ECONOMIC MALAISE SLOWS REFORM: A REVIEW OF CURRENT CONDITIONS IN THE SOVIET UNION

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In January of 1990, Moscovites were introduced to "Big Maks" and "Kartofel fries" with the opening of a new McDonald's franchise in the heart of Moscow. A short time later, article six of the Soviet constitution was amended to remove the Communist Party's legal monopoly on power. By the end of 1990, McDonald's had surpassed the Lenin Mausoleum as the prime attraction in Moscow. The line for "Big Maks" is now longer than the line for viewing the preserved founder of the Soviet communist state. Between these events a cavalcade of economic and political events occurred. The pace of new announcements and decrees quickened during the last half of 1990 as the economy began to crumble.

The icons of the Soviet Union are slowly changing. The evolution of the Soviet Union from a command economy to a market-oriented economy is proving more painful than Mikhail Gorbachev realized when, nearly six years ago, he ushered in "peristroika," a slogan that in translation means "restructuring." The success of peristroika has been the renewal of political debate and freedom of expression in the Soviet Union. Authority, or perhaps claims thereof, has moved from the central authorities to regional and republic governmental bodies. All of the fifteen republics, along with several regions, have declared to various degrees their autonomy and sovereignty from the center. However, peristroika has failed to revitalize the Soviet economy. The political jousting is increasing as the lot of the average Soviet citizen continues to decline, and chaos in economic and political relations increases.

The inability of the Soviet agricultural and distribution system to produce and deliver basic foodstuffs has heightened and highlighted the crisis that exists. Shortages of consumer goods and food have led to widespread rationing which has added to disillusionment about the wisdom of peristroika. For the U.S., the Soviet Union has shifted from a fairly dependable cash buyer of agricultural imports to a buyer dependent on foreign credit and even emergency food donations. Financial credits for food and medical imports have flooded into the Soviet Union as the consequences of the disintegration of the country have become clear. Fears of spreading political instability and a potentially massive wave of refugees flowing to the West forced European countries, in particular, to dig deep into their pockets. The Bush administration's reluctance to support a broken system gave way as pressure mounted to support beleaguered U.S. agricultural exports. The Bush administration eventually offered the Soviet Union $1 billion in financial guarantees for the importation of agricultural commodities, the largest first-time GSM-102 allocation. This is on top of the billion-plus dollars offered by the European Community and an assortment of other countries. In Germany, a telethon was conducted to raise money for food relief. Food relief has been donated from countries such as India, Japan, Germany, and the United States. Even the Iraqi government offered dates to the Soviets.

The hallmark of 1990 in the Soviet Union has been the political maneuvering and reshuffling, which intensified with the dismal performance of the economy. In particular, the successes and failures of Soviet agriculture have renewed resistance and insistence for change in agricultural and rural policy. The food situation has renewed attention toward agriculture and its vital role in the success of reforms in the Soviet Union. In the brief space allocated, an overview of the general economic conditions will be made. Reasons for the plight of consumers will be discussed, with particular emphasis on the agricultural and food sectors. Recent land ownership proposals will be reviewed briefly. Finally, an assessment of the pace and direction of reform will be made.

GENERAL ECONOMIC DECLINE

While uncertainty pertaining to the political outcome and makeup of the Soviet Union still exists, the economic conditions in the Soviet Union are certain. The economy and normal economic relationships are unraveling. Official Soviet estimates of net material product (NMP) growth for 1990 show a marked decline, particularly in the latter half of the year. NMP, a measure of aggregate production, declined 4 percent in 1990 after increasing by 2.5 percent in 1989 (IMF). The decline in NMP was lead

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by the transportation and construction sectors. Particularly painful declines were found in the energy and metals sectors. Oil and coal output was down sharply in 1990 (oil output was down over 6.9 percent in the third quarter of 1990). Production problems due to outdated technology and a dissatisfied work force have plagued the energy sector. Total industrial output is expected to drop 1.1 percent in 1990 (PlanEcon). The drop in aggregate output is probably more severe than official estimates depict. Incorporating hidden inflation (price increases not measured because of supposed offsetting quality improvements) would lower the value of the output further (IMF).

In 1990, gross agricultural output is expected to increase only 0.5 percent, even with a near record grain harvest of an expected 235 million tons. The crop sector will have increased by 4 percent, but the animal products sector will have declined by about 2 percent from year ago levels. Feed shortages and supply problems have plagued the meat and egg sectors. During the first half of 1990, meat production was down nearly 2 percent, and egg production was down 2.5 percent from the same period a year earlier. In 1990, flour and mixed feedstuffs production will have declined by about 0.9 percent from 1989. Slight declines are found in all segments of the food processing sectors from sugar and bread production to fruits, vegetables, and pasta.

PlanEcon estimates of 1990 economic activity, based on official estimates during the first three quarters of the year, suggest a bright spot in economic activity. The production of consumer goods is expected to increase by about 4.2 percent and producer goods production is expected to decline 3 percent from 1989 levels. Private consumption is officially estimated to increase in 1990 by 3 percent above the previous year. Consumer goods production has outpaced producer goods for the last three years. Favoring consumer goods over producer goods (in particular the machine tool industry) is a recent and needed reversal in policy direction (Goldman). In addition to increases in consumer good production, the service sector continues to grow. The net result is gross domestic product (GDP) declined by about 2 percent in 1990, less than the drop in aggregate output.

The official estimates of economic activity mask the toil of everyday life. While official estimates of aggregate supplies of most consumer goods and foodstuffs are at worst only moderately lower than a year ago, empty shelves and long lines are everyday occurrences for most Soviet shoppers. The service sector is growing, but service remains a virtual unknown. The normal channels of the distribution and delivery system are ceasing to exist. The central planning system and the various ministries that monitor and control the economy are less influential. New economic relationships are slowly forming, but have not replaced the old system. Most goods are reportedly in short supply. Soap, footwear, clothing, and tobacco are scarce. Even staples such as salt, bread, flour, and pasta are sporadically found in shops.

Gorbachev has failed to present a coherent economic policy. The Shatalin Plan that offered a 500 day timetable to a free market economy with massive privatization and private property provisions was rejected in October 1990. The compromise proposal adopted carries some of the flavor of the Shatalin Plan, but it lacks the timetable and is considered by critics to be unworkably vague in key areas (e.g., private property). The flavor of the compromise plan is to retain the center's power and control over key resources. Macroeconomic stabilization and retaining an income floor will be emphasized. Price reforms and shifting of the control over the economy to republics, regions, and enterprises will be gradual. A succession of recent presidential decrees have reinforced the center's control over economic activities.

INCREASED DEMAND, FEWER GOODS

Even with declines in aggregate output, wages, and salaries have kept expanding (PlanEcon). However, the expansion in wages and salaries appears to be slowing. Wages and salaries of workers increased on average 8.4 percent during the first three quarters of 1990 over the corresponding 1989 levels. This follows an average 9.4 percent increase in 1989 over the 1988 level. However, average wages and salaries remained fixed at 257 rubles per month during the first three quarters of 1990. Efforts to hold wage and salary increases in check appear to be working.

Salaries of collective farm workers followed a similar trend. During the first three quarters of 1990, collective farm workers' pay increased, on average, by just over 8 percent above year-ago levels. In the third quarter of 1990, collective farmers' pay increased to 181 rubles per month, just 5.2 percent above a year ago. Thus, constraints on wage increases may be also successful on the collective farms. However, collective farm wages may jump again during the fourth quarter of 1990 and into 1991 if foodstuffs price increases are passed on to workers of collective farms. During the first three quarters of 1990, pay for workers in cooperatives increased 10 to 15 percent from year-ago levels. The expansion of cooperative workers' pay has slowed from its rate of change in 1989. In 1989, cooperative workers' pay increased 71 to 127 percent above its level in 1988. In 1988, the cooperative movement was in its infancy, and thus cooperative members reaped exceptionally large profits.

The rise in wages and salaries has increased the amount of money in circulation. These rubles are chasing fewer goods. This expansion in demand has propelled inflation. Officially, retail price inflation was about 5 percent in 1990. During the third and fourth quarters of 1990, inflation surged. During the first half of 1990, retail price inflation averaged less than 3 percent, slightly above the level of 1989 inflation, which was officially estimated to be 2 percent. Correcting for hidden inflation suggests consumer prices may be increasing 8 to 11 percent per year in 1990 (PlanEcon). *Izvestia,* a leading newspaper, estimates that annual inflation is about 18 percent and climbing (Reuter's). Some Western sources estimate inflation is galloping at 5 percent per month, or 80 percent compounded annually (*Wall Street Journal*).

Fears of further economic and political turmoil have exacerbated the demand for goods and foodstuffs. Consumers are eager to turn excess savings into anything that may be a store of value. Hoarding and panic buying have increased as the number of goods at state prices has diminished. Buying most desired goods and foodstuffs at state level prices is a near impossibility, even with the expansion in consumer goods production. The state commission that monitors product availability in state stores estimates that 996 of the total 1000 items monitored are in short supply (*Economist*).

With the lack of items to buy at affordable state prices, the level of involuntary savings has increased. Consumers have been willing to save less in savings deposits and show more willingness to hold hoards of ready cash to buy sporadically available items. The level of savings in savings deposits relative to retail sales began to weaken toward the end of 1990 (PlanEcon Report). However, the "monetary overhang" continues to build. Total savings (including both savings deposits and cash holdings) continues to increase relative to retail sales. In late October 1990, Gorbachev issued a decree mandating a dramatic rise in interest rates that will give a better incentive to hold excess cash in savings deposits. In the decree, interest rates were raised to as much as 9 percent on savings deposits from the then-current maximum of 3 percent. More recently, Gorbachev has decreed that 50 and 100 denomination ruble notes will no longer be a legal form of tender. Individuals can redeem the lower of 1000 rubles or their monthly salary for smaller denomination notes. The announced purpose of this measure is to clamp down on black market activity. Also, it will cut the money supply. However, the main result of the measure will be to eliminate individuals' savings and further the distrust of the future reform proposals.

POLICY WORSENS SUPPLY DISRUPTIONS

Disruptions in the supply of consumer goods and, in particular, foodstuffs have been partly policy-induced. Of course, the general economic malaise and political power shifts are also contributing factors in the breakdown of economic relations. Nevertheless, policies have induced regional trade disruptions within the interdependent Soviet economy. The "New Agrarian Policy" introduced at the March 1989 plenum called for regional self-sufficiency. Regions were urged to be less reliant on the center's food and feed stocks. Local regions were allowed to keep more of their above-plan output. State orders that dictated output deliveries to the center were to allow farms more flexibility and discretion in their marketings. Farms could sell more above-plan output at private kolkhoz markets and elsewhere and reap the benefits of higher, market prices. Farms were to be unburdened from the bureaucratic meddling in their planning to harvesting decisions.

The goal of these measures was to stimulate production. Yet, most of the dictates of the plenum were not successful. Farms were not unburdened from the center's authority. Bureaucratic meddling remained. Most decisions still were not made on the farm. Crop choice, rotational plans, and even harvest timing decisions were made off the farm. State orders didn't release farms from the bureaucrats' grip and did not increase marketing flexibility.

However, part of the policy stuck. The push for regional self-sufficiency increased. Farms delivered less to the center, as demonstrated by the declines of deliveries to the all-union fund. In 1989, state procurements of grain, as a share of output were the lowest in thirty years (USDA 1990). In response, the central authorities offered convertible rubles for certain commodities. This did not pry grain from the farms' hands. In May 1990, grain prices were raised 90 percent to give more incentive to deliver commodities to the all-union fund. Later, televisions, refrigerators, automobiles, and trucks were also offered to farms for the delivery of above-plan grain to the center. To induce livestock procurements, the government also announced it would raise producer prices on January 1, 1991. This caused producers to hold back inventories from slaughter to capture the higher prices after the new year. Meat shortages were the result. Later, the government moved up the date for the livestock price increase to October 1, 1990 to increase the supply of meat.

In 1990, state procurements for grain increased slightly above the 1989 level, but still are, as of November 11, only 74 percent of planned procurements (Reuter's). State procurements for other commodities relative to 1989 procurement rates were down considerably. By November 1, 1990, procurement of vegetables was down 14 percent relative to that date in 1989, and potato procurements by October 23, 1990 were 29 percent below the corresponding 1989 level (PlanEcon). Meat and poultry procurements were down 3.7 percent, and egg procurements were down 2 percent during the first three quarters of 1990 as compared to the same period in 1989 (PlanEcon). Along with the price increase, the lack of protein feed availability has also contributed to shortages in short-term meat supplies. Shortages have been so acute that livestock and poultry producers have been forced to slaughter animals.

Additionally, economic regionalism has been politically motivated. Local officials fear losing political power. Officials have sought to keep local supplies plentiful as a means of placating their constituents. Local autarchy is reinforced by a general belief by officials that their particular region or republic does not get its fair share in trade, and hence gives more than it receives. Distorted prices that are not reflecting true scarcity value reinforce this perspective. Regional trade disruptions are many. For example, in late November 1990, Moscow was hit by a milk blockade. Areas around Moscow that normally supply the city's milk held back deliveries to supply their own regional needs. Republics have also imposed trade restrictions. The Ukrainian Republic has prohibited exports to other regions of food produced above plan targets. The Estonian Republic has banned food sales outside of its borders. The Republic of Uzbeckistan has similar food export restrictions.

These trade barriers hit the industrial cities the hardest. City leaders are forced to institute rationing and limit purchases to the residents of the particular city or region. The goals of these measures are to prevent hoarding and black market activity, and to provide a means of distributing goods on a basis more equitable than the ability to endure hours in lines. In 1989, sugar was the principle commodity universally rationed. By the end of 1990, commodity and consumer good rationing became common across the country. In June 1990, the city of Moscow instituted rationing of basic commodities. By November, Moscow had widened rationing to cover clothes, footwear, domestic appliances, sporting goods, and cigarettes. Meat and dairy products are limited to residents of the city only. Leningrad has a similar rationing program. In the Ukrainian Republic, ration coupons are part of workers' salaries. Thus, the ration coupons restrict the ability of consumers to spend rubles since they receive a fixed amount of coupons each pay period.

The end result of these forms of local protectionism is a further diminished supply of goods. Farms and other enterprises are even more reluctant to deliver output to the center when residency restrictions prohibit buying in the cities to which their output flows. Fears of political chaos and possible civil war reinforce tendencies to curtail trade.

MARKET DISEQUILIBRIUM ADDS TO CHAOS

Policy-induced disruptions in the flow of goods are not entirely to blame for the increasingly sporadic supply of goods. The reluctance of farms and other enterprises to sell goods to the government at state-level prices can also be explained by simple economics. The discrepancy between the state-level prices and the prices in private or kolkhoz markets and the black market is widening. Soviet prices have not been altered substantially since the 1950s. Efforts to raise and rationalize state-level prices have been met with resistance. A proposed July 1, 1990 bread price increase was cancelled after consumer outcry and panic. In November 1990, the central government ordered prices freed on luxury goods (auto parts, furniture, carpets, electronics, furs, and caviar). The Russian Republic immediately suspended the deregulation. The Russian Republic indicated that the price hike would need to be ratified by their Supreme Soviet, the legislative body of the republic.

Kolkhoz market prices are higher than state and cooperative store prices, since some resemblance of scarcity value is suggested. However, during the first three quarters of 1990, kolkhoz market prices have risen 24 percent above their 1989 level (PlanEcon). In state and cooperative stores, prices rose during this same time period only by 3.6 and 6 percent, respectively. In September 1990, the prices of meat and eggs sold at private markets were, respectively, 30 and 17 percent higher than the corresponding date in 1989.

Efforts to control cooperative and kolkhoz market prices have been revived. Individual, family, and cooperative businesses were legalized in the spring of 1987. By October 1989, the local governments were given the right to set ceilings on the cooperative prices. Resale of commodities purchased at state prices was banned. Further controls were added in June 1990 to control the financial activities of these enterprises. Some locales continually harass and bureaucratically interfere in order to restrict cooperative and kolkhoz market activity. The inability to obtain inputs plagues the cooperative movement. The Krasnodar Region has a total ban on cooperatives (USDA 1990).

The disequilibrium in food and consumer goods markets offers even more incentive to trade in the black market, a mainstay of the Soviet economy. Items such as cigarettes, automobile parts, quality meat, and color televisions can sell for up to ten times their state-level price. Pressure has mounted to curb the "speculators" who take advantage of the economic rents in the black market. Efforts to curtail black market activity will suppress other legal forms of entrepreneurial activities. The legality and morality of unearned income has continued as a controversial issue (Johnson). Buying low and selling high remains an ideologic hurdle to overcome. A presidential decree now empowers self-appointed worker groups to monitor and supervise the distribution of food. These food vigilantes can close down enterprises and initiate criminal proceedings against individuals accused of stealing or selling food for profit. The KGB, the state security agency, has been charged to "fight economic sabotage" and has been ordered to organize special units to protect food supplies and monitor distribution across the country. In January 1991, the KGB was given additional powers to search and examine enterprises (including foreign joint ventures) and their financial documents without warning.

The inability to convert the ruble into goods pressures farms and other enterprises into barter arrangements. Goods are better to hold than money. Thus, the inability to convert ruble plagues internal trade as well as western businesses attempting to engage in commerce in the Soviet Union. The government's offer of appliances and cars for grain is an institutionalized form of barter. Farms and enterprises barter their output and hoard stocks to obtain needed inputs and goods for their employees. Barter arrangements have been formed even between republics and regions. The devolution of authority away from the center has facilitated these arrangements. However, recent presidential decrees have outlawed trade arrangements among republics and individual enterprises.

Food and consumer goods have become even more difficult than usual to buy. However, the fear of famine in the Soviet Union has been exaggerated, and often for political gain. Average per-capita consumption levels in 1989 in the Soviet Union were close to Soviet consumption norms (USDA 1990). In 1990, aggregate food production was only slightly lower than in 1989. Food scarcity will affect the elderly and feeble the most. They are the segments of society unable to stand in the lines and search for the most recent shipments. They are also the segments of society with meager incomes and little choice in their food buying alternatives. Food aid and financial assistance will be of value if it reaches these segments of society. The empty shelves and long lines are a reality, but much of the food supply is purchased at the workplace, from friends, and the kolkhoz markets. The normal distribution channels are not working and are slowly being replaced by new alternative networks. Also, particularly in rural areas, garden plots are carefully tended and produced the bulk of families' food needs. Policies and economics increasingly have disrupted the supply of food and consumer goods to the consumer. The gap between the market clearing price and the state price has widened. This does not imply famine. Rather it implies a painful institutional transition.

MORE DECREES TO ASSIST AGRICULTURE

The food problems have underscored the need to improve the performance of the agricultural sector. Much of the blame can be placed on antiquated transportation, distribution, and food processing sectors, as well as the barriers to trade and commerce discussed previously. As suggested earlier, proposals from the March 1989 plenum have so far done little to transform agriculture. Problems in implementing agricultural policy have been aggravated by the diminished power of the center. Local authorities have usurped the center's power and can influence the direction and scope of agricultural policy at the local level. Local party officials have a freer reign in creating their own policy slants. This blurring of decrees can occur at the republic, oblast (region), and district levels.

Furthermore, through reduced deliveries to the state, farms have demonstrated an increasing reluctance to follow blindly decrees and mandates from above. The reduced output deliveries to the state is an indication of the center's diminished authority. Also, the center's ability to dictate the use and flow of resources has been reduced. The Communist party has been the key mechanism coordinating shifts in rural labor and other resources in critical peak harvest periods. This coordinating function is farm planning and resource allocation across the country has been weakened. Evidence of this can be seen in the 1990 Soviet grain crop which was a near record (the current USDA estimate of Soviet grain production is 235 million metric tons, slightly lower than the Soviet grain harvest in 1978 of 237 million metric tons (USDA 1991). Stanislav Shatalin, a leading economist, expected that half of the 1990 grain crop would be lost because of the inability to harvest, and then process, food. Most estimates place grain harvest losses at 30 percent. Only after pleas from officials from Gorbachev on down did the work force mobilize to bring in the harvest. Harvest delays due to fuel and equipment shortages and weather increased losses.

In this environment, the basic direction in Soviet agricultural policy has been to introduce more accountability. Financial accountability of farms has been improved marginally with the imposition of self-financing and cost accounting procedures. Self-financing has reduced some subsidies and credit availability, and has introduced some financial integrity to the state and collective farms. However, the financial crisis in agriculture remains. The actual impacts of recent decrees that have allowed debt write-off are still unclear. The decrees do provide incentives to form farm leasing arrangements which could possibly improve resource use and productivity (Brooks, October 1990).

Increased labor accountability was thought to spur on productivity and to decrease costs, and thus improve the standard of living of the rural population. Individual farm workers were to have the results of their labor tied more closely to their pay. Giving proper incentives to the "human factor" was the key to improving agriculture. Before the March 1989 plenum, improving the incentives and accountability of agricultural workers was sought primarily through the alternative labor payment method (e.g., *"ot valovogo dokhoda"*) and the collective contract (see Brooks, January 1990 and Van Atta, January 1990, for historical perspectives). The collective contract instituted work teams that supposedly gave workers more discretion in their decision making and provided them with higher pay for better work. Mechanisms such as these that tie laborers' pay more closely to the profitability or output of the farm were ineffective, but reportedly were widely adopted. During 1989, in the Stavropol Krai, a region of the Russian Republic, over three-fourths of the 72 farms that answered a mailed questionnaire used such methods (Skold and Popov). Across all farms the level of farm worker pay was about the same.

After the march 1989 plenum, long-term leases were made possible. Gorbachev's mandate was to make "man the master of the land." Individuals, families, and cooperatives were allowed to participate in leases. Land could be leased from collective and state farms and also from local soviets (councils) if the land was vacant. Leases could last up to fifty years and be passed on to heirs of the lessee. Little evidence exists of the adoption rate of lease contracting. In the Russian Republic, through the first half of 1989, 43 percent of the collective farms had signed lease contracts, and 9 percent of the farm workers were working under lease contract arrangements (Brooks, October 1990). In the Stavropol Krai, only 2 of the 72 farms answering a mailed survey reported lease contracting in 1989. Validity of existing lease arrangements are questionable, since many are simply renamed existing labor-payment arrangements.

Currently, a lack of consensus pervades agricultural policy. The response to past policy initiatives has been lackluster. Some point to the glaring waste in moving products from the farm to consumer and call for increased investment in infrastructure, processing, and farm input manufacturing. They contend farms are able to produce the nation's needs, but simply do not have adequate resources. Others point to the past failures of grandiose investment schemes, low productivity levels, and the relatively high cost of production as demonstrating the need for institutional change. They contend that more investment, expanding the arable land base, and promises of an improved society were no longer viable policy options. However, the crux of the agricultural policy struggle is the role of the limitations on private property.

The February 1990 Law on Land gave individuals the right to hold private property (see Van Atta, March 1990; Gray). The implementation of the law has been passed on to the congresses of the republics. Under the law, individuals and other groups have the right to leave a collective farm and obtain land equal to the average holding of the farm. This land can then be leased for life from the local soviets. Inheritance is allowed, but the right to buy and sell is not. In December 1990, the Supreme Soviet of the Russian Republic broadened the rights of holders of private property in that republic. Under the law, independent farmers can take possession of land from collective and state farms after obtaining permission from local authorities. The land can not be sold freely. Only after ten years can the land be sold, and then only back to the state.

Also in December 1990, Gorbachev issued a decree that increased the amount of land available for family plots. He announced that land used inefficiently would be turned over to a land bank and then distributed to peasants. However, most farm workers already have access to small plots land. It is too early to tell how the category of inefficient land will be determined. In the non-black earth zone, thousands of hectares have been abandoned and are available for private farming. However, this area lacks the necessary rural infrastructure to tempt skilled, entrepreneurial farmers to stake claims.

The legality of these private property arrangements is still in question. Republic and local interpretations of the land law will vary. Individual farming in some republics has already been adopted rapidly. In the Georgian Republic, 16,000 small family farms of less than half a hectare have been created. Similar activity is evident in the Baltic republics. In the Baltics, strong private ownership sentiment exists. Lease holding is seen as barrier to ownership. A national referendum has been proposed to determine the legality of private property. An opinion poll conducted by the Russian Academy of Agricultural Sciences suggests that private property is unpopular. The poll indicated that 83 percent of the state and collective farm workers and 88 percent of the farm managers and technical specialists in the Russian Republic are against private property (*Economist,* Dec.1990). Of course, the popularity of private property probably will vary greatly among the republics.

Numerous reasons have been given for the slow adoption and apparent lack of success of the lease campaign. Most of these reasons can be related to the forms of private property arrangements advanced. Except in the republics mentioned previously, the adoption of private property will likely be slow. The laws and decrees governing property have slowly evolved and have provided a fragmented and vague legal framework (Van Atta, Jan. 1990). Legal uncertainties give officials who oppose reform justification to obstruct change.

Collective and state farms under the current incentive system constitute a natural barrier to individual farming. The success of alternative property arrangements, in some respects, highlights the failure of the collective and state farms in particular, and collectivization in general. Also, the control of the rural populace through the collective and state farm structures give a solid power base to the Communist Party (Van Atta, Oct. 1989). This dependency arrangement built into the collective and state farm system is politically expedient and will be difficult to break.

The current form of leases keeps the power structure within the state and collective farm system. The private property laws also keep the land market under tight control by the local authorities. In the lease arrangements, the collective or state farm is the landlord, input supplier, and market for the independent farmer. Farm managers do not want to have their best land or best workers leave the farm, and thus provide disincentives to leaving the farm. Individual farms also are viewed as competition for investment resources, and thus not wanted by the existing state and collective farm structure (Gray).

A shortage of skilled laborers with entrepreneurial skills is yet another reason for slow adoption of individual farming. Farm workers tend to be quite specialized, and thus only few are able to perform all of the farming operations. Furthermore, independent farmers would face an uncertain supply of inputs, from fertilizer to spare parts. Small-scale farm machinery is virtually nonexistent. Community pressure from the majority of older and unskilled peasants may also be a factor. Collective and state farms are more than a place to work. Farms provide stores, housing, schools, social activities, and access to vacation resorts and medical care. This all-encompassing role makes leaving the collective and state farms difficult.

Finally, shortages of goods available for rubles limit the incentive to work harder for more money. This holds especially true in the rural areas where the supply of consumer goods is often sporadic at best. The increasing reliance on barter trade will further inhibit small-scale agriculture. With the high transaction costs of barter trade, big is better. Collective and state farms are big and can capture this form of economies of scale. However, if limited land markets are allowed to develop, land as a store of value may motivate potential private land owners.

The policies offered to date have attempted to provide incentives to individuals to take responsibility for their actions and reap the rewards of work. Peasants were to become the "master of the land." The litany of reasons these policies have not been readily adopted is lengthy. Beyond the local political and economic rationale stands the fact that the center still controls most economic activity. Individual farmers will be cautious as long as most economic transactions and resources are controlled by the center and its appendages. Caution is particularly inherent in the rural areas. In the reform process, seeing is believing. In most rural areas, little has changed.

CONCLUSION

The lack of progress in revitalizing the Soviet economy has begun to drag on the reform process. Basic institutions of the Soviet system are being questioned, challenged, and at times modified. The competition for political power has become more intense. The competition for political power is particularly keen because of the stakes involved. In the Soviet Union, political power yields control over vast economic power. Combining state ownership with central planning gives the reigning political power complete control over nearly every facet of economic life and the underlying resource base. This symbiosis of political and economic life retards devolution of economic power to individuals.

The process of reform will be slow. The politics and underlying structure of the government and party apparatus form a built-in resistance to change. The tendency will be to embrace order over disorder, particularly in times of economic malaise. Democracy and free markets are desired, but with discipline and regulation. The future path of reform will focus on these traits. Campaigns will arise to eliminate the "mafia" and other dark forces that apparently pervade the society and prevent the current system from working properly. These campaigns will attempt to root out illicit activities, but will provide reasons to eliminate productive, entrepreneurial activities.

Discipline and regulation imply control from above. The burden of bureaucratic interference will continue to delay the incorporation of true incentives. This, in turn, will solidify the cynicism that pervades the society. Change will come, but it will be a disappointment if measured with our timetable.

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