

MEETING THE AGRARIAN CRISIS: TRANSITIONAL ECONOMY OF RUSSIA

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Key words: agrarian crisis, agrarian policy, transformation, transitional economy

The paper gives the report on the content, causes and specific character of agrarian crisis in transitional economy. It analyses the agrarian policy and transformation of agricultural production in Russia. The most important problems of agrarian crisis are identified and the ways for their solving are suggested.

The agrarian crisis has been taking place in the husbandry of our country for decades. It is resulted in provisional problem. Although the background of this long-term crisis goes back to the time of state run agriculture networking it is more deeply rooted. Historically, Russian agrarian sector had low performance and efficiency and was developed extensionally in the conditions of insecure farming.

The heart of the problem lies in surplus product taking for other trades. Objective fundamentals of agrarian relations were ignored by definite socio-political, economical and administrative organizations that led to government ownership, collectivization and monopolization within Soviet agrarian farming. The crisis was caused by strained conflict between the necessity to develop productive forces in agricultural sector and the system of state interference.

The state land monopoly and monopolistic nature of economy in whole became the barrier on the way of effective agrarian development. It also caused the low efficiency of agricultural production and served as a basis to unreasonable interference in production process and surplus product taking.

Within the command economy all attempts to break off the crisis failed because they had been taken within administrative system and had served for its cementing and enhancement. Among characteristics of the Soviet agrarian system there was slow extensive growth and stagnation of agricultural production.

“The Golden Age” of Russian rural economy was in 60-80s XX but it could not help to bridge the five fold gap between Russia and developed countries. Even the transition to the policy of increasing capital investments

into farming did nothing but slowed down the deepening of the crisis.

The land reform was meant to substitute the system of collective and state farms for free individually collective form of land ownership. This reform was called on to restore the direct link between farmers and land. There is a mutually causal relationship between food and land ownership crises. Those two crises are not isolated and independent processes, but two sides of one agrarian crisis.

The role of government during the period of agrarian sector entry into market cannot be underestimated. Sharp increase in production costs during the period of market reforms influenced agrarian profitability severely. The portion of detrimental farms accounts for 3% in 1990, 54% in 1995, and around 88% in 1998. After 1998 there was a slight increase in agricultural production, however almost one third of farms was detrimental. There is certain evidence that allows us to estimate government control over agrarian production as inconsistent and unsatisfactory. The slump in agrarian production went on over twenty years. Despite the slight improvement that had been taking place for the last five years stock-raising output volume is half the level of 1990s. Agrarian sector experiences financial crisis that has deformation effect on the whole reproduction cycle.

Farms have not got enough floating assets of their own because general investment crisis takes place.

The social sphere of rural regions is wrecked. Compared to 1991 the government investment in rural social sphere reduced 13 times. Following the cutback in agricultural production, processing industry reduced provisions output. Capacities

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of agrarian enterprises are used only on one third due to the reduction in raw materials base and their endeavors to process and sell their products themselves.

Due to increase in food import for developing countries and Russia, the level of world prices rose sharply (two- three times on the average). 30% of provisions sold in the country are imported, the portion of meat and sausages is 40%, meat inputs – 80%, vegetable oils – 50%, although sunflower export is quite stable.

For the last 20 years humus resources in arable land of Russia decreased roughly by a quarter. Experts estimate the yearly harvest shortage as 50 mln. tonnes in crop units.

The state policy needs socio-natural comprehension especially concerning such a complex sector as farming where it is necessary to take into account the following factors: plants, animals, soil, ecosystems and people. Villagers should be seen not only as subjects to policy or reforms, but also as initiative and influential citizens. These methodological statements should form the basis for determining agrarian policy principles and analyzing transformation processes.

The specific character of contemporary crisis shows that the crisis is general per se. Moreover it concerns relative underproduction in agrarian sector (demand exceeds supply of domestic goods). The latter situation takes place in all the fields of agricultural sector. Underproduction is not the consequence of deficiency or growth in consumption. Using the data on consumption per capita during the crisis we can make an inference that prices grew not because of the increase in demand on agricultural products. Average annual consumption of prime foodstuff per capita decreased by 50% in 1990s. At that time Russia was in the top ten in the world thanks to its level of consumption. Now the country takes the 67th place.

Antinomy can be observed in contemporary agriculture of developed countries that has already met agrarian crisis and this paradox should be explained.

Despite the fact that farms have brisk pace of production growth and up-to-date technical basis their profitability level is below average. The economic analysis shows that inelastic demand on farming products causes the fact that slight changes in agricultural production

develop into relatively large-scale shift in farming prices and their income.

The decrease in demand on foodstuff in Russia can be considered as one of the major reasons of crisis. This decrease was caused by the fall of population capacity to purchase and their income reduction. In 1990 the percentage of money spend on food by a household was 28.2% of their total expenditure, in 2002 it was 48.3%, i.e. food expenses had grown by 1.5 times during last 15 years.

The level of food consumption *per capita* (in calories terms) reduced by 22% during comparable period, including meat 1.4 times, dairy products 1.7 times, fish - 1.8 times. Consumption of meat (only 32 kg out of 52) is met by domestic production. Analysis shows that population groups with the lowest income has the portion of food expenses that constitutes two thirds of their income. Average rational food rates are available only for 10-20% of population.

Long run crisis of agricultural social structure is closely connected with farming development in our country. It is conditioned by changes in the structure of agricultural sector. Disparity in this sector reflects maladjustment in national economy in whole. The hypertrophic growth of assets production is observed while final product and consumer goods sectors are more than not poorly developed.

The crisis situation assumes long term character within transitional economy conditions. Underproduction of agricultural goods and decrease in prices are conditioned by fundamental shift in agrarian production and sales. This shift, in turn, is caused by a new stage in productive forces development and placement.

The reasons of agricultural sector inability to drop out of the crisis could be found in sluggishness of agrarian relationships and stagnation in their development. The sector hardly adapts to new cost and production relations while the government dissociates itself from this process and limits agrarian support.

The issue of government functions during the period when agricultural sector enters the market is still debatable. The attitude of RAAS (Russian Academy of Agricultural Sciences) academician I.G. Ushachyov deserves close consideration and can be considered as moderate centrist: “The results of socio – economic transformations showed that passive

agrarian policy and weakening of state control could result in production potential degradation and make it impossible to transit to steady restoration and development of agrarian sector”.

Yet there are some radical views on the role and functions of government in ownership aspects among scholars. It particularly concerns land issues and economic-organizing mechanism performance.

Liberal concept of agrarian development represents one of abovementioned theoretical approaches. I.N.Buzdalov, RAAS academician, recognizes radical transformations as necessary and highlights that developed market economy formation in Russia requires “attainment of dynamic and efficient development in domestic production”. The core reasons of negative results “shelter in negligence, weak conceptual design and unmethodical hasty realization”.

Left-of-center views are expressed by the following RAAS academicians V.V.Miloserdov, A.A.Shutkov, A.V.Serkov and by professors V.E.Esipov and A.S.Malakhov. All the abovementioned scholars express critical attitude to liberal reforms and see the reasons of crisis in “shock therapy” of price setting and state self disposal from economic relations regulations. The study by V.V. Miloserdov and K.V. Miloserdov “Russian Agrarian Policy – XX century” gives the most detailed critical overview of liberal ideas and policy in agrarian sector. The starting point of their research proves the necessity of large scale commodity production in the form of cooperatives. That should become a priority in heterogeneous economy of Russia but requires scientific substantiation of “motivation mechanism building, i.e. the mechanism of high interest in workforce who is employed in a large collective farm”.

The authors conclude that “large –scale agricultural enterprises should become the stem of state agrarian policy. They are to stake on in the process of restoration of agrarian sector”. The RAAS academician A.F.Serkov proves the socialist direction of new format and emphasizes: “At the turn of the XXI century Russia experiences another coming of capitalism characterized by the typical signs of barbarian primary accumulation. That threw the country back in social and economic development at least for half a century. On the other hand, in this new epoch some features of outstanding nondogmatic social relations become more apparent.”

V.E.Esipov estimates the importance of socialist relations more clearly: “Without advantages of socialist system it is impossible to save Russian economy”.

A.S.Malakhov calls to reject “the subversive course of agrarian reform” and come forty years back: “the soundness of state policy suggested on plenary session of Central Committee (March 1965) can be stated”.

Transformational processes influence the whole society due to the system character of agrarian crises. The number of dissatisfied by transformations is relatively high, moreover many people are inclined to criticize the processes on conceptual level. Such eminent scholars as V.V.Miloserdov, K.V.Miloserdov, V.E.Esipov, A.S.Malakhov, V.I.Staroverov, A.N.Zakharov et al. doubt market principles for reforming agrarian sector and call to turn to the advantages of socialist relations.

The author suggests the following concept: ***agrarian crisis is a permanent crisis of relative underproduction in agricultural economy generated by command economy and its aggravation can be seen as a consequence of inefficient reforms. Modern agrarian production is based on private property therefore transformation strategy should be built on market principles and efficient state regulation. It should be directed to efficiency and production growth in agrarian sector and to solving social problems in rural areas.***

To ground the concept the author provides the complex analysis of agrarian crisis phenomena in Russia and transformations in agricultural production at the turn of the century. Comparative analysis of agricultural systems of Povolzhye is made. Under reduction of state investments it is hard to compare two economic systems (command and market) impartially. Whether intentionally or not but nostalgia on command economy of 80s XX can appear. Nowadays government activity in the sphere of land reform, farms reorganizing and agricultural production control is estimated as inconsistent and unsatisfactory. The gist of agrarian desperate straits can be seen as rooted in this.

Agrarian crisis bears system character therefore causing the necessity of transformations in this economic system.

Contemporary portion of agriculture in GDP amounts for 5.4% (2003) while in capital assets it is 4.55% compared to 11.4% in 1990.

The percentage of investment dropped from 15.4% in 1990 to 2.9% in 2003. Thus, agrarian contribution to GDP is substantially higher than investments in agriculture.

It is obvious that there is an urgent need in additional investments in agrarian sector. The implementation of national project in agriculture will favor the task completion. Fleet replacement, reequipment, and implementation of new technology are of particular importance.

The myth that displays agriculture as a “bottomless hole” is politically dangerous and has to be debunked. The lack of consistent decisions to agricultural problems indicates that it is not enough to have clear understanding of crisis nature. The necessity to recreate natural agrarian laws that has been broken for decades is much more important. There is an urgent need to modernize the whole system of social and economic relations in the field.

It is also fundamentally important to eliminate inadequacy of the existing agrarian production structure, its subsidized character and inefficiency. Market transformations of agrarian sector are specified by new policy based on methods and principles which has already justified their consistency in developed countries.

Transformation strategy in agriculture is directed to its efficiency and performance growth. The author argues that organization of stable and efficient agrarian production is the most important direction in the process of overcoming the crisis.

It brings us to the most urgent tasks. Firstly, accelerated restoration of agrarian production *in corpore* should take place that will lead to decrease in imported food dependence and increase in food consumption *per capita*.

Secondly, appropriate economic conditions for profitable activity of commodity producers should be organized and investment appeal should be provided to agrarian sector. Thirdly, social conditions in rural areas should be improved.

The fact that Russian farming in whole and in Povolzhye particularly comes close to pre-crisis level (in crop sector it has already reached the level) gives the evidence in favor of its growing efficiency. Nevertheless the outlined growth should be supported with certain financial and organizational measures from government and from business as well.

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