Journal of Eurasian Studies 3 (2012) 193–202

Contents lists available at SciVerse ScienceDirect

Journal of Eurasian Studies

journal homepage: www.elsevier.com/locate/euras

Institutional impact and agricultural change in Russia

Stephen K. Wegren*

Department of Political Science, 3300 University Blvd., Carr-Collins Hall, Rm. 220, Southern Methodist University, Dallas, TX 75275-0117, USA

ARTICLE INFO

Article history:
Received 17 August 2011
Accepted 3 January 2012

Keywords:
New institutionalism
Institutional change
Rural Russia
Property rights
Stratification
Inequality

ABSTRACT

Set within the context of New Institutionalism, this article analyzes the impact of institutional change on Russian agriculture. Institutions are important because they create opportunity and incentives. The market-based institutional framework introduced in the 1990s acted as an independent variable that facilitated growth in entrepreneurial income and an increase in rural stratification. Further, institutions contributed to land expansion by a stratum of upper income households. As a dependent variable, indigenous factors influence the economic outcomes that flow from new institutions with a twofold effect: regional variance is significant for entrepreneurial income and land expansion; and some households experienced much higher entrepreneurial income and land expansion.

1. Introduction

New Institutionalism seeks to explain institutions and their functions instead of merely assuming their existence (Nee, 1998, 2). An understanding of institutional change requires a realization that an institutional framework is *created* and does not just appear; that an institutional framework develops through a *process* that is shaped by a variety of factors; and that the institutional framework is a *variable*—acting as both an independent *and* dependent variable. The questions raised by New Institutionalism are especially relevant to understanding the transformation of Russian agriculture in the post-Soviet period. The purpose of this article is to analyze the impact of institutional change on Russian agriculture. The general arguments are fourfold: (1) institutions matter, and their design and impact are crucial in understanding behavioral responses during market reform; (2) due to institutional chaos during the 1990s, an accurate understanding of the impact of institutions can only be accomplished in an environment of institutional clarity where actors understand "the rules of the game" and what is permissible; (3) institutional impact differs across regions owing to myriad factors, in other words, variance in institutional impact at the regional level is to be expected; and (4) household behavior impacts the institutional outcomes examined herein more so than human capital variables.

2. The analytical problem

In 1992 Russia introduced a set of new economic institutions that were designed to build a market economy.[1] A core analytical question concerns the role and efficacy of

* Tel.: +1 214 768 2523; fax: +1 214 768 3469.
E-mail addresses: swegren@mail.smu.edu, swegren@smu.edu.

Peer-review under responsibility of Asia-Pacific Research Center, Hanyang University.

Production and hosting by Elsevier

[1] Following the definition used by North, institutions consist of informal constraints, formal rules, and the enforcement of both (North, 1989, 239).

1879-3665/$ – see front matter
doi:10.1016/j.euras.2012.03.010

institutions in impacting behavior. Neoclassic economics deemphasize institutions based on the assumption of perfect knowledge and market efficiency. One critic of neoclassic economics argued that, "the usual treatment of institutions was superficial…either these systems were regarded as neutral in their effect on economic events and ignored, or they were taken as given and then specified in so perfunctory a way as to suggest that institutional influence was not of much importance. By contrast, the new institutional economics seeks, at a minimum, to demonstrate that institutions truly matter" (Furubotn & Richter, 1991, 2).

In contrast, Nobel prize winner in economics Douglass North, whose work represents a major revision of neoclassic economics, argues that institutions are central in shaping and affecting behavior. Institutions matter because they are "humanly devised constraints that structure human interaction" (North, 1990, 3). Taken together these constraints "define the incentive structure of societies and, specifically, economies" (North, 1998, 248). Institutions are not static but change over time. Institutional change is important because it "shapes the way societies evolve through time and hence is the key to understanding historical change" (North, 1990, 3). He argues that, "there is no set formula for achieving economic development. While the sources of productivity growth are well known, the process of economic growth is going to vary with every society, reflecting the diverse cultural heritages and the equally diverse geographic, physical, and economic settings" (North, 2005, 165). North concludes that institutional change occurs as a result of learning—behavioral change occurs and institutions are altered because individuals perceive that the existing institutional structure is insufficient and that they could do better by restructuring political or economic exchanges through new institutions and norms of behavior (North, 1998, 250).

Neoclassic economists assumed that in post-Soviet countries economic transformation would be accomplished merely by introducing changes that had worked elsewhere, based upon the core elements of privatization, liberalization, and free trade (Aslund, 2007; Wolf, 2005). Little attention was paid to sequencing, to how new institutions would operate in the post-Soviet environment, or whether these nations possessed the social and political infrastructure to make markets work. As a result, the reforms introduced by Yegor Gaidar and Anatoly Chubais were criticized for assuming "that the best way to create institutions necessary for an efficient market economy…would be to create private property owners out of the state managers and blue collar workers…. Reformers predicted that institutions would come into being *after* private property was created rather than the other way around" (Goldman, 2003, 74). The institutions-will-come approach was also criticized by renowned economist Joseph Stiglitz, who argued that, "the officials who applied the Washington Consensus policies failed to appreciate the social context of the transition economies" (Stiglitz, 2002, 160). Russian reformers, backed by their Western advisors, believed that, "if a group with vested interests in property could be created, it would demand the establishment of an institutional infrastructure necessary to make a market economy work…. That is why, advocates of privatization argued, one didn't really need to pay close attention to how privatization was accomplished" (Stiglitz, 2002, 164).

3. Problems of measurement

Core ideas from the theoretical literature regarding the salience of institutions in shaping behavior and the incentive structures that are embedded in institutions may be applied to the agricultural sector in post-Soviet Russia. The direct measure of institutional impact may be difficult, however, because the link between national level institutional change and micro-level behavior is fraught with complications. The mere creation of institutions does not guarantee behavioral responses that follow a predetermined desired course. Instead, we should understand that institutions create opportunity and incentives. The actual responses to institutions depend upon a set of intervening variables that define personal characteristics and propensities—age, gender, education, skill set and training, occupation, location, and risk-taking proclivity are examples.

Further, the problem of understanding and measuring institutional change is complicated by additional factors: (1) the chaotic period between the deconstruction of old institutions and the point at which newly created institutions became the dominant paradigm to guide behavior; (2) the notion that directionless behavior during the institutional void was synonymous with resistance to new institutions; and (3) the impact of an economic free fall on household behavior. Each is discussed in turn.

The demise of communism in the USSR was mostly nonviolent and bloodless as far as great revolutions are concerned, and for that reason it is easy to forget how chaotic the first half of the 1990s was; for that matter, almost the entire decade of the 1990s lacked direction and institutional coherence. One Western journalist argued that, "Thrown into capitalism, but lacking every institution it takes to make capitalism work…Russia in those days was an arbitrage trader's wet dream, a country of so much incomplete information and so many mismatched markets that for a few heady months it felt as if anyone with a few connections and a nose for a deal could get rich" (Freeland, 2000, 14). Thane Gustafson, who wrote one of the earliest books about Russian capitalism, perceived both positive and negative trends as Russia tried to escape its communist past. On the positive side, the 1990s was "a time of feverish building, not only of offices and kottedzhi for the rich, but of new businesses and institutions based on new skills and products" (Gustafson, 1999, 6). On the negative side he observed the rise of "crony capitalism" and the difficulty of overcoming the Soviet past. He argued that, "Overcoming the Soviet legacy is more than a matter of culture. Russia remains 'hard-wired' to its Soviet past….There is also an institutional legacy, which shows up in the way accountants measure costs or the financial system treats value, in the managers' habit of relying on their friends instead of their