

**Economic Reforms and  
the Agricultural Situation in Russia**

Bolus Ignovich Poshkus

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**Center for Agricultural and Rural Development  
Iowa State University  
Ames, Iowa 50011**

*Bolus Ignovich Poshkus is vice president of the Russian Academy of Agricultural Sciences.*

## **ECONOMIC REFORMS AND THE AGRICULTURE SITUATION IN RUSSIA**

The Russian Federation, like other countries of Eastern Europe, is undergoing a complicated period of transition from centralized to democratic methods of management. The main goal of this period is the transition to market relations within the entire national economy. Specifically, the goal of agricultural land reform is to convert the legal structure as it relates to land in order to create favorable conditions for competition among all forms of ownership.

Every formerly centrally planned country possesses its own specific features. However, Russia is especially notable. Here, besides a great variety of natural conditions, the reconstructing process is taking place within a framework of particularly difficult economic conditions.

Remarkable in Russia is the acceleration of financial destabilization, the build-up of ruble inflation, the deterioration of equivalent exchange between industry and agriculture, the disrapture of interregional product ties, and the economic self-isolation of several republics and regions. These circumstances, no doubt, impede the normal course of economic and land reform, and deteriorate the supply of foodstuffs available to the public. On the other hand, relatively weak public buying power caused the overstocking of some foodstuffs.

The simultaneous price increases for agricultural implements, equipment, and other industrial commodities have caused a drop in capital investments and completely stopped the growth of agricultural production. During the first half of 1992, the procurement prices of agricultural products increased 5 to 6 times on the average while the prices of agricultural inputs increased 10 times. As a result, capital investments dropped by a factor of 3, state procurement of cattle and poultry was reduced by 30 percent, and milk and eggs were reduced by 27 percent.

During this period the main economic effort of the republic has been directed toward stabilizing the national economy and implementing measures to recover from the crisis.

Simultaneously, work continues on economic reform to create conditions for a more successful land reform in the countryside.

### **The Need for Land Reform**

We begin with a paradox. Russian fields produce as much food as the public needs for normal nutrition. Moreover, many countries that produce such an amount of food are able to export. Yet Russia imports food in large amounts. We apply sufficient nutrients to the soil, expend sufficient energy, material, and labor in order to produce a rich harvest. However, we harvest significantly less than is possible. We spend 1.5 to 2.0 times more energy per unit of plant production than is spent in developed countries with similar climatic conditions. If we also consider our tremendous storage, processing, and transportation losses we have a still more gloomy picture.

It is clear that the production potential of the Russian agro-industrial complex is much greater than its historic performance. It appears that its potential can be realized through a reorganization of economic incentives. Everyone now agrees the main reason for our difficulties is the absence of direct ownership. Ownership is the cornerstone. It gives to people the right to the results of their labor. Therefore, the subject of reform should be production relations; that is, the relationship of people to ownership.

Many collective and state farms have achieved excellent results. They have produced exemplary output and realized proper social conditions for life in the countryside. No doubt these successful farms will keep their status if they want to, and in the future they may be even more productive.

However, let us examine the three factors that have resulted in the success of these farms. First, they have talented, fastidious leaders who spare no personal efforts and who achieve high collective labor productivity as a result of their management and administrative methods. Second, on the leaders' initiative and because of the leaders' contacts the successful farms have had large

investments. This was a big advantage with low energy prices but it will cause losses at present. Third, resolute leaders divided large farms into smaller, self-sustaining units. By using leasing or cooperative relations these leaders opened the gates to democratic methods of management and provided a visible mechanism for labor incentives.

The people appreciated this approach and intensified their labor to obtain positive results. In fact, in all cases of high achievement, the reason for success is the subjective factor of the farm leader and not the system of command management. This fact has been proved many times when, after the departure of a talented leader, a farm with high productivity fell to last place in a district. However, a system that relies on such subjective factors is not reliable or dependable, to say nothing about those farms that never saw any talented leaders.

### **Conditions of Reform**

The Russian countryside has been greatly altered in the course of collectivization, especially in the last 30 years. Modern irrigation systems were constructed, fields were combined into large crop rotations, and field-protection belts were planted. The majority of farms constructed modern animal houses, storage barns, mechanization complexes, and subsidiary industries. The enlarged collective and state farms constructed big central settlements with a primary emphasis on social objectives. Modern country people placed a priority on social factors and living conditions so that young families abandoned smaller villages and moved to the larger central settlements.

Surely, it would be unwise to break up everything that has been created. The world experience also shows the trend towards large agricultural production units employing new technologies. Many international specialists advise us to preserve large fields of crop rotations and modern production centers. We should preserve large, efficient technologies to the maximum extent economically possible, but we should also simultaneously reform production relations by addressing people, ownership, and economic incentives. It is rather difficult to match these two contradictory elements.

There are three main requirements of land reform. First, the reform should not be limited to any finite portion of the rural population, such as only farmers. It should be general, enveloping the entire rural community. Solving the problems of only one part of the rural population would only create social injustice and contradictions that sooner or later will cause political conflict.

Second, we should take into account that Russian collective and state farms have been formed on the basis of the historically established (for two centuries) rural community. Rural people have never been real owners in Russia. Therefore, reforming the collective and state farms is identical to reforming the rural community that caused Stolypin's reform at the beginning of the 20th century.

Third, reforms should lead toward production growth within the entire agro-industrial complex.

### **Stages of Reform**

In the last two years, Russia has tried two stages of land reform. First, two years ago we adopted the law of the Russian Federation "On land reform," which envisaged giving up to 10 percent of collective and state farms' land to district Soviets (legislative bodies) to allocate to peasant farmers. However, this approach could not realize the hopes of all peasants. The number of peasant farms created at the beginning of 1992 amounted to only 50,000 with 1 percent of the total arable land. Some negative trends developed. The requests for land came mainly from agricultural specialists who were city dwellers, while the rural population did not recognize or generally participate in the reform. The collective and state farms refused to give the land to the district allotment funds. Confrontation developed.

Then a second land reform was started at the end of 1991 with the adoption of the Decree of the President of the Russian Federation "On urgent measures of realizing land reform in the RSFSR." It changed the approach to land distribution by setting the average size of free land allocations to citizens and collectives with the remaining land to be given to local authorities to allocate to farmers.

However, this approach was also unacceptable to rural people and to the state. Rural people were to be given three to 15 hectares of land free of charge, but with no right to sell it they could not become real owners. Farmers who were given land from district allotments began forming small associations, allowing them to enlarge the area of their farms and begin producing. But living, constructing, and supplying the public with foodstuffs is today's mission.

During 1992 all collective and state farms, except a small number (4 to 5 percent) of narrowly specialized farms, including training and experimental farms, were supposed to be reformed. That goal was obviously unreal and unattainable.

There are also other disadvantages to the second reform. As soon as collective and state farms distribute the land among the members of their collectives, according to average district size, the land remaining for district allotment will only come from economically weak farms within a district. Also, what about the regions of the nonblack earth zone or northern regions that lack manpower and require people from outside, or receive refugees from other regions, or servicemen, or people from towns? Such opportunities will not exist since all land will be already distributed. Suppose new, young families want to enter farming. How can they get land when it has all been distributed?

Thus, we can conclude from the experience of the last two years that land reform in Russia has not started yet, and that the peasantry as a whole, the country people, neither understand nor recognize it. The unsuccessful approaches to the problem of land ownership and imperfect methods of land distribution are the main problems.

Considering these two unsuccessful attempts, the third approach to land reform must be well-prepared. We have no right to compromise the idea for the third time. Successful land reform must undergo the scrutiny of specialists and there must be extensive discussion in the mass media. Land reform approaches must be sufficiently differentiated in various regions of the country to account not

only for natural and economic conditions but also for national features and the degree of economic development in various regions. Land reform must be neither enforced nor dictated from state managing bodies. It must be "born" within communities and collectives to obtain all-around support.

### **A Possible Approach to Land Reform**

We know from the experience of countries that have accomplished general land reform that it takes a rather long time to be realized. The rates of reforms depend on the economic resources of government. If land reform is supported by the state budget, the rates will increase; but if the reform rests only on peasants' (farmers') assets (savings), reform will be slow for a long time.

### **Ownership of Land**

The basic goal of Russian land reform is the liquidation of the state land monopoly. Now that we have decided that land should be privately owned, we have to indicate that the land owner is the person who has cultivated it for ages and who cultivates it now; this person feeds the country. These are today's country folk, the peasantry. But how do we identify these owners in practice?

The Baltic countries used the following steps in their reforms. The former land owners who are citizens of the republics have been given their land in amounts equal to what they had before land was nationalized. They were given the right of ownership and the land is theirs to use or to sell at their discretion. Now farmers can transfer the land to cooperatives or stock societies for joint cultivation. Or they can cultivate it themselves as a peasant's farm. They can sell it or lease it. In a word, all forms of ownership may now operate in the Baltics.

In Russia it is impossible to identify the former land owners. A variation of the Baltic approach would be to give all land to the collectives that now cultivate it. The collectives themselves would decide either to count all land as individual (private) property, or to leave some part of it in reserve for allotting to future young families, or to keep it for those families drawn from outside

(moving from towns, refugees from other regions, servicemen, etc.), especially in those places that lack workers. The collective might suggest that some part of the land be leased, sold, or mortgaged for bank credit.

The main point of this version of land reform is that collectives, not the state, will make the decisions regarding the disposition of the land. A taxation system could be established to punish extensive use of land. Such a system could stimulate owners to keep no extra land, but having obtained it, to increase its productivity.

We must consider that a peasants' collective consists of people who have lived for ages in the collective. The source of their lives is the land. They will, in their peasant manner, understand what is the best disposal of land. No doubt, they will do it much better than somebody else from outside. It should be forbidden for anybody to exempt land from collective use without consent of this collective.

It is important to take the first step and achieve psychological change so the rank-and-file peasant believes in his/her peasant's power and becomes (not just on paper but in reality) a proper land owner. Only then will it be possible to move to the next stage of land reform.

### **Forms of Ownership**

Possible forms of ownership include private, personal, individual, state, collective, collectively shared, or some other form. It makes no sense to argue that only one form is best. Competition will determine which form(s) is (are) best. Efficiency will be different with different forms of ownership under different conditions. Those farms that have the highest efficiency will prosper in competition. Therefore, it should not be dictated to the peasant which form of ownership to select. Once the peasant is free to choose, let it be so. The peasant has been ordered enough under the collective and state farm system.



State bodies should prepare the legal fundamentals and organize the economic instruments for the realization of land reform that will insure equal rights and opportunities to all forms of ownership so there are equal conditions for competition. Which form of ownership, if any, that might dominate, is futile to predict. We may only forecast the development of some forms of ownership.

### **Peasants (Farmers) as Private Owners**

Their number counts at present about 120,000 with approximately 5 million hectares of land distributed to them, which is about 2.5 percent of the total arable land. Considering the high productivity of these farmers, in five to seven years they should produce 3 to 4 percent of the Russian gross agricultural output.

Peasant farmers, once having obtained the land, tend as a rule to be motivated to create modern farmsteads. However, such a farm requires an investment of about 10 to 15 million rubles for inputs, facilities, constructing roads and electric energy lines, and acquiring implements and livestock. Therefore, 120,000 farms will need investment capital of 1.2 to 1.8 trillion rubles. Future farmers and peasants cannot afford such an investment. Credit, especially given on favorable terms, is limited. The state budget has a huge deficit and no one knows when this will not be the case. Thus, there is no financial foundation for the rapid breakthrough in the current development of private farmers in Russia.

The counter question: Who then will feed the country?

Answer: Those forms of farms that were represented by all peasantry who have fed Russia for ages. It is necessary to examine these forms that are important to the future of land reform.

### **Personal Ownership and Personal Subsidiaries**

After the transition to free prices and in view of the large growth in overall demand for foodstuffs, the private sector has been greatly activated, producing more products both for family

consumption and for sale. At present this sector—personal ownership and personal subsidiaries—possesses about 19 percent of the total arable land and produces 25 percent of gross agricultural output. In two to three years it may produce about 30 percent and in five to seven years, 35 to 40 percent of Russian gross agricultural output.

Thus it is important to support the private initiative of the rural population. This sector of personal ownership and personal subsidiaries is characterized by individuals who work on state or collective farms or in other jobs but who also farm their own plots of land. These individuals generally have close cooperating relationships with state and/or collective farms. In the reforms, the personal ownership of these plots of land should be given the status of private land ownership.

Personal subsidiaries, within the period of the country's entry into market relations and especially during the initial period of free prices, will provide rural families with their own foodstuffs and will reduce the demand for food in the market. Later on they should become solid commodity producing farms. Subsequently, many of them may convert to independent peasant farms. Undoubtedly, they may also keep their cooperative ties.

This form of land reform, support and sanction of personal ownership, and personal subsidiaries, provides the peasant with a stage-by-stage transition to full private ownership with the potential for the development of private, independent farms. It also helps to gradually change the peasants' psychology and ideology. Of the various forms of land reform, this is the least capital-intensive and the most immediately responsive to market forces. It is large scaled and widely sanctioned. It currently applies to 14 to 15 million peasant families in Russia.

What practical steps should be initiated for this development of personal property? It is necessary to adopt the Act of the Russian Federation on a new legal status of personal property; that is, to adopt the President's Decree and government decision for the promotion of personal property in the agro-industrial complex. There is no need to limit the size of personal plots of rural families if

they are cultivated as secondary employment of the family head. Remember, the main goal is personal property in the community.

Before collectivization all active livestock production enterprises, working animals, and agricultural implements used to belong to peasants. Even the cultivation of arable land was individual. Produced commodities fully belonged to peasant families. Collectivization socialized the major part of personal property, in a coarse, enforced way. That was a mistake as the peasant lost any interest in the results of his labor and acquired the psychology and living style of a hired hand. The peasant's individual initiative was preserved only as it related to personal subsidiary plots.

So let us return to the former authority of personal property, attach wings to it, equating it to private property, and thus open the way to reforms and a market economy.

We should state that cooperation and integration of the personal subsidiary with socialized farms remains inevitable. That feature will distinguish the present peasants' collective from the former community.

### **Reforming Socialized Property of Collective and State Farms**

Considering the current situation of Russia's national economy, the collective farms will remain basic commodity producers for the next two to three years. They will produce about 65 percent of gross output and 80 to 85 percent of agricultural commodity production. In the future, after seven to ten years their market share may decline by about 10 to 15 percent. Then, the collective farm will likely continue as a supporter and supplier to all other forms of farms in the countryside.

However, public opinion and experience tell us that the existing socioeconomic structure of a collective and state farm cannot guarantee efficient activity because of constraints from bureaucracy, centralized control, and the stifling of creative initiative and human rights.

Under the effect of such arguments and the general reform impulse, collective and state farms started reorganizing; they tried to overtake each other, without hindsight, with the only aim to eliminate collective property, immediately, within a single year. And then they cooled down, moving backward. The same proponents of reform started declaring, 'We are not against collective and state farms. Those who wish to remain with the existing status, let it be so.'

Why was there such rapid change in opinions? We can explain it as the result of haste. People reacted to the mass media's push for reform and thought that if all fault were shifted to the conservative nature of existing farm leaders then the reforms would succeed. However, in my opinion such reformers and authors overlooked the main point. That is, the collective and state farms are the same community of people who have existed in rural Russia for 200 years before collectivization. Collectivization changed the way resources were organized for production but not the content of rural communities and the minds of rural people. Namely, rural communities stand against hasty reform or change.

Is it realistic to demand from peasants that they quit the community and start farming independently almost without any financial and material assistance? I have mentioned already that Russia does not have the resources for this at present.

Then they decided to acquire the reform within the framework of the community, that is, inside a collective or state farm, having preserved collective management. It is exactly what the present sociopolitical situation requires. But how can we do it better, while not forgetting about the main goal of encouraging people to move towards private ownership of property and working to cultivate people's interest in the results of their labor in the course of collective farming?

One cannot observe now any ripe and real projects to reform socialized property. In my opinion it would be a mistake to propose any single recipe. There is no place for banality. In such a situation we have to be guided with principles:

- The fate of a collective should be determined solely by that collective and by nobody else from outside;
- A farm's specialists (initiative group) should develop the proposal for reforming socialized farms to be discussed and approved at a general meeting;
- A guarantee should be made concerning the free development of personal subsidiary farming;
- The opportunity should be provided, if necessary, to involve families from outside to be fully entitled as owners and members of the collective, as well as young families who are the children of collective members;
- While identifying forms of ownership and management, the major factors to consider are the farm's specialization, the degree of available manpower, agricultural implements, location of production objects and dwellings on the territory of a farm, and availability of social resources and their location;
- Any new form of management should guarantee the present and future fate of pensioners and those people who work in the social sphere of a village, but are not members of production cooperatives;
- Action should be taken to develop interfarm cooperation, and shared participation of future collectives in various stock companies, associations, unions, corporations, and cooperatives.

Thus, the concept of reforming socialized property should incorporate these requirements of reform and their principles.

Another objective while working at reforming a collective or state farm should be to draw on experienced consultants and experts from outside and to consider the experience of other states of the Newly Independent States (NIS) and Eastern Europe.

### **How to Reform a Collective or State Farm**

What is the most expedient method to reform socialized state and collective farms and other socialized economic units so that these units will own their resources and be responsible for their economic success? State and scientific organizations are developing a number of possible methods, with the main goal being to move people toward private ownership of property, while maintaining efficient production technologies. It appears feasible to achieve the reform in the following ways.

First, smaller independent, specialized collectives that express a desire to work together but remain within a socialized farm can organize as a cooperative or a stock company and have a leasing agreement with the socialized farm. Such small collectives, in addition to leasing production facilities, should be able to acquire their own property and also be full owners of the commodities they produce.

Second, a collective or state farm may completely divide into small collectives or independent peasant farms. These units may join in unions or associations to coordinate and organize joint subunits for production services, joint utilization of social infrastructure, material and technical support, and production and processing of agricultural products.

Third, collective or state farms may reorganize into a production cooperative. These cooperatives might be guided by principles such as: compulsory participation of cooperative members in the activities of the cooperative; joint (cooperative), indivisible property of cooperative members; cooperative control exercised by the principle of one member, one vote; and a main goal of increasing the well-being of cooperative members.

The fourth option would be to reorganize state or collective farms into a stock company. At the present time, this is the most common form of reorganizing state or collective farms, primarily because of the ease with which such a reorganization can be accomplished. However, little is known about the efficiency of stock companies and further experience is needed to draw conclusions.

These various versions of reorganization preserve existing, large enterprises while also moving toward the individual ownership of property.

### **The Cooperative Movement in the Agrarian Sector**

During this period of reform it is unlikely that any form of private ownership—private farmer, personal subsidiary, small private enterprises, cooperatives, stock companies—will survive and prosper without significant interplay and cooperation both vertically and horizontally. That is,

almost any economic unit must rely on input suppliers and buyers of their output. Vertically, suppliers must be trustworthy and reliable. So also, buyers must be trustworthy and provide timely payment according to the terms of sale. Horizontally, there are efficiencies to be gained by coordination and cooperation with other producers of the same products. Therefore, the cooperative movement should be an integral part of the land and economic reforms in Russia.

Russia has little or no experience with Western style business cooperatives. Our development of such cooperatives is starting with no preconceptions or prejudices. In the past the collective farms and consumer cooperatives were representative of the cooperative system. But they compromised that system, and the concept of cooperatively owned property, because of their extremely centralized control and decision making power and their subordination to the state structures.

The economic demands of farming and life itself have prompted farmers throughout the world to unite in cooperatives for joint purchasing of inputs, joint use of sophisticated technologies and implements, marketing, and many other needs and services. The cooperative movement should be promoted at all levels of management and in all activities of the agro-industrial complex of Russia where it makes economic sense.

It appears inevitable that cooperatives will develop in Russian agriculture. These cooperatives should, however, be consistent with individual private property and other forms of private ownership including personal subsidiaries and stock companies. It would be irrational to create several parallel (duplicative) cooperative systems in the private sector. Thus, cooperatives providing production services, especially when they are established on a territorial basis (collective farm, state farm, rural district), might be formed as joint cooperatives for various forms of individual and collective ownership. It also appears inevitable that peasant farms and personal subsidiaries will

soon follow the experience of other countries and create production cooperatives, jointly producing commodities in the fields and farms.

The development of cooperatives at levels other than farm production are important. In developed countries specialized cooperatives, such as milk processing, animal breeding, commodity processing, seed production, veterinary services, transportation services, credit, input supply, and scientific consultation, are of great importance. Establishing similar cooperatives where and in a form that is economically feasible is of great importance.

Many countries have extensive experience in creating complex regional cooperatives. Such powerful complex cooperatives cover most or possibly all agricultural economic activity in a given territory or region and provide member farmers and other commodity producers with most or all goods and services needed. One can foresee such powerful cooperatives or associations, unions, corporations, or other types of firms or companies formed in Russia on the basis of primary production and specialized cooperatives.

In summary, it appears clear that the reform should be realized in a quiet but resolute style, starting from the primary and basic cell—that is, the individual person—identifying that person's needs and attitude toward ownership, then rising on a spiral upwards to a collective, rural community, cooperative, stock enterprise, and other organizations that insure the success of land reform.

### **Socioeconomic Consequences of Agrarian Reform**

As the reforms alter the ownership of land, production means, and produced commodities, the producers will directly enter (or become part of) the markets for land, production means, labor, commodities produced, and credit as well as the markets for consumer goods and services and securities. Having joined or become part of these markets, producers will revive the entrepreneurial spirit and competition that is the foundation for motivating high-efficiency labor and increased agricultural output.



It is expected that the new forms of ownership will increase agricultural efficiency in a number of important ways.

- Reducing production costs by reducing the amount of commodities lost to spoilage, transportation losses, pilferage and other losses; reducing raw materials used during harvest; and increasing transportation, storage, and processing efficiency
- Changing production patterns to be responsive to market demands
- Reducing energy consumption by using energy-saving technologies in response to market prices; optimizing the use of tractors and implements; reorienting fodder production to meadow cultivation and grass growing
- Effectively combining the large technologies of collective farm production with smaller family farms

A number of important and systematic measures should be undertaken to help reorganize the agro-industrial complex:

- Accelerating the de-monopolization and privatization of economic units that produce agricultural inputs, produce needed infrastructure, and engage in purchase and sale (marketing) activity;
- Increasing the scope of state financial support to enhance the profitability of rural producers through the procurement prices of agricultural products and to help insure the required rates of growth both in production and in the social development of the countryside; and
- Taking positive, concrete steps to enhance the process of real, positive capital inflow into the agrarian sector and to insure the stabilization of the economic situation in the agrarian sector.

Well-prepared and implemented agrarian reform measures have the potential within the next two to three years of stabilizing animal production and increasing crop production by approximately 15 to 20 percent. These reforms and a carefully prepared and implemented system of economic support for agrarian producers will enable producers to sell through the market system and to refuse to sell to any of the last vestiges of the centralized state commodity procurement system. The necessary supply of commodities for state reserves will be able to be procured through the channels of the market system.