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Agricultural Policy in Russia: Global Challenges and the Viability of Rural Communities

ZEMFIRA I. KALUGINA

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Abstract. The evolution of agricultural policy in Russia under the influence of external and internal challenges from the market reforms of the 1990s and ending with the entry of Russia into the WTO in 2012 has been a difficult one. The article presents an analysis of institutional traps, and of the measures and strategies that are employed to try to overcome them. The results of the market reforms of the Russian agricultural sector are assessed from an economic and social point of view, identifying the dominant survival strategies of rural communities in the diversification of the rural economy and rural employment. In conclusion, the author tries to answer the question why privatization and market reforms have not succeeded within the agricultural sector, and the reasons for the prevailing farming alternatives. The analysis and reflections are based on data from sociological surveys and government statistics as well as a number of research visits and interviews in rural regions of Russia over several decades.

Introduction

In a rapidly changing world, the ability to determine the prospects for future development is the most important determining factor for achieving viability and sustainability (adaptability) of social systems. A better understanding of how and why the agri-food sector and rural areas are likely to develop in particular ways are important for a number of reasons, in particular a growing demand for foodstuffs, an increase in food prices and increasingly scarce water, energy and fertilizer supplies. Russia is rich in natural resources relevant to agricultural production, including arable land, and consequently it has the potential both to meet domestic needs and to make a significant contribution to achieving global food security. Yet, despite the fact that Russia has 9% of the productive arable land, 20% of fresh water reserves and 8.5% of mineral fertilizers worldwide available to agricultural production, it

Zemfira I. Kalugina is Chief Research Fellow at the Department of Sociology, Institute of Economics and Industrial Engineering, Russian Academy of Sciences, Siberian Branch, 17 Ac. Lavrentieva Ave., 630090 Novosibirsk, Russia; email: <zima@ieie.nsc.ru>. The author's studies were carried out with the support of reputable domestic and foreign research funds: the Russian Humanitarian Science Foundation, the Russian Foundation for Basic Research, Independent Institute of Social Policy, INTAS, the John and Catherine MacArthur Foundation and other. Field studies from which the bulk of the sociological data was collected were conducted with the financial support of the Presidium Siberian Branch of the Russian Academy of Sciences. The author expresses deep gratitude to everyone who supported my research.

currently produces only about 5% of dairy products, 3% of cereals and legumes and 2% of meat (Product.by, 2012)

Developments in the Russian agricultural sector at the turn of the millennium can be explained by both Russia's transition to a market economy during the 1990s and the global financial and economic crisis of the 2000s. The long-term development of Russia's agricultural sector is going to be influenced increasingly by global challenges and Russia's ability to address these with innovative agricultural policies and adaptation strategies for rural communities.

Methodology and Data Material

This article is an opinion paper summing up some main experiences of the development within Russian agriculture from the market reforms of the 1990s up to the entry of Russia into the WTO in 2012. The analysis is based on a desk study of relevant documents: legislation, government regulations, national programmes relating to the development of the agri-food sector, and official statistics, as well as drawing on the authors' long-standing experience with research in rural Russia during the last 20 years. This includes studies in the Novosibirsk region and Siberian regions, with both qualitative interview data and quantitative data from surveys (cf. Kalugina et al., 1992; Kalugina, 2002a). These studies include a case study of four collective farms to investigate different adaptation patterns, with survey data including responses from enterprise managers, specialists and farm workers (employees). Further, a mail survey of farmers and members of land committees and commissions was conducted during 1991–1992 in Siberian regions, a study of rural employment across 43 rural districts of Siberia was conducted in summer 2002, and the most recent data drawn upon here stem from in-depth interviews with villagers, employers and local government representatives during two fieldwork periods in 2011 and 2012. The analysis of problems of deprivation amongst the rural population was based on research data on abandoned villages in post-reform Russia: including statistical data and in-depth interviews with residents of abandoned villages. While this altogether represents very rich and detailed material, this article will have to limit it to being background material for pointing out some main aspects of agrarian reforms in post-Soviet Russia.

Three Periods of Agrarian Policy in Post-Soviet Russia

Three periods of agrarian policy in post-Soviet Russia can be identified, which are different in terms of scope, scale and type. The first was a period of market transformations during the 1990s. The second period was one characterized by comprehensive policy changes affecting both the agri-food sector and rural areas during the early 2000s. The third period is characterized by resistance to the effects of the global financial crisis during the late 2000s. These are discussed in the following sections.

Market-liberalization in the Agricultural Sector

This period during the 1990s is characterized by active state intervention aimed at reorganizing the collectively owned agricultural sector and promoting a new institutional framework for the development of new forms of management. The eco-

conomic reforms during the 1990s were intended to radically transform Russia's agrarian sector. These included a reorganization of collectively owned farms (kolkhozes and sovkhoses), land reforms, and support for private-sector development in the agrarian economy. The reforms were aimed at increasing social and economic activity amongst the rural population. Labour collectives were given the right to determine how they would be managed and workers had the option to leave their collective farms. Land was divided amongst agricultural workers and a number of other groups. Land and property shares formed the basis of start-up capital for business development on a cooperative or individual basis.

In the course of this, new forms of management became increasingly institutionalized, resulting in a mixed agrarian economy (Kalugina, 2001, 2002a, 2002b; Nefedova, 2003; Patsiorkovski, 2003; Kalugina and Fadeeva, 2009; Nechiporenko, 2010; Manzanova, 2011; Velikii, 2012). These measures were supposed to foster the competition between producers in the agrarian market. The various types of management made it possible to take advantage of both large- and small-scale production, combining the capabilities of large-scale agricultural production and individual entrepreneurial initiative. These radical changes in ownership patterns were assumed to lead to an efficient allocation of land and other means of production, and which then consequently, would promote the development of private entrepreneurship in agriculture and in services. Administrative restrictions on developing household plots¹ were lifted. Relying on the 'invisible hand' of the market, the state significantly reduced agricultural subsidies, so that in 1999 agricultural subsidies amounted to only 0.17% of GDP, as compared with 0.52% in 1995 and 8.8% in 1990 (Rastyannikov and Deryugina, 2004, pp. 363, 386).

While the initial stages of reforms were intended to create the institutional and legal conditions that were believed to be necessary for a fair and effective development of land management, the results were unexpected to reformers. This was evident, for example, in the expansion of small-scale production, inefficient allocation of resources, decreasing motivation amongst farm workers, rural poverty, the degradation of social services in rural areas, and the emergence of what has been termed 'institutional traps' (Kalugina, 2007; Kalugina and Fadeeva, 2009, pp. 20–33), which are understood here as the way in which institutional innovations have led to inefficient behaviours, which in turn support the continued inefficiency of public institutions.

The Small Farm Trap

The agrarian reform was assumed to contribute to the creation of an efficient private sector on the basis of peasant farms. One of the unexpected results was the growth of production on small household plots. Some consider this development as the Russian track to a bright, market-based future and as a transition from collectivized forms of agricultural production to a new type of peasant farming (O'Brien, 2002; Lerman, 2002; Yamamura, 2002; Patsiorkovskii, 2003). However, this could also be considered simply a survival strategy. Before the reorganization of collective farms, household farming was mainly a sphere of secondary family employment along with primary employment in collective agricultural enterprises. During the collapse of collective farming, subsistence farming becomes the only area of employment and a major source of income for many rural residents.

In 2000, 16 million families in Russia had household plots with a total area of 6.2 million ha, or 0.39 ha per family. Apart from that, 14.9 million families had plots in collective and individual gardens with a total area of 1.3 million ha, or 0.09 ha per household. Collective kitchen gardens with a total area of 0.4 million ha were used by 5.1 million families (0.1 ha per household). These household plots have become the leading sector in Russia's agrarian economy. During the reform period, the proportion of households being engaged in agricultural production has doubled, accounting for 51.6% of total agricultural production in 2000, as compared to 26.3% in 1990. In 2011, the share of household plots was 43.8% (Rosstat, 2012a, p. 425).

Thus, the reforms have not only failed to achieve what they intended, but have in some sense 'turned back the clock.' Instead of modernizing agricultural production through privatization, they have contributed to an increase in small-scale production relying heavily on manual family labour. Moreover, instead of eliminating collective farming, the reforms have strengthened a small commodity sector heavily reliant on agricultural collectives. In other words, the tandem consisting of household plots and agricultural collectives remains essentially preserved.

Trapped in Permanent Unprofitability

One adverse result from the reforms of the agrarian sector was the sharp deterioration in the economic situation of agricultural enterprises. The proportion of loss-making agricultural enterprises increased from 3% in 1990, to 57% in 1995, then was reduced to 51% in 2000 and down to 40% in 2005 (Rosstat, 2008, p. 444). The permanent unprofitability of the agricultural enterprises has become a significant issue and political measures have been introduced in response. They were aimed at the elimination of inefficient owners, and the forced conversion of hired workers in the shareholders.

However, these measures frequently lead to adverse results. First, bankruptcy procedures tend to have wider negative social effects associated with redundancies, wage losses, decreased social security, and the reduction in tax revenues fueling local budgets (Uzun, 2013). Second, bankruptcy procedures do not necessarily affect the most corrupt enterprises. They facilitate instead a problematic appropriation of assets in the form of land, buildings and agricultural equipment, which are subsequently sold off to powerful actors. Deprived of the means of production, the remaining owners of land shares are forced to lease them to new owners on onerous terms, or lose them altogether. Many rural residents end up selling their shares, especially those that are more profitable with regard to soil quality and location. It is no coincidence therefore that many of our country manager informants called the procedure of bankruptcy of agricultural enterprises 'internal sabotage'. Even if the arrival of new owners does not result in immediate closure of the business, it tends to be followed by radical reorganization processes and an erosion of employees' rights. In some cases, new owners, based on negative stereotypes of rural workers as e.g. heavy drinkers and inefficient, rural workers were dismissed and instead people from urban areas were hired (see also Utinova, 2003).

Consequently, the desire to increase productivity is associated with a significant social price paid by many living in rural communities. One of the negative results of the reforms in the agricultural sector is a major increase in rural outmigration. It is estimated that between 200 and 300 villages in the Novosibirsk region have been

affected by such changes and in another 100 villages enterprises are on the verge of being shut down while alternative employment opportunities are practically absent.

Frequently the only means of survival in such circumstances is the household plot. However, with the absence of large agricultural enterprises, operations on household plots are also noticeably reduced. Without assistance from their collective farms, which, in spite of difficult economic conditions, often continue to support their workers, households have to decrease agricultural production on their plots. This, however, further exacerbates the difficult economic situation of rural families for whom the household plot is often the basis for their livelihood.

Hence it can be argued that policies designed to restructure loss-making agricultural enterprises without providing assistance to redundant workers are a major cause for the deterioration in both living standards and the quality of life amongst the rural population. To improve this situation, a Federal Act no. 83-FZ on 'Financial Recovery of Farms' designed to assist the financial recovery of agricultural enterprises and other producers came into force in 2002. On the basis of the act regional programmes aimed at the restructuring and writing down of debts after bankruptcy procedures have been developed. Thus the state tried to get rid of inefficient owners. However, these policies also served to strengthen the position of rural producers' paternalistic attitudes because rural producers in the Soviet era always received a weighty public support in difficult situations

Trap of Lowering Wages and Poverty amongst the Rural Population.

As a result of the primary (first-stage) capital accumulation in Russia of the 1990s, the majority of those working in agricultural collectives lost their landownership rights, sold their share of land, or abandoned it, often due to lack of knowledge of their rights as shareholders. Similar to the situation during the establishment of capitalism when one of the main sources of wealth accumulation by the bourgeoisie was based on the downfall of small producers and the exploitation of hired workers, now capital was accumulated through a reduction of wages (e.g. Plyshevski, 2004, p. 28). Similar to Russians more generally, rural people have experienced a so-called 'privatization trauma'. As this respondent explains:

'All administration that was at the helm at the beginning of restructuring seized all good equipment for themselves. I'm sorry for people. All their life they have worked hard, and now those who are not well informed are left with nothing' (Rural respondent, Novosibirsk region).

Data from a survey of household budgets show deep rural–urban social inequalities in material well-being. The proportion of those considered poor was roughly one-and-a-half times greater in rural areas than it was in urban areas. In 2012, the proportion of those with incomes below the poverty level, i.e. less than RUB 6,500, was 56.3% in rural areas compared with 29.6% in urban areas (Rosstat, 2012b, pp. 14–15).

Wages (as opposed to income gained from other sources, i.e. capital) continue to be the main source of income for Russians although this proportion has decreased somewhat since the transformations began. Income gained from paid labour accounted on average for 62.8% of household income in 2000, compared to 76.4% in 1990 and 65.6% in 2011 (Rosstat, 2012a, p. 169).

Agricultural workers receive the lowest wages in the national economy. Of course, low wages keep production costs low. Yet, they also limit capital accumula-

tion as they reduce consumption levels. Further, they diminish economic incentives to work, as indicated in terms of both low levels of motivation to work in the first place and low productivity amongst rural workers. The agrarian sector thus experiences pressure due to both low opportunity costs of rural work and low effective demand of the rest of the population. This is another institutional trap.

Another potentially serious consequence of under-evaluation of work and irregular payment (long wage arrears, high share of payments in kind, lack of compensations for work under harmful working conditions, non-payment for annual leave, etc.) can be referred to in terms of a destructive adaptation (de-adaptation) of the rural population. It undermines the motivation to work and to work well, decreases the instrumental and terminal value of work, causes tolerance to poverty and low living standards, encourages an orientation towards survival as opposed to an increase of family assets, and, in general, contributes to the socio-economic marginalization of people living in rural areas.

Becker (1993, p. 34) states that 'unemployment in the legal sector increases the number of crimes against property not because it arouses in people unrest and cruelty, but because it reduces "benefit" from legal professions'. Policies and the particular social and economic institutions that are constructed based upon these cannot be described as effective if they motivate particular groups to behave in socially and economically undesirable ways. This process can be considered as another institutional trap.

Based on interviews and observations, this situation seems to remain aggravated. Surrogate forms of wages remain a common phenomenon. Instead of monetary remuneration, workers may receive grain, animal products, fodder, young animals to keep on household plots, wood, coal, alcohol and other goods or products. Wages also remain frequently unpaid, further causing people to rely on non-monetary resources to pay for goods and services. Overall, it can thus be argued that, since the 1990s, rural societies have begun to increasingly rely on a barter system.

A number of factors, in particular an ongoing cost-price squeeze, low demand in rural areas, and insufficient state assistance for rural producers, has resulted in a less efficient and less profitable agricultural sector. Thus, a high rate of social taxes² provoked farm managers to divert part of the wages in the shade and use a surrogate forms of wages. The result is a loss in tax revenue assigned and the associated reduced functioning of the social infrastructure. This, in turn, further disadvantages the situation of rural workers. The situation can be described as a vicious cycle. The government increases taxes in order to trying to tackle the most urgent social problems, while farm businesses attempt to avoid taxation in order to survive. As a result, social problems remain unsolved or deteriorate further.

Another issue is that some employers fail to pay wages in spite of being able to do so. Workers remain unpaid, sometimes for years, and when they receive payments, many use them in unproductive or undesirable ways. According to a theory put forward by Zelizer (2004) people perceive unexpected and regular income in different ways. Applied to this context, this means that occasional, "unexpected" payments (casual earnings) are less likely to be spent on, for example, general, immediate family needs but instead on things that are perceived as more rewarding, with alcohol being a typical example.

The absence of a regular wage is further integral to the barter phenomenon discussed earlier, in that rural families may expand their farming activities not with the overall, long-term goal of capital accumulation but with a specific purpose in mind.

They may, for example, fatten a young bull in order to pay for their children's educational fees, another to equip them with school material, and a third as a present for a wedding party.

Overall, it can be argued that during a period of radical changes during the 1990s, money ceased to be the common currency for labour, expenditures, savings and capital accumulation. The emergence of ineffective social and economic practices due to poor performance by public institutions can be termed an institutional trap.

Assessing the Success of Market Liberalization

Russian reformers' expectations associated with the invisible hand of the market have failed to materialize. The emergence of numerous institutional traps, due to inconsistent and contradictory reforms has resulted in a number of negative developments in the agricultural sector. Negative effects are in particular reduced overall productivity, a drastic reduction of agricultural output, and, correspondingly, a significant increase in imports of agricultural products.

For example, total grain output was reduced from 104.3 million tons during the 1986–1990 period to 65.1 million tons during the following four years (average per year). The situation improved somewhat during the following decade. Total grain yield increased to 78.8 million tons during the period between 2001 and 2005 and to 85.2 million tons during the following four years. A similar picture emerges with the production of meat. Meat production decreased from 10.1 million tons in 1990 to 4.4 million tons in 2000 and increased again somewhat to 7.2 million tons in 2010 (Rosstat, 2011, pp. 418, 428). Despite these more recent positive developments, agricultural production has not yet reached pre-reform levels.

Domestic production declined so rapidly that the government was forced to begin importing agricultural products. The proportion of imports for basic foodstuffs has doubled since reforms began. It even went beyond 30% for some products, thus exceeding maximum allowable import limits and creating potentially domestic food shortages (Rosstat, 2011, p. 435).

The changes in the structure of farm categories confirm that the private farming sector has not become the dominant one (Figure 1). For instance, in 2010 the share of private farms was only 7.1% of total agricultural units. On the other hand, private farms produced more than 22% of grain, 10.9% of sugarbeet, around 26% of sunflower seeds, and 26% of wool (Rosstat, 2011, pp. 411, 414). A sharp drop in the output and profitability of reorganized collective farms during the 1990s was followed by a period of stabilization during following decade. However, the former collective farming sector has not regained its previously dominant position.

Thus, a paradoxical result of the market reforms was that small-scale household plots have become the leading sector within the agrarian economy. Yet, a major argument made here is that its increased relevance is not the consequence of peasants' free choice. Smallholdings were instead the only way to survive for the majority of people living in rural areas. In a Federal Law on Personal Subsidiary Farming, which came into force in July 2003, this type of agricultural production is subject to the same measures of state support that large and medium-sized farms receive. These measures prevented a significant reduction in production from household plots (Figure 1). In 2011, 84% of potatoes, 71.5% of vegetables, 82.8% of fruits and berries, 36.5% meat, 50.4% milk, 22.1% of eggs were produced on household farms (Rosstat, 2011, p. 414). Part of this production is consumed by rural families and their

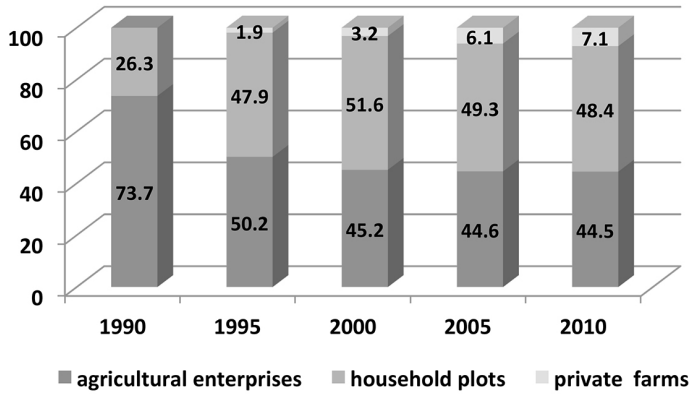


Figure 1. Structure of Russian agriculture by farm categories, in percentages of total (100).

Source: Rosstat, 2011, p. 411.

relatives in urban areas. Another part, however, is sold on the market. According to various estimates, these sales contribute to 10–30% of rural families' incomes.

The Tentative Steps towards Integrated Rural Development and Improving the Living Standards of the Rural Population

Since 2000, Russia's agricultural policies were aimed at reducing the institutional traps discussed earlier. In the early 2000s, changes were made to the financial and institutional support given to rural producers, such as improving access to financial loans. The core national project for the development of the agricultural sector consisted of three main areas: an increase in livestock production, the promotion of small-scale farming (household plots and private farms), and realization of a programme for the building of affordable housing for rural professionals (doctors, teachers, agronomists, etc.), which are sorely lacking in rural areas (Priority national project, 2002). While these measures had a positive impact on the activities of the agricultural sector, they were unable to solve all its problems.

Agricultural policies during this period were aimed at achieving a sustainable development of the agricultural sector and in rural areas more generally. The main aims were: a sustainable socio-economic development in rural areas, an increase in agricultural output, more efficient agricultural production systems, sustainable land use, and improving rural livelihoods. The policies succeeded in terms of increasing agricultural output, reducing the number of unprofitable agricultural enterprises, increasing profitability and reducing the share of private households in agricultural production. However, the measures were not a holistic approach to agribusiness development and were insufficient. In 2002, Russia passed a law allowing the free sale of land. Agricultural businesses thus became a potentially attractive investment. The state encouraged the arrival of large-scale investors in the agricultural sector and the subsidy system favoured large-scale enterprises. According to Uzun (2005), in the early 2000s, 1.4% of the largest farms received 22.5% of all subsidies.

Western observers often characterize government intervention in the Russian agricultural sector as a legacy or a return to the Soviet past. However, it can be argued that government support to agriculture is consistent with approaches employed in other countries with the aim to encourage the development of agriculture (Visser et al., 2012).

State Agricultural Policy during the Global Financial Crisis

The global financial and economic crisis of 2008–2009 initiated further political reforms directed at the agri-food complex. Russia's grain production increased dynamically. Gross grain output increased from 65.5 million tons to 108.2 million tons between 2000 and 2008, with an average annual growth of 3.8%. This, in turn, made cereals an important export, increasing from 1.3 million tons in 2000 (2% of the gross grain harvest) to 18.2 million tons in 2008 (16.8% gross yield), making Russia the third biggest exporter of cereals after the United States and the European Union (Deryugina, 2010). Overall, agricultural output grew 10.8% between 2008 and 2009, which is especially relevant considering the 1.2% decline in other sectors (Rosstat, 2009, pp. 412, 418).

During this period, the state monopolized the export of grain, creating a 'United Grain Company' (UGC), which brought 31 of 41 existing companies under federal ownership. This company was given authority by the state to make interventions in order to maintain stability in the grain market. However, the experience of 2009 showed that the UGC acted not as a regulator, but as a punter seeking to maximize profit through price manipulation (Deryugina, 2010, pp. 67–69). The state's failure to stabilize market prices has had obvious adverse effects on thousands of rural producers.

Russia's accession to the WTO in 2012 is likely to affect rural development in Russia. Russia's obligations under the WTO include a phased reduction of 2011 average tariffs from 10% to 7.8% and from 13.2% to 10.8% for agricultural products, with variations in the timing and the extent of reductions depending on product type (Abdullin, 2012). There is widespread consensus amongst experts that Russia's accession to the WTO will negatively impact domestic agriculture. Some suggest that these changes could lead to a total loss of 4 billion US dollars annually. This could lead to a reduction in Russia's contribution to global food exports to 1% and, at the same time, increase Russian food imports by 2.3%, resulting in a negative trade balance of USD 7.3 billion (Sergeyev, 2012).

According to Babkin et al. (2012), the combined losses of agricultural production could amount to around RUB 3.3 trillion, which represents 35% of foregone growth, due to the increase in imports of animal products to 25–40% and lower demand for feed grain. This may lead to the bankruptcy of one-third of agricultural producers in Russia and the loss of up to 1.7 million jobs. But, according to WTO rules, Russia could increase support for small and medium-sized agricultural enterprises; however, the Russian agricultural policy regimes has not shown willingness to use this possibility sufficiently. Also, a further increase in food imports may increase the incidence of bankruptcies amongst larger businesses and, altogether, this gives a pessimistic outlook for Russian agriculture and production.

There are a number of reasons for such pessimism. First, the agricultural sector in Russia has not yet recovered from the shock of the market reforms. Second, government investments in agricultural production are lagging behind other developed

countries. Third, while Russian legislations are not yet in full compliance with WTO requirements, there is a shortage of experts in Russia capable of resolving disputes with other WTO countries. However, the greatest concern is the expected increases in domestic energy prices, potentially increasing agricultural input prices.

The ability of the state to support Russia's agricultural sector is also associated with the so-called 'green box' of the WTO. This refers to non-production related agricultural subsidies, such as payments for environmental and landscape measures. Other aspects include measures targeted at the improvement of infrastructure, research, education, information and consulting services, veterinary and phytosanitary measures, market information, content of strategic food reserves, regional development programmes, crop insurance, and the restructuring of agriculture. As evident from other developed nations, the 'green box' is not associated with commitments to reducing subsidy levels. For example, between 1995 and 2001, support available through 'green box' measures increased by 56% in the European Community, 26% in the United States – and 53% in Australia. This is in stark contrast with Russia, where such payments were reduced by more than half during the same period (Scheglov, 2012).

One argument is that the most positive step that could be taken by the Russian government in the current situation is a major review of measures to support domestic producers. The development of modern infrastructure aiding agricultural production and training and qualification measures relevant to the agricultural sector would be particularly effective (Agropraktik, 2012).

Rural Communities' Survival Strategies

The financial crisis has aggravated the situation in the rural labour market since 2008. This is evident in the increased average extent and duration of unemployment and the diversification of rural employment (moving from the formal to the informal employment sector, an increase in non-agricultural labour employment, 'freelance', etc.).

Further, as Figure 2 illustrates, widespread unemployment in the agricultural sector continued to worsen even after production levels began to increase. 2005 marks the beginning of fundamental changes in the rural labour market due to technological and organizational innovations. Agricultural production (in current prices) was 3.4% greater in 2009 than in 2003, while the number of people employed in agriculture fell by 2.416 million (a 27% decrease) during the same period.

However, the effects of the global economic crisis as well as a severe drought in south-western Russia and other changes in weather patterns also negatively affected agricultural production. Agricultural production fell by around 11% between 2008 and 2009 and employment in the agricultural sector decreased by 1.2% during the same period (Rosstat, 2011, pp. 124, 411).

The release of a surplus labour force is a progressive phenomenon and in line with developments in other countries. However, cross-country comparisons show that currently the proportion of employment in agriculture of overall employment remains higher in Russia than other developed countries (8.3% as opposed to 1.5–4%). It is, however, likely that in the longer term capital-labour substitution and other types of efficiency gains will contribute to the continuation of this trend in line with what happened elsewhere. With regard to the overall rural economy, it is likely

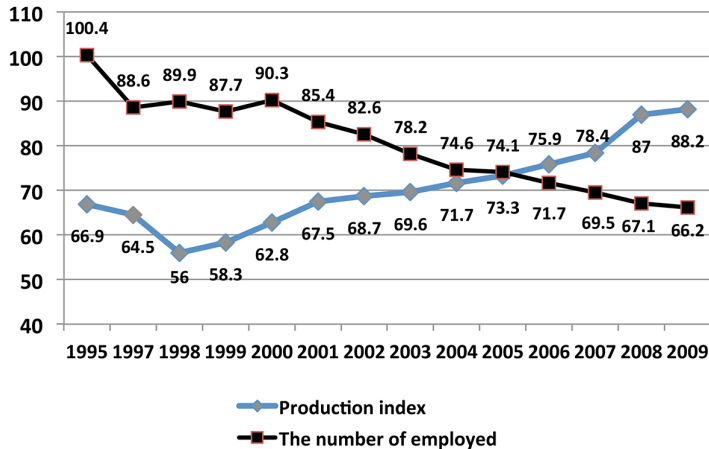


Figure 2. Dynamics of production and the average number of employees in Agriculture of the Russian Federation in 1995–2009 (1990 = 100).

Source: Rosstat, 2010a, pp. 138, 425.

that certain professions and types of work are becoming decreasingly relevant. The current economic growth is likely to remain decoupled from a growth in jobs.

Reductions in the number of people employed in agriculture are accompanied by reductions in average working hours. According to the 2008 sample survey on employment, one in four agricultural workers worked less than 30 hours a week, and 10% worked less than 16 hours a week. The average workweek of agricultural workers was 4.3 hours less compared to the average. (Figure 3).

The observed reduction in working hours due to technological and organizational innovation is rational from an economic point of view. However, this phenomenon is associated with a decline in incomes and a worsening of the quality of life.

The scale of rural unemployment has increased significantly during the period of market reforms. According to employment surveys, the number of those unemployed in rural areas increased rapidly since the mid-1990s. In 2006, it exceeded 2 million and has since then continued to increase (Figure 4). During the period from 1992 to 2009, the total number of rural unemployed tripled, and the number of registered unemployed increased eight times. The share of agricultural workers losing their job was higher than the overall average (Rosstat, 2009, p. 282). Overall, rural unemployment is significantly higher than in the overall economy (10.5% versus 6.3%).

Moreover, long-term unemployment is a particular problem in rural areas. About half a million of those unemployed in rural areas have been seeking work long enough to warrant being classified under the category ‘economically inactive’. The reduced possibilities of finding a job once unemployed are reasoned mainly with an underdeveloped productive and social infrastructure, a lowly diversified agricultural economy, and the fact that rural labour markets remain isolated. Low job and territorial mobility exacerbate these problems.

Currently, many villages have no major employer capable of providing sufficient numbers of permanent jobs and regular pay. Unable to find paid work in the legal economy and to receive social benefits, many rely solely on their subsidiary farms to survive, and, in some cases, resort to non-traditional income sources, including

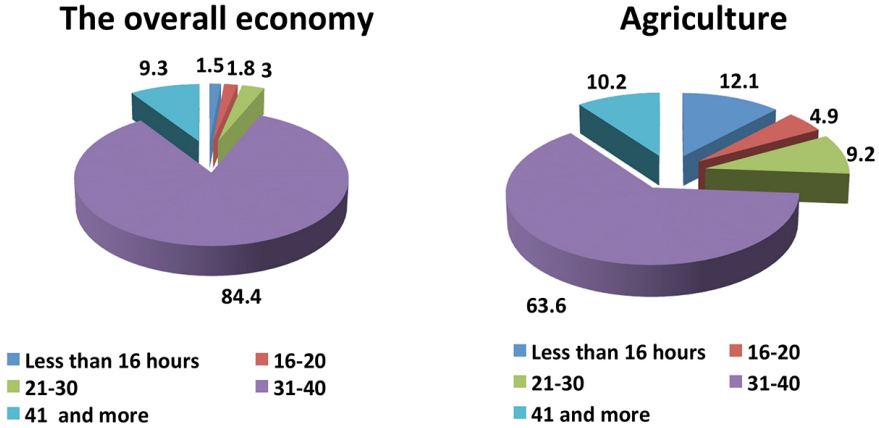


Figure 3. The structure of employment in the economy of the Russian Federation based on the duration of the working week in 2008, percentages.

Source: Rosstat, 2009, p. 94.

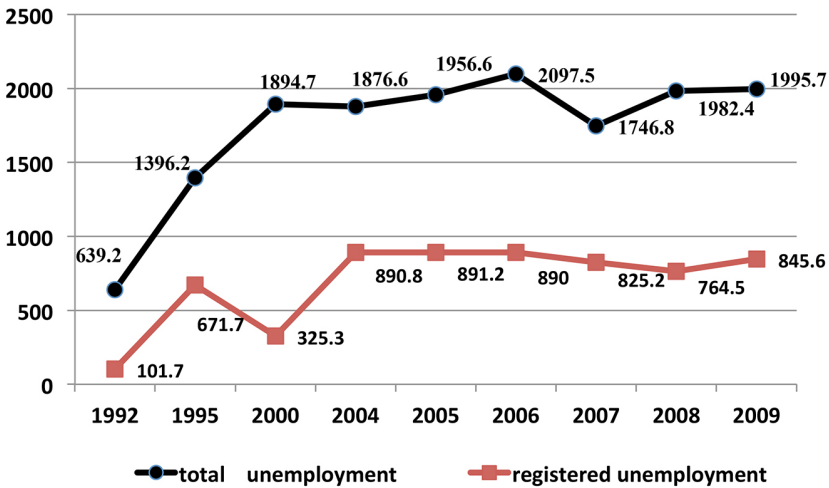


Figure 4. Dynamics of rural unemployment in Russia, thousands of people, 1992–2009.

Source: Rosstat, 2010b, p. 101.

criminal activities. Poorly developed local economies and, at the same time, lack of sufficient transport to and from rural communities, mean that those living in such areas are gradually becoming disadvantaged social enclaves.

The mid-2000s are characterized by further erosion of opportunities for secure, full-time employment, leaving often even those who are employed in a socially and economically insecure position. Many are thus forced to show personal initiative and ingenuity in order to survive. The analysis reveals that, survival strategies in the form of informal employment on household plots, seasonal work (in urban and

industrial areas), and freelancing during the period of market reforms became widespread.

Informal Employment as a Means of Survival

A large sector of informal employment (self-employment) developed as a result of a sharp deterioration in rural employment opportunities, difficulties of being registered as 'unemployed', and limited social assistance offered to people who have lost their main source of income.

The most common form of self-employment of the rural population is subsistence farming. 22.8 million private subsidiary farms existed in 2006 according to the Russian Census of Agriculture. This category of farms now produces about half of Russia's agricultural produce. The vast majority of rural households (99.1%) consider food self-sufficiency to be the main purpose of their farming activities. Subsidiary farming is considered by 14.7% as an additional source of cash income. Yet only 0.7% of households consider it to be the main source of income (Rosstat, 2007). In comparison with the pre-reform period, the vast majority of rural families have either increased the size of their farm or not changed its size.

In 2010 (average for the period), the majority of those employed in agriculture were so on household plots (about 2.7 million). In addition, over 15.8 million people are employed in the production of goods for their own consumption (Rosstat, 2010b). The main sources of income for those considered to be unemployed on a long-term basis are derived from selling both produce from their household plots, mushrooms and berries, and, in addition, from social benefits. A widespread perception that rural residents receive large revenues from household plots seems unfounded when looking at calculations showing that rural areas suffer from a much greater concentration of poverty than urban areas. For example, for the first quarter of 2009 the proportion of families with incomes below the poverty line in rural areas is 2.5 times higher than the corresponding figure in urban areas. This indicates that income from subsidiary plots tends to be insufficient in overcoming poverty. In addition, working on smallholdings does not address problems associated with either an agrarian overpopulation or insufficient pension systems (since this type of work is not accounted for when calculating individual pensions or the accumulation of pensions' insurance components).

Seasonal Work in Cities

It is common practice for those living in rural Siberia to engage in seasonal work in the oil and gas provinces. During fieldwork carried out in 2012 in the Novosibirsk region, according to experts in each rural municipality, approximately 20–25% of the employable men seek work outside of their local communities.

This is especially the case for those with relevant qualifications, i.e. tractor drivers, mechanics, welders, and so on. Industrial enterprises in urban areas are also actively seeking labour from rural areas. Some of them have signed up to agreements on training workers while guaranteeing their employment. Work tends to be on a rotational basis (a few weeks work, followed by time off) and women in these families usually do not work outside the home. While seasonal work enables rural families

to survive, it can have negative impacts on family relationships and contribute to the disintegration of families.

'Rural Freelancing'

The transformation of agrarian relations has caused the bankruptcy of many agricultural enterprises. Agricultural workers, who have lost their jobs, either have to switch to subsidiary plots entirely or become engaged in enterprise activities, either alone or by creating a work portfolio and becoming rural 'freelancers' (see Handy, 2001). Rural freelancing can be described as a type of informal self-employment of rural residents who organize themselves into groups that provide various services to customers in accordance with the agreement entered into by the parties. Not only are these groups and the work they engage in segregated from the formal economy. It also means that those working in such groups can no longer receive unemployment benefits.

While rural freelancing provides enhanced employment opportunities for many in rural areas, it does not offer long-term security in the way other types of employment can. Freelancers are not entitled to social benefits (paid sick leave or holidays, among other things) and have very uncertain pension prospects.

Freelancing has become a significant phenomenon in rural Russia and is likely to remain one for two main reasons. First, there is a reliable pool of long-term unemployed people seeking work. Long-term unemployment figures were 35.6%, according to a sample survey from 2010 (Rosstat, 2010b). Second, farm work is frequently perceived as unattractive, making freelancing a more desirable option than the 'toil on the farm'.

The presented mosaic picture shows that there was a change pattern of employment of rural population shift from secure full-time employment to non-standard forms of fixed-term or temporary contracts or undocumented employment. In the agricultural sector, the transition occurred more acute and painful compared to other segments of the economy because of extremely narrow selection of spheres of employment in rural areas and specificity of the released workers. Reduction in hours worked, impressive scale and stagnant unemployment led to extremely high levels of rural poverty, deepening inequality and social disparities. The absence of a clear perspective of the villagers forced them to leave their homes in search of jobs in cities and other regions. Operational measures taken by the authorities have a positive role in mitigating the consequences of the prolonged economic crisis, but did not solve the problem of employment of the rural population drastically.

Conclusions

The sharp turn from a planned economy to a market economy in Russia during the 1990s based on free-market ideology has produced adverse economic and social effects. Collective farms were destroyed, leaving a space that could not be filled successfully by small-scale, privatized farming. It can be argued that a major reason for this failure is that the model of agrarian relations imposed from above has taken into account neither traditions and historical experiences specific to rural Russia, nor the symbiotic relationship between collective and individual farming in Russia.

Collective farms were privatized and reorganized regardless of how successful they were in economic terms. Despite facing similar external conditions, agricultural enterprises have been following very different adaptation pathways. While the economic situation of agricultural enterprises in general deteriorated during this period, it appears that enterprises specializing in more profitable types of production found themselves to be in a relatively better financial position. Further, although the economic situation that an enterprise happened to be in at the beginning of the reforms impacted on its reorganization and adaptation path and, ultimately, its economic success, this was not necessarily the most important factor. Crucial factors were instead associated with diversification, innovation and upward integration (i.e. development of small processing facilities). The benefits of both diversification and innovation are somewhat obvious. Moreover, upward integration was associated with three potential benefits. First, it enabled enterprises to resist pressure of large processing monopolies dictating conditions while not always fulfilling their obligations. The second benefit was that it ensured a small but reliable source of income. The third benefit was that it helped improve profitability through the removal of middlemen.

One challenge that arose within the restructuring process was the vacuum left after the collapse of Soviet-era distribution and marketing structures, which meant that agricultural enterprises had to operate in a context of frequently unpredictable and, in some cases, criminally flawed distribution and marketing channels. Wholesale dealers, racketeers and criminals became a significant phenomenon. Barter transactions began to make up a significant proportion of transactions.

Another significant issue during the restructuring process is associated with the inability to obtain loans necessary to replace and maintain agricultural equipment and to purchase agricultural inputs and, in turn, to remain profitable.

Moreover, companies experienced increasing difficulties to find sufficiently skilled staff. One reason for this was that rising education and living costs made it increasingly difficult for young people in rural areas to attend secondary or tertiary education. This situation was exacerbated by the fact that professionals and skilled workers experienced decreasing opportunities to exchange their knowledge.

Profitability was decreasing due to an ongoing cost-price squeeze associated with increased disparity between the prices of agricultural products, on the one hand, and of input factor prices, on the other hand (industrial products in general and energy in particular). This, in turn, led to a contraction of companies' social welfare programmes and housing construction. Consequently, tensions and conflicts became a common issue in large agricultural enterprises. Nevertheless, many continued to provide some social services and to assist workers in their small-scale private farming activities, thereby helping to maintain their standard of living.

The particular adaptation strategies evident in agricultural enterprises have had a major impact on families' livelihoods and way of life. In economically strong enterprises, most families were oriented towards material affluence or towards maintaining the present standard of living. In contrast, families in economically weak enterprises were oriented towards subsistence. Survival became based on small-scale, part-time farming, secondary paid jobs, and illegal practices.

This situation was compounded by the emergence of a number of institutional traps: the concentration of more than half of agricultural production in small-scale and largely non-mechanized farming, the widespread lack of capital necessary in order to maintain and replace technical equipment, an impoverished population

constraining demand for agricultural products, and the widespread incidence of enterprises making long-term losses and thus relying on surrogate wages.

State agricultural policy during the 2000s advantaged large-scale agricultural enterprises, making investments into agriculture particularly attractive to large-scale investors. Contrary to what might be expected, this development did not lead to an improvement of technologies, techniques and managerial approaches and, ultimately, increased productivity in the agricultural sector. Instead, it resulted in a sharp increase in unemployment, thus contributing to increased economic inequality and social tensions in rural areas. Competition for land, skilled labour and state support increased.

Crucially, pre-reform levels of agricultural production were not reached. Lack of recovery after the restructuring process is, however, in part attributable to the financial and economic crisis, which contributed to a significant reduction in agricultural production and increased imports of food. Russia's accession to the WTO is associated with further potential new risks and threats mainly associated with food prices and the labour market. A more subtle and proactive political approach is required in order to harness the possibilities and, at the same time, respond to the limitations associated with WTO membership.

Notes

1. Private households plots is a form of informal non-entrepreneurial activity for the production and processing of agricultural products.
2. Currently, the Russian social tax is 30.2% of the wage bill.

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