The Russian economy looks much different today than it did as a Soviet command economy. Decisions about what to produce, how to produce, and how to distribute products are no longer made exclusively in Moscow. The fifteen republics of the former Soviet Union are now autonomous, and within the Russian Republics regional authorities have more power than they once did. Within the agricultural sector, most farms and state-owned enterprises have been converted into joint stock companies. After five years of experimenting with economic liberalization, how much has agriculture been reformed and to what effect? What implications might be drawn from history about reform shortfalls?

Earlier efforts at agricultural reform
These are crucial times for Russian policy makers. Currently, economic reform is seriously incomplete, and there appears to be increasing pressure to turn back to a more controlled economy. Two earlier attempts at market-oriented reform of Russian agriculture were abandoned. The first episode followed the abolition of serfdom in 1861, and it continued until the Bolshevik Revolution in 1917 and the severe economic controls associated with War Communism. The second episode began with the New Economic Policy (NEP) of 1921 and ended in 1929. In spite of substantial improvement in Russian agriculture, both experiments with features of a market economy ended prematurely.

Czarist Russia embarked on market-oriented economic reform from 1861–1914. Emancipation of serfs provided an opportunity for more efficient use of labor and all other inputs in agriculture, but new restrictions hindered potential reform benefits. They were freed from labor obligations, but freed serfs were obliged to compensate landowners. The new reforms didn’t grant land ownership to individual peasants but to village communes. Peasants acquired the right to use land, but they could not sell or lease land or bequeath it to heirs. Because of these and other economic restrictions, some economic historians have described Russian agriculture as “backward” even after emancipation of the serfs.

In spite of these formal restrictions, major advances occurred in Russian agriculture at the end of the Czarist period. In 1858 Russian wheat exports totaled 12 percent of world wheat exports. By 1909–13 the share increased to 22 percent, and Russia became the world’s largest wheat (and oat) exporter. Major expansion of Russian railroads contributed to wheat exports, which grew in spite of increasing competition from the United States, Canada, Argentina, and Australia. This market-oriented experiment ended with the Bolshevik Revolution and the imposition of severe economic restrictions that included sending the military to requisition crops.

The harsh policies of War Communism had a devastating effect on Russian agriculture. Agricultural production in 1920 fell to only 64 percent of its 1914 level (Gregory). In 1924 the government launched the New Economic Policy (NEP) as a market-oriented economic reform. Production rose impressively, and in 1928 agricultural output exceeded its 1914 level. However, state price controls resulted in shortages that led to the demise of the NEP.

Ceilings on official prices at state stores created shortages and diverted supplies to higher-priced private markets. The experiment ended in 1929 when the government imposed compulsory delivery quotas on producers. In 1930 the government declared all private trade to be the crime of speculation, and forced collectivization of agriculture. Moscow tightly controlled Russian agriculture from 1930 until the current reform.

The current state of Russian agriculture
The current Russian grain economy looks different than it did under the Soviet system, but reforms...
have been quite limited and their effects are unfavorable in many cases (Aslund, Boone, and Johnson). The reforms disrupt interaction among input, production, processing, marketing, and trade sectors. A market economy did not follow from the relaxation of administrative decrees within the command economy. New government rules about the economy are ambiguous and sometimes contradictory. Jurisdictional disputes between federal and regional governments are common. Production dropped after reform, and only a small percentage of total production occurs on private farms. In 1994 Russian production of all grain, wheat, and meat reached only about 70 percent of 1990 levels. Current conditions severely limit the profitability of grain and most agricultural products.

The government restricts the provision of many essential input supplies. Producers continue to rely heavily on government credit, and former state and collective farms have privileged access to credit at subsidized rates. State-owned enterprises control the sale of most fuel and machinery. A legal structure makes it difficult to induce buyers to pay their bills.

The rights of agricultural producers to own and use land have changed, but remain controversial and unsettled. The Constitution of 1991 allowed private ownership of land, but enforcement of ownership rights by regional governments has been uneven. Because the Constitution only mentions ownership, opponents of reform argue that land sale, rental, and bequest to heirs is not legal without explicit legislation. A March 1996 decree by President Yeltsin provided for these rights, but opposition members in the parliament claim that Yeltsin’s decree exceeded his legal authority. Because of the tenuous nature of ownership rights, there is no organized land market in Russia today. Former state and collective farms continue to control 90 percent of agricultural land, even though many farms have been formally privatized. Individual farmers who want to withdraw their share of land from state and collective farms for their own private use or for sale face many barriers, and former farm managers have often retained control. Without more secure land rights, farmers cannot use land as collateral for loans.

The Communist and Agrarian Parties have strongly opposed full private property rights in land. The Communist Party wants all people to own the land, but that it be controlled by bureaucrats in Moscow acting as agents of the people. The Agrarian Party wants the land owned collectively by those who work the soil, but controlled by managers of state and collective farms who dominate the Agrarian Party. By blocking land reform, officials have been able to strengthen their authority and enhance their incomes (Aslund, Boone, and Johnson).

More competition is allowed now than under the Soviet system, but effective monopoly continues. Private agricultural input and processing monopolies have replaced some large state enterprises and hampered the entry and success of new private farms. State enterprises, including state and collective farms, continue to have privileged access to essential inputs at subsidized prices. Poorly developed capital markets make it difficult to establish new firms and expand small firms to optimum size. Anti-monopoly laws have been used perversely to discourage competition by restricting prices or profit margins.

The new government did reform marketing and trade, to some extent. Domestic and foreign trade are no longer the exclusive domain of a single government agency. However, large enterprises, such as Exportkhleb, remain dominant partly due to special privileges as the government’s agent. Some private grain traders, such as OGO, have successfully found market niches. The attempt to develop organized commodity exchanges has met with more failure than success. The attempt to develop spot and forward trade in grain on the Moscow Commodity Exchange failed. As control of trade from Moscow declined, other trade barriers emerged. Regional leaders restricted trade within the Russian Republic, in spite of a decree from President Yeltsin to the contrary. Trade restrictions in grain surplus areas provide grain subsidies to local consumers without sharing them with consumers in other regions. Allowing local authorities to restrict trade among regions also permits them to enhance their personal incomes by extracting bribes from traders (Aslund, Boone, and Johnson). Trade restrictions cause large and persistent food price differences among Russian cities.
Under the Soviet regime, Moscow controlled foreign trade, so tariffs were unnecessary. Current reform allows individual firms to import and export, but the new government now imposes tariffs, export quotas, and taxes. Russia was not a member of GATT and is not yet a member of the World Trade Organization, and it has imposed discriminatory tariffs against trading partners, including the Baltic countries. Foreign trade restrictions have been inconsistently applied and frequently changed. Moscow and St. Petersburg requested, and received for some time, exemption from duties on food imports. A ban on poultry imports from the United States in early 1996 was withdrawn after a strong protest from the U.S. government and certain agencies within the Russian government.

**More fundamental reform needed**

Fundamental reform must be comprehensive rather than piecemeal. Although many changes have occurred from the Soviet centrally directed economy, the current Russian economy is neither a command economy nor a well-functioning market economy. A number of additional reforms are necessary to transform the current struggling economy into a market economy. As prerequisite, a successful reform must recognize the essential interdependence of various parts of the economy. For example, the benefits from privatizing farms will be limited unless private farmers have better access to inputs and better opportunities to process and market products at home and abroad.

Markets, and the coordination they bring to production and marketing, cannot develop without institutions that clearly and reliably assign property rights for all productive assets. For example, if property rights to land, machinery, and products remain weak and subject to frequent challenge by rival firms or government agencies, firms will find it difficult to borrow money for inputs, make productive investments, and enter into enforceable contracts with customers. A reduction in jurisdictional disputes between national and regional authorities would contribute to clearer property rights.

Fundamental reform would also bring needed competition to all sectors of the economy. Competition would be enhanced by removing barriers to the establishment of new firms and allowing reorganization and management of existing firms in ways that lower costs. Competition would increase if firms could freely set prices and sell their products throughout Russia without interference from regional authorities. The young United States faced this same problem when the Articles of Confederation allowed states to impose tariffs against goods from other states. Russia needs the equivalent of a clear “commerce clause” in its constitution that forbids interfering with trade among regions. More importantly, it needs effective enforcement of a commerce clause.

Competition would also be enhanced by freer foreign trade policy. Domestic consumers and firms seeking inputs could circumvent Russian monopolists by buying on the world market. Greater access to the world market also means greater access to new technology. Joining the World Trade Organization would require Russia to bind the level of its tariffs and to refrain from imposing discriminatory tariffs against other members. Greater foreign investment would directly increase competition with Russian firms, and speed the transmission of new technology to Russia.

More fundamental reform would increase total
income in Russia and its rate of growth, but it would reduce the power and incomes of former economic elites. Government officials and enterprise managers obtained their economic power by direct control of property use, preferred access to subsidies (especially loans), and interference with domestic and foreign trade. For example, Lukoil, a large oil company privatized four years ago, sells subsidized fuel to state farms and the military in return for interest-free deferment of its taxes. According to Aslund, the gross value of these income transfers may have exceeded 50 percent of Russian gross domestic product in 1992. Greater economic reform is clearly not in the interest of these officials, and they are effectively organized to resist reform.

Obstacles to reform

Many obstacles now stand in the way of additional market reform. Fraud, extortion, and coercion have followed reform and reduced interest in more reform. People unfamiliar with market economies doubt that complex tasks can be carried out through cooperative market relationships. For example Yuri Maslyukov, head of the parliament's Economic Policy Committee and former head of Gosplan, said recently that to provide bottled mineral water someone must "calculate the number of bottles and the number of labels needed. This is the kind of work that must be carried out exclusively by the state. No entrepreneur can do that" (Rosett).

Impatience also makes more reform difficult. Most benefits of economic reform will occur only in the future. In a democracy, especially a fledgling democracy like Russia, it is difficult to get political leaders to make investment decisions that pay off in the long-run if they may be voted out of office in the short-run.

Most importantly some people would be harmed by successful economic reform, and it is in the self-interest of these groups to resist reform. In the case of agriculture, opposition has been reflected in the positions taken by the Populist and Communist Parties, which represent the views of managers of state and collective farms. Continued control of access to inputs, subsidized loans, land use, and domestic and international trade enhances the power and incomes of government officials, even if these policies lower national income. Thus, the strongest source of opposition to reform is the narrow self-interest of certain groups, not ignorance or mistakes by benevolent reformers.

An opportunity exists to transform Russian agriculture into a much more efficient unit. Some reforms have been implemented, including some privatization of the farm input, processing, and trade sectors. Many economic decisions have been decentralized. However, the scope of reform has been limited, and its duration is in doubt. Without more fundamental reform, significant improvement of Russian agriculture cannot be expected. Unless Russians demonstrate a stronger commitment to agricultural reform and the patience to wait for the benefits from new institutions, reform may be abandoned prematurely, as it was on two previous occasions.

For more information


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