

Jack Fletcher, Student Participant  
Fort Dodge Senior High School  
Fort Dodge, Iowa

## **Free Market for Russian Agriculture**

Starvation has always been a problem for the international community. Though certain places are emphasized, this crisis is not localized solely in the African Sahara or Central American slums. Rather, it has permeated the world, and can be found in surprising places. When one thinks of countries stricken with severe hunger and poverty, Russia, the focus of this paper, is probably not included in most initial responses. This portion of Russia does not get much publicity, but it most definitely impacts its society. Though not in the same league as the United States or Great Britain, Russia seems to be a fairly self-sufficient nation, and to hear of starvation is somewhat shocking. Russia is not the land of opportunity, or the land of success, but instead the land of potential. The resources are numerous, and fertile soil is prevalent. The government is stable, and there is little internal conflict. Despite these positive aspects, something is holding Russia back, rendering many of its citizens below the poverty line. The problem, as it turns out, can be found within the economic system. Russia is Communist. While the government may be stable, it lacks economic prudence. It runs on a centrally planned system, one of notorious inefficiency. It has the potential to produce enough food to feed its starving and have surplus left over. It has the potential to be a great international market competitor. However, potential means nothing if it remains untapped. The only solution seems to involve changing the system in place. The best alternative would be for Russia to open its agricultural markets, or preferably, begin a complete transition towards a free market economy.

It is still a widely held misconception that starvation is synonymous with food shortage. Thus many efforts to stifle world hunger still focus on increasing crop yields and redistributing food to those who need it. Yet in many cases, countries with severe starvation already have plenty of food. In fact, additional aid to such countries has been found to have a negative impact. Case in point, Guatemala 1976. After an earthquake, millions of dollars of food aid was provided, despite a record harvest being underway. The aid provided damaged the national agrarian markets, as well as productivity, by diverting the attention of local citizens from reconstruction efforts. As the case of Guatemala shows, food aid is often found to be counterproductive. Aid distracts workers from efforts needed to create a self-sufficient nation. It drives down crop prices, harming farmers who are essential to economic growth in Third World countries. The attempt to reform food aid towards the more accepted Food for Work program unfortunately has similar negative effects. In addition to depressing local markets, Food for Work programs have been found to widen the gap between the wealthy and poor. Studies of Bangladesh in the late 1980's discovered such programs to intensify the "exploitive semi-feudal system" in the country (Kopel).

Food aid unintentionally harms self-sufficiency and economic prosperity. However, this is not the only flaw: its fundamental objective is rarely achieved. As much as two-thirds of United States' food aid exports are taken over by foreign leaders, and then reintroduced into the market to create additional government revenue. In the late 1980's, the World Bank estimated 27 percent of U.S. food aid went to the police, military, civil services, and large corporations; another 30 percent to the middle class and 9 percent to supply mills. Much of the rest was sold on the black market. Less than one-third reached the intended destination (Kopel). Food aid, Food for Work, and other programs aimed at reducing the impact of world hunger tend to exacerbate the problem. It is destructive in the sense that nations with this problem become dependent upon foreign aid. Short-term goals often end as long-term disasters.

As stated previously, the problem is not a food shortage. Many of the nations experiencing severe malnourishment already produce enough food to feed their poor. For instance, Russia's Plava River

Valley has some of the most fertile soil in Europe, with enough capacity to feed the entire country. Yet the benefits of such a resource are barely felt, as noted by a Russian mayor, who stated: "We ought to be rich. We have wonderful soil. We have the scientific know-how. We have qualified people. But what does it add up to?" (Sowell, 74). It shows the world that scientific advancements pushing for increased crop yields will not solve the crisis at hand. Rather, the solution must be non-technical, defined in *The Tragedy of the Commons* as "one that requires a change only in the techniques of the natural sciences, demanding little or nothing in the way of change in human values or ideas of morality..." (Hardin, 1243). Since charity and other foreign aid are rendered negligible by the continually growing problem of starvation, efforts of reform must be focused on current systems of government and economics.

The problem with Russian agriculture is the lack of incentive that comes with a socialist system. In a pure socialist society, a producer has no vested interest in getting his product to the consumer, for his wages remain a constant regardless of whether the consumer receives it or not. Under a centrally controlled economy, personal responsibility is passed on to the government. However, when all aspects of an economy follow this example, an extreme pressure is placed upon this government, and the system becomes incredibly inefficient. When a producer no longer produces in accordance with demand, it becomes the government's job to control the supply. However, with so many variables involved, a centrally controlled economy cannot possibly keep up with constantly shifting demand of all products within a nation's market. By way of free market economics, it becomes the producer's task to create a profit. With the ability for a person to maximize profit for their own benefit comes the motivation to get products to the consumer. Because each individual business produces goods in accordance with consumer demand *relevant* to that business, it then becomes possible to efficiently match supply with demand, thus maximizing profit.

In addition to an incentive for consumer satisfaction, there can be found a vested interest for efficiency and longevity. Under ownership a person assumes sole responsibility. As *The Tragedy of the Commons* explains, if a collection of people were to share a plot of land, responsibility would be shared accordingly. Unfortunately, because every person is trying to get maximum benefit from the land, each will try to push off the responsibility of maintenance and good stewardship onto others. This eventually leads to overuse of the land, damaging the population as a whole. If a person is granted ownership of the land, he becomes personally responsible for its maintenance (Hardin, 1243-1245). A profit-driven incentive ensures that this maintenance occurs. As for efficiency, an unqualified government cannot know what the most efficient means of production is for every business. This is one problem associated with large state-run farms in Russia, a topic that will be discussed in further detail later on.

There are certain necessities that need to be adopted for a free market to function properly. Perhaps the most important is an ideology of basic human rights, particularly those of life, liberty, and property as outlined by John Locke. A basic system of law and order to protect such rights can once more provide great economic incentives. An enforced code of law allows those aspiring to start a business or produce a good to do so without fear of profit damaging crime. For this reason businesses are unlikely to form or relocate to areas with high crime rates. Property rights are quite possibly even more important, for the lack thereof can result in a country's inability to boost its economy. The vast numbers of poor in the world are made poorer due to the fact that what they *do* have they cannot own ("No title..."). Not only do property rights work as shown in *The Tragedy of the Commons* by providing an incentive to execute personal responsibility, but they can also serve as collateral. Poor family-run businesses become stagnant when property rights are nonexistent. Loans are rarely granted, because property is worthless. However, the property held but not legally owned by impoverished people has an estimated value of \$9.3 trillion. As stated in a March 31, 2001 edition of *The Economist*, this is "20 times the total of foreign direct investment into developing countries between 1989 and 1999, and 93 times the amount of development assistance from rich countries to the third world in the past three decades..." ("No title..."). Instead, land

where the poor reside is often subject to local and foreign exploitation. This uncertainty is as damaging to potential businesses as crime-prone areas.

With these necessary human rights established, a free market is the most efficient economic system. Given the incentive provided by protection, ownership, and potential profit, the producer will find the point of maximum revenue, benefiting the population as a whole. In a world with finite resources, such a system is crucial. The market will naturally allocate resources toward the area with highest demand. For instance, if the demand for paper is higher than the demand for furniture, paper manufacturers will have the ability to bid a higher price for wood. Thus wood producers will divert more of their product to the paper company, in turn meeting the higher demand for paper. In a centralized economy, the government would have to track the demand of products and manually change the supply rate to match demand. Such poor handling of the economy can be seen in the Russian agricultural sector today.

In the Russian agricultural sector, the national government adopted large corporate farms in an attempt to reduce the cost per unit through increased production. Unfortunately, they only focused on the ideology of economies of scale, giving no notice to the opposing *diseconomies* of scale. As businesses increase in size, the cost per unit decreases as the number of units increase. However, this only works to a certain point. Soon, businesses become overlarge and inefficient, and the trend reverses itself. The cost per unit begins to increase along with the number of units. This is what happened in Russia's agricultural sector (Uzun, 85-100). The large corporate farms, much larger than those found in America, are more inefficient due to increased management complexities, transaction costs, and ecological hazards, exacerbated by the lack of a vested interest accompanied by ownership. One such example of unproductive actions associated with huge corporate farms in Russia was the process by which some workers have been found plowing the land. Starting on the outer edge, the workers would dig deep furrows into the soil; but as they progressed to the center of the field, the furrows would get increasingly shallower in order to speed up the plowing process. This led to stunted growth of the crops, thus decreasing yield (Sowell, 121-122). Such is the problem when agriculture businesses get too big, in addition to the lack of vested interest in a socialist system. In free market economies, agricultural output is limited to small businesses. Capitalism has a natural tendency to locate the point of transition from an economy of scale to a diseconomy of scale; the point of greatest efficiency. In agribusiness, maximum efficiency is met at a smaller scale, much smaller than Russia's agricultural enterprises.

Though Russia is far from a complete free market, capitalism is beginning to take hold in the agricultural sector. Though some immense agrofirms are beginning to emerge, each controlling tens or hundreds of thousands of hectares, the general trend seems to be heading in the opposite direction. Large corporate farms are going bankrupt at an accelerating rate, becoming overtaken by smaller enterprises. Employment has shifted in correspondence with this change of roles. The number of employed by large and medium sized farms fell from 8.3 million in 1990 to 3.8 million in 2002, while in the same time span the number employed by small farms increased from 1.4 million to 3.9 million. Land controlled by larger corporate farms decreased 30 percent from 209.8 million hectares to 150.4 million hectares, while output in this sector decreased by a factor of 2.3. On the other hand, land used by family farms increased by a factor of 20, while output in this sector increased by 30 percent. Small family farms by 1998 were producing nearly 60 percent of the gross agricultural output as opposed to less than one-third in 1990. Despite strong government bias towards the larger agricultural enterprises in subsidies and other forms of aid, small businesses have become the primary producer, employer, and source of income for the rural population (Uzun, 85-100). Though having a distinct upper hand, the lack of a free market created a cesspool of inefficiencies in the large agrarian businesses, setting the stage for an inevitable failure sped along by increased government intervention.

Another transition can be seen in Russia: the takeover of large farm corporations by industries with free market principles. These new agricultural operators (NAOs) are externally owned, either taking advantage of profit potential, or ensuring a readily available supply chain. This inundation of capitalistic ideals has provided a vested interest in increasing efficiency and getting products to market. These NAOs, by investing into agriculture, are helping to disintegrate the large inefficient state-run farms into smaller family run farms. Unfortunately, for industries to act as NAOs is an incredibly risky business because the current socialist system offers no protection. Such an influx of free market ideals in the agricultural market provides the perfect opportunity for the Russian government to reform its system, focusing on benefiting the NAOs. Ownership rights and leasing mechanisms are extremely important for incentive and collateral. Crop insurance and further deregulation is also beneficial (Rylko, 115-126). Government intervention in the form of subsidies is harmful. The Russian government subsidizes its large state-controlled farms in order to stay competitive with the rapidly expanding family-owned farms. This approach is most likely compounding the problem of corporate ineffectiveness. Subsidies often lead to price controls, which can negatively impact a wide economic scope. As similar government actions in the United States have shown, subsidizing the farm industry has actually helped create the large corporate farms the U.S. boasts today (Philpott). They share the same problems of inefficiency as the state-run farms of Russia, granted it is on a smaller scale. Adopting these western ideals can lead to an acceleration of the breakdown of state-run corporations into smaller, more efficient family farms as land becomes more readily transferred and NAOs become more willing to invest.

The best hope for Russian starvation is to reform the system currently in place. Food aid is destructive and often unsuccessful, and with plenty of potential and incredibly fertile soil, yields are a non-issue. Thus science and technology are not the answer. Though some will no doubt be unwilling to accept it, the time has come for a non-technical, non-humanitarian solution. The only thing at fault is Russia's economic system. Socialism in practice is incredibly inefficient, for it destroys all incentive to maximize profit by maximizing efficiency, maintaining corporate longevity, and gaining consumer satisfaction. The role of the government in a centralized economy is impossible to pull off successfully, for the variables involved are too numerous. What Russia needs is a free market system to more effectively and accurately allocate its scarce resources. Successful transitions of countries towards capitalism are not uncommon and yield substantial benefits for those +

nations. Cuba in 1994 reopened its agricultural markets after eight years of decreased production and increased inequality. Its crucial export of sugar cane had dropped by nearly 50 percent from 1991 to 1993. During this time the Cuban government experimented with different reforms in the attempt to retain earlier production levels, finally coming to rest on a freer market as a last resort. By opening the markets, production increased to meet the demand, almost eliminating the black market in foodstuffs that had grown vastly during the inefficient socialist reign over agriculture. Opening the market in just the agricultural sector resulted in a great net benefit for Cubans (Deere, 13-17). In the 1980's, Ghana adopted ideals of free market economics. This resulted in an explosive five percent annual economic growth rate (French). Many other economies benefited from freer markets, such as China, India, Germany, New Zealand, South Korea, and Sri Lanka (Sowell, 26). In these cases, a free market led to economic prosperity. A free market is not perfect by any means. In order for the full benefits of capitalism to be felt, it needs to be adopted internationally. There are also the cases of monopolies, externalities, information, public goods, and Veblen goods that distort the market. However, such setbacks do not have near the negative impact as once thought. What may be technically defined as a monopoly or an externality may behave under ideological market conditions without a negative impact, because the market does in fact take such special cases into consideration. Even with such setbacks, the efficiency of a free market system far outstrips that of socialism. The current agricultural transition in Russia provides the perfect opportunity to implement western values of basic human rights as well as additional initiatives to protect NAOs and other capitalistic ventures. This will accelerate the transition from large state-run farms towards better suited family farms and NAO control. This increased incentive due to ownership and profit potential will more effectively distribute food to the malnourished. Family farms also employ more

people with higher wages, resulting in a decrease of the impoverished population. Should Russia adopt a complete free market, other businesses will undergo similar transitions. The only way for Russia to solve its hunger problem is to act upon free market ideals, especially given the current agricultural situation.

## Works Cited

- Deere, Carmen Diana. "The New Agrarian Reforms." NACLA Report on the Americas. 29 (1995) 13-17.
- French, Howard W. "Once-Leftist Ghana Bets on a Free-Market Future." New York Times 23 Oct. 1994.
- Hardin, Garrett. "The Tragedy of the Commons." Science 162 (1968): 1243-1248.
- Kopel, Dave. "When American Aid Brings Food for Naught." Newsday 7 Apr. 1986. Independence Institute. 1 Sept. 2008  
<<http://www.davekopel.com/Misc/OpEds/American-Aid.htm>>.
- "No title; Why the poor need property rights." The Economist (US) (2001) 1.
- Philpott, Tom. "The Short-Term Solution That Stuck." Grist Magazine 30 Jan. 2007.
- Rylko, Dmitri, and Robert W. Jolly. "Russia's New Agricultural Operators: Their Emergence, Growth and Impact." Comparative Economic Studies 47 (2005): 115-126.
- "Schools brief: state and market." The Economist (US) 338 (1996) 64.
- Sowell, Thomas. Basic Economics 3<sup>rd</sup> Ed: A Common Sense Guide to the Economy. New York: Basic Books, 2007.
- Uzun, Vasilii. "Large and Small Business in Russian Agriculture: Adaptation to Market." Comparative Economic Studies 47 (2005): 85-100.