

# STATE REGULATION OF AGRICULTURAL PRODUCTION

FINNISH-BALTIC JOINT SEMINAR  
VILNIUS LITHUANIA 1992

*MAATALOUDEN TALOUDELLINEN TUTKIMUSLAITOS,  
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**Abstract.** Agricultural economists from Finland and the Baltic countries had their third joint seminar in Vilnius, May 26-29, 1992. The seminar topic concerned the state regulation of agricultural production. The seminar was organized by the Lithuanian Research Institute for Agricultural Economics. This publication contains most of the presentations given in the seminar or summaries of them.

Agricultural economists from the host country examined the means and organisation of the agrarian reform in the Republic. Formation of the procurement prices, state policies for agricultural production and influence of East and West European markets were the most essential topics on the area of price policy. The taxation systems and function of the labour market in the countryside were other interesting subjects of Lithuanian economists. Attached to the joint studies of Lithuania and U.S.A. the American economists analysed privatization in policies for agriculture and modelling government policy for agricultural markets during the transition period.

Finnish presentations concerned the latest development of the agricultural structure and prejudged changes in it. Other topics dealt with the situation in the grain production in the country, features of efficient farms as well as taxation systems of Finnish farmers.

Latvian economists examined problems of small business and privatization and provided different approaches and possible ways of solution of the problems of privatization. The role of the Government in pricing, taxing and crediting was closely examined also from the Latvian point of view.

Estonian economists described the general situation of privatization in their country, agricultural taxation as well as the role of local municipalities in the process of privatization.

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**Index words:** Agricultural policy, family farms, price, production, taxes, Finland, Estonia, Latvia, Lithuania

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# ISSUES IN PRIVATIZATION OF AGRICULTURAL ENTERPRISES IN LATVIA AND POSSIBLE WAYS OF SOLUTION

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Any economic incentives for regulating production serve as a means for affecting the producer, the man involved in production. The longer the chain of production management, the weaker it's influence on the producer, and the stronger should be the means for affecting him. In this aspect individual farms and state farms are direct opposites in agriculture.

In the period of transition to market economy one of the main tasks for the government is to establish a class of producers who would readily respond to market mechanism. Here are some figures to illustrate this numbers of labourers and farms in average:

	1920	1935	1950	1970	1988
Number of labourers	730 470	838 100	310 560	242 600	240 800
Number of farms	192 400	237 400	1 851	925	578
Labourers per farm	3,79	3,53	168	262	416

As we can see from this data, the total number of farms has decreased considerably with the growth of socialism, and their acreage has increased. This process was based on elimination of private ownership and led to exclusive employment of hired labour in agriculture. All this destroyed the basis of market mechanism, for it works efficiently only in the circumstances of private ownership and personal motivation based on it.

From the above said, it is necessary to privatize agricultural enterprises due to the following reasons:

- introducing economic methods of maintenance in production which proved to be impossible without changes in ownership (chronologically it was the primary reason);
- revival of individual farms;
- decentralization of production maintenance and production itself;
- implementation of an all- comprising agrarian reform which pursues the objectives of reviving individual farmers mode of production.

The work on privatization of agricultural enterprises in Latvia started in 1989 in some of the collective farms. Its primary direction was restricted only to the improvement of the existing collective- farm structure. It was due to the fact that the new economic legislation which should acknowledge private entrepreneurship, had not been worked out by then, and actually nobody offered special incentives to develop this process. As a result of this by the beginning of 1989 there were certain changes in this aspect only in about 40 collective

farms. However, none of these farms changed the type of entrepreneurship. Only after the Law "On Entrepreneurial Activities" was adopted there appeared the necessity for an ultimate decision as to the fate of agricultural enterprises, because the new law did not acknowledge the collective farms as a type of entrepreneurial activity, which would correspond to the present law. At the same time the Statutes of Collective farms had to be taken into account, and they stated that the property of a collective farm is a joint property of all its members.

Alongside with this an all comprising agrarian reform began, which consists of reform of economic relations, landreform and denationalization processes etc. A number of questions concerning collective farms and agricultural enterprises arose. Some of them have been answered by the Law "On Privatization of Agricultural Enterprises and Collective Fisheries" adopted by the Supreme Council on June 21, 1991, and in subsequent legislative acts. Let us discuss some of them.

1. Is it only the collective farms that are subject to privatization, or does it concern all the agricultural enterprises, including state agricultural enterprises? If the state enterprises (state farms), according to the present legislation, are the property of the whole nation, the collective farms already are a common property of collective farmers. The only task is to find out who are the owners and how large is each owner's share. Actually all the state farms are the former collective farms, which under the pressure of the previous agricultural policy were forced to transform themselves into state enterprises. This is the reason why it was decided to privatize all the agricultural enterprises in a uniform way. The only exception is specialized state enterprises, where the process of privatization will have specific features.

2. Will the above mentioned document be the only one with the regard to privatization of agricultural enterprises? The processes of denationalization and ownership restoration are in progress alongside with to process of all comprising privatization. Therefore it was agreed upon that the property of disputable ownership would not be subject to general privatization of collective and state farms. As to the rest of the property this will be the main document. This fact has largely influenced the contents of the law, which reflects both the privatization of the assets of an enterprise as well as of production itself.

3. Was the act of collectivization in 1948-49 a lawful one? Are then the collective farms legal? The decision of the Supreme Council of the Latvian Republic "On Agrarian Reform in the Latvian Republic" (adopted on June 13, 1990) acknowledges that only the methods of collectivization have been illegal. The law on privatization therefore is based on the principle that the collective farmer's ownership of the collective farm's property should be taken into consideration. Yet, a uniform order set as to the calculation of shares for each individual, which should be in proportion with the property they have invested into the collective farm this is envisaged to be a kind of compensation for their sufferings. In the further process of privatization these shares should be used in compliance with the chosen way of privatization (this will be discussed further).

4. Should the agricultural enterprises be privatized as separate objects? Perhaps they should be joined into an integrate state property, which should be subsequently distributed in such a way that everybody has equal conditions for starting entrepreneurial activity? The collective farm property is still the property of its members. Therefore the above suggested redistribution would only be possible after the current nationalization, which is absolutely inadmissible. Besides, it should be taken into account that collective farms



worked with diverse results. Redistribution would only be the current levelling for the benefit of those who have worked less and worse. That is why it was decided to consider the enterprise, as an integral unit of assets and individuals claiming for ownership, to be the subject of privatization.

5. Is it possible to privatize collective farms and state farms according to the same pattern, without taking into account the discrepancies in the types of ownership? As most of the state farms actually are forcefully transformed into impoverished collective farms, it was decided to privatize the state farms under the same conditions as collective farms. Yet, there arose some difficulties, because there is no category of membership in the state farms. Therefore a paragraph was introduced in the law "On Privatization of Agricultural Enterprises", which explains how to equalize state farms to collective farms concerning both the assets and the individuals. The essence of this paragraph actually is denationalization of state property in the countryside.

6. How is it possible to privatize enterprises which throughout decades have been established as complete business units where most of the structural units are interrelated? As in each separate case there is only one enterprise and many owners, it is impossible to distribute property among them in such a way that production process is retained and ownership preserved. Therefore it was decided to determine ideal property shares for each candidate and afterwards to decide what to do with them.

7. Who will have the legal rights and responsibilities in the privatization process? Determining of the capital shares by itself does not yet mean anything, because they only represent ideal property parts which actually cannot be divided into units that small. These shares only entitle their owner to the rights to use them. This becomes possible only if there exists a certain mechanism. There should be a subject who would guarantee the implementation of the rights. The former collective and state farms cannot play the role of this subject, because their statutes and activities are based on indivisible property.

From the above said, as a result of privatization, there should appear something new instead of the former collective farms. The only possible way out is to establish business companies or a large number of small enterprises. However, the former agricultural enterprises as business units had partners -consumers, suppliers, banks. This is in connection with the contracts, outstanding bills and credits. It is clear that the business partners should not been put into jeopardy during the privatization of an enterprise, otherwise a chain reaction of bankruptcies might start. Only two possible ways for dealing with this issue are prescribed by the laws of the Latvian Republic:

- The way of reorganization of the existing subject with distribution of all rights and liabilities among the acquirers of the former enterprise
- The way of liquidation, when all the mutual liabilities are annulled, however, in this case, as a rule, production is liquidated, too.

These two ways serve as a basis for the privatization of collective and state farms.

8. Are all the agricultural enterprises obliged to change their status according to the pattern described by the law? Or does it depend on the decision of individuals working in the enterprise, admitting that in some instances the enterprise would be liquidated? On the one hand, there can hardly be one universal recipe for all the 600 enterprises, on the other hand the process involves all the collective farms and plenty of people whose property was invested into collective farm, as well as creditors. There should be some uniform approach. This is the reason why the present law comprises only the guiding principles for the process

of privatization should be carried out in each particular enterprise. This process could be divided in two stages:

- calculation of total assets of the enterprise by July 1, 1991, and determining the individuals who are entitled to capital shares, as well calculation of these shares. It should be stressed that at this stage only the rights to obtain shares are clarified, and not concrete objects.
- taking decisions as to the conception and transformation of the former types of enterprises into new ones they should be taken by the shareholders.

At this stage it should be decided whether statutory company would be formed on the basis of the former collective farms. In this case the statutes of the new enterprise will rule the shareholder's rights as to trading with his shares. The type of production does not change it remains public at this stage.

If the former collective farm is going to be liquidated, each owner gets his actual share either in cash (liquidation quota) or in kind (the acquired assets). In the latter case the owner is free to make this choice to join another company or not to do that. It should be remained that liquidation is carried out by selling the assets only for cash.

9. What criteria should be applied for calculating the shares? Three aspects should have been discussed; land, property investments and labour investments. Yet, land has not been acknowledged as private property up to now and for the time being cannot be traded. Therefore its price has not been set. There are some other aspects, too, that should be considered. Due to all this, land is left out in the process of calculation of shares. There is hope that land issues, including land ownership, will be solved by the land reform. So only the two other aspects have been left; labour investments and movables & real estate.

10. What type of new enterprise should be formed if the way of gradual transformation has been chosen? The law "On Entrepreneurial Activity" presents an exhaustive list of types of entrepreneurial activity, and it should be complied with. Therefore, to transform the former collective farms, as a rule, one type of statutory companies is chosen; shareholding company, a limited liability company, a joint-stock company. The problem is that the objective of all the three is to preserve their integrity. But in the process of privatization the decentralization and privatization of production is extremely essential, and the above mentioned companies may serve only as a means of meeting the interests of separate owners. Therefore the law contains the rules which encourage the splitting of the present large agricultural enterprises. At the same time there is an attempt to preserve the producing capacities of the assets. There is a mechanism for keeping a permanent set of plant and machinery in enterprises, the so called inventory.

11. How to create an entrepreneur? The initial privatization, the results of which were joint stock or limited liability companies was not a solution of the problem. Production itself remained centralized where in fact all the workers are hired labour, though formally they are owners at the same time. It is no secret that the psychology of a hired worker differs tremendously from that of an entrepreneur, and it does not necessarily mean that a good worker would make a good entrepreneur. One cannot do anything by force here.

This is why there is a principle in the law which prevents the possibility to force someone to become an entrepreneur, but an individual should be given the opportunity to become an independent entrepreneur. In order to ensure this a special mechanism has been created which should be obeyed by all privatized collective and state farms irrespective

of the type of business company chosen. This mechanism comprises:

1) The so-called inventory of the assets of an enterprise, which includes the whole set of property according to the production objects with the basis price of this set. The inventory serves for two purposes:

- each member of the company is entitled to choose any item from the inventory and demand the company to sell it to him, and he can buy it for his capital shares
- each of the items can be obtained only as a whole set.

This is the way how economic prerequisites for reorganization of production and encouraging entrepreneurship are created.

2) The regulations for obtaining the chosen object. The regulations are based on:

- voluntary choice (nobody has the right to force somebody else to privatize an object);
- publicity (all the members should be notified if somebody has an intention to privatize one or another object)
- certainty (the company itself has no right to refuse the privatization of an object). Only another member with the same intentions can put obstacles in the process of obtaining an object.

Besides the above mentioned and shortly discussed issues of privatization of agricultural enterprises which need solution, there are plenty of other ones which need a solution, but this would be a much more extensive topic.