

Chaos follows privatization 'reform'

by Robert Baker

In June 1988, there was decreed a Law on the Cooperative System in the U.S.S.R., opening the way to significant changes in the functioning and degree of autonomy of the 27,000 collective farms and 23,000 state farms in existence at that time, which produced about 70% of total Soviet agricultural output. After the breakup of the U.S.S.R., further "reform" decrees were promulgated, in the context of draconian austerity imposed by the International Monetary Fund. Chaos has resulted.

In November-December 1990, the Russian Council of People's Deputies laid the legislative basis for the creation of private farms. Any citizen could receive a plot of land (of limited size) free of charge, free of taxes and land rent for five years. A private farmer must own the land for ten years before selling it, and then can sell or transfer it only to his heirs or to the Council of People's Deputies. If he doesn't farm it for one year, ownership reverts to the Council of People's Deputies.

What happened? As of Jan. 1, 1993—the deadline set by the Russian government for the re-registration, but not the disbanding, of state and collective farms—very few private, small farms had been established. Seventy-six percent of all collectives retained some sort of collective ownership, including state and collective farms; 21% became joint stock companies; and about 4% broke up into private farms.

By Jan. 1, 1994, nearly 660,000 new, private, peasant household farms had started in the former Soviet Union, but altogether, they occupy just a total area of about 4% (19 million hectares) of the farm land, averaging 31 hectares apiece. The rate of new farm registrations has now slowed way down.

The private farms produce only 3.5-5% of the country's grain, although they own 22% of the cattle, 25% of the hogs, and 35% of the sheep and goats.

What stands in the way of private farming?

The productivity of individual family farms has been severely limited by all manner of difficulties. There is the problem of obtaining the necessary inputs. There is political instability. Farmers think, "You can get land, but when will it be taken away again?" U.S. Department of Agriculture specialists guess that 30% of new Russian Federation farmers went bankrupt in 1993.

To hedge against 60-90 day delays in receiving payment

for grain sold to the state grain elevators, coupled with 25-40% monthly inflation rates for fuel, fertilizers, and spare parts, most farmers discontinued grain sales. As of January 1994, the government was in arrears to grain producers by at least 700 billion rubles. At one point, when an estimated 600,000 tons of grain a day was being sold to the state on credit, the debt was increasing at a rate of some 50 billion rubles daily.

Grain withheld on the farms caused massive shortages for livestock producers and flour millers. Those grain producers who did sell and moved their product along, were hit by inflation pushing input prices still higher, while the ruble continued to fall in value.

To allay this, in mid-1993, governments of the nations of the former Soviet Union tried to entice farmers to sell grain to the state by raising grain procurement prices in both nominal and real terms. The Russian state-set procurement price for hard wheat went from 30,000 rubles (about \$55) per ton in February to 77,000 rubles (about \$80) per ton in September, and some reports have it as high as 100,000 rubles per ton.

However, in late January 1994, Deputy Prime Minister Aleksandr Zaveryukha, in charge of agribusiness in the Russian government, reported at a Moscow news conference that debt to the farms for their produce totalled 2.3 trillion rubles, and the farms' debt to the state for fuel, machinery, and other supplies amounted to 1.8 trillion rubles. The Russian government has now announced plans for customs duties of up to 20% on dairy and meat products, nearly 25% on sugar.

A new phase of this disintegration is now in the making: free trade in grain marketing. For decades, there was a state monopoly on the grain trade in Russia. Grain was purchased from the producers, and it was stored, processed, and distributed by the Ministry of Grain Products. At the end of the 1980s, the situation began to change, but still the proportion of grain coming onto the free market has been insignificant—only 2-3% of the total. This is due primarily to the fact that until recently, Roskhleboprodukt, the state grain procurement monopoly, formed the federal grain fund, and producers were obliged to surrender 30% of their harvests to it at prices set by the fund.

But in December 1993, the Russian government decreed that: 1) In 1994 the federal government will only procure grain for its strategic reserves, the military, and selected regions; all other regions will be responsible for meeting their own needs; 2) all purchases are to be made at market prices, not state-set prices; 3) regions are prohibited from obstructing grain flows; and 4) state grain procurement, processing, and baking enterprises are to be privatized after three years.

In 1994, no federal grain fund will be formed, so there will be no obligatory grain deliveries to the state. Thus the way is opened for international grain cartel operations to invest money in the grain complex to set up "free market" grain exchanges.