

## SOME ISSUES IN RURAL AREAS: REFLEXIONS, SUGGESTIONS

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***Abstract:** Subsidies made to Republic of Moldova will contribute to modernization of the economical activities in agriculture and, first of all, to growth of labor productivity and to reduction of cost prices. This article includes a suggestion to obtain subsidies by the Government from taxes and to direct them right to farmers and in the field of scientific researches and innovative activities.*

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***JEL Classification:** O13, H23.*

At the present time, many economic branches, first of all organizations face a number of difficulties. The generator (of these difficult situations) are - labor productivity, low efficiency, the cost price of the finished products (compared to external cost prices) is relatively high. As a result, agricultural food stuffs are non competitive, they can not compete with the imported products, even on the domestic market.

The imported fruits and vegetables in recent years have "put down" the domestic producers". Though some economic activities have achieved certain successes, the producers export their finished products, this export share make an insignificant percentage in the total economic activities.

A prime "idea" how the domestic producer could be assured in its activities would be activation of subsidies. Concerning subventions – grants, they should be set only for a certain period of time afterwards the producer will solve his cost price problems on his own funds.

In our view, subsidies should be conditional ones. For example on contract subsidy conditions the producer can earn revenue, perform competitive activities and earn profit. Taking into account the contracts conditions, the earned profit by the producers, should be directed to increase labor productivity, to reduce all other efforts, in order to optimize work organization, and optimum use of the material resources.

Otherwise, unconditionally granted subsidies on permanent basis, without legal agreements or without a contract, these subsidies will contribute to preservation of private forms of economic organizing and to the usage of obsolete moral means of production.

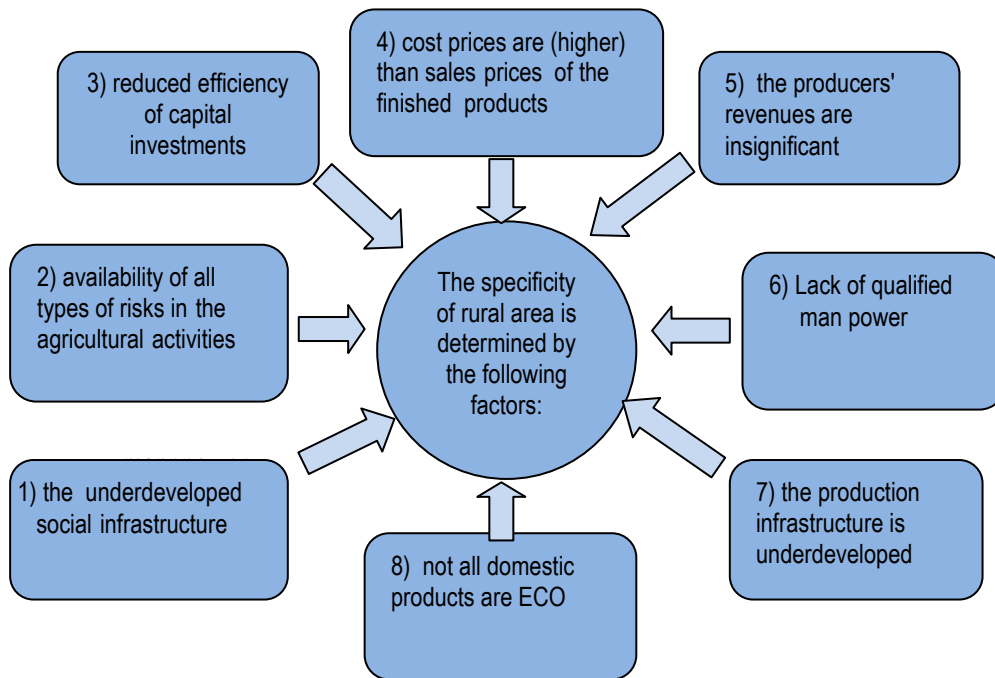
And there is another negative consequence of the unconditional subsidies. The money provided in the form of subsidies is taken from the budget revenues, which directly contributes to cut the budgetary expenditures, i.e. to salaries.

Reduction of wages of the public sectors leads to uninterrupted decrease of demand. As a consequence, in the home market, at a reduced demand, the domestic producer is uninterruptedly unable to market his finished products. So, subsidies have to be allotted as financial "loans" that should not be refunded, if the producer honors his deal in relation to the state. When an economic agent takes advantage of subsidies, and after some time "abandons" his activity, then this "rogue" should be bound by the contractual conditions to return to the state the subsidies for previous periods of time. Proceeding in this way, the state motivates the producer to use subsidies not for consumption, but for productive accumulations, for creating or purchasing of efficient production facilities, for modernization of the respective activities, in order to increase competitiveness of the domestic products on the internal and external markets. In order to exclude financial frauds of any producers (and not only), it would be advisable to grant barter grants. The producer could have free access to some freezer-type warehouses.

Outsourcing services for farmers in rural areas, funded by subsidies can serve as a "barter" form. Other examples of "barter": the farmer is not given money but, for example, instead of financial resources but he will get instead livestock, productive poultry, being imported by the state from abroad (for example from the Netherlands, France, from other successful countries in agriculture development). Thus subsidies must be of "barter" type, directed to financing of scientific research works, on various projects, generating ideas, invisible intelligent products, creating effective forms of work organization.

In the activities of providing "support", through subsidies financing rural area, it is necessary to take into consideration specificity of (rural area). Among the economic activities in the rural area of the Republic of Moldova, the agriculture is the main foundations for all of them. The specificity of rural area is determined by the following factors:

- 1) the underdeveloped social infrastructure;
- 2) availability of all types of risks in the agricultural activities;
- 3) reduced efficiency of capital investments;
- 4) cost prices above (higher) sales prices of finished products;
- 5) insignificant incomes of producers;
- 6) the lack of qualified labor;
- 7) the production infrastructure is underdeveloped;
- 8) not all domestic products are ECO (Figure no. 1).



**Figure no. 1 Specificity of the rural area**

In this context for each of the 8 blocks in Figure no. 1, there is a "place" for conditional "barter" type subsidies. Forms of support in agricultural activities other than cash can be: creation of suitable infrastructure for organizations, various sales exhibitions, state purchases of domestic products exclusively. An important form of support for the domestic producer may be customs duties. This (taxation) could have several functions:

1. the increase of the prices for imported products on the domestic market, including compatibility of the domestic products;
2. the financial resources for importing agricultural products may constitute funds for agricultural subsidies;

3. taxation on imports, in this case, would reduce the costs allocated from the national budget;

4. tax imposition could contribute to extension of economic independence of the Republic of Moldova in the International economic relations.

Through subsidies, domestic producers can not increase only their labor but also to modernize their forms of labor organization, to create new brand agricultural food stuffs, ECO products, and may become "monopolists" in their production. Subsidies and taxation of imported agricultural food products can favor the local producer.

In this context, prices for domestic products should not be higher than the respective prices for imported products. The amount of imports and the volume of domestic products must ensure the need for agricultural food products; for each agricultural food product it is necessary to support a certain minimum volume of domestic products, otherwise the Republic of Moldova may become dependent on the outside producers; the revenues of importers, of domestic producers from the marketing of agricultural food products are determined by the consumer's buying attitude.

The amount of subsidies in the profile of agricultural food products will not exceed accruing amounts from the taxation of the concerned product; domestic producers and importers carry out their business activities to achieve maximum profit.

The concept of taxing subsidies may be interpreted by a formalized example, given in Figure no. 1.

Formalization of paternalism - protectionism policy: where:  $\eta$  - denotes the level of tax assessment;  $\beta$  - share of subsidies in the price of domestic products;  $V_1$  - the volume of domestic products,  $V_2$  - the volume of import products;  $C_{10}$ ,  $C_{20}$  - the cost price of domestic products, of the imported one;  $I_1$  - the profit of the domestic producer,  $I_2$  - the profit of the external producer,  $P_1, P_2$  the share part of profit in the price of domestic products and of the imported ones;  $V_{\min}$  - the minimum required product of import;  $V_0$  - the required minimum for domestic product ;  $A$  - buying attitude of the population comparatively the respective product;  $D_0$  - subsidies for scientific and practical research, projects etc.

Proceeding from the above notations, easily to state:

$$C_1 = C_{10}(1 + P_1) \leq C_{20}(1 + P_2)(1 + \eta) = C_2(1 + \eta) \quad (1.1)$$

The trading price of the domestic products ( $C_1$ ) will not exceed the price of the imported products ( $C_2(1 + \eta)$ )

$$V_1 + V_2 \geq V_{\min} \quad (1.2)$$

(The volume of the domestic products plus volume of the imported products will not exceed the necessary minimum for agricultural products)

$$V_1 \geq V_0 \quad (1.3)$$

(The volume of the domestic products will exceed the necessary minimum of the domestic agricultural products)

$$C_1 V_1 + (C_2(1 + \eta)) V_2 \leq A \quad (1.4)$$

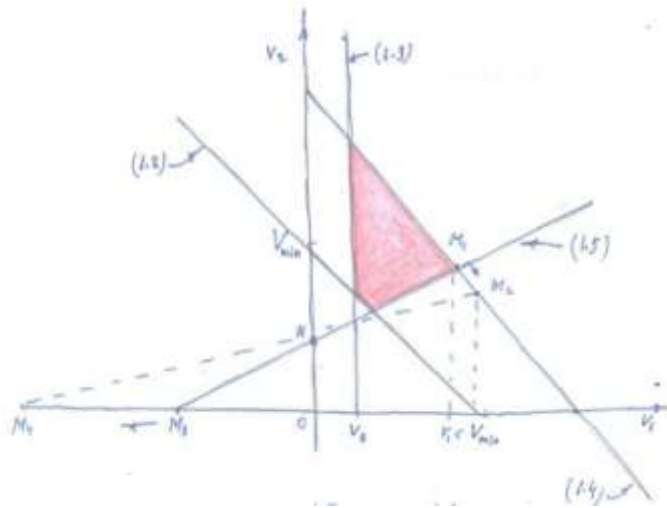
(the revenues of the domestic producers ( $C_1 V_1$ ) and oter taxes ( $C_2(1 + \eta)$ ) must exceed the buying power of the consumers (A))

$$D_0 + C_1 V_1 \beta \leq C_2 V_2 \eta \quad (1.5)$$

(The subsidies intended for sustaining the scientific research works plus subventions directed to producer will not exceed financial encashments after tax assessment)

$$I_1 = C_1 V_1 (1 + \beta) - C_{10} V_1 = > \max$$

(The domestic producer should maximize his profit - Figure no. 2)



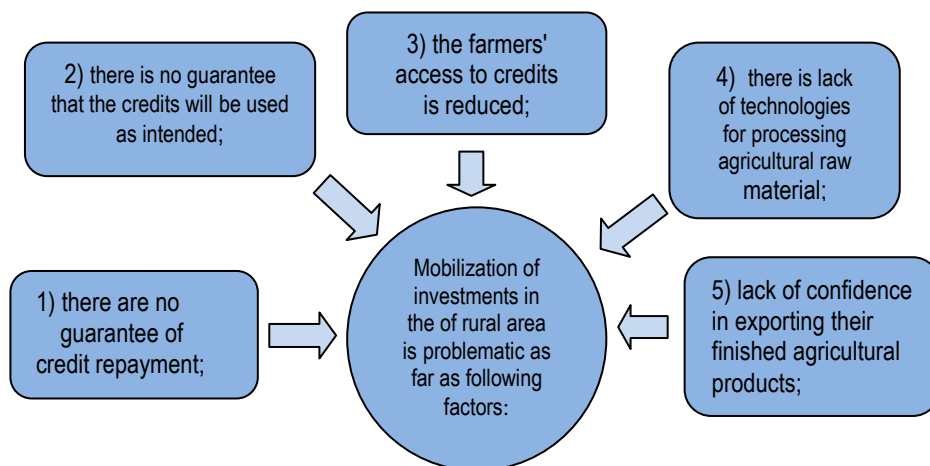
**Figure no. 2. The concept of "paternalism-protectionism" interpretation**

The economic-mathematical model "paternalism-protectionism" can be interpreted graphically (Figure no. 3). The abscissa of M1 denotes the local producer's revenue. Subsidies intended for scientific research, technology development, innovation "displace" point M<sub>3</sub> towards point M<sub>4</sub>, the point N is fixed, the straight line M<sub>4</sub>N displace point M towards point M<sub>0</sub>, the abscissa to point M<sub>2</sub> determines the increasing volume of domestic products (development of scientific researches).

The given model may serve as basis of provisional concept of domestic producers. Subsidies are constituted exclusively out of tax assessments, intended for development of scientific research, and for provisional support of domestic producer.

The process of mobilization investments is problematic as far as in the rural areas:

1. no guarantee of credit repayment;
2. no guarantee that the credits will be used as intended;
3. the farmers' access to credits is reduced;
4. there is lack of technologies for processing agricultural raw material;
5. lack of confidence for export of the finished agricultural products (Figure no. 3).



**Figure no. 3. Mobilization of investments**

Overcoming these situations becomes one of the most important problems for all structures of all fields at the micro, medium and macro territorial level. The concept of overcoming the difficult situations is given further in the form of 3x4 cm boxes (Figure no. 4).

The first line "Structures, scientific researches, planning carries out its activities: (1.1) initiating the necessary funds for scientific researches, for projects, determining executors of the research works, of design, creation of infrastructure for necessary research works and projects;

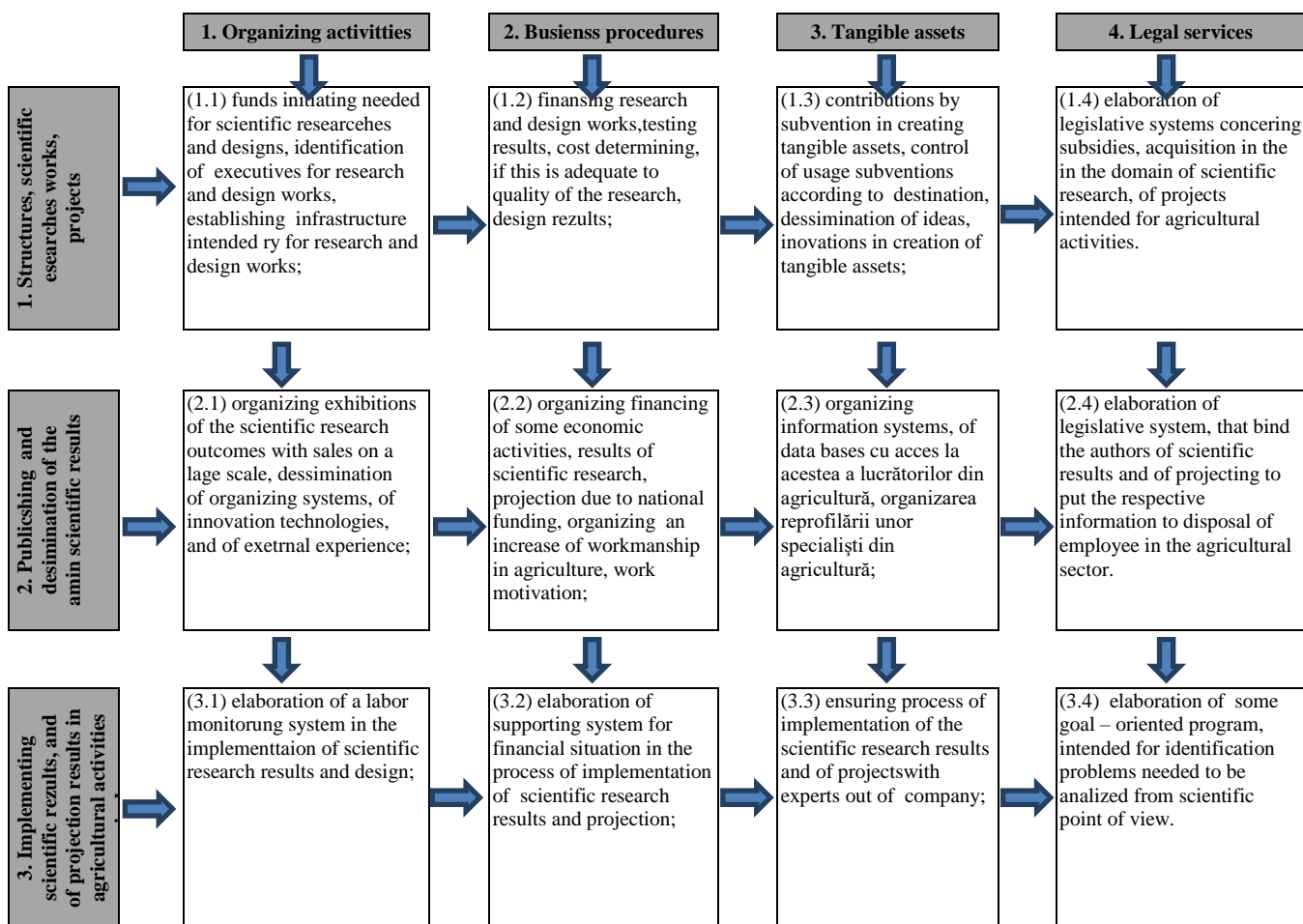
(1.2) the funding of research works, projects, results testing, cost estimation, it is appropriate to quality of research and projects results; (1.3) contributions through subsidies to creation of material assets, control of the subsidies usage according to its destination, promotion of ideas, innovations in creation of material assets; (1.4) elaboration of legislative systems regarding subsidies, acquisitions in the field of scientific research works, projects in the profile of agricultural activities.

The second line "Publishing, dissemination of scientific results on a large scale": (2.1) organizing exhibitions of scientific research results, of large sales, dissemination of organizational systems, of innovation technologies, case study of external experience; (2.2) organizing financing of some economic activities, the results of the scientific researches, designs funded by the state, organizing the increase of labor quality in agriculture and its motivation; (2.3) organizing information systems of the databases and farmers access to them, organizing further training of specialists in agriculture sector; (2.4) development of the legislative system that obliges authors of the scientific and projects results to make this information available to employee of agricultural sector.

The third line "Implementation of scientific and project results in agricultural business": (3.1) Development of a labor monitoring system in the process of implementing the scientific research and project results; (3.2) development of a financial support system for implementation process of the scientific research and project results;

(3.3) Ensuring the process of implementing the scientific research and project results of with external specialists out of the firm; (3.4) development of target programs designed to identify the necessary issues to be scientifically analyzed.

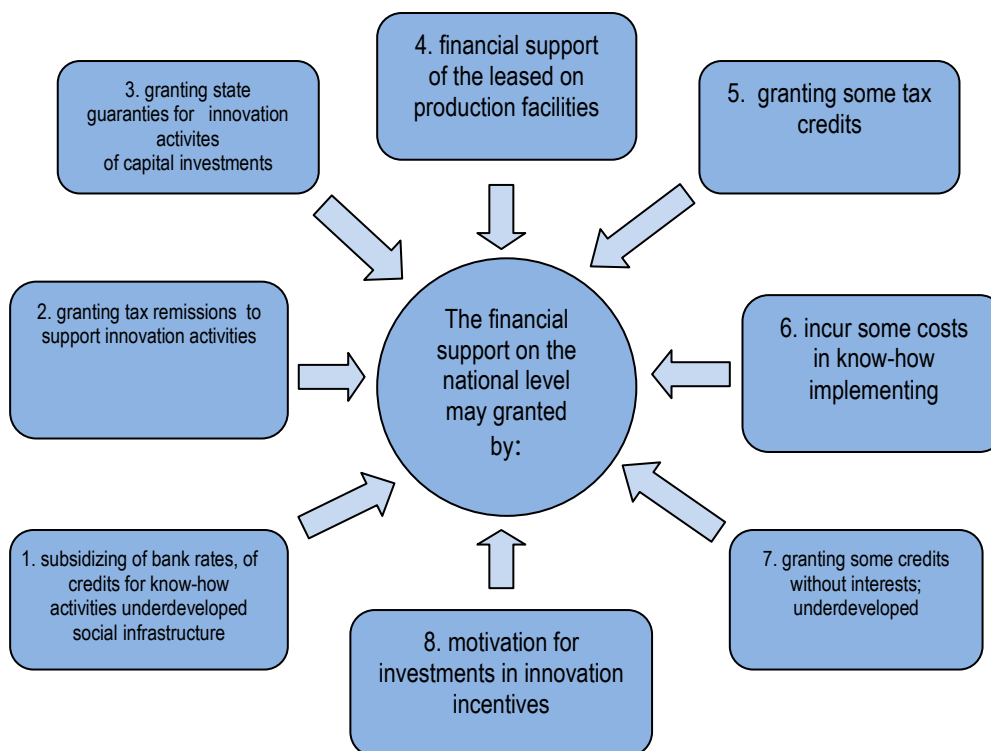
The boxes (1.1), (2.1), (3.1) are accompanied by the column 1 „Organizing procedures”, blocks (1.2), (2.2), (3.2) are accompanied by the column 2 „Economic Activities”; blocks (1.3), (2.3), (3.3) are accompanied by the column 3 „Tangible assets”; blocks (1.4), (2.4), (3.4) are accompanied by column 4 „Legal services”.



**Figure no. 4. Block-diagram "Implementation of inovations"**

The formulation and solving of problems in rural areas must be part of the interdependencies included in Fig. 4. The granting of subsidies to agricultural producers, on systematical and on unconditional basis, will contribute to the maintenance of inefficient machinery, irrational forms of organizing agricultural activities. Grant can and must be given indirectly by means of a conditionally "barter" transaction. The State may financially support by granting:

1. Subsidizing bank rates, of credits for innovations;
2. tax remissions to support innovations;
3. oferirea state guarantees for know-how activities;
4. financial support for leased production facilities;
5. granting tax credits;
6. incur of some costs in know-how implementing;
7. granting credits without interests;
8. motivation of investments in know-how activities (Figure no. 5).

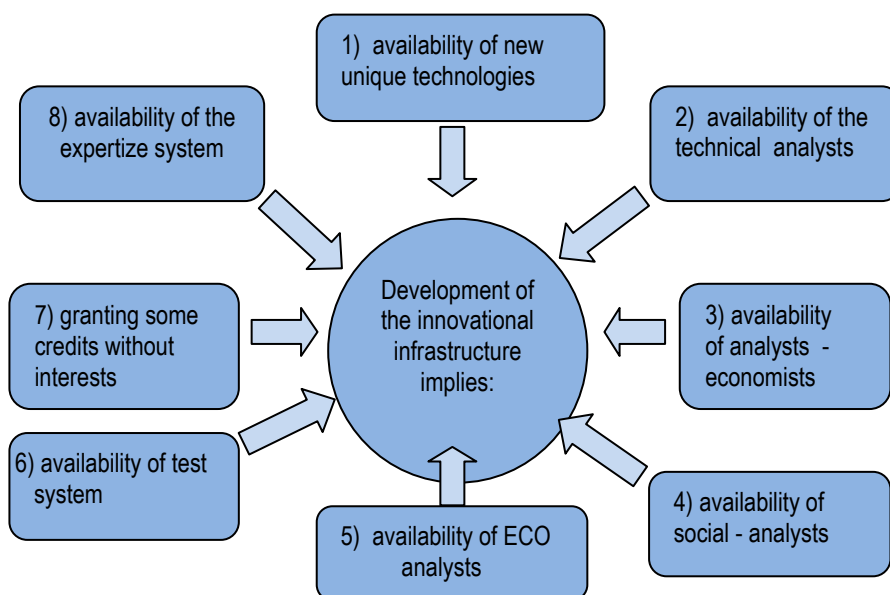


**Figure no. 5. Suppoting know-how**

Each form of financial support must be accompanied by a contract providing for certain responsibilities of the beneficiary, forms of taxation in cases where the finances granted have not been used in the field programmed by the contract.

The emergence of innovations, including agricultural food stuff sector, in the urban area of the Republic of Moldova implies the presence of highly professional intellectuals, the presence of demand for innovations, the presence of working conditions in the scientific and practical research activities, the equipment, the means necessary for the testing ideas, innovations, the presence of scientific infrastructure, the material and social motivation of innovators. The development of the innovative infrastructure implies:

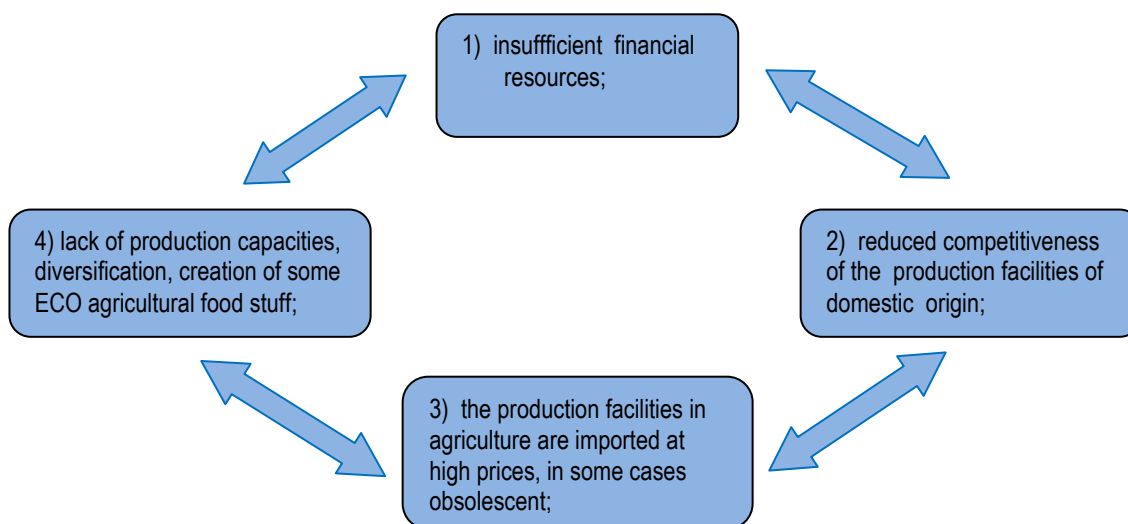
- 1) availability of new unique machines;
- 2) availability of technical analysts;
- 3) availability of analysts-economists;
- 4) availability of social analysts;
- 5) availability of ECO analysts;
- 6) test system availability;
- 7) availability of the certification system;
- 8) availability of the expertise system (Figure no. 6).



**Figure no. 6. The innovation infrastructure**

Failures in the development of agriculture are determined by a number of factors that form a "circle" of mutually multiplied blocks, including:

- 1) insufficient financial assets;
- 2) reduced competitiveness of production facilities of the manufactured in the origin;
- 3) the production facilities in agriculture are imported at high prices, in some cases obsolescent;
- 4) lack of processing capacities, diversification, creation of ECO agricultural food products (Figure no. 7).



**Figure no. 7. Multiplier of failures in agriculture**

### Conclusions

Agriculture is one of the most difficult economic activities. Risks "trap" farmer from all "corners", therefore subsidies are needed. In order to make subsidies more efficient it is necessary to perform controls between farmers and state. Subsidies must be



conditional ones and be used for certain purposes provided for in the contract. The use of subsidies, for example, by organizations is inadmissible.

Subsidies in Moldova should contribute to modernization of economic activities according to example of the European Union countries, they must contribute to the improvement of labor productivity, to cut the cost prices. Subsidies must be obtained by the state from taxes. Tax duties can create preconditions that prices for domestic food products will not exceed the prices for imported goods, thus will contribute to creation of the necessary funds for subsidizing agricultural activities in the country. The subsidies must be allotted:

- a) directly to the farmer;
- b) in the field of scientific research works and innovative activity.

The amount of subsidies a) and b) must not exceed the financial resources obtained from the tax assessment. Otherwise, farmers' subsidies being ("good" for them) will cause "a bad" thing for employee of government financed organizations. Grants to farmers should not be allotted from the state budget but from the tax assessment. The level of tax assessment of agricultural food products, the volume of the granted subsidies to farmers can and must be calculated using econometric-mathematical models (Popescu, 1977, p.105). Tax assessment should not eliminate imports but create prerequisites for increasing level of competitiveness of the agricultural food products on domestic and external markets.

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