



## Short communication

## Privatization of land in Russia

Zvi Lerman\*

*The Hebrew University of Jerusalem, Box 254, 90836 Har-Adar, Israel*

Accepted 13 May 2002

In a certain sense, Russian agriculture is undergoing a process of marginalization. The share of agriculture in the economy has declined since 1990 from 16% to less than 6%. This trend parallels what we are used to seeing in market economies, and it is presumably due to the normal and healthy growth of the service sector, accompanied by a general increase in per-capita incomes. Yet in a different sense agriculture remains as important as ever to Russian society. A look at the resource side of Russia's agriculture reveals an astonishing picture: the share of agriculture in total employment has remained fairly steady and quite high (14% in 1990, 13.4% in 1999); the share of agriculture in total productive assets has actually increased (20% in 1989–1990, 25% in 1999); and the rural population has remained at 27% of Russia's total population—most of it still dependent on agriculture for its living. Agriculture thus remains tremendously important in Russia, but its efficiency seems to have dropped dramatically since 1990 relative to other sectors of the economy. Agricultural output has contracted much more than the output of other sectors, while its resource endowment has remained relatively constant and very large.

These negative developments in agriculture are entirely attributable to the critically poor performance of the “large farm” subsector: the subsector of farm enterprises that succeeded the traditional kolkhozes and sovkhozes. The output of the individual sector registered a healthy increase in 1991–1993 in response to allocation of additional land to household plots, and has remained relatively constant since that initial period. The output of the “collective” subsector, on the other hand, has declined sharply and continues to decline. Since the “collective” subsector controls 85% of agricultural land in Russia, its under performance determines the continuing decline of Russia's agriculture.

This picture highlights my view of the main problem of Russian agriculture. Privatization of land has not been a failure, as nearly 70% of agricultural land in Russia has been transferred from state to private ownership. Yet private ownership of land in Russia, and in many other CIS countries, does not imply individual cultivation of privatized land. Family

\* Tel.: +972-2-57011481; fax: +972-2-5701686.  
E-mail address: lerman@agri.huji.ac.il (Z. Lerman).

farming—the dominant structure in all market economies—has failed to emerge as the main force in Russian agriculture, and the large “collective” farms continue to control most of the privatized land resources through highly inefficient joint production arrangements.

After a decade of reforms, there is still a need for genuine radical restructuring of the large farm enterprises. The Russian dream is to transform inefficient large farms into efficient large farms. The world experience shows that such a horizontal transformation simply does not work. To create efficient farms, Russia should follow the market path of farm growth: start from small individual units and allow them gradually to consolidate, through land market transactions, up to limits prescribed by the managerial capacity of the farmer-operator in each case. If this is not done, most of the 85% of Russia’s agricultural land currently controlled by large farm enterprises will remain unproductive, despite the anecdotal “success” stories of industrial corporations that take over thousands of hectares of farmland to secure their sources of raw materials. This trend is a drop in the sea, and a mass reform at the farm level is required to resuscitate Russian agriculture.

Russia’s agricultural policy appears to have remained locked into the traditional socialist conception, which treats agriculture as industry and emphasizes economies of scale. We know that economies of scale, which are the basis for industrial consolidation and growth, are highly elusive in agriculture and often turn to diseconomies beyond a certain (quite modest) limit. Large-scale industrial-style operations are very rare in market agriculture, and are only observed in specific and highly specialized areas. Agriculture in market economies is built on individual entrepreneurship, not on large corporate structures. As a result, industrial privatization is intrinsically different from privatization of agriculture.

All over the world, industry is managed by expert managers, who hire labor and report to outside owners. Mass privatization of industry therefore appropriately focuses on the distribution of shares to individual owners and change of incentives to managers. This is roughly the model that Russia has followed for the privatization of agriculture: there has been a mass distribution of land shares and asset shares to the rural population and some changes (mostly nominal) in the accountability of managers. But transition to market agriculture requires going much farther than this: it requires reconfiguration of the privatized farm resources (land and production assets) into smaller, more manageable units operated by appropriately motivated owners—not hired crews run by hired managers.

This view suggests a clear policy prescription. Russian authorities—both central and regional—should abandon their pipedream of horizontal transformation of large farm enterprises from inefficient to efficient corporations. They should dissociate themselves from the idea that a relatively small number of large farm enterprises are easier to control than a multitude of individual farms, because administrative control of agriculture—which still persists in Russia—must be jettisoned with the rest of the command economy. Central and regional government should encourage (perhaps even enforce) physical distribution of land and assets to individuals, followed by reconfiguration of resources based on free choice of the individuals. Encouragement is necessary to overcome the natural inertia of the rural population; enforcement may be necessary to overcome the self-survival tendencies of large-farm managers and regional agricultural bosses. The legal framework is in place: what is missing is the political will and conviction to implement the process.

Among the new physical owners that will be created in this process, some may decide to risk farming independently; others may join their relatives, friends, and neighbors in

small groups and partnerships; yet others may entrust their property to the management of enterprising individuals in return for rental payments or dividends. A wide spectrum of organizational forms and farm sizes will emerge in the process. Some of these forms may eventually evolve into large corporate farms—but this will be the outcome of a long process of adjustment, not the starting point as today.

The understandable risk-aversion of the rural population has contributed to the persistence of the status quo. It should be stressed, however, that individualization of agriculture does not necessarily mean that each individual and each household now has to fend for itself, without any outside assistance. Small-scale farms also face numerous difficulties in market agriculture, but they have mechanisms to overcome these difficulties. Service cooperatives provide one of the standard mechanisms for overcoming the difficulties of small size and various uncertainties of the economic environment. The individual operators and small group farms emerging from the process of transformation should create or voluntarily join service cooperatives to take care of input purchasing, product sales, and even credit negotiations. This may be a natural role for the former management groups of large farm enterprises: stop focusing on production and instead evolve into a shell that provides farm support services to the new individual farms. In other words, evolve from production cooperatives to legitimate and voluntary service cooperatives that are so necessary for producers in imperfect markets.

The envisaged transformation of the farming structure in Russia naturally requires adjustment of farm sizes. Land markets must be allowed to develop, supporting free flow of resources from less efficient to more efficient producers. Land market transactions also include leasing, and not only the dreaded buying and selling of land. Land leasing can go a long way toward establishing an efficient distribution of farm sizes if the legal framework for contract enforcement and security of tenure is in place. But, eventually the Russian government will have to face the problem of buying and selling of land. Russians fear land speculators, especially foreigners. Therefore, I do not think that it is advisable even to raise the issue of foreign investment in farmland. Instead, foreign investors should concentrate on developing market services and market infrastructure for the new Russian farms. There is a tremendous scope for foreign investment in input supply, in distribution channels, in machinery rental services, and of course in processing. All these constitute the essential infrastructure for agriculture, and entry of foreign capital into these activities is not likely to raise as many objections as the outright purchase of farmland.

To summarize, I advocate a vertical transformation process in which the existing large farm enterprises are physically broken up and their resources are distributed to individual owners, who will then decide how to reconfigure their land and assets for future operation. The various new farms emerging from this process must not be left in a vacuum: they should be supported by a network of service cooperatives—possibly based on the know-how and expertise of management groups in existing farm enterprises—and other market services created through private initiative of domestic and foreign investors.