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EVOLUTION OF AGRARIAN POLICY AND PRODUCTION PERFORMANCES OF SERBIAN AGRICULTURE¹

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Summary

From the middle of the previous century until today, an analysis of the evolution of the agrarian policy in Serbia shows that various models of agricultural policy are influenced by ruling political and ideological motives. The period of socialist agriculture, which has since been followed by transitional changes lasting to the present day and is now reflected in efforts towards joining the EU, has, to a great extent, determined the developmental characteristics of Serbian agriculture. In that context, production performances of Serbian agriculture have been discussed considering agricultural production dynamics and the level and motion of partial agricultural productivity in comparison with European Union countries.

Key words: *Agriculture, Agrarian policy, Production performances, Serbia.*

Introductory notes

In the period of the Second World War, the agricultural development model in Serbia saw significant changes. The agrarian policy transformed from ideologically colored policy focused on socialist transformation of agriculture to the agrarian policy under conditions of market economy and Serbia's progress towards the European Union (EU). The period of socialist agriculture is characterized by relatively stable growth of production and partial productivity all through the end of 1980s. The transition into the market economy system has been facilitated owing to the fact that most agrarian funds had already been privately owned. However, the initial transitional period was marked

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by the influence of numerous non-economic factors which significantly slowed down the transformation process of agriculture. The agrarian policy of Serbia, in this period, was burdened by budget restrictions and *ad hoc* approach without clearly defined development strategy. Consequently, this led to cutback in agricultural production performances, particularly in the initial transitional period. It has to be noted that the full recovery has not yet been achieved.

Evolution of agrarian policy of Serbia

The agrarian policy of former SFR Yugoslavia, the part of which was Serbia, differed from most other socialist countries because it did not involve mass collectivization of land. The main goal of the authority of the time was the socialist transformation of agriculture. It did, however, at one point, try to introduce collectivization (period between 1945-1953), but gave up quickly, since it led to serious problems in food production. This period is characterized by the shortage of food products, which is why the agriculture was one of the main causes of inflation.

At the end of the 1950s, a new concept of agrarian policy was defined. It favored social character of agriculture, but it also allowed rural households. This kind of agrarian policy model generated the so called bimodal character of agriculture, which granted various privileges to the social sector. On the other hand, the development of the private sector, due to ideological and political reasons, was restricted.³ The input production and processing of agricultural products were within the scope of state/social sector of the economy, while prices were centrally determined and standardized based on more efficient and productive production in the social sector. Neither the 1980s saw significant turn in the concept of the agrarian policy, which means that basic characteristics from previous period were maintained. However, the end of the decade saw a gradual liberalization together with indications of the start of ownership transformation.

The strategy of agricultural development in the period of socialist system was not primarily of economic and development nature, but it was political-social-economic construction, which was supposed to enable the development of agriculture followed by social and economic relations in agriculture and in the village. (*Gajić M., 1990, p. 10*). Consequences were numerous and they reflected in unequal development of agriculture, that is, in different development performances of two sectors, which resulted in the growth rate reduction of the total production (*Lovre K., Gajić M., 1989, op.cit.*). The production in the private sector of agriculture had been mainly of a natural character. This is supported by the fact that, although there was over 80% of agrarian funds available – arable land, tractors and livestock fund, the realized purchase was below 50% (*Zekić S., 2003, p. 97*).

The last decade of the 20th century was marked by sanctions imposed by the United Nations Security Council. Consequently, this forced model of closed economy inevitably

3 Opportunities for expansion of the land fund of individual households were restricted by introduction of land maximum, ban on machinery purchase and alike.

led to drop in production, while the function of agriculture boiled down to meeting the food demands of the population. An agrarian budget was introduced in this period (1996), as a part of the total budget of the Republic of Serbia, with the goal of stimulating agricultural development. However, it was only after the relationship with the international community normalized that some major measures of agrarian policy were proposed.

Restrictions related to the scope of agrarian budget characterized the period after 2000 as well. Incentives referred mainly to the increase in the production scope, primarily milk production, as well as to the institutional adjustment support. A gradual reduction of market support and increase in the support aimed at improvement of agricultural structures is another feature of this period. The credit support granted to agricultural producers has grown in importance since 2004, while income support to agricultural producers was introduced in 2006. Support measures to rural development were introduced in 2004, but due to strict budget constraints at the macro level the support to investment development programs of rural regions in Serbia was very modest. The scope of export subsidies regulated for meat, milk, fruit, vegetable and alike, was not as wide (*Popović R., Zekić S., 2010, p. 107*). Incentives per one hectare of arable land for registered agricultural household up to 100 ha were introduced in 2008. Also, that same year, incentives for the production of sugar beet were granted. Furthermore, in the field of livestock production, the incentive for purchase of cattle for breeding was granted in the same year.

Generally speaking, the pricing policy after 2000 has not been notably improved as compared to the previous decade. Direct support to farmers came down to determining approximate price for wheat, which was purchased by wheat milling companies. The support for industrial plants (sugar beet and tobacco) was retained to a certain degree. In this case, agreed prices were operationalized through processing companies, which were obliged to pay "official" price determined by the state. Subsidies were granted for milk, sugar beet, tobacco, heifers, breeding bulls, sheep, vineyards and orchards. Also, temporary support to hop producers was planned for 2005. Production subsidies were retained only with milk, while payments per size and head of cattle were introduced to other products

Liberalization of food prices eliminated vast consumer subsidies. As a result, the consumer price control referred only to determination of maximal price for so-called "brown" bread. Public storage, operational costs of state agencies and stabilizing interventions aimed at stabilizing the market were financed from the budget. The Directorate for Buffer Stock becomes the main source of subsidization through wheat generated income and provision of input and seasonal loans, thereby restricting the activity of the private sector within this market segment, which results in market distortion of production factors and final agricultural products (*Csaki C., Zuschlag A., 2004*).

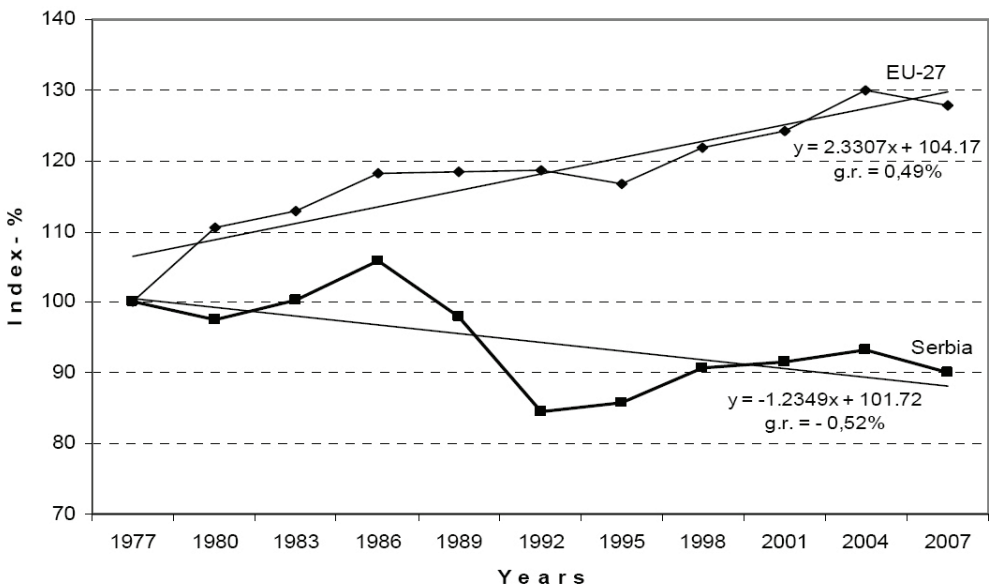
During the first few years of the first decade of this century the import protection of agricultural products in Serbia was significantly reduced. Customs were increased for meat and meat products as well as for milk and milk products, while the total custom burden was decreased for oleaginous seeds and fruits, industrial crops and medicinal herbs, coffee, tea, spices, edible fruit and alike (*Bogdanov N., 2004, pp. 118-120*). Export

quotas, export subsidies – which are definitely not high, and licenses are restricted, but export quotas for some basic agricultural products have been retained. Raw materials are frequently subject to high tariffs, from the point of protection of processed and semi processed products. A general VAT rate in Serbia amounts to 18%, but majority of agricultural products are taxed at the rate of 8%. The same rate is also applied for inputs such as – mineral fertilizers, plant protection chemicals and seeding material, whereas agricultural machinery and fuel is taxed at the rate of 18% (Zekić S., 2008, p. 22).

Agricultural Production Performances in Serbia

Positive tendencies in agricultural production development in Serbia during the pre-transitional period were interrupted even before the introduction of transitional changes at the end of 1980s and beginning 1990s. Namely, it was already in 1986 that the volume of agrarian production decreased. This trend continued during the 1990s, so the all-time-low production volume, in the analyzed period, was reached in 1993.

Figure 1: Dynamic of agricultural production in Serbia and EU- 1977-2007.



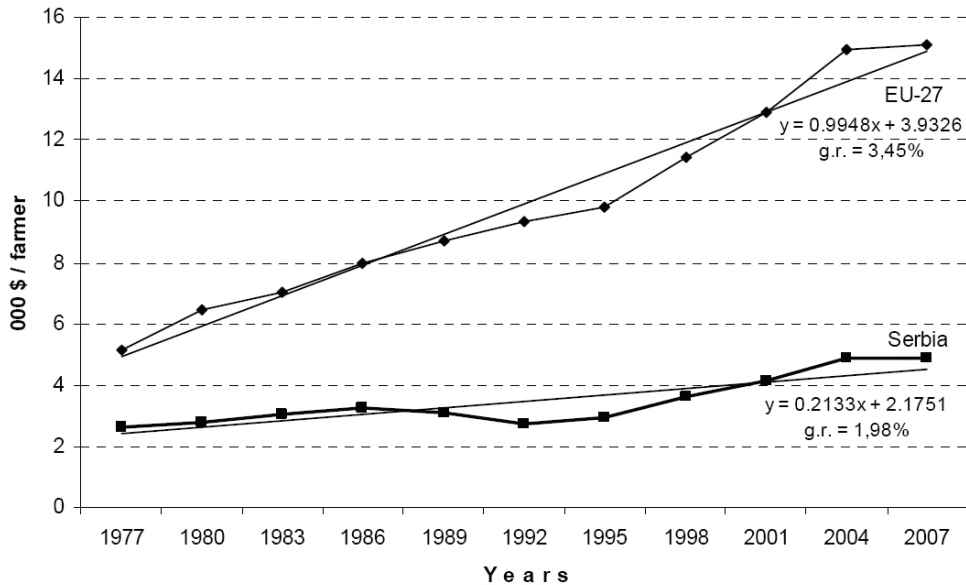
Source: Own calculations on the basis of FAOSTAT.

Having recovered from the initial transitional shock and considerable influences of some non-economic factors important for Serbian agriculture⁴, the production volume of agriculture began to grow again. However, not even until 2007 did the production

4 The civil war in this region, economic blockade, bombing of industrial structures and infrastructure and alike.

level reach the 1980s level. On the other hand, in the EU countries, with the exception of new members from Central and Easter Europe which, also, passed transitional changes, the agriculture saw a stable upward trend (*Figure 1*).

Figure 2: Labor productivity in agriculture of Serbia and EU - 1977-2007.



Source: Own calculations on the basis of FAOSTAT.

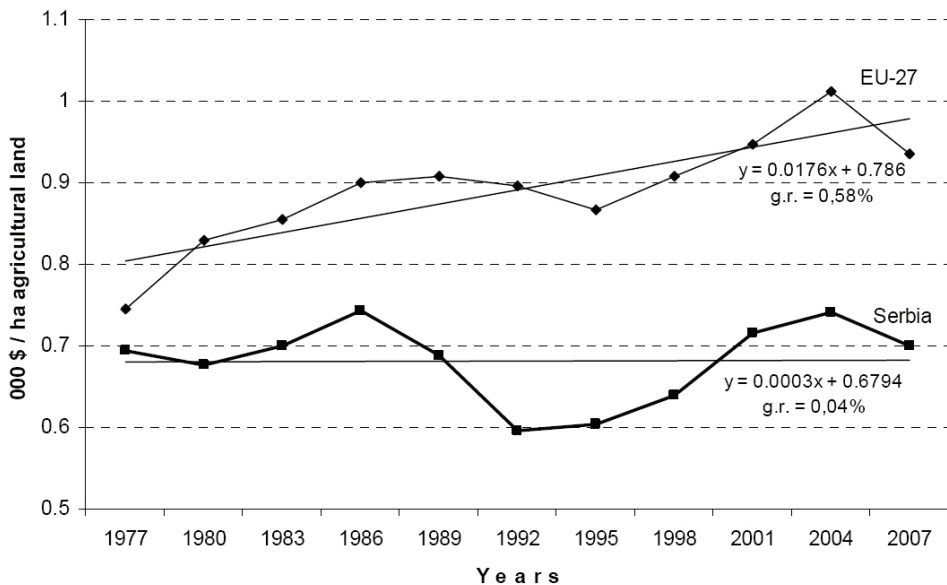
As Serbian agriculture has a positive trend in the work productivity,⁵ the production per active farmer continued to grow even during the transitional period. The reason for this is a decrease in labor force which has been intensified in the last fifteen years.⁶ Nonetheless, from the aspect of work productivity, Serbia is not only notably falling behind other EU countries, but this difference tends to rise in the future (*Figure 2*). This is primarily due to unfavorable resource structure of Serbian agriculture that is relatively high number of active farmers per unit of agricultural land area.⁷ Another reason is constraints in the budget of the Republic of Serbia and thus low incentives for the expansion of agrarian production.

5 Partial productivity of agriculture – work productivity and land productivity, were achieved as a ratio between final agricultural production expressed in thousands US\$ in 1990 (Prasada Rao D.S., 1993) per active farmer, that is, per hectare of agricultural land area (FAO-stat – www.faostat.fao.org).

6 According to the FAO estimate, the number of active farmers in Serbia, in the period between 1992 and 2007 fell by 40%, that is from a little over 1.2 million to about 700 thousand (FAOstat – www.faostat.fao.org).

7 In 2007, the average farmer in Serbia “had” around 7 ha of arable land available, while in twenty seven countries of the EU this figure amounted to 16 ha (Popović R., Zekić S., 2010, p. 105).

Figure 3: Land productivity in agriculture of Serbia and EU- 1977-2007.



Source: Own calculations on the basis of FAOSTAT.

The scope of agrarian production per hectare of agricultural land area in Serbia has not changed significantly during the analyzed period (Figure 3). Fluctuations in the productivity of land are, by rule, followed by fluctuations in production, since agricultural land areas do not change significantly.⁸ Although the tendency of Serbia to lag behind the EU countries is more noticeable in the land productivity,⁹ the range in the level of this partial productivity is lower as compared to work productivity.

Concluding observations

The agrarian policy of Serbia, in the period after the Second World War, conditioned a bimodal development character of agriculture with dual production structure, which has negatively reflected on development performances of agriculture. This was followed by a transitional shock at the first half of the 1990s, which was additionally aggravated by numerous non economic factors, thus largely influencing the development of Serbian agriculture. The agrarian policy of this period was carried out in the conditions of closed economy during the period under sanctions, *ad hoc*

⁸ Average annual decrease in agricultural land areas in Serbia during the analyzed period (1977-2007) amounted to 0.56%. This tendency was a bit sharper in the second half of the 1990s (FAOstat – www.faostat.fao.org).

⁹ The gap in the productivity of land increased, primarily, due to more dynamic growth of agricultural production in the EU countries as compared to Serbia (Figure 1).

reactions, liberalization of prices and market, absence of adequate development strategy and strict budgetary constraints which led to a decrease in agricultural support. Consequently, production performances of Serbian agriculture deteriorated, which was primarily reflected in the production volume decrease. Current restrictions relating to the development of Serbian agriculture are caused by low level of work and land productivity, inadequate agrarian policy, which should primarily be focusing on stimulating production and export as well as structural changes in agriculture.

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