

Why Did the Communist Party Reform in China, But Not in the Soviet Union ?

The Political Economy of Agricultural Transition

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Abstract

The dramatic transition from Communism to market economies across Asia and Europe started in the Chinese countryside in the 1970s. Since then more than a billion of people, many of them very poor, have been affected by radical reforms in agriculture. However, there are enormous differences in the reform strategies that countries have chosen. This paper presents a set of arguments to explain why countries have chosen different reform policies.

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The emergence of China as a global economic powerhouse, the uncertain path of Russia towards a market economy, and the integration of ten Central and Eastern European countries into the European Union (EU) have occupied the minds and agendas of many policy-makers, business leaders and scholars all over the globe at the end of the twentieth and the beginning of the twenty-first century. Two to three decades ago these developments were unimaginable. The leaders of the Soviet Block and China at that time were clearly committed to Socialist ideology and designed their economies to be insulated from the world. Since the 1980s, however, China, Vietnam, Hungary, Poland, Russia and more than 25 other nations have emerged from their Socialist cocoons. While not all have succeeded, many have transformed the fabric of their economies. Several have achieved high rates of growth. One of the most interesting observations is that the winners and the losers have all taken fairly distinct paths to where they are today. The path and the choices that put them there likely will have implications for where they are going in the coming years. In many senses, however, the developments have been so fast and the impact of the changes so vast that they have taken the world by surprise and we do not fully understand them.

In briefest terms, the developments we want to explain began in the countryside of China in the late 1970s. Until then, a large share of the globe, from the center of Europe to much of East Asia, was under Communist rule, controlling the lives of more than 1.5 billion people and affecting those of many more in other countries. In 1978 China embarked on its economic reform path by introducing the household responsibility system (HRS) in agriculture (Perkins, 1988). A few years later, Vietnam followed (Wurfel, 1993; Pingali and Xuan, 1992). Both countries reduced price distortions and reallocated key land rights from

collective farms to rural households (Sicular, 1988a). In the initial years, however, market forces played little role (Putterman, 1993). Nevertheless, the impact was dramatic. Productivity and incomes in both countries soared (Lin, 1992). The reforms lifted hundreds of millions of rural households out of dire poverty (World Bank, 1992). Economists praise the Chinese reforms as the ‘biggest antipoverty program the world has ever seen’ (McMillan 2002: 94) and claim that the reform policies—however partial—have led to ‘the greatest increase in economic well-being within a 15-year period in all of history’ (Fischer 1994: 131).

Other communist regimes could have followed this path in the wake of China’s moves in the late 1970s and early 1980s. However, they generally did not. While a series of more timid reforms were tried out in the former Soviet Union during the late 1970s and early 1980s, nothing of the changes like those in China followed either policy-wise or implementation-wise (Gray, 1990). In fact, if anything Communist governments during the 1980s remained stubbornly committed to their decades-old Socialist prescriptions. Performance during the 1970s and 1980s continued to worsen (Johnson and Brooks, 1983).

Although reform outside of East Asia was slow in coming, when it did, change came in a hurry. Around 10 years after the start of China’s reforms, leaders in many nations of Central and Eastern Europe (CEE) and the former Soviet Union (FSU) began to dismantle Socialism and liberalize their economies (Macours and Swinnen, 2002). After the reform movement started, however, leaders in many nations accelerated their actions, implementing a bold series of policies that sought to rationalize prices, increase incentives through a variety of ways of restoring property rights and modify the institutions of exchange within which residents lived and worked. In a few years the reformers pushed a policy agenda that often went far beyond the reforms that had been implemented in China and Vietnam (Green and Vokes, 1998). Although output and incomes in some of these nations collapsed in the first

few years of reform, productivity often began to rise and within three to five years, output and incomes in many nations began to grow.

In terms of their reform strategies, there were also major differences among the CEE and FSU nations. In fact, even though leaders of most nations announced wide ranging changes, in many FSU nations, in particular, reforms were implemented in a much more piecemeal fashion (Brooks and Nash, 2002). Subsidies and price controls remained, assets were distributed in ways in which property rights were not clear and there was little commitment to dismantling state-run distribution and processing channels. In most of these nations the reforms were disappointing. Output fell and poverty increased until the end of the 1990s.

While the record on what happened and the effects of those reforms are now fairly well understood (Roland, 2000; Rozelle and Swinnen, 2004), it is less clear *why the decisions were made in the ways that they were*. If price changes, rights reforms and market emergence led to growth, why did leaders in many transitioning nations not choose to follow such a comprehensive prescription? More explicitly, why was it leaders in China decided to implement their reforms gradually while those in CEE did so all at once? Why was it that leaders in CEE undertook a broad spectrum of reforms while those in many nations of the FSU did not? And even more fundamentally, why is it that the policies were implemented by the leaders of some Communist regimes while in others it took a major regime shift for policies to gain momentum? More generally, there is much less of an understanding of why decisions were made in the way that they were. In our opinion, when thinking about what additional lessons need to be drawn from the experience of transitioning nations, we believe that these are among the most critical of questions.

The goal of this paper is to explore some of these questions. However, the brevity of a single paper precludes doing so in a comprehensive fashion. Therefore, based on the

approaches and findings that are contained in the literature, including our own previous work, we draw on some of the generally accepted findings in the literature and begin to provide answers to these questions about why leaders in one set of countries took one path while those another set took a different road.

Because the number of nations, the complexities of the policies and the timing of reforms differ so substantially, we necessarily must even further limit the scope of our inquiry. We primarily restrict our attention to three broad questions: Why was the Communist government in China able to guide the reform process while it took a regime change in Russia (and in most of CEE and the other CIS nations) to start the reforms? Why did the market liberalization and other reforms happen so fast in some nations and happen only gradually in others? Why did the choice of property rights reform in land and farm restructuring differ so dramatically from nation to nation?

Even restricting the analysis to address these three questions, however, is an ambitious task and needs to be narrowed further. While we recognize that there certainly are other factors that influenced the decisions, we focus on four general categories of determinants: a.) initial technological differences in farming practices and the environment within which farming occurs; b.) differences in wealth and the structures of the economies; c.) the ways the different governments are organized—especially focusing on the degree of decentralization; and d.) the historical legacy of Socialism.

Why did the Communist Party reform in China, but not in the Soviet Union?

Radical reforms under the Communist regimes could only occur when there was simultaneously strong grassroots support for the reforms and support at the top of the Communist Party (Swinnen and Rozelle, 2006). If support from both above and below is not there, it is likely that the policy efforts will succumb to inertia, foot-dragging and resistance

from those that are not in favour of reform. For example, reform failed in China in the 1960s because there was no support by the leadership for radical decollectivization demanded by households at the grassroots level (Lardy, 1983). Reform failed in Russia in the 1970s because there was neither grassroots nor leadership support for radical changes (Brada and Wadekin, 1988). Agricultural reform failed in the 1980s in Russia because the reform proposals from the top of the Communist leadership under Gorbachev were not supported at the farm level (Gray 1990). Only in China at the end of the 1970s and the early 1980s was there a confluence of interests in favour of radical reforms at the top and at the grassroots, from both farm households and local officials (Yang, 1996).

One of the main points that helps distinguish the earliest reforms in China from those outside of China is that decollectivization in China was not a fully top-down political decision. In fact, it should be seen in the perspective of a fairly continuous pressure by farm families to return to family-based production over the decades preceding the HRS reforms (Zhou, 1996). The grassroots pressure was most intense at those times and regions where households suffered most from collective farming (Li, 1998). For example, the pressure to decollectivize was most strong in the aftermath of the famine created by the Great Leap Forward policy and in times of drought when the problems of collective farming intensified (Lin, 1990a). With such crises, the pressure to shift to household based production systems was strong at the grassroots levels.

While pressure from below is an important part of the dynamic, it should also be noted that grassroots pressure by itself can not explain why the reforms took place in the late 1970s. The same pressures existed in the 1960s but at that time China failed to decollectivize. Earlier grassroots attempt to move to household based production were resisted by the communist regime under Mao (Yang, 1996). However, after Mao died in 1976, the balance of power changed and gradually support grew in upper level governments

and party cells for more fundamental reform in agriculture. In 1978 Deng Xiaoping had returned to assume important roles in the government and party and support for HRS grew at the top (McMillan, 2002).

These observations support our argument of the need for both top- and lower-level support in order to have successful change under Communism.¹ In the late 1970s, the changes at the top—that is the rise of the reformers—and the existence of grassroots support were mutually reinforcing in China. While support in Beijing helped spread the HRS reforms, the grassroots support also helped the pro-reform leadership win its case. Reform-minded Communist officials saw an opportunity to exploit the agricultural changes to oust the Maoists. The decision to reform was a delicate balance between pressure from the grassroots and preference to reform from a growing segment of the top leadership. In the temporary leadership vacuum that existed after Mao's death both reinforced each other in China's context. The success of the HRS reforms in increasing output, reducing poverty and maintaining social stability in the China's countryside reinforced the positions of the pro-reform groups in Beijing (Perkins, 1988). Inversely, the enhanced position of the pro-reform groups created the policy space that was necessary for the grassroots initiatives to spread across rural China. By the time the leadership of the party formally announced its support of decollectivization, the HRS had already spread to most of China (Lin et al., 1996).

The situation was very different in the Soviet Union. There pressure for agricultural reforms came almost solely from the top (Wadekin, 1990). Mikhail Gorbachev, a strong proponent of agricultural reform, rose to become in charge of agriculture in the late 1970s and the leader of the Soviet Union in the mid 1980s. He introduced several proposals to reform agriculture (Wegren, 1998). Interestingly, several of the proposals were similar to those forwarded by the Chinese leadership in the 1970s. However, the reforms generally failed to achieve the desired productivity changes. Instead of creating an economic miracle

as in China, most of the old problems continued to affect farming and the impact of the reforms was disappointing.

Moreover, the central leadership in the Soviet Union had little support from farmers or local officials or party leaders (Van Atta, 1993). Under the Gorbachev regime reforms were driven from the top and had to be supported by large scale propaganda schemes. However, the proposals met with resistance and lethargy rather than enthusiasm at the farm level.

Causes of differences in grassroots support

Why were the attitudes towards decollectivization of farm workers and local officials in China and the Soviet Union so different? One factor sometimes suggested to explain the *difference in farmers motivation* is the historical legacy of Socialism. Rural households in the Soviet Union had been working under the collective system for much longer than in China and there was no memory of family farming. While this factor no doubt affected the attitudes of rural households, this is unsatisfactory as an explanation because it cannot explain why attitudes in many rural households in CEE countries were equally unenthusiastic about decollectivization.

A more convincing argument is the differences in standard of living offered by pre-reform collective agriculture between China and the Soviet Union. In China rural households had faced famine in the recent past and more than 30 per cent of households lived in utmost poverty (Lardy, 1983; World Bank, 1992). In contrast, farm workers in CEE and the Soviet-Union benefited from large government subsidies, high wages and were covered by social welfare benefits (OECD, 1998). Despite low farm productivity, workers in the Soviet Union's state farms and collectives lived at standards of living far higher than those in China's rural sector. In several countries rural incomes were actually higher than urban

incomes (Ellman, 1988). With reforms, wages could fall, effort would have risen and risk would have been higher. Moreover, with overemployment and soft-budget constraints, agricultural reform would almost certainly have triggered significant lay-offs. Not surprisingly, many farm workers in the Soviet Union and CEE resisted agricultural reforms.

Technological differences reinforced these differences in attitudes. Farmers in China purchased few of their inputs. Supply channels were simple (indeed, even today they are—Rozelle et al., 2000). They sold relatively little of their output into the market (Sicular, 1988b). Almost no farmers interfaced with processors. Most importantly, given the high labour factor share, the potential for effort efficiency-enhanced output would mean significantly higher incomes for farmers (Lin, 1990b).

In contrast, farms in the Soviet Union and Eastern Europe were much more integrated into an industrialized production system and a complex network of relations with input suppliers and processors (Johnson and Brooks, 1983). Moreover, they were much more capital and land intensive. Under these conditions, farms were less likely to get a large boost from incentive improvements, and more likely to face serious disruptions.

Because of the differences in the benefits from reform, there were differences in support from lower-level officials (Oi, 1989). For example, in China local officials in rural villages generally supported the reforms. Being close relatives, friends or acquaintances, the interests of local leaders were often closely aligned with those of farmers. Team and brigade leaders derived most of their income from their own farming activities, not from the salaries paid by the collective or government, especially in poorer areas. Hence, in the same way and for some of the same reasons that farmers wanted decollectivization, local leaders supported this.

Second, although it is possible that local leaders could earn some rents from their positions, when a leader's entire village was mired in poverty, such rents, if they existed,

were by definition not large (Morduch and Sicular, 2000). The scope for rent collection would increase with the reforms as the level of wealth in the local economy grew, but in the late 1970s, most villages in China were fairly poor. Hence, while empirical evidence shows that local cadres benefited more from the HRS reforms than the average farmers, it was only moderately so.

Third, in the 1980s the support of officials support for reforms was sustained by reforms of the bureaucracy and by rural industrialization and fiscal reforms (Qian and Weingast, 1997; Qian and Xu, 1993; Weingast, 1995). Rural fiscal reforms and the creation of Township and Village Enterprises (TVEs) were implemented from 1983 onwards (Oi, 1999). These reform policies have been shown to be beneficial to local leaders and secured support for the overall reform agenda. In other words, the reforms that followed (and were made possible by the HRS) were in some cases instrumental in buying off local leaders and bringing their interests into alignment with those of the national reformers.

Finally, the economic reforms were further sustained by reforms to the way officials—at all levels—were treated. For example, in the early years following the implementation of the HRS, top reformers initiated a massive, mandatory retirement program, effectively removing the old guard and moving up many younger and more pro-reform people in the bureaucracy (Yang, 1996; Qian and Xu, 1998). The bureaucracy changed dramatically in terms of its support for reforms and its competency. Another major change took place in the mid 1980s when bureaucrats were allowed to quit their government positions to join the business community. This ‘bureaucratic revolution’ had a positive impact on China’s reform process in the second half of the 1980s and later, as it stimulated interest of bureaucrats in local economic growth and new enterprises.

In the Soviet Union, little change took place in the bureaucracy (Shleifer, 1997) and, since the interests of local officials were also here aligned with those of farm managers, the

rational response of both was to resist, not support, reform. In other words, local leaders opposed reforms, partly for the same reason farm managers and many employees did. Breaking up the farms implied losses of scale economies and threatened their status and salaries, with few gains to expect. They benefited disproportionately from the subsidized farming system.

In addition, local officials were concerned about the wider effect of an aggressive reform policy on rural communities. The collective or state farm in the Soviet Union provided most rural social services. Reforms could result in declining social service provision and safety nets for many residents. In addition to rent-seeking (Shleifer and Frye, 1997), these were real concerns for local leaders since there were no alternative institutions available to provide local services and there were few off-farm jobs to which laid off farm workers could have gone to.

Possible disruptions and negative equity effects were also important *concerns for the central leadership* in China and the Soviet Union. The equality of benefits (or costs) of reforms was important to make the reforms socially and politically sustainable. Income distributional effects were as important as ideological arguments in the reform debate in the Chinese Communist Party on the HRS. Another concern was the possible disruptions caused by the reforms. Disruptions could reduce the existing rents collected by Communist officials and/or they could have important negative social effects, like unemployment or income falls. As such they also could create strong political opposition and backlashes against the reforms.

The differences in the nature of wealth, subsidies, and technology between the two systems of farming made that these concerns were less problematic in China than in the Soviet Union. In the labor intensive farming systems in China, reform policies that changed incentives could increase incomes with little danger of disruptions to the rest of the economy. China's leaders also faced less of an equity trade-off (Sachs and Woo, 1994). The

distribution of land to all households (a characteristic of the HRS) induced significant welfare gains (Lin, 1992). With few scale effects and better incentives, increased efficiency raised incomes substantially. In addition, because China's farmers were so poor, the reforms also helped improve equity (Rozelle, 1996). In China, because of the nature of the technology, the reforms were win-win.

In contrast, in the Soviet Union, the nature of pre-reforms subsidies and technology would have meant that there were going to inevitably have been winners and losers from reforms, because the reforms demanded restructuring, restitution, layoffs and other changes (Shleifer and Treisman, 1999; Roland, 2000). Efficiency could only come at the cost of equity. Hence, the nexus of the nature of technology and the institutional basis in the pre-reform economies is another reason that leaders in China were more willing to push the agricultural reforms than their counterparts in Russia.

Experimentation and reforms

Despite the argument of certain scholars, we find little support for the arguments that differences in the organizational and hierarchical structures of the central planning systems of China and Russia allowed for more reform experimentation by Communist leaders in China, and has therefore aided the initial agricultural reform process in China (i.e., the HRS in the late 1970s and early 1980s). First, the introduction of China's HRS reforms was regionally concentrated, but not due to design of planners, but because of grassroots initiatives. Second, the location of the start of the reforms was often determined by the relative absence of control of the planners. Third, the spread of the HRS system did not reflect the careful planning of experimental reflection (Lin et al., 1996; Yang, 1996).

Ironically, experimenting with agricultural reform appears to have been more pervasive in the pre-reform Soviet Union. In the 1970s and 1980s there was a significant

degree of experimentation in reforming the agricultural system (O'Brien, Patsiorkovski, and Dershem, 2000). For example, leaders tried to push new forms of brigade and team contracting and new types of agricultural management (Gray, 1990; Wegren, 1998).

The decentralized nature of China (which allowed for a number of natural, albeit uncoordinated, experiments) played a more important role in the years afterwards, for example, during the period of market liberalization, in the implementation of the fiscal reforms, and in the emergence of TVEs (Qian, Roland, and Xu, 1999)

Why were agricultural reforms implemented gradually in China, but simultaneously in many CEE and the CIS states?

One of the other fundamental differences between China and many CEE and the CIS states was in the pace of market liberalization (Roland, 2002; deBrauw et al., 2004). In fact, we believe there are a number of systematic differences for the alternative approaches. For example, once China had successfully implemented property rights reform and restructured its farms (as well as adjusted prices to reduce the implicit tax on farmers), liberalizing markets became less imperative (Rozelle, 1996). The early pricing reforms and HRS helped the reformers to meet their initial objectives of increased agricultural productivity, higher farm incomes and food output (Sicular, 1988a; 1988b; Lin, 1992). The agricultural reforms fuelled China's first surge in economic growth and reduced the concerns about national food security. The legitimacy of leaders of being able to run a government that could raise the standard of living of its people was at least temporarily satisfied.

In contrast, a new set of reforms might have exposed the leaders to new risks, in particular regarding the impact on the nation's food supply (Putterman, 1993). Decollectivization had erased the worst inefficiencies. With the urgency for additional reforms dampened for both top leaders (since their goals were met) and farmers (since their

incomes and control over the means of production both had improved), there was less policy pressure from both the top and grassroots.

Hence, paradoxically and ironically, the radical, though partial, economic reforms in the Chinese countryside did much to reinforce the Communist Party's hold on power (Oi, 1989); the complete opposite was true in the Soviet Union where the lack of significant reforms ultimately contributed to the fall of the Communist leadership. While radical agricultural reforms in the CEE and Soviet-Union were only possible after major political reforms in CEE and CIS at the end of the 1980s, the radical reform actions in China, which looked like moves away from Socialism, probably did more to consolidate the rule of the Communist Party than any other measures taken during this period. Although it is well-documented that the decisive changes directly affected the incomes and livelihood of more than 70 per cent of the population in the rural population, the agricultural reform also had a tremendous impact on the urban economy. The rise in food production and increases of food supplies to cities took a lot of pressure off the government. Urban wages, when raised, became real gains to income, since food became relatively cheaper. In addition, the rise of rural incomes created an immediate surge in the demand for non-food products. Many of the same dynamics occurred in Vietnam (Wurfel, 1993; Pingali and Xuan, 1992).

Political changes in the Soviet Union and CEE states in the late 1980s caused reforms, not only in agriculture, but in the entire economy. The anti-communist political forces that came to power were determined to get rid of the Communist system and to introduce democracy and a market economy. Reforms were launched despite resistance by farm managers, workers and local officials (Swinnen, 1997). Reformers chose to push through as much of the economic reform agenda as possible at the time that they were (still) in charge. Hence, for both political and economic reasons, a comprehensive set of radical reforms were pursued. Since the previous reforms had failed to result in efficiency

improvements with marginal and slow policy shifts, in the view of the reformers a more radical and broad-based reform approach was necessary.

The same dynamics applied to the reform program in agriculture. The post-communist policy shifts needed to be sufficiently radical to have a significant impact on productivity of the entire food system. This required a broad and encompassing reform strategy that needed to address several key issues. First, the more industrialized nature of the Soviet agricultural production system and the inefficiencies imbedded in the agro-food supply chain required an approach beyond the confines of farming sector. The organizational inefficiencies in the supply chain would have severely limited the potential impact of farm-level reforms in the Soviet Union. The supply chains inefficiencies were an important cause of low agricultural efficiency (Johnson and Brooks, 1983). As a result, solving the problems of Soviet agriculture would require policy reforms beyond the farms.

Second, in terms of administrative feasibility, the more complicated technologies in Soviet agriculture and in CEE meant a more complex set of exchanges between a larger number and greater variety of firms. Whereas China's farming sector was largely based on small mostly self-subsistence farmers selling grain and oilseed commodities to a trading system that in turn only had to re-transfer the stocks to urban sales outlets or at the most rudimentary processing firms (such as oil crushing mills), in the Soviet Union and in CEE the food economy was dominated by livestock products, dairy and other more sophisticated products that required more processing. To design an optimal sequence of policy in a gradual reform strategy, policy makers would have been required to have access to extensive information on a vast number of processes. This information had not been available for planning; there is no reason to believe it would have been available for a gradual reform program.

Third, the overall importance of agriculture in the economy (measured as the share of GDP or employment) also was an important feature that helped determine the pace of reform. Unlike in China, where agriculture made up such a huge share of the economy at the outset of reforms, agriculture in the Soviet Union and the CEE was much less important in the economy. Reformers took several decisions which had a major impact on agriculture and on the sequencing of the agricultural reforms as part of a broader reform agenda. Agriculture did not necessarily need to be singled out.

Hence, for all of these reasons, the same factors that kept reform from occurring in the Soviet Union and CEE in the pre-reform era made it imperative that the reforms happen all at once once the decision to reform was made. In this way, like the case of China, there is an element of path dependency. The factors that put the country in a situation which made it so difficult to reform were, in fact, the same factors that made it so difficult to reform during the Socialist era, and it was these factors that made reformers opt for “once and for all” policies when the opportunity came for them to try to change the policy direction of their country.

Finally, it should be emphasized that in several of the CIS countries no leadership change occurred. The lack of political reform in several countries, in particular in the least reformed countries such as Belarus, Turkmenistan and Uzbekistan has been a major constraint on the progress of economic reforms in these CIS countries – in agriculture as in the rest of the economy.

What are the causes for the differences in land and farm reform strategies?

Of all of the policies that have characterized agricultural transition, the reform of the property rights of cultivated land was probably one of the most important. Interestingly, however, the array of policies across nations is probably broader than in any other policy

reform initiative, often differing sharply from country to country (Lerman, Csaki and Feder, 2004). In this section, we argue that there are several reasons for this.

First, the *choice to privatize land, or not*, was affected by historical and legal legacies of land ownership. The still present memory of their history of private land rights provided a strong incentive for CEE reformers to choose to privatize land. Households and individuals in regions in which there was a tradition of private farming before the period of Communist rule responded more favourably to reform policies based on privatization than those that lived in areas in which there was less private farming (Rizov et al, 2001). Proximity to the EU and the familiarity of the local population with the land systems in Western Europe reinforced this preference for private land ownership.

In contrast, in Russia and Central Asia where no such tradition existed, there was no privatization of land during the initial years of transition. In many regions, there was a popular preference that land should not be privately owned (Swinnen and Heinegg, 2001). There, the absence of a tradition in private farming was reinforced by the length of time since the onset of collectivization. After more than 60 years of collectivization, in many parts of the former Soviet Union, the absence of the skills and farming practices necessary for private farming could dissuade a nation from choosing privatization. Although collective workers may have had experience with household plots connected to collective farms, for the previous five to six decades none had ever run larger, independent farms.

In China and Vietnam, ideology still played an important role. Unlike the nations in CEE, the private farming history did not induce the leaders to privatize land (Jacoby et al., 2002). Clearly, the continuation of the Communist regime and its ideology played an important role here. With land the most basic factor of production in agriculture in a Communist country, leaders believe that the state, or its representative, the collective, should have control over land. Yet, in both nation's reformers provided (increasingly) well-defined

control and income rights, and the de facto difference with ownership of land is getting smaller.

Second, the *decision of land restitution* was strongly influenced by another historic legacy: a nation's legal history (Swinnen, 1999). Restitution of farm land to former owners, many of whom were no longer active in agriculture, was vehemently opposed by collective farm managers. It was argued that the efficiency of farming would suffer due to a high incidence of tenancy and excessive fragmentation. Many economists and policy advisors also were opposed to restitution.

Despite the objections, land restitution became the most common process of land reform in Central and Eastern Europe. The strongest determining factor appears to be the pre-reform legal ownership structure. In China and in the Soviet-Union, in 1978, all cultivated land in the nation was either owned by the state or by the collective. However, in most CEE nations, through the entire period of Communism, individuals were still the legal owners of most of the farm land. Although control rights and income rights had been usurped by the collective farms after collectivization, the land titles had never been taken away from the original owners. The historic legacy in CEE made restitution the natural choice despite the counter economic arguments.

Third, among those nations that did not reconstitute land, why did some choose to give *land in specifically delineated plots (in-kind)* to rural households and others decided to distribute *land in shares* to groups of farmers? There is a strong empirical relationship between wealth, technology and the propensity to distribute land in kind to households. In poor nations with labour intensive technologies (for example China, Vietnam and Albania) almost all land was distributed in-kind to rural households (Lin, 1992; Pingali and Xuan, 1992; Cungu and Swinnen, 1998). In richer and more capital and land intensive farming countries of the FSU, such as Russia, Ukraine and Kazakhstan, all land was distributed as

shares to groups of farmers (Lerman, Csaki and Feder, 2004). However, in poor and labour-intensive CIS countries, such as Armenia, Georgia, and Azerbaijan, there was in-kind distribution of land, coinciding with a rapid shift to household based farms. The regions where this occurred were typically poor and with high labour intensity in agriculture.

The distribution of land in specific and clearly delineated plots to farm workers or rural households made it easier for poor households and individuals to use that land for themselves and leave the large scale farm to start a farm on their own if they wished to do so. Such direct access to land was particularly important for poor households to increase their food security, incomes and assets. Poor households would therefore prefer in-kind distribution, *ceteris paribus*. These preferences were reinforced in labour intensive farming systems—which are typical for the poorest countries. The benefits of farm individualization are higher and the costs lower with higher labour intensity (Mathijs and Swinnen, 1998). Hence, in these conditions households are more inclined to take their land and start producing on their own. Rural households would have strong preferences for in-kind distribution of land, since it would allow them to reap these gains.

Share distribution of land was more likely to stimulate the continuation of large farms and prevent fragmentation, as it made leaving the farms more difficult for households, in particular with farm managers hostile to the idea. In richer and more land and capital intensive systems, households were less inclined to start farming on their own, and to leave the large farms because the economic incentives were less, and because of the social benefits associated with the farms. Farm managers and employees with specific skills that were more valuable with the large farm organizations, generally opposed any policies that undermined the survival of the collective, and later corporate, farms. Farm managers therefore preferred share privatization over in-kind distribution, also as it offered additional benefits to accumulate shares, and thus wealth, for themselves.

The empirical observations suggest that these different structural conditions have translated into different government choices. In the most extreme cases these differences have played out immediately (for example in China and Albania), in other cases they have evolved gradually, with grassroots preferences and pressures gradually influencing new governments as they came to power (for example Azerbaijan).

Concluding Comments

In this paper, as brief and results oriented as it has been written, we have tried to address of the most perplexing puzzles of the reform era. Although those that work on theory and empiricists have identified that successful agricultural reform requires price reform, land rights restructuring and market liberalization, not all nations have pursued the same set of policies during their transitions. Instead, we see different combinations of policies, different sequences and different approaches to implementation. In our paper we have tried to use a political economy viewpoint to explain the difference across nations.

In doing so, we have identified four different sets of factors that we believe are responsible for the reform choices that we have observed reformers make. While we recognize that there certainly are other factors that influenced the decisions, we find four general categories of determinants rise repeatedly. In other words initial technological differences in farming practices and the environment within which farming occurs; differences in wealth and the structures of the economies; the ways the different governments are organized—especially focusing on the degree of decentralization; and the historical legacy of Socialism differ among nations. The differences in these factors, we believe, can account for many of the different ways that nations approached transition. Since differences in approach were shown to be associated with differences in performances, ultimately, we

believe we have also been able to contribute to the literature's understanding of why some nations succeeded and others did not.

Of course, the implications of the new understanding are subtle. In many cases, there is not much policy makers could have done (or could do in the future). If a nation's technology is labor intensive and another one is capital intensive, and if the nature of the technology is a key factor in the choice of reform strategy there may not be many options. However, understanding the constraints and factors that facilitate change itself is important. In some sense it might help eliminate false starts (e.g., as when leaders of the Soviet Union tried to proceed gradually).

The understanding of the determinants of transition may also have implications for understanding the process of development. In the same way that price reform, property rights restructuring and market liberalization were keys for transition, we also believe there are many lessons for those nations trying to develop their nations. If so, then the determinants of a development strategy will also likely be affected by the same political economy factors. Hence, as leaders and advisors consider the road a nation should take, it is important to remember that the same factors that affected the ability of a nation to succeed in transition, may affect another nation's ability to develop.

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