CHAPTER-III

Reorientation and Reorganisation of Agriculture

under the Market Economic Conditions
As a consequence of the structural reforms after the collapse of the socialist regime in the Soviet Union, there emerged a new structure in Russia, which was very unique from the historical point of view. Especially, the established farming structures in this region were quite different from what is usually observed in other regions of the world.

**Diversity of post-Socialist Farming**

In many of the post-socialist countries in Europe, including Russia, following the land reforms and transformation of socialist farms, there emerged highly diversified farming structure.\(^1\) A large variety of organisational forms of farming, which are diversified in economic and legal terms, could be observed; various types of corporate farming-transformed co-operative farms, joint-stock companies\(^2\) or limited liability companies which were created following the privatisation or transformation of socialist farms (collective farms and state farms), various types of individual private farms including subsistent farming households, middle-sized commercial family farms, individual farms of “capitalist type” with many employees. Besides, there still exist unprivatised state farms in some countries. One might say that this high diversity of farming organisation is one of unique characteristics of agricultural structure in transition economies. And Russia is no exception.

However, it is extremely difficult to get an exact picture of about the diversified structure of farming in Russia and other transition countries due to the lack of

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reliable and detailed statistical information. From statistics, we could have generally obtained the number of share of such categories like "cooperatives", joint-stock companies, peasant farms, individual private farms etc. Such classification is usually based on legal categories. Here it should be reminded that legal categories do not always correspond to real economic and organisational characteristics.

A typical example of misleading categorisation of farms based on legal status could be seen in Russia. Following the reorganisation of socialist farms in the early 1990s, there has emerged several categories of farms, joint-stock companies, limited liability companies, producer co-operatives, farms preserving old status of kolkhozes etc.3 It looked as if a diversification of farms had taken place in Russia as a consequence of the reform. However, it was only a formal diversification. As a matter of fact, all above mentioned sense irrespective of different legal status, all of them were actually the same type of producers co-operatives preserving traditional traits of socialist collective farming.4 Thus, when we discuss the diversified farming structure of transition economies, the more important aspect is socio-economic status of farms than their legal status which were rather formal one.

Another important aspect of farming structure is scale categories. That is, categories like large-scale farms, middle-sized farms or small-scale farms, which are defined by physical scale measures, are usually used to characterise the dynamics of changing structures of farming. This type of approach seems to have a historical root, which originated from the 19th century agrarian debate concerning

4 Food and Agriculture Organisation (FAO), The State of Food and Agriculture, Agriculture Series No. 30, 1997, p. 208
efficiency and viability of large-scale farms. This approach was criticised by Chayanov in 1920s. According to him, the problem should be set up differently; viability of capitalist farms based on hired labour and peasant farms based on family labour should be analysed instead of the comparison between large-scale farms and small-scale farms in physical meaning. Classification of farms by physical size is sometimes misleading since farms with various socio-economic statuses might be classified as the same category like “large-scale farms”.

Farming Structure as a Socialist Heritage

It is argued that in the period of collectivised socialist agriculture there existed its own type of “dual structure” of farming. That is, workers of collectivised farms kept their own small plots and animals mostly for consumption purpose. In this sense, kolkhoz type of socialist farming was not purely “collective”. It was rather a unique mixture of collective and individual farming in which the both were mutually dependent on each other. In other words, the socialist collective farming system contained inside “dual structure” in itself. This socialist heritage has not disappeared at all after the restitution and transformation of farms. Post-socialist corporate farms, which have been created from the socialist collective farms, usually keep their tradition inside dual structure. Moreover, most of the small independent farms, which sprang out from socialist farms as a consequence of

8 Ibid., p. 68
restitution or transformation are, in essence, modified, continuation of socialist type of subsistence farming, though the average size of farming has been notably increased and their activities have become more independent.9

In such countries like Russia, where no restitution of old ownership or liquidation of socialist farms have been implemented after the collapse of the old regime, the inside dual structure of farming still continues to be a dominated one.

Dual Structure of Individual Private Farming

As a consequence of liquidation of socialist cooperatives, the share of individual private farming has been strikingly increased. However, it would be too optimistic if we appreciate this change simply as a successful result of the structural reform of agriculture in those countries.

It was a rather destructive process than a constructive one. It was a recession to the dominance of subsistence farming. The strong and sustainable class of middle-sized commercial family farms has not yet emerged in Russia. On the other hand, a small number of large individual private farms based on hired labour and rented land were being developed very dynamically. Some of them were originally established as family farms, but quickly enlarging their size they have changed their socio-economic status and become “capitalist type” of estate farms with many employees.10

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Not only in Russia, but also in the other transition countries the large-scale corporate farming is still dominant, the similar "dual structure" of individual private farms is being developed. In post-socialist countries, generally speaking, the mechanism of the creation and development of the classical type of family farms is very weak or is lacked completely.\textsuperscript{11} It should be reminded that the class of middle-sized family farms, in particular requires supporting institutions like cooperatives, which give various services to farms. Unlike subsistent farms, commercial family farms need marketing activities, which cannot be efficiently implemented by farmers themselves and can be provided by servicing cooperatives instead.\textsuperscript{12} Unlike big estate farms, they need to be protected under the market conditions. For example, without any special financial support system they can not be developed.

\textbf{Farm Sector Reforms}

Despite numerous economic, political and psychological handicaps, an economic reform in Russia has made possible the emergence of new institutions and behaviour in the agricultural sector.

Institutional transformations, the reform of agricultural enterprises and improvements in the relations among its enterprises, as well as the activation of cooperation among farms have been underway since 1992.\textsuperscript{13} The state monopoly on land has been eliminated in the course of economic reform, multi-institutional production has been formed, and economic entities have been given freedom in the


\textsuperscript{12} Ibid., p. 9

\textsuperscript{13} Food and Agricultural Organisation (FAO), The State of Food and Agriculture, Agricultural Series No. 30, 1997, p. 208.
disposition of their products and income.\textsuperscript{14} Agricultural enterprises were becoming increasingly market oriented.\textsuperscript{15}

But even after a decade of reform in Russia, the agrarian structure was still dominated by large-scale farm enterprises, the heirs of *kolkhozy* and *sovkhозы*.\textsuperscript{16} Certainly, they now show very different forms of ownership and management, leading to a large variety of agricultural enterprises, such as joint stock companies, co-operatives, producers associations, work groups, and agricultural companies.\textsuperscript{17} Some of these were only formally transformed, changing merely their name. Many of them have retained centralized management as before.\textsuperscript{18} However, there were many more changes beneath this level, as greater financial autonomy was given to smaller units and land was sub-contracted and leased to households, creating a great variety of farm structures.

The expectation that large number of small and medium-scale private peasant farms would emerge as the basis of a viable and dynamic agricultural sector in Russia has not materialized.\textsuperscript{19} It seems that the growth and acreage of private peasant farms was stagnating. Every year in Russia, thousands start up as private farmers but a near equal number disappear again because they were not able to

\begin{footnotes}
\footnotetext[17]{Peter R. Craumer, "Regional Patterns of Agricultural Reform in Russia", *Post-Soviet Geography*, 1994, 35, No. 6, pp. 342-343}
\footnotetext[19]{Max Spoer & Oane Visser, op. cit., p. 5.}
\end{footnotes}
survive in the inhospitable economic and institutional environment (see Table 3.1 & 3.2).

Table 3.1
Number and Size of Peasant Farms in Russia (Thousand hectares)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Peasant Farms</th>
<th>Size of Peasant Farms</th>
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<tbody>
<tr>
<td>1992</td>
<td>49</td>
<td>42</td>
</tr>
<tr>
<td>1993</td>
<td>182.8</td>
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<td>1995</td>
<td>279.2</td>
<td>43</td>
</tr>
<tr>
<td>1996</td>
<td>280.1</td>
<td>43</td>
</tr>
<tr>
<td>1997</td>
<td>278.6</td>
<td>44</td>
</tr>
<tr>
<td>1998</td>
<td>274.3</td>
<td>48</td>
</tr>
<tr>
<td>1999</td>
<td>270.2</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Max Spoor and Oane Visser, op. cit., p. (Table 1) p. 4; Zvi Lerman, op. cit., p. 317; Statkom SNG, 1999 and 2000, Moscow.

Table 3.2
Share of Peasant Farms in Agricultural Land (1992-1999) (%)

<table>
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<tr>
<th></th>
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</tr>
</thead>
<tbody>
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<td>5.4</td>
<td>5.7</td>
<td>5.7</td>
<td>5.8</td>
<td>6.3</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: Max Spoor & Oane Visser, op. cit., (Table 2) p. 6; Statkom SNG 1999, 2000.

After a decade of reforms, if we look at the over all transformation of the agricultural sector in Russia, it seems that the rural household can no longer be considered the basic unit, because collective farming continues to be the backbone of Russia’s agriculture. As of 1 January 2001, more than 92 percent of the landed property was occupied by the state (see Fig. 3a). Though the large farms dominate Russian agriculture, over 80 percent of all large farms were unprofitable.

At the same time, the growth and emergence of Russian private agriculture and land occupied by them has not yet been substantial as far as land coverage was

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22 Ibid., p. 392
concerned. The privatization and introduction of a market economy in agriculture only allowed the private sector concentrating in production of vegetable and livestock products. The large-scale farms dominated the grain production in Russia.

The reforms in the agricultural sector created a number of small type farms of different kinds in Russia (see appendices for Figure 3b, Figure 3c, Figure 3d and Figure 3e). Private peasant farms in Russia have received a great deal of attention for land transactions during the first phase of transition, despite their share in food output and acreage under cultivation remained insignificant.

For example, as of January 1994, approximately 2,70,000 private farms were allocated over 11 million hectares of land, or about 5 percent of the total area of arable agricultural land available in Russia. According to official statistics, the private farmer produced 3.5 percent of the nation’s agricultural output in 1993, but according to the Association of Private Farms and Agricultural Cooperatives of Russia (AKKOR), the percentage was closer to 5 percent.24

Reorganization of State and Collective Farms

The reorganisation of state and collective farms in Russia is one of the most significant aspects of agricultural reform. Presidents Decree No. 323, “On Urgent Measures for Implementation of land reform in Russian Federation (27 December 1991)”, required collective and state farms to reorganise and reregister as new legal entities.25 As of January 1, 1994 throughout Russia, more than 95 percent of state and collective farms had reregistered.26

23 Carol Scott Leonard and Eugenia Serova, op. cit., p. 372T
"Registration", was the process that all farms were required to undertake and constituted the formal declaration and registration of the farm’s form of labour organisation. “Reorganisation referred to the form of labour organisation chosen if a farm voted not to remain a collective or state farm. If a farm voted to retain its previous status, it would have to “re-register”, but not reorganise. A farm that had adopted a form of labour organisation other than its previous form was said to have “reorganised” Farm that disbanded completely - breaking into separate private farms or an association of farms - was not considered to have reorganised.27

During the course of farm registration, a steady decrease in the percentage of farms retaining their previous status was evident before levelling off in mid-1993.28 In July 1992, almost 44 percent of state and collective farms had chosen to retain their previous status. By October 1992, this percentage had dropped to less than 43 percent, by 1 January 1993, to 35 percent, by 1 July, 1993 to 34 percent, and as 1 January 1994, with almost all farms reregistered, 34 percent of state and collective farms retained their previous status.29

The resulting reorganisation was almost cosmetic.30 The state and collective farms inherited from the Soviet period continued to dominate the sector having changed in nature and function only cosmetically. In 1996, these farms accounted for about 63 percent of the total output of livestock products and 47 percent of the total

output of crops (including 95 percent of grain production). 31 Almost all the re-
registered enterprises continued to conduct farming operations in the same manner,
as before, they were collective farms in all but the name.32 Since that time there
were no enactment requiring agricultural enterprise to reorganise or sub-divide.
Instead, Presidential Decrees and government resolutions have been enacted that
address the rights of land shareowners to conduct transaction in land or withdraw
from enterprises to engage in family farming. In this manner, the state had relied
on voluntary actions of the members of agricultural enterprises to bring about the
restructuring of Russian agriculture.33

The basic features of the concept of farm restructuring in Russia were yet
elaborating in the framework of the former USSR and were determined by the
particularities of Russia. One of the main particularities was that the majority of
rural population did not want to quit the large-scale farms for individual farming.34
Another particularity was linked with the long time passed after collectivisation,
and restitution was not possible. During the implementation of agrarian reform in
Russia, the farms restructuring process, nevertheless, has not pursued the initial
objectives: the existing agricultural producers in the majority were not market-
oriented units. The modest results of the reforms were attributed to economic,
legal, mental and political constraints. Recession does not create the economic
incentives for the production units and, therefore, does not induce their
transformation. In such circumstances, the bulk part of farms, irrespective of their
legal form (collective or individual), tend to follow the survival patterns of
activity.35

33 Ibid., p. 1398
34 Eu Serova, “The Changes in FarmsEconomic Behavior During the Economic Reforms in Russia
in the 1990s”, Analytical Centre AFE (IET), downloaded from the web site:
35 Ibid.

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Russia has no deep traditions of the legal democracy and of the strict execution of legislation. Many adopted pieces of legislation were not actually implemented anywhere or in a number of the regions. The contradictions, not comprehensiveness of the reform legislation, aggravate the problem.

Agrarian reform in Russia was carried out in the lack of political consensus regarding this reform in the society, and that severely hampers the restructuring of the sector.\textsuperscript{36}

Agrarian reforms were also stipulated by the mental prejudices accumulated during Soviet period, which retard emerging of entrepreneurial activity in the countryside. On the other hand, the agrarian reforms faced with the quality of rural population, which in the great extent was not acceptable to adjust to the new circumstances.

Inherited beliefs and values probably had been playing a more significant role in the course of changing the land ownership and the farm restructuring than in any other area of transition. On the one hand, among many people, there was a deep-rooted belief in the superiority of private ownership and family farming over state and collective structures, while on the other hand, the socially positive experience of collective farming and an impact of the view of many other people. As a result, the land reform as it had been carried out in the region, reflects these conflicting views and beliefs.

Anyone who examines Russian agricultural reform has to wonder at the institutional resilience of collective farms. Indeed, \textit{kolkhozi} (collectives) and \textit{sovkhozy} (state farms) of Soviet times awkwardly renamed joint stock companies - continue to be the dominant agricultural producers. Now that they were owned

\textsuperscript{36 Don Van Atta, op. cit., p. 187}
largely by their employees, their profitability and efficiency were decreasing. Yet the number of collective farms still stood at 27,000 in 1997, the same as in 1994. They produce half the country's agricultural output, own more than 90 percent of agricultural land, and refuse to disappear.\(^{37}\)

At the same time, the number of individual farms has remained surprisingly low. Eight years after the enactment of the first presidential decree legalizing individual farming, the number of individual farms had actually decreased from a peak of 280000 in 1996 to 2,74,000 at the end of 1997.\(^{38}\) Individual farms produce just 2 percent of recorded agricultural output on 6 percent of agricultural land. The remaining 48 percent were produced on tiny private plots - averaging one-third pensioners for whom it supplements retirement benefit.\(^{39}\)

For Russian federation, the restructuring of collectivised agriculture into effective, market oriented farm units has become difficult. It was rather the time Russia should simultaneously create conditions for the establishment of genuine cooperatives and at the same time, the independent private farms. Russia should rather improve the performance of agricultural cooperatives through their conversion to voluntary, self-controlled, member-oriented institutions. As has been suggested by a Workshop on "Reorientation of Cooperative Structures in Central and Eastern Europe", that some types of medium or large-scale enterprises should be maintained and that among them agricultural cooperatives might have a role in future agricultural development.\(^{40}\)

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\(^{38}\) Ibid., p. 13

\(^{39}\) Ibid., p. 14

Though Russia has a specific characteristic than other transition economies, in terms of economic history, physical landmass and other natural conditions, still inferences could be drawn that owing to the present situation and looking to their past, large-scale farming should be given way to continue with democratic market oriented principles, but with proper downsizing and other economic adjustments. Since Russia’s key to agriculture is grain production, this important aspect of agricultural production should be made strong in the large-scale farm (genuine cooperative) sector. And at the same time, the private farm should be allowed to operate efficiently within the market framework in the production of vegetable, potatoes, fruit, livestock and cash crops for emerging market.

**Structural Changes in Russian Private Farming**

It would be examined here one of the important aspects of post-socialist structural changes: the dual structures of individual private farming. Other important aspects like re-transformation of agricultural enterprises would not be discussed here, as dynamic changes related to these aspects were not yet observed in Russia.

**New Forms of post-Soviet Individual Private Farm**

Individual private farming in Russia was legally and by official statistics divided into several categories. First category was “individual subsidiary farming” (subsistent farming of villagers). The second category was “peasant farm” (*krest’yanskoe khozyaistvo*), officially registered autonomous market-oriented farming by individuals. The number of the former category of farms was about 16 millions and they use 3 percent of agricultural land in the country. About 260 thousand “peasant farms” were registered in Russia and they accounted for about 7 percent of total agricultural land. Besides, there was a category of part-time
farming by city dwellers, which accounted for 2-2.5 percent of total agricultural land use.\textsuperscript{41}

Thus, in terms of the share of land individual, private farming sector played a minor role in Russian agriculture. At the same time, in terms of agricultural products, individual private farming had substantial share and even played a more important role than agricultural enterprises. The bulk of vegetables and potatoes were being produced in various types of small plots owned by villagers and city dwellers. Subsistent farming of villagers covered more than a half of animal production. These figures of share by private farming have drastically increased for the last ten years. Moreover, in production of such commodities like grain and sunflowers, which were considered suitable for large-scale farming by agricultural enterprises, peasant farms then had 10-15 percent shares.\textsuperscript{42}

The increasing trends of individual private farming were sometimes interpreted by reform oriented agricultural economists in Russia as a positive result of the land reform conducted following the collapse of the Soviet Union. However, it should not be noted that these changes had been brought mainly by passive adaptation behaviour for survival by individuals and agricultural enterprises under the economic crisis and the present tradition. People, faced with the drastic decline in real income, were enforced to develop their subsistent and part-time farming for self-consumption. The land reform had only facilitated this adaptation process, giving people ownership on their plots and possibilities of acquiring additional land.

It would be too early to say that this trend of declining share of agricultural enterprises (successors of kolkhozes and sovkhozes) and enhancement of position of individual private farming reflects inevitable path of future development of Russian agriculture. In this connection, if we go by the recent statistical figures, first it appears that subsistent farming of villagers had ceased to develop, having already exhausted its potential of development. Second, number of registered peasant farms had reached its peak several years ago and it had been declining gradually for recent years.\footnote{Zvi Lerman, op. cit., pp. 307-330; Stephen K. Wegren, "Regional Development of Russian Private Farms: A Comment", \textit{Post-Soviet Geography}, 1995, 35, No. 3, p. 181} In short, individual private farming sector of Russia seems to have entered into a stagnation period. Average profitability of agricultural activities by them had notably slowed down.

One might say that the period of adaptation process enforced by economic crisis had gone due to the improvement of macroeconomic conditions for agriculture following the financial crisis of 1998 and the devaluation of rouble.

\textbf{Statistical Analysis of Peasant Farms}

While the individual private sector in Russian agriculture as a whole seems to have entered an almost stagnant stage, the structure inside the sector had been changing more dynamically.

The recent dynamic changes in the structure of the individual private sector could be seen from the official statistics.

\textbf{Table 3.1 and Table 3.2} show the time series of the registered number and the average land size of peasant farms in Russia. The registered number of farms had reached its peak in 1996 and had then started to decline. As compared with the
level in 1996, the registered number of farms had been decreased by more than 7 percent for 4 years. The degree of decrease varies substantially among regions (economic districts) of the Russian Federation. In some regions, the registered number of farms had declined by 17-18 percent.

Table 3.3

Number of Registered Peasant Farms (at beginning of each year)

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</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>49.0</td>
<td>182.8</td>
<td>270.0</td>
<td>279.2</td>
<td>280.1</td>
<td>278.6</td>
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<td>11.47</td>
<td>11.67</td>
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<td>10.15</td>
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<tr>
<td>Central District</td>
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<td>21.35</td>
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<td>13.54</td>
<td>12.72</td>
<td>11.93</td>
<td>11.49</td>
<td>11.24</td>
<td>-17%</td>
</tr>
</tbody>
</table>


Table 3.4

Average Land Size of Peasant Farms (at beginning of each year)

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<tr>
<td>Northern District</td>
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<td>26</td>
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<tr>
<td>North-West District</td>
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<td>16</td>
<td>16</td>
<td>18</td>
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<td>54%</td>
</tr>
<tr>
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<td>86</td>
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<td>91</td>
<td>96</td>
<td>105</td>
<td>113</td>
<td>113</td>
<td>113</td>
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</tr>
<tr>
<td>North Caucasus</td>
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<td>21</td>
<td>25</td>
<td>26</td>
<td>30</td>
<td>30</td>
<td>30</td>
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</tr>
<tr>
<td>Ural</td>
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<td>49</td>
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<td>53</td>
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<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
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</tr>
<tr>
<td>West Siberia</td>
<td>64</td>
<td>6</td>
<td>79</td>
<td>91</td>
<td>103</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>58%</td>
</tr>
<tr>
<td>East Siberia</td>
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<td>47</td>
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<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>14%</td>
</tr>
</tbody>
</table>

On the other hand, the average size of peasant farms had notably increased. For the period 1992-1997, the average size was 42-44 hectares and this level was very stable until 1997. Since 1997-98, the average land size of peasant farms had started to increase. For four years it had grown to the level of 55 hectares. The degree of increase also varied among regions. In the North Caucasus, the West Siberia and the Central Black Earth Zone, the average size of peasant farms had been increased by more than 50 percent for that period. In regions, where food grain production was traditionally developed, the rate of increase was higher than in other regions.

It must be examined the size structure of peasant farms in order to understand the above-mentioned phenomenon. Table 3.5 (see appendices) shows the size structure of peasant farms in Novosibirsk province of the West Siberia, where the most dynamic changes were observed. The overwhelming majority of the acting peasant farms in the region specialized in food grain production (almost 90 percent of sown area of peasant farms was devoted to grain production). So we could use the land size structure as an indicator, which reflects the true picture of structural changes in peasant farms.

From the official statistical data, we could notice the following aspects of the ongoing changes in the peasant farm sector.

1. The declining trend in the middle stratum of peasant farms:

Among the peasant farms created in the post-socialist period in Russia, the stratum with land size of 10-100 hectare had the largest share in number. They were usually typical family farms in classical sense. One could call that stratum as

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44 Ibid., p. 125
“middle” stratum of peasant farms. However, it should be noted that peasant farms from that stratum very often organised informal groups, which usually consist of 2-6 families and used hundred hectares of arable land. So “middle” stratum of peasant farms did not simply mean that farms from that stratum actually functioned as autonomous middle-sized family farms in usual sense. Although Russia’s agricultural problems facing during the transition were long standing and due to the inefficiencies of collective agriculture, world experience demonstrates that smaller farms operated by small groups consistently out produce collective farms.46

From the Table 3.5, it is shown that the above-described declining trend of peasant farm sector could be observed in that stratum. Here it must be taken into consideration the fact that there was a big difference between the officially registered number of peasant farms and number of actually operating farms. Especially in the middle stratum, one could find many farms, which did not operate at all or already had ceased to exist without official liquidation procedure. So the declining trend in that stratum was actually stronger than the statistical figures indicated though we could not have exact figure due to the lack of data.

2. Dynamic development of farms in the upper stratum:

It was clear form the Table 3.5 that quite opposite trend had occurred in the upper stratum of farms. Number of farms with land more than 100 hectares had increased strikingly for the recent four years. Among them farms with more than 200

hectares had almost doubled their number and they accounted for 55 percent of total land of peasant farms in the region.

Unfortunately, from that Table we could not confirm the actual process more precisely, because the Table did not have separate figures for the largest farms with 500-2000 hectares of land. It has been observed that in various regions of Russia that for the recent 3-4 years land had been concentrated very rapidly in the hands of the largest individual private farms and there had emerged farms with 1000-2000 hectares or more. To the very high percentage of land concentration in the upper stratum of farms (55 percent in Novosibirsk region, 42 percent in the Russian Federation) seems to be a trend towards in Russia in recent years.47

**Some Important Aspects of Structural Changes in Peasant Farming**

1. Resource problems for peasant farms

Most of the peasant farms, which were really operating in the last few years since the beginning of the transition, had suffered disequilibrium from three main resources: labour, land and capital (the three factors of production). In particular, for those farmers, who specialised in grain production, the deficit of capital for given land and labour resources from their family, or the deficit of land for given capital and labour resources had been serious problems.48

Peasant farms usually created as typical family farms, mainly relying on labour resources from their families, had to acquire necessary land and capital resources. As for grain producing farmers in Russia, they usually had to use a set of

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machinery designed for *kolkhozes* and *sovkhозes* (tractors with 70-80 horse-power like “Belarus”, DT-75 and combines like “Niva” were the most popular machines for peasant farmers). 49

It had been very difficult for farmers to acquire necessary machines except in the period 1991-1992, when financial support from the Federal Government could be used by peasant farmers, while it had been relatively easy for them to acquire land for farming. 51 At the same time, even if farmers succeeded to acquire machines, they could not use them fully efficiently because the amount of land given to them was limited and farmers could not freely enlarge their land by purchasing or leasing.

2. Informal Grouping as a Solution of Resource Problems

In order to solve the above-described problems, many registered peasant farms had been organised into informal groups, which usually consisted of 2-6 families (officially they were separately registered peasant farmers). This phenomenon had been popular especially in grain producing regions. Parcels of lands and machines, which were used by these informal groups of families, were usually owned by families separately, though there were cases when a part of machines were jointly owned by families and functions among themselves and divide the products after the harvest.

However, these informal groups were very unstable. Usually they got dissolved after 1-2 years of operation or they changed their members very frequently. For example, in Tambor province of the Central Black Earth Zone, 88 percent of

49 Rihito Yamamura, op. cit. p. 9.
51 R. L. Prosterman, op. cit., p. 1394-95.
registered peasant farms were organised into informal groups according to the survey conducted in 1994. This instability of informal groups might be one of the reasons, which explain the above-mentioned declining trend in the middle stratum of registered peasant farms.

3. Leasing of land to solve the land Deficit

Peasant farms or informal groups of families, which were equipped with machines, faced “deficit of land”. Table 3.4 shows the situation in above-mentioned Tambor province in 1993. According to the survey conducted by Rihito Yamamura, 61 percent of peasant farms answered that they needed additional land. We must take into consideration the fact that most of these organised informal groups, which enabled them to use more than 100-200 hectares of arable land. However, they still needed additional land, the average size of which was more than 50 percent of the already utilised land.

If there existed a market for agricultural land in each region of Russia, demand on additional land might have been fulfilled through leasing contracts or purchasing from landowners. It was well known that in Russia, buying and selling of agricultural land had been prohibited. Moreover, until 1996-97 it was very difficult or practically impossible to lease land from villages who formally owned their share of land as members (including pensioners or workers in social spheres) of successor farms of kolkhozes and sovkhozes.

That was why the average land size of registered peasant farms was very stable during the period 1992-1997 (see Table 3.2). The situation had been changed following new legislation of 1996. Since then successful grain producing peasant farms fully equipped with machines could have enlarged their production through land leasing arrangements.

4. Emergence of “Capitalist” type of Individual Private Farms

It should be noted that the just described enlarging movement of peasant farms was not limited to a process for solving resource disequilibrium.

Table 3.5 was a result of a sampling survey, which was conducted in July 2000, for 15 percent of registered peasant farms in Novosibirsk province. “Large-scale farms” in the Table were registered peasant farms with land more than 500 hectares (34 farms from surveyed 687 samples) “small and medium-sized farms” in the table were peasant farms with and less than 500 hectares (653 farms).

As it is shown in Table 3.5 that small and medium-sized farms were typical family farms, main labour resources of which were family members. Large-scale farms were characterised by the two different aspects from the view of labour resources.

First, the average number of family members, who worked for the farms, was almost two times larger than in small and medium-sized farms. It means that large families were included into this category of peasant farms. In this sense, the emergence of “large-scale” peasant farm could be interpreted as the result of “demographic differentiation” of family farms.

Second, large-scale farms used hired employees, which accounted for more than 50 percent of labour resources on an average. It was clear that this category of “large-
scale peasant farms” include farms, which were not classical type of family farms, but farm of “capitalist” type in Chayanov’s sense.

Thus, the recent development of farms in the upper stratum could be considered as a mixture of process of the demographic differentiation and emergence of farms of capitalist type.

Land Reforms and Land Market: Legal Framework for Land Reform

The legal framework of land reform addresses two major issues: ownership and distribution of land. Land legislation is an important element of formation of a market economy in Russia. Previously, all land in Russia was owned by the state, and the land relations were based on a collective ownership structure. Under collective ownership, a legally constituted collective is the owner, and the land is used by an enterprise operated by the collective. Collective ownership can be “undivided” (obshchaya sovmestnaya sobstvennost), in which case individual shares of the members need not be defined, or “shared” (obshchaya dolevaya sobstvennost), when shares are distributed to individuals, but specific tracts of land are not necessarily identified.

The explicit purpose of land reform legislation since the transition has been to reform the collective farm system and to facilitate the development of private peasant farming. The reform measures began during the last phase of Soviet regime has motivated and influenced the land reforms now to a great extent. The “Law on Peasant Farming”, adopted in December 1990, initially conferred the right on peasants to leave a farm without their manager’s approval of a general

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meeting of the farm members. This Law required that each farm divide its land and
capital assets into shares, and that each member of the farm, including children and
pensioners, was assigned a given quantity of shares. The length of time the
individual had worked on the farm, and the amount of work done determined the
value of (quantity) the property shares (capital assets). But in the same year in
March 1990, the USSR Land Law legalized long-term leases (up to 50 years) that
could be passed from generation to generation, but the law forbade land sales.
After heated argument, legislation of December 1990 permitted land sales, but in
order to prevent land speculation a 10-year moratorium was issued on it. 57

The right to leave a farm was reaffirmed in Yeltsin’s December 1991 decree “On
Urgent Measures for the Realization of Land Reform in the RSFSR”, but with one
important change. This decree allowed farm workers to leave a farm with
guaranteed share of farm’s land. This decree thus created a limited land market, but
still could not solve the issue of buying and selling of land.

But the December 1991 decree allowed workers who left a state or collective farm,
to exchange their shares for land and property. The decree also allowed farmers to
sell their parcel to other citizens if they were retiring from farming, had inherited
the parcel, intended to move to farm elsewhere, or would invest the proceeds from
the sale in the countryside. Farm workers who had received a physical land plot but
who had not left the farm were allowed to sell their land to other workers on the
farm, or to the farm itself at free prices. 58

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57 Stephen K. Wegren, “Yeltsin’s Decree on Land Relations; Implications for Agrarian Reform”,
58 Ibid., p. 167
The ultimate problem, however, was that this 1991 decree contradicted the country's constitution, which forbade the sale and purchase of land. For this reason, Russian Congress of Peoples Deputies did not legalise the sale and purchase of land.

In 1992, Yeltsin signed a decree that allowed the sale of land, on an experimental basis, of private garden and housing plots in Ramenskiy Rayan (Moscow Oblast). Following this experiment, in November 1992, the Russian Parliament legalized the sale of land, but with conditions attached. These restrictions involved, the purpose of the land was to be used for the price of land and the size of the land plot. First, the land could only be sold for purposes of subsidiary agriculture, plots around dachas, gardening and plots around individual house. If the land being sold was used for this purpose, then it could be sold without a moratorium, provided that the purpose for the land use was not to change.

October 1993 Decree

The Decree, “On the Regulation of Land Relations and the Development of Agrarian Reform in Russia” was signed by President Yeltsin on 27 October 1993. This decree is a continuation of the past legislation to some extent, though it had some important landmarks towards land privatization. Members of the collective and state farms would receive certificates, documenting the right of land ownership for a share of the farm’s land. This certificate was a legal document and gave the right of land ownership to the holder and provided the basis for purchase, sale, leasing, or mortgaging land. So the certificate was to be the individual’s guarantee to his own land as well as a tangible proof of ownership. These provisions were

59 Ibid., p. 167
important for several reasons. Mortgaging of land would allow farmer, or group of farmers to raise capital in order to purchase machinery or to cover the cost of inputs through the growing season. The ability to lease land would allow older share recipients to let younger and potential farmers use the land.

Perhaps most important, the October decree annuls previous restrictions on land sales, and allows the owner of land shares to sell his allotment to “other members of the collective, or to their citizens and juridical persons”, so long as the land would be used for agricultural production.60

The other major attempts to deal with land relations were the 1993 Constitution and the 1994 Civil Code. But these two did little to specify the procedures for land sales and purchases, which meant that the primary legislative document regulating those transactions would be the new land code. In the interim, Yeltsin’s October 1993 decree governed land sales, but this was a general policy statement that provided few specifics on how to conduct a legal land transaction. Various presidential decrees, Civil Code, and government resolution number 96, signed by Prime Minister Chernomyrdin in February 1995, provided extensive discussion and protection of rights to lease land, both in and out.

In order to move land reform forward, on 7 March 1996, Yeltsin signed another presidential decree, “On the Implementation of Citizens’ Constitutional Rights to Land”.61 Much of this decree restated what had been adopted previously, most importantly the rights of disposal: a person had the right to bequeath, sell, give away, exchange, lease, transfer the rights of, or use his land shares without the

60 Ibid., p. 170
consent of other shareholders. The owner of land shares was allowed to request conversion to a physical plot of land for the operation of a private farm. A land shareowner could also sell or lease the physical plot of land to a private farmer, rural household or agricultural enterprise for agricultural use only.\(^62\)

After 1996, no substantial law regarding land sales and purchase was passed. Though some attempts have been made to change the land relations, like the October 2000 amendment, "On Amendments to the Federal Law on Mortgage", which would exclude farmland from the land not subject to mortgaging. This amendment was intended to allow the mortgage of farmland, and to increase the ability of collective and individual farmers to borrow funds. But this was met with political opposition and has not been implemented yet. The Federal Law of 2 January 2000, No. 28-FZ, "On the State Land Registry" was passed. This law regulates the State Land registry containing information on land plots, borders, land categories, and the authorized use of land plots.\(^63\) On 15 June 2001, the Russian Duma approved the Land Code Bill, allowing buying and selling of not more than 10 percent of land in the country.\(^64\)

Land Market Development in Russia

Land is a special commodity, it is completely immobile, and it can be put to different uses and used by various parties simultaneously. What governs the use of this resource is a system of Property Rights. Land property rights have some peculiar features, they can be very complex and they vary over space and time,


requiring policy makers to adjust their instruments to the situation found in specific cases.\textsuperscript{65} The allocation and distribution of land to individuals in the process of land reforms is very much vital towards the creation of new and efficient farming structure. The system must facilitate the future exchange of land parcels between the individuals who wish to establish a farm of the size suitable for efficient farming, given the skills and resources in each particular case. The establishment of such farm sizes requires a functioning land market, where land parcels can be bought and sold, leased in and out, or exchanged. Without such markets, land will remain locked into an inherently inefficient distribution pattern despite private ownership.\textsuperscript{66}

In the most general sense, land sales are understood to mean the aggregate of various economic operations with land that results in redistribution of the rights of ownership to the land resources. In other words, market land sales are the periodic changing of landholders and land users or the redistribution of their rights and functions, on the basis of the sale and purchase of parcels of land, their conveyance by leasing, gift or transfer as a share contribution to the authorized capital of joint ventures, mortgage, compulsory confiscation, and the like.\textsuperscript{67}

The degree and extent of land market and its transactions vary with type and condition of economies. In a stable market economy, the market land sales are carried on a natural competitive basis without any active intervention by a state. But in a transition economy, like Russia, with frequent inconsistent emergence of


\textsuperscript{66} Casba Caski, Economic Structure and Performance in the Food and Agriculture Sector of Central and Eastern Europe”, World Bank and Budapest University of Economics. Downloaded from the Web site: http://www.comptons.com/encyclopedia/ARTICLES/0000/00036352_A.html#P119A on 24-8-2002.}

new functional market mechanisms, it would not give way to a free and fare, competitive market transactions and sale and purchase of land. In the initial stages, no land market can emerge without state intervention with sufficient legal and institutional framework supporting land as a valuable factor of production.

Under the present conditions prevailing in Russia, an effective land sales market would work as an effective tool for the implementation of land reforms and the most efficient land holding and land use. The differentiated state regulation of the scale and pattern of land sales by the number, area, and categories of the parcels of land involved in various market operations and the composition of those operations, their proportions, priorities, and limits is essential. 68

Even critical economic conditions, in transition economies, state intervention in the development of efficient land sales should not be based on an administrative-command directive mechanisms and methods for stimulating the behaviour of its participants. In other words, the most important tools for state influence upon the sale, pattern, and priorities of market land selling, are tax, financial, credit and investment policy. Other important factors are guarantees of entrepreneurial risk in the performance of specific market operations with parcels of land, and support through insurance, consulting, and other infrastructure activity in the land market.

Land availability was one important limitation of the creation of private land ownership and a land sales market. 69 During the transition, the supply of land of the Russian Federation as of 1 January 1997 was 1,709.2 million hectares. The greater portion of the country's land was at the disposal of the timber management

68 Ibid., p. 25
69 Peter R. Craumer, "Regional Patterns of Agricultural Reform in Russia", Post-Soviet Geography, 1994, 35, No. 6, p. 335.
enterprises comprising of some 825.6 million hectares (48.3 percent) of the total available land supply. Agricultural entrepreneurs and citizens, with 670.1 million hectares, or 39.2 percent took up the second largest quantity of available land. A significant portion of the country's land was in the form of reserves, totalling 108.3 million hectares.\textsuperscript{70}

Predominant in the breakdown of land are stands of timber and brush (46 percent), as well as reindeer pastureland (19.2 percent) - land that are unsuited or little suited to intensive agricultural production. Another 21.9 percent of Russian land are under water, swamps, and the like. Agricultural land occupies just 12.9 percent, including 7.6 percent tillage.\textsuperscript{71}

As a result of land reform, the distribution of the land supply of Russia by categories of landholders and forms of ownership has been markedly altered. These changes have affected primarily the lands for agricultural purposes. At present more than 76 percent (1, 306.2 million hectares) of Russia's land - still remain under state forms of ownership, with 803 million hectares owned by the constituent entities of the Federation. There were 56 million hectares of land or 3.3 percent under municipal ownership, 335.8 million hectares (20 percent) under the ownership of legal entities, and slightly more than 10 million hectares (0.6 percent) under the ownership of the citizens.

There are various categories of lands in Russia, which are not suitable for inclusion in market land sales or that have special restrictions. These lands include: \textsuperscript{72}

\textsuperscript{70} V. Belen'kii, op. cit., p. 28.
\textsuperscript{72} V. Belen'kii, op. cit., p. 29.
- for the defence and security of the country (10.0 million hectares);

- for the unified nationwide transport system (1.4 million hectares);

- for environmental protection, preservation, health, recreational, historical and cultural purposes (27.2 million hectares);

- located on the territory of cities and populated areas of facilities and enterprises under federal ownership (0.34 million hectares);

- for facilities supporting the internal functions of the state, its stable development, availability, and the protection of the environment (2.0 million hectares);

- for timber reserves (265.9 million hectares);

- reserves (47.0 million hectares) as well as bodies of water (17.8 million hectares);

Apart from the above mentioned exclusion of land from the emerging land sales market, there are some other types of land which can not be brought into land sales market. These are internal bodies of water, swamps and hydro-engineering structures comprising 18.2 million hectares, the little accessible 'taiga regions' of Eastern Siberia and the Far East are also eliminated from market land sales amounting to 300-400 million hectares. The lands for agricultural purpose under federal ownership (83.1 million hectares) market operations with, which are substantially restricted, also, merit special treatment.

So about 800-900 million hectares of lands relegated to federal ownership can be excluded from land sales market. Another 124 million hectares of agricultural land,
threatened by erosion should also be added to this category. And 15 percent of the territory of European Russia contaminated by radio-nuclides, heavy metals and toxic substances of industrial origin can not be counted for the land transactions into the market.\textsuperscript{73}

Thus it can be seen from the above-mentioned data that under contemporary conditions a tentative total of 1,065-1,655 million hectares could be eliminated from market sales with regard to the purchase and sale of land. And for objective reasons, only approximately 540-640 million hectares remain as a potential supply of land, which could participate in the emerging land sales market in Russia.

Since the inception of the reform in Russia, the government adopted a number of laws and decrees to regulate land transactions and creation of a private agricultural sector based on ownership of land. But the early legislation created a number of restrictions on land use, and these restrictions stunted the development of a land market and opened up possibilities of abuse or corruption among officials. Reform legislation obligated the land user to meet certain requirements: (1) to cultivate agricultural land and not to let it lies idle; (2) to use agricultural land for agricultural purposes only; and (3) to maintain the land’s fertility.\textsuperscript{74} The March 7, 1996 Yeltsin signed a presidential decree “On Implementation of Citizens’ Constitutional Rights to Land” allowing the Land Shares to be: \textsuperscript{75}

- Inherited

\textsuperscript{73} Ibid., p. 30
• Used to start a private farm or as a subsidiary plot
• Sold
• Granted
• Exchanged for property or other land share elsewhere
• Leased out to other farmers and farming business (including in an exchange for lifetime support)
• Contributed into stock of a farm

This reform measure of March 1996 along with help from other international agencies like the World Bank and International Monetary Fund has been able to achieve certain good results. The result for 1 January 2000 was the following:

- 11.9 million owners of land shares occupy 117.6 million hectares of land
- 10.9 million of land share owners have received land ownership certificates
- 64.5 percent of land shareowners have made the decision on how to dispose of their land share.

The changes that occurred to help create a private land market in Russia are shown in the following Figure 3f (see appendices)

The operation of the land market is regulated by the federal law, "On Payment for Land", which entered into force on 1 January 1992. With this law, the President and the government signed a series of documents, which set the course for broad land reforms. They established the inalienable right of all citizens to receive and to own land. Plots of land were granted free of charge for gardening, personal auxiliary holdings or individual housing construction. The main aim of the law was an over-all revision of attitudes to the land on the basis of its redistribution,
creation of new organisational forms, and establishment of conditions for the 
formation of a land market. The Duma and Federation Council subsequently 
amended this Law in July 1994, the changes that were approved in August 1994 by 
Yeltsin, who signed the new version of the Law. Normative prices for land and 
land taxes were regulated by government Resolution No. 1204, issued in 
November 1994, Resolution No. 562 issued in June 1995, and Resolution No. 378 
issued in April 1996, and by a series of ‘instructions’ issued by the State Tax 
Service of the Russian Federation. Land reform till the end of 2000 has been 
based on the 1993 Regulation of Land Relations and the Development of Agrarian 
Reform in Russia, buttressed by another presidential decree of March 1996. As of 
April 2001, agricultural land may not be bought and sold in Russia. Article 260 of 
the Civil Code provides that individual may buy and sell small parcels of land, and 
other provisions state that the owner of real estate has a permanent right to use the 
land under the structure. In contrast, Articles 129(3) and 260(2) of the Civil Code 
provide that land may only be sold in the manner allowed by a Law on Land, and 
since the draft Land Code remains silent on this issue, the sale of agricultural land 
today remains prohibited.

The ability to buy and sell land and land shares is a relatively recent phenomenon 
in Russia, arising only after Yeltsin's October 1993 decree. In general, the amount 
of land involved in a land transaction is less than one half of 1 percent of Russia's 
land, till 1996. Commonly in nations with a developed land market, about 10 
percent of the nation's land are involved in a transaction annually. Data on 
Russian land transactions and the area involved are provided in Table 3.5

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78 Ibid., p. 967
### Table 3.5

**Purchase of Land Plots by Citizens from Municipalities, 1993-1995**

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<td>Constructions</td>
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<td>11289.9</td>
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<td>Dacha plots</td>
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<td>133</td>
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<td>279.8</td>
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Table 3.5 indicates that the quantity of land transactions increased since 1993. The most common land transaction in 1995 involved collective garden plots, followed by private plots. The size of land plots involved in transactions was quite small. For the nation as a whole in 1995, for example, the average size of a land transaction involving individual housing construction was 0.10 hectares, 0.22 hectares for private plots, 0.10 hectares for collective garden plots, and 0.10 hectares for dacha plots.

But after the 1996 presidential decree, the land market transactions have been changed. Leasing was the most important transactions during 1996 to 1999. The Figure 3g shows the transactions in the land market during the period 1996-1999. Land sales in the land market are very negligible in Russia throughout the transition, due to lack of a proper law guaranteeing the property rights of
individuals, which could establish a land market. Figure 7 shows a sharp increase in the market land transactions between 1996 and 1999 from a mere 429,691 thousand units with an area of 182,312 thousand hectares to 5,218,525 thousand units with an area of 721,438,622 thousand hectares. Here, the land transactions do not mean land sale and purchase, but a mere transaction between the leasee and leaser. Most of the land transactions between 1996-1999 were leasing, accounting to 90.70 percent of the total land transactions during that period (see Figure 3g).

**Figure 3g. Transactions in the Land Market**

![Graph showing land transactions](http://www.fccland.ru/english/landmare.htm)

*Units, thousands → Area, thousand hectares*


**Land Market Transactions in the Russian Federation, 1996-1999**

Kinds of land transactions:

- Leasing 90.70 percent
- Sale of the right to lease land 0.16 percent
- Sale of state and municipal land 0.43 percent
- Sale by individuals and legal entities 5.59 percent
- Grants 0.43 percent
- Inheritance 2.83 percent
- Mortgages 0.02 percent

On 15 June 2001, the Russian Duma (Parliament) approved the Land Code Bill, allowing buying and selling of not more than 10 percent of land in the country. The importance of this law lies in the fact that it has great socio-economic and political implications for the creation of new type of agrarian organisation in Russia.

It is evident from the available data on land sales (see appendices for Figure 3h) and other market transactions that for a variety of reasons, the Russian land market is still primitive. Almost decades after its introduction, achievements of land reform include the establishment of a legislative foundation for private ownership of land and land market. But the kind of land market that has been developed is of a different nature. Since new laws are expected in future with the latest introduction of Land Code Bill, which might allow direct sales and purchase of land, thus creating a real land market in Russia. However, it remains to be seen what kind of market will Russia have, and how active a market will be, to what extent will it reflect forces at work, which will have a preponderant influence on the market and reorganisation of the large-scale farming into market oriented co-operatives.

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Property Rights in Russia: A Theoretical Perspective

Property... is a much vaguer and complicated concept than is usually imagined and, as such, is more a subject of inherently 'unscientific' historical and political inquiry than an object of theoretical economic analysis.\(^8^0\)

Property rights had been an important matter in Russia and other former socialist economies. 'Property rights' had been described as "sanctioned relationships among people or organisations that arise from the existence of scarce goods pertain to their use and were sanctioned by norms, customs and laws".\(^8^1\) Although privatization principally involves the legal transfer of property rights from the state to the individuals, the recognition of different kinds of ownership rights actually becomes even more complicated during and after the process.

Russian reformers found theoretical support for the dominant paradigm among economists for understanding the political economy of property rights.\(^8^2\) Transaction-cost economics suggests that the principal obstacles decollectivisation faces, come from the costs of dividing property and assigning title. The official model of agricultural reform promulgated by Russian Government in July 1994, the "Nizhny Novgorod Model", accordingly assumed that collective farms would be productively reorganised from within, if the administrative costs of their breakup were borne from without by local and federal government.\(^8^3\) Reformers

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\(^8^1\) Sun Laixiang, "Emergence of Unorthodox Ownership and Governance Structure in East Asia: An Alternative Transition Path", United Nations University/WIDER, UN, November 1996, p. 10.


\(^8^3\) Ibid., p. 719
justly criticize collectivised agriculture because of its inefficient labour, land, machinery and fertilizer in production of crops and livestock.

In the entire history of mankind, not a single state has concentrated such a vast share of property in its hands - over 95 percent, and not a single state has used it with such a low degree of effectiveness. The test of public property has proved ineffective in bringing the factors of production together to nurture their full capacity as efficient producer. It has also proved that social ownership of land and other means of production would not lead to economic efficiency. The inherent cause is that while social ownership is an ideological as well as political phenomenon, where as the economic efficiency is a profit driven phenomena. Economic efficiency is always based on cost-benefit analysis, where as social ownership is based on ideological factors.

The Bolsheviks' idea of abolishing the market and state regulation of all affairs is vehemently criticised, at least in present day Russia. Economic relations cannot be regulated by command, it is always driven by market forces, which is spontaneous and automatic. People won't be fed by themselves, until you feed them. And your (state) sense of responsibility, which makes them fed by you, is the only incentive, which has made the Russians unproductive and inefficient. The situation of public power can not simultaneously be the subject of management. But the state must, of course, create favorable economic conditions.

As Masarskii puts rightly that, "it is my deep conviction that property is the most reliable guarantee of freedom and freedom is the basic value of the human

85 Ibid., p. 36
individual that cannot be abolished by decree". So there could be of two types of property, one is private and the other is state. There seems to be various forms of production relations between these two types of ownership. Collective property is essentially private property. In private ownership, the production relationship is collective. So collective property is not the same as state property. State property is owned by the state. Both the ownership and production relationship are of the state.

Property means responsibility. It is believed that collectives in the form of the artel or mir were inherent in the earliest economic relations in Russia. But artel / mir is a mode of coupling only live labour. People always came to the artel with their own tools. The artel does not have its own fixed capital. The artel uses it temporarily, leases it, but does not lay claim to it. It is an aggregate of workers, a form of economic management. Erosiveness and the lack of one’s own share is the sign of an artel or a collective farm.

The collective form is unacceptable even as a transitional form. Before it is too late, this sort of property relationship or collective/state ownership should be disbanded and later, set up a cooperative based on principles of market mechanisms. The true genuine cooperatives are based on voluntary association and cooperation. The present situation in Russia is an opportunity to reorganise the old large farms for true cooperatives and reorient them to market principles.

The transformation of property is not an end in itself. The transition in all the former socialist countries has shown that radical economic reform, democratization of the economy and the formation of new economic and social relations are

86 Ibid., p. 39
87 Ibid., p. 39
88 Ibid., p. 39
impossible without the de-statization of economic and all social life. De-statization and the elimination of state monopoly in the agro-economic sphere are the main conditions of market reforms in Russia. The monopoly of state over public property needs to be abolished to end the inefficient production relations. The market economy demands private property, collective or individual, which can use the resources to full capacity and grow.

The de-statization of property and the development of forms of property based on private ownership and new forms of economic management in Russia are the basic preconditions for market economy.

Free commodity producers, who may be individual entrepreneurs, cooperatives small enterprises, or large establishments and farms, comprise the basis of market relations. To become full-fledged agents of market relations, these agents aimed at three basic conditions: (i) the driving motives of them are profit extraction (ii) freedom of action according to the needs of market principles or behaviour, (iii) economic responsibility for the results of management, that means organisational efficiency for profit is a risk bearing factor.

But it is important that de-statization and privatization be organised and carried out in phases. The approach should be gradual as the economy takes off slowly towards market relations. The monopoly over property and other assets of the state has proved its sluggishness and its inability to adapt to the peoples' changing needs. So, the privatization of property and other assets of the state are the only option to harp on market reforms in Russia.

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91 Ibid., p. 54.
92 G. Melikian, op. cit., p. 59.
It is important to look back to the basics of Russian classical ideology, which kept the economy in bondage for around seven decades. Does the recognition of private property mean a departure from Marxism? From the letter of Marxism undoubtedly, yes. In the Manifesto of the Communist Party, K. Marx and F. Engels already proclaimed the elimination of private property as the essence of the transition to a new society: “Communists can express their theory, they wrote, with a single principle, the abolition of private property”.94 This programme document of 1848, which bears much relevance today for Russia’s reforms, must be brought into light. Russia is no more an ideal Marxist state. After the disintegration of Soviet Union in 1991, Russia entered into a new era of democratic management and market economy. So the old order must be transformed into a new one. The transition from the command, centrally planned economy to a market oriented economy demands privatization of property and freedom of economic management. Agriculture is no exception. Property (Land) is the base of agriculture. In Russia, the vast landed property can only be efficiently managed when it is handed over to the individual peasants.

But the process should be gradual. The seventy years of socialization can not be changed overnight, as the socialised mindset takes time to understand the new phenomena - the phenomena of market. General nationalisation and general de-statization are twin brothers. Both can have only one consequence - stagnation and economic disintegration.95 So the transition from one form of property to another should be done with the framework of the law and according to the accommodative capacity of the people to the new economic parameters. The 1993 Constitution of Russia guarantees private form of property (see Appendices).

94 V. V. Kulikov, ibid, p. 37.
95 Ibid., p. 41
Farm Reorganisation Projects

Farm reorganisation projects, designed to actually change the manner in which agricultural enterprises conduct farming operations, have been undertaken in the past several years by the International Finance Corporation and by the United Agency for International Development. Such donor-assisted programmes have attempted to reorganise large agricultural organisations into a number of smaller, more efficient farms.

Nizhny Novgorod Model

A very elegant solution to the legal aspects of privatization, which has become known as the “Nizhny Novgorod Model”, was developed by Dr. Vasily Yakimovitch Izun and Dr. Natalya Ivanovna Shagadia of the Russian Academy of Agrarian Sciences. This experiment was undertaken with financial assistance from the US Agency for International Development and the British “Know-How Fund”. It was implemented by the International Finance Corporation and the Agrarian Institute of the Russian Academy of Agricultural Sciences. It involved the division of six former states and collective farms located in various parts of Nizhny Novgorod oblast. This proposition tried to niche out a definition of agrarian reform, which might be acceptable to all the relevant constituencies as to the objectives of the “reform” process in agriculture, is a major stumbling block in Russia. Without a consensus

regarding objectives, it is easy to keep an endless debate alive, and impossible to
move on to the subsequent and more important second question, namely, “how do
we get there from here?”

In the Nizhny Novgorod Model, named after a pilot project in Nizhny Novgorod
Oblast sponsored by the International Finance Corporation (IFC, an affiliate of the
World Bank), collective farms were divided and their land and property were
auctioned to syndicates of their working and retired members. Members receive
farmland entitlements on a per capita basis, and property entitlements according to
their length of employment and wage history.

The Chernomyrdin Government had “recommended” that Nizhny Novgorod
model of auction privatization be applied throughout Russia, and sought to
“disseminate” knowledge of it. He signed a decree (April 1994), which
permitted state and collective farms to auction land to their members and workers
on the model of the experiments in Novgorod, where the International Finance
Corporation had conducted experiments during 1993 in the dismantling and sale of
collective and state farms. The personnel of such farms, having decided that they
wish to dismantle their farms, would be issued with vouchers entitling them to part
of the land and machinery.

Most importantly, the five collective farms that participated in the Nizhny
Novgorod model were granted substantial credits. Since the general financial

98 A. Reed, “Privatization and Agrarian Reform in Russia”, Downloaded from:
99 Michael S. Kochin, “Decollectivisation of Agriculture and the Planned Economy,” American
100 Ibid., p. 735
101 Carol Scott Leonard and Eugenia Serova, op. cit., p. 381
Economics, 45 (3), September 1994, p. 335.
situation of Russian government as well as the agricultural sector and the newly created farms were in deep crisis, this model would not serve as a test of the success of private farms cut off from state-controlled resources.

Those who favoured Nizhny Novgorod model claimed that assignment of property rights was the great “transaction cost” preventing decollectivisation. Yet even when this breakup cost was overcome, when private farms had already been formed, they did not usually succeed. As is clear from the instances that the number of private farms became stagnant throughout the transition, after an initial rise in 1992.\(^{104}\) As of the fourth quarter of 1993, for every 100 private farms created, 52 stopped operating.\(^{105}\)

This experiment of privatization under the IFC - introduced auction of land and property shares. The idea was to create a model in Nizhny Novgorod of how privatization through auctioning off communal assets in exchange for certificates can work.\(^{106}\) Following the 27 October 1993 Decree, when the peasant received certificates, they realized that the state was really out of agriculture at last. The withdrawal of the state from agriculture is economically problematic. This process was guided by ideas of 19\(^{th}\) century liberalism, which sees no role for government in the process of production. It is doubtful whether this thesis will stand up to critical scrutiny in the case of agriculture. Sustained agrarian growth may need government support; when it is withdrawn, agriculture is threatened with destruction.\(^{107}\)


\(^{106}\) Carol Scott, op. cit., p. 381.

This approach also emphasizes the education of shareholders regarding their rights and responsibilities, allocates agricultural assets ownership via an open process and encourages shareholders to voluntarily combine them in whatever configuration they alone deem most effective in a bottom-up process. The argument made here, however, is that much of the potential created as a consequence of the privatization work is lost when it is implemented in isolation, with insufficient recognition of the complementary role as yet inadequately played by the other "pieces" of the agrarian reform jig-saw-puzzle.\textsuperscript{108}

After an initial experiment of the model it became evident that, the great majority of enterprises receiving reorganisation assistance have not been broken up to any significant degree.\textsuperscript{109} Although there was hope among the observers that enterprises emerging from such reorganisation would divide into smaller units in the future without further assistance from foreign technical advisors, but this remains an open question.

Creation of Voluntary Efficient Agricultural Co-operative

The process of reorienting the co-operative structure in Russia was determined by the three following basic factors:

- The process of transforming the economy from a centrally planned system to a market oriented one.

- The importance of adopting the co-operative principles/co-operative structure to the new social and economic environment.

- Harmonising the reorientation of the co-operative structure in Russia with co-operative standards of other developed countries.

\textsuperscript{108} A. Reed, "Privatization and Agrarian Reform in Russia", downloaded from: http://www.fadr.msu.ru/archives/mailing-list/priv-agr/art-eng/msg00000.html

\textsuperscript{109} R. L. Prosterman, et al., op. cit., p. 1398.
All these basic tasks essentially mean the transformation of the old collective and state farm sector to genuine co-operatives based on voluntary membership market economy. Transformation to a market economy means that the present shape of the co-operative sector needs to be changed; its objectives, tasks, organisation and activities have to be changed. Because of the depth of the necessary changes and the general conditions, particularly economic conditions, under which these changes are being implemented, it should have become gradual and systematic in order to minimise the cost of the process.

But under the present conditions prevailing in Russia, it seems that the process has become very slow and unsystematic and haphazard. There were inherent reasons within and outside the agricultural sector for the slow pace of development. As has been suggested by the World Bank that "a well-managed three to five year programme of agricultural adjustment, in conjunction with an appropriate mix of new investments, could move the sector towards greater efficiency and a path of sustainable growth".\textsuperscript{110} The Russian government could not meet the demanded needs of the sector. The farmers too could not organise themselves to produce efficiently under the market economic conditions, particularly in the renamed collective and state farms (joint-stock companies). Though the small farms of different kind have proved however, better efficiency than the large-scale sector.

Transformation of the collective and state farms to new genuine co-operatives means that the present shape of the co-operatives has to be changed. It has been studied during the transition that the tendency of the Russian farmers to work in close co-operation even among the newly created peasant farms. It is assumed that

the market economy will provide the chance to reintroduce authenticity to co-operative organisation. However, in order to do this, the co-operative principles need to be applied to every day activities.

The newly created joint stock companies need greater economic freedom, independence from the state and the possibility to implement more efficient management methods than the old collectives those which have retained the previous status. But both the categories of farms can be transformed into genuine co-operatives, provided that the present co-operative law in Russia be modified and changed according to principles of voluntary co-operatives and market conditions. Apart from this the members and other workers of the co-operatives need reorientation to work under the market condition.

The field for a co-operative structure lies there in Russia. Farming collectively and enjoying community life is a historical phenomenon. Now at the present condition, the base for community (group) production is the same as it was in the Soviet regime. The only need is to make these old inefficient farms, reorganise new voluntary co-operatives with orientation to market principles. The co-operative sector should vow to become a form of economic mobilisation of social groups with identical or similar interests, based on the principles of self-help and mutual aid. In fact, contrary to the joint stock companies, these co-operatives would satisfy defined needs and not to achieve maximum profit. But Russia’s restructuring process did not adequately take into account the existing difficulties. Being inappropriately implemented, it created new problems and difficulties to the prospects of co-operatives.