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Changes in Households and Institutions in Rural Russia from 1991–1999

Since the collapse of the Soviet Union, most Western observers have agreed that major structural changes must be made in the organization of Russian agriculture if it is going to compete in a global economy. The question remains, how can such restructuring occur within the constraints of the historical and contemporary Russian economic, political and social situation?

In order to truly transform rural institutions to support a free-market agriculture, it will be necessary to provide the wherewithal to develop the core social organizational unit in the Russian countryside, the *krestianskoe khoziastvo* or peasant household. *The peasant household is more than just an agricultural production system.* Its human and social capital have the potential to play a central role in the development of the social and cultural infrastructure that is necessary to build the 'civic society' which will support both a market farm economy and a democratic society.

Overlooked in the midst of the attention given to land reform and the creation of a new farmer class, however, are incremental but fundamentally crucial changes which are occurring in the peasant households. Because there has been virtually no systematic empirical analysis of how peasant households are adapting to the new market economy, these changes are barely known in Moscow, let alone in the West. The primary purpose of this report is to analyze the changes in the nature of peasant households and how these changes will impact on the eventual development of a sustainable agriculture in Russia and its integration into the global economy. In our view, the development of peasant household production is the best hope for the overall development of Russian agriculture because it rests on a solid base of human and social capital.[1] Rather than trying to import

[1] O'Brien, David J., Larry Dershem and Valeri V. Patsiorkovski (1997), *The transition to a market economy in rural Russia: assertions and findings*, Eastern European Countryside, 1997, Vol. 3, p. 75–90. O'Brien, David J., Valeri V. Pasiorkovski and Larry D. Dershem, *Rural responses to land reform in Russia: An analysis*

human and social capital from urban areas, we will argue that a simpler and more efficient way to develop Russian agriculture is to use existing strengths in the countryside that are found at household level.

In order to understand the changing role of the peasant household in Russian agriculture, it is necessary to illustrate the structure of institutions in rural Russia during the Soviet period and during the contemporary transition to a market economy. Figures 1 and 2 below illustrate these institutional changes.

Agriculture and Rural Life in the Soviet Period

The relationships between the various institutional elements in the Russian village during the Soviet period are shown in Figure 1. This period began with forced collectivization in 1929 and continued until the breakup of the Soviet Union in 1991.

The core institution in the Soviet agricultural system was the large state enterprise, the *kolkhoz* (collective farm) or *sovkhoz* (state farms). These large enterprises were designed as agricultural factories that received production quotas from government officials. Being outside of a market economy, the managers of these large enterprises were primarily concerned with staying in the good graces of officials at higher levels. Questions concerning where grain or meat was to be processed and sold were handled administratively at higher levels, beginning in Moscow, and then transmitted by decree to the regions, provinces and, eventually, to the large enterprises themselves.

Moreover, the large enterprises also were entrusted with a very diffuse set of responsibilities. These included: providing consumer goods, through village shops; social services, such as health and education; material infrastructure, such as roads and utilities; land management; and employment of all able-bodied residents in rural villages. Because of technological advances, Soviet agriculture became more capital intensive over time and thus became less dependent on local village labour. By the end of the Soviet period there was a substantial surplus of labour attached to the farms.

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of household land use in Belgorod, Rostov and Tver' Oblasts from 1991 to 1996, p. 35–61, [in:] Stephen K. Wegren (ed.), *Land Reform in the Former Soviet Union and Eastern Europe*, Routledge, London; O'Brien, David J., Valeri V. Patsiorkovski, Larry D. Dershem and Oksana Lylova, *Peasant household production and symptoms of stress in post-Soviet Russian villages*, Rural Sociology, 1996, Vol. 61, No. 4, p. 674–698; O'Brien, David J., Valeri V. Patsiorkovski, Larry D. Dershem, Alessandro Bonanno and Charles Timberlake, *Services and Quality of Life in Rural Villages in the Former Soviet Union*, University Press of America, Lanham, Maryland 1998.

In the Soviet system, the local village and the households within it, were expected to do the bidding of large enterprises. Local villages had two main functions. The formal function provided by the local government, the *Sel'soviet*, was to keep records of the demographic structure of the households in the villages, such as births, deaths, and marriages, household plots, and housing. In effect, this served the needs of the large enterprise by keeping track of the condition of its labour force. The informal social function of the village was to provide individuals and households with an opportunity for informal community interaction. In most instances, the village pre-dated the Soviet collectivization and provided individuals and families with a psychological and spiritual connection with their ancestors and history.

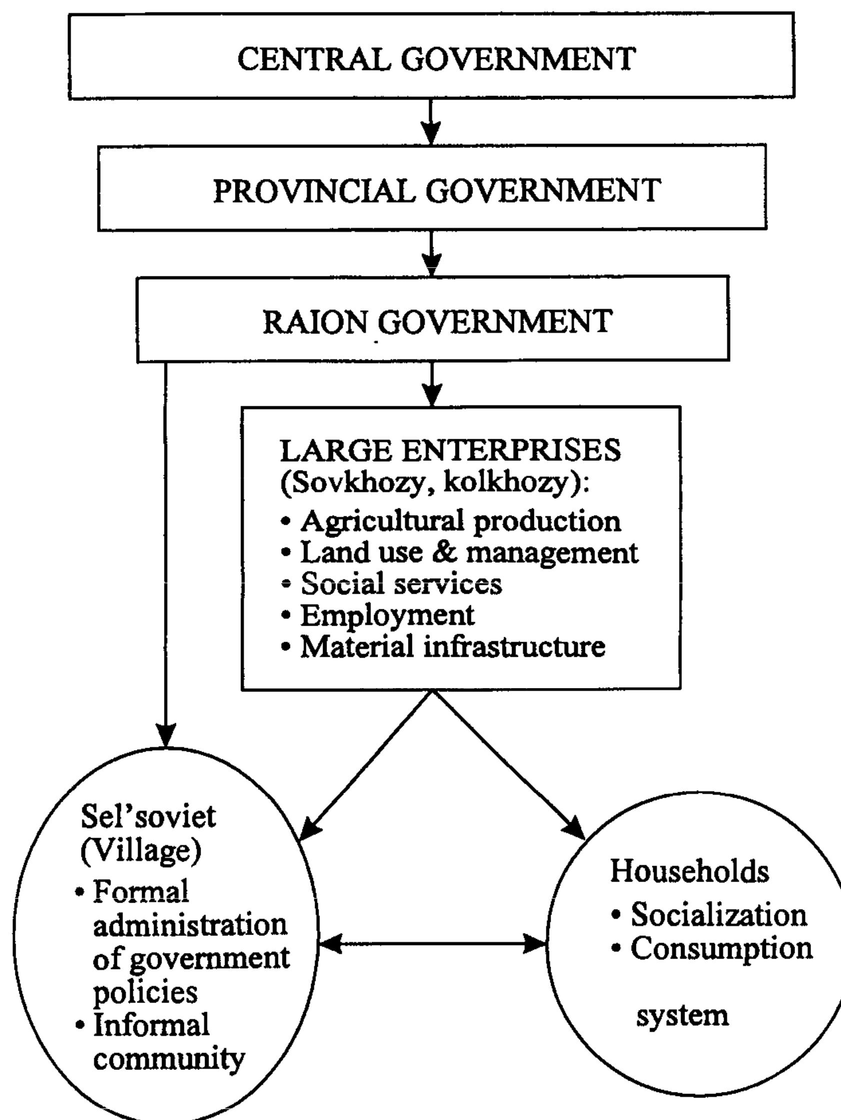

Figure 1. Institutional structure of rural life in Soviet Russia

In the Soviet system households were expected to serve five basic functions. First, they were expected to provide labour for the farm. Second, households were expected to socialize children and maintain informal constraints on adults to support the goals of the large enterprise and thereby support the goals of the Soviet State.

Third, households were seen as important consumers within the Soviet command economic system. Their preferences were often not treated with a great deal of respect, especially in comparison with their more politically powerful urban-industrial counterparts. Fourth, households were involved in and maintained the village community. This was encouraged by the large enterprises because it was necessary to sustain the communal basis of their labour force. The nature of that participation, however, was severely restricted by Soviet fears about competition from non-governmental associations.

Finally, households were allowed to keep small plots of land, normally not more than one-third of a hectare, on which they were able to grow food and raise animals for their personal consumption. This provided a positive incentive for households to remain in the countryside, as well as providing a safety valve for the state when production quotas were not met.

There were, however, constant struggles between households and the government on the priority of these functions. The government placed primary emphasis on the labour function of households for the farms. Households placed greater emphasis on socialization, consumption and occasional sales. These different priorities created considerable tensions between rural households and the government during the entire Soviet period.

Agriculture and Rural Life in the Post-Soviet Period

Reports on attempts to restructure Russian agriculture, from both Russian and western sources, usually give the impression that there has not been very much real change since the collapse of the Soviet Union. Since 1990, the executive branch of the Russian federal government (President Yeltsin) has issued a series of decrees that outline a programme for selling land to private persons. The legislative branch, the Duma, led by the Communist Party, however, has balked at these decrees and has refused to pass land reform legislation that would be signed by the executive branch. This struggle has resulted in a stalemate that has left people at the local level in a state of uncertainty regarding ownership of land.

Discussions on land reform have centered on breaking up the large enterprises, the *kolkhozy* and *sovkhozy*. These efforts, however, have not been very successful. The large enterprises continue to exist, although they have been officially reorganized, usually into 'joint stock companies of the closed type' (*tovarishchestvo s ogranichennoi otvetstvennostiu*, or *TOO*s).

The *TOOs* only permit membership and share ownership from collective farm members and individual members do not have any real input into decision-making, which is left to the collective farm chairman. In short, the *TOOs* are really not that different from the *kolkhozy* they were supposed to replace.

Despite the aforementioned, there have been some important incremental changes in the institutional relationships in agriculture and rural life in the post-Soviet period. These are shown in Figure 2.

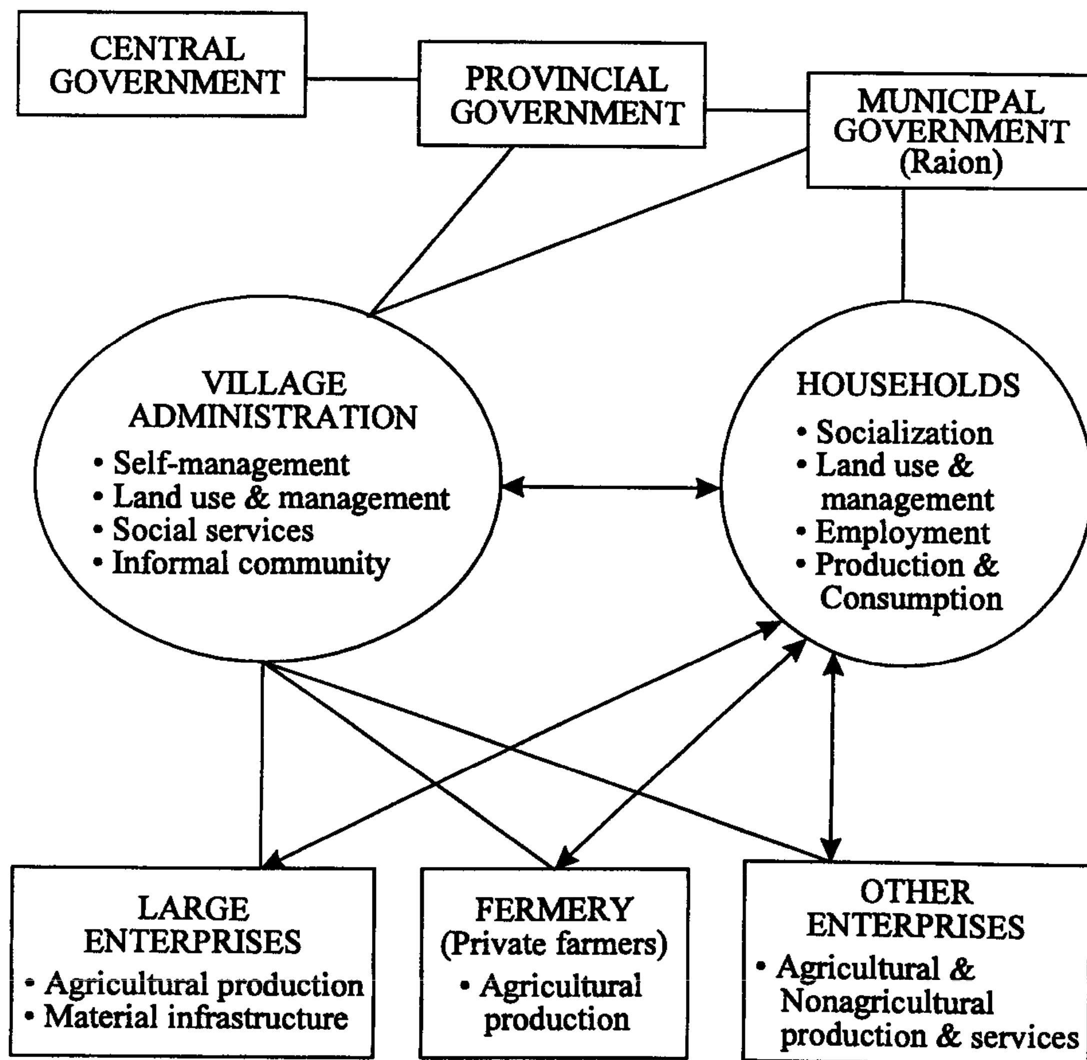

Figure 2. Institutional structure of rural life in contemporary Russia

Even though the large enterprises continue to exist, their relationship with the Russian government, the villages, and the households has changed. Government subsidies to the large enterprises have declined continuously since the breakup of the Soviet Union. As a result, a large proportion,

82 per cent in 1997,[2] and 90 per cent in 1999[3] of the enterprises has simply gone bankrupt. Those that remain must compete in the marketplace. In 1994, the government decreed that the large enterprises stop providing social services, although many continue to do so. This has meant that the large enterprises have divested their responsibilities for non-agricultural activities, such as support for social services, to the local village council (formerly *sel'soviet*) or, increasingly, to the private sector.

As was shown in Figure 1, the large enterprise was the only mediating institution between other rural institutions and the government in the Soviet period. Now, as shown in Figure 2, the local village council mediates between all rural institutions and the central and provincial governments. Traditional large enterprises are among several enterprises in rural areas.

Local government, which is more representative of local village interests than the old *sel'soviet*, is now the official link between the national and regional governments and the village. Because the federal government has been in an almost constant fiscal crisis since 1991, it has not been able to provide much support for local services and thus, rural villages have experienced an overall decline in social service support. Yet, the informal relationships between individuals and households in the village community continue to exist, although the strength of these relationships has diminished.

One of the new types of enterprises in rural areas are the new private farmers (*fermery*). They are registered as individuals, not households. The numbers and political influence of this group, however, has remained small. From 1993 to 1994, the number of persons registered as private farmers increased from 182,800 to 270,000, but the size of this group increased only slightly in 1995 (279,200) and in 1996 (280,100) and actually decreased in 1998 (274,000). The total amount of land held by officially registered private farmers increased from 7.8 million hectares in 1993 to 12.2 million hectares in 1997 (about six per cent of the arable land in Russia). The average amount of land farmed by persons in this status has changed only slightly, from 43 hectares in 1993 to 44 hectares in 1997.[4] Approximately two-thirds of the newly registered private farmers in 1991 were urban dwellers who typically had very little direct experience with agriculture. Because of their relatively small impact on total agricultural production, they remain politically weak, which prevents them from exerting a significant influence on national or *oblast* agricultural policies.

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[2] V. A. Semenov, *Ob itogakh raboty v pervom polugodee 1998* (Financial results in the first 6 months of 1998), Ministry of Agriculture, Ufa June 23, Russian Federation 1998.

[3] L. Makarevich, *Desiat' let reform prively k agrarnomu kollapsu* (Ten years of reform have led to agrarian collapse), Finansovaia nedelia, 16–22 August, 1999, #26, p. 9.

[4] *Russia in Figures, 1997*, Goskomstat, Moscow 1997, p. 298.

The inability to induce families to become private farmers is based in part on the failure of the federal government to resolve the land tenure problem. Ordinary rural Russians, who are rational economic actors, have very reasonable fears that if they buy land they may end up losing it and/or paying some type of penalty for it at some later point in time. There are, however, four other obstacles faced by persons in this new status. First, the general economic uncertainty in Russia reinforces a natural caution that peasant households have with regard to risk. Second, there is a lack of suitable infrastructure for small-scale processing plants and lack of support for small business services. Third, high tax rates create further disincentives to private farmers. Finally, families that become disconnected from the large enterprises can no longer receive valuable benefits, such as discounted meals in the *TOO* cafeteria or help in getting supplies and inputs for agricultural operations. As a result, most peasant households operate in an informal economy in which their income is shielded from the official tax collection agencies.

The functions of the household in rural areas have changed from the Soviet period, as shown in Figure 2. First, recent laws on privatization have made households the legal owners of land that was formerly owned by *kolkhozy* and *sovkhozy*. At this time, the vast majority of households do not have title or personal use of that land. Nevertheless, all large enterprises must rent their land from rural households. Second, with the increase in other types of enterprises, household members can choose where they would like to work. Third, households continue to be consumers, but they have become significant agricultural producers in recent years. All of these changes are shown in Figure 2 as interdependent relationships (two-headed arrows).

Although they have not received much legal protection, land, or credit from the federal government, peasant households have made substantial changes during the past few years. Although households continue to be a source of labour for the large enterprises, and an important social organization unit for socialization, consumption and community participation, critical changes have occurred in their agricultural production. The weakening of restrictions on the ability of households to sell products in the marketplace has provided a powerful stimulus for the development of household agricultural production.

Household Survival Strategies

The crisis in the Russian economy, including the agricultural sector, caused hyperinflation during the first few years of the post-Soviet period. This meant that many Russians lost their entire life savings and at times had to go without many of the necessities of life. In spite of enormous

difficulties at the macro-economic level, however, Russian households have made remarkable adjustments in their own *micro-economies*. It is at this level that some of the most creative adaptations to the market economy have occurred.

Nowhere has the adaptation of households been more remarkable than in the Russian countryside. Despite the failure of the central government to resolve the problem of land ownership and the absence of any real restructuring of the large collective farms, the average amount of agricultural products sold by peasant households has increased markedly since the end of the Soviet period. From 1994 to 1996, for example, the proportion of the total amount of meat produced in Russian agriculture accounted for by these small households increased from 43.2 to 51.5 per cent. The proportion of dairy products, including milk, butter, soured cream and cottage cheese, produced by these households increased from 38.7 to 45.3 per cent during the same period.[5] This was accomplished by making major adjustments in household practices, often adding value-added processing to meat and dairy commodities they had produced. Many households have developed complex marketing strategies with members of their extended families and other households to sell products in hotels and restaurants in urban centres, as well as in urban farmers' markets.

Although official figures showed their income was dropping, because wages were not paid by the reorganized collective farms, many rural households have been able to purchase new durable goods during the past few years. From 1995 to 1997, the percentage of households in our three researched villages who owned cars increased from 16.4 to 21.8 per cent, which is an increase of almost one-third in a short three year period. The percentage of households with telephones went from 14.7 to 18.4 per cent and the percentage of VCRs went from 8.4 to 19.0 during the same period. These data indicate that ordinary Russians adjusted to the new world and the new economy much faster than any theorist would have expected.

The success of individual households in adapting to the market economy has varied considerably, although the gap between the well-off and the not so well-off has not been nearly as great as it is in large metropolitan areas, like Moscow and St. Petersburg. Although some individuals have made substantial economic gains in the post-Soviet period, one is not likely to see 'New Russian' tycoons driving fancy cars in rural Russian villages. Moreover, rural family and neighbour support networks do mitigate some of the harsher consequences of the market economy for those who are dependent. In this respect, the more vulnerable portion of the rural population

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[5] *Russia in Figures 1997*, p. 296; see also: *Rossiia v tsifrakh*, Goskomstat Rossii, Moscow 1999, p. 204.

would seem to have a significant advantage over its urban counterparts. A visitor to a Russian village will not encounter beggars or homeless people who have become commonplace in large cities.

At the same time, however, households vary considerably in their capacity to take advantage of an economic niche in the new economy. Those households with the highest amount of labour, as indicated by the number of working age adults, produce almost four times more agricultural commodities than their neighbours with the lowest amount of household labour. Households with higher amounts of *social capital*, as indicated by having more persons in their helping networks and being more involved in the social life of their villages, have additional advantages over their neighbours. In turn, households with more human and social capital are able to increase their advantages by gaining access to various types of physical capital. Since agricultural sales account for roughly one-third to one-half of household income, on average, these advantaged households have significantly higher purchasing power than other households.

The different degrees of success of Russian rural households in making adjustments in their micro-economies can be viewed in two ways. One view is that this is merely a temporary adjustment until more substantial macro-level changes are made to truly reform the Russian economy. From this perspective, although the creative adaptability of Russian households is admirable, their 'making do' with present circumstances does not really produce lasting reforms.

A second view, and the one we share, is that although macro-economic adjustments are crucial for the reform of the Russian economy and Russian society, the micro-level adjustments of households are more than temporarily 'making do' with a transitional situation. Rather, these micro-level adjustments are based on a fundamental reorganization of peasant household production and sales, and rural institutions, that will provide the foundation for the future development of the agrarian sector in Russia. In turn, these adjustments mean that in order to understand and assist in the process of reforming Russian agriculture it will be necessary to understand the role of human, social, and physical capital within the peasant household.

The basic social organization unit of Russian agriculture in the pre-Soviet period was the peasant household. Peasant households produced agricultural commodities using their own labour, largely manual labour, and developed informal production, processing and marketing networks with their kin and neighbours. The Soviet period changed this entirely. Peasants were forced to became labour force for the large agricultural enterprises, *kolkhozy* and *sovkhozy*. The Soviets did permit peasant households only to produce commodities for consumption and for sale on small household plots (usually one-third of a hectare or less). Nevertheless, the state monopolization of processing facilities and markets, and, at times outright

repressive measures, created disincentives for households to improve their human or social capital.

Moreover, the large enterprises were entrusted with a very diffuse set of responsibilities. These included: providing consumer goods through village shops; social services, such as health and education; material infrastructure, such as roads and utilities; land management; and employment of all able-bodied residents in rural villages. Because of technological advances, Soviet agriculture became more capital intensive over time and thus became less dependent on local village labour. By the end of the Soviet period there was a substantial surplus of labour attached to the collective farms.

In the post-Soviet period, state monopolization of markets has weakened. Outright prohibitions against market-place activities have virtually ended, and even though the tax structure would be considered unduly burdensome by Western standards, peasant households have found ways of getting around these constraints and developing an informal economy. These changes, coupled with the inability of the large enterprises to provide wages in cash, have produced strong incentives for peasant household members to see themselves as members of household economic enterprises rather than workers.

The persistence of large enterprises, the *kolkhozy* and their re-organized forms, the *TOO*s, and the apparent inability of the Russian central government to produce effective land-reform legislation may obscure these profound changes in Russian agrarian life. Moreover, these household enterprises are quite small by Western standards. Nevertheless, their recent growth represents, in a nascent form, a social organizational structure that, in our view, will eventually produce much larger farms that can become the basis for a sustainable Russian agriculture.

This view of the peasant household as a viable agricultural production unit does not mean, of course, that all rural households contribute significantly to the Russian agricultural economy today, or that all current producers will be contributors to that economy in the future. Extrapolations from our findings suggest that at least 50 per cent, or roughly 7 million, of the 14 million rural households in Russia today make some type of contribution to agricultural sales. A conservative estimate, based on our findings, would be that roughly half, or 3.5 million, of these households, will be able to expand their production capacity sufficiently to continue to be viable farm households as the Russian agricultural economy evolves.

One of the key research tasks now is to identify specifically how the different levels of capital (human, social, and physical) in the peasant household are transformed into varying degrees of success in adapting to a newly emerging agrarian system in Russia. The completion of this task will have two benefits for public policy formation, both for Russians and for international organizations that have an interest in the development of the Russian

agrarian sector. The first of these is to know how to improve the efficiency of Russian agriculture by stimulating the growth of household capital. The second benefit will be to identify ways in which selective intervention by government, non-governmental organizations, and other interested parties might assist those households with limited human or social capital that are having difficulty creating household enterprises.

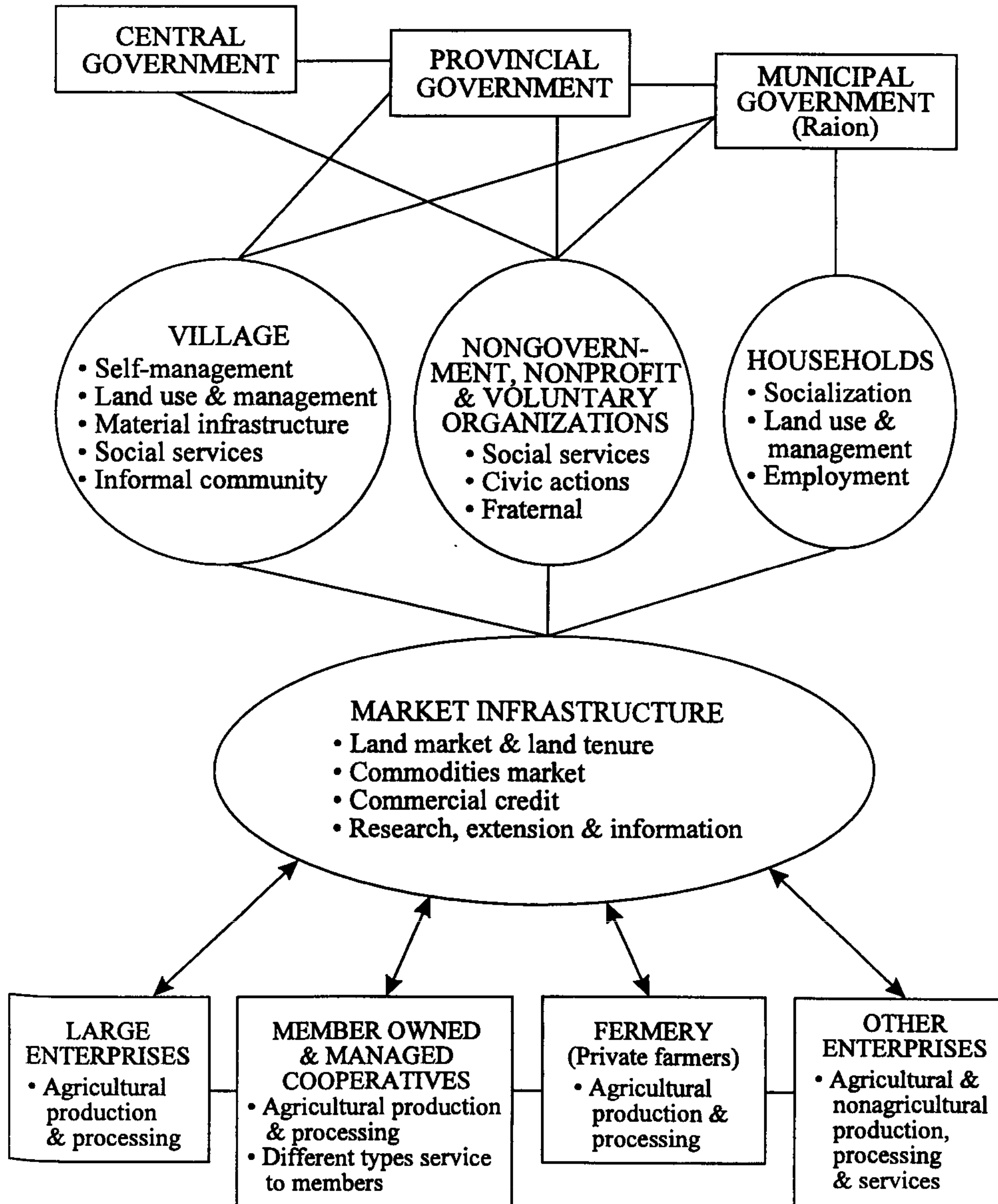

Figure 3. Future institutional structure of rural life in Russia

The Future Institutional Structure of Agriculture and Rural life in the Post-Transition Period

The relationships between the various institutional elements in the Russian village during the post-transition period are shown in Figure 3. This period will begin with growing civic society and market infrastructure during the next five to ten years. When comparing Figure 2 and Figure 3 there are big differences between contemporary and future institutional structures in rural Russia. The main problem here is to create a market infrastructure and civic institutions in rural areas which will create improved living conditions and economic opportunities for 14 million peasant households.[6] This will require substantial adjustments in the relationships between the key institutional elements in Russian rural villages, households, large enterprises and local government.

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[6] *Rossiia–98: Sotsial'no-demograficheskaiia situatsia* (Russia–98: the socio-demographic situation), Institute for the Socio-Economic Studies of Population, Russian Academy of Sciences, Moscow 1999, p. 269.