Agriculture in the Transition from a Command to a Market Economy: the Case of Latvia

Sergio Gomez y Paloma and Andrea Segrè

Sergio Gomez y Paloma is a researcher in the Department of Economics and Planning and at the Center for Southern European Studies of Roskilde University in Denmark. He has carried out research on the structure of agriculture and agricultural policies. His recent work focuses on changes in the agricultural sector in the Baltic and Mediterranean region.

Andrea Segrè is a researcher at the Institute of Agricultural Economic and Policy at the University of Bologna, Italy. His areas of interest include agricultural political economy and socio-economic change in agriculture. His works have appeared in English and other languages.

ABSTRACT The study presented is the result of a field survey conducted in Latvia in 1991. The brief of this research was to trace the role of the 'private' farm sector that has begun to emerge in the wake of the transition from a central-command to a market-oriented economy. Thus a look at the legislative acts embodying the agrarian reform is accompanied by an analysis of the recent developments in local production systems. The study of 'production systems', or that part of economic analysis that comes under the rubric of 'farm systems', was employed here for the first time to analyze a Soviet-type economic system in transition. The first and second sections, which focus on the historical evolution of Latvia's agriculture and the economics underpinning it, range in compass from the 'first' agrarian reform to collectivization and on to the present situation. This is followed by a look at the current, or 'third', land reform initiative (section 3), particular emphasis being accorded the emergence of new production structures and the problems posed by the transformation of the old ones (sections 4 and 5). The next section includes a discussion of the links between the farms of the socialized sector and of the nascent private one (section 6). The concluding remarks provide a recapitulation of the study's main findings.

Introduction

The issues addressed and discussed in the following pages are the result of a field survey conducted in Latvia over several months in 1991. The brief of this study was to trace and to investigate the role of the 'private' farm sector that has begun to emerge in the wake of the recent agricultural policies enacted by the Latvian government to guide the country's transition from a central-command to a market-oriented economy, and to determine as well what its future prospects might be. Thus an examination of the legislative acts embodying the agrarian reform, which was passed by the Supreme Council (Latvia's parliament) in its drive to 'privatize the land', is accompanied by an analysis of the recent developments in local agricultural production systems. The study of 'production systems', or that part of economic analysis that comes under the rubric of 'farm systems', is not altogether innovative among scholars whose purview of agricultural economics is international (Mazoyer, 1981). However, it seems appropriate to mention, if only in passing, that the methodological approach used here was employed for the first time to analyze a Soviet-type economic system in transition.
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1. The Agrarian Economy: A Brief History

Latvia’s economy has been radically transformed over the last fifty years or so, shifting from that of a predominantly agricultural nation typified by a numerous rural populace to an industrialized one in an increasingly urbanized landscape (Skujenieks, 1938; The Baltic States, 1991: 91). The administrative doctrine underlying the Soviet system of governance throughout its territory called for each republic to become a specialized producer, which in Latvia’s case led to the expansion of its machine, timber, paper, chemical, and pharmaceutical industries. This effort was paralleled by immigration, both civilian and military, from the other republics, the so-called ‘russification’ policy, which had a noticeable effect on Latvia’s original ethnic make-up. This combination of demographic pressure, agricultural specialization, and industrial growth has had, among other consequences, a very detrimental impact on the environment. One example is water pollution: the dearth of solid and industrial waste-treatment plants and the poor performance of the few in service, as well as the use of chemical fertilizers, herbicides, and pesticides in agriculture has resulted in an abnormal rise in the rate of eutrophication — about 87% of the country’s lakes show signs of this phenomenon.

Latvia, like the other two Baltic Republics of Estonia and Lithuania, has an agricultural heritage with very deep, centuries-old roots — a tradition that enabled it to attain an output in agricultural commodities that by the late 1930s had made it ‘one of the most advanced agrarian countries in Northern Europe’. In 1935, for each inhabitant Latvia exported 10 kg of butter (Sweden and Finland exported 4 kg), produced 749 kg of potato (Denmark 329 kg, Finland 355), and numbered 0.65 cattle (0.47 in Sweden, 0.48 in Finland) (Skujenieks, 1938: 27, 30, 31, 33).

This achievement was accomplished over a fifteen to twenty year period beginning in 1918 with the implementation of the radical land reform that was part of the reconstruction program in the aftermath of World War I’s devastation. During these years of ‘prosperity’ shortly before the Second World War, Latvian peasant farms — in 1935 there were 275,698 farms (84.5% private) averaging 16.3 hectares in size — produced enough food for the domestic market as well as butter, bacon, flax, and other products for export: in 1938, 46.7% of the total Latvian gross export was provided by agricultural products (Grinens, 1940).

The occupation of the Baltic States in 1940, their subsequent incorporation into the USSR and the resulting nationalization of land holdings altered the course of Latvia’s agricultural development (Gegeris and Kass, 1991: 11) and marked the beginning of the drive by the central communist government to transform the agricultural sector after the Soviet model. Although the first collective farms (kolkhozy) were organized in the spring of 1941, the Nazi invasion of Latvia shortly thereafter postponed full-scale re-organization until after the war, when collectivization en masse was begun in earnest and brought almost to completion in the early 1950s.

Beginning in 1949, the Soviet authorities decided to use economic pressure, as well as an increase in official propaganda, to force peasants to join collective farms. Heavy taxes in kind and in cash were imposed, which proved especially onerous for the larger individual farms. Inability to pay was regarded as high treason, resulting in arrests and even deportation. These coercive measures were demonstrably effective: by the late 1950s over 95% of the land had been re-organized into kolkhozy and state (sovkhozy) farms of 300-500 hectares, and in the years that followed the communist government’s continued efforts to promote the merging of the former into the latter were so successful that by the late 1980s the gap between the number of sovkhozy and kolkhozy had appreciably narrowed: collective farms passed from 1,807 in 1950 to 386 in 1990, while state farms passed from 76 to 296 (Gegeris and Kass, 1991: 11).

The advent of collectivization, and its pursuit over the years, wrought profound changes in Latvia’s agriculture, not the least of which was the decline in both production and the rural populace’s standard of living. The sovkhozy and kolkhozy brought with them the establishment of villages that were wholly alien settlements to Latvia’s landscape: the repair of earlier farm buildings was now prohibited and new zoning regulations made it impossible to secure licenses for construction outside the new villages. And, when the state launched and financed extensive land-use projects in attempting to improve crop output (soil moisture is excessive in spring and autumn), the end result — the creation of large holdings unsuited to the land’s natural conditions — was bought at an exorbitant price: the destruction of the old farmsteads and of forests and the transformation of rivers in canals. Not to mention that the relief contours and the mosaic composition of the top soil, typical of the Latvian countryside, made large-scale field management very difficult, and both drainage and cultivation became inefficient as a result. The policy led to slackening production despite the heavy state financial, mechanization, and chemical inputs. The pre-war productions and yields of grain were not achieved again until the 1980s, and still remain elusive for flax and potatoes.

2. The Present State Of Latvia’s Economy: An Overview

Latvia today has a mixed economic profile: the industrial