A Troubled Path to Private Property: Agricultural Land Law in Russia

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August 7, 2009
Abstract:

When the Soviet Union collapsed many observers hoped that decollectivization would improve the infamously inefficient Soviet agricultural sector and raise collective farm workers out of poverty. The initial results of market reform in Russian agriculture were a severe disappointment in both respects. Under Putin, Russia has finally allowed agricultural land to be bought and sold. The effects of this latest reform have been less than was hoped by supporters or feared by opponents. Russia’s experience with land reform suggests that while private ownership of farmland may offer significant advantages, successful land reform requires much more than the creation of legal rights. This article explores the role of property law in post-Soviet Russian agriculture and charts the development and effect of land markets in rural Russia. It has broad implications for the effects of land privatization on agriculture, the barriers to creating well functioning land markets, and the significance of property law for economic development. The article also contrasts Russia’s land reform with the agricultural land policies of its two most similar neighbors, Ukraine and Belarus.
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I. INTRODUCTION

Nearly two decades have passed since the fall of the Soviet Union and the introduction of a market economy. Though much has been written about the privatization of Soviet industry and natural resources, the development of Russian corporate governance, and the opening of the Russian economy to foreign trade and investment the effect of reform on Russian agriculture is often overlooked. Within Russia, the privatization of agricultural land was among the most controversial of the post-Soviet reforms and was resisted more strongly than privatization of housing or industry. Agricultural land is subject to a different legal regime than land in cities and rural settlements and the controversy over agricultural land reform lasted long after the privatization of urban land, housing, and industry. Yeltsin’s reforms had given collective farm workers “land shares” in the land of their collective farms but did not allow them to be bought or sold. Agricultural land has not made alienable until after President Putin secured control of the Duma following elections in 2001. This latest reform finally permitted the sale of agricultural land and facilitated the creation of a land market in rural areas for the first time since the Russian revolution.

Russia’s partial land reform of the early 1990s and new agricultural land law of 2002 make for an instructive case study of the role of property law in agricultural performance and rural development. Disentangling the role of property law in the transition to free market

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1 I am grateful to Robert Ellickson of Yale Law School for guidance, encouragement, and extensive comments on an earlier draft of this paper and to Stephen Wegren of Southern Methodist University for a probing conversation on the state of Russian agriculture and assistance in locating Russian language sources on this topic.
agriculture may shed some light on the significant of private land ownership in free market systems. In the past two decades, Russia has moved from state ownership of agricultural land to collective ownership and now, gradually, toward private ownership. With the fall of communism and the introduction of a market economy, there were hopes that Russian agriculture, long a weak point in the economy, would become more productive as collective farms were replaced by private enterprise. Because small household private plots famously accounted for a high proportion of total Soviet agricultural output despite their small land area, many observers hoped that market reforms would free rural households to replace the large collective farms with private household owned farms. As Stephen Wegren put it “private farming is important because farm restructuring and land privatization were expected to transfer considerable land and property resources into private hands, thereby transforming Russian agriculture. At the outset of reform it was expected that a new class of rural entrepreneurs would come to dominate rural production, as large farms receded into large numbers of smaller farms with higher efficiency.”

As this paper will show, these hopes have not yet been realized and probably rested on a misunderstanding of Russian agriculture. Instead, privatization of agricultural enterprises and the introduction of market prices caused a collapse in agricultural production in the 1990s accompanied by a fall in the standard of living of most rural Russians. Smallholder private farms did not become an important force in Russian agriculture in the 1990s, which continued to be dominated by the former collective farms. Most rural Russians viewed land privatization and decollectivization with skepticism if not outright hostility because even inefficient collective farms provided services to households that could not be easily replaced. Moreover, the Russian

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government provided almost no assistance in restructuring the agricultural sector leaving new entrepreneurs to fend for themselves without the institutions necessary to support new kinds of agricultural enterprises. The steady recovery of Russian agriculture over the past decade has left the agricultural sector still dominated by the same peculiar combination of very large former collective farms and very small family owned private plots that characterized Soviet agriculture.

Putin’s new agricultural land code, which finally permitted the sale of agricultural land, has had only a limited impact on Russian agriculture. To a significant extent, long-term rental contracts have allowed owners to shift the burdens and benefits of landownership to tenants. Russia’s extremely convoluted recordation system and the small size of most land parcels discourage land sales. Finally, the Russian government never created the necessary financial, legal and economic institutions to support collective farm workers who wished to leave the collectives to start private farms. Even as renewed state support and efficiencies brought by market pricing have fostered agricultural expansion under Putin, the economic significance of private land ownership appears rather modest. For all of the ideological significance of private ownership of farmland, the Russian experience counsels skepticism about predictions of speedy gains from agricultural land privatization. Furthermore, successful land reform requires investment in new institutions, rather than mere changes in legal rights.

The fate of Russian agriculture also has significant future implications. A decade ago Russia appeared to be dwindling in economic and political influence. After nine years of strong economic growth, Russia has reemerged as a significant force in the global economy. As Russia reasserts itself on the world stage and reaches the limits of economic expansion based on oil and gas exports, the performance of its agricultural sector will play a significant role in whether its economic growth will continue. Though Russia has been a mainly urban country for more than
half a century, 10% of the work force is still employed in agriculture. By comparison, the analogous figure for the United States is 2%. Rural Russians and agricultural workers in particular make up a disproportionate share of Russia’s poor. Despite most of its territory not being arable, Russia has the forth largest area of cropland in the world after the United States, India and China. This land is not especially productive. Part of the reason is geographic: most of European Russia compares unfavorably with Canada in terms of climate for agriculture. However, Russia was a significant grain exporter before the revolution and large parts of Southern Russia have considerable agricultural potential. In the past several years, Russian and Ukrainian agriculture have once again become a target of foreign investment. It is unrealistic to expect Russia to be a leader in world agriculture. However, if Russian agriculture were to cease being a drag on the economy, this would make a very substantial difference for the position of Russia in the world economy and for the standard of living of a substantial portion of its population.

Despite considerable initial interest in legal circles concerning land privatization in Russia, very little has been written on the subject in Anglo-American legal academia since the Putin reforms of 2002. This paper seeks to fill that void. It begins by providing a brief historical background of Russian agricultural and agricultural land relations through the collapse of the Soviet Union. I will then examine the partial reforms enacted around the time of the

collapse of the Soviet Union and the ensuing decade of troubles for Russian agriculture. After outlining the changes in agricultural land law under the Putin administration, I will explore the effect of these reforms on Russian agriculture and compare Russia’s experiences with those of its most similar neighbors, Ukraine and Belarus. I conclude with some reflections on the results of two decades of reform, recommendations for future reforms, and a few broader implications of the Russian experience.

II. HISTORICAL BACKGROUND

A. Agriculture in Tsarist Russia

Until the mid-twentieth century, Russia was a largely rural country. Most of the Russian population lived in the countryside and engaged, at least part time, in agriculture. Before emancipation of serfs in the 1860’s the vast majority of peasants were serfs who were bound to the land they worked. This land was owned either by aristocratic landowners or directly by the Tsar. In many cases, aristocrats were absentee landlords who devoted relatively little attention to their estates. Serfs owned either an annual cash payment or a fixed amount of labor to the local landowner. Regardless of the legal status of agricultural land, the peasants tended to view themselves as the true owners of agricultural land by virtue of being the ones who worked it. This peasant moral economy persisted into the Soviet period and contributed to resistance to collectivization.

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7 Free peasants were only the norm in Siberia and in the Cossack villages of the Russian South. Serfdom was prevalent in most of the central black earth areas of southern Russia as well as the non-black earth parts of central and northern European Russia.
8 In many cases, landowners acquired their estates through service to the Tsar. They often had multiple holdings spread throughout the Russian Empire.
9 DAVID A. J. MACEY, GOVERNMENT AND PEASANT IN RUSSIA, 1861-1906 7 (1987)
Peasants in most areas of Russia, Belarus, and eastern Ukraine belonged to communes, which usually consisted of a single village. The peasant commune managed the surrounding fields tilled by the villagers and divided land between families on the basis of the number of workers in each family. Many communes conducted periodic repartitions to rebalance holdings as families changed in size. Households were generally given multiple strips of land distributed throughout the communes holding. This served to diversify the holdings of individual families and equalize the quality of land farmed for different families, but at the cost of considerable inefficiency. The peasant commune was also responsible for the payments of feudal obligations to the lord of the land and for resolving civil and minor criminal matters. There is some controversy concerning the causes of the communal organization of Russian rural society. Some scholars see communal agriculture as a response to Russia’s short growing season and consequently risky environment while others argue that communal agriculture originated in Russia when land was not scarce and private entitlements to land therefore relatively unimportant.\textsuperscript{10} Whatever its original rationale, the peasant commune became an important tool for maintaining control over the countryside and extracting tax revenue from the peasantry. In 1766 the state adopted a policy of organizing all serfs on state lands into peasant communes.\textsuperscript{11} At times, the state seems to have encourage repartition as a means of ensuring that even the poorer peasants had enough resources to be a part of the tax base.\textsuperscript{12}

After the end of serfdom in the 1860s, land was divided between aristocratic landholders and the state. The landed aristocracy retained a large part of their estates and paid peasants to

\textsuperscript{11} Most state serfs were already members of peasant communes. This order made communal organization a matter of national law rather than merely peasant custom.
\textsuperscript{12} ESTHER KINGSTON-MANN. IN SEARCH OF THE TRUE WEST 58 (1999).
work their estates. The state retained ownership of agricultural land intended for cultivation
directly by the peasantry. This land was managed by peasant communes, which were to
compensate the state for the land they received through “redemption payments.” These
redemption payments stretched over forty years and were burdensome for many peasants.
Following emancipation, the economic position of peasants remained precarious because of
increasing population density and low agricultural productivity. Recent research suggests that
agricultural productivity did slowly improve in the half century before the revolution and the
condition of most peasants probably improved, albeit from a very low base.\textsuperscript{13} Periodic famines
continued into the twentieth century.

The peasant economy lacked private land ownership in the form of the fee simple, but,
nevertheless, individual peasant families tended to cultivate the same strips of land from year to
year. Since the land was owned by the commune and at least in theory subject to repartition at
any time, peasant families could not sell the land that they were allotted by the commune.\textsuperscript{14} This
system allowed some of the advantages of private ownership while providing some degree of
insurance in the face of Russia’s challenging growing climate through periodic repartitions to
insure continued access to land. It was not, however, a formula for rapid innovation or
productivity increase. The state collected taxes through peasant communes but otherwise tended
to take a hands-off approach to the peasantry in the later nineteenth century.\textsuperscript{15} The communal
organization of peasant society had been criticized as hampering the economic development of

\textsuperscript{13} Stephen F. Williams, Liberal Reform in an Illiberal Regime: The Creation of Private
\textsuperscript{14} Sheila Fitzpatrick, Stalin’s Peasants 22 (1994).
\textsuperscript{15} David A. J. Macey, Government and Peasant in Russia, 1861-1906 9-10 (1987)
the countryside since at least the 1840s. On the other hand, many Russians of greatly varying ideological persuasions believed the communes to be crucial for maintaining the rural social order and well suited to the collectivist mindset of the Russian peasant. In any case, the burgeoning peasant population led to increasing land hunger and general rural discontent throughout the later nineteenth century. In 1900, grain producing land per peasant stood at half the level of 1800. The output of this land, however, averaged only a third of that typical in Western Europe. By the 1905 revolution, the question of rural land ownership and management was bitterly contested with the largest leftist party, the Social Revolutionaries, favoring the abolition of private ownership of land and most rightists partially or completely opposed to land reform.

In response to the crisis conditions in the countryside and resulting political instability, Prime Minister P. A. Stolypin initiated a significant land reform in 1906. This reform facilitated the partition of peasant communes and peasant acquisition of new land to create a class of small-holder peasant proprietors. A further reform simplified privatization of communal land and abolished those communes that had not conducted a repartition since emancipation. Stolypin also encouraged peasants to consolidate their holdings in an effort to remove some of the inefficiencies associated with the traditional Russian system of land tenure under which peasants

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16 For a view contrary to this conventional wisdom, see Esther Kingston-Mann, Peasant Communes and Economic Innovation: A Preliminary Inquiry, in Peasant Economy, Culture, and Politics of European Russia, 1800-1921 23 (Esther Kingston-Mann & Timothy Mixter eds., 1991). Kingston-Mann found that peasants in communes were less likely to innovation, but that innovations which proved successful spread more quickly among peasants in communes than those living outside of communes.

17 The structuring of agricultural production for reasons of social control is echoed by the collective farm system imposed by the Soviets.


19 Id. at 12.

were allotted strips of land spread across the communes holdings. The pace of reform was slow, however, as some communes resisted members seeking to leave. The Stolypin reforms also included some restrictions on peasant land ownership. Peasants were not permitted to sell plots to non-peasants or to mortgage their land. The new laws also imposed a limit on the amount of land that could be owned by a single peasant household.21

Nevertheless, by 1915, half of all peasant households owned their land.22 The last years before WWI saw a significant rise in agricultural productivity and it appeared that Stolypin’s reforms were succeeding in changing the structure of agricultural production.23 Though Stolypin reforms were interrupted by world war and revolution before they could fundamentally remake the Russian countryside, they are still remembered as one of the most ambitious reforms of the late Tsarist period. Many contemporary private farmers in Russia interviewed by geographer Tatyana Nefedova viewed themselves as, in some way, successors of the “Stolypin” peasants of the early 20th century.24

B. Soviet Agriculture

Agricultural development was halted by the First World War, revolution and subsequent civil war. Beginning with the fall of the Tsarist government in February 1917, peasants seized land for themselves by expropriating wealthy landholders and redistributing the land amongst

21 *Id.* at 119-121.
22 *ZHORES MEDVEDEV, SOVIET AGRICULTURE* 15-6 (1987).
23 There is a long-standing historiographical debate regarding the effectiveness of the Stolypin reforms. The traditional view amongst both Soviet and western historians has been that the Stolypin reforms were not successful either economically or politically. This conventional wisdom has been challenged recently by David A. J. Macey and Stephen Williams.
24 *TATYANA NEFEDOVA, SEL’SKAYA ROSSIA NA PEREPUT’YE* 244 (2003).
themselves using the traditional distribution mechanisms of the peasant communes.\textsuperscript{25} At this time, most independent “Stolypin” peasants were reabsorbed back in peasant communes and participated in the redistribution of the nobles’ land.\textsuperscript{26} The chaos of the civil war and the use of communal repartition to allot land seized from the gentry increased the importance of peasant communes, which had appeared to be in decline as a result of Stolypin’s reforms. After the Bolshevik revolution, all land was declared state property. However, the Bolsheviks did not exercise effective control over the country for most of the next several years and in any case required peasant support or at least cooperation in their battle against the Whites. The civil war brought chaos to the countryside as both sides sought to control food supplies often coming into conflict with peasants in the process. Land remained in the hands of the peasantry after the war and the 1920s were a time of relative rural prosperity.

After Stalin consolidated power in the late 1920s, the Soviet government turned to restructuring agricultural to conform with Soviet ideological predilections and extract resources from the agricultural sector to be used in industrialization. Peasants were forced to join collective farms and resistance was brutally suppressed. The ensuing chaos created a famine in some of the most fertile areas of the Soviet Union, which the regime cynically used to coerce peasants onto collective farms into the industrial labor force. The Russian poet Boris Pasternak, dispatched to the countryside by the government to report on the triumphs of socialist agriculture was so traumatized by what he saw there that he was unable to write anything at all for the next year let alone paeans to collectivization. Collectivization proved to be a disaster. Agricultural output

\textsuperscript{26} ZHORES MEDVEDEV, \textit{Soviet Agriculture} 24 (1987)
crashed; the number of cattle decreased by 40% and the number of pigs by 33%. Mills were killed, exiled from their villages or fled the countryside to work in rapidly expanding Soviet industry. When the dust cleared the Russian and Ukrainian peasantry was subdued but Soviet agriculture was in shambles. Many peasants felt that they had been reduced to a condition of virtual serfdom – some even grumbled that the initials for the All-Union Communist Party, VKP, was a secret code for vtoroe krestnoe pravo or second serfdom. Peasants, who had fought for decades to retain their traditional rural way of life in the face of industrialization and state interference, despaired and set their sights on moving the cities.

Soviet agriculture never fully recovered from the trauma of collectivization. Grain production did not surpass 1913 levels until 1952 and the number of Soviet livestock equaled the 1928 figure only in 1956. Despite increasing mechanization, agriculture increasingly became a drag on the rest of economy as industry and natural resource extraction grew after WWII. The increasing prosperity of other sectors of the Soviet economy allowed the government to subsidize agricultural and better support the rural population. After years of relative neglect, state investment in agriculture increased by six times between 1965 and the fall of the Soviet Union. Return on investment was not impressive, but output did improve. After 1965, procurement prices for agricultural products increased over the rest of the Soviet period. By the end of the Soviet period, the state subsidy for food was estimated at a shocking 11% of GDP.

29 Zhores Medvedev, Soviet Agriculture 95-6 (1987)
30 Grigory Ioffe, Tatyana Nefedova & Ilya Zaslavsky, The End of Peasantry? 26
32 Id. at 573.
Though the standard of living of rural Russians lagged behind that of urban Russians throughout the Soviet period, the post-war period saw steady improvements in rural Russia. Electricity was introduced in most rural areas by the 1960s. However, in 1966 half of rural settlements in northern European Russia still lacked electricity. Control of the large pool of poorly paid and often demoralized collective farm workers was a serious concern for the Soviet government. Collective farm workers were not issued internal passports until the 1970s so that they could not travel to cities without permission of the local authorities. This policy succeeded in keeping a large portion of the population in rural areas despite the low productivity of agriculture. Rural Russians in the late Soviet period typically aspired to move to cities and as young people moved away in large numbers and the birth rate declined, the population of Russian villages began to age very substantially.

Soviet agriculture after collectivization was divided into sovkhozy (state farms), kolkhozy (collective farms), and subsidiary household production. In theory sovkhozy were owned by the state and managed like industrial enterprises with the workers being state employees while kolkhozy were owned by the workers who could keep some portion of any “profits” earned by the enterprise. In practice, sovkhozy and kolkhozy functioned similarly and both were typically referred to as “collective farms” in the West despite the differences in their legal status. Production decisions were typically made by a centralized bureaucracy and implemented by farm managers. Because of the inefficiencies of collective farming, kholkozy often went bankrupt and

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33 Grigory Ioffe, Tatyana Nefedova & Ilya Zaslavsky. The End of Peasantry? 23
34 This was also the case for other Republics with Slavic majorities including Ukraine and Belarus. The birth rate remained higher in Central Asia and most areas of the Caucasus Mountain region.
were gradually replaced by sovkhozy. Though kolkhozy cultivated 93% of arable land in 1940 this figure had fallen to 40% in 1985.\(^{35}\)

Subsidiary household production was permitted on plots of land allotted to workers for this purpose. Household land plots were small, typically only one third to one half a hectare,\(^{36}\) but relatively productive. Soviet agriculture was infamous for the disproportionate role of subsidiary production: in late Soviet times the 1.6% of arable land devoted to subsidiary produced about 30% of the country’s agricultural output.\(^{37}\) This fact led some observers to believe that a transition to private farming could be made relatively smoothly. As became clear later, this rested on a misunderstanding of the role of subsidiary agriculture in the Soviet system. In fact, subsidiary production was extreme labor intensive and was accomplished with relatively little use of machinery, which was not designed for this form of production.\(^{38}\) Moreover, some crops are more suited to subsidiary production than others: in 1985 60% of potatoes were produced in private plots whereas only 1% of grains were grown in subsidiary plots and this 1% was almost entirely corn,\(^{39}\) which was usually used to feed cows or pigs kept by the household.

### III. Geographic Overview

#### A. Russian Agricultural Geography

There is a long running debate about the relative responsibility of geographical and socio-political factors for the sorry state of Russian agriculture. Though this paper will focus on socio-political, and specifically legal, determinants of agricultural performance, geographical

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\(^{35}\) Zhores Medvedev, Soviet Agriculture 96-7 (1987)


\(^{37}\) Zhores Medvedev, Soviet Agriculture 364 (1987)

\(^{38}\) Id. at 365

\(^{39}\) Id. at 366
considerations are without a doubt also highly important. Because of Russia’s notoriously extreme climate, the north-south gradient is more significant than the east-west gradient in the vast majority of the country. Agriculture is a significant part of the economy in most of European Russia and southern Siberia, but tends to be concentrated in the south. The main grain growing regions of western Canada are similar to Ukraine in terms of climate and more favorable than all but the southern part of European Russia.\textsuperscript{40}

Three more or less contiguous regions are of particular interest. These are the central black earth region in southern Russia along the border with Ukraine, the plains to the north of the Caucuses Mountains including the Kuban, Donbass and Staropol Krai, and the lower Volga river region. Together, these regions account for nearly all Russian land that is favorable for agriculture in terms of temperature and humidity.\textsuperscript{41} The central black earth region of northern Ukraine and southern Russia is the historical cradle of Eastern Slavic civilization. In Russia, it includes Belgorod, Kursk, Tambov, Voronezh, Oryol, and Lipetsk Oblasts. The name black earth itself refers to the type of soil found in the region, which is the richest and best for agriculture of all soils in Russia.\textsuperscript{42} This was the center of the Russo-Ukrainian population before the Mongol conquest depopulated large parts of the region and drove many Slavs to the forests of the North where Moscow and surrounding principalities gained in strength. The central black earth region is divided today between Russia and Ukraine, but growing conditions are similar on both sides of the border. This region has many of the more densely populated areas of rural Russia though there are also a number of medium sized provincial cities. Despite its agricultural

\textsuperscript{40} Tatyana Nefedova, Sel’skaya Rossia na Peresut’ye 264 (2003).
\textsuperscript{42} Technically, not all of the soil in the region is black earth soil – some areas have richer soils than others.
promise, the black earth region has not, for the most part been a leader in land reform or the establishment of new private farms.

To the south-east of the central black earth region and to the east of Ukraine lie the steppes of Rostov Oblast, Krasnodar Krai, and Stavropol Krai. This region, which includes the lower parts of the Don and Kuban Rivers is one of more recent Slavic settlement. Parts of the region were originally settled by Cossacks – free peasants who tilled the land when not raiding their neighbors or fighting off invaders. Like the central black earth region, much of the land is especially fertile. Large farms are most likely to be profitable in this region and private farms are also fairly numerous today.\textsuperscript{43} Provincial centers tend to be larger and more industrial than in the central black earth region and the area is, on average, somewhat wealthier. Rural settlements also tend to be larger than in the central black earth region where Slavic villages have existed for many centuries more.

To the north and east lies the Volga region. Though somewhat colder than the first two regions, the soil is also favorable for agriculture. The lower part of the agriculture lands of the Volga region area populated by ethnic Russians.\textsuperscript{44} Further north along the Volga there are several autonomous republics occupied partially by ethnic minorities, most prominently Tatars and Bashkirs.\textsuperscript{45} Both groups are traditionally Muslim and speak Turkic languages. Despite their somewhat less favorable geographic location, both Republics have productive agricultural sectors. In part this is because of a greater degree of support for agriculture by the local


\textsuperscript{44}Saratov Oblast was the home of around one million Germans who were deported to Central Asia during World War II. They were mainly the descendents of settlers invited into Russia by Catherine the Great and operated some of the most productive farms in all of Russia.

\textsuperscript{45}Ethnic Russians make up nearly half of the population of both Republics.
governments, however, cultural factors are probably partially responsible for the higher productivity of Turkic villages. Both Russian and non-ethnic Russian areas of the Volga region have seen a disproportionate number of private farms created since the fall of the Soviet Union. There are four cities of around one million residents in this region and a number of other large provincial centers, making the Volga region less rural than the two regions discussed above.

Several other areas of Russia are worth mentioning. The North Caucasian Republics account for a significant number of Russian farmers and agricultural workers. However, this paper will generally not examine conditions there as that region differs greatly from much of Russia in economic conditions, ethnic makeup, and climate. It also features several regions with varying degrees of political instability. Parts of the steppes of South-Western Siberia are similar in climate and growing conditions to adjacent parts of southern European Russia. Though growing conditions are less favorable than in the south, other parts of European Russia have historically had a large peasant population. There are still many farms in the non-black earth areas of northern and central European Russia. Many villages in these areas are dying off and large scale agriculture is increasingly confined to the area around major cities.

B. The Decline of Rural Northern Rural Russia

Life in rural Russia has always been difficult. However, as opportunities in Russian cities have increased, depopulation of villages especially in Central and Northern Russia has left a population that is disproportionately old and unfit for work. Some parts of rural Russia, lower prevalence of alcoholism being one of the most prominent.


Namely, Chechya, Ingushetia, and Dagestan.
especially non-black earth villages distant from major cities, may have declined beyond the point of no return. Geographers Ioffe, Nefedova and Zaslavsky estimate that about 30% of Russia’s rural settlements “have either died or are about to do so.” In the Pskov region of northwest Russia, 43% of villages had less than 10 people in 1989. The steep population decline in many parts of non-black earth Russia are a threat to the economic potential of agriculture in these regions. Ioffe and Nefedova suggest that with the possible exception of cattle fattening farms, collective farms are not profitable in areas where population density drops below 10 people per square kilometer.

Some remote villages in the Russian north are almost entirely cut off from the outside world. Nefedova and Pallot visited one such village located along a river and completely inaccessible by truck. The local collective farm had long since died, a fact which the locals did not seem to mind since it left them more time to work their own plots, fish, and gather mushrooms and berries. Pensioners were the wealthiest villagers since they were the only ones who regularly received any sort of cash payment – and this despite the very low monetary value of Russian pensions. Because there was almost no cash economy, villagers purchased very little from the outside world except for cheap liquor, which regularly caused fatal cases of alcohol poisoning.

Alcoholism and general social disarray are serious problems in most rural areas in Russia. Though the Russia countryside has always been regarded as a land of ignorance, indolence and backwardness, social indicators seemed to take a turn for the worse in the late Soviet period. As

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50 Id. at 81.
52 Tatyana Nefedova, Sel’skaya Rossia na Pereput’ye 280 (2003).
Ioffe, Nefedova and Zaslavsky observed “the continuing depletion of Russian villages’ human resources through outmigration has long drained them of people who are the most industrious, sober, and conscious of their own interests.” 53 The demographic problems of rural Russia are compounded by high rates of alcoholism. Rampant alcoholism is responsible for extremely high rates of death from non-natural causes and for birth defects, to say nothing of chronic absenteeism among workers and family breakup. In one rural region studied by Nefedova and Pallot in the far north of European Russia almost one third of deaths were from non-natural causes with alcohol being implicated in many if not most of these. 54 Though most southern rural areas are better off, alcoholism, low life expectancy, and poverty are problems to a greater or lesser extent in villages in all areas of the slavic republics of the former Soviet Union.

Farm managers have recently resorted to such tactics as paying workers in credits redeemable only for food at local stores and even requiring workers to get implants that cause them to become painfully ill from even small quantities of alcohol. 55 One pig farmer in North-Eastern European Russia complained that despite widespread unemployment in his village of 200, he could not find enough workers who would remain sober after their first pay check. 56 Of course, this problem is not new in Russia. Russian historian Boris Mironov recounts how in 18th century Russia a remote village was freed from taxation by the Tsar for some good deed and then forgotten about for several generations. When officials returned to inspect the village after a number of decades, they found it in no better condition than its neighbors despite not being

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53 Grigory Ioffe, Tatyana Nefedova & Ilya Zaslavsky, The End of Peasantry? 15
54 Tatyana Nefedova, Sel’skaya Rossia na Pereput’ye 276 (2003).
55 Grigory Ioffe, Tatyana Nefedova & Ilya Zaslavsky, The End of Peasantry? 93
56 Tatyana Nefedova, Sel’skaya Rossia na Pereput’ye 252 (2003).
burdened by taxes. If anything, the village appeared worse off. Closer inspection revealed that nearly the entire male population consisted of drunkards.  

IV. POST-SOVIET CHANGES IN AGRICULTURE

Land reform was not part of Gorbachev early plans. Gorbachev opposed decollectivization, and instead tried to encourage individual initiative by making it easier for individual households to rent agricultural land. The Soviet government gave permission to Republics to create their own land codes in May 1990, too late for much reform to be accomplished before the dissolution of the Soviet Union the next year. The Russian Federation adopted a new land code for agricultural land in November 1990. The Yeltsin government announced that kolkhozi and sovkhozi were required to restructure themselves in December of 1991. These farms were given three options: reregistration as a collective farm owned by the workers, reorganization as a joint stock company, or disbanding and distribution of assets including land to the workers. In the end, a plurality of collective farms became joint stock companies. Only 4% were disbanded and reorganized as private farms, and it is likely that these tended to be the weaker collective farms. Yeltsin’s decree had originally required farms

57 B. N. MIRONOV, SOTSIAL’NAYA ISTORIA ROSSIA (1999).
60 Id. at 41-42.
61 I will refer to the restructured collective farms as “corporate farms” in the interest of clarity, regardless of their actual legal status. These should be distinguished from “private farms” – farms owned by an individual family or partnership. Recently, some new corporate farms have been created from scratch by new investors. However, until the beginning of this decade, almost all corporate farms were the successors of former collective farms.
chronically in debt to be disbanded if they could not cover their debt in early 1992, but this provision was scrapped after widespread opposition.\textsuperscript{63}

If a collective farm was reorganized rather than disbanded, employees of the farm were to be granted “land shares” – certificates that entitled them to a per capita share of the collective farm’s land. Land shares holders own the land used by a former collective farm in something like the way that stock holders own the assets of a corporation – each land share holder is entitled to a fraction of the total land but no land share holder has an entitlement to any particular plot of land just as stockholders do not have an entitlement to any particular assets owned by the corporation. There were some peculiarities in the distribution of land shares. Land shares were usually given to workers and management on collective farms. This policy excluded rural Russians who were not employed in agriculture (teachers, store clerks, etc.) as well as those temporarily absent from their villages such as men serving in the military. It has been a source of bitterness for those villagers who were left without land after privatization.\textsuperscript{64} Though some collective farm workers created their own enterprises during this period, most workers and managers seem to have opposed breaking up the collective farms. In the vast majority of cases, the former collective farms were restructured rather than disbanded and continued operations much as before.

The new land share holders did, in theory, have the right to withdraw their land share form the collective holdings and receive a plot of land which they could farm or rent to others. This provision was supposed to allow collective farm workers to begin their own private farms. A private farm, sometimes called a peasant farm, is a farm owned by an individual, family or

\textsuperscript{63} Stephen K. Wegren, The Land Question in Ukraine and Russia 41 (2002)

small partnership. Private farms are distinguished on the one hand from corporate farms, i.e. the former collectives, and also from household subsidiary production. Household subsidiary farming is generally done on household plots that are holdovers from the late Soviet era and usually is a supplement to income brought in from other work outside the household. In practice, as households expand production beyond the small plots that they have held since Soviet times, the division between a private farm and household production has become rather murky. However, the Russian government continues to divide agriculture into corporate, private and household production, so official statistics reflect this schematization, regardless of the facts on the ground.

A. Attitudes toward privatization and decollectivization

A major theme in the scholarly literature on contemporary rural Russia is the debate over whether responses of resistance or adaptation to reform predominated in rural areas.\(^65\) This paper will not attempt to resolve this debate. However, it is worth saying a few words about rural resistance to the idea of disbanding collective farms. Though rural Russian are sometimes viewed as irrationally conservative, hostile to markets, collectivistic, and wildly risk averse, skepticism about decollectivization makes a fair amount of sense when viewed in context.

In many, if not most cases, collective farm managers decided how to reorganize the farms.\(^66\) Local governments held farm managers personally responsible for implementing farm reorganization and in any case, white collar workers such as farm directors and agronomists were

\(^{65}\) For the resistance view, see JESSICA ALLINA-PISANO. THE POST-SOVET POTEMKIN VILLAGE: POLITICS AND PROPERTY RIGHTS IN THE BLACK EARTH 86-87 (2007). For an emphasis on rural adaptation, see STEPHEN K. WEGREN, THE MORAL ECONOMY RECONSIDERED: RUSSIA’S SEARCH FOR AGRARIAN CAPITALISM 132-3 (2005). This author is somewhat more sympathetic to the latter view.

best positioned to deal with legal formalities. For farm managers, their position in large farms gave them social prestige, favorable connections, and a good salary by local standards. Farm managers who were so inclined could sometimes set up their own private farms while still keeping the collective farms intact. Though farm managers did not have legal authority to forbid workers to withdraw their land from the former collective farms, they sometimes did so anyway. Alina-Pisano found that local collective farm managers often subverted attempts to create private farms by either convincing local officials not to allocate land to would-be private farmers or giving those leaving the collective farms the worst land.67

Attitudes of workers toward the break-up of collective farms were also often unfavorable. “We’re not going to bury anyone who leaves the collective farm. He’s not going to get a coffin from collective farm timber” snarled one Russian kolkhoznik.68 Resentment of those who tried to better themselves was doubtless part of such attitudes. Despite Russia’s tradition of extreme wealth disparities and social hierarchy, there is also a strong egalitarian strand in Russian culture. In small towns and villages, working for a private farmer who had long been a neighbor or colleague might involve swallowing one’s pride.69 By the same token, private farmers must be careful not to spark resentment among their neighbors. The tradition makes it less likely for ordinary collective farm workers to want to leave their colleagues to become private farmers and more difficult for those who do become private farmers to maintain good relations with their neighbors.

68 SHEILA FITZPATRICK, STALIN’S PEASANTS 320 (1994).
69 TATYANA NEFEDOVA, SEL’SKAYA ROSSIA NA PEREPUT’YE 240 (2003) (discussing the difficulty one private farmer had for this reason finding workers for his new farm).
Surveys of land share owners in two regions by the Agrarian Institute of Moscow in the late 1990s showed mixed attitudes toward private ownership of land. A plurality of respondents in both regions supported private ownership with restrictions on non-agricultural uses and on the limits of the size of individual plots. This suggests that for many rural Russians hostility toward privatization is not necessarily a matter of blanket anti-market sentiment as such, but based on fears of losing control of or access to agricultural land. Given the relative poverty of the vast majority of rural Russians, this was not an unreasonable concern. The break-up of collective farms is usually less popular than privatization of land. Over two thirds of villagers surveyed in Belgorod Oblast opposed the breakup of local collective farm and distribution of their lands to villagers or rental to private farms.

Rural folkways are antithetical to well-functioning capitalist enterprises in other ways. The practice of stealing from state enterprises was both rampant and widely accepted in Soviet times. Though this practice was common to both industrial and agricultural enterprises in Soviet times, farms are particularly vulnerable because their output and assets are immediately useful for household production and consumption. The low wages and rampant cynicism of the 1990s also contributed to the culture of workplace theft: since most Russians of modest means perceived the economic system as fundamentally unfair, they often saw little wrong with taking whatever they could get. Theft norms are accepted, sometimes completely uncritically by a significant portion of the rural population. A survey in rural parts of Belgorod Oblast conducted in 2000 found that 14% of respondents thought that there was nothing unacceptable about taking

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72 A similar mentality also helps to explain the explosion of bribe-taking and petty graft among poorly paid state employees in law enforcement, medicine, education and other areas.
hay from the collective farm to feed one’s own cow. More tellingly, a further 52% judged that this was “undesirable yet generally acceptable.”73 By contrast more than 95% replied that it is entirely unacceptable to take money from another person’s home. Employee theft is sometimes openly acknowledged as part of the moral economy of employment relations. Allina-Pisano relates the story of one private farmer, who, after showing a prospective worker around the farm and explaining terms of compensation was asked, “And where will I steal?”74 Outsider investors who have acquired former collective farms have found these local folkways thoroughly vexing. One farm director in Samara complained that not only did locals steal potatoes from the farm’s fields, he could not hire guards who both did not steal themselves and remained sober enough to prevent others from doing so.75

Anti-market attitudes in Russia should not be overstated. Even in 1990, opinions on questions of economic fairness and the moral limits of the market were surprisingly similar in Russia and the United States and this was near the beginning of Russia’s transition to a market economy.76 Though rural Russian might have been less market oriented than the Muscovites surveyed by Shiller in 1990, it is doubtful that attitudes diverged too greatly. A slightly different explanation for the poor performance of Russian agriculture in the post-Soviet period points not

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76 Robert J. Shiller, Maxim Boycko, & Vladimir Korobov, Popular Attitudes Toward Free Markets: The Soviet Union and the United States Compared, 81 AM. ECON. REV. 385, (1991) (arguing that survey results demonstrate that popular hostility to markets does not explain Russia’s difficulties in moving to a market economy).
to anti-market attitudes per se, but rather to the passivity, risk aversion and pessimism of the rural population.\textsuperscript{77}

Hostility to private farms was not only a product of anti-market, egalitarian ideology or rent-seeking by local elites. The collapse of collective farms threatened the very existence of a complex network of economic activity and social services that most rural Russians depended on to some degree. Under the Soviet system, \textit{kolkhozi} and \textit{sovhozi} were responsible for providing a range of social services including education, medicine and utilities. As late as 2000, 20\% of the operating expenses of collective farms in Ukraine went toward providing such social services.\textsuperscript{78} Because state and local governments typically did not have the resources to provide such services, many rural Russians saw the collective farms as their only realistic source of social support and were therefore not enthusiastic about breaking them up.

Provision of social services was not the only benefit provided by collective farms to workers and nearby residents. The inference from the important role of household subsidiary production in the Soviet economy to the conclusion that rural households could become smallholder farmers with relative ease rested on a misunderstanding of rural economic relations. The relationship between subsidiary household production and collective farms is very often symbiotic. Households often obtain fertilizer and feed for livestock from the collective.\textsuperscript{79} Collective farm machinery is often available to workers for use of their private plots and theft from collective supplies to feed household’s pigs or cows is a common practice. While most collective farm workers in Soviet times no doubt preferred to work their own private plots rather

\textsuperscript{78} Stephen K. Wegren, \textit{The Land Question in Ukraine and Russia} 27 (2002)
\textsuperscript{79} Grigory Ioffe, Tatyana Nefedova & Ilya Zaslavsky, \textit{The End of Peasantry?} 37 (2006)
than till collective land, the collective farms often provided the conditions necessary for successful subsidiary production. For many rural Russians, even a fairly economically dysfunctional collective farm could provide real benefits so long as it continued to operate.

B. The Economic Collapse of the 1990s

The Soviet economy was already in disarray in the last years of the Gorbachev era. As the Soviet Union collapsed, it went into free fall. As the state lost control of the economic and political system in the last years of Gorbachev’s rule, food supply chains broke down and food shortages in the cities intensified. As a result, in the first years of “independent” Russia, the over sixty year old movement of Russians for the countryside to cities actually reversed itself. From 1992-1994, the rural share of Russia’s population increased as urban residents moved to the countryside due to the high price of food in cites.\textsuperscript{80} Though wages were low to non-existent in rural areas, at least rural workers could be assured of basic sustenance through subsistence agriculture. This trend reversed itself rapidly once prices were decontrolled and steady food supplies to cities were reestablished.

The post-Soviet economic collapse hit virtually all sectors of the economy, but agriculture did especially poorly. There were several reasons for this. One was the reduction of subsidies as prices were decontrolled. Another was the reduced purchasing power of Russian consumers and their resulting shift toward cheaper, lower margin foods. Decontrolling food prices brought an end to food shortages in Russian cities and the infamous Soviet bread lines. However, it also meant that food purchases accounted for a huge proportion of the budgets of

\textsuperscript{80} \textit{Id.} at 79-80.
ordinary families.\textsuperscript{81} Per capita consumption of meat and diary products declined sharply in the course of the 1990s by 33\% and 49\% respectively.\textsuperscript{82} Consumption of cereals and vegetables held relatively steady. These statistics reflected both a shift away from more expensive food products and reduction in overall caloric intake because of the difficult economic situation.\textsuperscript{83} Russian farmers responding to this decrease in demand by reducing the number of cattle by 50\% and the number of pigs by 48\% in the course of the decade.\textsuperscript{84} This drop in the number of livestock was greater than that during Stalin’s collectivization.\textsuperscript{85}

Farmers’ problems were compounded by an increase in foreign competition. Despite the declines in per capita caloric intake, food imports increased in the early 1990s and by 1997 accounted for 50\% of Russian food consumption.\textsuperscript{86} Drum sticks imported from America were whimsically dubbed “Bush legs” when they first appeared as food aid under the administration of President George H. W. Bush. Such imports, however, were a source of considerable frustration for Russian farmers. The American preference for white meat means that American poultry farmers have a surplus of dark meat that they are willing to export for relatively low prices. One of the early protectionist measures taken by the Putin administration was to establish a moratorium on poultry imports form America, ostensibly because of concerns over sanitation but more likely as a response to the howls of outrage from Russian producers.

\begin{itemize}
\item \textsuperscript{81} Because of widespread wage arrears, cash incomes were particularly low during this period. Many Russians, including city dwellers with summer houses, grew a portion of their food on private plots. For many of those without access to food either from their own plots or through family connections, finding enough money for a balanced diet was very difficult.
\item \textsuperscript{82} \textsc{Stephen K. Wegren}, \textit{Russia’s Food Policies and Globalization} 13 (2005)
\item \textsuperscript{83} \textit{Id.} at 12.
\item \textsuperscript{84} \textsc{Stephen K. Wegren}, \textit{The Land Question in Ukraine and Russia} 45 (2002)
\item \textsuperscript{85} \textsc{Stephen K. Wegren}, \textit{Russian Agriculture During Putin’s First Term and Beyond}, 46 \textit{Eurasian Geography and Econ.} 224, 224 (2005).
\item \textsuperscript{86} \textsc{Andrew Barnes}, \textit{Owning Russia: the Struggle over Factories, Farms, and Power} 146 (2006).
\end{itemize}
Though rising food prices succeeded in bring more food to market in urban centers and eliminating food shortages, the price of agricultural products did not keep pace with that of inputs which had previously been heavily subsidized. The resulting price scissors was devastating for Russian farmers. The cost of industrial goods rose over three and half times more than the cost of agricultural products in 1992. The price of agricultural machinery grew as prices for agricultural products fell. Anecdotal evidence suggests that some Russian farmers even replaced tractors with horses during this period. In some cases farmers pulled plows themselves!  

At the same time as Russian farms of all sorts were contending with price scissors, the old marketing networks were thrown into disarray by the collapse of the command economy. As in other areas of the Russian economy, business relationships tended to be tense. Contract enforcement by the state was poor and trust of partners in arms length transactions was low. At best, those involved in the food business could expect to spend an unreasonable amount of time cultivating and maintaining business relationships. Because of the chronic debts of agricultural and other enterprises in the 1990s, barter was used in the place of cash transactions in many cases. Workers were very often paid late, paid in goods or both. Of course, the existence of an almost cashless economy in many villages was a serious constraint on villagers’ ability to improve their position by purchasing capital goods or by moving to more economically promising regions.

89 *Id.* at 118.
90 Though this problem has subsided as the economy as stabilized, it was an important factor in the collapse of output across the economy in the 1990s.
The trend toward food importation and the concurrent contraction of the Russian agricultural sector was brought to an abrupt end by the financial crisis of 1998. The sudden devaluation of the Ruble made much imported food unaffordable for Russians of modest income almost overnight. Though devaluation was a catastrophe in the short term for Russian consumers who saw their purchasing power plummet and any savings held in Rubles virtually disappear, it was a much needed boon to Russian farms. The turnaround of Russian agriculture that continued under Putin can be traced to almost exactly this moment.

Income inequality has increased since Soviet times, but is generally less in rural areas than in urban areas. The top 10% of rural households averaged incomes of 6.3 times those of the bottom 10% of households in 2003. This figure was about the same as one decade earlier, however, there was some fluctuation of income inequality from year to year in the interim.\textsuperscript{92} Local elites in farming communities may be very wealthy by the standards of their neighbors, but, generally, they are not extremely wealthy by the standards of major Russian cities. As late as 2001, only around 5% of Russian villagers had family incomes over $100 per month.\textsuperscript{93}

**C. Private Farms in the 1990s**

As was noted above, most Russian agricultural land remained under the cultivation of corporate farms in the 1990s. However, despite the poor economic conditions of the early 1990s, some rural Russians did risk splitting from the collective farms to start private farms. There was some state support for private farming in the early 1990s. In 1991, the federal government


announced a policy of providing credit to private farms through regional farmers’ associations.\textsuperscript{94} Private farmers also often formed producers cooperatives to collaborate on the acquisition of farm equipment and marketing the harvest. These were even more common than credit cooperatives and helped some private farmers offset the advantages of the corporate farms in capital and marketing.\textsuperscript{95}

By 1994 private farms were responsible for 2\% of agricultural production in Russia.\textsuperscript{96} However, when state credit for independent farms dried up in the 1994, the creation of private farms came to an almost complete halt. State support for private farms declined from over 1 billion Rubles per year in 1992 to just under 200 million Rubles in 1995.\textsuperscript{97} Because of the hostile economic climate many private farms went bankrupt or functionally ceased to operate.\textsuperscript{98} The number of private farms peaked in 1996 and declined thereafter.\textsuperscript{99} Meanwhile, the area under cultivation by such farms has grown every year through 2006, which suggests that those private farms that survived the lean years of the 1990s are slowly expanding.\textsuperscript{100} By 2006 the

\begin{itemize}
\item \textsuperscript{94} Sergei Sazanov & Damira Sazanova, \textit{Development of Peasant Farms in Central Russia}, 47 \textit{COMPARATIVE ECON. STUDIES} 101, 104 (2005).
\item \textsuperscript{95} ANDREW BARNES, \textit{OWNING RUSSIA: THE STRUGGLE OVER FACTORIES, FARMS, AND POWER} 148 (2006).
\item \textsuperscript{96} JESSICA ALLINA-PISANO, \textit{THE POST-SOVET POTEMKIN VILLAGE: POLITICS AND PROPERTY RIGHTS IN THE BLACK EARTH} 9 (2007).
\item \textsuperscript{97} E. V. Serova. \textit{The Impact of Privatization and Farm Restructuring on Russian Agriculture, in FARM PROFITABILITY, SUSTAINABILITY, AND RESTRUCTURING IN RUSSIA}. 4, 19 (Institute for Economy in Transition 1999).
\item \textsuperscript{98} Enterprises that exist only a paper are a pervasive feature of the Russian economy.
\item \textsuperscript{100} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
\end{itemize}
area farmed by private farmers had doubled since 1995 despite the nationwide decline in land under cultivation.\textsuperscript{101}

The difficulty of obtaining land was another significant obstacle to private farming. As was noted above, farm managers or local officials sometimes subverted attempts to leave the collective by refusing to give plots of land or selecting the worst land. In some areas, land for private farms was made available only to those with connections to local farm managers or officials.\textsuperscript{102} Ironically, people on the margins of society such as immigrants from the Caucuses or poor, single, middle-aged women also sometimes had more success in obtaining land in some cases. Such private farmers were unlikely to lead an exodus from the collective farms or compete successfully with other local enterprises and therefore may have represented less of a threat to collective farm managers. People with no good prospects for work also had the somewhat ironic advantage of having more time to sit in government offices. Some officials may have approved distribution of plots to be rid of irritating petitioners.\textsuperscript{103}

In some parts of the country, local government mandated that land be set aside for private farms. During the reorganization of agricultural enterprises early in the Yeltsin administration, authorities in Nizhni Novgorod\textsuperscript{104} lunched a pilot project to encourage and support private farmers. Studies of the program suggest that the resulting private farms were somewhat more efficient, more profitable and better able to adjust to adverse economic circumstances than

\begin{footnotesize}
\begin{enumerate}
\item Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
\item JESSICA ALLINA-PISANO. THE POST-SOVIET POTEMKIN VILLAGE: POLITICS AND PROPERTY RIGHTS IN THE BLACK EARTH 89 (2007).
\item Id. at 102-03.
\item Under the direction of liberal reformer Boris Nemtsov, Nizhni Novgorod was an early leader in many areas of free market reform.
\end{enumerate}
\end{footnotesize}
corporate farms. The Nizhnii Novgorod model was tried in several other Oblasts as well but never really caught on across the country. Other regional governments did try to encourage distribution of land to private farmers. Tambov Oblast ordered that 10% of agricultural land be earmarked for private farms in the 1990s. However, private farming was not especially successful in the Oblast and now accounts for only around 5% of agricultural output.

In many areas it seems that a key determinant of the success of private farms has been the attitude of local collective farm managers. For example, in an area of Saratov Oblast with an unusually high number of private farms, the first private farm was founded by the head of a sovkhoz, Ivan Gresev, who abandoned the sovkhoz leading an exodus of more than 70 others including most of the former management. These entrepreneurs set up 30 private farms. Even with all the advantages of a collective farm director, Gresev and his colleges were forced to file a complaint with the Oblast’s Land Committee before the local administration would grant them sufficient land. Such barriers probably deterred many less well-connected collective farmer from setting up their own farms. In other cases, farm managers leveraged their positions to create their own private farms to coexist alongside the reorganized collectives. Obviously, this raises the possibility of unethical cross-subsidies of private farms by corporate farms for the benefit of farm management. Family members of farm managers and local bureaucrats also appear to be overrepresented among private farmers.

106 Id. at 43.
107 Sergei Sazonov & Damira Sazonova, Development of Peasant Farms in Central Russia, 47 COMP. ECON. STUD. 101, 102, (2005).
108 Id. at 103.
110 Id. at 239.
The lack of political influence of private farmers has been a significant barrier to the development of private farms. The only representative of private farmers in the Duma lost his seat in 1999. Corporate farms tend to be better represented, but because their interests sometimes conflict with those of private farms, they cannot be relied upon to support private farmers.112 Good relations with local government are critical for farmers and especially private farmers. Local officials can harass private farmers using a variety of methods. Violation of land use laws can be punished by expropriation. Such infractions include ‘‘misuse of land’, failure to ‘return’ leased land on time, destruction of border designations, [and] illegal felling of trees.”113 Bureaucratic mistakes in privatization also could be pretexts for repossession.114 More creative forms of harassment of private farmers were also used. One local newspaper in Voronezhskaya Oblast published a list of local farmers who were allegedly not producing crops on a portion of their land.115

That infrastructure and social services continue to be organized or at least controlled by the local corporate farm creates difficulties for both private farms and corporate farms. Corporate farms may be able, for example, to deny places in the local kindergarten to the children of villagers who refuse to rent their land shares to the collective farm.116 Such arrangements also give families strong incentives to keep at least one worker in the family on the local collective. On the other hand, corporate farm managers complain with some justification that they are compelled to provide expensive social services that would collapse without the collective farm but render it difficult to run a profitable enterprise. Some farm managers use

114 Id. at 134-35.
115 Id. at 129.
116 Id. at 156-57.
their social obligations as an excuse to justify their chronic non-payment of taxes.  

On many farms, the number of pensioners outnumbers the number of workers, sometimes by a large margin.  

D. Corporate Farms and Household Production  

Corporate farms and household subsidiary production remained the backbone of Russian agriculture in the 1990s.  Contrary to the hopes of reformers, household subsidiary production became more rather than less important after the breakup of the Soviet Union as impoverished Russians turned to subsidiary agriculture as a form of substance through hard times.  By 1999, subsidiary household agriculture was responsible for 57% of the value of food grown in Russia.  However, much of this food was consumed by rural households themselves and relatively little was brought to market in cities.  Corporate farms did not become less numerous in the course of the 1990s.  However, they shed a large amount of labor with the average farm employing 170 workers in 2000 as compared to 322 workers in 1990.  This trend is likely to accelerate as outside investors buy up corporate farms or start new farms.  

Though corporate farms are now supposed to be run for the benefit of shareholders (i.e. the collective farm workers unless they have been bought out), the extent of shareholder control is often limited.  Decisions on how to reorganize state and collective farms were, in theory, suppose to be taken by their workers.  In most cases, however, it seems that the decisions were  

120 *Id.* at 47.  
made by management and then voted on as a mere formality. Records from some collective farms show unanimous votes or votes by a number of employees one over the number needed for a quorum. This strongly suggests that many collective farm elections are carefully managed if not outright falsified by collective farm management. In some cases farm management used farm indebtedness to discourage workers from removing their land shares or otherwise assert control of their assets by threatening to use land shares to repay the farm’s creditors.

In areas without vigorous competition for land shares or labor (and this includes most of rural Russia), the shareholders have little bargaining power against management. The opportunities for self-dealing by farm management are, of course, extensive and only made worse when managers own nearby private farms. In some ways, farm managers function more as local patriarchs than as CEOs, providing benefits such as education, legal help, and assistance with private plots to loyal workers. This is not to say that workers are entirely powerless. Withholding of labor or withdrawal of land is a real threat to corporate farms, so the farm managers are probably still more responsive to the concerns of their workers than under the command economy.

Despite the ostensible private status of corporate farms, local state officials often continued to play a significant role in their operations. Some of this is fairly standard petty

123 Id. at 76-77.
125 It is worth noting that this basic dynamic is not entirely different than that in Soviet times. Though collective farm workers could not easily find another place of employment or withdraw capital from their farms, they could and did shirk. So farm managers had reason to use patronage made possible by their power in the Soviet hierarchy to reward loyal workers who helped them meet production targets. This sort of relationship is rather typical in Russia where business relationships to be structured either by patron-client norms or friendship norms.
corruption and rent-seeking by bureaucrats. Since many collective farms in the 1990s were in
debt to the state, local officials had a legal pretext to interfere with farms. This was
particularly true in regions that had a policy of maintaining chronically unprofitable corporate
farms. A study in Saratov Oblast in the late 1990s found that though farm managers often
grumbled about state interference, they tend to recognize it as unavoidable given their
dependence on the Oblast for credit. In Leningrad Oblast where credit terms were more strict
and state subsidies lower, managers regarded serious indebtedness as a threat to their farms
existence since the Oblast was less likely to continue to finance unprofitable farms.

State officials also can play a more constructive role. They sometimes serve as
intermediaries between farmers and banks extending credit. Banks turn to the officials to
evaluate the credit-worthiness of farms and in some cases to guarantee the loans. Given the
widespread insolvency of agricultural enterprises and the opacity of Russian business in general,
this is probably a reasonable tactic. Local officials are relatively well placed to know the
economic health of the farms in their territory and, if they can be expected to stay in place for
some time, have incentive maintain the reputation of local enterprises as credit worthy.
Nevertheless, this strategy tends to magnify the importance of the local bureaucracy in
purportedly market transactions.

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126 JESSICA ALLINA-PISANO. THE POST-SOVIET POTEMKIN VILLAGE: POLITICS AND PROPERTY
127 Maria Amelina, What Turns the Kolkhoz into a Firm? Regional Politicies and the Elasticity of
the Budget Constraint, in RURAL REFORM IN POST-SOVIET RUSSIA 280-81 (David J. O'Brien &
128 Id. at 282.
129 JESSICA ALLINA-PISANO. THE POST-SOVIET POTEMKIN VILLAGE: POLITICS AND PROPERTY
RIGHTS IN THE BLACK EARTH 144-45 (2007).
V. AGRICULTURAL LAND LAW

The Russian constitution, adopted in 1993, states that citizens and private legal entities may own land as private property and may use privately owned land as they see fit except insofar as their use damages the environment or harms others. The state retains the power to regulate land use. The Yeltsin administration was able to create a solid framework for private ownership of urban land and housing. However, the sale of agricultural land, which accounts for slightly under a quarter of all land in Russia, is a particularly sensitive topic. The Yeltsin administration was at odds with the Duma for nearly the entire decade of the 1990s. By the middle of the decade, the Duma was under the control of communists and other conservative factions who had little interest in land reform. Most rural, agricultural areas voted for the Communist Party or for the Agrarian Party, which was also strongly opposed to land privatization. Despite the Yeltsin administration’s desire to continue with land privatization, no agreement on this issue could be reached with the Duma. With no legislation on land, the Yeltsin government regulated the situation through a series of Presidential decrees.

Rural hostility toward liberal economics and lack of enthusiasm for land reform should be seen in the context of the abandonment of rural Russia by the central government in the 1990s. Support for the Communist Party was especially strong in the central black earth region making this part of the so-call “Red Belt” across southern European Russia. Conservative attitudes may have had as much to do with the collapse of public services and of state support for agriculture in post-Soviet Russia as with any specific hostility toward markets in land. Rural opponents of Yeltsin and his reforms were surely correct that their standard of living was, at least

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130 Konstitutsiia Rossiiskoi Federatsii [Konst. RF] [Constitution] art. 36.
131 N. Shagaida, Zemelniy Rynok: Sposobi i Tendensii Perekhod Zemli ot Sobstvenika k Polzovateli’, BULLETEN’ TSENTRA APE, No. 2 (16) Apr – June 2003, at 18
in the short term, far more affected by the provision of social services and subsidies for agriculture than by the ownership of land. Therefore, it seems a mistake to view political attitudes in rural Russia in the 1990s simply as a sort of irrational conservativism or nostalgia for communism. For many rural residents, the prospect of owning land of rather uncertain value did not compensate for the loss in social services and depression in the largest sector of the rural economy. After the economic turnaround under Putin and the concurrent increase in state support for agriculture, many rural Russians appear to have switched their political allegiances from the communists to Putin.132

With the stalemate over land legislation in Moscow, regional authorities had considerable scope to pursue their own agricultural land agenda. Policies diverged considerably with some regions taking a wait and see approach, others reinforcing the control of collective farms, and some pursuing various sorts of reforms.133 There were no clear geographical variations with conservative and reforming Oblasts in nearly all parts of the country. As late as 2000, thirteen regions prohibited ownership of agricultural land altogether.134 Given the hostile economic climate, variations in regional land laws do not appear to have made a tremendous difference.

The most important legal reform for Russian agriculture under Putin was the adoption in July 2002 of the Law on the Transfer of Agricultural Land, which legalized sales of agricultural land and created a regulatory framework for them.135 This law was one of a number of reforms

132 Interview with Prof. Stephen Wegren, February 2008
passed after Putin’s party gained control of the Duma and broke the deadlock between the
President and the Duma that had paralyzed the government for most of Yeltsin’s administration.
The law reaffirmed the principle of private ownership of agricultural land by individuals,
families, partnerships or corporations. Rental of agricultural land is allowed for terms up to 49
years. Contracts for rental for any term above 49 years are to be construed as a rental for the
maximum allowable term.\textsuperscript{136} The amount of land that can be rented by a single person or
corporation is unlimited. The new law also permits the use of agricultural land as collateral to be
regulated by the laws that already regulate the use of non-agricultural land as collateral.\textsuperscript{137}

Foreigners and corporations with greater than 50\% foreign ownership are not permitted to
buy agricultural land, though they may rent it.\textsuperscript{138} This provision was presumably included to
assuage fears in rural areas that foreign interests would buy up farm land when it became
available for sale and exclude local residents from its use. However, it seems unlikely that the
law would prevent foreign corporations from exercising de facto control though use of
subsidiaries with Russian minority shareholders.\textsuperscript{139} In any case, there appears to be little foreign
investment in agricultural land and rental of agricultural land by foreign-owned firms seems a
fully adequate substitute.

Creating a firm legal foundation for land sales was an important step in the creation of
land markets in rural Russia. However, the new law also had a number of troublesome features

\textsuperscript{136} Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
\textsuperscript{137} Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
\textsuperscript{138} Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
\textsuperscript{139} A company with 90\% foreign ownership could, for example, create a subsidiary in which it
has a 51\% ownership stake with the other 49\% being Russian owned. Land could then be
purchased by the subsidiary would be under the control of the corporation, but would formally
have 54\% Russian ownership.
that allow for potentially burdensome regulation on the local level. The most ominous provision gives local governments a right of first refusal for any agricultural land sold within its jurisdiction. Before selling a plot of land, the seller must file notice with local government specifying the land to be sold and the proposed sale price. The local government then has one month to purchase the land at the proposed price. If the local government declines to do so or fails to respond, the seller may then complete the transaction for any sum equal or greater than the sum indicated in the official filing. The seller has one year to complete the transaction. If the seller never notifies local government of the proposed transaction or the transaction is completed for a sum below the proposed purchase price, local government may void the transaction within one year and assume the rights and obligations of the buyer.\textsuperscript{140} The procedure is complicated further if the land in question is not a plot but a land share. In that case, before beginning the above procedure, the seller must give public notice of the proposed sale of the land share and the proposed price to all others who hold shares of the same land or publish a notice in a newspaper approved by the local authorities for this purpose.\textsuperscript{141} The other land share holders have a right of first refusal analogous to the one enjoyed by the local government. This regulation seems intended to discourage the alienation of land to outside parties. However, it makes the sale of land shares more cumbersome and time consuming and provides more pretexts to undo transactions for failure to comply with all of the necessary formalities.

Another problematic provision allows the local authorities to confiscate agricultural land that is used in ways that violate local regulations such as zoning laws or environmental


In order to do so, the local government must send advance notice to the land owner and if the violation in question is not cured, the government may seek a court order confiscating the land. Though the bureaucratic procedure for repossession of land is sufficiently cumbersome that it is not likely to be invoked with any regularity unless the value of farm land rises greatly, the ability for local officials to threaten such an action seems like an invitation to corruption. As noted earlier, the use of land use and environmental laws was already a favorite tactic of government officials in the 1990s to harass disfavored enterprises or extract bribes. The new land code seems to provide a legal pretext for this sort of corruption.

The new land law also regulates the conversion of land shares into separate plots. Land share holders must issue a public notice of their intentions analogous to that required for a sale in which they state their intention to convert their land share into a private plot and specify the size and location of their proposed plot. A land share holder who receives a parcel of land worth a greater fraction of the value of total collective holdings than the land share holder is entitled to may be required to pay the remaining land share holders to compensate them for the diminished value of their shares. Disputes over the size and location of land plots and compensation to be paid to remaining land share holders are first to be referred to mediation and, if mediation fails, may be heard by a judge. Oblast governments are permitted to set minimum sizes for agricultural plots and forbid the conversion land shares below this minimum into private plots.

143 Zemelnyi Kodeks RF [ZK] [Land Code] art.54 (Russ.).
Land that remains collectively owned is to be managed by its share holders. Meetings of land
share holders can be held with a quorum of 20% of share holders and need a two thirds majority
to ratify decisions regarding collective holdings.147

Another law passed in the first Putin administration clarified the status of private farmers.
Private farms are defined in Russian law as being agricultural enterprises owned and operated by
one or more people that have not registered as a corporate enterprise.148 Private farms may be
formed by members of the same family or by up to five other persons exercising joint ownership
of the property used by the farm.149 Private farms must register with the state and submit an
agreement detailing the rights and obligations of each owner if the firm is owned by more than
one person.150 They are subject to the same regulatory regime as small businesses. Because
subsidiary household production enjoys tax advantages over private farms, some regions have
sharply limited the size of private plots used for subsidiary household production. For example
Tambov Oblast requires households with plots over one hectare to register as private farms or
give up their land in excess of one hectare.151

VI. LAND REGISTRATION

Though there is a solid, if imperfect, statutory basis for the sale of agricultural land, the
status of the land registration system is less favorable for the development of a strong land

147 Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
148 Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
149 Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
150 Sobranie Zakonodatel;stva Rossiiskoe Federatsii [SZ RF] [Russian Federation Collection of
151 Sergei Sazonov & Damira Sazonova, Development of Peasant Farms in Central Russia, 47
market. This is not because of the lack of any registration system. On the contrary, Russia seems to suffer from too much land registration. Since Soviet land records were in reasonably good order, there was no immediate need to create a new system of registration for privatization of land in the early 1990s. This privatization took place in most cases without the participation of the new owners. State offices simply conducted the necessarily formalities to register land shares in the name of collective farm workers.\textsuperscript{152} Sometimes the new deeds to land were not even given to their owners, but instead were kept at the district land committees.\textsuperscript{153} Since registration of land shares made one subject to the land tax, those inheriting land shares often failed to register them. As a result, in one area of Moscow Oblast surveyed in 2004 by Natalya Shagaida, 30\% of land shares were still formally owned by dead Russians.\textsuperscript{154} Heirs began to register their ownership of these land shares only when their value increased enough to offset tax liability.\textsuperscript{155}

In the mid-1990s, the Russian government decided to replace the existing system of land registration operated by local land committees with a uniform federal system. The Federal Land Cadestre, established in 1997, is intended to contain a complete record of land plots for the entire country.\textsuperscript{156} Unfortunately, the introduction of this entirely new system meant that the old land records, which were kept by local land committees are obsolete. Today, in order to buy or sell land that was registered under the old system, one must first reregister the land in the Federal

\textsuperscript{152} N. Shagaida, \textit{Chastnoe Imushchestvo i ego Rinochnii Oborot.. Bulletin' Tsentra APE}, No. 3 (29) 2006, at 25
\textsuperscript{153} Id. at 25.
\textsuperscript{154} Natalya Shagaida & Zvi Lerman, \textit{The Land Market: Living with Constraints}, BASIS Brief No. 36, at 8
\textsuperscript{155} Id. at 8.
\textsuperscript{156} Zemelnyi Kodeks RF [ZK] [Land Code] art.70 (Russ.).
Land Cadestre. To convert a land share into a plot of land, it is also necessary to register one’s ownership of this new plot with the Cadestre.

In practice, the new registration system functions rather poorly. The most glaring problem is that there are now three government agencies that play an important role in the registration of real property rights. The three agencies have different and sometimes contradictory internal procedures and standards. This, of course, makes land registration a complicated matter. The Federal State Land Cadestre is the primary agency with responsibility for registration of land ownership, recordation of land use regulation, valuation of land, soil conversation projects and the regulation of land surveying. When the Federal Cadestre was created in 1998, it assumed control of the regional offices, now called Cadestre Chambers, which hold local cartographical and land use records. For information about the physical location and use of land, therefore, the Cadestre has the best stock of records. Unfortunately, ownership of land, especially agricultural land, was usually not listed in these records. Moreover, collectively owned land, including most agricultural land was almost never registered in the names of the land share holders much less divided into plots for each land share holders. In theory, all land that has changed hands since 1998 is supposed to be registered in the Cadestre. However, since most privately held land, including the vast majority of agricultural land, has not been sold since 1998, the Cadestre chambers do not have records of ownership for most agricultural land.

The second significant agency for land registration is the State Register of Rights. This agency reports to the Ministry of Justice and, like the Federal Land Cadestre, has Real Property Registration chambers that process documents for each region. The State Register of Rights is

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responsible for drawing up and recording legal titles. This division of labor makes a certain amount of sense from the point of view of bureaucratic specialization – the Ministry of Justice process legal documents and the Cadestre processes land records. From the point of view of someone seeking to register transactions, however, it is a nightmare.

The situation is made even worse by the fact that old land records are held by a third office, the District Committee for Land Resources and Land Planning. Though the local land offices are now managed by the same agency as the Cadestre, Rosnedvizhimost’ (Russian Real Estate), District Land Committee offices and Cadestre offices are distinct and use different methods of recordation. The upshot of all of this is that in order to convert a land share to a plot of land, one must obtain the old records for one’s land from the District Land Committee, obtain proof of ownership from the Register of Rights and present all of these documents along with a land survey to the Land Cadestre. Gathering the necessary documents from the various offices to establish the location, size and ownership of one’s land can take as many as eight trips to six different offices. Depending on whether or not one must survey the land, the whole procedure may take up to six months.\(^{158}\) Selling the plot, once it has been properly registered, also requires trips to both the Register of Rights and the Cadestre.\(^{159}\)

To make matters worse, the Cadestre usually requires owners to survey their plot of land before it may be registered. If one is withdrawing one’s land share from the collective holdings used by a farm, officials may even require that the entire area under collective ownership must be surveyed.\(^{160}\) For many land share holders this will cost more than the land share they wish to receive is actually worth. Shagaida estimates that converting 10 land shares into a 42 hectare

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\(^{159}\) *Id.* at 6.

\(^{160}\) *Id.* at 6.
A plot in Moscow Oblast cost at least 88,100 rubles [over $3,000] in 2003 and took around two months.\textsuperscript{161}

The costs of registering small plots of land is very considerable in relation to total value of the land. In one region of Moscow Oblast, the value of land shares that have been converted into plots and registered is almost double the value of land shares that have not been converted or registered.\textsuperscript{162} Part of the reason for high costs is that the land surveying market is usually monopolistic with the local incumbent having close ties to the local authorities and the local office of Rosnedvizhimost'.\textsuperscript{163} These land surveyors typical pass a portion of the costs of mapping the entire region on to individual land owners who wish to have their land surveyed.

As S. N. Volkov, the Rector of the Russian University of Land Tenure, observes, such mapping costs are absorbed by the state in most developed countries. Volkov suggests that this inflates the cost of land surveys for owners of agricultural land by 50-80\%.\textsuperscript{164} A pilot program in Pskov Oblast funded by Rosnedvizhimost' and the Danish government managed to reduce the costs of land surveys by several times by mapping an entire farm before surveying any individual land plots.\textsuperscript{165} A similar study at a farm in Tula Oblast found that costs could be reduced to 280 rubles per plot by surveying all plots at once. The Russian government has recently increased its expenditures on cartographical work and land surveying, allocating 4.8 billion rubles (about $190 million) last year.\textsuperscript{166}

\begin{itemize}
\item \textsuperscript{161} Id. at 6.
\item \textsuperscript{162} Id. at 7.
\item \textsuperscript{163} S. N. Volkov, Zemel’nie Otmoshenia kak Bazovii Factor Ustoichivogo Khozyaistva, (Pt. 2), Ekonomika Sel’skokhozyaistvennikh i Pererabativaushchikh Predpriyatii, 2007 No. 5, 9, at 11.
\item \textsuperscript{164} Id. at 10.
\item \textsuperscript{165} Id. at 11.
\item \textsuperscript{166} Id. at 11.
\end{itemize}
VII. IS THERE A LAND MARKET?

Sale of agricultural land was relatively infrequent in the years following liberalization. Government statistics do not categorize agricultural land transactions very precisely but do give a rough sense of the main trends. In 2003, slightly over 1,300 purchases of agricultural land by corporate entities were recorded in the entire country.\textsuperscript{167} Sales of household plots were more common but accounted for relatively little land area given the small size of the plots.\textsuperscript{168} Despite the slow development of the agricultural land market, recent evidence suggests that the rate of transactions are now significantly increasing as successful households and enterprises look to expand their operations. Sale of federal and municipal land to private and corporate farms increased from 43,187 to 209,329 hectares between 2005 and 2006 alone.\textsuperscript{169} There was a concurrent increase in the amount of government land rented by agricultural enterprises as well.\textsuperscript{170} Transactions involving household plots have not increased significantly in number, but the amount of land per transaction has nearly doubled since 2003. The pace of registration of land holdings with the State Cadestre has increased by 25% in 2005 to reach over two million.\textsuperscript{171}

A number of factors slow the growth of the land market. Russian law now requires that land shares be converted into separate plots before they are sold. The complexity and expense of the registration system outlined above is a significant impediment to such transaction given the modest value of most land shares. 84% of private farmers in Rostov Oblast, an area with a moderately active land market, cited registration costs and difficulties as obstacles to land

\textsuperscript{167} ROZNODVIZHIMOST’ SBORNIK SVEDENIA, 155 (2006).
\textsuperscript{168} Id. at 155.
\textsuperscript{169} Id. at 432.
\textsuperscript{170} Id. at 437.
\textsuperscript{171} S. N. Volkov, Zemel’nie Otnoshenia kak Bazovii Factor Ustoichivogo Khozyaistva, (Pt. 2), EKONOMIKA SEL’SKOKHOZIALYSTVENNIKH I PERERABATIVAUSCHIKH PREDPRIYATII, 2007 No. 5, 9, at 9.

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transactions in a survey conducted in the mid-2000s. Low demand for agricultural land in many areas means that there has been little incentive to overcome these bureaucratic barriers. Some local government still prohibit sale of agricultural land. These include the fertile and relatively prosperous southern regions of Stavropol Krai and Krasnodar Krai. In other areas, the rental market large replaces land purchases despite the legality of the latter. In Saratov Oblast, where sale of agricultural land is permitted, agricultural enterprises usually prefer to rent land rather than purchase despite the relatively low price of land.

As with much in the Russian economy, the price of agricultural land can be rather volatile and therefore it is difficult to generalize. Land in agriculturally marginal regions far from major cities has little value. Land in the most fertile areas of the south or near major cities is usually the most valuable. In one area of Moscow Oblast, the price of agricultural land increased by 20 times between 2003 and 2004. Presumably the land was almost worthless until outside buyers began to bid up the price in anticipation of suburban development.

Perhaps the most significant reason for the slow growth of the market for sales of agricultural land is that the rental market seems quite effective in many areas in transferring control to productive enterprises. At the beginning of 2006, private farmers rented nearly as

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174 In some cases dying farming villages, especially in the areas between Moscow and St. Petersburg are being converted into dacha communities for city dwellers. This may increase land values somewhat in otherwise marginal areas.
175 Natalya Shagaida & Zvi Lerman, *The Land Market: Living with Constraints*, BASIS Brief No. 36, at 7
176 In theory, one is not supposed to build housing or non-agricultural commercial buildings on land designated for agricultural use. However, if enough money is at stake, it is probably possible to convince officials to change the legal status of agricultural land in most cases.
much land (41.9% of land used) as they owned (44.1%).\footnote{S. N. Volkov, 	extit{Zem’nie Otmoshenia kak Bazovii Factor Ustoichivogo Khozyaistva} (Pt. 1), 	extit{Ekonomika Sel’skokhozyaistvennikh i Pererabativaushchikh Predpriyatiy} 2007 No. 4, 5, at 6.} Land rental by households appears to have increased substantially in this decade. According to one survey of three villages in different parts of European Russia, land rented per household increased by nearly 50% from 1995 to 2003.\footnote{David J. O’Brien, Stephen K. Wegren, & Patsiorkovski. 	extit{Income Stratification in Russian Village: from Profession to Property}, 54 PROBS. OF POST-COMMUNISM 37, 42 (2007).} Rented land now accounts for 13.4% of land used for household subsidiary production, which suggests that land rental has become significant even for small scale producers.\footnote{S. N. Volkov, 	extit{Zem’nie Otmoshenia kak Bazovii Factor Ustoichivogo Khozyaistva} (Pt. 1), 	extit{Ekonomika Sel’skokhozyaistvennikh i Pererabativaushchikh Predpriyatiy}, 2007 No. 4, 5, at 6.} Survey data from three Oblasts in 2003 indicates that rents for agricultural land tended to be set around 300 Rubles ($10) per hectare, though very often this sum was payable in kind.\footnote{Natalya Shagaida & Zvi Lerman, 	extit{Land Policies and Agricultural Markets in Russia}, 24 LAND USE POLICY 14, 18-19 (2007).} The convergence of rents around a relatively narrow range suggests that rental rates are being set by market forces.

Corporate farms are in a somewhat different position since they ostensibly rent land from land share holders. The farms themselves only rarely have title to the land they farm. At the beginning of 2006, less than 1% of land farmed by agricultural enterprises was under corporate ownership.\footnote{S. N. Volkov, 	extit{Zem’nie Otmoshenia kak Bazovii Factor Ustoichivogo Khozyaistva} (Pt. 1), 	extit{Ekonomika Sel’skokhozyaistvennikh i Pererabativaushchikh Predpriyatiy}, 2007 No. 4, 5, at 7.} Such a low level of corporate ownership of agricultural land suggests that even those corporate farms that are profitable do not find it worthwhile to purchase land. Payments to land share holders vary by region. Where there is little competition for land, they are often very low. Allina- Pisano suggests that most land shares in village she studied in Voronezh Oblast...
were rented for the statutory minimum of 1% of assessed value and that even in 2006 she could find nobody who received more than 2% in the course of field interviews conducted in the black earth region.\textsuperscript{182} In kind payment for rented plots are also very widespread.\textsuperscript{183} In two regions studied by Yu. P. Nasonova, 76% and 80% of land share holders rented their land shares back to former collective farm and in one of the regions a further 14% rented to private farmers.\textsuperscript{184} Only a small minority of land share holders were paid in cash. In one region most land share holders received payment in kind in the form of a share of the harvest and in the other region most land share holders reported receiving no rent at all!\textsuperscript{185} On the other hand, Nefedova and Pallot report that there is a very active rental market in the southern agricultural region of Stavropol Krai where private farmers and former collective farms compete to rent land from land owners.\textsuperscript{186} One sign that rental contracts function as a substitute for land sales that they often cover many years. One survey found that half of all rental contracts last for more than 4 years and that terms of over 10 years were not uncommon.\textsuperscript{187}

As the value of agricultural land increases, attitudes toward land ownership may be changing in some regions. Recent field studies differ on collective farm workers’ attitudes toward their land shares. Allina-Pisano suggests that the residents of black earth areas that she studied in Voronezh Oblast often had little interest in their land certificates. In some cases, they

\textsuperscript{183} Id. at 149.
\textsuperscript{184} Yu. P. Nasonova, Rynok Dolei iz Zemel Selskokhozyaistvennogo Naznachenia, AGRARNAYA ROSSIA No. 2 49, 50 (2007)
\textsuperscript{185} Id. at 50.
\textsuperscript{186} TATYANA NEFEDOVA & JUDITH PALLOT, NEIZVESTNOE SELSKOE KHOZYAISTVO ILI ZACHEM NUZHNA KOROVA? 236 (2006).
\textsuperscript{187} Natalya Shagaida & Zvi Lerman, Land Policies and Agricultural Markets in Russia, 24 LAND USE POLICY 14, 19 (2007).
regarded ownership as a burden more than anything else because of the resulting tax liability.\textsuperscript{188} However, Ioffe, Nefedova, and Zaslavsky report that collective farm workers in Stavropol Krai seem aware of the value of their land shares and can produce their certificates when questioned about their land shares.\textsuperscript{189} By contrast, in their experience, residents of many other Russian regions typically misplaced their certificates long ago, presumably a sign of their skeptical attitude toward the value of the land shares.\textsuperscript{190} In a rural part of Lipetsk Oblast studied by Nasonova, a slight majority of land share holders were unaware of the law permitting sale of agricultural land.\textsuperscript{191} Over 80\% of those surveyed in the region said that they did not follow debates over agricultural land policy. It is significant that most of these land share holders received no rent for their land shares anyway. In such conditions, it is not hard to see why there would be little interest in buying and selling land shares in the region. In the other region studied by Nasonova, a rural part of Tumenskaya Oblast, over 75\% of respondents received rental payments and a similar number followed questions of agricultural land policy.\textsuperscript{192}

Mortgages were slow to be introduced in Russia’s transition to a market economy. Mortgages for individuals purchasing homes have only become available for middle class Russians in the past several years. This was not on account of the slow pace of privatization - 67\% of Russian housing had been privatized by 2002.\textsuperscript{193} Rather this was the result of Russia’s

\textsuperscript{188} JESSICA ALLINA-PISANO. THE POST-SOVIET POTEMKIN VILLAGE: POLITICS AND PROPERTY RIGHTS IN THE BLACK EARTH 166, 187 (2007).
\textsuperscript{190} Id. at 213.
\textsuperscript{191} Yu. P. Nasonova, Rynok Dolei iz Zemel Selskokhozyaistvennogo Naznachenia, AGRARNAYA ROSSIA, 2007 No. 2 49, at 50.
\textsuperscript{192} Id. at 50.
weak banking sector and the corruption, arbitrariness and inefficiency of the legal system. Even
Russia’s new President, Dmitri Medvedev, concedes that, “Russia is a country of legal nihilism.
No European country can boast of such disregard for law.”

Nevertheless, mortgage finance for home purchases has finally become available to middle income Russians in cities during the past several years. The expansion of mortgage finance in the housing sector is increasing rapidly.

Mortgage of agricultural land was not permitted until 2004 when the mortgage law was amended to allow such mortgages. Unfortunately, the mortgage law requires that agricultural plots be surveyed before they are mortgaged and does not permit land shares (as opposed to plots) to be used for mortgages. This makes mortgage of most agricultural land entirely impractical. Aside from this difficulty, it should be noted that agricultural land in less productive regions of the country has little value and therefore would make little sense to use as collateral. In 2006, slightly over 96,000 hectares of agricultural land was used as collateral.

This is less than 1% of all land in private hands. This situation will probably continue at least until agricultural land is consolidated in holdings sufficiently large to make its use as collateral practical. Given the reticence of private farmers and even the more entrepreneurial corporate farms to purchase land, this may take quite a while.

VIII. AGRICULTURE UNDER PUTIN

Russia’s economic recovery since 1999 has been accompanied by significant growth in the agricultural sector. The initial boost came from currency devaluation in the wake of the

financial crisis of 1998. This made food imports unaffordable for many Russians. The value of agricultural output has increased every year since then – a stark reversal from the 1990s when it declined almost every year. Despite its steady expansion, agriculture has grown more slowly than the economy as a whole. Whereas agriculture accounted for 5.7% of GDP in 2002, it was only 3.8% of GDP in 2007.\textsuperscript{197} During this period, the profitability of corporate farms has improved substantially. By 2001 half of all corporate farms were profitable and total profits for corporate farms stood at almost 9 billion rubles.\textsuperscript{198}

As Russian agriculture recovers, commercial enterprises are overtaking households as the largest producers. Whereas subsidiary household production accounted for 59% of agricultural output in 1998, it accounted for only 50% in 2007. During that same period, corporate farms increased their share of output from 39% to 43% and private farms from 2% to 7%.\textsuperscript{199} Each type of agriculture has a slightly different crop profile. Private farms tend to grow grain, sugar beets or sunflowers and account for less than 8% of output for all other categories of crops. Corporate farms grow these same crops and in addition account for around half of the output of meat, poultry, eggs, and milk. Subsidiary household production is heavily focused on vegetables, potatoes, meat, poultry, eggs, milk, and wool. It accounts for the vast majority of potato, vegetable and honey production.\textsuperscript{200}

\textsuperscript{197} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
\textsuperscript{198} Stephen K. Wegren. Russian Agriculture During Putin’s First Term and Beyond, 46 EURASIAN GEOGRAPHY AND ECON. 224, 229 (2005).
\textsuperscript{199} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
\textsuperscript{200} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
The resurgence of corporate farms in the 2000s is not an accident, but rather the intended consequence of state policy.\footnote{Stephen K. Wegren. *Russian Agriculture During Putin’s First Term and Beyond*, 46 EURASIAN GEOGRAPHY AND ECON. 224, 226 (2005).} It has taken measures to simplify taxation, cancel debts for some farms and ease access to credit for Russian farms.\footnote{Id. at 229-31.} An agricultural bank, *Rossel’khozbank* was created in 2000 and provides credit to agricultural enterprises throughout the country.\footnote{Id. at 230.} A number of credit cooperatives serve smaller private farms.\footnote{Id. at 230.} In the past several years, credit has even been extended for subsidiary household production with households receiving 22 billion rubles in 2006.\footnote{A. V. Petrikov, *Lichnie Podsobnie Khozyaistva Rossii: Problemi I Perspektivi Razvitia, Ekonomika Sel’skokhozyaistvennih i Pererabativaushchikh Predpriyatii*, 2007 No. 5, 6, at 8.} This measure is particularly important for household producers since households engaged in subsidiary production have not previously qualified for business loans.\footnote{GRIGORY IOFFE, TATYANA NEFEDOVA & ILYA ZASLAVSKY. *The End of Peasantry?* 30 (2006)} Recently, as the global economic downturn has put pressure on Russian agriculture, *Rossel’khozbank* has been used to shore up agricultural enterprises with $3.45 billion in short term loans.\footnote{Jessica Bachman, *Farmers Offered $3.5 Bln State Rescue*, MOSCOW TIMES, February 18, 2009, at 1.} Putin’s administration has also moved somewhat in the direction of agricultural protectionism.

Despite the persistence of Soviet patterns of agricultural organization, there have been very substantial and important changes beneath the surface. Large agricultural enterprises have become more efficient in their operations and more responsive to market signals. This is reflected both in the mix of inputs used and in the mix of production. For example, diary production has become more concentrated in Northern European Russia and less concentrated in
the south, reflecting the comparative advantage of southern regions in grain growing and northern regions in diary production.\textsuperscript{208} State support of agriculture has declined hugely since Soviet times. Russian farmers receive a subsidy of only $12.50 per hectare compared to $200 per hectare for American farmers and $800 per hectare for an average EU farmer.\textsuperscript{209} Though this loss of subsidies has been painful for Russian farmers, it has gone a significant way toward reducing distortions inherited from the Soviet economy. Russia continues to import food, but the structure of imports have changed considerably. Meat and poultry imports remain at very high levels. Grain imports declined during the 1990s in part because of reduced demand for livestock feed.\textsuperscript{210} In 2004, Russia actually became a net grain exporter and its trade surplus in grain has increased every year since.\textsuperscript{211}

Despite the increase in agricultural output, land abandonment continues not just in Siberia, but also in European Russia. The total area under cultivation has continued its decline through 2006, though based on the past several years, it appears that it may plateau around 77 million hectares.\textsuperscript{212} Land that is in climatologically unfavorable regions and distant from major population centers is especially likely to be abandoned.\textsuperscript{213} This includes much land in the non-black earth regions of central and northern European Russia. Ioffe and Nefedova have found that farming in these regions becomes uneconomical at a distance of any more than two hours from

\textsuperscript{208} Central planning under the Soviet system had resulted in the maintenance of too many large diary farms in the south of the country.

\textsuperscript{209} GRIGORY IOFFE, TATYANA NEFEDOVA & ILYA ZASLAVSKY. THE END OF PEASANTRY? 30 (2006)

\textsuperscript{210} STEPHEN K. WEGREN, RUSSIA’S FOOD POLICIES AND GLOBALIZATION 136-141 (2005).

\textsuperscript{211} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru

\textsuperscript{212} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru

\textsuperscript{213} Grigory Ioffe & Tatyana Nefedova. Marginal Farmland in European Russia. 45 Eurasian Geography and Economics 45, 46 (2004)
major population centers because of the combination of cold climate and high transport costs.\textsuperscript{214} As agriculture adjusts to market conditions, production seems to be becoming concentrated in the most favorable regions and disappearing in marginal ones.

One persisting problem in post-Soviet agriculture is that low levels of capital investment have undercut the productivity of Russian farms. The number of tractors per acre is only about 50\% of the figure for 1992. The number of combines per hectare of grain is about 60\% of the level of 1992 while the number of combines per hectare of corn is down by 40\%.\textsuperscript{215} While some of this decline may reflect inefficient Soviet investment in heavy machinery and the inferior quality of Soviet machinery, it is difficult to imagine that agricultural output and labor productivity can increase for much longer without more capital investment.

Despite the modest recovery of agriculture under Putin, life in the countryside remains difficult. In 2006, agriculture had the lowest wages of any of 15 sectors of the economy.\textsuperscript{216} Agricultural wages are less than 50\% of the average for the country as a whole. They have even fallen behind textile production, which featured the lowest wages in 1995.\textsuperscript{217} This sort of wage discrepancy suggests that there is still considerable excess labor in rural areas and that underpaid or unemployed workers have remained in the countryside because wage differentials could not justify the considerable costs of moving to cities during the hard years of the 1990s.\textsuperscript{218} If

\begin{itemize}
\item\textsuperscript{214} Id. at 53.
\item\textsuperscript{215} Federal’naya Sluzhba Gosudarstvennoi Statistiki [Federal Service of Government Statistics], http://www.gks.ru
\item\textsuperscript{216} Id.
\item\textsuperscript{217} Id.
\item\textsuperscript{218} Even in light of Russia’s impressive economic growth in the early 21th century, it is important to keep in mind that average wages remain low. In 2006, the average Russian worker earned only $395 per month. \textit{FSGS.} Unskilled and semi-skilled workers in rural areas are likely to earn even less than this.
\end{itemize}
Russia’s economic upswing continues, it seems likely that workers will continue to move to cities in search of higher paying jobs.

While agricultural output has improved under Putin, the economic record is still somewhat mixed. Recent empirical studies have tended to suggest that while allocative efficiency has improved as a result of reforms, technical efficiency has not. This means that the use of capital and labor in agriculture and the mix of products produced has become more economically efficient, but that the output for unit of labor or capital has not improved significantly. These results should not be surprising in light of the broad outline of changes in post-Soviet agriculture. The decline of state subsidies and the introduction of market prices encourage more efficient investment decisions and product mixes. However, since the internal workings of most farms were not reorganized, there was no large gain in production efficiencies.

A. Corporate Farms

Corporate farms are becoming more differentiated as market forces play an ever increasing role in determining the structure of production. Many former collective farms, especially those in climatologically marginal areas, are trapped in an irreversible cycle of debt, lack of investment and contraction of production. Other large farms have been more successful in adapting to new conditions. The variation in strategies they use makes generalization difficult. Ownership of some farms has been acquired either by management or by outside investors. In other cases, state control has been reestablished. A few collective farms have been restructured as state owned enterprises. On such farms, workers have relinquished their ownership shares and the local government appoints managers and sets prices. These state enterprises are a significant

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force in the black earth Lipetsk Oblast. In other cases, large corporations controlled by regional governments have purchased multiple former collective farms in a particular region. Such companies play a significant role in the agricultural sectors of Bashkiria and Voronezh Oblast. It is likely that such companies are seen by Oblast government officials as a way to channel investment into rural areas and support corporate farms that would otherwise be bankrupt.

The transfer of the more promising farms into the hands of more competent management has probably been a factor in Russia’s recent agricultural recovery. A recent study has found that the most important determinant of profitability for agricultural enterprises is the quality of management. An important development for agriculture is the trend toward vertical integration of farms and food processors. This may be a particularly attractive mode of organization in Russia because of the difficulty Russian firms have in enforcing contracts and obtaining capital. Vertical integration between farms and food processors was encouraged by a number of regional governments in the 1990s as a means to reduce market risk for both parties. This policy had only modest success: only 14% of processors were controlled by food producers in 1996. In extreme cases, such as that in Oryol Oblast, the Oblast authorities set up a company to buy crops and supply inputs to farmers, much as the old Soviet agricultural

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222 D. Epstein & E. Schulze, Dva Pika Rentabil’nosti Sel’skokhozyaystvennikh Predpriyatii v Zavisimosti ot Ikhnii Velichini.. BULLETEN’ TSENTRA APE, July-Sept. 2006, at 20
223 The Russian banking sector is relatively poorly developed. Many of the largest banks are closely tied either to particular oligarchs or corporations or to the state. Therefore it may be especially difficult for smaller enterprises which lack the proper connections to obtain capital.
225 Id. at 158.
Vertical integration became more feasible as large food and beverage business began to appear in Russia in the mid-1990s. Some of these new indigenous businesses grew to impressive size. For example, the Wimm-Bill-Dann company, founded in Moscow in 1992 soon came to lead the juice and milk packaging market. After the financial crisis it expanded to other areas of food processing and several other CIS countries. It began listing on the New York stock exchange in 2002.227

Investment by processors in agricultural enterprises took off following the financial crisis and Ruble devaluation of 1998. The poultry market is the most vertically integrated area of agriculture in Russia with the five largest companies owning farms that produce 35% of broilers in Russia.228 The sugar and grain industries also show signs of greater vertical integration with leading refiners and exporters acquiring stakes in some of the farms which supply them.229 Since most Russian farms lack adequate capital for their own operations let alone new acquisitions, vertical integration is usually accomplished by food processors or distributors investing in farms.230

Food processors are not the only outside investors interested in purchasing corporate farms. Many Russian enterprises, especially, though not exclusively in the natural resource sector have an abundance of capital to invest and a small part of this has been invested in Russian agriculture.231 Gazprom, the Russian natural gas monopoly, had already bought 76

226 Id. at 154.
227 Id. at 199-200.
229 Id. at 124.
231 Id. at 199.
agricultural enterprises as of 2006 with half of a million hectares under cultivation. Farms acquired by outside investors tend to use less labor than other large farms. Purchasing bankrupt farms and drastically reducing the workforce is a strategy that has been used effectively by outside investors in Voronezh Oblast. In some cases, investors may prefer to start their own farm rather than acquire a struggling former collective farm because the process of firing redundant or unproductive workers may be more troublesome than simply starting from scratch. As a former Minister of Agriculture complained of Russian oligarch Vladimir Potanin’s investments in agriculture: “He leases only land, machines, repair workshops, and gas stations. The rest are not needed. Out of 500 people previously on a farm, they hire 200. What will befall the rest?” The influence of these outside investors is already considerable. In Belgorod Oblast, they controlled enterprises farming 73% of arable land in 2003. Outside investors are also a major presence in agriculture in Orel, Moscow, and Tambov Oblasts as well as Krasnodar Krai and Tatarstan.

B. Private Farms

Along with the rest of Russian agriculture, private farmers have also enjoyed a recovery under Putin. While the number of private farms is still less than the historical high in 1995, the size of these farms has increased steadily over the 2000s. The average private farm now farms

\[\text{TATYANA NEFEDOVA \& JUDITH PALLOT, NEIZVESTNOE SELSKOE KHOZYAISTVO ILI ZACHEM NUZHNA KOROVA? 237 (2006).}\]

\[\text{Dmitri Rylko \& Robert W. Jolly. Russia’s New Agricultural Operators: Their Emergence, Growth and Impact. 47 COMP. ECON. STUD. 115, 118 (2005).}\]

\[\text{Potanin is a billionaire who became spectacularly wealthy in the 1990s, acquiring, among other enterprises, Norilsk Nickel.}\]

\[\text{GRIGORY IOFFE, TATYANA NEFEDOVA \& ILYA ZASLAVSKY. THE END OF PEASANTRY? 96 (2006).}\]

\[\text{Dmitri Rylko \& Robert W. Jolly. Russia’s New Agricultural Operators: Their Emergence, Growth and Impact. 47 COMP. ECON. STUD. 115, 120 (2005).}\]

\[\text{Id. at 118.}\]
81 hectares. Many, if not most, private farmers today began production in the early 1990s and held on through the lean years of the 1990s. The exact number of private farms is difficult to determine. A significant number exist only on paper. For example, in one part of Saratov Oblast where private farmers have been especially successful, 102 out of 372 farmers did not report any output in the early part of this decade. Allina-Pisano reports being told off the record by an economist in Voronezh that half of the private farms registered in the region did not produce crops and were merely fronts for non-agricultural businesses. The flip side of “paper” private farms is that many households do not register as private farms because of the tax benefits of household subsidiary production. A recent survey found that 12% of households engaged in subsidiary production listed this as their main source of income. This does not include the 33% of households that relied on subsidiary agriculture as an important source of food but do not rely on food sales for a large source of income. Such households are effectively private farms and if they were included in the official tabulation of private farms, the number of such farms would dwarf the 250,500 officially registered private farms.

Regardless of the true number of private farms, it is clear that private farmers are slowly expanding their role in Russian agriculture and that successful households are increasing their involvement in commercial agriculture. Private farmers have a somewhat different profile of production than corporate farms or household production. They are a particularly significant

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239 TATYANA NEFEDOVA, SEL’SKAYA ROSSIA NA PEREPUT’YE 238 (2003).
force in the grain market as they now grow over 20% of Russia’s grain.\footnote{\textit{Federal'naya Sluzhba Gosudarstvennoi Statistiki} [Federal Service of Government Statistics], \url{http://www.gks.ru}} Their share of meat, diary, potato and egg production, on the other hand, is insignificant.\footnote{\textit{Id.}} Private farms appear to react more quickly to market signals than corporate farms do\footnote{B. Ya. Uzun, \textit{Reaksia na Signaly Rynka Khoyastva Raznosti Kategori}. \textit{BULLETEN’ TSENTRA APE}, July-Sept. 2006, at 5} and therefore may have an advantage in this respect in Russia’s volatile economic environment. They are also concentrated in areas that are on average somewhat more developed than the country as a whole. Private farms are most prevalent in the Volga region, the North Caucuses, the area around St. Petersburg, and Kaliningrad Oblast and are most scarce in the far east and far north.\footnote{TATYANA NEFEDOVA, \textit{Sel’skaya Rossia na Perednye 246} (2003).} This is not surprising since the former regions are generally favorable for agriculture and the latter regions especially unfavorable. However, the fertile central black earth region of southern Russia along the border of Ukraine is somewhat of an outlier with lower rates of private farming than Russia’s other most fertile regions.

Despite recent progress, barriers to private farming are still substantial. Based on their survey of rural Russians, Nefedova and Pallot list the following as the leading barriers to starting a private farm: (1) Organized opposition from the local administration or corporate farms such as difficulties with registration or provision of inferior farm land, (2) difficulties in producing the required regular reports for state authorities, (3) an unfavorable legal regime and poor economic conditions, (4) lack of proper equipment, and (5) difficulty marketing one’s harvest.\footnote{TATYANA NEFEDOVA & JUDITH PALLOT, \textit{Neizvestnoe Selskoe Khozjaistvo ili Zachen Nuzhna Korova?} 249-50 (2006).} Because each land share holder is now supposed to be given a particular plot of land rather than simply own a share in the larger holdings of the collective, it has become more difficult for private

\begin{itemize}
\item\textit{Federal'naya Sluzhba Gosudarstvennoi Statistiki} [Federal Service of Government Statistics], \url{http://www.gks.ru}
\item\textit{Id.}
\item TATYANA NEFEDOVA, \textit{Sel’skaya Rossia na Perednye 246} (2003).
\end{itemize}
farmers to obtain land from the former collective farms. Previously, a farmer could gather a number of land share holders who wished to leave the collective and demand one consolidated plot of land. Now, however, these land share holders will have their individual plots distributed across the entire holding of the collective farm which would make their consolidation into one enterprise impractical. In practice, however, because of the expense involved in dividing the lands of former collective farms into individual plots, most land share holders whose land is still tilled by collective or corporate farms have not received an individual plot. At the beginning of 2006 of approximately 138 million hectares of agricultural land used corporate and collective farms, 96 million hectares were still held in the form of land shares. Where private farms have been successful, they are likely to compete with corporate farms for land and encourage land share holders to convert their shares to plots which can then be rented to either corporate or private farms.

IX. RUSSIA IN CONTEXT

Most post-communist countries conducted land reforms in the 1990s. Those in non-Soviet Eastern Europe tended to move the most rapidly while most former Soviet states moved at a slower pace. Most of the Warsaw Pact states as well as the Baltic states restored farm land to their owners from pre-communist times. This restitution played out differently in different counties. Though Germany sought to encourage the break-up of collective farms, most rural East Germans rented their plots back to the former collective farms – peasant agriculture has not

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247 Id. at 239.
displaced the collectives.\textsuperscript{250} Hungary has been more successful in restoring the place of peasant farmers though even there the former collective farms occupy over slightly over 20\% of agricultural land.\textsuperscript{251}

The former Soviet Republics all experienced significant economic declines in the early 1990s and some recovery since then. Interestingly, the part of Western Ukraine that was annexed after World War II experienced an agricultural collapse similar to other areas of the former Soviet Union rather than to the more smooth transition of its neighbors to the west.\textsuperscript{252} The former Soviet Republics differ in the extent of their land reforms. Zvi Lerman, a leading scholar on post-Soviet agriculture, has argued that reform, and in particular distributing land to peasant farmers, has contributed to economic recovery whereas slow or non-existent reform is associated with stagnation.\textsuperscript{253} However, the evidence is far from overwhelming: as Lerman concedes, a simple regression does not yield a strong correlation between reform and agricultural output,\textsuperscript{254} and the former Soviet states differ across numerous dimensions besides pace of reform.

The former Soviet countries of the Caucasus Mountains distributed land to individual farming families in the 1990s. Their experience suggests that these family farms have improved productivity over larger former collective farms and that the size of family farm holdings is a key predictor of success with the larger family farms being more integrated into markets and better

\textsuperscript{251} Id. at 277.
\textsuperscript{254} Id. at, at 27.
able sell their crops profitably. \textsuperscript{255} Armenia in particular is an outlier in post-Soviet agriculture in that agricultural output has increased by over 50\% since the fall of the Soviet Union. \textsuperscript{256} It should be noted, however, that these countries differ greatly from Russia in their geography, standard of living, cultural traditions and the prominence of agriculture in their economies. Some of the rise in output in these countries, especially Georgia and Armenia, may be due to labor shifting back to agriculture as other sectors of the economy collapsed. The lesser importance of grain crops in these countries also was more conducive to decollectivization because sharing the equipment needed for grain production between several different enterprises or households presents difficulties not found in less capital intensive forms of agriculture. In any case, it is questionable how easily lessons from these countries can be applied to Russia. The two countries most similar to Russia in history, climate, economic development and cultural traditions are Belarus and Ukraine. \textsuperscript{257}

\textbf{A. Ukraine}

Ukraine shares a large border with Russia and much in common with the black earth regions of southern Russia. Like Russia, Ukraine industrialized heavily in the Soviet period and only a third of the population lives in rural areas. Nevertheless, because of its more favorable climate Ukrainian agriculture has more potential than agriculture in most of Russia. Ukrainian agriculture is more central to the country’s economy especially since it lacks Russia’s vast

\textsuperscript{256} \textit{Id.} at 112.
\textsuperscript{257} Parts of Northern Kazakstan have similarity to nearby South Western Siberia. Moldova also represents an interesting comparison, though it is substantially more similar to nearby Western Ukraine than it is to any part of Russia.
wealth of natural resources and accounts for 10% of GDP.\(^{258}\) Agricultural output declined by nearly 50% from 1990 to 1998.\(^{259}\) As in Russia, production by collective farms declined sharply while that the subsidiary household production increased as a percentage of total output. The broader economic environment has largely followed the path of the Russian economy with depression in the 1990s followed by a recovery in this decade.

For much of the 1990’s the pace of land reform was even slower in Ukraine than in Russia. Most farms were reorganized as collectives owned by their workers, but in practice continued operating as before. Land shares were given to the employees of collective farms. However, since this did not entail the right to alienate land shares or even necessarily to be allotted a particular plot of land, this reform was almost entirely pro forma. In some cases, the certificates for land shares were kept by collective farm management rather than distributed among the ostensible owners.\(^{260}\) As in Russia, a few private farms were established, but these remained a very small minority in an agricultural sector dominated by the former collective farms and household subsidiary production.

This situation changed in 1999 when a Presidential degree established a right to withdraw one’s land shares from a collective enterprise and receive one’s land as a privately owned parcel.\(^{261}\) The government also directed farms to assign land share holders particular plots of land and conclude lease agreements with those land share holders who wished their land to


\(^{259}\) Volodymyr Melnychuk, Sergiy Parkhomenko, & Alexej Lissitsa. *Creation of Agricultural Land Market in Ukraine: Current State of Development*


remain under the control of the collective farm. By 2003, most owners of land shares had received title to their land.\textsuperscript{262} A new land code, adopted in 2001 provided for private ownership and transfer of agriculture land. This law appears to have been motivated in part by a desire by the government to weaken the power of collective farm bosses who were seen as a key pillar of support of the Communist opposition.\textsuperscript{263} However, the new law also imposed a moratorium on sale of agriculture land lasting until 2008. So while the legal infrastructure for a land market appears to be in place, it is difficult to say how the market will function in practice.

In any case, the rental market for land is quite active in Ukraine. Private farms rent 82\% of their land with larger private farms usually rent a higher percentage of their land.\textsuperscript{264} Leases of agricultural land typical run from three to five years.\textsuperscript{265} In 2005, the average rental payment for a hectare of agricultural land was around 100 hrivny or $20.\textsuperscript{266} A survey taken in 2003 suggested that land plot owners received 32\% more revenue per hectare of land than land share holders.\textsuperscript{267} Plot owners were also more likely to report being paid the according to the terms of their lease as compared to land share holders.\textsuperscript{268} This may be a sign of the greater market power

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{262} \textsc{Leonard Rolfes Jr.}, \textit{The Impact of Land Titling in Ukraine}, at 2, (RDI Reports on Foreign Aid and Development No. 119, 2003).
\item \textsuperscript{263} Stephan von Cramon-Taubadel. \textit{Land Reform in Russia}. \textsc{47 Econ. Sys.} 179, 181 (2002).
\item \textsuperscript{264} Zvi Lerman, David Sedik, Nikolai Pugachev, \& Aleksandr Goncharuk, \textit{Ukraine after 2000: A Fundamental Change in Land and Farm Policy?}, 18-19 (Hebrew University of Jerusalem Discussion Paper No. 7.06, 2006).
\item \textsuperscript{265} Zvi Lerman, David Sedik, Nikolai Pugachev, \& Aleksandr Goncharuk, \textit{Rethinking Agricultural Reform in Ukraine 67} (IAMO, Series on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 37, 2007).
\item \textsuperscript{266} Zvi Lerman, David Sedik, Nikolai Pugachev, \& Aleksandr Goncharuk, \textit{Ukraine after 2000: A Fundamental Change in Land and Farm Policy?}, 3 (Hebrew University of Jerusalem Discussion Paper No. 7.06, 2006).
\item \textsuperscript{267} \textsc{Leonard Rolfes Jr.}, \textit{The Impact of Land Titling in Ukraine}, at 2, (RDI Reports on Foreign Aid and Development No. 119, 2003).
\item \textsuperscript{268} \textit{Id.} at 10.
\end{itemize}
\end{footnotesize}
of private plot owners. Surveys of heads of private and corporate farms show that attitudes toward markets for agricultural land improved significantly between 2002 and 2004.\textsuperscript{269}

The reforms of 1999 to 2001 fortuitously coincided with an economic upswing. As in Russia, agricultural output has increased steadily since 1999 improving the position of all type of agricultural enterprises. The 1999 land reforms have apparently succeeded in changing the mix of agricultural enterprises in Ukraine. From 1999 to 2004, the amount of land farmed by corporate farms declined by almost 30\% whereas the territory of household plots more than doubled and land farmed by private farms has tripled, albeit from a very low base.\textsuperscript{270} Corporate farms now farm only 60\% of Ukrainian farm land and produce only around 30\% of agricultural output.\textsuperscript{271} It appears that many rural Ukrainians are withdrawing their land from corporate farms so that they can expand their own household production or lease it to their neighbors. The shift in labor from corporate farms to household production has been even more dramatic. Whereas two thirds of rural Ukrainians of working age were employed by corporate farms in 1996, only 21\% reported their main place of employment as being a corporate farm in 2005.\textsuperscript{272} Despite these changes, Israeli economist Zvi Lerman was unable to show that smaller Ukrainian farms were more efficient than corporate farms so the impact of these changes in the structure of production on economic growth remains unclear.\textsuperscript{273} Credit is usually available from private sources for corporate and some private farms, though the interest rate, around 10\% after

\begin{flushright}
\textsuperscript{269} INTERNATIONAL FINANCE CORPORATION: AGROBUSINESS DEVELOPMENT IN UKRAINE, FARMING AND AGROBUSINESS DEVELOPMENT IN UKRAINE 40 (2005).
\textsuperscript{271} ZVI LERMAN, DAVID SEDIK, NIKOLAI PUGACHEV, & ALEKSANDR GONCHARUK, RETHINKING AGRICULTURAL REFORM IN UKRAINE 2 (IAMO, Series on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 37, 2007).
\textsuperscript{272} Id. at 55.
\end{flushright}
inflation, is still rather high.\textsuperscript{274} Despite increasing availability of credit for farmers, land is still rarely used as collateral.\textsuperscript{275}

Relations between corporate farms and households have been restructured with households paying for most services provided by corporate farms for their private plots.\textsuperscript{276} Corporate farms also have a less prominent role in the rural economy with two thirds of rural Ukrainians reporting that they have no economic relations with corporate farms.\textsuperscript{277} Most corporate farms continued to provide a range of social services to their employees into the 21\textsuperscript{st} century. During this decade it appears that most farms transferred responsibility for social services and non-agricultural infrastructure to local government.\textsuperscript{278} Only 27\% of Ukrainian farms continued to support social infrastructure in 2005.\textsuperscript{279}

The Ukrainian experience with land reform is suggestive of likely future trends in Russian agriculture. In Ukraine, the aggressive land reforms of the turn of the last century seem to have facilitated expanded household and private farm production. The more successful household producers increasing grow food to be sold on the market rather than as a supplement to other sources of income. At the same time, the more successful corporate farms have become a more attractive investment and are also expanding operations. So while smallholder

\textsuperscript{274} Zvi Lerman, David Sedik, Nikolai Pugachev, & Aleksandr Goncharuk, \textit{Ukraine after 2000: A Fundamental Change in Land and Farm Policy?} 6 (Hebrew University of Jerusalem Discussion Paper No. 7.06, 2006).
\textsuperscript{275} ZVI LERMAN, DAVID SEDIK, NIKOLAI PUGACHEV, & ALEKSANDR GONCHARUK, RETHINKING AGRICULTURAL REFORM IN UKRAINE 99 (IAMO, Series on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 37, 2007).
\textsuperscript{276} Zvi Lerman, David Sedik, Nikolai Pugachev, & Aleksandr Goncharuk, \textit{Ukraine after 2000: A Fundamental Change in Land and Farm Policy?} 4-5 (Hebrew University of Jerusalem Discussion Paper No. 7.06, 2006).
\textsuperscript{277} ZVI LERMAN, DAVID SEDIK, NIKOLAI PUGACHEV, & ALEKSANDR GONCHARUK, RETHINKING AGRICULTURAL REFORM IN UKRAINE 3 (IAMO, Series on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 37, 2007).
\textsuperscript{278} \textit{Id.} at 78.
\textsuperscript{279} \textit{Id.} at 79.
agriculture is increasing in importance, this will probably not lead to the demise of larger farms. Instead, the more profitable large farms will likely be absorbed into agribusiness corporations and continue to dominate the market for those crops which can be grown at least as efficiently on small farms as on larger ones. These rapid changes suggest that Russian agriculture, at least in southern regions, would also evolve more rapidly if more effort were made to convert land shares into land plots. Russian agriculture seems to be moving in a similar direction with the more successful household producers and private farms expanding production while the former collective farms either die off or become absorbed by large agribusiness companies. As in Russia, life for most people in rural Ukrainians remains difficult despite recent progress. Most aspire to a different life for their children: only 24% wish to see their children became farmers while over 50% would like to see their children move to see their children leave their village when they grow up.

B. Belarus

Comparison with Belarus is also instructive. Belarus is an interesting case as it is the only middle income post-Soviet state that has enacted no meaningful land reform. Belarus is highly industrialized and has historically been comparable to European Russia in its level of economic development. In keeping with its retention of many aspects of the Soviet economy, Belarus continued the Soviet policy of price controls on food and subsidies for producers. Though often depicted as a basket case in the western press, it should be noted that Belarus’ reluctance to

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280 It is likely that large farms will continue to have advantages in obtaining credit, lobbying for subsidies, bargaining with suppliers and access to marketing channels. These advantages could offset some inefficiencies in production compared to smaller farms.

reform seems to have shielded its citizens somewhat from the sort of economic collapse experienced by Russia and Ukraine in the 1990s. Belarus’ GDP has only recently fallen behind Russia as a result of the oil boom and Russia’s more liberalized economy. The contraction of the Belarusian agricultural sector in the 1990’s was slightly less sharp than that of Russia and Ukraine – output in 1999 stood at 65% of output in 1990 and experienced a modest recovery thereafter.\textsuperscript{282}

Agricultural reform in Belarus was very modest even in comparison to Russia. In the early 1990s the amount of land allotted to household plots nearly doubled. This land was apparently taken from the collective farms whose holdings decreased slightly.\textsuperscript{283} Private ownership of agricultural land was permitted only for household plots. A very small number of private farms were created in the early 1990s, but unlike Russia, these farms were not permitted to own land. As in Russia, the number of these private farms peaked in the mid 1990s and declined thereafter with average private farm size continuing a slow increase over the entire period. A World Bank study published in 2000 found that the small number of farms that were reorganized as joint-stock companies or partnership were more profitable and more efficient than those that remained collective farms. However, these farms appear to have also been more efficient before reorganization so it appears that self-selection and not efficiencies from privatization were responsible for this trend.\textsuperscript{284}

Legislation enacted in the 1990s allowed agricultural enterprises and private farmers to possess use rights of various types. Uses rights were permanent in some cases, but not

\textsuperscript{284} Id. at x.
transferable. Private individuals with use rights could pass the use rights to agricultural land to
their heirs but not to any buildings located on them. More recent reforms liberalized rules
concerning use rights somewhat, but outright ownership of all but household plots is still not
permitted.

Just as Belarussian agricultural output declined less than that of Ukraine or Russia in the
1990s, its recovery was relatively stronger in the first years of the 21st Century. Belarussian
agricultural output grew by 5.7% in the first five years of this decade. The pace of growth has
slowed somewhat over the past several years but continued to be slightly faster than that of
Russian agriculture. Household agricultural output has leveled off in this decade so that
agricultural enterprises now account for nearly all Belarussian growth in agricultural output.

That Belarus experienced basically similar trends in agriculture output as Russia and
Ukraine suggests either that land reform in the latter two countries was not pursued seriously
enough to make a large difference in the short run or that land ownership is not an important
determinant of short-term overall agricultural output in post-Soviet countries. A World Bank
report several years ago termed this “the Belerus puzzle.” Part of the explanation appears to
be related to Belarus’ relatively higher state subsidy for agriculture. Nevertheless Belarus
suggests that considerable caution in warranted in drawing conclusions about the results of land

285 Id. at 17.
286 WORLD BANK POVERTY REDUCTION AND ECONOMIC MANAGEMENT UNIT EUROPE AND
CENTRAL ASIA REGION, REPORT NO. 32346-BY, BELARUS: WINDOW OF OPPORTUNITY TO
287 Ministry of Statistics and Analysis of the Republic of Belarus,
http://belstat.gov.by/homep/en/main.html (follow “statistical information” hyperlink, then follow
“Agirculture” hyperlink).
288 WORLD BANK POVERTY REDUCTION AND ECONOMIC MANAGEMENT UNIT EUROPE AND
CENTRAL ASIA REGION, REPORT NO. 32346-BY, BELARUS: WINDOW OF OPPORTUNITY TO
289 Id. at 201.
reform from subsequent economic performance. The main determinants of short term agricultural performance do not appear to lie in patterns of land tenure or the organization of agricultural enterprises. Liberal reform does not yet appear to have given Ukraine or Russia a clear advantage in agriculture over their more conservative neighbor. At best, Russia and Ukraine have been more successful in reducing the extent to which agricultural subsidies are a drag on the rest of the economy. While this is a boon for their economies, it does not represent a gain for their rural populations engaged in agriculture.

X. CONCLUSIONS

1. Land reform in Russia has been unsuccessful in changing the basic structure of production.

Some observers, both in Russia and especially in the west hoped that the end of Soviet communism would mark the end of collective agriculture and begin a new era of Russian agriculture dominated by smallholder farmers. Not only where these hopes not realized, the most immediate result of the reforms of the early 1990s was that agricultural output plummeted. The collapse of Russian agriculture following the fall of communism came as somewhat of a surprise even to some well-informed observers. One leading expert on Soviet agriculture later remarked:

[T]he worst performance of my professional career involved evaluation of how the agriculture of the former Soviet Union would be reformed when the Soviet Union no longer existed and what would happen to output when those reforms were made. . . . I believed that when farmers were given the right to their land they would seize it and good things would happen. But that didn’t happen.\(^{290}\)

Some experts at the time did predict that it would be difficult if not wholly impractical to

decollectivize Soviet agriculture even if other market reforms proved successful. The difficulties were numerous and, in part, foreseeable.

In the short term, the most important impediment to restructuring was probably the extremely negative economic climate for agriculture including the price scissors of the 1990s and the collapse of purchasing power of Russian consumers. For rural Russia, survival took precedence over reform. That is, its inhabitants adapted to new conditions but did not tend to restructure economic and social institutions with a view toward long-term benefit. Collective farm managers often struggled to keep their farms above water rather than experimenting with new forms of production such as small private farms, which might be more profitable in the long run but would entail significant transition costs. The early 1990s saw a brief wave of enthusiasm for private farms. However, as most new farms went bankrupt by the middle of the decade, rural Russians could not be blamed for concluding that it does not pay to strike out on one’s own.

Some of the early sentiment in favor of peasant farming in Russia was based on relatively greater efficiency of small-holder farmers in much of the third world. This experience might not be a good guide to Russia for several reasons: (a) Russia has a smaller agricultural sector, higher wages and a more urbanized population than most developing countries, (b) Russian agriculture has been based on a large farm model for over two generations and it is doubtful that many workers have the skills necessary to run private commercial farms in a competitive environment, (c) the western country with climatologically conditions most analogous to Russia and Ukraine, Canada, has an agricultural sector dominated by large farms very different from the sort of smallholder agriculture sometimes believed appropriate for Russia.

While some of these factors were related to Russia’s general economic malaise, Russian

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agriculture was probably due for a rough period during the transition to a free market even if the rest of the economy responded more favorably. A legacy of rural overpopulation relative to advanced economies, development of agriculture in climatologically inappropriate areas and heavy state subsidies for production put Russian agriculture in a weak position for a smooth transition. Establishment of private enterprises with new business models and structures for production and marketing is difficult in a sector that is rapidly shrinking. Rapid price liberalization combined with withdrawal of state subsidies was a recipe for collapse.

This difficulty was compounded by the complex role played by collective farms in rural economic relations. Even unprofitable collective farms served an important role in supporting household subsidiary production, social services and employment for local residents. Households heavily involved in subsidiary production often relied on the collectives for assistance in matters including access to farm machinery, food for animals (often stolen from one’s workplace), irrigation, fertilizer and, sometimes, access to marketing networks. While reformers may have hoped that it would prove relatively easy to remove inefficient collective farms and replace them with more efficient enterprises, in practice this would require complete restructuring of rural life. All of the roles played by collective farms could and, in some cases are, being replaced. But to do so requires time and money. In retrospect, the situation is much more clear. As Stephen Wegren put it in 2005, “Analysts who expected or wished for, massive decollectivization were merely engaging in pipe dreams and did not understand the reality of the rural economy.”

2. Land reform and the restructuring of agricultural enterprises are expensive and require significant investment in new institutions to be successful.

A very significant impediment to agricultural reform in Russia was the lack of attention and resources devoted to the matter by the central government. To say that agricultural reform in Russia was poorly managed would convey the misleading impression that it was managed at all. Instead, the federal government simply decreed that land and enterprises should be privatized and ordered local officials to carry out the privatization while largely withdrawing from any active role in Russian agriculture.

The contrast to the Stolypin reforms, the last serious attempt at liberal reform of the countryside, is not flattering. Under Stolypin, the state made a serious effort to facilitate land privatization and the establishment of peasant farms by training a significant number of land surveyors and dispatching then to the countryside to help peasants separate their plots from the local communes. Stolypin subsidized the movement of peasants from overpopulated areas to open land in Siberia and provided unsecured loans to peasant cooperatives. By contrast, the state under Yeltsin largely withdrew from rural affairs and did relatively little to facilitate successful land reform or establish profitable private farms. Stephen Wegren and David O’Brien suggest that this lack of interest in rural issues “may have been due to a perceived lack of need to gain the political support of the rural population, or simply the government’s inability to finance a more pro-agriculture policy, or some combination of these two factors.” In any case, new agricultural enterprises were hindered by lack of access to credit, poor marketing and supply

294 Id. at 244-45.
channels, poorly functioning legal institutions and other difficulties that could have been
daddressed by a responsible central government.

Would be reformers seem to have underestimated the difficulty of creating competitive
private farms in the middle income country such as Russia. Successful private enterprise in
Russian agriculture requires a range of abilities extrinsic to agricultural production: cultivation of
local bureaucrats, establishment of business relationships with creditors, marketers, and sellers of
agricultural inputs, maintenance of good relations with local collective farms, bookkeeping, etc.
This is, of course, true of farmers in any capitalist country. However, given local conditions in
Russia, the task facing Russian farmers is significantly more difficult and the pool of Russians
with the requisite human capital is much smaller. Collective farm managers often have the skills
necessary to operate successful private farms – however only a particularly adventurous soul
would have left a safe job as the head of a collective farm to devote him or herself to private
farming as a full time business. Most ordinary workers, on the other hand, were poorly prepared
to manage a large or medium sized private farm without outside training, credit and access to
marketing networks. These rarely were provided.

3. The slow development of a market for buying and selling agricultural land has
had a limited impact on Russian agricultural performance since the fall of the
Soviet Union.

The lack of a well-functioning market for sale of agricultural land is not necessarily a
major drag on the agricultural sector. In Russia, the agricultural sector has recovered even as the
development of markets for sale of land has been very unimpressive. There appear to be two
reasons for this. One is that the rental market can be a functional replacement for the sale market
in many cases by allowing land owners to transfer control of land into the hands of those likely
to use it most productively. Medium to long-term leases allow for nearly proper incentives for investment. As Russian agriculture has recovered following the disastrous 1990s, agricultural land rental is becoming more common and rental prices seem to be increasing. Since the area under cultivation has not increased, the increased in rented land seems mainly a matter of the more productive and profitable producers increasing their holdings. The second reason is that until recently, agricultural land has not been especially scarce in much of Russia. Poorly functioning markets for scarce resources tend to be more economically damaging than poorly functioning markets for less scarce resources. In much of rural Russia, agricultural land is less scarce than most other agricultural inputs such as (a) access to credit, (b) competent and energetic management, and (c) sober workers. As the quality of farm management improves and access to credit increases (retention of high-quality laborers will continue to be a serious problem unless wages increase greatly to compete with urban labor markets), the importance of land markets will probably increase, at least in the leading agricultural regions.

By contrast, price liberalization and the end of central economic planning have had a great impact on Russian agriculture. Judging by changes since these reforms, Soviet agriculture suffered from inefficiencies in both agricultural inputs and outputs. Shifts in grain production toward the more fertile south and milk production toward the less fertile north suggests that central planners made systematic mistakes in setting the output mix for different regions. Soviet agriculture almost certainly employed too many workers and also may have invested too heavily in certain types of heavy machinery. There is, however, much less evidence that the Soviet

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296 B. Ya. Uzun, Agrarniya Struktura v Rossii: Adaptasiya k Rynke i Effectivnost', BULLETEN’ TSENTRA APE, Apr.-June 2003, at 13
297 It is a bit difficult to tell whether to what extent the decline in use of tractors reflects a correction away from the Soviet ideological fixation with mechanization as a symbol of progress
preference for large farms was necessarily ill-conceived. Household production remains the dominant mode of production for potatoes and some vegetables, just as in Soviet times. This does not appear to be an indication that small-holder agriculture is necessarily more efficient than large farms as many outsiders believed was the case in Soviet times. Rather, the proper conclusion would have been that household production of potatoes and vegetables is efficient in Russian conditions. Generalizing patterns of efficient production from these crops to agriculture at large, especially the gains that account for most of agricultural output, is not necessarily justified.

4. In the context of the early 1990s, rural skepticism about economic liberalization including land reform was not irrational.

For many rural Russians, the most significant attribute of the reforms of the 1990s was not the distribution of land to collective farm workers but rather the withdrawal of state support for agricultural and the decline of spending on social services in rural areas. The incomes of most rural Russians depended less on the distribution of local land entitlements than on the state budget, the price scissors and trade policy. Land privatization did give rural Russians control of land, but in many areas agricultural land has little value, at least in the short run.

It is not clear that rapid liberalization of land markets in the 1990s would have helped ordinary farm workers terribly much. The economic climate was not favorable for founding private farms and most workers lack the human capital and personal connections to compete as private farmers anyway. Moreover, the experience with the rapid privatization of Russian industry with citizens receiving vouchers take could be invested in the newly privatized

and to what extent it simply represents the inability of agricultural enterprises to make economically necessary capital investments.
enterprises is not encouraging. It is highly likely that a full liberalization of land markets in the 1990s would have led to workers and pensioners, or at least those living in areas that are not agriculturally marginal, selling their plots of land for very little money. This might, as with Russian industry, eventually have lead to the consolidation of assets by businesspeople who operate them more efficiently. It would not, however, have been a good deal for many rural Russians. They would have sold an asset at a time when it had little value and have no access to the modest income streams that some landowners now receive from profitable corporate farms.\textsuperscript{298} Moreover, many land share owners are either retired or would not be employed by corporate farms owned by outside investors which employ far fewer workers than the old collectives. Given that one rationale for takeover of companies by outside management is that new management may feel less obligated to honor commitments made by previous managers, this fear is not unreasonable.\textsuperscript{299} While incumbent managers may feel a duty to protect the jobs of their workers and provide support for pensioners, new managers installed by outside investors may have far fewer scruples. When many farms are, in fact, employing many more workers than would be maximally profitable, this is an even greater threat.

Without their shares in either the collective farm or the land that it farms, nearby residents might receive very marginal benefits from the presence of a nearby successful private or corporate farm. In fact, local residents whose primary relationship to the former collective farm is as a source of assistance for their household plot rather than as a source of wages, may prefer a marginally profitable but altruistic local corporate farm to a profit maximizing farm that

\textsuperscript{298} Of course, some rural landholders would not have sold during the 1990s either because of lack of buyers or because of a decision that holding onto land in case its value appreciated was worth not having a few extra rubles in ones’ pocket. However, many if not most land share holders probably would have sold if given the opportunity.

can afford somewhat higher wages. All of this is to suggest that the rural Russian economy suffers from severe structural problems: inefficient enterprises, oversupply of labor, adverse market conditions for most agricultural products that could not have been solved in the 1990s by reassignment of property rights.

Rural Russians have also opposed decollectivization for reasons that were not well appreciated at the time. One consequence of the replacement of some collective farms with private farms is the loss of support for subsidiary household production for many villagers. Subsidiary household production and the collective farms have long enjoyed a symbiotic relationship. Nefedova suggests that private farmers often help their workers in much the same way that collective farms traditionally did. However, private farms tend to use significantly less labor than collective farms so that when private farms replace collectives, a significant part of the rural population loses an important source of support.\footnote{TATYANA NEFEDOVA, SEL’SKAYA ROSSIA NA PEREPUT’YE 244 (2003).} This is a source of tension between private farmers and other Russian villagers and is one reason that rural Russians may prefer that corporate farms not be replaced by private farmers. Though private farms may increase the efficiency of Russian agriculture, this does not come without some cost for significant numbers of rural Russians.

A persistent fear in rural Russia is that privatization of land will make pastures unavailable for livestock owned by local families. In some areas, such as Stavropol Krai, where arable land is scarce, land near villages traditionally available for pasturing villagers’ cows are now under private cultivation, mostly by private farmers. This is a hardship for some villagers and a source of some resentment.\footnote{TATYANA NEFEDOVA & JUDITH PALLOT, NEIZVESTNOE SELSKOE KHOZYAISTVO I LI ZACHEM NUZHNA KOROVA? 237 (2006).} Nefedova and Pallot suspect that corporate farm
management sometimes rents this land to private farms so as to stir up animosity between private farmers and the local community and avoid blame for denying access to the locals. In any case, no trespassing signs and armed guards are an increasingly familiar sight in the fertile areas of the Russian south.\textsuperscript{302}

Some individual households have benefited from their ability to increase land holdings. As the economic climate for agriculture has improved in this decade, this tendency has become stronger. Whereas the wealthiest 10\% of Russian village households held only around 40\% more land than the poorest 10\% in 1999, this figured increased to over 130\% by 2003.\textsuperscript{303} After the difficult years of the 1990s, both private farmers and households that engage in commercial agriculture have an opening to expand production. As they do so, they are likely to extend their landholdings as well, especially if barriers to land sales are reduced.

Despite some resistance to decollectivization by farm managers, most managers appear to have objected to the reforms because of the hostile economic environment created by the reduction of state subsidies, the liberalization of trade and the difficulty of obtaining credit.\textsuperscript{304} Indeed, surveys of farm managers and agricultural specialists in 1999 showed strong majorities in favor of private ownership of agricultural land with around 30\% favoring ownership without restrictions.\textsuperscript{305} This suggests that though rural elites shared popular concerns about the transfer of land to outsiders, they nevertheless tended to favor private ownership of land and free market organization of production combined with state subsidies and protectionism. Given their greater

\textsuperscript{302} Id. at 238.
\textsuperscript{305} Id. at 97.
ability to benefit for more liberal economic conditions in agriculture, this is not surprising. These tendencies will probably strengthen if economic growth in the countryside continues.

5. Changes in property regimes are likely to be fraught with tension when the value of a pool of resources is contracting rather than expanding.

Theories of changes in property entitlement typically stress either changes in externalities and transactions costs or changes in power by interest groups. The former type of explanation, associated with Harold Demsetz, tends to toward optimistic accounts of evolution toward more efficient property arrangements. The latter type of account emphasizes bargaining between interest groups as driving changes in property entitlements. These changes may be beneficial or malign, though the structure of interest group explanations particularly lend themselves to pessimistic accounts. Russia’s experience with privatization of agricultural land fits in some respects with both optimistic and pessimistic narratives of changes in property rights. The privatization of land unquestionably represents a change in property regime with the potential to increase economic efficiency and generate wealth. Rather than land being mainly controlled by the local collective farm, private owners can shift land to enterprises that are able to pay higher rents by virtue of their greater efficiency. The process of transition from collective control of agricultural land to individual ownership of private plots does seem to be taking place in most parts of rural Russia and is largely motivated by the ability to put individual plots to more efficient use. Moreover, this transition is taking place despite the defects in Russia’s legal regime for agricultural land discussed above. With the recently improved outlook for

agriculture, Russians are using long term rental contracts and buyouts of corporate farms by new investors to shift control of agricultural land to those able to put it to the most profitable use.

However, an explanation of agricultural reform in terms of evolution toward a more efficient property regime would be rather misleading. For one thing, the alleged beneficiaries of the new regime, the collective farm employees who were given land were often ambivalent at best about the new order. Instead, the changes were initially imposed by a distant national government that was rather unresponsive to rural Russian. The second wave of reform under Putin took place only when the new government had consolidated power to the point of being able to push land legislation through the Duma over the objections of most of the rural lobby. This top down mode of reform is rather typical of the Russian experience, but maps onto both Demsetzian and interest group explanations rather poorly.

Interest group explanations are somewhat more fruitful in explaining why land law reform was not especially effective in restructuring Russian agriculture. As discussed above, both rural elites such as collective farm managers and non-elites such as collective farm workers had reasons to support the continued existence of collective farms and oppose a completely free market for agricultural land. In the Russian countryside, opposition to privatization and decollectivization was not primarily a matter concern over maintaining access to common property resources. Though use of collective farm fields for grazing one’s own livestock was a concern for many rural Russians, the greatest source of alarm was that the dismantling of collective farms or their transfer to outside ownership would threaten social services, the provision of assistance to subsidiary household producers by the local collective farm, and lead to reductions in the corporate farm workforce. For farm managers and other elites, the farms gave them a control over a large pool of resources and a socially prestigious position. Though
many farms may have been economically unproductive, their ability to lobby for government
sponsored credit and various other subsidies may have made them valuable for rural Russians
during the lean years of the 1990s.

In retrospect, the disappointing results of land reform are not surprising. All of the major
rural interest groups had reasons to oppose decollectivization and completely liberalized land
markets. During the 1990s, the only obvious beneficiaries of reform were those outside of the
agricultural sector who stood to gain from the reduction of agricultural subsidies. Some rural
Russians would have done well as private farmers if collective farms had been scrapped.
However, since it is difficult to say precisely which people would have benefited, this
hypothetical constituency could not form an effective interest group. In the context of a
contracting agricultural sector, rural interest groups were inclined to try to keep what they had
rather than engage in a costly and risky shuffling of property entitlements and reorganization of
agricultural enterprises. The decline of Russian agricultural in the 1990s meant that it would
have been difficult to compensate rural elites for the loss of their positions and corporate farm
directors or poor rural households for the loss of services provided by the collective farm even if
liberalized land markets reduced the margin of decline by boosting economic efficiency.

With the recent upswing of the Russian economy, the situation in rural Russia has
changed. Whereas rural interest groups had little incentive to embrace any risky changes in the
1990s, there is now more potential for significant change. Investment from new entrants in
agriculture has given more parties a stake in the profitability of agricultural enterprises. Rural
Russians, both elites and non-elite seem more open to markets in land now that there are better
prospects for significant profits and rising wages in the agricultural sector. The greater wealth of
the Russian state provides at least a theoretical alternative to social services provided by
Finally, an expanding economy yields more resources to pay off local officials and others with the ability to obstruct or subvert change.

The broader lesson here should be that transitions in property regimes are difficult to undertake when the amount of wealth to be divided is shrinking, not expanding. Risk aversion and loss aversion will tend to make actors unwilling to give up what they have already and less likely to take risks. The contracting pool of resources means that less is available to pay off those who might object to the new arrangements and less capital is available to make investments in new institutions. The costliness of buying off these disaffected parties could undercut returns to capital even when potential increases in output might justify capital investment in agriculture. The attempt to restructure the rural Russian economy without a commitment to significant investment in agriculture was a mistake. Only the relative lack of political influence of rural Russia allowed the Yeltsin government to get away with such a blunder.

6. Recommendations for Future Reforms

This paper has identified a number of shortcomings in Russian agricultural land law and agriculture policy. I have not examined questions of agricultural economics closely enough to have an informed view of questions of optimal farm size, trade policy, the desirability of farm subsidies or other crucial questions. Regardless of the correct answers in these key areas of agricultural policy, the following would be sound initiatives:

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308 Of course, it is less clear that the Russian state is interested in making significant expenditures to improve the lot of poor rural Russians, especially pensioners. Such people have little political influence and the Russian state, suddenly empowered by oil and gas wealth, can probably afford to be rather unresponsive to most of its citizens.
a) Establish programs to encourage and modestly subsidize the conversion of land shares into land plots including increased funding for land surveying services and a simplified registration procedure.

Some observers have even argued that the form of agricultural land tenure is basically not important to agricultural performance in the former Soviet agriculture. This conclusion seems overstated. The experience of Ukraine, which, unlike Russia, has almost entirely replaced land shares with private plots, suggests that giving workers private plots rather than land shares facilitates rental agreements and therefore speeds the expansion of more efficient producers. Empirical studies in both Russia and Ukraine suggest that converting land shares into private plots increases the rents paid to the owners of such land considerably. As Russian land is converted to private plots, it is likely that the role of commercial household production and private farms will increase. A rental market for private plots also makes easier the expansion of large corporate farms backed by outside investors who can bid land away from the incumbent farm.

Speeding the transition from land shares to private plots is also a matter of economic fairness. To this point, most agricultural workers in Russia have benefited very little from privatization and the transition to a market economy. The difficulty of converting land shares into private plots is a significant burden for many of the rural poor and seems to have discouraged many Russian land share holders from doing so. The time and expense of registering land transactions is not especially burdensome for large commercial operations, which can pay specialists to do the necessary paperwork and cultivate relationships with key

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bureaucrats. It is, however, a very significant disincentive for individual land share holders to sell, rent or withdraw their land from corporate farms since transaction costs represent a significant fraction of the value of many land parcels. Land share holders who are not able convert their assets in land to cash are locked into an investment in the local corporate farm that may or may not be the most productive use of their asset and may represent an irrational investment strategy for workers who already are exposed to risk in the agricultural sector.

Several relatively straightforward policies would help land share holders convert their holdings to private plots. Increased investment in land surveys and other measures to reduce the costs of converting land shares would improve the prospects of low income rural Russians and would also provide a small boost to Russian agriculture. The significant costs of land surveys, which are required to convert a land share to a private plot, arise in part because land surveyors charge fees above cost to recoup overhead expenses and in some regions enjoy virtual monopolies thanks to close relations with local governments.

A second initiative that should speed the process of converting land shares into private plots would be to consolidate all land records and titles into one ministry so that registration of land transactions can be done in a single office. At present it takes several months and trips to multiple offices to convert a land share to a private plot or to register a sale of agricultural land. Moreover, local offices sometimes create additional rules for land registrations not found in national law. This is a great source of inefficiency and a considerable burden on owners of small parcels who may not be able to spare the time and money necessary to register their relatively small plot. The introduction of a unified Federal Land Cadastre in the late 1990s was a step in the right direction. The developments of the last decade suggest that much better follow through is sorely needed in order for this initiative to be successful.
b) Reform the land code to remove the right of first refusal for local authorities and eliminate the remedy of confiscation for land code violations.

The new land code enacted in 2002 under Putin has several glaring deficiencies. Permitting local authorities a right of first refusal before any sale of agricultural land may have been a politically necessary compromise in 2002. However, it is at best a disincentive to sell land and at worst an invitation for corrupt officials to extort land owners in their jurisdiction. Similarly, provisions in the land code that allow government officials to confiscate land for violation of land use regulations threaten the security of property entitlements. A schedule of fees for specific violations would make more sense as a remedy. Forfeiture, on the other hand, creates a penalty that varies with the value of the land rather than the seriousness of the underlying violation. It also is an invitation to corruption.

c) Eliminate the bias in agricultural subsidies toward corporate farms and provide subsidies, including state sponsored credit, on an equal basis to private farms and households engaged in commercial production.

The Russian government has developed an unhealthy habit since the fall of communism of subsidizing former collective farms regardless of their efficiency or profitability while providing insufficient support for other producers. In a short burst of reformist enthusiasm, the state did devote some resources to the establishment of private farms immediately after the fall of communism. However, private farmers suffered tremendously in the 1990s when the Russian government cut credit drastically during the post-Soviet downturn of agriculture. The ineligibility until recently of households for various lending programs has been a drag on the commercial development of household production. Meanwhile large sums are spent subsidizing
corporate farms, some of which have little hope of ever becoming profitable. The Putin administration strengthened the preference for large farms in agricultural policy through much of this decade. Recently, there have been signs of a more balanced policy. The state has made efforts to provide credit to household producers for the first time. Regardless of the relative efficiencies of large and small producers, a market economy in agriculture is well enough established that the Russian government has no business picking winners in agriculture at this stage.  

7. Outlook for the Future

Prediction of the future is a dangerous business anywhere and, perhaps, even more so in Russia than in most other places. However, current trends in Russia and its most similar neighbors seem fairly clear. Russia is moving gradually but steadily toward a market for agricultural land. Despite the many inefficiencies discussed above, land in regions favorable for agriculture is slowly being transferred away from struggling farms to more efficient producers. Land in regions less well suited for agriculture or too distant from major cities to make farming profitable tends to be abandoned or remains under the control of marginal enterprises. Agricultural enterprises will continue to include both large farms and smaller producers such as peasant farms and households that sell produce from their private plots on the market. Smaller producers, including both private farms and households, are expanding their operations and becoming even more central to Russian agriculture. At the same time, the most successful

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Consideration of the appropriate level of subsidy for agriculture is beyond the scope of this paper. However, it is worth noting that given the dependence of a significant part of the poorest strata of society on agriculture, the difficulty of competing with heavily subsidized European and North American agriculture, the undesirability of excessive dependence on oil and gas and the tendency toward extremely unequal distribution of income in natural resource based economies, there is a fairly strong case for a substantial subsidy of agriculture despite the inefficiencies inherent in any such policy.
corporate farms are moving away from their roots as collective farms and operating as profit
maximizing private enterprises. Such farms are increasingly attractive targets for investment.
Large agricultural holding companies seem destined to dominate control of large farms. Some of
these are vertically integrated with food processors or input suppliers and some represent
investors from other sectors of the Russian economy with capital to invest as a result of the
recent economic boom. The exact mix of large corporate farms and smaller producers will
continue to vary by crop.

Distribution of agricultural land to the masses of rural Russia has long been a dream of
Russian liberals. It has also at least partially overlapped with the aspirations of rural Russians
themselves. Unfortunately, the post-Soviet land reform has come too late to benefit rural
Russians in the way that earlier reforms could have. Agricultural land has relatively little value
compared to other assets in Russia’s increasingly rich economy. Though households in the more
fertile areas of rural Russia are increasingly benefiting from the recent increase in land values, it
is not clear that this outweighs the costs of reform for rural Russians in general. The logic of
market reforms dictated that agricultural enterprises shed labor since Soviet agriculture
employed an inefficiently large number of workers. Meanwhile, the social services traditionally
provided by collective farms have only partially been replaced by government spending. The
market for agricultural land has facilitated a slow shift of land toward more efficient producers
and benefited Russian agriculture. In the long run, perhaps, a combination of large corporate
farms and smaller producers will lift Russian agriculture and raise standards of living in rural
Russia to approach those of a developed economy. This processes has been slower and more

311 Russian peasants long considered themselves the rightful owners of agricultural land. Many,
however, diverged from liberal reformers in their preference for collective rather than individual
ownership of cropland.
painful than might have been hoped two decades ago when the reform process began.

Nevertheless, Russian agriculture seems at last to be moving in the right direction.