

CONTRIBUTION TO A PRIVATE FARMING SYSTEM

PRILOG PRIVATNOM POLJOPRIVREDNOM SUSTAVU

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SAŽETAK

Mnoge bivše države Istočnog bloka bore se s mišlju kako prijeći iz planiranog u tržišno gospodarstvo. Primjeri i prizori zapadnoga gospodarstva motiviraju i aktiviraju ljude za tržišno gospodarstvo. Načinjeni izbor temelji se na vidljivim razlikama u napretku. Takav izbor često rađa nadu da će se samo za nekoliko godina isti sustavi i strukture ostvariti kao u zapadnim zemljama. Izbor sustava slobodnog tržišta suviše je uzdignut iz sindroma napretka i zato će ostaviti takav sustav s mnogo razočaranja. Zbog toga će to aktivirati velike grupe ljudi za socijalističko-komunističko tržište.

Tržišno gospodarstvo zahtijeva pažljivu političku i društvenu pripremu. Vlada i političke stranke moraju načiniti jasan izbor koji je u svezi s tržišnom politikom. Trgovina i industrija moraju znati kojih će se pravila morati pridržavati i na kakvu se suradnju s vladom mogu osloniti. Mora postojati jasna podjela odgovornosti tržišta i vlade. Vladini propisi moraju se osjećati kao nužnost. Vlada mora stvarati uvjete. To je potrebno za jasnoću u gospodarstvu. Tih se pravila mora pridržavati i samo tržište. Ona daju poslodavcu mogućnost razvijanja dugoročne politike i vizije. Ona mu daju i povjerenje. Promjenjiva politika obeshrabit će ulagače. Jasnoća će voditi do motivacije poslodavaca, ali i njihovih djelatnika. Politika može zahtijevati velike žrtve od stanovništva, ali to se uvijek mora činiti s jasnim ciljem. To je jedini način da se dobije povjerenje glasača.

Određena zaštita djelatnika mora se osjećati, ali također i nagrada za motiviranog poslodavca. Ljudi moraju vidjeti i prihvatiti ciljeve iza kojih stoji politika i načine kako ostvariti te ciljeve.

Privatno poduzeće je jedan "privredni" sustav procjene tržišta (prodaje i prometa), odvažnosti, kontrole prodaje i proizvodnje, sposobnosti za inovacije i motiviranosti djelatnika. Uspjeh je određen gore spomenutim kao i stručnim znanjem poslodavaca i njegovih djelatnika.

Privatni poljoprivredni sustav moguće je ostvariti na razne načine. Obiteljsko poduzeće je jedan oblik privatnog tržišnog gospodarstva. Ali i velika poljoprivredna gospodarstva također se uklapaju u takav sustav. Potreba za obiteljskim poduzećem bit će, međutim, minimalna u odnosu na veličinu. Mora postojati minimalno pravo. To će biti početna točka za izobrazbu budućeg poslodavca, ali to će se isto tako primijeniti na minimalni oblik školovanja. Glava obiteljskog poduzeća morat će biti široko obrazovana osoba. To zahtijeva oštroumnost u poslu, kao i znanje o držanju stoke, gnojidbi, tlu, sadnji, ishrani, oplemenjivanju, zdravlju, tehnologiji, a posebno je važno znanje o kupnji i prodaji. Netko tko je u stanju integralno provesti to znanje u praksu bit će uspješan. Uvijek će biti vanjskih čimbenika koji će utjecati na financijski rezultat. Prekomjerna proizvodnja uvijek će voditi do nižih cijena i nižeg dohotka. Bolest usjeva i životinja rezultirat će nižim prinosom.

Ali netko tko uvijek pripisuje svoj skromni poslovni rezultat "lošoj sreći" nije poslodavac za tržišno gospodarstvo.

ABSTRACT

Many former countries of the East block struggle with the thought how to come from a planned economy to a market economy. The examples and the images of the western economy motivate and activate people for a market economy. The choices, which are made, are based on visible differences in prosperity. The marking of such a choice too often creates the expectation that within a few years the same systems and structures will be realised such as they function in western countries now. The choice for the free market system has too much been risen from a prosperity syndrome and will for this reason leave this system with many disillusionings within a few years. Hence this will activate large groups of people for a social-communistic market.

A market economy requires a through political and social preparation. The government and the political parties must make clear choices concerning the market policy. Trade and industry have to know which rules they have to comply with and on which co-operation with the government they can rely. There must be a clear separation between the responsibilities of the market and the government. The regulation of the government must be felt as a necessity. The government must create conditions. This is necessary to clearness in the economy. These are the rules to which the market has to keep itself. This gives the employer the possibility to develop a long-range policy and vision. It gives confidence to the employer. A drifting policy will discourage investors. Clearness will lead to motivation among the employers, but even more among their co-workers. Politics may ask great sacrifices of the population, but this

must always be done with a clear object in view. It is the only way to gain the voter's confidence. A certain protection for the employee must be felt but also a reward for the motivated employer. The people must see and accept where politics stands for and along which road the goals can be realised.

Private enterprise is a culture-system of estimating the market (sale, turnover), of daring, of controlling sale and production, of the power to innovate and the employees' motivation. Success is determined by the above mentioned and the expertise of the employer and his employees.

A private farming system can be realised in many different ways. A family business is a form of private market economy.

But big agricultural farms also fits in such a system. A necessity for a family business will however be a minimum with regard to extent. For there has to be a minimum right to exist. This will be the starting point for education of the future employer, but it will also apply to the minimum form of training. The head of a family business will have to be educated all-roundly. This requires view and acumen about the business in general such as for example, the knowledge of tending, manuring, the soil, planting, feeding, breeding, healthines, technology and particularly knowledge of buying and selling is essential. Someone who is able to put this knowledge integrally into practise, will be successful.

There will always be external factors which will influence the financial result. An overproduction will always lead to lower prices and therefore a lower income. Illnesses in the crops or among the animals will result in a lower yield. But someone who always attributes his moderate result to "bad luck" is not an employer for a market economy.

1. INTRODUCTION

Most of the 20th century was characterised by a continuous growth of economic interdependence, public planning, social action and the spreading of the benefits achieved by technological advance. It was the century of the common man.

In both industrialised market economies and the centrally planned economies much attention was paid to the technological development of agriculture. In the so-called Third World attempts were made to initiate a Green Revolution. This did not generally succeed although there have been good results in a number of countries, especially in Asia, where a considerable rise of farm productivity was realised.

It is hypothesised that technological advance was closely associated with market stability. In other words, those countries, which were in the position to apply policies to the effect that agricultural markets were sheltered from price

fluctuations and foreign competition, have seen their farm production boosted and production costs lowered. Such was the case in the EC and in the US, to mention a few well known examples. The Common Agricultural Policy (CAP) had its high noon throughout the 1960s and 1970s. In the 1980s the current situation in European agriculture was set in by the serious threat of the CAP going bankrupt and the socio-economic revolution in Eastern Europe. As a result agricultural policies are to be redesigned throughout Europe and this is bound to have strong impacts on resource allocation in agriculture. That is to say new man-land relationship and changes in land ownership structures will evolve.

2. THE ROLE OF LAND IN AGRICULTURE AND FOOD PRODUCTION

Land is a crucial resource in agriculture and food production. At first glance the present discussion on set aside policies in the EC, the US and other regions seem to refuse this statement; oversupplies of food calls for idling land. It should be kept in mind, however, that, for instance, in the EC - the agricultural policy system - has been an inward-working-looking system. As the EC was a net importer it could easily raise and stabilise prices for land-based agriculture. Policy makers never feared oversupplies as they considered that a fixed production factor. On the basis of the consideration the trade in grain substitutes was not subjected to the common levy system.

As the CAP was entirely based on land-bound products all member states stimulated productivity growth by stimulating biological technology. In the Netherlands this approach was probably most successful.

In Dutch horticulture and intensive animal production it seems as if land is not of more importance in agriculture than it is in industry. Recent developments in the environmental effects of intensive farming have shown clearly, however, that thousands of hectares are involved in the imports of feed stuffs. The animal manure problem in the Netherlands is, to a large extent, a problem of excess of minerals. These minerals may cause depletion of the basis for land fertility elsewhere. So there is little doubt that land remains a crucial factor of production. Its importance shows up again if the external effects of production and trade are taken into account.

3. LAND OWNERSHIP AND AGRICULTURAL POLICY

The EC-agricultural policy has its point of application in land-based farm production. Those sectors of agriculture which have developed into more or less industrialised production systems either receive agricultural products as imported feed stuffs or have become quite dependent on the soil. Both types of

food and fibre production have the common feature that they are an integrated part of the food trade chain.

Land-based agriculture is characterized by the so-called asset fixity; fixed costs are the essential feature of farming land. In order to make growth processes go relatively high costs have to be incurred. This fact not only refers to high proportion of fixed costs because of labour and equipment. Because of the characteristics of production, i.e. growth processes of plants (crops), costs which are directly related to crop management such as sowing, fertilising, crop protection are as a matter of fact not variable but fixed costs. Besides, investments in land consolidation, soil fertility and structure, water control, roads etc. are sunk costs. That is why it is the most profitable to raise agricultural productivity per hectare. The fixed costs problems cause inflexibility in supply. Price flexibility of supply is low especially when prices drop. If prices decrease fixed costs are not covered by receipts and incomes decrease. The least efficient farms will thus be compelled to go out of business.

Also farms which are heavily indebted will face the need to stop sooner than farms which are less indebted or more efficient. If production is not land-based (horticulture, intensive animal production on the basis of imported feed stuffs) the exit of farmers and farms will cause production to decrease. In land-based agriculture, however, production capacity is only diminished when land is taken out of production. The value of land for other destination, is commonly far below agricultural value. Therefore agricultural production is only lowered when the agricultural price has dropped considerably, normally due to very much decreased product prices. Farms that cease production will firstly become part of farms that enlarge their scale of production. Likewise there may be farms which can take over land and farm on a part-time basis. Thus it is often possible to lower production costs and to achieve parity incomes although prices have decreased. The result is that structural adjustments are speeded up via enlargening the scale of production and decreasing labour employment. Yet as land productivity keeps up with those developments, production is not adjusted downwards. That is why agricultural productivity in land-based farming is in the eyes of many observers an autonomous development. This situation also explains why it was so difficult to reach agreements in the GATT negotiations. Liberalisation of trade must work out lower product prices in various regions. Lower product prices cause lower land prices and ultimately land will be idled. There is the treat that in this way large areas in the EC will be involved. In these areas there will be an extended period of low farm incomes.

4. PRIVATE LAND OWNERSHIP AND MARKET SYSTEMS

Without additional policy instruments trade liberalisation and free markets will cause agricultural areas to impoverish and will undermine agricultural infrastructure. Of course this situation does not apply to those areas in which the local economy does not essentially depend on agriculture. But even those farms that can survive will come under severe economic pressure. Because of the low process and capital losses to be incurred the value of the land has lost its role as the basis of finance. Furthermore not only farming as such, also the infrastructures of intermediate and processing industries will be destroyed. The question then arises whether in periods of restructuring and reorientation of agricultural policy the structure of ownership is of importance. Finding an answer it must be assumed that the existence of agricultural land markets is a prerequisite to creating land value or land prices. Why should farm land have a value altogether? As was argued, land value is the basis for capital markets to function. Land simply is the security for financial institutions.

Farmers - land owners - can dispose of considerable capital which yields little direct returns. Yet it is the necessary condition for their existence as an agrarian entrepreneur. On the basis of market prices of land banks are willing to lend money although they know that farmers cannot make reasonable living i.e. net returns on the basis of those prices. The comparatively high land prices in relation to product prices is the consequence of relatively high marginal profitability and not of high average profitability.

Therefore, the conclusion must be that there are differences in management. In other words a modernisation of the rural area is based on the existence of entrepreneurs. The entrepreneurs are preferably land owners.

5. ENTREPRENEURSHIP AND LAND OWNERSHIP STRUCTURES

Full ownership of land is to be seen as part of entrepreneurial activity. Full ownership provides farmers with resistance to market failure. One could also regard it as an insurance against market failure. Not average profitability in farming explains the value of the landed property, rather marginal profitability is the determinant factor. Therefore it is the rate of progress which insures against market failure. Property rights prevent farmers from taking too many risks.

Agricultural innovation and privatisation is largely dependent on entrepreneurship. Now in many Middle and Eastern European countries the problem is that there are not enough real entrepreneurs. Besides, those entrepreneurs who are available may not dispose of sufficient capital to face the risk of market failure.

Risk adversity arises if market relationships do not work out in a stabilised way. So in most countries there are compensation schemes, minimum income policies and various other instruments added to the course of markets.

Land ownership only makes sense if ownership of land and buildings is part of the reward for entrepreneurs/farmers. Property rights are not natural phenomena but they grow out of specific social constructions. The most fundamental characteristic is, of course, that all values are derived values. In a market economy the primary value is at consumer level. Hence the most practical implication of land ownership is that it is to be imbedded in value added chains. Privatisation of land ownership is impossible if, for instance, prices and price ratios at all stages in the chain producer - consumer are not in line with the value-added principle. A kg of meat in a Zagreb retail store is worth more than a kg of carcass at the nearby abattoir or a kg on a farm.

Another element of land ownership which is worth considering is assumed conduct of the entrepreneur, namely - profit maximisation. The primary goal of centrally led organisation is not profit maximisation but maximising production. When state farms are interested in reducing costs this usually does not include labour costs. In a centrally led economy farms can easily hide potential market demand, but cannot hide lower production. If they want more means for investment they usually start new activities rather than improving efficiency. Farm owners must strive for cost reduction by striving for higher efficiency.

6. PRIVATISATION AS A PROCESS IN LAND OWNERSHIP STRUCTURES

In countries where privatisation is considered desirable but in which there is as yet little private ownership in agriculture (that is the situation in this country) it seems that state farms have to remain subject-for some time and to some degree-to an indirect form of bureaucratic control. The same holds with regard to the food industry. The major function of such an intermediate period would seem that expenses (wages, interest payments) can be controlled. Another function is that the terms of privatisation can be determined to advantage. The advantage would be that the management can prepare itself for financing an eventual management buy-out. However, the most important reason for a phased privatisation in agriculture is the risk that with immediate privatisation the existing production capacity could well be destroyed.

The transitory period to full privatisation in agriculture should be long enough to let a market mechanism be introduced for labour, capital, land and raw inputs simultaneously. When market mechanisms for capital and labour are introduced for other sectors it is clear that agriculture cannot have much

opportunity to influence costs of labour and capital, nor of raw input. Capital costs and raw material inputs, of course, will soon show direct relationship with the foreign markets. Land markets, however, are in a different situation. Land prices or rents are a direct function of product prices and of differences in efficiency between farms. Free markets for agricultural products are hardly conceivable as I will show later on. Instead, agricultural market and price policies are necessary to pave the road to privatisation and restructuring in agriculture.

Privatisation can in principle be organised via direct land ownership or via lease contracts. The possibility of leasing land does, in principle, exist. State and collective farms were the lessees of the land they control. Although there were leases they turned out to be a new name for old collective contracts. Reforms on land use and land ownership will be hard to bring about, however, as the leaders of the state and collective farms will likely resist any radical change. It is up to politics to take decisions. But a system of private farming, besides collective or state farms is only possible if they have the same conditions, rules, support and financial possibilities. It is clear that there is no possibility of privatisation if the main long-term severe restrictions on the rights to control the land, lapse after a certain period of limitations.

It is probably not necessary to introduce full ownership straight away, rather a transitional period could intervene. In this period, however, a fixed point of reference must exist in order to judge on ultimate rights and obligations with respect to land use.

A private farm which has paid the rents for some years thereby could gradually create its share in ownership. So that after a period of, say, 12 years the private farmer is full owner. If a lessee wants to sell the land to a colleague after a couple of years (shorter than the period set) this would mean that the new farmer-owner pays rent to the original and to the former lessee. He will stop paying the rent to the lessor and pays a lump sum to the former lessee so that afterwards the land is his own. Then mortgage debts on the land are fully possible.

Too drastic changes can endanger the existing production capacity. It is concluded that therefore in agriculture, deregulation and price liberalisation should be introduced stepwise. An intermediary period in which an adequate agricultural policy is developed can prevent a too rapid dismantling of agriculture. Likewise it can form the basis of privatisation in particular with respect to land ownership. Private land ownership can help restructuring agriculture to more efficient forms in the future.

7. THE RULE OF THE GOVERNMENT

(Adjusting to public-private mixtures in world agriculture.)

In many Middle and Eastern European economies agriculture has to be adjust to a market economy; this statement summarizes the political decision to price liberalisation and the withdrawal of government intervention.

Right from the beginning it should, however, be realised that today in most market economies 50-60% of GNP is controlled by government and public institutions. Especially agriculture in Western economies has been subjected to government policies for long. The difficulties in the GATT Round illustrated that various countries and blocks were very reluctant to release their control of the international food and agricultural market. Therefore, it is only fair to think of agriculture in eastern Europe being converted to an institutional order which is a mixture of structure and policies both showing private and public interests. With regard to public policy it seems that the need for market regulation instruments such as price stability, stock policies, income-oriented price guarantees, quality control systems, international trade regulation cannot be denied. Such policy instruments have to be developed along with other special and perhaps short term government interventions such as investment subsidies. Typical long term government duties are research, education and extension or, more general terms such as, stimulating information-transfer and transparency.

The government must also take care of the prevention to run into depression. In order to decrease the chance of depression, the production capacity of agriculture and the food industry must be increased. In addition, if agricultural production costs are leading to higher food prices there is an immediate threat of fueling an inflation wave. That is to say that privatisation is to be a part of supply-side macro-economic policy. Instruments of supply-side policies are: restriction of nominal rate of interest, a less stringent fiscal policy, compensation of wage increase and price stability.

It is clear that the price stability in effect means controlled price levels.

There is another reason for Middle and Eastern Europe to follow the Common Agricultural Policy as a new bureaucratic institution. At present there is even within countries a tendency or regionalisation leading to regional protectionism. Everywhere one then becomes concerned with the question how to avoid food products leaving the region. If this is not brought to a halt by common market policy and the stimulation of production it will certainly lead to an economic crisis. Regional protectionism is the logical reaction to an abolition of the command system which is not yet compensated by a mature market. However, and once again, such mature markets do not exist for agriculture in the EC, US and Japan, either.

In those countries the Government has accepted the role of market stabiliser. Short run oversupplies of one particular product provoke the reaction of producers to retail production and they will boost production when prices have risen again. A cyclical reaction is the result. Therefore arbitration concerning storage and price equalisation over regions is to be developed. For the former task the Government must intervene. A good balance between markets and public control has to be found.

In this way it is possible to support your changes of education by our organisation. Many members of the JTP have experience with planned market economy. Our institute has knowledge of the whole chain of the livestock production as well as the food industry. Therefore I think it is time for intensive contact between the agricultural institutes of Europe.

Ladies and gentlemen, I wish you a good anniversary and successful years in the future. I hope that the present students will say at the 150 anniversary of this institute "the change in education and the policy of food production is the best thing that is done for the country the last 15 years". I also personally wish you a good future in health and peace.

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