in a way that has critically handicapped the state-owned agriculture

will not help achieve productive change.

Already throughout the former Soviet republics there are about 20,000 individual farms. Within the next three to four years the number could grow to 100,000 farms. In the meantime, however, the collective and state farms will be largely responsible for fulfilling the food demands for society.

To achieve this, competition and market relationships must become widespread and enduring; the creation of cooperatives and joint stock (private) enterprises in the field of food processing would help this process along tremendously. Central planning's legacy of monopoly and vertical administrative control is one of the main threats to economic efficiency; structural changes must focus on providing flexibility and competition to the sector. The breakup of the Union may aid this process, allowing more joint-stock companies to emerge and more small- and medium-sized enterprises to be sold or leased to entrepreneurs (sometimes the very same workers and managers).

An important counterpart to the changes in ownership is the decontrol of prices. Free prices and a competitive market will provide the proper signals for all these farms and enterprises to make production and investment decisions in line with the needs of the populace. (When subsidies are used, as they will continue to be, the subsidy is best paid directly by the government at the retail level, as Russia is doing, rather than distorting producer prices.)

Already, local and regional commodities markets are helping to stabilize newly free prices despite the prevalence of monopolies in

Private Farms in Russia, 1991

	1 January	1 April	1 July	1 October
No. of registered farms	4,432	13,601	25,159	31,488
Area of land tracts provided (thousands of hectares)	181.1	581.8	1,065.6	1,280.2
Average size of land tract (hectares)	41	43	42	41

Source: Ekonomika i Zhizn

and food processing industries. (Of course, the situation was complicated by the dissolution of the Union—which saw several republics curb food shipments to their old customers in other republics—and by farmers withholding products in anticipation of price liberalization in Russia and most other republics, both of which increased shortages in urban areas.)

So what is to be done? Certainly, with movement toward a market economy, the problems of food production and supply to the population can be remedied, but not by means of Western handouts.

In the sphere of agriculture, more than 95 percent of the land and 75 percent of livestock is owned by collective and state farms. These farms will not be eliminated or privatized overnight; rather, changes must be aimed at creating and integrating a wide range of ownership forms. There are some positive signs: state and collective farms are gradually being broken up and privatized; more and more private farms are receiving long-term leases on large plots of land; and many farmers are forming cooperatives. This is where Western aid could play an important role. The former Soviets desperately need basic Western know-how. Surplus cheese and chicken legs (known in Russia as *nogi Busha* or “Bush's legs”) from the United States

Private Farms in the ex-USSR

	July 1990	January 1991	July 1991
Armenia	2	n/a	n/a
Azerbaijan	24	65	79
Belarus	17	84	437
Estonia	2,098	3,590	5,287
Georgia	16,156	20,273	20,750
Kazakhstan	188	324	1,508
Kyrgyzstan	18	101	216
Latvia	6,974	7,518	8,912
Lithuania	1,718	2,892	5,690
Moldova	n/a	n/a	4
Russia	900	4,432	25,159
Tajikistan	n/a	n/a	n/a
Turkmenia	n/a	n/a	32
Ukraine	12	82	1,103
Uzbekistan	1,076	1,358	452

Source: ISAR/Surviving Together

agriculture and processing—they provide an important channel for producers who are too new or too small to be in on the former state-owned distribution network. These regional commodity markets are also speeding the trend towards each locality producing goods in accordance with their comparative advantage (given local geography and skills) rather than those goods which state planners decreed they should produce. Unfortunately, the breakup of the Union has undermined this trend somewhat, as trade barriers and embargoes between republics have sparked pressures for each republic to become self-sufficient in essential goods. (Monetary difficulties connected with the end of the Union have also hurt farms and enterprises: tight monetary policy has meant that new investment funds, or even loans to

support planting, have become quite scarce.)

No one claims that recovery from seventy-odd years of stagnation will be an easy row to hoe. The shift to a market oriented economy and market relations within the agro-industrial complex will require radical changes in economic structure and attitudes.

It is vital that the peoples of the CIS have the opportunity to master the latest technologies in the fields of agriculture and food processing. Let us then, as Westerners, offer not bundles of food and grain credits, but rather provide scientific know-how, basic training programs and the opportunity to create viable, productive joint ventures. These peoples must be given the chance to make up for lost time and become self-sufficient and proud providers in their own society. ◇

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