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Rural Political Realities Force Modification of Russian Reforms

Don Van Atta¹

Boris Yeltsin has accepted the resignation of Boris Fedorov, former Deputy Prime Minister and Russian Minister of Finance. Fedorov had set two non-negotiable conditions to remain in government, the removal of Deputy Prime Minister (in charge of agriculture) Aleksandr Zaveriukha and Central Bank of Russia Chairman Viktor Gerashchenko. When Yeltsin and his prime minister, Viktor Chernomyrdin, balked, Fedorov walked.

Yeltsin refused to remove Zaveriukha because one of the country’s most powerful economic interests, agriculture, supported the deputy prime minister. In repeatedly demanding greater state support for rural areas, Zaveriukha--whatever his own conservative convictions might be--was simply representing his constituents’ interests in the same way as U.S. cabinet members do. Given the present structure of the Russian economy and political system, any reasonable person in the same post would have to act very much as Zaveriukha has. So removing the deputy prime minister for agriculture is much more than a matter of changing an individual. Long-term structural reform of Russian agriculture will be needed to resolve the underlying conflict. Promoting such reform is much more difficult and time-consuming than the kind of theatrical "advice" and "aid" that most Western efforts have so far provided, but much more likely to make a real difference in the long term.

The government has completely dominated Russian agriculture since Stalin forced the creation of large collective farms in the early 1930s. The state has supplied all production inputs, made all management decisions, and bought most farm produce at prices it dictated. When, after economic reform began in 1987, industries were allowed to set their own prices, the cost of such things as machinery and fuel to the farms began a sharp rise, amounting to several hundred times over the past six years. But the government, fearful of urban food

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shortages and consequent political disorder, has retained controls on food prices, keeping staple food prices artificially low. Since even the most efficient farms, if they are ordered to produce but must buy their inputs at a high cost and sell at a low one, will go bankrupt, the state has made up the difference with a variety of subsidy payments.

Perhaps as many as a third of all Russian farms should not be producing at all. They yield little more than the cost of the resources they use in producing a crop. But since pensions are low and people live there, they keep operating to provide government and what amount to concealed welfare and unemployment payments. The money for these things can come from only one of two places: farms' profits on sales to the state or direct state budget transfers.

In 1993, the government ordered the now-"privatized" monopoly procurement agency, Roskhleboprodukt (Russian Grain Products) to conclude forward contracts with the farmers. Farms would be advanced the money they needed to sow and reap their crops in the spring in return for a promise to deliver their crops at agreed prices in the fall. The politicians said the country needed all the grain that could be grown and all the meat that could be produced, so farmers were encouraged to plant as much as they could. But fear that large state credits would fuel inflation led the government to delay releasing production credit until late spring, forcing farmers in many areas to go into debt to sow their crops.

This fall, First Deputy Prime Minister Yegor Gaidar and Finance Minister Fedorov, realizing that paying state obligations to the farmers would cause a further jump in inflation, simply canceled all subsidy payments and delayed payments for crops. In doing so, they were following the best advice from the West, whose advisors told them that more such empty payments would destroy the country's financial system.

But putting the financial system ahead of the countryside has nearly completed the destruction of Russian agriculture. Russia had a bumper crop in 1993. Farmers, both individual and collective, with whom I spoke in later November and early December reported many cases where state elevators had refused to take contracted deliveries of crops because they could not pay for them. So the produce was rotting under tarpaulins on city streets or wherever it could be temporarily stored. Those farms which had been lucky enough to have the state accept their deliveries were still waiting to be paid for crops they had delivered--
according to their contracts with the Russian government—in August and September. Meanwhile inflation had eroded the value of what they were owed and the monopoly state bank, following the Russian government's own rules, had imposed monthly penalties of double the market interest rate on their loan arrears.

It is hardly surprising that Russian peasants voted overwhelmingly against the "reform" bloc lead by Gaidar in December 1993. Nor is it surprising that many of the more than 300,000 individual farms—the hope of reform—begun since 1990 are now in imminent danger of bankruptcy, while most individual farmers now join with their former bitter enemies, the "red landlords" of the collective and state farms, to oppose the "government of reform."

The farms had to be paid. Zaveriukha demanded it. Fedorov opposed it. Failing to pay the government’s legally (if unwisely) incurred debts to the village would not only have forced about twenty percent of the Russian population back into simple subsistence farming, threatening city food supplies, it would also have ensured that no rural Russian supported any reform. Now it will be done, and inflation will get worse, while farmers will remember how long they had to wait to get what the government contractually owed them.

The system of subsidies has to be changed. Farms which cannot survive should be closed, and unemployment and support payments offered to people who lose their jobs. Local governments must be recreated in the villages and supported from newly designed tax revenues and grants-in-aid from the cities. Prices paid farms for their produce must be decontrolled, and city consumers who cannot pay higher prices for an adequate diet will require assistance. A market system of agricultural finance, based on land mortgages and collateral for credit, must be established.

But simply stopping all transfers to the countryside by a "stroke of the pen" in Moscow on Western advice nearly caused disaster for the overall policy of market reform and democratization in December. Blindly supporting fiscal "reform" while failing to understand its effects, and popular reactions to it, could still do so. If the West wants to help, it must assist in these long-term changes. Otherwise it will remain irrelevant and continue to wonder why its advice is taken less and less seriously in Moscow.