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"SECOND SERFDOM" in RUSSIA

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YELTSIN DECREE FINALLY ENDS "SECOND SERFDOM" IN RUSSIA

Don Van Atta

Summary

Russian President Boris Yeltsin’s signature on a decree "On the regulation of land relations and the development of agrarian reform in Russia" legally ends the artificial separation between agriculture and the rest of the economy created by Stalin’s collectivization. The decree extends market relations into the countryside by reinforcing the peasants’ right to a share of farm land and assets -- a right they have formally possessed since 1990 but has been very difficult to use in practice -- and ending the system of required state procurements. The creation of a land market and destatization of agricultural supply, procurements and credit were needed for the country’s overall transition to a capitalist market economy. Yet they had been bitterly resisted by a big-farm lobby which included the largest single organized faction in the old parliament. By destroying the economic and political basis of that lobby, Yeltsin’s decree increases the likelihood that the new parliament to be elected in December will not simply mirror the old one and that a more democratic system can finally be constructed. But realizing the decree in practice will be a long, difficult process. And, despite a bumper crop, since the old system of state support and purchasing for agriculture has been eliminated at a stroke, the Russian countryside will have even greater trouble completing this year’s harvest and living through the winter than the country’s extremely difficult financial situation already promised.
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Don Van Atta¹

The Agrarian Reform

In June 1990, the first Russian Congress of People's Deputies resolved that the issue of revitalizing the countryside and improving agricultural productivity should be examined at a special session of the Congress.² The deputies, many of whom were local officials and farm managers bitterly opposed to any change in the system of collective and state farms originally imposed in the 1930s, supported the resolution because they planned to use the session as a wedge to further increase government subsidies to the countryside, monies which they had become used to controlling -- and frequently diverting to their own use -- since Leonid Brezhnev began to sharply increase state appropriations for the countryside in the mid-1960s. About 28% of annual capital investments went to the countryside throughout the 1980s. Led by Egor Ligachev, conservatives at the Second USSR Congress in December 1989 had demanded even more money for the countryside, and agrarian lobby leader (and later August 1991 junta member) Vasilii Starodubtsev had even demanded that all state investment be redirected to repay the country's "debt to the village." So, many of the deputies at the First RSFSR Congress supported discussion of the agricultural question because they believed they were lobbying for more money -- and nothing more.

¹Don Van Atta is a Research Associate at the Center on East-West Trade, Investment and Communications, Duke University. He is also an unpaid advisor to the Association of Private Farms and Agricultural Cooperatives of Russia (AKKOR). The research leading to this article was supported in part by funds provided by the National Council for Soviet and East European Research. The author thanks a great many Russians for interviews and other help in the course of his overall research project, and Vladimir Bashmachnikov for a phone interview about the October 27th, 1993, ukaz on October 28, 1993. No one except the author is responsible for any of the arguments or analyses presented here, however.

But reform forces, supported by Boris Yeltsin and his new premier Ivan Silaev, used the Congress' resolution to justify attacking the basic structure of the collective farm system. The key legislation in the package of measures prepared for the November-December 1990 Second, Extraordinary, Russian Congress of People's Deputies was the "Law on the Peasant Farm" which gave individuals and families the right to leave the kolkhoz and sovkhoz with a share of the communal land and assets, set up their own independent farms, and organize associations to provide services or even to work the land in common. Although the collective farms had nominally been created voluntarily, by peasants' pooling their resources, individuals and families could not withdraw their contribution from the "cooperative" or be compensated for it. Pensions and other social benefits were also administered by the farms for and to their members, so that leaving the farm also meant losing one's retirement income. Indeed, until the late 1960s, peasants were not even allowed to hold their own internal passports, the basic Soviet identity document without which it was difficult to travel and impossible to obtain legal employment or housing off the farm.

The Law on the Peasant Farm was drafted by a small group of agricultural economists organized by Vladimir Bashmachnikov, then a staff member in the CPSU Central Committee's Socio-Economic Policy Department. The draft first appeared, under the auspices of the newly-established individual farmers' interest group AKKOR (Association of Peasant Farms and Agricultural Cooperatives of Russia) in early July, 1990.  

The peasant farm law provided that shares of land and property should be determined for all individuals on the farm, including minor members of farm members' families and the elderly. The size of each "conditional share" depended on how long the individual had worked on the farm and the total amount he or she had earned. Shares were to be determined for the whole farm, but neither lands nor capital assets were actually to be generally

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4 The share-system mechanism applies to both collective and state farms.
distributed unless the farm voted to dissolve itself, creating a so-called "association of peasant farms" in its place. If the farm did not vote to liquidate, individuals and families were to have the right to receive physical shares on demand.

The right to leave was hotly contested. The "official" draft version of the Peasant Farm Law contained two versions of the crucial article outlining the process by which farmers who wished to leave the collective could receive their land and property shares. The procedure taken from the AKKOR draft provided that conditional shares could be redeemed for land and capital assets on demand. The version of the same article proposed by the RSFSR Supreme Soviet’s Agrarian Committee required a vote of the general meeting of all the farm’s workers to allow an individual to leave. Since such general meetings were and are commonly considered creatures of the farm leadership, this provision gave the farm management veto power over an individual’s desire to leave as well as the selection of the particular plot of land and assets the person could receive.⁵

The law on the peasant farm was eventually passed with the right to obtain physical shares of land and assets on demand, but the determination of what land and what physical items would be given out as the share was left to the farm’s general meeting.

With the strong backing of Yeltsin and Silaev, the RSFSR Supreme Soviet adopted the rest of the Law on the Peasant Farm, essentially unaltered. But the larger Congress of People’s Deputies refused to confirm the legislation. In order to get it approved, the land reformers had to make a key compromise. It was clear that the land share each individual would receive would not be large enough for a viable farm. The size problem did not immediately bother the supporters of reform. They calculated as follows. (1) In developed Western agriculture there are far more people involved in serving the farmers than there are people actually involved in plowing the land and milking the cows. (2) In Russia, since everyone on the farms had worked to create the national wealth which was now being redistributed, everyone on the farm had long since earned their shares. (3) Let the

pensioners, the teachers, and the other non-farmers either lease or sell their land shares to individuals who intended to work it. (4) Thereby the need of the elderly and the young for a steady income, formerly provided by the kolkhoz from its own funds, would be met, and commercially viable sized farms would be assembled.

To settle fears that all the land shares would be bought up cheaply by urban speculators, and in order to get the legislation accepted, its supporters added a ten-year waiting period before land could be resold. This "moratorium" did deter speculators. It also meant that farmers could not immediately assemble viable holdings. However, since the Russian constitution forbade individual land ownership, supporters of the law assumed that the moratorium was relatively harmless. It would, they apparently thought, be fairly easy to get the constitution amended and the moratorium removed.6

Amending the constitution turned out to be far more difficult than the reformers expected. As the effects of the law, and the overall economic reform, became more obvious, opposition to any constitutional change hardened within the parliament. By the Sixth Russian Congress in April 1992, a solid bloc voted against allowing private land ownership.

The reformers also made a second compromise. The Extraordinary Congress had been called in order to improve conditions in the agricultural sector and, implicitly, to demand more state subsidies. The Congress accordingly passed a "motherhood-and-apple pie" general statement on agrarian reform. This "Program for the Revival of the Russian Countryside" included the outlandish promise that an amount equal to 15% of the country's annual national income would be spent on agriculture and rural development.7 One Russian, knowledgeable about the maneuvering, explained this promise away in an interview by saying that "there are laws that you have to pass that you know can't ever be implemented."

6I base this judgment on a number of conversations over a period of years with Vladimir Bashmachnikov.

7"Postanovlenie S"ezda narodnykh deputatov RSFSR: O programme vozrozhdeniia rossiiskoi derevni i razvitiia agropromyshlennogo kompleksa [Resolution of the Congress of People's Deputies of the RSFSR: On the program for the revival of the Russian countryside and the development of the agroindustrial complex]," Sovetskaia Rossiia (December 5, 1990), p. 3.
The law certainly has not been put into effect, and the agrarian lobby has repeatedly screamed betrayal because the Russian government has failed not only to provide promised investment funds but even to pay off on commitments for harvest purchases.

The provisions for farm division in the Law on the Peasant Farm were voluntary. But, the struggle over the right to leave the farms at the Second RSFSR Congress, and the language of that Congress' resolution on the land reform program (which provided that the reform would be generalized at a second stage) both suggested that the law's provisions would be generally applied. They quickly began to be, as unprofitable and low-profit farms were required to reorganize in 1991. Then, at the end of 1991, Yeltsin issued a decree requiring that all farmland should be denationalized, becoming the property of the farmers, by the end of March 1992. All farms should reorganize and recharter, completing that process by the end of 1992. Each farm could:

1) liquidate itself, going out of business entirely (an option no farm seems to have taken);

2) sell itself as a unit to a strong industrial enterprise, becoming a "subsidiary farm," a constituent part of the industry with workers paid wages;

3) form an association of peasant farms with individual tenure and husbandry by actually dividing land and assets into physical shares and giving them out;

4) create a new "joint-stock" farm, in which case the peasants' conditional shares, without ever being physically delineated, were signed over to a new legal entity in which each peasant received shares of stock; or

5) reorganize as a new-style, theoretically voluntary, cooperative.

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8RSFSR Ministry of Agriculture and Food Supplies, "O preobrazovanii ubytochnyh i nizkorentabel'nykh kolkhozov i sovkhozov v assotsiatsii krest'ianskikh khoziaistv, kooperativov i malykh predpriiatii [On the transformation of unprofitable and low-profitability collective and state farms into associations of peasant farms, cooperatives and small businesses]," unpublished (May 5, 1991).

9"Ukaz Prezidenta Rossiiskoi Federatsii: O neotlozhnykh merakh po osushchestvleniui zemel'noi reformy v RSFSR [Decree of the President of the Russian Federation: On immediate measures to realize the land reform in the RSFSR]," Rossiiskaia gazeta (December 31, 1991), p. 3.
In response to a firestorm of criticism, the government added a sixth option, choosing to retain the existing state or collective farm form, to this list. However, even farms which chose to retain their status were required to take over the land as "group" property and reregister.

By the end of 1992, about 80% of all farms had reorganized. By the time the (extended) deadline expired in March 1993, effectively all kolkhozy and sovkhozy had reorganized in some way, most becoming joint-stock farms. Although this meant little or no change in the day-to-day farm work, and the peasants never saw their "shares," receiving stock in the new farms instead, completion of the registration process meant that the Russian state no longer held title to the farmland. It had been "denationalized," if not quite "privatized."

Opposition to the Agrarian Reform

The reform met enormous, and ingenious, local opposition. Many farms refused to include all their land and assets in the fund for determining conditional share sizes, either by selling some of it on the side or simply insisting that some plots and facilities should remain "collective." Although the law specified that farm-leavers were to be given plots of average quality in average locations, they in fact generally received the worst, most distant, land. The legally specified period for acting on a request for share division has been routinely violated. Farms almost universally refused to give physical assets out to farmers, insisting that they had to be preserved for the good of the whole. Instead, farm-leavers received, if they were lucky, the cash equivalent of the asset share's book value -- at December, 1991, prices. As inflation ate up the ruble, this sum became laughably small. Finally, although Yeltsin's December 1991 ukaz supposedly allowed members of a reorganized farm to freely lease, and, with restrictions, sell their plots to one another, any attempt by would-be farmers to assemble larger holdings by lease or purchase were refused legal recognition. In some places, pensioners who attempted to lease their plots to individual farmers who wished

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10This discussion is based on the author's interviews with many Russian farmers and agricultural officials in October-November 1992, February 1993, and June-July 1993.
to work them were told that the benefits they continued to receive from the central farm administration would be instantly ended if they did so.

Moreover, although land tenure was changing, the system by which farm production inputs were distributed, and the ways in which farm produce went to market, changed little. The state, or newly "private" corporations created from whole ministries or their subdivisions, continued to allocate many critical inputs, in part because the January 1991 price reform made prices so high that no kolkhoz, sovkhoz, or individual farmer could afford them without a state subsidy. The system of required deliveries of produce to state agencies was also retained, although in 1993 the "state orders" became "futures contracts" (f'iuchersnye s'delki, really "forward contracts," not "futures"). In return for a promise to deliver crops in the fall, the government would provide production credit and supplies in order to get the crop in the ground, as well as paying for the crop in advance.

Since banking continued to be monopolized by the Russian Agricultural Bank, a unitary monopoly adapted to distributing state subsidies and shifting accounts among suppliers and buyers, -- not a banking system in the market-economy sense -- state credits remained the only way in which a farm could be financed, whatever the ostensible form of its tenure or its organization. The state subsidies, moreover, continued to be distributed in order to pay the costs of the highest-cost producers (to ensure availability of the total required volume of the commodity). This constituted a "cost-plus" system which discouraged innovation and created an artificial solidarity of "agrarian" political interests because the subsidies acted to even out geographic, climatic, and other regional variations which would otherwise have tended to pit region against region, and farms specializing in particular products against each other.

**The System Crashes**

By mid-summer 1993, it was clear that the state could not meet its obligations to the agrarian sector. Although good weather led to a bumper crop, productivity had not noticeably increased, and the distribution system of state orders was disintegrating under the effects of inflation, growing crime, and regional particularism: each constituent Russian republic, krai or oblast' adopted its own policy of regulating, subsidizing, or completely freeing retail
food prices and wholesale prices for agricultural inputs. At the same time, the land reform had gone far enough in some areas with good land (20% of the farmland in Saratov oblast, for instance, had been distributed to individual proprietors), that peasants who had not yet gotten their share, or passively accepted reorganization earlier, were beginning to demand a real land reform and effective parcelization, fearing that if they waited longer the good land would be gone.¹¹

These pressures eventuated in Yeltsin's forcible disbanding of parliament. Retail bread subsidies were almost immediately abandoned.¹² The state buy-down of interest rates for agricultural credits (covering the difference between the market rate and a nominal one, most recently 27%) ended, as apparently did state credits for agriculture in general. The government later announced that it could not, and would not, pay as much as farmers had been promised for this year's crop. A set of amendments to the Law on the Peasant Farm, designed to correct the abuses and remove the obstacles to redistribution that experience had demonstrated (which had been circulating in the government at least since last summer), was quickly updated and expanded by a small team of agrarian economists huddling with newly reappointed Economics Minister Yegor Gaidar after the October 3-4 battle. Among those known to have worked on the ukaz under Gaidar's direction in the last few weeks were Aleksandr Kalinin, head of the agroindustrial department in the apparatus of the president; Evgeniia Serova, an academic agricultural economist now serving as advisor on economics policy to the Minister of Agriculture; and Vasilii Uzun, another academic economist who

¹¹Although the land reform had originally been intended to break up unprofitable farms, which meant mostly farms in the northern Non-Black-Earth Zone of European Russia, pressure for land redistribution, and struggles over it, unfolded most intensively in the areas with the best land, especially the heavily populated Krasnodar krai, in 1992 and 1993. The tempo of formation of private farms also shifted, as early high rates of private-farm creation in the north slowed and were overtaken by higher rates of farm formation in the south. See Don Van Atta, "The Human Dimension of Agrarian Reform in Russia," Post-Soviet Geography, Vol. 34, No. 4 (April 1993), pp. 258-267.

served as the chief economist in the design of the US AID/International Finance Corporation farm privatization pilot project in Nizhnii Novgorod. Nikolai Komov, chairman of the State Committee on Land, announced that the ukaz would be forthcoming.

Curiously, Agriculture Minister Viktor Khlystun, a long-time supporter of reform, took a long vacation after the battle for the White House. His recently appointed boss, Deputy Prime Minister for Agriculture Aleksandr Zaveriukha, who had led demands for greater state subsidies for agriculture throughout the summer, stormed out of a cabinet meeting after losing a subsidy battle and seems to have been effectively isolated.

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13See, for instance, Anatolii Ershov, "Mezhdunarodnaia finansovaia korporatsiia pomogaet nizhegorodtsam v zemel'noi reforme [The International Finance Corporation is helping the people of Nizhnii Novgorod [oblast'] with land reform]," Izvestiia (June 8, 1993), p. 2. The IFC, an arm of the World Bank, began work on six state farms in Nizhnii Novgorod in December 1992. The farms' assets are to be auctioned off to their workers in November 1993. The news conference announcing the auctions for this IFC pilot project also discussed the October 27 ukaz, leading to some confusion in the Western media coverage. For instance, Fred Hiatt's article "Yeltsin, World Bank Move to Spur Private Land Ownership," Washington Post, (October 27, 1993), p. a27, suggests to a casual reader that all of Nizhnii Novgorod's farms are to be broken up in the near future, not just that the pilot project is nearing completion.

14"Ispolnitel'naia vlast': Monitoring: Gotovitsia reshenie [The executive power: Monitoring: A decision is being prepared]," Rossiiskie vesti (October 13, 1993), p. 1. The agency responsible for urban and industrial privatization, the State Committee on Property (GKI) was not involved in this ukaz, as it has not been involved in any part of the agrarian reform since 1990. In fact, Kalinin, in an interview with this author in June 1993, commented that he answered complaints from farm managers about the difficulties and unfairness of the agrarian reform by asking them if they would rather have GKI chairman Anatolii Chubais do it. No farmer, or farm manager, does, because Chubais' committee has systematically refused to consider farmers' interests, for instance stubbornly refusing to allow farms and farmers to acquire cheap controlling interests in privatized district supply and processing plants. The Chinese, by allowing such potentially profitable firms to pass into the hands of rural officials and farm managers, neutralized much of their potential opposition to reform. Given the strength and deadly results of the Russian agrarian lobby's opposition to reform, culminating in the storming of the Russian White House, it is too bad that GKI insisted on a "level playing field" for all comers in such a high-minded way.
Provisions of Yeltsin's Ukaz

The October 27 ukaz effectively marketizes Russian agriculture. After collectivization, bitter peasants joked that the initials of the All-Union Communist Party, VKP(b), really stood for "vtoroe krepostnoe pravo (bolshevikov)" -- "the second enserfment (by the bolsheviks)". If the creation of collective farms could be called the "second serfdom," Yeltsin's ukaz offers a second liberation. It provides that peasant farmers have legal title to their land and property shares (which were determined on all farms during the 1992 reorganization drive), and that the conditional shares can be traded like any other securities. Moreover, asset shares must be paid in kind (a physical good like a tractor) or in monetary equivalents subject to indexation for inflation. (However, the ukaz does not forbid attempts to give a family one share rather than a share for each family member, another common abuse of the share system of farm-division.)

The ten-year moratorium on land sales by individuals is revoked. A separate ukaz on land mortgages, also long-prepared, will be issued shortly, as will a decree on agricultural taxes. Restrictions on who can join together to farm will be removed. A law legalizing group farms and production cooperatives (until now Russian law has recognized only family farms of blood relatives and their large farms), which has also been circulating for more than a year in draft form, is to be issued within two weeks. This will legalize one of the most common methods of land reform encountered in much of the countryside, the breakup of big farms not into family holdings but into smaller cooperatives, usually based on the former farm brigades and divisions. (This pattern of farm breakup effectively reverses the amalgamation drive spurred by Nikita Khrushchev in 1950-51 which created the present giant kolkhozy and sovkhozy out of previous ones which had generally been based on a single village.)

Finally, the ukaz stipulates that as of January 1, 1994, there will be no more compulsory state purchases of agricultural produce. Although the state will continue to buy much more of the nation's crops than in any Western market economy (surplus-reduction programs perhaps excepted, -- a development the Russian farmer has yet to encounter) because so much of the processing and retailing of food is still state-related, those purchases are now to be on a market basis. If the ukaz means what it says (and compulsory deliveries
of produce to the state have been abolished before, with no effect but a name change), then the economic environment of agriculture has now been freed, so that farm output is on the same market basis as the supply of farm inputs. This should allow the terms of trade between industry and agriculture to equalize, so that agriculture will no longer suffer from high, uncontrolled prices for production inputs coupled with low, regulated prices for its output.

There are some fourteen or fifteen additional documents implementing the ukaz which have not yet been made public. They clearly deal with the details of the new situation, and it is too early to evaluate much of what the ukaz will do without those supplementary items.

Conclusions

In the short run, Russian agriculture has been thrown into extreme disarray. The decree's draconian measures to dismantle the old system were probably unavoidable and better done quickly than slowly. But such "shock therapy" in agriculture will be no more popular or easy to live with for a while than are analogous measures in any other sector of the economy. With no more government credits and the state refusing to pay previously agreed prices for this year's crop, a bumper harvest in the fields may not be gathered or make it to market, leading to short-term food-supply problems. Many farmers, even the new private ones, already distrusted the government. These actions are unlikely to make the Yeltsin-Chernomyrdin-Gaidar team more popular in the village.

Until a new market-oriented credit system is put in place, few farms are likely to be broken up, since it will be impossible for the new owners to purchase the items they need to run their farms. Ironically, in past times, inputs could only be gotten with a planner's approval. Now they are often freely available -- if one has the money to buy them. But without a source of agricultural credit and worked-out mechanisms for land mortgages, farmers will have no way to raise money for production costs, let alone find the investment capital to reshape the countryside into a patchwork of smaller private farms, or to build the housing, roads, and other infrastructure they desperately need.

Local resistance to the ukaz is likely to be strong, so that it may exacerbate the centrifugal tendency characteristic of recent Russian politics. Abolition of the local Soviets
and creation of new local governments was, in that sense, a necessary condition to put such a reform decree in place without having the country irretrievably fall apart into smaller political units.

In the medium and long run, however, Russian agriculture will be irreversibly changed if the provisions of this ukaz really take effect. The end of agricultural protection, exposing Russian farms to market forces, will also lead to regional specialization as farms and farmers, once commanded by central planners and state orders to produce a little bit of everything, begin to produce according to their own comparative advantage. The system of subsidies which held together an "agrarian" bloc in parliament has been ended, and so Russia's farm lobby will re-emerge in the new parliament in a quite different way than in the old one. Although almost all farms were nominally profitable last year (using Marxist accounting methods which ignore capital costs), many marginal farms, and marginal land on almost all farms, will likely be taken out of production. Although the unit cost of production and the amount of resources employed will decline as a result, so may overall food supplies for a time. Since those marginal farms often support a disproportionately old and unskilled population, the state will have to quickly devise ways to take over and improve social welfare measures once performed by the farm administrations. As the farm managers lose the power and authority their huge farms gave them, the creation of new local governments will become an urgent task.

Stalin claimed the collective farm system was the only alternative to market-driven destruction of the countryside and the peasant way of life. The protective wall he built around the village cost the country dearly in the lives of its best farmers and the disruption of the villages. By directing enormous sums of money to the countryside -- much of it, of course, stolen, wasted, or merely passed through to industry -- Leonid Brezhnev extended to the countryside the system of guaranteed wages and subsidy-dependence characteristic of Soviet industry. Now, like state industry, state agriculture is bankrupt, and bankrupting the country. Yeltsin and Gaidar have finally taken the critical step in creating a market economy, making the land a commodity and the people who work it just entrepreneurs who work under the open sky. If the decree is really implemented, it will change Russia as
radically as Stalin's collectivization did. Unlike collectivization, this change was unavoidable. One can only hope the human costs will be lower this time around.