Discussion

Land privatization in Russia: the intersection of economic and political problems

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Introductory note

Despite the widespread consensus that the privatization of land in Russia is necessary, the land reform remains the slowest and most difficult component of Russia’s transition to market economy. The long-delayed Land Code, passed by the Russian Duma last year, only provides for privatization of a small fraction of land. Yet, economists offer little to explain why the opposition to land reform is so strong, despite the number of positive results of transition in other sectors of the Russian economy. As analyses of economic consequences that may result from alternative privatization methods show, there is an array of opposing views.

In this year’s Annual Discussion Forum of Economic Systems, we asked a panel of eight experts for their opinion on the land reform in Russia. Their answers are phrased to answer the following questions:

(A) What are the reasons land reform has lagged behind other sectors that were privatized in Russia?
(B) What are your recommendations regarding the methods and dynamics of land privatization in the broader context of transition? In particular,

• What are your policy recommendations that the Russian government could implement to accelerate land reform?
• What is the likely role of regional governments in facilitating land reform?
• What is the likely role of foreign investors in facilitating land reform?

While imposing a limit on the length of their contributions, we compelled the participants of the discussion to employ any kind of formal or informal argument. After we received first versions of responses, we distributed them among the participants. This allowed them
to incorporate other discussants’ ideas in their final versions, which are published in this issue.

Most of the panelists pointed to the complex nature of interests behind the land reform as the main reason for a slow progress in restructuring the Russian agricultural sector. Lagging reforms cannot be blamed on psychological “rural resistance”. Rural households are not resistant to change per se, but rather to reform programs that do not address their preferences as rational economic actors (O’Brien). While rural orientations are essentially pro-reform, more significant progress is hindered by a hostile macro-economic environment and the lack of market-supporting institutions (Wegren). Rolfes emphasizes that the regulation preventing the concentration of vast land holdings (latifundia) in the hands of the powerful few would substantially weaken the political legitimacy of the politicians opposing the land reform.

While the understandable risk-aversion of the rural population may have contributed to the persistence of the status quo, small-scale farms can overcome difficulties in market agriculture by creating or voluntarily joining service cooperatives (Lerman). Cramon also stresses the importance of huge information asymmetries and a lack of institutions that protect the rights of individuals as factors responsible for slow progress of the land reform.

These problems are reflected in policy recommendations. Wegren suggests that governments (both federal and regional) invest in rural infrastructure and services, and offer a combination of loan guarantees with tax credits to make land attractive for domestic purchasers and for foreign investors.

Rolfes addresses the threat that the existing large-scale farms will use their power to acquire long-term control over agricultural land and stop decollectivization. To minimize this threat, he recommends that the law should limit the length of leases and prohibit the deceptive practice under which a land share owner contributes his share to the former collective farm in exchange for a virtually worthless equity stake in the enterprise.

O’Brien suggests that the government must be sensitive to what is occurring informally at the local level and develops formal institutional mechanisms to build upon those informal arrangements. He names land leasing and its positive impact on household economic activities as an example.

Lerman advocates a vertical transformation process in which the existing large farm enterprises are physically broken up and their resources distributed to individual owners. The new farms emerging from this process must be supported by a network of service cooperatives providing the know-how, expertise of management groups in existing farm enterprises, and other market services created through private initiative of domestic and foreign investors.

Epstein warns against the manipulative disintegration or deliberate collapse of solvent enterprises. He indicates that the concentration of ownership and power can lead to substantial growth of prices of agricultural products.

Cramon points out the need to create the required infrastructure for a functioning land market (surveying, a cadastre system, etc.), and to correct current information and bargaining asymmetries via public education and information programs, access to impartial legal recourse, the design of standardized public land rental and sale auctions, etc. He warns that forbidding foreign ownership of land reduces potential demand and increases the probability that monopsonistic renters or buyers will exercise power over peasant
owners of land. It will also reduce the interest of potential foreign investors in Russian agriculture.

The discussion clearly shows that the land reform in Russia is a complex process that evades simple description. However, early results provide Russian public with overwhelming evidence that the tendency towards privatization and land market is beneficial. The positive change will be propelled by the increasing political will in combination with considerable international experience, part of which is reflected in the following eight papers.