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Land Tenure:
Shakeout After the Fall of Communism

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"Land Tenure: Shakeout After the Fall of Communism"

by Philip M. Raup*

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I. Introduction

A lasting impression upon any visitor to the former Soviet Union who comes from the Middle West or Great Plains of the United States in how very much alike the two areas are. This similarity can be defined in several dimensions, apart from the topographic.

One is the similarity in attitudes toward space and time. Unlike western Europe or the Eastern United States, transport costs are a major part of total production costs in mid-America and in what was the USSR. Each European nation lies within a single time zone; it takes four time zones to cross the continental U.S., six time zones to include Hawaii and most of Alaska, and seven to pick up Alaska's western tips. It takes eleven time zones to encompass the former Soviet Union.

This time-distance relationship breeds a consciousness of wide variations in climate, land use and politics, in both America and the newly formed confederation of Independent States, or CIS. It also yields a sense of remoteness from centers of power. The attitudes of ranchers in New Mexico or wheat growers in Montana toward Washington have much in common with views of Moscow held by sheep herders in Uzbekistan or Kazakh wheat and barley growers. Government is far away.

Consider one state, Kazakhstan. It is 3.9 times the size of Texas, 6.6 times the size of California, and includes an area equal to 35 percent of the continental U.S. Its capital city, Alma Ata, near the Chinese border, is some 1500 miles from its northwestern border, approximately the distance from Dallas, Texas, to San Francisco, California. The spatial problems of governance are awesome.

II. Some Key Economic Variables

Restructuring the economy of the former Soviet Union must begin with a recognition that it has been a colonial empire, held together by military force, and organized along semi-feudal lines. Its reorganization is triggering three simultaneous revolutions:

- 1.) The severing of feudal-like relationships between the rulers and those ruled
- 2.) The severing of colonial ties between the central power and the colonies
- 3.) A religious reformation

The states emerging from the Soviet Union, in short, are experiencing the trauma that in Western Europe was associated with the break-up of feudalism, the Reformation, and decolonization. This is telescoping six centuries of Western European evolution into a few years.

In telescoping these three revolutions, certain economic variables will play critical roles. It will be wrenching to acknowledge that:

- 1.) Credit is credit, not welfare
- 2.) Interest is a cost of the use of capital, not a tribute or payment by a subject to a sovereign.
- 3.) Property rights are efficient arrangements for conveying information, and not just permits for the exercise of monopoly power.
- 4.) Profits are essential for the growth of capital.
- 5.) Prices that fluctuate are an essential element of a market economy.

Those who planned the coup of August 19-20, 1991 might well have had the passive support of the majority of the people in the USSR. As a whole, they are unfamiliar with uncertainty. The old order was repressive, but it was stable, or seemed to be. Among the peoples of the world, they have had the most thorough training in stability of expectations.

As of about mid-1990:

- 1.) Rental rates for government housing had not been changed since 1928.
- 2.) Bread prices at government stores were unchanged since the 1950's.
- 3.) Fares on the subway in Moscow in 1990 were the same as they had been when I was there in September 1958.
- 4.) The basic retirement pension of 60 to 70 rubles per month had been unchanged for decades.

This situation was changed drastically by piece-meal price reform in 1989-90 and by more comprehensive ones of April, 1991, and in Russia after Jan. 2, 1992. The fact remains that the peoples of the former Soviet Union had the longest continuous period of stable consumer prices of any large population in modern times. Fluctuating prices to them are especially frightening.

The transition to a market economy will be especially difficult in those sectors in which price distortions have been greatest, namely:

Housing

Transportation

Energy

Land

Irrational prices in these sectors are reflected in:

- a) What is produced
- b) Where it is produced
- c) At what scale it is produced
- d) Who benefits

The most fundamental distortions have arisen from the lack of a price on land and natural resources. This reflects a failure to recognize the fact that a market economy involves markets for inputs as well as for outputs--for factors of production as well as for products.

Most of the past interest in creating a market economy in the USSR focused on product markets and especially on retail markets. These are the easiest to visualize in action, and rudimentary markets of this type already existed. It is more difficult to conceptualize wholesale markets. Their emergence was a more direct threat to the principles of a planned economy, and there were few if any in existence that could serve as role models.

The most direct threat to the ideology guiding a planned economy arises from the prospect of a market for land. Yet without a market for land, and by extension, for real estate, there can be no reliable guide to the value of the most basic input in production.

This is the reason why attempts to transform a centrally planned economy into a market economy have foundered on the land question. Without a price on land that is

related to its relative value as an input in production there can be no market-derived basis for choosing among production alternatives involving space and time.

III. Some Consequences of the Inability of Socialist Economies to Reallocate Production Resources

The economic system in the former USSR proved able to allocate funds derived from growth in resource productivity. When growth slowed down or stopped, the socialist system inhibited the reallocation of resources among competing sectors. One basic reason was the lack of "a mechanism which provides a rational choice between investment projects and the effective use of investment funds" (Chubais and Vasil'ev, p. 58.)¹

The symbol of this defect was the absence of a functional rate of interest. With no firm guide for reallocation, the bureaucratic inertia of the old system prevented any redistribution of new investment.

Mobility of population was historically low in the USSR. Fragmentation into independent republics will further retard mobility, and especially in the short run. This will be a major barrier to the restructuring of productive activity, and its relocation. The result will almost surely be that "the new production system will be created on the base of the rebuilt enterprises of the traditional technology systems, and the organizational

¹Anatolii B. Chubais and Sergei V. Vasil'ev, "Privatization as a Necessary Condition for Structural Change in the USSR," Communist Economies and Economic Transformation, Vol. 3, No. 1, 1991, pp. 57-62.

form of this transition is the absorption of the old enterprises by the new corporations" (Chubais and Vasil'ev, p. 61).

Western-type market economics developed on the base of an asset structure dominated by the private ownership of rural land. The evolution of legal systems, customs, and traditions regarding property rights involved a rural to urban transition.

The creation of market economics in what was the Soviet Union is reversing this process. The type forms of private enterprises are being created in the cities, leading some economists to conclude that "The breakthrough in privatization of the economy will therefore most probably occur in the industrial sector" (Aleksashenko and Grigoriev, p. 45). "From the point of view of social consciousness and ideology privatization of large-scale industry in the form of joint-stock companies may in fact appear easier than privatization of land and enterprises in trade and services" (Ibid., p. 50.)²

IV. Some Possible Consequences of the Collapse of Communist Agriculture

The collapse of communism and the efforts to shift to private property may depreciate the status of peasants or farm workers.

In the USSR, the deficient supplies in state food stores made possible the growth of collective farm or cooperative markets that provided an outlet for the products of small-plot agriculture. Any future expansion of private farming is likely to cause an

²Sergei V. Aleksashenko and Leonid M. Grigoriev, "Privatization and the Capital Market," Communist Economies and Economic Transformation, Vol. 3, No. 1, 1991, pp. 41-56.

increase in the production of the types of products formerly produced on the old private plots, and consequent declines in prices.

This seems likely to reduce the attractiveness of work on the collective and state farms. In the past, the opportunity to produce and market food products from private-plots was one of the principal forces holding agricultural labor on the collective and state farms. If the supplemental income from this source declines it will be more difficult for the big farms to hold their labor supply. This could lead to rising labor costs on the big farms, and rural depopulation.

The initial result of the collapse of communism may be to increase the income of private-plot producers, as the old distribution system breaks down and food becomes scarce in the cities. This situation might prevail through two winters. A longer run effect may be to stimulate production and reduce the scarcity prices the private-plot producers now enjoy.

One prospect could be an increase in labor costs on big farms, forcing recognition of their inefficiency, and a fall in income from private plots, leading to widespread abandonment. This will reveal the fact that the big farms are too big, and the small plots are too small. This could lead to the emergence of farm units carved out of former collective or state farms that could be large enough to hold their labor supply by providing full-time employment for one or several families.

This will take time. Only a limited amount of farm equipment suited for farms of this size is now being produced. A credit system serving farms of this size does not exist. Management practices and work norms have been tailored to relatively large work

groups or brigades, organized around the principle of job specialization. Farm policy and practices in the USSR produced specialists, not generalists. A major change in orientation toward farm work will be needed and this seems unlikely to occur until a new generation takes command.

This process will be accelerated by the collapse of the ruble. This will have the effect of increasing the attractiveness of owning a tract of land. Land will appreciate in value.

The existence of this situation at a time when private property in land is being created can easily result in land values that are abnormally high. If the value of land, in a situation of collapsing value of the currency, is used as a basis for land purchase obligations or credit extension, then the land will almost surely be over-valued. This may blight the effect of privatization, by burdening new private land owners with land values that cannot be sustained over the long run.

Privatizing agricultural land when the currency is collapsing will thus insure that no market process of valuing land can be used. The result seems likely to be some form of payment system based on commodities, coupled with ceilings on land holdings set in terms of hectares. A precedent for this solution was set by the land reform in Taiwan after 1951, with payment denominated in bonds pegged to rice and sweet potato prices. Can we anticipate wheat and barley bonds in the former USSR?

V. Land Tenure: Shakeout After the Collapse of Communism

The historical record is full of cases in which bound peasants, serfs, or slaves have been converted into sharecroppers. With some exceptions, this has been an almost universal stage in the evolution of land tenure systems.

One interpretation of the events now underway in the former Soviet Union is to regard them as an accelerated and telescoped version of the conversion of serfs into sharecroppers. A number of attempts were made before 1990 to reform the structure of Soviet farming by assigning land, and sometimes livestock and machinery, to work brigades or even smaller family groups that would in effect be contract farmers, operating under the oversight of the collective or state farms. Under these schemes, the farms resembled landlords, and the contract farmers acquired many of the characteristics of share tenants, contributing primarily their labor.

Prior to the collapse of the Soviet system these schemes were never very widespread, and there were many variations. But some familiarity with this approach to the organization of agricultural production had been acquired, and there were supporters in the republics and even in some central ministries.

With the collapse of centralized power over land use decisions, and the chaotic state of the debate over land ownership, it seems likely that an attempt will be made to salvage the organizational structure of the existing collective and state farm by speeding up their conversion to functions similar to those exercised by landlords under sharecropping systems.

In the short-run, there is scarcely any alternative. There is no stock of equipment suitable for family sized farms. Buildings for livestock and storage and handling equipment for field crops are centralized and large scale. There is no system of production credit for small-scale producers. There are many parallels with the situation that prevailed in southern states at the end of the American Civil War.

There are also important differences. The institutional structure to support individual risk-takers is almost totally lacking in the states of the former Soviet Union. There is no locally available system for the registration of title to land. Farm mortgage credit is virtually unknown. There is no body of contract law tailored to the needs of individual business enterprises or farms. Transfer of funds by the use of bank checks or negotiable instruments (warehouse receipts or bills of lading) has never developed. Insurance for private business risk does not exist.

These and many other institutional defects make it likely that, whatever managerial forms evolve from the collapse of communism, the farm structure that emerges will resemble a share-cropping system.

A contractual basis for this evolution already exists in many western-style market economies. Poultry and eggs, many types of vegetable crops, and fed livestock are increasingly being produced in the United States under bailee contracts that represent modern and highly commercial variants of share-cropping contracts. The grafting of this form of business organization in farming to the remnants of the structure of communist agriculture can be expected.

VI. The Dominant Role of Land Policy in Socialist Thought

Land policy has been central to the Soviet version of socialism from the beginning. It nurtured the revolution, and was central to Stalin's redefinition of goals in the collectivization drive after 1928. Gorbachev's inability to surrender a belief in the merits of the common ownership of land was his most emphatic difference with Yeltsin. Historians may well judge Gorbachev's decline and fall to center on his doctrinaire refusal to endorse the privatization of land. With almost everything else Yeltsin was proposing Gorbachev could agree, but not that.

The struggle over land policy is still unresolved. Russian President Boris Yeltsin has declared in favor of privatization. Ukrainian President Leonid M. Kravchuk has declared himself opposed. Even in Ukraine the policy split is sharp, with privatization favored in western regions and opposed in eastern districts containing the bigger farms and most of the population of Russian descent.

In general, the debate over land policy has been submerged or suppressed in those states in which the bureaucratic apparatus of government is still dominated by hold-overs from the Soviet regime. This includes, in varying degree, the Central Asian Muslim states, Azerbaijan, Georgia, and Kazakhstan.

Land policy remains the key indicator of the extent to which members of the Commonwealth of Independent States are prepared to reform doctrinaire socialism at its root. No other economic issue is as profound in its ability to set the tone for new regimes. At this stage in the evolution of the CIS it must be reported that the central issue of the privatization of land has yet to be confronted. Any resolution is years if not decades away.