

## THE ROLE OF AGRICULTURE IN THE TRANSLATION PROCESS IN LITHUANIA

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### Introduction

The return to a market economy by Central and Eastern European countries after the failure of forced experiment of centrally planned economy that had lasted over half a century is a complicated economic phenomenon. Economists from different countries have been observing and analyzing it both from inside and outside.

The return of Lithuania to a market economy exhibits its own peculiarities. The article will tend to analyze the role of Lithuanian agriculture in the transition following the plan suggested by organizers.

In Part I the role and functions of Lithuanian agriculture on the eve of transition to a market economy are overviewed. In Part II features and problems of agriculture in transition are analyzed. Part III is devoted to the impact of the economy-wide transition strategy on the agriculture sector and the contribution of agriculture to the general process of transition. Conclusions follow at the end.

### **1. Role and functions of agriculture in Lithuania before the transition**

In Lithuania, as well as in Latvia and Estonia the Soviet rule period lasted for fifty years. It was long enough to restructure the economy of Baltic countries on the basis of centrally planned economy and incorporate it into the uniform economics system of the former USSR. Actually, it was during the post-war period that such uniform economic system had been shaped.

The Sovietization of the economy has greatly influenced demographic processes in the Baltic countries. Migration of population that initially was of forced character has increased. Hundreds of thousands of the Baltic natives had been exiled. Alongside, the arrival of Russian-speaking people here was stimulated.

Internal migration within the republic has also increased. Socialist restructuring of agriculture forced rural inhabitants to leave the countryside for towns. Number of people with no land tenure origin came to live in the countryside. On the other hand, these people for years had been enriching agricultural sector through their hard and poorly rewarded work. Thus, this period witnessed not only the reduction of rural population but also changes in their composition from the point of view of their property relations to land (See Table 1).

Table 1: Demographic Changes in the Baltic Republics and Belorussia 1940-1990, as of January 1

	Lithuania		Latvia		Estonia		Belorussia	
	1940	1991	1940	1991	1940	1991	1940	1991
Total population, thou	2925	3728	1886	2681	1054	1582	9046	10260
Shift, %	100	127,4	100	142,2	100	150,1	100	113,4
Percentage of national majority out of total population		78,4		51,8		60,9		77,0
Rural population, thou	2251	1163	1224	774	700	450	7121	3379
Shift, %	100	51,7	100	63,2	100	65,3	100	47,4
Percentage of rural population out of total population	77,0	31,2	64,9	28,9	66,4	28,4	78,7	28,4

Sources: Народное хозяйство СССР в 1977 году. - М., 1978. - С. 10, 11; Народное хозяйство СССР в 1990 году. - М., 1991. - С. 67, 71, 73, 81.

Economic restructuring in the Baltic countries had also influence the sectorial structure of the economy. For example, agricultural production throughout 1940-1990 increased by 2,4 times while the increment of industrial growth made 88 times/1: p.6; 2: p.22/.

Rapid development of industries based in towns not only promoted urban growth but also contributed to the russification of cities. Immigrants from other republics were invited under the forged assumption that Lithuania lacked specialists for newly created industries.

It was at that period that the plan for distribution of industrial enterprises and urban development was worked out and implemented. It aimed at slowing down the growth of large cities in Lithuania alongside with construction of new plants in smaller towns.

Such strategy followed twofold objectives. This industrial distribution policy slowed populations migration from other republics and resulted in low population growth at that period, as shown in Table 1 (it amounted to 27 %, while in Latvia and Estonia it was 42% and 50% re-

spectively). In 1990 Lithuanians accounted for 78% of total population, Estonians for 61% and Latvians 52%.

Such enterprise distribution policy provided jobs to local inhabitants in smaller towns and stimulated migration from countryside to towns. Over this period the share of rural population in Lithuania dropped from 77 to 31% (i. e., by 46 points), in Latvia from 65 to 29%, in Estonia from 66 to 28% and in Belorussia from 79 to 33%.

The Baltic republics are comparatively poor in natural resources. The greatest wealth they have is their settled local population admirable for their great love of country, diligence and honesty. Therefore, the USSR industry and other sectors head institutions were interested in constructing new enterprises in these republics, where production and economic results were comparatively higher than in other republics. New enterprises were usually closely linked with other republics: they used to receive raw materials for production of parts and semifinished goods as well as completing components for final assembly, whereas the final products used to be taken back. After Baltic republics regained Independence the cooperative links were disturbed and all industrial enterprises found themselves in a critical situation: great problems arose in acquiring inputs and completing units as well as marketing final goods. Eastern markets were lost and Western markets were almost unattainable because of the inferior quality of goods and outdated technologies.

Besides, industrial sectors involved in processing domestic inputs into final products were also being developed. These were food and light industry sectors although they were also supplied by import inputs. On the eve of Independence the share of food industry in total production amounted to 21% and that of the light industry to 22%.

Among other industrial sectors machine building sector's share was the highest and accounted for 27%. Other sectors were much more modest and produced 5% and less each /2: p.134/.

Thus, the above suggests the conclusion that although agricultural output increased by 2,4 times over 1940-1990 its share in GDP has dropped.

In 1993 B. Bolotin published "Soviet Union: a Farewell Statistical Portrait of the 15 Former Republics" /7: p.141/. I would like to make use of this report to show the place of agriculture both in the economy of Lithuania and in the former USSR agricultural sector.

In 1991 Lithuanian population totaled 3750 thou, of which 51,1% were employed in the national economy and 12,0% worked in agriculture. For comparison, Latvian agriculture employed 8,3%, Estonian agriculture 9,1% and Belorussian agriculture 11,8% (see Table 2).

In GDP per capita Estonia ranked in the first place among 15 soviet republics (10,6 thou rb), The second and third places were shared by Lithuania and Latvia (9,5 thou rb each) and Belorussia was in the fourth place (8,4 thou rb). Distribution of GDP by sectors of economy is provided in Table 3.

In terms of GDP per capita produced in agriculture Lithuania occupied the first place among 15 former Soviet republics, exceeding the average USSR level by 48%. Estonia and Belorussia shared III-IV places and Latvia and Kirgistan VII-VIII places.

Table 2: Employment by Sectors of Economy in 1991 (per cent)

	National economy	Including					
		Agriculture	Industry	Construction	Transport and Communication	Trade	Services
Lithuania	51,1	12,0	11,2	4,1	3,2	4,1	16,5
Latvia	50,0	8,3	12,0	6,7	4,4	4,6	17,6
Estonia	53,8	9,1	12,5	4,4	3,8	5,3	18,8
Belorussia	50,2	11,8	13,9	4,4	3,2	3,5	13,4

Source: Болотин Б. Советский Союз: Прощальный статистический портрет 15 бывших республик // Мировая экономика и международные отношения. - М., 1993. - Ч. 1. - С. 141.

Table 3: Structure of Gross Domestic Product per capita in 1991 (per cent)

	Agriculture	Industry	Construction	Transport, Communication	Trade	Services
Lithuania	28,4	25,3	9,5	4,2	11,6	21,0
Latvia	20,0	27,4	7,4	7,4	13,7	23,2
Estonia	22,6	24,5	11,3	6,6	14,2	23,6
Belorussia	27,4	28,6	9,5	4,8	11,9	17,9

Source: Болотин Б. С. 149.

Finally, there is one more measure, labour efficiency, calculated as average GDP per one employed. In average, the share of GDP per one employed in all sectors of Lithuanian economy amounted to 18,7 thou rb, 19,0 thou rb in Latvia, 20,3 thou rb in Estonia and 16,8 thou rb in Belorussia.

Distribution of places in the line of former republics from the point of view of labour efficiency in agriculture was very similar: in Estonian agriculture GDP per one employed was 25,9 thou rb, in Latvia 23,1 thou rb, in Lithuania 22,4 thou rb and in Belorussia 19,7 thou rb.

In 1990 the productive capital in Lithuanian agriculture (less land value) totaled 12 376 mill rubles, or 3 640 rb per 1 ha of agricultural land. The corresponding figure in Estonia was 3 259 rb in Latvia 2 947 rb and in Belorussia 2 900 rb.

Consequently, the level of capital allocation in agriculture was good relative to other former soviet republics. In Lithuania 3/4 of land in want of reclamation were improved and drainage systems installed, irrigation systems covered 43 thou ha, meadows and pastures were cultivated, rotation systems introduced, necessary stock of agricultural machinery formed, new livestock buildings constructed, livestock herds formed, new rural settlements with vital social, cultural and public service facilities were built. Collective and state farms were not only centers of agricultural production but also rural social and cultural development centers.

In 1990 the value of gross fixed capital in all sectors of Lithuanian economy amounted to 42 042 mill rb of which productive capital made 27 735 mill rb or 66%, including 28% in industry and 22% in agriculture. Collective farms accumulated 6 412 mill rb worth productive asset (15,2%), state farms 2 390 mill rb (5,7%), inter-sector enterprises 237,9 mill rb (0,6%), household plots 300,3 mill rb (0,7%) /2: p.27, 149/.

Lithuanian agriculture, as well as Latvian, Estonian and Belorussian had been specialized towards beef and dairy cattle breeding and bacon, pork-and-lard type pig breeding. This agricultural region was allotted the role of basic meat and milk domestic supplier and exporter.

It is nearly impossible to follow the export structure, volume and directions in the Soviet statistics. Only two basic parameters used to be calculated: state procurement of agricultural products and deliveries to all-union fund. The all-union fund was administered by the all-union government. The remainder of state procurement fewer deliveries to the all-union fund was left at the disposition of the republican governments. Domestic demand used to be satisfied from this remainder fund. The all-union fund was used to satisfy the demand of major cities, to accumulate state stocks and for export. Table 4 shows the share of this region in state procurement and deliveries to all-union fund by some agricultural prod-

ucts. It also provides data on all-union market share. For comparison's sake data on area, population and agricultural land are added.

Thus, within 1986-1990 Lithuanian agriculture used to deliver 36,8% of milk products and 32,8% of meat products totally produced. The deliveries occupied the following segments off all-union market: milk products accounted for 8,2% and meat for 7,3%.

Before the transition Lithuanian agriculture was based on state ownership of all natural resources, including land. The state allotted free land to all its users.

Table 4: The Per Cent Share of Lithuania, Latvia, Estonia and Belorussia in the USSE Agricultural Production, State Procurement and Deliveries to the All-Union Fund in 1986-1990

	Lithuania	Latvia	Estonia	Total	Belorussia	Total
Area	0,29	0,29	0,20	0,78	0,93	1,71
Agricultural land	0,61	0,45	0,25	1,31	1,67	2,98
Population by early 1991	1,29	0,92	0,54	2,75	3,54	6,29
Agricultural production:						
grain	1,53	0,76	0,46	2,75	3,46	6,21
sugar beets	1,13	0,46		1,59	1,82	3,41
flax fibre	4,08	1,46	0,29	5,83	25,95	31,78
potatoes	2,51	1,70	1,13	5,34	14,54	19,88
meat	2,74	1,71	1,15	5,60	5,93	11,53
milk	2,98	1,85	1,20	6,03	6,91	12,94
State procurement:						
grain	0,63	0,47	0,22	1,32	2,24	3,56
sugar beets	1,04	0,40		1,44	1,83	3,27
flax fibre	4,05	1,39	0,24	5,68	26,06	31,74
potatoes	1,99	1,49	1,01	4,49	12,10	16,59
meat	3,36	2,01	1,43	6,80	7,01	13,81
milk	3,82	2,44	1,66	7,92	7,75	15,67
Deliveres to all-union fund:						
potatoes	1,32	1,28	1,39	3,93	28,45	32,38
meat	7,32	3,09	2,55	12,96	12,56	25,52
milk	8,17	4,38	3,42	15,97	14,57	30,54

Source: Народное хозяйство СССР в 1990 году. - М., 1991. - С. 503, 504, 514.

Collective farms occupied the largest area and employed the largest number of workers. This was influenced by a large farm number in pre-war Lithuania and many rural labour resources.

By the end of 1990 there were 882 collective farms with approximately 3 554 ha land each, including 2 563 ha agricultural land, of which 1682 ha arable. Moreover, collective farms occupied 48% of the total republican area, they had 64% of total agricultural land at their disposition, whereas arable land accounted for 65%.

Collective farms employed 227,9 thou collective farmers and 0,9 thousand hired wage workers. In 1990 one collective farm-member worked 241 day on farm and his daily wage amounted to 15,04 rb, while his monthly wages made 303 rb, the average monthly wages being by 7% higher than the average republican salary and corresponding to the average wages in industry.

State farms made another group of agricultural enterprises. This group included state farms with mixed production and special purpose state farms, such as pilot farms of research institutions, training farms of agricultural education institutions, specialized horticulture and vegetable farms, poultry farms, large green house farms, etc. Official statistics included all these farms in one group.

In 1990 there were 253 state farms with approximately 4296 ha land each, including 3119 ha agricultural land, out of which 1967 ha arable land. It made 17% of the total area, 22% of total agricultural land and 22% of arable land.

State farms employed 94,3 thou workers, who worked similar number of days as collective farmers. Wages were a little lower and made 14 rb per day and 274 rb monthly.

Shortly before the transition there were peasant farms already but they did not play any major role in agricultural production. They were allotted 40,8 thou ha land, including 35,4 thou agricultural land, out of which 26,9 thou ha arable. They were presumed to do the function of medium-scale production that had been neglected before (2: p.37, 152, 169, 171/).

Small-scale production was represented by household plot farms of collective and state farm members as well as kitchen gardens of urban inhabitants and collective gardens of urban population, most often living in multi-storied buildings. These plots were usually cultivated as leisure time activity by family members, pensioners and children.

The structure of household plot farms of rural and urban population tended to be different. Rural household farms were usually larger. Beside household plots the collective and state farmers used to be allotted additional pasture land, they grew a part off odder in common rotation plots. Milk, meat (beef, pork and mutton) and wool production predominated in such farms. Furthermore, this sector also produced a lot potatoes, field vegetables, fruits and berries. Collective and state farms had special interest in promoting livestock production in such farms, as most often livestock products used to be marketed through their marketing chain and they could include these numbers in their sold product balances and receive bonuses for sales more than a moving average of past years.

The size of urban population's household plots was strictly limited by law. City dwellers could rely only on own labour and investments. Collective gardens were usually situated far away from homes. Small cottages used as summer houses were built there and horticultural activities and flower growing predominated.

Formally all household plot farms accounted for 328,2 thou ha land (5% of total area), i.e., 316,9 thou ha agricultural land (9% of total agricultural land) and 243,6 thou ha arable land (10,6% arable land). While speaking about economic results of such farms the contribution of state and collective farms should not be forgotten unless we want a distort picture.

Table 5 proves that household farms used land most efficiently and received high output per 1 ha. The sector, in possession of 9% of agricultural land, including 10,6% arable land, used to produce annually 30% of agricultural products.

Table 5: Agricultural Product by Different-type Farms

	1986-1990 annual average		1990	
	mill rb	per cent	mill rb	per cent
Total agricultural product	4789,4	100	4530,5	100
Including:				
Public sector	3326,8	69,5	3059,0	67,4
Out of which:				
Collective farms	2156,5	45,0	2090,1	46,1
State farms	955,4	20,0	762,8	16,8
Individual sector	1462,6	30,5	1474,5	32,6

Source: Lietuvos statistikos metraštis. 1990 metai. - V., 1991. - P. 150, 170, 171.

In 1990 it produced 73,8% of potatoes, 40,6% of vegetables, 86,5% of fruit and berries, 8,7% of meat, including 13,5% of total pork, 41,3% of milk, 32,5% eggs, 79,4% wool /2: p.150, 155, 157, 161, 162/.

Agriculture was relatively well provided with productive capital. For example, in 1990 the share of basic productive capital (at primary value, excluding land value) per one collective farm member was valued at 28195 rb and that per one state farm member was valued at 30918 rb /2: p.170, 171/. The stock of agricultural machinery, tractors and automobiles allowed the farms to do all agricultural activities in time, productive buildings satisfied farm demands.

The only difficulty in acquiring productive assets was to get the order that used to be administered by communist party and soviet institutions. There was no problem of financial capital as it was possible to get free credits administered, as a rule, not by banks but by party and soviet administration. There was always a possibility to have debts written off.

There were also difficulties with the quality of newly get technical inputs. Sometimes new agricultural machinery had to be repaired immediately. Mineral fertilizers contained high amounts of ballast ingredients, some fertilizers were inefficient. The effectiveness of other chemicals was also much lower than that in the developed countries. All these chemicals and technical inputs increased environmental pollution. This factor was additionally aggravated by the productive buildings, especially livestock buildings in which waste treatment equipment was not operating. Unfortunately, farm managers and specialists had little choice. In the situation characterized by great technical input shortages it was most important to get order and buy it out. The technical input order was usually accompanied by supplementary commodity order. To get a better commodity one usually had to buy another in a bunch, most often worse and unnecessary.

Agriculture was managed by administrative planning and economic methods, the first being most important. All public farms had to make five-year and annual plans in coordination with regional party and administrative bodies, districts prepared consolidated plans which were confirmed by the Ministry of Agriculture and State Planning Committee, and these institutions, in their turn, had to coordinate them with all-union institutions.

The fulfillment of confirmed plans made an important assessment criterion for the activities of farm managers, higher management authorities and farm specialists. As a rule, farm managers and chief specialists were communist party members supervised by party bodies. Successful fulfillment of plans was extremely important for their future career.

For the purpose of marketing farms were attached to particular processing enterprises. In such way the resource zones of processing plants were formed. Processors had to procure and transport primary products from farms.

The agrarian policy was aimed to form economic to farms in different natural conditions. From this point of view Lithuanian system of leveling economic conditions was positively evaluated within the former USSR.

The system was based on evaluation of farming conditions the major indicator being soil quality. Other factors taken into consideration were factors either increasing or diminishing production costs, as well as farm location respecting roads, distance from marketing institutions, warehousing facilities. In view of these factors point system was applied and farms were divided originally into four and later, five groups. State procurement prices used to be constantly (at least every five years) reviewed and increased. Thus, the procurement price included two basic components: base price, the same for all farms and price bonuses differentiated in view of farming conditions. Consequently, price increases for each farm group used to be different.

Since alongside with procurement price differentiation the planning system was also in force it allowed to eliminate selling products produced under better farming conditions in zones of worse conditions.

Price differentiation included only staple agricultural products, such as milk, cattle and pigs. Efficiency of price differentiation by farm groups in Lithuania is shown in Table 6.

Table 6: Efficiency of Price Differentiation by Farms Groups in Lithuania

	Average	Price zones				
		I	II	III	IV	V
Farms distribution, per cent	100	21	16	20	32	11
Economic point	40	51	44	40	35	30
Fixed capital per 1 ha of agric.land per cent	100	123	104	100	91	81
Gross product per 1 ha of agric.land per cent	100	132	103	100	95	75
Credits per 1 ha of agric. land	100	58	91	110	113	160
Correlation of output and fixed assets, cop.	29	31	29	29	30	27
Average price, per cent		100	104	110	116	122
Increase of returns as a result of price differentiation, per cent	100	109	114	89	89	111
Correlation of profit and production costs	18	20	16	12	17	7

Source: Tarybų Lietuvos žemės ūkio gamybos intensyvinimas. – V., 1983. – P. 31.

Price differentiation system allowed to take into consideration farming environment of each farm and guarantee profitable performance for normally operating farms.

Farm product prices belonged to the competence of the communist party. Price changes were debated on the highest level of the CPSU.

Therefore, farm didn't face marketing problems. Marketing as well as supplies used to be planned. Foreign agricultural trade was the domain of all-union institutions. Consumer cooperatives of the republic had the right to export but it mainly applied to non-planned commodities, such as wild berries, mushrooms and game.

The economic development further specialized agricultural sector engaged in crop and livestock production. Agricultural production was being further separated from agroprocessing while developing meat and milk processing, grain, sugar and flax primary processing, canning industries, etc.

It was only over the last decade before Independence that agro-industrial integration was promoted and it was attempted to bring processing nearer to agricultural production. Establishment of agro-industrial farms and amalgamations was started with the aim to transfer a part of processing industries' profit to farm production and increase product quality and diversity.

One more feature peculiar to administrative planning economy was its ability to maintain constant shortages. Distribution of additional funds, material and technical input orders, limits upon construction activities were the competence of communist party authorities. Very often farm performance dependent greatly on good relations between farm managers and republican and all-union administration.

## **2. Features, achievements, problems and prospects in the agriculture transition**

It was immediately after Independence that Lithuania started preparation of the legal framework for the economic reform.

In June, 1991 the Law on Order and Condition of Restoration of Citizens' Ownership Rights on Survived Real Estate was enacted, followed by the Law on Agrarian Reform and Law on Privatization of Agricultural Enterprises' Assets in July.

Earlier, in May 1990 the Law on Lithuanian Enterprises was adopted that enacted the following types of enterprises: sole proprietorships, general and limited partnerships, joint-stock companies and close joint-stock companies, state enterprises and agricultural companies. Later, additional laws were passed: Law on State Enterprises (September, 1990), Law on Partnerships (October, 1990), Law on Joint-Stock Companies (July, 1990), Law on Agricultural Companies (April, 1991). Besides, in February, 1992 the Government adopted Regulations on privatizing agricultural companies through signing shares.

Assessment of first steps of agricultural transformations is not easy as the process bore political orientation rather than economic.

The agrarian reform was aimed at rapid dismantling of the inherited system and reviving private family farming through restitution of land to its former owners or their heirs. Although the legislative framework has been formed the agrarian reform failed to take in consideration the following.

First, the agricultural land acreage had curtailed by 881 thousands ha, or 20%. Therefore, not all former owners or their heirs could restore their land in kind.

Secondly, there were no land owners capable to start farming activities as no old farming basis remained and the economic environment to start this business anew was highly unfavourable. Most of heirs lived in towns and had other sources of income. Restitution of land meant only additional income from leasing out or selling land. Only a few wanted to return to the countryside and start farming.

Thirdly, for years a lot of people with neither land tenure claims for finances to purchase land been working in the countryside. Taking land away from them would mean loss of jobs and sources of subsistence.

Fourthly, collective and state farms were not only production centers but also provided social facilities for rural population. After dissolution of farms and asset privatization quite a lot of social facilities were ill-privatized, while municipalities were not ready to take over rural population's social services.

The agrarian reform enacted peasant farms, which had been established in accordance with the previous Law on Peasant Farms. This law foresaw that land was allotted free of charge irrespective of the fact that these plots might be subject to restitution claims. This fact introduced some confusion. There had been established 5 205 peasant farms, that

occupied 88,3 thou ha. The average farm size amounted to 17 ha. In September, 1991 this law was suspended. Peasant farms and land under their cultivation made an insignificant share of all farms and land. Peasant farms of 10–15 ha accounted for 31%, farms from 5 to 10 ha and from 15 to 20 ha made 17% each. The remainder is farms less than 5 ha.

Since 1991 family farms were established only because the agrarian reform laws, i.e., through restitution of land ownership rights. Often several heirs claimed for land. Where they themselves couldn't come to an agreement land used to be parceled to all claimants. Within the first year 60,4 thou farms were restored and 529,5 thou ha land restituted. The average farm size made only 8,8 ha.

In this way the area of large-scale farming was followed by small and supersmall-scale farming. Land privatization failed to be linked with setting farms with good future prospects, instead, farms initially doomed to bankruptcy were legalized.

Another incomprehensible law having introduced much confusion was law on allotment 2–3 ha land. This law enacted the ownership of former household plots of collective and state farmers and other rural inhabitants. These plots used to be allotted near places of residence irrespective of the existing owners or heirs and their claims. In 1994 such household plots numbered 404 thou and the land acreage totaled 862,2 thou ha, including 860 thou agricultural land, out of which 736,7 thou ha arable.

Furthermore, gardeners' associations numbered 217,8 thou urban inhabitants with 21,9 thou ha land. Gardeners were offered the right to buy out their land, irrespective of claims from former owners and their heirs.

In October, 1991 the Government passed the decree granting agricultural enterprises the status of enterprise under liquidation and suppressing the activities of all collective management bodies and appointing interim administration instead. The requirement obliged formation of productive units on the basis of each farm asset. To privatize these units' farmers could use different-type vouchers.

The splitting of farm into production units and the requirement that these units should be capable of complete operation was ruinous. Farms which categorically refused the splitting (there were 250 such farms) and were privatized as a unit could better revive their activities and were more successful in performance. The over-splitting of some farms into numer-

ous production units shortened their existence. The more many were production units spun off one farm the sooner it ceased its existence.

By early 1994 there were 3 194 agricultural companies that used 1 524 thou ha land, out of which 1 156 thou ha arable.

The agrarian reform legislation foresees that land may be instated or private ownership. It can't be owned by legal persons. This provision aggravated the performance of agricultural companies as the land could be either in the ownership of company members or leased from the state or private owners. The ambiguousness of land issue impeded preparation of farm development programmes and limited investments.

Some law provisions have been amended by the Resolution of Lithuanian Parliament (Seimas) on Basic Directions of Land Reform. It allowed restitution of land to the owner who is not going to engage himself in farming provided he agrees to lease out his land through private leasehold agreement on set conditions to operating agricultural company. If the former land owner refuses to do it he is suggested other forms of compensation for land. Table 7 shows distribution of land by users.

Table 7: Distribution of Land by Users, as of early 1994

	Farm number		Agricultural land		Including arable land	
	number	%	thou ha	%	thou ha	%
Peasant farms	5 101	0,7	72,1	2,2	61,5	2,2
Land owners	20 959	2,7	174,7	5,4	156,8	5,5
Agricultural companies	3 194	0,4	1310,4	40,2	1156,1	40,9
State farms	229	0,03	31,3	1,0	24,1	6,9
State land leasers	37 649	4,9	192,6	5,9	162,0	5,7
Househo'd farms	403 977	52,2	860,7	26,5	736,7	26,1
Gardeners associations	217 829	28,1	16,8	0,5	0,9	0,03
State land users	85 292	11,0	594,6	18,3	530,0	18,7

Source: Lietuvos Respublikos žemės fondas 1994 m. sausio 1 d. - V., 1994. - P. 4.

The three-year results of the agrarian reform may be summarized as follows. Approximately 500 thou claims for restoration of land in rural area have been received, of which 50-60 thou claimed compensations. By August 1, 1994 130 thou claims for restitution have been surveyed. Land surveyors are able to survey only 40-50 thou land plots annually. The pace of this survey work depends greatly on the speed of processing archival

documents and problems related to plot planning. The majority of land plots will be privatized by 1998, whereas equivalent compensation will be finished by 2000. Privatization of household plots will take nearly the same stretch of time /3: p.27, 29/.

According to land management specialists, the land reform will not ensure rational transformation of land tenure. Most probably, it will create mosaic land tenure of private land plots with the size varying from 0,5–2 ha near settlements and towns to 6–15 ha on the remaining area. Approximately 30% of larger parcels will belong to owners living in towns, who won't cultivate land themselves, up to 40% will be distributed in the distance from land owner's house, usually in a settlement or small town, and only 150 thou land plots will form a single parcel adjacent to the farmstead. After the survey work is finished a new stage of land reform will begin, i.e., consolidation of private plots, reallocation of plots, making boundaries more exact. This process may take decades and last till the restructuring of rural settling system stabilizes.

Is the process speedy or slow? The pre-war land reform in Lithuania that was not so complicated both from economic and social points of view continued till the forced incorporation of Lithuania into the Soviet Union. Methods of the present reform leave desirable. The inherited material basis of agriculture has been partly plundered and destroyed during the reform. The newly established farms are too small, lack production facilities and have poor future prospects. Large-scale production assets suit them insufficiently, if at all. After agricultural companies were set instead of former collective farms the production basis is undersized. Consequently, agricultural companies have excess production assets while family farms experience shortages. These disproportion's can't be balanced through physical transfer of assets from large-scale to small and medium-scale production. Therefore, another problem arises, the problem of credits to family farms.

Banking and agricultural credit system transformation towards market economy proceeded rapidly. The bank reform was begun in 1988 already through establishment of specialized banks and permit to establish commercial banks. In 1990 the Law on the Bank of Lithuania was enacted and regional branches of Soviet banks were nationalized. In 1993 the banking system included the Central Bank, there specialized state banks, the Agriculture Bank, Savings Bank and Commercial Bank as well as 25 private commercial banks.

By early 1994 Agriculture Bank assets amounted to Lt 800 mill. Its privatization was begun in mid – 1993 through signing shares by public. Approximately 2/3 of loan portfolio were allocated in agriculture to finance primary production, agro-processing and agricultural trade. Short-term loans prevailed while long-term loans made less than 10%.

State Commercial Bank, in possession of larger assets is interested in expanding its operations in agriculture sector. Out of its total loan portfolio of Lt 421 million credits for agriculture made only Lt 19 million.

The Savings Bank of Lithuania with the largest network of branches and agencies is in the process of transforming from a depository of population's savings to a universal commercial bank. The Savings Bank of Lithuania is now focusing its activities on direct lending to small and medium-size enterprises.

By the end of 1993 credits granted to agriculture amounted to Lt 500 million (USD 125 million). The sum consisted mostly of short-term credits as well as credits to finance agro-processing, crop purchase and trading, etc. Unfortunately, bank credits are almost unavailable to most private farmers. Currently the average debt per one beneficiary amount to USD 1200. However, extremely low prices at which former collective farms sold their assets should not be forgotten.

By the end of 1993 the largest budgetary allocations in agriculture were specialized funds of Lt 50 mln and Lt 80 mln for spring planting and purchase of diesel fuel. Budgetary allocation to finance rural infrastructure development amounted to Lt 34,6 mln. 40% of total amount went to rural roads, 35% to electrification. In 1994 the Agriculture Support Fund was established which was provided Lt 120 mln from the state budget.

From the short financial policy overview it follows that privatization activities in the banking and crediting systems were significant. To ensure further development towards market-based economy bad loans should be refused as well as extremely high interest rates, partial covering of interest by the state, direct links between banks and agricultural enterprises should be promoted.

There has been a significant progress in the pricing system.

Over 1991–1993 price regulation for consumer goods and producer subsidies were being gradually removed. Therefore, current prices reflect the equilibrium of supply and demand in the market. In 1992 the retail price control was totally refused. In 1993 the Government set interim profit margin limits for milk, meat and grain processing enterprises. Seek-

ing to compensate at least partly for this limitation the Government provided soft credits to finance acquisition of inputs. Prices for raw farm products were negatively influenced by different tariffs, licenses, bans, etc. Debts of processors to producers because of delayed payments for purchased farm products also pose a great problem. Several months delay makes a kind of additional financing for processors at the expense of producers.

The producer price policy has also undergone changes. Transformation of agricultural procurement prices was begun already in 1990 on the basis of the following principals: uniform prices over the Republic, cost-effectiveness under most unfavourable farming conditions, price adjustment in view of rising input prices.

Pressing financial situation together with inflation didn't allow the Government to compensate rising input prices, therefore, the policy of support prices was introduced. Contractual prices for farm products are in effect and they are regulated only if they drop for one reason or another and do not guarantee producers at least minimal income.

The level of such prices is lower than the world price level. However, input prices are coming to the world level. For example, in 1993 food grain price in USD/t terms in Lithuania was 74, while the world price was 146, sugar beet price was 30 and 60 respectively, flax straw prices 220 and 625 respectively, high grade cattle price 460 and 1620, I category pigs 690 and 950 respectively, grade A milk price 92 and 220 /4: p.55/.

The above comparison of producer prices clearly indicates that Lithuanian price level is lower and do not cover production costs in many farms. Therefore, proposals to establish a state not-for-profit market institution, that which would engage in agricultural procurement in accordance with set quotas and prices and organize its processing, storing and marketing both in domestic and external markets have been forwarded.

Agricultural price reform will proceed further. Alongside state regulation will be given up. Lithuania has already achieved progress in subsidy reduction. Consumers have adopted the necessity of higher food prices. Retail prices and market prices have leveled already, for some products prices in the marketplace are even lower.

Another issue of importance is taxation in agriculture. The taxation reform was initiated in 1991 and is still in progress. The following taxes are being applied in agriculture: legal person's profit tax, payroll tax, property tax, excise and value added taxes. In 1991 taxes accounted for

33% of gross income (payroll and profit taxes). In 1992 total taxes and payments accounted for hardly 2% of the state budget returns and 13% of gross agricultural income. The fact proves that taxes did not play major role either from fiscal or income regulation points of view.

Taxes in agriculture should perform regulatory functions. Thus, it is necessary to develop further legal person's profit tax through substituting proportional tax by a progressive one. Similar principal should apply to farmers, i.e., natural persons. Land tax should also be improved. For example, in 1992 agricultural companies paid as a land tax per 1 ha only one per cent of profit. In 1993, however, land tax increased by 60 times and amounted to nearly 25% of profit. Analysis indicates that this rate is highly regressive, i.e., farmers in less-favourable conditions bear higher taxes. Not only land but also other agricultural assets should be taxed, while farms should be exempt from value added tax.

The agrarian reform caused the decrease in agricultural production volume and shifted the share of different-type farms in it (table 8).

Thus, total agricultural production dropped by 39%. In 1993 agricultural companies and state farms produced only 31% of total output evidencing the largest decrease. Meanwhile, population's household farm production didn't drop and family farms increased production. In 1993 there were 48% of cattle, 66% of cows and 44% of pigs in the private sector. This sector sold 38% of livestock and poultry, 66% of milk, 53% of grain, 60% of vegetables and 87% of fruit and berries.

Table 8: Shift in Agricultural Production Volume and the Share of Different-Type Farms in It, 1989-1993

	1989	1990	1991	1992	1993
Agricultural production decrease, per cent	100	91	87	66	61
Per cent change from the previous year		9,0	4,6	23,8	7,7
Production, per cent:					
in agricultural companies and state farms	69,4	67,5	59,3	41,5	31,0
in family farms and household farms	30,6	32,5	40,7	58,5	69,0
including family farms	..	0,6	2,0	9,4	20,0

Source: Lietuvos ekonominė ir socialinė raida 1989-1993 metais. - V., 1994. - P. 13.

It proves that the essential shift has already occurred, i.e., private sector has occupied the dominant role both in agricultural production and marketing.

The fall of agricultural production mostly pertained to the livestock sector. In 1993 comparing to 1989 crop production dropped by 27,5%, while the decrease in livestock production amounted to 44,8%. Crop production decrease was partly influenced by structural transformations as the land restored to private owners remained unseen the first year. Besides, crop yield fluctuations were influenced by weather conditions. The decrease of livestock production was influenced by the return to livestock breeding based on own feed as well as the curtail of livestock numbers due to changes in farm organization structure.

The shift of gross agricultural output per capita is set out in Table 9.

The following table provides comparison of agricultural output per capita in the neighbouring countries (see Table 10).

Agriculture in the above countries develops in different economic and social environment. Lithuania, Latvia and Estonia are to the greatest degree involved in economic transformations, including the agrarian reform. Poland is coming to the final stage of this process although its agriculture has evidenced least transformations, as family farming had prevailed here. Eastern Germany has been reforming its agriculture with strong financial support from Western Germany. Belorussia has not yet started reforms. Denmark and Finland represent old market economy countries. Besides, Denmark is a country whose agriculture served an example for the pre-war Lithuanian agriculture development.

Table 9: Shift of agricultural output per capita, 1989–1993

	1989		1991		1993	
	kg	%	kg	%	kg	%
Meat (slaughter weight)	144	100	120	83	74	51
Milk	873	100	776	89	552	63
Eggs, units	359	100	329	92	163	45
Grain	883	100	891	101	723	82
Potatoes	520	100	402	77	473	91
Vegetables	88	100	106	120	100	114
Fruit, berries	68	100	73	107	70	103

Source: Lietuvos ekonominė ir socialinė raida 1989–1993 metais. – V., 1994. – P. 13.

Alongside with the curtail of agricultural production marketing has also been diminishing. For example, in 1993 relative to 1989 only marketing of grain increased by 25%. This was the direct outcome of the agrarian reform as farmers having had their land restored and unable to organize complete chain of farm production chose to sow cereals and sell the

harvest in autumn. Marketing of other farm products dropped as follows: potatoes by 91%, vegetables by 83%, sugar beets by 25%, flax fibre by 87%, livestock and poultry by 67% (live weight), milk by 49%, eggs by 57%. Marketing of fruit and berries increased by 18% as a result of good harvest in 1993 /5: p. 16/.

Table 10: Cross-country Comparison of Per Capita Agricultural Output 1993 (kg)

	Meatslaughter weight	Milk	Grain	Potatoes	Vegetables	Fruit and berries
Lithuania	74	552	723	473	100	70
Latvia	73	472	478	492	110	46
Estonia	55	532	535	355	46	32
Belorussia	79	539	725	1124	101	78
Poland*	84	343	521	610	124	62
Germany*	78	350	432	129	45	81
Denmark*	337	893	1399	290	59	
Finland*	78	476	567	127	42	...

\* 1992 data

Source: Lietuvos statistikos departamentas. Lietuvos Respublikos žemės ūkis 1993. – V., 1994. – P. 69.

Lately marketing channels have been changing with larger share of products being sold in market places, private shops, etc. In 1993 22% of totally produced potatoes, 20% of vegetables, 16% of livestock and poultry, 4% of milk were sold through private chain.

The commodity nature of agricultural produce has dropped, however. In 1989 92% of livestock and poultry, 92% of milk, 43% of vegetables produced were sold, whereas in 1993 the respective figures were 72,77 and 27%. It is understandable as farm consumption has increased.

Import and export made quite an insignificant share in agriculture. In accordance with 1993 Food Balances import of meat and its products accounted for 0,3% of total resources, milk and its products for 0,7%, grain for 3,1%, vegetables for 0,5%, melons for 0,2% and fruits and berries for 0,5%. Export of meat and meat products amounted to 24,4%, milk and milk products to 31,1%, eggs to 0,8%, grain to 0,3%, potatoes to 0,1%, vegetables to 1,0%, fruit and berries to 20,4% /6: p. 62/.

Production of all farm products, except green-house products, was profitable. However, income and expenditure accounting in family and

household farms have not been recorded. Therefore, only the results of agricultural companies and state farms are available. The production cost and prices of their commodity products indicate that in 1993 profit in grain sub-sector made 41% in price structure, potatoes 23,5%, field vegetables 25,3%, flax straw 56%, sugar beets 42,9%, gain of younger cattle 37,5%, milk 28,4%, younger pig gain 31,6%, eggs 25,8% /6:p.48-50/.

Consequently, market prices provide incentive to farmers to produce all farm products. There is another problem, however. Purchasers, mainly processing industries, delay payments to farmers. Although inflation has slowed down it is still prominent and farmers suffer huge losses. Moreover, when farmers buy inputs they have to guarantee immediate payment. Thus farmers, although in a strained situation themselves provide working capital to processing industries free of charge as processors do not pay fines.

Agriculture sector provides nearly no income to the state budget. All taxes and payments in agriculture so far make less than 2% in the state budget. Meanwhile, subsidies for agriculture sector amount to some 10% of state budgetary expenditures. The Government efforts to support agriculture should include the following:

- preferential crediting system based on special fund and allocation of soft credits from it should be developed; credits should be available both to family farmers and agricultural companies on equal terms,

- granting preferential credits should be based on business plans;

- subsidies should be allotted to finance not only economic but also social activities to guarantee at least minimal subsistence for employees of bankrupt enterprises as well as free retraining system for them.

On the way to join the EU there is a requirement to abandon custom duties. In order to refuse it agricultural subsidies should be increased considerably (the sum would make Lt 1-1,5 billion) if we want Lithuania agriculture to be competitive with Western producers. Thus, joining the EU and lifting duties would be possible provided Lithuanian agriculture is subsidized at the level as it is in old European member-countries.

### **3. Inter-relation of the economy-wide transformations and agrarian reform**

The example of Germany proves that large investments are necessary to create new farm structures. Unfortunately, Lithuania failed to take this fact into consideration. The agrarian reform was primarily aimed at

rapid dismantling of the former farming system and returning back to pre-war agriculture.

Meanwhile, the economic background for economy-wide transition was highly unfavourable.

To begin with, high inflation was place, as shown in Table 11.

Table 11: Shift of Price Index for Consumer Goods and Services, 1990–1993

	In 1993 relative to:		
	December, 1992	December, 1991	December, 1991
Total consumer goods and services	288,7	3 644,0	17 591,4
Including:			
Food products	267,8	3 727,9	18 927,2
Non-food products	334,7	3 603,0	19 446,2
Paid services	325,5	7 118,1	26 089,2

Source: Lietuvos ekonominė ir socialinė raida 1989–1993 metais. – V., 1994. – P. 30.

Prices and tariffs jumped suddenly after the Government announced price liberalization in November, 1991. In 1993 inflation rate amounted to 188,7%

The main reason for this sudden rise was price increase for inputs imported from Russia (fuel and energy resources). Input prices were rapidly coming to the world price level. Another reason was the policy of Vagnorius Government adding to inflation rise in hope that goods from former soviet republics will flood Lithuania. Other Governments were neither successful in taming inflation significantly. The comparison of inflation rates in the Baltic countries, set out in Table 12 proves it.

Table 12: Dynamics of Consumer Price Indexes in The Baltic countries, 1989–1993

	1990 relative to 1989	Dec. 1991 relative to Dec.1990	Dec. 1992 relative to Dec. 1991	Dec. 1993 relative to Dec.1992
Lithuania	109,1	482,7	1 262,6	288,7
Latvia	110,5	362,4	1 058,6	134,9
Estonia	117,8	403,0	1 053,0	135,6

Source: Lietuvos ekonominė ir socialinė raida 1989–1993 metais. – V., 1994. – P. 32.

The situation influenced changes in GDP consumption shifting it significantly towards consumption. In 1992 only 1/5 of it was allotted to accumulation and in 1993 this share was 1/6.

Secondly, as wage increases were considerably lagging behind price increases population's purchasing power declined. In late 1990 one could buy on an average net salary (after tax) 146 kg beef, or 140 kg pork, or 1188 ltr milk, or 84 kg butter, or 864 kg rye bread, or 356 kg sugar, while a year later, in 1991 this basket would make respectively 94, 96, 1 635, 92, 879, 240 kg. In the middle of December, 1992 the respective figures would be 32, 22, 207, 15, 389 and 57 kg in 1993 they were 35, 25, 388, 35, 321, 93 kg.

Thus population's purchasing power and food consumption level were dropping (Table 13).

The analysis of household income/expenditure over this period suggests that actual income curtailed by 73%. Besides, the structure of consumption has also changed. The share of income spent on food increased from 34,9% in 1989 to 61,7%, while the share of non-food products in household expenditure dropped from 45,7% to 22,6%.

Table 13: Shift in Food Consumption in Lithuania, 1989-1993

	1989	1991		1993	
	kg	kg	% relative to 1989	kg	% relative to 1989
Meat products	83	66	80	56	67
Milk products	447	315	70	319	71
Eggs, units	319	293	92	143	45
Bread and flour products	104	138	133	122	117
Potatoes	145	128	88	122	84
Vegetables	82	83	101	69	84
Fruits and berries	57	51	90	50	88
Sugar	47	31	66	25	53
Vegetable oil and margarine	8,3	3,0	36	7,4	89
Fish	18,7	19,2	103	8,4	45

Source: Lietuvos ekonominė ir socialinė raida 1989-1993 metais. - V., 1994. - P. 13.

This also influenced the retail trade. The volume of retail trade in 1989 and 1990 if compared to previous years increased by 10,2% and 3,8 % respectively, whereas beginning with 1991 it began to decline steadily: in 1991 by 37,3%, in 1992 by 52,3% and in 1993 by 36,8%. In 1993 relative

to 1989 marketing of all basic food products curtailed: meat and meat products by 66%, butter by 32%, sugar by 50%, bread products by 32%.

Consequently, the domestic market for farm products has been curtailing dramatically and posed marketing problem to farmers. The problem was aggravated additionally by the flow of imported food products.

Thirdly, agriculture had been heavily supported by the state. This support used to include free reclamation works, cheap energy, free veterinarian services, differentiation of procurement prices in view of farming conditions, etc. Meanwhile, following Independence state support has been reduced significantly.

Fourthly, the diminishing demand for farm products, delayed payments to farmers on the side of processors impeded the development of material basis in agriculture.

Above, the impacts of economy transformations upon agriculture sector have been listed. On the other hand, the agrarian reform, in its turn, aggravated the overall situation in the Republic.

The principles of the agrarian reform were prepared hastily, irrespective of rural population's opinion, they introduced hostility between people and doomed the country-side to years of stagnation.

As it was mentioned already, restitution will be finished by 2000. Only then can a true economic reform begin, i.e., farm consolidation, capital farm establishment, etc. Thus, the agrarian reform pushed the countryside to a long road of organizational transformations.

The agrarian reform caused considerable reductions in production volumes. Consequently, processing industries' capacities were underused, they lack capital for reconstruction and renovation.

The agrarian reform failed to create new jobs in rural areas. Agricultural company members are under employed, often their wages are lower than pensions.

Processing enterprises can not anticipate investments from farmers as the latter are cash-poor and not inclined to buy the shares of processing enterprises. Meanwhile, the development of agricultural export will be possible provided processing industries undergo essential restructuring and master new products in line with Western standards.

Today traditional trade links have been disrupted. Western Europe producers have entered Eastern market. It means that requirements regarding quality and competitiveness will be raised there either, reducing the difference between Eastern and Western markets the latter being

more reliable. However, the demand is much higher in the East and this market is familiar, some links have remained.

### Conclusions

The return to a market-based agriculture after half a century of centrally planned economy is a complicated process. The transition strategy left behind some social and economic issues, it tempted to cross out the whole fifty-year period as non-existent, no future model of efficient agriculture was borne in mind.

The transition methods crossed out all production assets irrespective of the fact that some were quite modern. As a result, formation of new structures is time and investment consuming process. The overall economic situation is characterized by shortages of investment resources and expansiveness of loan capital. Foreigners are not interested to invest in Lithuanian agriculture because of low profit here and excess farm products in Europe.

To accelerate transformation of agriculture sector the following steps should be taken: land titling procedures should be speeded up, all bureaucratic hindrances refused, legal person's land ownership enacted, land purchase and sale procedures simplified, all farm structures with good performance prospects should be supported on equal terms.

Transformation of agriculture sector is a heavy burden on the economy the latter being unable to support the reforms. It turned out that it wasn't the agrarian reform that had to lead the way, quite the opposite, the agrarian reform had to follow the economy-wide transformations. The old farming system might have remained and be gradually restructured.

The agrarian reform aggravates overall transition process. Agriculture has poor prospects to absorb labour. Present unemployment in the countryside is quite prominent. Alongside with input price increases production costs are increasing either. So far producers have been protected from import of cheaper products through import duties.

However, the going social and economic transformations in spite of difficulties and problems mentioned above direct all the sectors of economy, including agriculture to a market economy. They guarantee that agriculture will regain its importance in Lithuanian economy.

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## **ŽEMĖS ŪKIO VAIDMUO LIETUVOS EKONOMIKOS PERTVARKOJE**

**Antanas Povillūnas**

### **S a n t r a u k a**

Grįžimas į rinkos ekonomiką Centro ir Rytų Europoje po ilgamečio nesėkmingo centralizuotos planinės ekonomikos eksperimento, prievarta primesto iš šalies ir trūkusio daugiau nei pusę amžiaus, yra sudėtingas ekonominis reiškinys. Jį stebi ir vertina ekonomistai, esantys tiek šio proceso viduje, tiek už jo ribų.

Šis grįžimas į rinkos ekonomiką savo būdingų bruožų turi ir Lietuvoje.

Šiame straipsnyje nagrinėjamas Lietuvos žemės ūkio vaidmuo pereinamuoju laikotarpiu. Straipsnis rengtas simpoziumui, kuriame buvo nagrinėjamas žemės ūkio vaidmuo pereinamuoju į rinkos ekonomiką laikotarpiu. Todėl buvo laikytasi simpoziumo rengėjų pasiūlytos schemas. Pasikeitus dalyvavimo galimybėms, straipsnis spausdinamas Ekonomikos fakulteto darbuose.

Straipsnio pradžioje analizuojamas žemės ūkio vaidmuo ir funkcijos pereinamojo laikotarpio išvakarėse. Antroji dalis skirta pereinamojo laikotarpio žemės ūkio problemoms. Trečioje dalyje tyrinėjamas viso Lietuvos ūkio perėjimo į rinkos ekonomiką strategijos ir taktikos poveikis žemės ūkiui ir žemės ūkio indėlis į bendrąjį ėjimo į rinkos ekonomiką procesą. Straipsnis baigiamas išvadomis, kuriose pabrėžiama, kad parenkant grįžimo strategiją nebuvo atsižvelgta į kai kurias socialines ir ekonomines sąlygas, neturėta realaus ir Lietuvos ekonomikai naudingo būsimo kaimo įvaizdžio. Perėjimo metodai gerokai apnaikino buvusius žemės ūkio gamybinius pajėgumus, naujiems ūkio dariniams formuoti reikia didelių investicijų ir laiko.

Žemės ūkio pertvarkymas sunkia našta gula ant šalies ekonomikos. Ji nepajėgia remti pertvarkos procesų. Tai rodo, kad agrarinė reforma turėjo eiti po viso ūkio reformos.

Žemės ūkio reformos indėlis į ekonomikos pertvarką ženklus tuo požiūriu, kad ji dirbtinai apsunkino viso ūkio persitvarkymą. Tačiau apskritai šie procesai kreipia visas ekonomikos šakas rinkos ekonomikos kryptimi.