



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

In Short ■ by Craig L. Infanger

Reforming Russia's Agriculture: A Slow Path from Plan to Market

The author served as expatriate policy advisor in the Russian Ministry of Agriculture from November 1992 through December 1993. He advised on agrarian policy issues, land reform, privatization, agricultural credit, extension education, and World Bank negotiations. The author was in Russia under the "Resident Policy Advisor Program," one of the technical assistance experiments included in the USDA's Emerging Democracies Program.

Except for the brief period of the Stolypin reforms prior to World War I, agriculture in Russia has never been market-oriented with privately owned land and family farmers. Throughout most of Russian history, nobility controlled the countryside and serfs farmed it. In this century Stalin's government collectivized farming and broke the "kulaks" (successful peasants), to mold a centrally-planned agriculture.

On a cropland base about the same

as that of the United States, Russia has operated fewer than 26,000 farms—the same number of farms found in Colorado. These state (sovkhoz) and collective (kolkhoz) farms operate essentially as "industrial farms," where professional bureaucrats implement Moscow's plans and supervise worker cadres.

A visit to a typical Russian farm leaves one impressed by the daunting scale of production: a sovkhoz may have 20,000 acres, 2,000 cattle, 50 tractors, and 400 workers; a kolkhoz 15,000 acres, 1,650 cattle, 40 tractors, and 300 workers. State budget subsidies, subsidized credit, and commodity sales comprise the farm income. Worker income includes salaries, bonuses, and in-kind income. No one's job is seriously at risk because of poor performance. Despite access to most of the technology of modern agriculture, waste and inefficiency are legendary and no longer carefully hidden from public

view by party officials supervising official visits.

Russia's sovkhoz/kolkhoz are more than just large farms. In many respects they form the social and economic fab-

Despite seventy years of massive public investment, even a short sojourn in Russia reveals a food system characterized by low productivity, legendary waste, mediocre quality, shockingly poor sanitation, and distorted prices.

ric of rural Russia. Farm headquarters are villages, and the farm management bureaucracy is the lowest level of Russian government. The farm provides the rural social infrastructure: housing, roads, gas/electric utilities, kindergartens, cafeterias, culture halls, and other municipal facilities.

Despite seventy years of massive public investment, even a short sojourn in Russia reveals a food system characterized by low productivity, legendary waste, mediocre quality, shockingly poor sanitation, and distorted prices. This poor performance has some important consequences. Millions of Russians actively pursue small-scale food production on private plots to overcome supply instability and poor quality. Russian consumers spend an inordinate amount of time shopping, hoarding, and preparing food. Finally, price liberalization and inflation mean



The face of Russia's traditional agriculture.

families now spend a large proportion of household income on food—39% in 1990, rising to 46% in 1993.

Thus, there is an understandable Russian preoccupation with food and agricultural policies. Visualize harassed Russians searching well-stocked kiosks, traditional stores, and new private markets for affordable foodstuffs amidst the inflationary spiral of economic reform.

The slow path of reform

Fundamental reform of Soviet-planned agriculture began in 1989. The minister of agriculture, Victor Khlystun, articulated a vision of a market-oriented agriculture as a key component of agrarian reform. The Russian parliament passed the legislative basis for reform in 1990: the Law on the Peasant Farm and the Law on Land Reform. These laws were intended to promote private farming, individual land ownership, and reorganization of the sovkhoz and kolkhoz.

Unfortunately, many Russians and Americans gauge reform by the growth in private farm numbers. In the beginning, private farm numbers increased rapidly—from 50,000 at the beginning of 1992 to 260,000 by mid 1993—with land holdings totaling just over 27 million acres (5 percent of agricultural land). Government officials trumpeted these numbers as evidence that agrarian reform was succeeding.

In the second half of 1993 the growth in private farm numbers stalled, adding only another 10,000 new farms and 741,000 acres to the private farm land holdings. It is unlikely that further significant growth will occur. Even though sovkhoz/kolkhoz members have the right to withdraw land and property shares to become private farmers, they have overwhelmingly voted with their feet to stay put. Perhaps they fear the risks of private entrepreneurship or feel intense social and political pressure to remain on the sovkhoz or kolkhoz. But there are other economic influences: reform dramatically raised the costs of capital equipment and other inputs; during 1993 politicians rationed subsidized credit in some regions to provide only token amounts to private



A new dacha plot owner in central Russia.

farmers (e.g., \$2/acre); and independent farmers must market milk, meat, and grains through private channels, or face the local processing monopolies because competitive marketing structures are emerging so slowly.

Private farmers are only half the story of private agriculture in Russia. Household production plots have a long history. It is typical for urban residents to have a “dacha plot,” a small land hold-

It is typical for urban residents to have a “dacha plot,” a small land holding outside the city with a simple residence, small orchard, and large garden.

ing outside the city with a simple residence, small orchard, and large garden. Sovkhoz/kolkhoz members have also been allowed control over land plots, called “subsidiary holdings,” where they could produce livestock or crops.

There are now over 32 million dacha plots and subsidiary holdings on 18.5 million acres. Their role in the food system is essential. On about 3.4 per-

cent of Russia’s agricultural land, private household production accounts for 78 percent of potato, half of vegetable, and about a third of milk and meat production. Observers often overlook this segment of Russia’s agriculture. Yet, substantial privatization is occurring as dacha plot owners receive ownership documents, and regional governments establish new dacha areas.

Although private farmers have emerged and household production is an essential proportion of total food supply, the absolute core of Russian agriculture remains the sovkhoz/kolkhoz farms. They have been the focus of considerable privatization policy. Russian President Yeltsin’s 1991 reform decrees order farm directors to permit workers to withdraw land and property shares to establish private farms. In addition, new laws directed the sovkhoz/kolkhoz farms to reorganize and reregister before the end of 1992 into one of several alternative forms: closed joint stock companies (no outside investors), open joint stock companies (outside investors permitted), agricultural cooperatives, associations of private farms, subsidiary farms of industrial enterprises, or other special forms (i.e., research, military, or municipal farms).

About 24,000 farms have reregistered into new administrative forms,

predominately the closed joint stock company model (11,338 farms). Centralized planning, production quotas, and mandatory marketing have been terminated, but the terms "sovkhoz" and "kolkhoz" are still customary and many farm workers remain unaware of reorganization and its potential consequences. But how does one assess the practical impact of sovkhoz/kolkhoz reform? Consider just three questions: (1) Did reorganization establish "legal entity" status for workers to establish bank accounts and own land? (2) Was the farm's land and property distributed to individuals or does it remain in some collective or mutual ownership form? and (3) What was the disposition of the social infrastructure?

Overwhelmingly, the answers to these questions reveal that reorganization has been superficial. Most farm workers still do not have legal entity status and remain wholly dependent on the farm bureaucracy for legal and financial dealings. Most workers have been given documents signifying mutual ownership in undivided share of land and property. Perhaps the most telling measure of the current state of privatization is the disposition of the social infrastructure. In all but a handful of known cases, the sovkhoz/kolkhoz farms still provide housing, utilities, roads, and other public functions.

Over three years into the reform process the sovkhoz/kolkhoz farms remain financially dependent on the state budget. Massive budget subsidies, including tax exemptions, still flow to the sovkhoz/kolkhoz farms for production costs, social infrastructure, and twenty-four other categories of state support. Much of this support is funneled through the agricultural banks, creating a co-dependency between sovkhoz/kolkhoz farms and the banking sector. Most of these "privatized" banks are seriously undercapitalized and operate on Central Bank credit lines and government flows-of-funds for loanable

funds, not deposits or debt securities.

Russia's agricultural reforms to this point have created a "parastatal" agriculture—a chaotic system somewhere between the moribund Soviet agriculture and the goal of a market-oriented agriculture. Despite all the tumultuous change created by the initial wave of privatization, Russia's agricultural sector is not fully assuming the management and capital risks of a competitive market economy. This parastatal agriculture remains dependent on Moscow for financial and legal support.

Whither agricultural reform in the Russian democracy?

Russia must now face a second stage of agricultural privatization. In the first

Russia's agricultural reforms to this point have created a "parastatal" agriculture—a chaotic system somewhere between the moribund Soviet agriculture and the goal of a market-oriented agriculture.

stage (1990–93) the government terminated the old centralized planning system, the private farmer movement emerged, limited land privatization was allowed, prices began to reflect true resource costs, and the sovkhoz/kolkhoz farms were superficially reorganized.

My experiences do not leave me optimistic about the pace of any second-stage agricultural reforms. Few Russians have a vision of the possibilities for a new agriculture and rural society. The legislature and bureaucracy are willing only to reorganize the old structures without dramatic changes in functional relationships. Education may erode the

old mythology and conventional wisdom about markets and competition as more Russians are exposed to Western economic systems, but this will occur slowly. Admitting that privatization will not happen rapidly, policy makers and advisors should adopt a long-run perspective and focus on key institutions, particularly financial institutions.

Public finance and public administration expertise should be harnessed to help transfer fiscal responsibility for rural infrastructure from the sovkhoz/kolkhoz to local government. Western agencies are already offering technical assistance and some financial support for a new land titling system essential to meaningful land reform and a mortgage-backed credit system. If the new Russian legislature and government are willing to resolve budget deficit and inflation issues, then a rational banking system can be structured around Western-style debt instruments and deposits. But this type of fundamental institutional change will take several years and require a political stability not seen in Russia since 1991.

Ultimately, despite all the offers of Western technical assistance and limited financial aid, the pace and nature of agricultural reform rests in the hands of the Russians themselves. To this point, it appears to be a slow path from plan to market. ☐

■ For more information

Prosterman, R., et al. "Russian Agrarian Reform: A Status Report From the Field." Rural Development Institute Report #84, Seattle, WA, August 1994.

Van Atta, D., ed. *The "Farmer Threat": The Political Economy of Agrarian Reform in Post-Soviet Russia*. Boulder: Westview Press, 1993.

Craig L. Infanger is an extension professor in the Department of Agricultural Economics at the University of Kentucky.