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## POLITICAL ECONOMY OF AGRICULTURE IN RUSSIA

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Debates in political economy of agriculture tend to study the policy-making process of market regulation. They investigate how agricultural policies reflect the ability of different interests to influence policy-making through access to the policy-making process or by shaping public or expert discourse. The article studies the functioning of three important policy areas in the agriculture sector — subsidies, land use policies, and trade policies — in the Soviet Union and post-Soviet Russia.

*Keywords:* agriculture; subsidies; land use; trade policy; farms; state.

Debates in political economy of agriculture incline to study the policy-making process of market regulation. For example, they study how agricultural policies reflect the ability of different interests to influence policy-making through access to the policy-making process or by shaping public or expert discourse [1; 2; 3]. This paper studies how three important policy areas in the agriculture sector — subsidies, land use policies, and trade policies — function in Russia. Specifically, it overviews the efforts by the Russian Federation (the Soviet Union before 1991) to regulate agriculture and food production in the postwar period. This paper suggests that the political economy of agriculture and food could produce maps that analyze and explain community linkages of policy regimes. There will be studied three policy regimes: 1) a variety of subsidies that direct public resources to agricultural sector (farmers); 2) land-use policies; 3) trade policies (import restriction and export promotion).

### **Agricultural policies in Russia**

Since the Soviet Union relied on central planning, the role of the Soviet state in agricultural production was significant and direct^ it owned farms, controlled prices, wages, made investment decisions, and so on. In market economies, the state influences markets usually indirectly, through policy regimes that shape incentives and prices. For much of the 20<sup>th</sup> century, the Soviet Union endorsed the principles of industrial agriculture, and agricultural policies reflected shifting urban-rural bargain. A number of mechanisms redistributed resources from the countryside to the city, mainly via low commodity prices and industrial wages that were higher than in agricultural sector. One of the notable characteristics of the agricultural production in the So-

viet Union was the fact that it became bifurcated — into very large and very small units of production (middle is almost disappeared).

In the 20<sup>th</sup> century, the structural changes in the Soviet Union were marked by the next events. After the forced collectivization of agriculture and the creation of *sovkhozy* (state farms) and *kolkhozy* (collective farms), the centralized, planned agricultural production defined food system of the Soviet Union for decades.

Despite increase in aggregate output in the postwar period, the collective farms could not keep up with the demand for foodstuff, although large amount of capital, land, and labor were allocated to the agriculture sector. Alongside the large scale, mostly inefficient production units, *lichnye podsobnye khozyaystva* (small-scale private farms) existed as a second characteristic form of agricultural production. These were private plots that rural people were allowed to farm.

Unlike the market economy system, the Soviet planned economy was unable to produce an abundance of goods, and deficit was the problem that communist leaders struggled for years. The Soviet agriculture sector was less successful in increasing yields and efficiency. In fact, the private plots that rural workers were allowed to maintain were the most productive part of agriculture sphere in the Soviet Union. These small farms made an important contribution to the food supply in the country. However, the vast majority of land was utilized by collective farms.

The productivity of collective farms was shaped by wage and price politics. In general, prices for agricultural products were set up at low levels to keep food affordable for urban people. Wage and price policies rewarded high-cost producers, and did not stimulate efficiency and yields.

#### **Subsidies**

“Subsidies” is an umbrella term for different safety nets that support farmers, shielding them from fluctuating prices and risks of crop failure [3]. The main rationale for subsidies is to stabilize prices and farm incomes.

In the Soviet Union, market for agricultural products did not exist, so collective farms did not need to be shielded from price fluctuations. The state determined rural workers' wages and procurement prices for farm products. Purchasing prices for agricultural products as well as capital investment and labor allocation were the main policy tools used by Soviet leadership to achieve economic and political goals. In the years of 1945–1955, agriculture sector received much less investment that did industry because of low prices and wages [4; 5]. This policy was a manifestation of antirural bias of the communist leadership. By the 1970s, expansion of land cultivation had reached its limits, and the focus of farm policy became mechanization and technological improvements. Therefore, capital investment and procurement prices were raised. More resources were directed to agriculture sector, moreover, the Soviet leadership also pursued the rural egalitarianism goals. This meant that less efficient farms and farms in less fertile regions could get *nadbavki k tsenam* (kind of subsidy), i.e. these farms got higher purchasing prices than other farms. Although capital flows in the 1970s led to significant growth in capital stock in the agriculture sector, there were small increases in output, which meant that majority of Soviet farms remained inefficient. When Gorbachev came to power, 48% (almost half) of farms were not profitable or barely profitable, therefore, almost half of farms were eligible for higher procurement prices. During Gorbachev time, rural wages increased, but they remained below industrial wages.

After the Soviet Union collapse, the paradigm of state support changed with the collapse of the state procurement system, rural areas struggled to create supply chain relationship in the emerging market system.

During the 1990s, the whole output of Russian agriculture declined [5]. Much less resources flowed to the rural regions, although the state subsidized agriculture sector through in-kind subsidies such as low price for energy. In the 2000s, state support for agriculture has recovered. Currently, there are various subsidies to support crop and livestock sectors. In general, rural areas located closer to cities and central black-earth regions recovered more quickly and were more able to adapt to market system [4].

#### **Land-Use Policies**

Land-use policies can be understood as attempts to impact a farmer's decision concerning how to farm the land. Land-use policies in the Soviet Union tried to increase cultivated land. Two kinds of land-use policies were most popular: first, ambitious state-led programs aimed to increase the acreage of cultivated land; second, the gradual expansion of private plot lands. In the 1950s, Khrushchev made an enormous effort to render arable lands in Central Asia and bring to use them to the agricultural production. On the other hand, programs aimed at land use for *lichnye podsobnyye khozyastva* were torn between a realization that this form of production was an important supplier of food and ideological aversion to private holding of land. In the 1970s, Brezhnev adopted a more pragmatic attitude toward private plots. Larger plots were permitted, and also livestock holdings and irrigation were also allowed. Brezhnev was particularly concerned about animal products, and he expressed welcoming attitude toward growing share of milk, meat, and eggs, produced on these small private lands. When Gorbachev came to power, he continued the policy of supporting private plots to stimulate food production, although he understood that the small plots were labor-intensive and hardly able to solve the problem of food supply.

#### **Trade policies**

In the beginning of the 1970s, the Soviet Union imported agricultural products to solve the problem of shortages. Grain and dairy products were imported on significant scale. In the post-Soviet period, trade policy of Russia shifted to decreasing imports and protecting domestic producers. Often, it was done by means of tariffs. For example, imported products such as butter, sugar, meat were always subject to import tariffs [4]. By imposing import tariffs, the government has tried to enhance domestic capacity of agricultural production. In general, trade policies in the post-Soviet Russia influenced agricultural sector differently across the country.

#### **Conclusion**

In the Soviet Union, there were a small number of large farms and a large number of private plots. Furthermore, small farms (private plots) produced far more than their size and labor capacity suggest. These private plots were in fact not commercially viable, and they survived because farm income was supported by off-farm income. Interestingly, middle type farms did not exist in the Soviet Union, and they still did not appear in the post Soviet Russia. Meantime, small and medium farms as well as family-owned farms incline to make decisions thinking of the long term farm sustainability. Kirschmann et al. write about the benefits of the farming of the middle: "In addition to managing the farm for profitability, most [independent, family-owned] farmers also made decisions that assured the survival of the farm in its particular community so that

it could be passed on to future generations in good health ... small, independent farms have always managed to prevent soil loss, protect water quality, [and] maintain vibrant communities” [6, p.9].

As markets for agricultural products expand, economy of scale becomes more important in contemporary world (USDA Economic research Service, 2013). In these conditions, state support for a particular type of farming (namely, middle, small, family-owned) is needed since it would have positive effects on communities and environment.

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## **ПОЛИТЭКОНОМИЯ СЕЛЬСКОГО ХОЗЯЙСТВА В РОССИИ**

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Дискуссии в политэкономии сельского хозяйства посвящены изучению политического процесса рыночного регулирования. Они исследуют, как аграрная политика отражает способность различных интересов влиять на политический процесс через доступ к самому политическому процессу, или через формирование общественного мнения, или через экспертный дискурс. Статья посвящена изучению того, как три важные политические сферы в аграрном секторе — субсидии, политика использования земли и торговая политика — функционировали в бывшем Советском Союзе и функционируют в постсоветской России.

**Ключевые слова:** сельское хозяйство; субсидии; использование земли; хозяйства; государство.