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# Privatization and Transition Issues in Russian Agriculture

## INTRODUCTION

Russia has seen a dramatic decline of over 50% in agricultural production between 1991-1996 (Goscomstat). Such a catastrophic fall is normally only seen in situations of extreme destabilization, war, or famine. The question this paper addresses is why has this occurred. A significant body of literature has grown up concerning the problems and lessons of privatization and economic adjustment (OECD, 1991; UNCTAD, 1994). Most contributions have been concerned with economic efficiency questions and the degree to which government should or should not play a role in managing the process. It has been suggested that the main lesson of economic adjustment in Eastern Europe has been that financial and stabilization policies are not sustainable unless they are supported by adequate structural and social policies (Tulin, 1995). In addition, transformation of the legal and institutional frameworks of society has to keep pace with the changes that take place in the fiscal and monetary area.

The OECD established a widely accepted set of principles that would be

required in order for planned economies to be able to transform to market economies. To measure the progress towards effective transition we use their set of simple measures (Dhanji et al, 1991). We have grouped these into three main dimensions and we examine the areas that are relevant to the agricultural economy:

*Monetary and fiscal measures:*

1. The effect of monetary stabilization in the agricultural sector. This includes a comparison of industrial with agricultural production and their consequences in agriculture upon yields and the need for imports.

*Institutional measures:*

1. The changing legal environment.
2. The effects of privatization.
3. The effect of inflation and changing terms of trade.
4. Capital investment including equipment.
5. Physical infrastructure including transport, distribution and marketing channels.

*Systemic, supporting, and cultural measures:*

1. Management education and training.
2. Changes in the business environment. The informal economy.

It would be difficult to make an accurate assessment on each of these measures. It is not the intention of this paper to examine the details of the macro economic changes, which has been done by other authors (Sachs, 1995) nor to provide a economic critique which has been done elsewhere (Yavlinsky and Braguinsky, 1994). Instead, we examine the reform process to see how effective it has been at the macro and micro level. The measures above provide us with a useful general perspective.

First, we consider in general macro terms the monetary and fiscal measures in terms of their impact in the agricultural sector. Second, we evaluate the success of institutional measures to provide for a new legal system, enforce property rights, ensure competition, and the mobility of capital and labor. Third, we assess key support and cultural measures, such as the predictability of the business environment, the restoration of public morality, business ethics the critical dimension of psychological mind set required for marketization. However, these dimensions must be seen within the context of the political changes that have also taken place during the same period.

## MONETARY AND FISCAL STABILIZATION

Has stabilization been achieved in the agricultural sector?

The first set of measures would be considered by many as the most important. If fiscal and monetary stabilization had been successful, economic adjustment would automatically follow.

It is clear from the evidence that economic stabilization had not been achieved by 1997 either in terms of the normal macro economic indicators, or in critical sectors such as agriculture. Average incomes had declined. Some commentators have suggested that the situation was intolerable and that the Russian government should have taken a positive interventionist approach to impose macro economic stability and create reliable institutions. Others suggested that government did not have the resources, motivation or power to take on the positive role suggested. They argued that there was no point in trying to restore elements of steering that were characteristic of a planned economy which had significantly failed in its objectives (Nellis, 1995). The fear was that the imposition of strong government would mean a prolongation of economic and social misery, the entrenchment of rent seeking, anti market forces, further suboptimization of growth (Nellis, 1995). That leading advisors of the government such as Sachs suggested that the failure to achieve stabilization in Russia by 1995 was due to a lack of application of the market policy measures he advocated, not by a failure of those measures. Even in 1995, he still held to the view that what has become known as shock therapy was the most effective way to deal with the problems identified.

Basic economic conditions did not look good in the early 1990s. There was still a need to use foreign currency to buy in basic foodstuffs which Russia itself might have been able to provide for (in 1997, Russia imported 60% of its milk, 28% of its meat, 33% of its oil, etc.). The cost of such staple food imports was a significant drain to the public purse, amounting in one year to over \$13 billion.

There is some evidence to support Sachs' view that government has failed to push through market reforms vigorously enough. In 1993, for example, subsidies to the agricultural sector still amounted to about 5% of Russia's GDP. In comparison, in the USA only 0.2% of GDP was spent on agricultural subsidies and the corresponding figure for the European Community was 1% (Bobylyv and Libert, 1994). This support included exemption of new farms from many taxes. They also benefited from state subsidies for heating, natural gas, and other types of fuel such as coal.

Together with this failure to push through the shock therapy approach, however, there was a continued decline in output in the agricultural sector. Total grain production in 1996 was 59.8 million metric tonnes (mmt), 40, 5% less than in 1992. Sugar beet output fell even more sharply, by 43.3% to just 14.2 mmt. The livestock sector continued to contract in 1996, with meat production down 15, 1 % and milk production down 16,2% (Goscomstat, 1997). Farmers have been

**Table 1.** Economic Depression in Russia, 1991–1997  
(% Change, year on year)

	<i>GDP</i>	<i>Industrial Production</i>	<i>Agricultural Production*</i>
1991	–13	–8	–9.3
1992	–19	–18.8	–17.8
1993	–12	–6	–9.2
1994	–15	–21	–13.5
1995	–3	–6	–3.5

squeezed by the government. Regulated prices for outputs and increases in input prices have led to a liquidity crisis and low profitability. The result has been effective destocking, increased debt and reduced investment, output and innovation.

The effect of the lack of stabilization and of continuing depression has been devastating in a variety of ways. One indicator of the lack of positive change has been the failure of the agricultural sector to improve its performance. The two tables below show graphically how change from a planned economy to a market economy has not led so far to improvements in performance. Indeed, although the cumulative decline in industrial production is slightly more than in agriculture, the reality is that decline in agriculture is of greater significance. First, this is because in agriculture, recovery cannot be achieved overnight. The manufacturing industry could recover within one or two years from poor sales. In agriculture, however, losses in one year can only be made up over the next five or six years. Second, the effect of the decline in agriculture is seen immediately in the lack of food available and in the need to import more from abroad. The example of two key staple products shows this. If we look at grain and milk yields, we can see that the effect of the lack of monetary and fiscal stability has led, directly or indirectly, to a significant decline.

To conclude the brief assessment of the monetary and fiscal dimension, it can be suggested that the reform program has had an identifiable negative impact. One important consequence of this was the accelerated development of the informal economy both at the enterprise level and by individuals as a substitute for

**Table 2.** Comparative Milk Yields 1991–1996  
(Centi litres per year per Cow)

	<i>Russia</i>	<i>USA</i>
1991	25.67	68.19
1992	23.32	70.61
1993	23.28	71.22
1994	21.62	73.37
1995	21.53	74.54
1996	21.44	74.86

Росстатские материалы: Стат. сб. Госкомстат России, М: 1997. Таблица 11.38  
Agricultural Statistics 1998, US Government Printing Office, Washington: 1998. Table 8-11

**Table 3.** Comparative Wheat Yields Centi-Kilograms per Hectare 1991–1996

	<i>Russia</i>	<i>USA</i>
1991	28.1	85.7
1992	26.1	94.5
1993	25.9	99.3
1994	22.1	99.3
1995	16.9	93.1
1996	17.9	91.8

Росстат. Статистика сельского хозяйства России. М.: 1997. Таблица 11.25  
 Agricultural Statistics 1998, US Government Printing Office, Washington: 1998. Table 1-3

economic activity in the formal economy. A second consequence was the inability by enterprises to plan for the medium term. This meant that it was difficult to accumulate investment for the future, resulting in continuing decline in output and yields. Overall the main conclusion that can be drawn from the indicators available covering the monetary and fiscal dimension is that cumulatively the agricultural sector had by 1997 reached a critical point of crisis.

## INSTITUTIONAL MEASURES

Assessing the success of the institutional measures to push through and regulate reform in the early 1990s is not an easy task. Many laws and directives were passed, but many of them appear to have had little short term effect in triggering economic change. We outline the major legal changes affecting agriculture and assess their impact.

### Changes in the Legal Environment

On what might be considered the most important measure, it could be claimed that the government were very successful. By early 1995, only about 15% of land remained in the hands of the state. Legal changes have allowed the development of private enterprise which has resulted in fundamental legal changes in agriculture. In the former Soviet Union, agriculture was based on large-scale collective and state farms cultivating state-owned land. There were two types of ownership. Social ownership was dominant in the industrial sector. Collective ownership was dominant in the agricultural sector. The non-land assets of collective and state farms including agricultural buildings, glasshouses, livestock, machinery and other farm equipment were distributed to former employees after 1990.

Approximately 110 legal documents have been enacted since 1990 at the federal level to form the legal basis for agricultural reform. Options for farm registration included collective and individual forms of organization (Brooks and Lerman, 1994). The three main new legal forms of organization are the following:

- a. Limited-liability companies, partnership, in which land and asset shares go to the founders who work on the farm.
- b. Joint-stock companies, a form similar to the limited-liability partnership, except that stock certificates are issued to owners according to the value of their land and asset shares.
- c. Agriculture co-operatives, these enterprises are established on the basis of land and assets shares of members of the former collective farm, and in general members work on the farm.

As an individual form of organization, private peasant or farmers farms provide an alternative to collective forms of organization. They are farms based on privately owned land and established in many cases by individuals who left their collective or state farms and their land and asset shares. Peasant farms may form a local association of peasant farms (Brooks and Lerman, 1994). This is a kind of production or service co-operative, the members of which in theory should all be registered private farmers.

Despite all these changes aimed at creating a new legal system which clearly enshrined and enforced property rights and privatized enterprises, the state has failed to carry through the reforms to provide a meaningful positive change. The main problem with the legal changes of ownership that occurred after 1991 was that although private ownership was permitted and enacted, the reality was that there was no market in land. This was partly due to the fact that there were no agreed systems or procedures for the valuation of land, and partly due to fact that land is not recognized as a collateral asset. The consequence of this is that there has been almost no active market in land. Until a market develops inefficiency in the use of land is inevitable.

International experience indicates that collective forms of agricultural production tend to be less efficient than most forms of private farming (Schmitt, 1993). In Russia in 1991, for example, 72% of the 34 million tonnes potato crop was grown by the private sector, and the yield on private holdings was 23% higher than on state and collective farms (Pockney, 1993).

### **The Effects of Privatization**

Approximately 10.6% of collective and state farms are registered in their previous status. A small number chose to reorganize as Joint-Stock Companies. Among farms that reorganized, the most common form chosen was as a Limited-Liability Company (85% of new registrations).

The differences among these different forms of organization are not always clear. Thus, collective farms often changed their name to agricultural producers co-operative or limited liability company in the revised charter, without any other change of substance. Farm enterprises often decided to reorganize as whole entities without dismantling the collective structure and with virtually no change

in operating and management systems. Five years after the transformation began collective production on privately owned land remains the dominant organizational form in Russia. The reason for this was that as an organizational form it was by far the easiest way in the light of the lack of capital and land available to the individual. In addition individuals had been brought up with a collective mind set, it was rare for individuals to have the skills and education to be able to organize and manage a farm independently.

This situation is not much different from that found in other countries in Eastern and Central Europe. For example, in Hungary, a majority of co-operative members decided to stay in a cooperative framework after receiving ownership rights to land (Trandafilov and Ivankva-Gidikova, 1993). In Romania, 58% of privatized land is cultivated in informal peasant associations (Gavrilescu, 1993). Even peasant farms, which traditionally had been a significant source of food, had become less efficient due to the system for privatization. In January, 1997, for example, the 278,600 peasant farms covered about 4-5% of all agricultural land. Despite this, farm size was about 60-75% less than that considered necessary for efficient operation. The average size of peasant farms in January, 1997 was 44 hectares. The problem was that limits were set on the size of peasant farms by the Republics or Oblasts. It was very difficult for peasants to obtain greater amounts of land. Production on new peasant farms remains marginal but is still relatively important.

The literature on privatization (OECD, 1991) suggests that the process was slow in many East European countries because there was a lack of efficient capital markets, major problems in valuation of assets, a great imbalance of market knowledge, and an unreliable legal system. The results were varied, but two key consequences identified concerned the failure of a change of ownership to affect performance, and what has been called the privatization of the nomenclature (Crane, 1991), the usurpation of the newly privatized firms by members of the old nomenclature. Other consequences included fraud, problems in tax collection, unemployment and legal disputes.

A further consequence of the lack of appropriate institutional reform was the assumption by economists such as Sachs that a quick drive to a market was possible. In agriculture, the change from hierarchy to market could never be quick or easy. At the micro level of the enterprise, the change planned production based on required quantities from each farm to the farm itself deciding what to produce for what market was a revolution which inevitably would take a minimum of number of years. The change could only take place on the basis of market knowledge of customer demand. This required a knowledge base, education, and expressed demand through communication systems which was not available at the local level. As a result, privatized farms found themselves in an impossible position. This posed a severe problem for economists which has yet to be



resolved. It throws doubt on the usefulness of the notion of shock therapy at least as far as the agricultural sector is concerned as a short term solution.

The effect of inflation and changing terms of trade in the centrally planned economy, such as the terms of trade between town and country were often disadvantageous to the agricultural producer. The situation has not changed. It is very difficult to show the relative disadvantage. One way of doing this is to compare the relative value of equipment to a commodity such as grain. For example, by the end of 1991, the value of a tractor was equal to the value of 267 tonnes of grain. By 1994, the same piece of equipment was equal to the value of 686 tonnes of grain. It thus became relatively more costly for farmers to purchase industrial goods and equipment. Under the planned economy, terms of trade had no real meaning as the state owned enterprises were working with soft budgets. With the advent of the market economy, the situation changed significantly. Enterprises were required, formally, to work on tight terms of trade. In most cases, payment for products was required within fourteen banking days. The reality, however, was that when the state purchased agricultural products the terms of trade were regularly broken as they had no finance cost to pay for the goods. It was quite usual for the state to pay three or four months late than the normal due date.

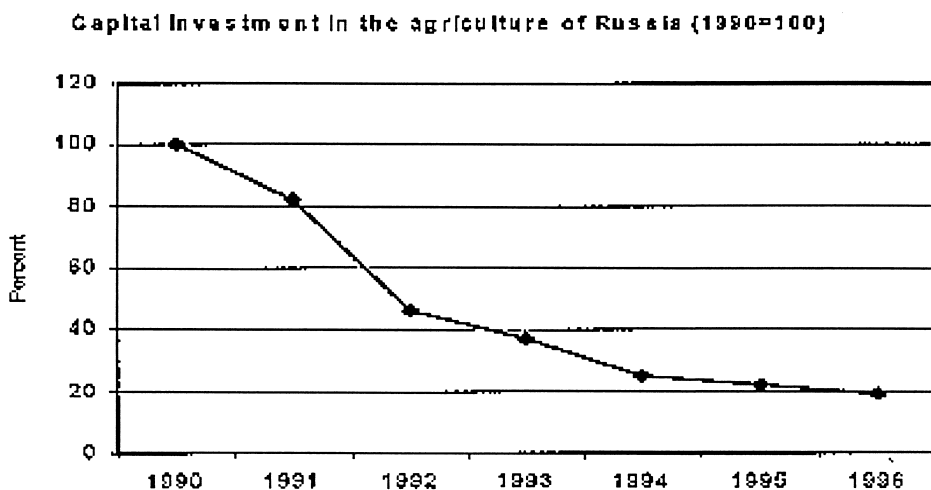
This created a knock on effect. Farmers required the income in order to buy inputs such as seed, oil, and petrol and to pay wages. Without the major revenues from the state coming on time it became impossible for them to purchase and plant seed at the right time of the year. It also meant that they failed to purchase fertilizer and pesticides in the required amounts to provide for the best possible yields. They also found it difficult to buy adequate amounts of petrol and diesel for tractors and harvesters. All these difficulties arising from the failure of the state to pay for produce led inevitably to lower yields. The failure of the ability of the farms to enforce the contracts with the state led also to a breakdown in trust between them. If the state could not abide by its own regulations, farms felt free to do whatever they could to ensure survival. In addition, employees often did not get paid for months. This led to tension between managers and workers. It also encouraged the development of the informal economy (see below). In order to try to avoid these problems, enterprises sold as much as they could on the free market or the black market for cash.

### **Capital Investment Including Equipment**

Five years after reform began, there was still an absence of some key institutions, such as an effective banking sector with a reliable payments system. There was no reliable insurance industry able to support the agricultural sector.

These official figures show a significant decrease in capital investment in agriculture in 1996. It would not be a surprise that internal investment was





**Figure 1.** Capital Investment in the Agriculture of Russia (1990)

lacking. It would be expected that if capital was free to invest it would be attracted to those areas of the economy that provided the surest return in the shortest period. Almost by definition, agriculture could not provide a short term return. Credits were required in the late summer by farms to be ready for the planting season, and at the earliest, would be returned to the investor 15 months later. But the problem was that commercial banks usually provided credit for only three months because inflation meant that it was not profitable for them to leave money with farms for over one year. Even if they did, the farms could not pay back the capital and interest payments required which might amount to 60 - 80%. If there had been a market in land, farmers could have mortgaged their land, which might have increased in value along with inflation, but this was not possible because no market existed.

Investment in equipment has often been inappropriate. Equipment manufacturers in the former Soviet Union did not provide products of the type needed by small and peasant farmers because they were oriented to supply large scale equipment for the state and collective farms. Monopoly producers, for example, the Gomelmash factory in Belarus produced a variety of farm equipment. For example, it was the sole producer of self-propelled combine-harvesters. In the early 1990s, it became more difficult to buy from Gomelmash because of the need to buy in foreign currency. Factories in Russia tried to fill the vacuum, but could not meet demand. The XTZ factory in Xarkov, Ukraine produced tractors. This factory also required foreign exchange for their products by 1996, and yet they had not altered their product lines to meet the needs of the new smaller farmers.

The problems of equipment were not only concerned with inappropriate

equipment, but also with a complete lack of certain equipment. Internationally the comparisons show how Russia by the early 1990s was still well behind other countries in the use of agricultural equipment. For example, in West Germany (because of the intensive nature of individual farming) there were 201 tractors per 1,000 hectares of land, in the USA (which was farmed extensively) there were 34, but in Russia, which was also farmed extensively, there were only 11 tractors per 1,000 hectares of land (Pockley, 1993).

In Russia, the shortage of equipment can lead to critical breakdowns in production. For example, a collective farm may have two combine harvesters which are available for reaping the crop, which must be done in a specific two week period. With most equipment being outdated, there are often breakdowns. The shortage of combine harvesters means that if even one breaks down, the result could be devastating for the farm. No substitute equipment is on hand and significant proportions of the crop could be lost.

At the same time, however, it could be suggested that foreign direct investment could have played a role in agriculture if the conditions were appropriate. The primary reasons for a relative lack of investment was the lack of any accurate market information, a lack of any valuation systems and the absence of the development of a property market.

Other secondary factors included out of date and inefficient production systems and a lack of quality control and assurance. The critical primary factors preventing foreign direct investment have meant that readjustment has been limited.

The creation of accurate market information depends on the development of reliable financial institutions which have the ability to create and enforce contracts. Commentators have been making this point for a number of years (Ellman, 1993). The consequences of delaying the development of independent and stable financial institutions are serious for both enterprises and the state. At its most simple it prevents the development of a climate of trust and confidence throughout the agricultural system. At its worst, it allows the development of a "shadow economy" or an "informal economy" in which the state is likely to be a major loser (Booth and Record, 1995).

### **Physical Infrastructure Including Transport, Distribution, and Marketing Channels**

There will be a continuing need to import a variety of foodstuffs, but the transport and distribution systems are a problem. With the development of independent states in the Baltic, Ukraine, and Georgia, Russia has lost some major ports such as Ismail, Odessa, and Nikolaev in the Ukraine; Lepaja in Latvia; Riga in Lithuania; Novotallinn in Estonia; and Poti in Batumi in Georgia. Most of these had modern port facilities. The only ports remaining open on Russian soil were Murmansk, Archangelsk, Novorossiisk, Vladivostock, and Nakhodka. Novorossi-

isk is the most modern port, but it stands on the Black Sea, and with the uncertain political conditions in the Caucasus, the port has a potentially uncertain future as a main avenue for imports. The ports on the north west coast are more secure but have older facilities. The ports on the Pacific have very limited, older facilities and are linked only by the one rail line that takes over one week to reach Moscow. Kalinigrad has modern facilities, but imports have to go through the Baltic states and Belorus to reach Russia. Russia has the fight to free access, but the political situation is such that there are difficulties.

The need to rely on outdated port facilities leads to the loss of some imports. For example, vegetable and fruit imports have suffered from the lack of adequate refrigeration and warehousing during transshipment. The increase in intensity of use of the remaining ports puts pressure on the maintenance both of port facilities and on the rail and road network. In addition the problem of leakage through criminal activity remains (see below). The overall conclusion is that there is wastage of foreign currency earnings to the degree that everything that has been paid for does not reach the market in Russia. Nobody knows how much is lost. No figures are published. This leads us to suggest that further investigation needs to be undertaken to quantify the costs of such losses.

Practically no independent marketing channels had been created in the first five years of economic transformation. The state still had a virtual monopoly in important respects, owning the grain silo and storage houses, as well as warehouses and refrigeration units for meat, vegetables and fruit. The state still controlled the main transport systems from the regional warehouses to the retailers via the rail and road transport system. Yet because of the increased costs of energy and the inability to maintain these systems the state distribution system frequently broke down. Many of new collective and private farms found great difficulty in selling their perishable products through the state marketing and supply channels. One of the major problems was that the farmers were offered unrealistic prices for their products. The monopolistic structure of the purchasing organizations and the food processing industry largely explained this situation.

Finally, there was a problem in the food processing industry. Even under the planned economy there was relatively low capacity leading to waste. Between 1990-1997, with a continuing lack of investment due to the effects of destabilization, not only was the processing industry less able to do its job, but the standards of processing were insufficient to cater for the specific needs of a market economy. Some consumers wanted high quality products which could have been provided, but were not due to outdated systems. For example, the state system for processing milk did not provide for the production of the varieties of yoghurt that became popular in some cities. This led to the creation of small private businesses and the use of imports to cater for needs which could have been produced by the state system. There was no viable network of rural shops to sell inputs and

implements to private farmers and no system for farm-level purchase or wholesale of agricultural products.

### **Systemic, Supporting, and Cultural Measures**

The government tried to apply price and wage controls in order to control inflation, but between 1991 - 1997 failed to sustain its policy in the light of strong pressure from critical sectors in industry. It also invited foreign investment, which was initially slow to invest, but by the mid 1990s began to significantly invest in sectors such as the oil and gas industry. The government also provided some subsidies to the agricultural sector to try to secure the existence of collective and state farms (Tulin, 1995) , but this was far below that required to sustain the sector.

### **Management Education and Training**

A major problem that has been recognized in part, but which has yet to be seriously addressed, is the lack of management education and training for new agricultural enterprises. In the emerging market economy perhaps the greatest need is for a change of "mind set." It has been seen from earlier studies that there is a need for a radical change in the psychological approach to work. Fresh challenges, opportunities to make decisions, and accountability for decisions were absent in the old regime. The need to create a motivated, efficient, and effective workforce may be clear, but cannot be created without education and training. Governmental and international efforts have been established but appear quite inadequate to the size of the problem. Specifically, there is a need for technical knowledge modern operations and processing management, accounting, transport and logistics, and financial and quality management systems. More generally, there is an almost complete lack of marketing managers and a shortage of retail outlets.

New private farms are often established by persons not immediately employed in agriculture. Only about 36% of all private farmers are former members of collective and state farms; the remaining 64% are from the cities, although the Russian law requires that to be eligible for allocation of land they must have some agricultural background or at least training.

### **Changes in the Business Environment. The Informal Economy**

The average wages of agricultural workers were of the order of \$45 - \$50 per month in 1997. The work is hard and does not provide great individual job satisfaction. The wages are not sufficient to cover the normal costs of family life. The government statistics indicated that for 1997 the essential costs for food per person amounted to about \$76 per month. The question which observers were forced to consider was, "why do people work in agriculture with these condi-

tions?" An answer which some may find convincing was that a job in agriculture provided the opportunity for the operation of a significant informal economy, which was also mirrored in most other aspects of the Russian and other East European economies. The reason for remaining in even the lowest paid jobs was that exploitation of the inputs or products could be repatriated to the individual rather than to the enterprise. For large numbers of workers this was an essential form of self payment, especially during times of high monetary inflation.

In many respects, the informal economy mirrors the formal economy but instead of money the currency consists of products and services. Formal market rules are replaced by informal rules which depend for their strength on the commitment and trust of those involved. In some cases, reliance is placed on what might be called by some "self policing" but what the formal institutions of the state would call organized crime. The important point is that the informal economy not only reduces still further the tax take of the state, it also undermines to very basis of market reform, by replacing the notion of independent regulation with regulation by self interested groups.

It would appear that the danger of such consequences had not been sufficiently considered by the economic advisers. Given the inevitable slowness of reform in the agricultural sector it is surprising that the shock therapists had not considered in detail how such effects might have been dealt with. Having allowed the emergence of a vast informal economy by 1997 it could be suggested that rather like Pandora's Box it is likely to be a major task to deal with the distorting effects induced by the informal economy. The difficulty appears to be that measures that have been taken have tended to be specific attempts to deal with the symptoms of the problem.

For example, measures to improve enforcement by police and customs officers have been instituted, but they still have an almost impossible job. What has not been done is to try to search out and begin to deal with the fundamental reasons why the informal economy exists. Detailed academic investigation into this may not be an easy task, but considering the importance of the issue in economic, ethical and political terms, it merits funding. Given the lack of funding in the east it may be that bodies in the west should consider funding studies in this area. Unfortunately most research bodies in the west, such as the EC's ACE programme, are most concerned with short term research which provides solutions to specific problems. Western technical assistance programmes, such as those sponsored by the World Bank, are similarly are oriented to very practical objectives.

## CONCLUSION

Some commentators will argue that there is no possibility of returning to a planned economy and as such efforts to drive through the shock therapy approach should be redoubled. However, the economic reforms are by no means certain in

Russia. Revanchism is both possible in theory, and advocated by very significant sections of society. Indeed in the elections of December 1995, the Communist Party won a majority of seats in the Duma.

The agricultural question in Russia is at a turning point. If we look again at the four dimensions of adjustment applied to the agricultural sector we can see that on a simple assessment economic adjustment had not been successful between 1990-1997. To conclude, we suggest that on each of them there has been no significant adjustment.

### **Monetary and Fiscal Measures**

Monetary stabilization had not been achieved by 1997. Control over the money supply may have been partially achieved, but inflation has continued to be a major threat, and there was no effective control over credit. Large budgetary deficits remain. A modern tax system was not in prospect by early 1997. The exchange rate by the mid 1990s continued to be unrealistic. There were three rates available, the official rate, the "market" rate and the black-market rate. The currency was not effectively convertible. The trade regime was not liberal as there were significant blockages preventing foreign investment in agriculture.

### **Institutional Measures**

The new legal system had not provided a clearly defined and enforced property rights system because there was a lack of an effective property market and rights have no meaning unless they can be effectively exchanged. The state had not retreated from public ownership in critical areas of the agricultural economy, such as the regional transport and distribution system. The directives and laws on the creation of new private agribusiness were restrictive and did not allow the development of fair and free markets. Privatization has not in many cases really taken place. We have seen instead the development of ersatz privatization. Those enterprises which remained publicly owned remained embedded in the soft budget system which had been so disastrous in the past. Industrial and agricultural deconcentration has not gone far enough to allow trade and foreign investment.

### **Systemic, Supporting, and Cultural Measures**

The social safety net was completely inadequate to defined needs. As was shown above this led to desperate poverty. The income and wealth system was not egalitarian, and business ethics was seen as a critical failure throughout the period. The business environment was chaotic and unpredictable. Public administration appeared to be almost non-existent. The development of the informal economy was an inevitable consequence of this.

On these measures, adjustment does not appear to have been effective during the first seven years of "economic reform." Finally, the crucial point that appears

to have escaped the attention of economists both in the west and those directly advising the Russian government has been the need to take time to change the “mind set” of the population. It can be suggested that it would take generations to develop an understanding of how a market is understood in the west. To have even attempted the “shock therapy” approach, without preparing the population and providing a meaningful support system is illogical. A market could never have been developed without such assistance. In any case, it could be argued that it would be inappropriate, as the Russian culture, social and political environment is such that no blueprint could possibly be successfully brought to bear on a system so fixed. What is now slowly developing is something quite different. Russian society is creating for itself a Russian interpretation of what a market economy is, which will almost certainly be unique in its configuration.

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