Sowing Market Reforms

The Internationalization of Russian Agriculture

Michele L. Crumley

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The Impact of Trade on Russian Agrarian Institutions: An Introduction

Policy analysts, political economists, and practitioners in the West have long recognized and advocated the merits of liberal free trade. Promoting free trade and market economies have been key components of policies encouraged by intergovernmental financial institutions such as the World Bank and International Monetary Fund. After Asian NICs developed and expanded their economies relatively fast in the 1970s with the adoption of policies that supported liberal free trade, other states took note. For example, the lessons of development in the Asian NICs encouraged Latin American states to change economic strategies in the 1980s. Leading economists, such as Jeffrey Sachs, confidently advised governments in various regions of the world on the policies required to shift their economies to reflect free trade and export substitution strategy. The growth of states adopting similar policies was further enhanced as the Soviet economic model of a centrally planned economy became discredited in the 1980s. Central East European states began turning toward marketization of the economy, as did the Soviet Union by the late 1980s. The trend seemed to mark the emergence of a true *global* free trade economy by the end of the twentieth century.

The movement toward a global free trade economy is significant because the growing internationalization of economies through trade and international interactions undoubtedly affects state interests, and even domestic institutions. In fact, liberal economic theorists imply that domestic institutions will be similar across states in that they will support greater free trade when the benefits of free trade are realized. Frieden, Rogowski, Keohane, and Milner articulate this point more clearly by suggesting that greater internationalization of the economy affects domestic actors' interests to the extent that pressures will build up to change institutions so that the institutions reflect an interest in supporting greater trade and greater interaction with the global economy.[1] While this assumption is supported in many of the states that adopted export substitution strategy, it does beg the question about how non-liberal economies are impacted by increased trade and other global economic interactions. In this light, a state with a command economy that increased imports and exports before adopting the tenets of free trade becomes an interesting study of liberal economic assumptions and expectations.

Liberal economic theory is fundamentally similar to the approach international financial institutions (IFIs) and Western governments recommended to developing countries in the 1990s. Although structural adjustment policies and austerity programs dominated policy prescriptions for development in the 1980s, the "Washington Consensus" became the dominant influence in shaping the policies of states which were attempting to develop or were struggling with balance of payments problems in the 1990s. The Washington Consensus consisted of ten policies that were developed by John Williamson. The original policies include deregulation, privatization, property rights, foreign direct investment, trade liberalization, tax reform, public expenditures priorities, fiscal responsibility, reasonable interest rates, and financial liberalization.[2]

Reform policies that encouraged privatization, trade liberalization, and deregulation were being introduced or were ongoing in Latin America and Sub-Saharan Africa during 1989–1992 when, coincidentally, former communist countries in Eastern Europe and the former Soviet republics were also beginning to adopt market reforms. It is widely believed that more privatization, trade liberalization, and deregulation occurred globally at this time as a result of the Washington Consensus than at any other time in history. Although many states were opening their economies, privatizing, and promoting trade liberalization, the "one size fits all" approach to creating market economies fell short in producing the level of expected growth for a variety of reasons. Nevertheless, the Washington Consensus profoundly impacted domestic economies. In practice the Washington Consensus manifested in challenging the developmental state; that is, state intervention into the economy was to be minimal.[3] Liberal economic theorists also suggest a limited role of the state. Instead, economic actors and institutions react to price signals and exogenous forces.

The liberal economic theorists Frieden and Rogowski argue that centrally planned economies are not immune from price changes that affect economic actors' interests. The impact of trade on relative prices affects shadow prices, subsidies, tariffs, price controls, and rationing. Moreover, the shifts in relative prices indirectly influence many economic actors, such as producers of complimentary or substitutive foodstuffs and products.[4] If Frieden and Rogowski are correct in their basic assumptions about trade, then the ripple effect of relative price change in the Russian agrarian sector should have begun with the increased agricultural imports in 1972. The implication of this argument suggests that we should see some liberal economic expectations fulfilled in the Russian agrarian sector as early as the 1970s.

The only other Russian economic sector impacted by increased trade for as long as the agrarian sector is the energy sector. Although the Russian energy sector is important, this study focuses on the agrarian sector because of its relative importance and potential impact on the entire domestic economy. For example, 15 percent of the total Russian work force was employed in agriculture, and the agrarian sector comprised nearly 15 percent of the Russian gross domestic product in 1990. While these statistics indicate greater input and output percentages than those found in other developed countries, it is important to note that even in the 1990s nearly 40 percent of the total Russian population still lived in rural areas. By 2002, the number of Russians working in agriculture had decreased, but 11 percent of the total work force continued to work in agriculture.[5] Given the relatively large percentage of the population in rural communities, the success or failure of institutional reform may have some predictive salience in determining the chances of a market economy and democracy taking root in all of Russia.[6]

This study, therefore, examines the impact of increased trade on domestic institutions (i.e., the central and local administrative bureaucracy) of the Soviet Union and post-Soviet Russia from 1972 to 2012. More specifically, I analyze the desire and ability of Russian domestic actors to change institutions in order to take advantage of free trade opportunities in the agrarian sector. In effect, this project seeks to explain whether assumptions found in liberal economic theory—that trade creates economic pressures for agrarian institutions to change in order to become more efficient, more competitive, and more productive—hold true in the case of the Russian agrarian sector. Have institutions wanted and been able to change in order to promote greater trade?

I hypothesize that in the agrarian sector, institutional change as reflected in liberal economic expectations was inhibited by domestic structures and political culture. In spite of astounding political and economic changes that led to the dismantling of the Soviet centrally planned economy and ultimately the fracturing of the sovereign state of the USSR, vested interests in existing decision-making institutions from 1972 to 2012 inhibited changes in the agrarian sector that were needed in order to take advantage of free trade. Given the institutional constraints found within centrally planned economies and the general conservative nature of political culture found in rural communities throughout the world, it is logical to assume that domestic structural approach and political culture are potential intervening variables in liberal economic theoretical assumptions. To determine from where changes and constraints arose in the agrarian sector, I propose three basic questions.

(1) Do new institutions in the agrarian sector support free trade?
(2) Are the new institutions created to encourage free trade constrained by political culture?
(3) Is the institutional response to free trade constrained by domestic structures?

These questions help to direct the research about the salience of the liberal economic model in the case of institutional change in the Russian agrarian sector. Moreover, the questions also offer a general inquiry in the salience of political culture and domestic structural approach as explanations for why some institutional changes were adopted and others were not.

In this chapter I examine the assumptions of liberal economic theory and briefly explain the plausibility of domestic structural approach and political culture as heuristic approaches that can best explain the constraints on institutional change. Next, I clarify the problem statement of this study and explain the importance of the Russian agrarian sector as a significant case study. Lastly, I describe the research design concerns in this study, and I describe the organizational overview of the chapters to follow.

BACKGROUND OF STUDY

When examining liberal economic theory, conventional wisdom suggests that external pressures, such as world prices, impact domestic interests and institutions. More importantly, the immediate cause of domestic institutional change is the implicit shift in economic actors' interests and policy preferences, which are conditioned by price signals. The relationship of interests to institutions, as explained by Keohane and Milner, is assumed to be that the most influential actors support existing institutional structures. Therefore, when preferences of those actors change due to price shifts or opportunity costs, new policies will reflect those preferences and it is likely that institutional change will follow.[7] Given that causal argument, the examination of institutional change alone is ipso facto insufficient for determining the salience of liberal economic theory in a single case study. Hence, it is necessary for this study to discern the economic interests and policy preferences of actors in the Russian agrarian sector. In other words, given the institutional changes in Russia after 1972, what were the factors conditioning interests that pressured institutions to change or not to change?

According to liberal economic theorists such as Keohane, Milner, Frieden, and Rogowski, economic interests are shaped by changes in relative prices and opportunity costs that result from greater trade and the flow of capital.[8] Frieden and Rogowski specifically note that liberal economic theory expects that greater internationalization of the global economy affects relative domestic prices, thereby leading to a change in economic actors' interests and policy preferences. The shift in interests inherently creates conditions that lead to institutions being pressured to change—*even in closed economies.*[9] In spite of Frieden and Rogowski's assertions that the pressure to change institutions in highly insulated communist and developing countries resemble countries with open economies, Evangelista concluded that many groups within the *energy sector* of the Soviet Union were unable to perceive their interests as a function of potential opportunity costs and relative prices from 1972 to 1993.[10]

It is essential in this study of the Russian agrarian sector, therefore, to determine if *kolkhozniki*, collective farmers, and *sovkhozniki*, state farmers, were able to perceive their economic interests in relation to relative prices after increased agricultural imports in 1972. In addition, it is necessary to evaluate the ability of *kolkhozniki* and *sovkhozniki* to perceive their interests after 1990 when institutional constraints created by the Soviet administrative hierarchy and command economy began to be abolished.[11] Again, the primary research question of this study seeks to answer whether Russian domestic actors *wanted* or *were able* to change institutions in order to take advantage of free trade opportunities in the agrarian sector.

Resistance and Prospects for Change

The internationalization of an economy is the process in which transaction costs change and ostensibly produce observable movements in capital, goods, and services. It is important to note that internationalization accounts for the *potential* for capital movement, not just the *actual* flow itself, since opportunity costs can affect domestic economic policies and conditions even in cases where no capital flow occurs.[12] Increasing Soviet trade indicated a growing internationalization of the Soviet economy when the Soviet Union shifted from a modest agricultural exporter with economic goals of self-sufficiency to a major importer of agricultural products, beginning in the 1970s.[13]

Frieden, Rogowski, Keohane, and Milner make the theoretical link between growing internationalization of an economy and domestic institutions. However, we can also deduce from the expectations of liberal economic theory that domestic economic, political, and social changes should occur with institutional change and we can expect at least some of these changes as early as the 1970s. Liberal economic theory implies that the economic expectations for the agrarian sector would include greater efficiency and competition in Russian food production.[14] The implied political expectations for the Russian agrarian sector include new decision-making institutions that support greater trade and a free market.[15] It is also implied in liberal economic theory that political and economic institutional change inevitably affects social relations. Who receives what, and how much, shifts with institutional changes.[16]

It is precisely the changing social relations and politics of the cash register that create the conditions that lead some groups to resist institutional change. Keohane, Milner, Frieden, and Rogowski recognize the resistance to change by groups whom greater trade would disadvantage, or who would incur high costs from the necessary structural changes required to become competitive.[17] As Hedrick Smith points out, the Russian peasantry has been susceptible to violent upheavals throughout history. Change can signify chaos, particularly with the introduction of a market economy. In a sector of the economy in which the only structures known for six decades have been the state and collective farms, the uncertainty of self-reliance in an unpredictable market belie the fear of change and create resistance.[18]

If resistance to institutional change in the rural economy is based on fear and uncertainty of an unknown system, then the liberal economic model foresees *sovkhozniki* and *kolkhozniki* changing their policy preferences and economic interests once opportunity costs are realized. As rational decision makers, individuals employed in food production will inevitably choose to change institutions to support efficiency, competitiveness, and profit after the economic pressure of resisting change becomes too large to bear.[19] However, if fear and uncertainty can be mollified and resistance to change or behavior expected in a market economy does not emerge, how can we explain the weakness in liberal economic theory's assumptions? In effect, economic interests may be conditioned by something other than price signals and opportunity costs.

The two heuristic approaches that contribute to our understanding of variables that may condition economic interests are domestic structural approach and political culture. With the former, Gourevitch points out in his seminal article "The Second Image Reversed" that although the international environment creates pressure on domestic politics, it is the domestic structure itself that conditions and constrains the response. Consequently, the domestic structure can inhibit the desire and ability of economic actors to support free trade and market values through the use of incentives and disincentives.[20] Contrary to liberal economic theory that asserts the primacy of economic over political structures, domestic structural approach focuses on the political relationship between state and society.[21]

Political culture is the second approach presented in this analysis as a possible intervening variable. While liberal economic theorists implicitly suggest that attitudes and values are malleable, proponents of political culture accept the limits to change.[22] Almond, White, and other political culture theorists assert the claim that political culture persists even in the face of domestic or international pressures and transformative efforts.[23] It is axiomatic, therefore, for this study to consider both domestic structural approach and political culture as plausible alternative variables to price signals and opportunity costs that condition economic interests and policy preferences.[24]

Significance of Study

This study is novel for five basic reasons. First, the relationship between internationalization of the Soviet economy, as noted by the increased trade beginning in the 1970s, and its affect on Russian domestic institutions has received limited attention and analysis among international relations theorists. This is due in part to the fact that Sovietologists once deemed the Soviet Union as unique and inapplicable to Western theoretical modeling.[25] In addition, scholars' general acceptance of the unique nature of Soviet and Russian politics contributed to the few studies in the existing literature that use systemic paradigms to explain Soviet and post-Soviet domestic politics.

In this study, I examine a leading international relations systemic theory, liberal economic theory, to evaluate the salience of the theory's assumptions in the case of the Russian agrarian sector. I also evaluate political culture, an approach typically used in comparative politics,[26] and domestic structural approach, an international relations approach that also accounts for systemic variables affecting domestic politics. Again, this study adds to the limited existing literature that uses international relations theories to explain Russian domestic politics.

Second, the few studies that use the Soviet Union, or post-Soviet Russia, as a case study for testing an international relations theory have focused on *exports* or the influence of Western ideas and norms of behavior.[27] This study is novel for analyzing the impact of increased *imports* on Russian domestic institutions. In addition, the impact of internationalization on the Russian agrarian sector has especially been neglected in the international relations literature. Therefore, this study contributes to a greater understanding of the impact of internationalization on Russian domestic institutions by focusing on the effects of imports on agrarian institutions.

Third, this study also adds to the existing literature on institutional change in communist and post-communist states by analyzing which actors have inhibited or encouraged institutional change in the Russian agrarian sector since the early 1970s. All three of the theoretical frameworks in this study implicitly assert assumptions about the origins of institutional change or reasons for constraints on institutional change. In liberal economic theory, Frieden and Rogowski argue that economic actors' interests and policy preferences are shaped by price shifts, and once producers and consumers benefit from trade or opportunity costs become too much to bear, changing economic interests and policy preferences will create pressures for institutional change, supporting greater trade and a market economy. A change in policy preferences and economic interests is inevitable and based on individual cost-benefit analysis, so resistance will occur among those who believe they have the most to lose only until opportunity costs outweigh the benefits of resisting institutional change.[28]

In comparison, domestic structural approach assumes, as Gourevitch points out and Evangelista illustrates, that economic actors' interests and behavior are conditioned and constrained by state structures. In other words, the domestic political structures are assumed to provide incentives and disincentives for changing institutions.[29] Given the relationship of state and society, the state is able to move levers influencing economic interests when the state strength trumps pluralistic societal influences. When societal influences, such as interests groups, are stronger than the state in a particular sector, then the state is in a weakened position to influence institutional change with incentives and disincentives. It is plausible that with the state in a weakened position in relation to society influences that economic interests will by shaped by other non-state variables—*even prices and opportunity costs* predicted by liberal economic theorists.

By contrast, political culture approach assumes that values and beliefs condition institutional structures and performance. White and Almond argue that political culture survives in the face of institutional transformations. White also suggests that the structure of a state is constrained by political culture.[30] Consequently, the political culture of a group or subgroup in society has the ability to constrain the kinds of institutional changes expected in the liberal economic model. In all three approaches, the political or economic actors who inhibit or encourage institutional change in the agrarian sector are identifiable and, therefore, this study is able to offer insight into the Russian agrarian institutions and the interests of the actors involved in the sector. Incentives and constraints as described in each of the three approaches are discussed further in detail in chapter 2.

A fourth reason for the novelty of this study is simply that it fills the gap in the liberal economic literature by evaluating the degree to which a market economy was achieved in the Russian agrarian sector after the exogenous pressure of imports affected the domestic economy. Moreover, I am able to identify the actors who create obstacles to change. Liberal economic theory provides a more thorough analysis of the agrarian sector than simply evaluating institutional behavior or policy implementation because from this model we can infer the interests and policy preferences of economic actors. Previous studies on the policy success or failure of Russian market reforms primarily focused on post-Soviet Russia without considering the plausible underlying currents that conditioned interests for the kinds of institutional change that support free trade.[31] Internationalization of the economy is the one underlying current that I present here as a plausible catalyst that affected Russian economic actors' interests and policy preferences for institutional change before and after the breakup of the Soviet Union.

Fifth, liberal economic theory served as a point from which to begin my analysis of the effects of internationalization on the Russian agrarian sector, but the single theory did not adequately explain the institutional changes and constraints for this particular case. With only the parameters of assumptions and expectations of one theory, a single case study can only identify the weakness or strength of that one theory without offering alternative explanations for political phenomena. In the case study of the Russian agrarian sector, the constraints of the liberal economic theory could not account for the politicized shifts in economic actors' relationships.[32] By using domestic structural approach and political culture as plausible intervening variables, I was able to offer a broader explanation of the reasons why institutional change was constrained and by which economic actors, from 1972 to 2002. While studies of Russia using international relations theory as a framework of analysis are limited, the use of multiple theories to analyze institutional change in Russia is perhaps even more novel.

METHODOLOGY

I present the agrarian sector as a case study for analyzing the salience of liberal economic assumptions for a period of 40 years since trade increased, internationalizing the Russian economy. Given the limits of explanation for empirical findings using a single theory and one case, I introduce two alternative theoretical approaches to help explain plausible variables inhibiting liberal economic assumptions. In this study, liberal economic theory, political cultural approach, and domestic structural approach are the three paradigms used to explain both institutional change and constraints inhibiting institutional change in the Russian agrarian sector. Although the three approaches are plausible alternative explanations, the political culture and domestic structural approaches manifest as logical intervening variables in the liberal economic model. An overview of the causal logic is discussed in chapter 2.

Before examining intervening variables in the liberal economic model, I first analyze the degree to which the liberal economic expectations were met in the Russian agrarian sector from 1972 to 2012. According to Keohane and Milner, the ability of preexisting institutions to block relative price signals, to freeze coalitions and policies by making change costly, or to condition certain economic policy strategies according to standard operating procedures leads to the variations in domestic policy strategies and the timing of reforms in response to greater trade.[33] Changes in Russian agricultural policies and institutions may not parallel agrarian reforms in other states, but the liberal economic model expects trade liberalization and domestic economic transformation in the neoliberal direction.[34] It is reasonable to expect