Harvest of Disrepair:
Late Soviet Agriculture and the Transition of Ukraine's
Agricultural Economy

An honors thesis submitted to the History Department of
Rutgers University, written under the supervision of
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Progress is not an illusion; it happens, but it is slow and invariably disappointing.

-George Orwell, *Charles Dickens*
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Introduction

In the late Soviet era a phrase started to become popular among Soviet workers, especially agricultural workers, “they pretend to pay us, and we pretend to work”\(^1\). This simple motto reflected the lack of incentives within the Soviet economy. The Soviet ruble could purchase few high quality consumer goods in the late Soviet era and citizens eventually found waiting in line to purchase certain goods was a better allocation of time than working for more useless rubles. In agriculture citizens did not own the land they worked on and the amount of work individuals put in did not equate the amount they were compensated for. Towards the fall the implications of the phrase intensified as the value of the Soviet ruble lost almost all its value.

After Ukraine achieved independence from the USSR the phrase persisted and had even greater relevance in describing the economy. Economist Oleh Harvylyshyn claimed the phrase then became: “You pretend even less than in Soviet times to be paying us, and we pretend even less to be working”\(^2\). The sentiment worsened despite the supposed promise that democracy and market economics was supposed to bring. Inflation eroded away the value of money and wage arrears were common. Soviet era discipline disappeared and absenteeism was widespread among workers who didn’t see a reason to show up for work if they wouldn’t be paid. Economic decline and inflation were even more rampant than during the Soviet era.

The creation of both realities was the culmination of past mistakes from an inability to move away from communist institutions and their mentalities. No other economic sector reflects the failures of both regimes in reforming their economies than agriculture. The rapid development of a modern economy in the USSR was supposed to create a highly industrialized economy where agriculture played a marginal role. This turned out to be far from reality as the question of what do with agriculture

\(^1\) Common phrase with no clear origin
was a persistent nagging problem for the Soviets. Things got so bad that the Soviets eventually even had to import grain from the United States. In Ukraine, which was one of the best agricultural performers within the USSR, independence did not bring a revival of the great Ukrainian bread basket many hoped as instead the economy instead was on the brink of becoming a basket case.

The story of late Soviet agriculture and the subsequent transition of agriculture into a market economy in Ukraine is a story of continually worsening conditions. It is a story of continual disappointment and failed hopes; hopes of Gorbachev changing the old Soviet structures and hopes of independence in Ukraine restoring economic prosperity. It was also a continuous story of little visible change within the agricultural sector between the Soviet and Ukrainian era. From the time of Stalin through independent Ukraine the agricultural landscape was dominated by a few large agricultural enterprises that gave little independence to individual farmers. The ill performance of the system was recognized by policy makers after Stalin, but they did little to improve performance and maintained the core of the Stalinist system. The system came to represent an array of interests throughout society. Starting at the top the state benefited from the system as the massive state and collective farms, that they ultimately controlled, ensured stability and control within the countryside. Bureaucrats and managers of the farms benefited from power and influence that they held. Then even individual farmers often felt they benefited from the system as it ensured a stable predictable means of employment free of the uncertainty. These beliefs characterized both Soviet agriculture and Ukrainian agriculture. Any attempts to change the system had to tackle those beliefs and the entrenched institutions they represented.

The failure of both regimes to change their agricultural systems was thereby a failure on their parts to change the institutional framework of the agricultural economy. Economist Douglass North defined institutions as “the rules of the game is a society…the humanly devised constraints that shape
human interaction". Institutions thereby structure incentives for human actions and include formal constraints, like laws, and informal constraints, like human norms of behavior, all of which are constructed by humans. Institutions may be created or evolved and their primary function is to reduce uncertainty human interactions and minimize transaction costs. In order to minimize transaction costs equalizing the information of every party is essential, but obtaining information from other parties in a realistic world of asymmetric information is difficult and costly. An equality of information is needed from both parties in order to ensure that fair transactions occur. A third party enforcer is thereby needed and this is where the state has mostly commonly taken a role.

North also emphasized the importance of history and inherited institutions that marred processes of economic transformation. He disliked the rationality assumption along with assumption that institutions and time don’t matter in neo-classical economics and believed that: “History demonstrates that ideas, ideologies, myths, dogmas, and prejudices matter; and an understanding of the way they evolve is necessary for further progress in developing a framework to understand societal change”. It was relatively easy to change the formal rules of society by simply changing the laws, but it was far more difficult to change informal norms that characterize human behavior and cannot be changed overnight as a written law can be. This was the fundamental difficulty in the transition: “Since it is the norms that provide "legitimacy" to a set of rules, revolutionary change is never as revolutionary as its supporters desire…The implication is that transferring the formal political and economic rules of successful Western market economies to third-world and Eastern European economies is not a sufficient condition for good economic performance.”. The lesson that was needed to be learned according to North by thereby: “Economic change is a ubiquitous, ongoing, incremental process that is

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5Ibid, 366.
a consequence of the choices individual actors and entrepreneurs of organizations are making every day\textsuperscript{6}. Rapid change societal change in a society is thereby not possible.

Both the Soviet and Ukrainian attempts at changing their agricultural economies show the relevance institutions have in economic change. No easy quick solution was possible nor was there a fixed set of policies that could have successfully transformed their economies. At the same time neither regime was completely trapped by their institutional heritage that prevented them from reforming. Change was possible in both contexts. In the Soviet era Gorbachev on some level initiated bold breaks with the past, but he was also continued to be committed to failed socialist ideas that limited his reform efforts. If given time Gorbachev’s reforms could have been more successful, but time was one of the scarcest Soviet resources. In Ukraine the excuse for slow reform was the need to focus on nation building a Ukrainian state that had no major precedent. This was a major institutional constraint especially given ideological division between east and west and Ukraine. Nonetheless there was no excuse for Ukraine to take steps backwards to a command economy. Past institutions ensured that economic change was a difficult process that would take time, but it did not mean change was impossible.

\textsuperscript{6} Ibid,361.
Part I: Late Soviet Agriculture

I. The Reality of Late Soviet Agriculture

The Soviet agricultural economy was in a persistent state of crisis after Stalin. Crisis defined by economist Stefan Hedlund as the “growing gap between demand and supply of agricultural produce in Soviet Union, and in the consequent pressures on the government to ‘do something’ in order to alleviate the food shortages”\(^7\). The institutional framework created under Stalin was based on large scale factory farming and that framework characterized Soviet agriculture until its collapse. From Khrushchev to Gorbachev the system was modified somewhat, but the crisis problem only worsened. The framework for agricultural policy was characterized by centralization of policy decisions in Moscow over the various republics. Ukraine therefore had little real control of the economic levers, but it's transformation from a predominantly peasant society with a proud agricultural tradition had a profound and unique development within the Soviet Union and had deep consequences for its transition after the end of communism. The background that Gorbachev inherited was as a bureaucratic mess that was unwilling to change after decades of time that internalized formal and informal norms of the Stalinist framework into Soviet institutions. Despite these difficulties Gorbachev solutions did propose some radical changes from the past that sought to change the Stalinist mentality and implement a new institutional framework in agriculture.

The sense of crisis in agriculture was nothing new to Gorbachev as his predecessors also recognized the problem. The problem was that his predecessors never seriously attempted to tackle the deeply Stalinist framework of the economic system. From Krushchev to Gorbachev the Stalinist economic framework was continually challenged and refuted, but socialism and the core ideals that characterized the period in terms of economic management were never questioned. The successors to Stalin castigated him as an aberration in the development of socialism and they all claimed to be truly

\(^7\)Stefan Hedlund, *Crisis in Soviet Agriculture*, (New York: St. Martin's Press, 1984), 1
implementing Lenin’s ideals, but they never shook off the institutions he put in place. From the beginning of the communist experiment agriculture was seen as a backwards economic sector. The Soviets believed that in order to move forward they needed to invest the saving from the economy towards investment for industrialization. Stalin radically changed the management of agriculture through rapid violent state takeover of all land, and collectivization programs reapportioning mass amounts of private farmers. Agriculture was organized either through collective farms (kolkhozy) or state farms (sovhozy). In practice there were few differences between the two. The kolkhozy was supposed to be controlled by the farmers within it but the local communist party had the real power in appointing the manager. The Stalinist system was based on fear and violence. The goal was to transform agriculture into factory style production through industrial armies. As factories were deemed to be more efficient in producing commodities so it was believed that transforming the field into a factory would produce more wheat, potatoes and agricultural goods. The Soviets believed they were ending the supposed irrationality and inefficiency of small scale peasant production by achieving economics of scale through large scale production. Herein the core of the problem that plagued Soviet and post-Soviet agriculture until its fall was created. Under the Stalinist agricultural framework peasants were removed from any real ownership stake in the land and thereby Hedlund claimed: “the link between effort and reward was removed”\(^8\). The peasants were effectively transformed into slaves absent of any land or individuality and as Adam Smith explained “Whatever work [a slave] does, beyond what is sufficient to purchase his own maintenance, can be squeezed out of him by violence only, and not by any interest of his own”\(^9\). This problem along with the almost complete elimination of private farming beyond those on small plots of land continued to the fall. The collective farm structure

\(^8\)Ibid, 60.

became so ingrained that even after the fall it continued to persist and was the structure that not only Gorbachev inherited, but also the one that post-Soviet states inherited and tried to change.

The succeeding regimes after Stalin did not practice the same type of brutal violent repression that he did and instead a new framework of control was established. In the post-Stalin era opportunity for change emerged, similar to what occurred under Gorbachev as Russian historian Zhores Medvedev described: “The false speeches and policies characteristic of the Stalin era were replaced by an impressive open discussion of the real problems and shortcoming in agriculture”\(^\text{10}\). Khrushchev began to care about the living conditions of rural workers and hard Stalinist repression based on violent forced labor began to disappear and instead steadfast economic growth which the masses could feel was the solution. From this a basis of continually improving standards of living standards characterized by achieving parity with the industrialized nations began. A particular focus was to achieve parity with the American diet that called for greater production of milk and meat. In a sense post-Stalinist Soviet agriculture was successful in really defeating hunger as the threat of famine disappeared. Instead as Hedlund explained during the crisis: “The problem lies in the population’s expectations of continued improvement in living standards”\(^\text{11}\). This expectation formed under Khrushchev became very costly.

Subsides intended to keep the price of food low began in the Khrushchev era gradually spiraled out of control. By 1980 the state spent more on keeping food prices low than on state pensions, the health service and even the officially declared military budget taking up between 27% to 30% of the budget in the decade \(^\text{12}\). Despite this high cost consumption patterns dramatically improved and the Soviets achieved parity with Europe in terms of calorie intake when Gorbachev was in power\(^\text{13}\). The difference was where those calories came from as the Soviet diet was characterized by high starch

\(^\text{11}\)Stefan Hedlund, *Crisis in Soviet Agriculture*, (New York: St. Martin's Press, 1984), 1
consumption particularly of potatoes while protein intake, and especially meat consumption, was significantly lower than that of developed nations as Table 1.1 illustrates. Potatoes gradually began to take up a large part of the diet to the point where they came to be known as a “second bread” to the population. Food was, for the most part, widely available, until the last years before the fall, but it was not always easy to obtain. A persistent complaint of Soviet citizens was the quality of the food along with waiting lines especially for key goods during peak periods. Meat was a particularly pesky good to acquire in great quantities despite, somewhat paradoxically, meat taking up around half the cost of food subsidies by 1985. Also, despite food being produced in the countryside high quality goods were usually concentrated in the cities and people from rural areas often went to cities just to acquire better food especially if they didn’t have a private plot. High quality food was also available at legal free markets with prices there often running ten to twenty times official prices. Despite such gripes there was general satisfaction among Soviet citizens after Stalin as food security was attained and the threat of famine disappeared. Citizens ate more than their grandparents and expected their children to eat more than them. Even though meat consumption was lower than developed countries and grain consumption higher they still ate significantly more meat than in the past and they had no way to really judge the nature of developed diets. This became an ingrained mentality in the Soviet consciousness that every Soviet leader tried to sustain. A threat to this expectation challenged the legitimacy of the Soviet state and Soviet leaders were resistant to institute change no matter the economic cost.

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15 Ibid, 227.
Table 1.1 Annual average per capita food consumption in the former USSR and select countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Calories per day</th>
<th>Protein gram per day</th>
<th>Meat</th>
<th>Milk</th>
<th>Vegetable oil</th>
<th>Sugar</th>
<th>Grain and bread</th>
</tr>
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<tr>
<td>Former USSR</td>
<td>3,394.0</td>
<td>105.6</td>
<td>62.0</td>
<td>295.0</td>
<td>10.0</td>
<td>42.0</td>
<td>133.0</td>
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<td>OECD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>3,416.0</td>
<td>96.6</td>
<td>90.0</td>
<td>142.0</td>
<td>15.0</td>
<td>37.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Finland</td>
<td>3,080.0</td>
<td>95.6</td>
<td>68.0</td>
<td>182.0</td>
<td>6.0</td>
<td>37.0</td>
<td>73.0</td>
</tr>
<tr>
<td>France</td>
<td>3,273.0</td>
<td>111.3</td>
<td>106.0</td>
<td>84.0</td>
<td>12.0</td>
<td>34.0</td>
<td>80.0</td>
</tr>
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<td>German Federal Republic</td>
<td>3,476.0</td>
<td>101.0</td>
<td>100.0</td>
<td>112.0</td>
<td>5.0</td>
<td>37.0</td>
<td>74.0</td>
</tr>
<tr>
<td>Japan</td>
<td>2,858.0</td>
<td>88.0</td>
<td>38.0</td>
<td>36.0</td>
<td>12.0</td>
<td>21.0</td>
<td>108.0</td>
</tr>
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<td>Spain</td>
<td>3,365.0</td>
<td>96.5</td>
<td>75.0</td>
<td>102.0</td>
<td>25.0</td>
<td>33.0</td>
<td>77.0</td>
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<tr>
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<td>88.0</td>
<td>74.0</td>
<td>141.0</td>
<td>12.0</td>
<td>37.0</td>
<td>83.0</td>
</tr>
<tr>
<td>United States</td>
<td>3,642.0</td>
<td>106.5</td>
<td>118.0</td>
<td>129.0</td>
<td>11.0</td>
<td>30.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3,634.0</td>
<td>106.3</td>
<td>77.0</td>
<td>250.0</td>
<td>16.0</td>
<td>35.0</td>
<td>144.0</td>
</tr>
<tr>
<td>Czech and Slovak Federal Republic</td>
<td>3,473.0</td>
<td>103.3</td>
<td>86.0</td>
<td>239.0</td>
<td>8.0</td>
<td>35.0</td>
<td>111.0</td>
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<td>German Democratic Republic</td>
<td>3,800.0</td>
<td>112.7</td>
<td>96.0</td>
<td>—</td>
<td>2.0</td>
<td>40.0</td>
<td>99.0</td>
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<td>3,541.0</td>
<td>101.7</td>
<td>77.0</td>
<td>175.0</td>
<td>5.0</td>
<td>35.0</td>
<td>110.0</td>
</tr>
<tr>
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<td>101.8</td>
<td>67.0</td>
<td>403.0</td>
<td>3.0</td>
<td>41.0</td>
<td>118.0</td>
</tr>
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<td>Romania</td>
<td>3,358.0</td>
<td>104.3</td>
<td>60.0</td>
<td>—</td>
<td>26.0</td>
<td>28.0</td>
<td>126.0</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>3,542.0</td>
<td>101.5</td>
<td>55.0</td>
<td>—</td>
<td>35.0</td>
<td>175.0</td>
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</tr>
</tbody>
</table>


The growing demand for greater food consumption had to be accompanied by greater production. Khrushchev recognized that in order to do this he needed to make some shifts from Stalinist policy that concentrated investment dominantly in industry. Khrushchev began to reverse this as he attempted not only to modernize the agricultural sector with greater capital investment, but he also sought greater social investment in rural areas to improve living conditions. The increased capital investment was essential as much of Soviet agriculture was not mechanized and involved few fertilizers or other inputs characteristic of modern agricultural production. The problem was that investment became the all-purpose solution to problems in Soviet agriculture. Under Brezhnev this problem grew to a gross extreme as economist Edward Cook describes “The Brezhnev period saw the
initiation of a massive modernization effort in agriculture characterized by essentially arbitrary resource allocation decisions and ill-advised financial policies”\textsuperscript{16}. Instead of funneling resources out of the agricultural sector into the industrial sector as normally occurs in the industrialization process the reverse was gradually occurring in the Soviet state. Such actions were increasingly met by diminishing marginal returns. In the Khrushchev era the increased investment was modestly successful in increasing production, but by the time of Gorbachev it was returning very little.

The increased investment had little payoff as the Soviet regime was incapable of allocating resources efficiently. An example of was seen in tractor production where the Soviets, by Gorbachev’s era, produced roughly the same amount of tractors as the US. The problem was Soviet tractors didn't meet the needs that farmers desired because the factories of tractors were not concerned about consumer desires.. The Soviet economy was focused on meeting production plans and not on producing quality goods or matching consumer desires as economic historian Alec Nove described: “the farm machinery industry had no interest in producing or providing cheap, simple and much needed mowers, precious because they were simple and cheap and so count for little in plan fulfillment statistics”\textsuperscript{17}. \textit{Pravda}, the official publication of the Soviet Communist Party, reported in story about irrigation machines that: “In many cases, new machines are introduced just for the sake of introducing a new machine.”\textsuperscript{18}. The Soviets also had a fetish for big infrastructure projects. Bigger was always seen as better in increasing efficiency in the USSR as “Soviet leaders believed... that in agriculture what is big is always good (more efficient and more productive), what is bigger is better, and what is biggest is best.


\textsuperscript{17}Alec Nove. \textit{Soviet Agriculture: The Brezhnev Legacy and Gorbachev's Cure}, (Los Angles: Rand Corporation, 1988), 19


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of all" "19. This mentality plagued their construction of machinery as massive heavy tractors were the dominant type produced despite them often being impractical in application due to soil damage or inability to work when the soil is even slightly wet. They were also prone to breaking up. Between 1980 and 1984 almost 2 million tractors were distributed to farms, but the total number of tractors only increased by a little under 200,000 and for combines a similar trend occurred as over 500,000 were delivered but the total stock only increased by 100,00020. A lack of personnel to either operate the tractors or to fix them was chronic with machinery sometimes sitting around either unused or in a state of disrepair. It was estimated that for every 1000 rubles spent on agricultural machinery, 500 rubles were spent on repairs for the machinery21. Within a planned economy that could respond to signals from the economy with significant lag, if at all, such allocation was natural.

In allocating investment numerous sectors of the broader agricultural economy were overlooked for as the Soviets focused on almost production neglecting other parts important to the agricultural economy. The structure of the modern agro-industrial complex consists of three spheres the first sphere provides the inputs or the material and technical supply making things like fertilizers and tractors, the second sphere is the agriculture itself and the third is the process of getting the goods produced in the second sphere to the consumer22. The Soviets focused almost entirely on the second sphere where almost two thirds of the total food cost came from while in western countries the first and third sphere combined often made up more than three fourths of the cost23. The Soviet agricultural economy was far from achieving any sense of modernity. Soviet transportation networks and infrastructure were abysmal and the third sphere was increasingly unable to transport or store what the second sphere was producing. In the 70s more food was being produced, but there was no place to put it. Meat procurement increased

20David Litvin, The Soviet Agro-Industrial Complex, (Boulder: Delphic Monograph Series, 1987), 2
21 Ibid, 23
22 Ibid, 18-19
23 Ibid, 21
by 11.6% but the capacity for meat slaughtering-packing plants only increased by 4.4 percent, procurements for sugar increased by 11.6% while the holding capacity increased by 1.9% a million tons of sugar were lost between 1980-1985 as a result. The processing industry was also woefully ill equipped and less than a third of goods in the Soviet trade network were packaged. If individuals wanted to purchase milk they had to bring their own bottle to the store. Soviet food shortages were not the result of limited production it was a distribution problem economist Michael Ellman put it: “The whole idea of overcoming Soviet food shortages simply by raising production is absurd in a country where so much agricultural output and food is wasted and where retail prices are significantly different from the market clearing level.” The Soviets produced routinely produced up to 80 million tons of potatoes every year, more than the United States, China and England combined, but there were never enough potatoes to go around. A paradox of shortage amidst plenty existed.

Increased investment into agriculture did not entail less labor in a more efficient sector as Soviet agriculture was constantly plagued by labor shortages. In industrial economies the proportion of the population in agriculture tends to decrease as the sector becomes more productive and less labor intensive. This was partially the case in the USSR as the proportion of the population working in the agricultural sector decreased significantly over time from around 50% in 1950 to around 25% in 1980. The problem was that this decrease mostly flattened by the 80s at what was still a high proportion relative to industrial economies. Even worse despite the still high rate there were constant labor shortages in the agricultural sector. The agricultural sector had taken the image of a black hole as Hedlund described: “capable of absorbing whatever resources come near whilst allowing very little to

24Ibid, 31
25Ibid, 36
trickle out at the other end.” Khrushchev’s initial investment into rural areas tried to counteract the immense disparity in wages between urban and rural areas that led to flight from rural areas. The disparity in living conditions closed somewhat after Khrushchev, but the closing of the gap began to taper around the 80s. Further, despite efforts to increase the social status of farmers, they were still often weighed among one of the lowest prestige occupations. Economist Elizabeth Clayton explained how “Holding constant party membership, ethnicity, and education, farmers were found to have almost the lowest status among 24 occupations—only mail carriers were lower.”

During the harvest students and select workers from industrial cities were extracted to ensure that harvests could be sufficiently collected. These workers usually worked crude manual labor devoid of machinery. In advanced agricultural economies machinery tends to take the place of labor, but the Soviet economy was still pathetically ill equipped mostly due to the poor quality of equipment they produced.

If existing workers within the kolkhozy and sovkhozy were more productive, there would have been no shortage, but workers on the enterprises had little incentive to care about their work. Khrushchev recognized the problem and attempted to increase incentive by increasing procurement prices the state paid for agricultural products from the kolkhozy. Before Khrushchev procurement prices paid by the state for agricultural goods were relatively low. Khrushchev increased prices significantly between 1950-1963 increasing almost tenfold for grain, potatoes and milk. Succeeding regimes also continued to raise procurement prices in hopes it could raise productivity in incentivizing the collective to produce more. The policy was a failure as it did nothing to tackle structural and institutional failures in the collectivist system. The same problems and the same solutions pervaded as the institutional structure of agriculture based on discipline and hierarchy was continually postulated as the solution. A Pravda article written a year before Gorbachev came into power claimed: “The core of

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responsibility in the economy is discipline, and not simply discipline, but "iron discipline," as V. I. Lenin said."30. The disconnection between any sense of ownership or stake in the Soviet agricultural system made the workers indifferent to their work. There was continually a lack of association between the amount of work done and the reward given as Clayton described: “the farm worker sees little or no relationship between his or her work and the pay received. Consequently, there is little incentive to do any particular job well, to work hard, or to work long hours during the busy seasons of the year”31. In the case of a person working a mechanized machine like a combine the person’s income was not judged by their total output, but the amount of acres they worked. Thereby the goal is to get as much done as quickly as possible without any focus on quality. This problem of quantity over quality pervaded the whole Soviet system. Overall Medvedev gave a great summary of the overriding problems behind a lack of incentives explaining:

“the most active and productive part of the rural population has been destroyed, first by de-kulakization, and later spontaneously. The nature of the work, the impossibility of individuality, the absence of responsibility, the inferior social position of farmers, the numerous restriction on freedom and initiative the discipline, the unpopular method of payment, the dependence of local bureaucracy and often simply the utter dreariness of life in isolated villages have mad the ablest, youngest, most active people strive to leave the kolkhozy and sovkhozy at all costs.”32

The worker had no reason to really try or care about their work nor did the kolkhozy and sovkhozy to motivate them or be efficient themselves.

The gradual rise in procurement prices while retail prices remained relatively flat created a growing gap in the Soviet budget. A culture of bail outs pervaded the Soviet farm structure as enterprises expected to be bailed out and thereby had no incentive to control costs. Despite procurement prices rising the kolkhozy continued to be unprofitable and into the 80s they were increasingly turned into state farms. Under Brezhnev it really started to get out of control as Cook declared: “Financial control over resource allocation…became so lax as to be meaningless”\textsuperscript{33}. Increasingly debt was just written off and used as an excuse to get enterprises on the right track. Brezhnev did that continually and on the years of his death he explained typically how “in order to improve the financial position of collective farms, it has been decided to write off their bank-loan indebtedness in the amount of 9.7 billion rubles and to defer the repayment of more than 11 billion rubles in debts. This will enable the collective farms to channel the money thus released into the further expansion of production.”\textsuperscript{34} The bailouts were driven by the social pact formed under Kruschev as Soviet social guarantees forced them to assume the costs\textsuperscript{35}. The Soviets had two unpopular options to stop the crisis. They could either have increased retail prices for food and thereby eased the growing fiscal burden on the Soviet state, or they could have stopped bailing out agricultural enterprises and let them fail thereby imposing discipline but also creating unemployment. The need to commit one, or very likely both, became very real by the time Gorbachev took power.

Overall performance in terms of pure production, to match the growing demands of the Soviet diet, was also not awful before Gorbachev. Besides the distribution problem already discussed it was


getting increasingly difficult to squeeze more out of the Soviet soil. So while production of certain goods like grain rose modestly in the 70s it rose poorly relative to population growth and at a severe monetary cost. Further, as Figure 1.1 illustrates, the USSR gradually became a net food importer with the gap between imports and exports only worsening as the years passed and as the Soviet diet kept improving. The import of wheat was initially supposed to be temporary done during an emergency but “In later years the government quietly dropped the idea of self-sufficiency in grain production and resigned itself to the necessity of importing vast amounts of food and feed grain annually”\textsuperscript{36}. The Soviet economy after the 70s became the largest grain importer in the world. It is understandable that perhaps some nations are not suited to certain types of production as they may have a comparative advantage in producing other goods that can cancel of their deficiency in producing another good through trade. This argument was applied to the Soviet Union, but it mostly lacks merit as the USSR had tremendous potential to be a great producer in certain goods especially grain as Russia was the largest grain exporter in the world in the early 20\textsuperscript{th} century before the Bolsheviks took power with Ukraine making up a big chunk of that. Yet by the 80s the Soviets were eating up around a third of global grain market. In other goods like meat production this holds merit as the Soviet climate was not well suited for producing cattle or other animals. So while Soviets were able to feed its citizens they were increasingly doing so from imports that were dangerously costly as they were eating up hard currency reserves. During the 70s, when the price of oil was high, this was fine as the Soviets were able to meet the gap, but in the mid-80s the price of oil began to drop and Soviet hard currency eroded away.

\textsuperscript{36}Zhores Medvedev, \textit{Soviet Agriculture}, (New York: W.W. Norton & Company, 1987), 214
The bright spot of the agricultural economy, that many observers thought showed the potential of an alternate agricultural structure, was in private farming which accounted for around 30% of agricultural production throughout Soviet history. Despite the marginalization of private farming in the USSR it was a vital part of the agricultural economy. It was not private in the real sense as the kolkhozy and sovkhozy merely lent land to the farmers. The amount of land was rather small with the maximum size for kolkhozy plots being no larger than .5 hectares and it only took up around 1.5% of Soviet arable land\textsuperscript{37}. The Soviets had a mixed policy and at times hostile policy towards private plots. Private plots were an ideological problem representing a backward system of production, but ultimately realizing that they were necessary for national production. Still despite its importance and impressive production the farmers managed their land in a primitive fashion lacking basic machinery. Private plots often produced high quality goods, like fruit, that were unavailable anywhere and they

also produced around 70% of Soviet potatoes which was mostly for private consumption. Most goods were for consumption, but some were sold on free markets. These were, again, not free in the normal western sense of the time as strict regulations impeded farmers. Farmers had to sell their own produce they were not allowed to give it to any sort of middleman. They also were typically not allowed to sell their produce outside the local area. Despite these restrictions private plots often proved an important source of income for workers on collective and state farms. In private farming a link existed between the effort put in and the compensation given and production was thereby significantly more successful.

Within the general occurring of the policy in Moscow individual republics had little influence on policy, but there were still various differences between the republics in terms of endowment and how different policies affected the different republics. Ukraine within the Soviet state was particularly unique usually being one the most productive republics. Ukraine had a deeply peasant past as before the October Revolution in 1917 Ukraine was overwhelmingly rural with 80 per cent of Ukrainians living in villages where 97% of them were peasants. Ukraine historically was a nation of peasants that had deep roots in agricultural production that linger to Ukraine today. With the Soviets the rural link to the countryside gradually eroded away and the rural population started to become predominately old and female. Still a large part of the urban population was first generation with family ties to the countryside and a cultural diffusion between urban and rural occurred that kept the connection strong.

The initial Soviet collectivization created a deep stain on the Ukrainian consciousness that came to symbolize all that was evil about the Soviet regime. Before the revolution Ukraine had a rich tradition of independent farming and Stalin’s initial collectivization in eastern Ukraine was met by sharp resistance. The collectivization of 1932-33 in Ukraine is termed genocide as Holodomor, extinction by starvation, seen as a systematic attempt by the Soviet state to repress Ukrainian nationalism. It helped

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39Ibid, 39,
to create a sense of past common struggle among the Ukrainian people that united them against the Soviets when they finally had the means to investigate and think for themselves under Gorbachev. The effort also effectively destroyed the peasant heritage and began a process of Russification in eastern Europe that had significant implications when Ukraine tried to move away from the Soviet agricultural system.

The forced collectivization brought a rapid industrialization and subsequent urbanization to the Ukrainian economy. After Stalin Ukraine went through a light period of nationalist revival under first secretary of the Ukrainian Communist Party Petro Shelest who “was never a separatist but he did lobby for Ukrainian cultural and economic rights.” He was forced into retirement due to his perceived nationalist tinge and replaced by the orthodox communist Volodymyr Shcherbytsky who stayed in power until 1989 holding a conservative line. Shcherbytsky did his best to sniff out any nationalist sentiment and attempted to prevent any liberalization in the economy by preventing the full force of Gorbachev’s reforms being felt on Ukraine. In agriculture in he tried to prevent the proliferation of private farming and was resistant to Gorbachev’s policy of perestroika that encouraged experimentation within the republics. Shcherbytsky’s policies resulted in the private sector in total agricultural production actually declined from 28.5 percent to 26.7 percent, which contrasted with the growth recorded in most other Soviet republics in the late Soviet era. Economist Timothy Ash even goes so far as to claim “This lack of reform during the perestroika period appears to have been a crucial factor in stalling reform after independence.” During the Gorbachev era Ukraine was unique is having rather bad performance, relative to other republics around the fall with the growth of national income overall

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40Ibid, 45.
being the third lowest overall and the growth of agriculture being the very lowest. 43. Also, Ukraine was relatively badly hit in terms of environmental damage to the land besides Chernobyl as Elizabeth Clayton explains: “the quantity of agricultural land has gradually diminished through erosion degradation, but above all through loss to cities, mining, industry and large hydroelectric projects”44. Ukraine’s performance was thereby retarded a significant amount towards the fall of the USSR through it being blocked from the full extent of Gorbachev’s reforms.

Still, within the Soviet republics Ukraine was doing relatively well on numerous standards. Ukraine held around 18 per cent of the Soviet population in 1989 and had only about 15 per cent of the arable land in the Soviet Union but carried more than its weight in terms of production. They produced around 26 per cent of grain, potatoes, fruit and vegetables, 40 per cent of sunflowers, and over half of sugar beets45. Even in meat production Ukraine was net exporter despite holding less than 2 per cent of pasture land in the USSR they produced over a fifth of cows and poultry and a quarter of pigs.46 As Figure 1.2 shows they were also one of only two net exporters of grain within the USSR even under the lagging Shcherbytsky regime. In terms of consumption they also had among the best diets in the USSR as Table 1.2 illustrates they usually only lagged behind Russia and the Baltics. Such success was due to many factors the largest being the natural endowments that Ukraine held in having fertile cherezom black soil and the economic development within Ukraine upon Soviet takeover being better than some other republics. Certain infrastructure problems that plagued the rest of the USSR were also less severe in Ukraine in particular Ukrainian had more paved roads than other Soviet republics47. In terms of

income for state and collective farmers in terms of pure wages Ukrainians actually made slightly less than the Union average, but combining it with other sources of personal income, predominately from private plots, it is significantly higher than the Union average being almost 15% higher for collective farmers\textsuperscript{48}. Overall, Ukraine was one of the most important agricultural producers within the USSR and the general welfare of Ukrainians was better than most Soviet republics, but in the late Soviet era they stagnated more than other republics.

\textbf{Table 1.2: Per Capita Food Consumption in Soviet Republics}

\begin{center}
\begin{tabular}{lcccccccccccc}
Commodity & Georgia & Moldova & Armenia & Belarus & Ukraine & Kazakhstan & Kyrgyzstan & Tajikistan & Turkmenistan & Uzbekistan & Estonia & Latvia & Lithuania & USSR \\
\hline
Potatoes & & & & & & & & & & & & & & \\
Vegetables & & & & & & & & & & & & & & \\
1970 & 82 & 101 & 70 & 51 & 84 & 103 & 47 & 66 & 60 & 65 & 84 & 66 & 80 & 82 & 86 & 82 \\
1980 & 94 & 118 & 77 & 79 & 115 & 115 & 72 & 84 & 74 & 95 & 105 & 116 & 83 & 72 & 78 & 57 \\
1990 & 89 & 132 & 78 & 82 & 112 & 102 & 67 & 75 & 78 & 95 & 123 & 107 & 94 & 69 & 81 & 92 \\
Bread & & & & & & & & & & & & & & \\
1980 & 126 & 140 & 140 & 190 & 177 & 146 & 160 & 147 & 149 & 177 & 165 & 177 & 96 & 107 & 111 & 138 \\
1990 & 119 & 120 & 125 & 183 & 171 & 141 & 151 & 145 & 139 & 167 & 165 & 170 & 77 & 107 & 111 & 133 \\
\end{tabular}
\end{center}


The center was dominate in all layers of Soviet society and peoples of the nation were supposed to be as one united in common struggle and as a result similar policies pervaded throughout the various republics. Gorbachev realized this was a problem and allowed for some decentralization while still keeping real power in Moscow. In agriculture he saw that it was likely wiser to give greater power to local farmers and to agricultural institutions that were closer to the source of production than to let Moscow make the decisions. The amount of bureaucratic oversight was shocking as waves of different bodies had overlapping roles and competing interests that made even basic operations on farms frustrating and difficult. A chairman of one Soviet farm claimed that he needed seven signatures from
an array of officials before being able to officially slaughter one over-age cow. The first major attempt at organizational change occurred in 1982 through the Raion Agro-Industrial Association or RAPO. RAPO sought to act as a mediating agency between other bureaucratic bodies. This didn’t solve anything though as the old ministries continued to function and the RAPO found itself in competition with other agencies in establishing its authority. Gorbachev in November 1985, the first year of his reign, understood this problem and abolished six of the eight ministries farms normally had to answer to and created Gosagroprom that strengthened the RAPO’s authority. Gorbachev saw that the biggest challenge in reforming the Soviet economy was in changing the still pervasive and failed Stalinist mentalities. The desire to change Soviet mentalities was an essential feature his Perestroika program of economic reform. Gorbachev wanted Perestroika to enter all parts of Soviet society: “Not everyone has understood that working in the new way means resolutely abandoning old habits and methods...this depends on the civic stance of each and every person, on a conscientious attitude toward the assigned task and toward one's obligations...each of us must begin restructuring with himself. Everyone—including workers, collective farmers, members of the intelligentsia—everyone in general, from the labor collective to the CPSU Central Committee and the government—must work in the new way.”

Perestroika sought to finally throw away the institutional heritage of Stalin that held back the Soviet economy.

Gorbachev was initially proposed policies similar to his predecessor in attempting to reform agriculture and the broader economy. Even when perestroika emerged the implications of it were not known and it did seem to possibly just be posturing. Early on Gorbachev merely seemed to be

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49 Alec Nove, "Can the USSR Learn from Hungarian and Chinese Agricultural Experiences?," *Soviet Agriculture: Comparative Perspectives*, ed. Kenneth R. Gray (Ames: Iowa State University Press, 1990), 265


expanding the same failed program of the past focused on ever greater production as he explained in 1985: “There is only one way -- in specific, and sometimes difficult, conditions, we must find the most effective techniques and methods of obtaining high harvests. This is the key problem of our work in the agro-industrial complex.”

His proposed solutions thereby consisted of little more than calls for modernization of the sector through investment along with greater scientific progress that the already existing mechanism work better. Even the creation of Gosagroprom only attempted to streamline the bureaucracy not change it. These old methods produced the same disappointing results and Gorbachev gradually began to move away from the framework of the past on his own course that grew more radical as the economy grew worse.

Central to Gorbachev's reforms were attempts at changing the organization structure of agricultural enterprises. Numerous experiments were conducted looking at alternate ways to run agriculture within the collectivist framework. The first policy was an attempt to introduce contract brigades or zvenos. These worked through a group of workers voluntarily agreeing to work a certain task with inputs being provided by the state or collective farm they worked on with compensation related to their final output. The members of the group were expected to monitor each other’s performance and divide their earnings accordingly. Since the groups were to be relatively small, unlike collective or state farms, the cost involved in monitoring performance of workers was thought to be low. This system had its roots in the Stalinist era, but was warily applied by Soviet officials as some saw it as a way to disguise the breakup of the kolkhozy. The reform and its encouragement was a fresh break

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52 Mikhail Gorbachev, “Provide Intensive Development for Agroindustrial Production” Izvestia, September, 7, 1985 in The Current Digest of the Soviet/Post-Soviet Press
53 Don Van Atta, "'Full-Scale, Like Collectivization, but without Collectivization's Excesses': The Campaign to Introduce the Family and Lease Contract in Soviet Agriculture,” Perestroika in the Countryside: Agricultural Reform In The Gorbachev Era, ed. William Moskoff (Armonk, New York: M.E. Sharpe, 1990), 90
54 Ibid, 90
from the factory farming system of the past. Leasing land was another policy that gave even greater power to individual farmers as a track of land was actually given to a group of individuals to manage. Leasing was another improvement as farmers had an incentive to work on land they felt was their own. Finally cooperatives began to be allowed in 1988 which allowed agricultural production to be run on a truly cooperative framework in the way the kolkhozy was supposed to.

Gorbachev also sought to seriously give autonomy to agricultural enterprises weaning them of continual reliance on state funds. He believed that prices should actually correspond to cost and that firms should have a level of financial discipline. He rebuked the old model stating: “The country's financial system is clearly outdated. It does not provide an incentive for efficient economic management, and it often pursues only short-term, cashbox goals.” By 1988 loans were harder to obtain and bankruptcy for some agricultural enterprises became real as credit was denied and some enterprises even went insolvent. Gorbachev also challenged the Brezhnevite structure of investment that focused on increasing production at any costs by increasing inputs to other sectors as he explained in a 1988 speech: “The principal target of expenditures at this stage should increasingly be…social infrastructure, rather than production itself. For several decades now, many countries have been following a policy of ‘investing in the elimination of losses’”.

Gorbachev tried first to tackle the problem of labor flight from the countryside by increasing social infrastructure in the countryside especially focusing on schools. He also sought to put money into the third sector of agricultural complex by putting investment into roads, packaging and processing facilities that aimed at reducing

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waste within the agricultural sector as opposed to simply squeezing out more from the land. Money was no longer flowing easily into the same old channels under Gorbachev.

Gorbachev policies posed a serious threat to the state and collective farm, and although he never openly stated he wanted to destroy the kolkhozy or sovkhozy he seemed fine with them naturally withering away. Through glasnost Gorbachev encouraged open discussion of the past and he openly castigated the past process of collectivization: “In assessing the events of those years, we must also talk about the human tragedy. It consisted in the fact that, in the struggle against the kulaks, violence was in fact employed against enormous numbers of middle peasants and even poor peasants. Millions of peasants and their families were torn from the land and their homes to live in poverty and perish in camps and in exile”\(^{59}\). Gorbachev never said he intended to dispose of state and collective farms but he admitted that his program could effectively end them and predicted: “We are moving toward a time, in the not-so-distant future, when collective farms and state farms will essentially become cooperative associations of economically accountable contract-work collectives that operate on the basis of agreements with the board of the collective farm and the management of the state farm”\(^{60}\). In theory the zveno could have destroyed the old institutions if there a wholesale adoption of the program\(^{61}\). The later into his regime the more Gorbachev seemed to be fine with the idea. In 1989 he claimed his end goal was “to revive the peasant as master of the land”\(^{62}\). Evidence of the declining power of collective and state farms was growing apparent in Gorbachev’s as the amount of production from private


\(^{60}\)Mikhail Gorbachev, “Put Cooperatives’ Potential In the Service of Restructuring” \textit{Pravda}, March, 24, 1988 in The Current Digest of the Soviet/Post-Soviet Press


farming was on the rise in most republics in his time. Time though prevented the realization of how effective these policies could really have been.

Perestroika and Glasnost planted seeds that attempted to make the old norms of behavior untenable in the Soviet economy. Gorbachev routinely castigated the old norms that Soviet officials operated on as he explained in a speech on the five year plan: “The fact that even now central bodies are receiving requests for the creation of more and more new administrative agencies and for the allocation of additional staffs indicates a blind faith in the omnipotence of the apparatus.”63 White elephant infrastructure projects were tackled along with the supposed great knowledge in Moscow by Gorbachev: “Great harm was done by a fascination with gigantic production projects, all manner of reorganizations, and restrictions and prohibitions on private plots and the development of sidelines.”64. He castigated conservatives unwilling to change unaware that old controls of the command economy was part of the problem. In Ukraine he attacked conservative executives of the agro-industrial complex who he said: “maintain that the republic's potential for growth is exhausted, squeezed out to the last drop. No, it isn't exhausted at all! Give people the right conditions, and they'll find ways of increasing production”65. Such quips against the old order were sincere and without major precedent.

What differentiated Gorbachev from his predecessors was his legitimate attempt to try and finally break from the broken Stalinist system and allow the free flow of ideas that encouraged innovation and change. Gorbachev's policies of decentralizing control more to individuals away from state and collective farms was seen as a threat to the entire Soviet regime. Gorbachev believed that by giving greater freedom to the peasants their trust in the regime would increase66. Gorbachev's reforms

64 Mikhail Gorbachev, “Put Cooperatives' Potential In the Service of Restructuring” Pravda, March, 24, 1988 in The Current Digest of the Soviet/Post-Soviet Press
65 Ibid.
66 Don Van Atta, ""Full-Scale, Like Collectivization, but without Collectivization's Excesses": The Campaign to Introduce the Family and Lease Contract in Soviet Agriculture," Perestroika in the
in agriculture didn't work in the sense that they averted the fall of the Soviet Union, but agricultural policy was not the factor guiding the fall of the USSR. It likely played a relatively small role. In order to effectively judge whether his reforms could have worked more time was really needed for them to play out. Gorbachev's reforms were not meant to create rapid change in the matter of a few years. The type of institutional change he proposed required at least a generation. The next chapter will show that the institutional resistance Gorbachev’s reforms faced and the Soviet Union collapsed. It will also show that Gorbachev’s reforms were restrained and always stayed within the constraints of socialism and past Soviet institutions that prevented significant change from occurring in the agricultural sector.

II. The Collapse

The Soviet collapse was the result of a succession of problems that were built up from decades of broken institutions. This collapse was not necessary or unavoidable. Only in the last couple years did collapse look truly irreversible. While the economic performance in the Gorbachev era was poor it was not catastrophic. However the economy failed to improve and long repressed national minorities began to voice their distaste of the Soviet regime. These forces, growing nationalist unrest and deteriorating economic performance, came to feed off each other as nationalist unrest grew the economy worsened and as the economy worsened nationalist unrest further worsened. The agricultural sector was the poster child of the failed economic system and was a drain on the rest of the economy. The former social compact of improving diets was no longer sustainable for the Soviet budget especially in a time of low oil prices in the 1980s. The sector could realistically have plodded along at the consequence of sharp social costs which. Gorbachev's reforms early on seemed to be improving performance as he was gradually attempting to move away from the failed inherited institutions. However old beliefs still persisted among the people, those in power and even Gorbachev who still feared the consequences of renouncing socialism that was ingrained in the Soviet mentality. If a more radical push at economic reform was attempted that could have revitalized economic growth nationalist unrest could have been quelled and the Soviet state could have survived.

A gradualist approach to economic reform was undertaken by the Soviets. This approach could, perhaps, have been successful if the Soviets had time for the reform as other reforming communist nations such as China and Hungary were relatively successful reforming gradually. Going into the 90s the inability of the Soviet regime to maintain itself became increasingly apparent as the economy spiraled out of Moscow’s control. Distrust in Gorbachev and the Soviet state grew within the republics

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and elites within the various republic communist parties emerged to capture the sentiments of the grass roots nationalist movements. A shift of power to the republics thereby ensued that made the collapse irreversible. In Ukraine the nationalist movement was co-opted by the communists who quickly adopted the program of nationalists when they realized the Soviet state was no longer tenable and they could grab power for themselves. Only at the very end though was collapse irreversible. If the Soviet Union was either given time for reforms to take effect, a better macroeconomic situation, had attempted more radical reform in the economy the economic situation could have improved and the USSR could have survived.

Gorbachev reforms were significant breaks from the Soviet past, but the true intentions of his reforms were unclear. He often claimed that socialism was at the heart of his reforms and often quoted Lenin in defending his polices. His socialism though was of a different kind than the cold, violent and impersonal Stalinist brand. Gorbachev charged, in a speech on the time before Perestroika, that “Theoretical notions about socialism in many ways remained on the level of the 1930s and 1940s, when society was tackling entirely different problems…lively discussion and creative thought disappeared from theory and the social sciences and authoritarian assessments and judgments became indisputable truths subject only to commentary”68 Gorbachev pushed for “socialism with a human face” that was more personal, organic and evolving which he believed was true socialism. In defining what his program of perestroika meant he explained it as being nothing short of a restoration of pure socialism: “The ultimate aim of restructuring is clear, I think—a thoroughgoing renewal of all aspects of the country's life, the imparting to socialism of the most up-to-date forms of social organization, and the fullest possible disclosure of the humanistic nature of our system in all its decisive aspects—economic, social, political and moral”69. In part by acting within the framework of socialism he acted in way Douglass North advocated in trying to gradually change the mentalities of Soviet society by

69Ibid.
utilizing past institutions and beliefs. Still he stayed too committed to socialist principles which created a ceiling to how much Gorbachev could do. Gorbachev only began to seriously speak of a market economy when everything started collapsing around him.

In agriculture Gorbachev argued both for the expansion of private farming and for the kolkhoz to be maintained. Both policies he claimed were fully consistent with true socialism. His policy speeches on agricultural reform were often vague and economist Roy Laird called them: “masterpieces of obfuscation that could allow readers whose opinions may be poles apart to find support for their diverse views” 70 In one respect Gorbachev believed Soviet farmers could be given greater independence as he believed: “Soviet farmers could be trusted to work better, wanted to work better, and should be paid for what they had done. Such initiative represented real socialism”71. Yet he also refuted claims that his reforms entailed the revival of full scale private agriculture. At other times Gorbachev didn’t even defend the socialist nature of the reforms and instead claimed that the steps taken were necessary, and were being taken by other socialist nations so it was acceptable for the Soviets to do the same: “Some people see cooperatives and individual enterprise as all but a revival of private economic practices. I think, comrades, that our own experience and the experience of other socialist countries indicate the usefulness and necessity of making skillful use of these economic forms in the framework of socialism”72. Gorbachev’s vagueness muddled his intentions as he was unwilling to either fully break with the communist past or embrace market reforms.

Even with the reforms Gorbachev’s created there was often a difficulty in simply implementing them. Besides Gorbachev’s vagueness in what the true intentions of what his program meant there was a clear opposition to numerous insiders in the Soviet agro-industrial complex that saw change as a

71Don Van Atta, ““Full-Scale, Like Collectivization, but without Collectivization's Excesses”: The Campaign to Introduce the Family and Lease Contract in Soviet Agriculture,” Perestroika in the Countryside: Agricultural Reform In The Gorbachev Era, ed. William Moskoff (Armonk, New York: M.E. Sharpe, 1990), 94
threat to the system that they understood and had power in. The potential prospect of a market being introduced was worrying to those inside the agro-industrial complex who had grown used the old system and knew nothing else. The same problems that characterized Soviet agriculture since Stalin persisted as those inside the system were unwilling or did not know how to change. Investment still came from the center and was usually still badly misallocated as the bureaucracy was not able to respond to signals from the economy quick enough. Quick fix investment solutions to agricultural problems by increasing investment in production were still pursued. The communist theoretical journal Kommunist reported late in the Gorbachev era on the problem of widespread pesticide use in agriculture resulting from “the wish of some executives to solve the food problem with a single wave of a magic wand—the magic wand of agricultural chemicals.” The result was, as Alec Nove claimed, “progress in agriculture remained mostly on paper.” False economic ideas pervaded and excuses were made for why reform couldn’t be conducted as in the case of price reform economist Edward Cook decried how at the time “The conventional wisdom in the USSR is that time is needed to redress current supply shortage before price reform is introduced. Of course, this is putting the cart before the horse; if supply shortages are eliminated there is no longer much need for a price reform.” Then there was a fundamental lack of market culture from individuals being able to understand basic concepts of supply and demand. All this needed time for the Soviets to understand.

This need for time stemmed from a need to change the Soviet mentality away from the Stalinist norms that Soviet organizations had grown accustomed to and couldn’t be changed overnight.

Gorbachev elucidated in a speech on the five year plan that “it would be naive to expect that the lag and

the shortcomings built up over years will be overcome in a few months”77. The vilification of kulaks and “speculators” that had characterized Soviet agriculture since Stalin only slowly reversed officially under Gorbachev. The problem was not only convincing the peasantry of the sincerity of the reforms, after decades of hostility, but also in convincing the peasantry to become private farmers after working for decades in the kolkhozy and sovkhozy. This problem of changing the mentality of peasants and the implementers of policy persisted even after communism ended as peasants had grown alienated from the land they worked on. The tradition of private farming once very strong before Soviet takeover, especially in Ukraine, was nearly eliminated and individuals did not known or were afraid of the consequences that came from greater autonomy outside the collectivist framework. Peasants often held an ingrained hostility to the notion of profit and middlemen activities that were seen as devoid of work. The threat of the kolkhozy and sovkhozy being broken up worried workers who didn’t understand a situation when employment was not guaranteed. Evidence from other socialist countries like Hungary that experimented with leasing showed that many peasants, especially those on reasonably managed collectives, didn’t want to take the risk of taking on a lease as collective farms represented predictability and stability78. In moving forward to revoke past mistakes and “restoring peasant love of the land” as Alec Nove emphasized was essential79.

Managers within the kolkhozy and sovkhozy were opposed to Gorbachev’s reforms as they perceived them as a direct threat to their power. Managers controlling Soviet agricultural enterprises had to be convinced to allow and encourage leasing, cooperatives and attempts at private farming. This proved difficult as many managers felt such reforms were direct threats to their control over the peasantry. This opposition within Soviet agricultural institutions to support reforms nurtured a hostile

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78 Ibid, 71
environment that further discouraged peasants from attempting to seek greater autonomy. The conditions explained what Gelii Shmelev called “the ‘wait-and-see’ attitude of those who, under more favorable conditions and better relations, would set up their own farms”\textsuperscript{80}. Under the leasing program farmers were still completely reliant on farm managers for their inputs and for the sale of their goods. The amount of independence farmers were given was thereby limited as managers often still held the real power. Cooperatives were even more unpopular among officials and the public. Cooperatives were the most independent agricultural enterprises and often charged higher prices for their goods along with offering higher wages than the kolkhozy and sovkhozy. This drew the ire of the public and officials in the late and early 90s when shortages were increasing\textsuperscript{81}. Changing these mentalities and creating a more hospitable environment could not be done quickly or easily as political scientist Jim Butterfield understood at the time: “even if organizational reform could succeed in increasing consumer-ready food products, such a success would not come in the immediate future, and would at best a gradual improvement in the course of a decade or two—clearly too long for supporters of perestroika to wait”\textsuperscript{82}. This need for time not only halted the prospects of Soviet reform but would also continue to block the prospect of reform in post-Soviet Ukraine where the same mentalities also had to be fought over.

Attempts at financial discipline through hard budget constraints that sought to force agricultural enterprises, and the managers running them to reform, too often fell flat. Gorbachev proved inconsistent in halting bailouts of old. In March 1989 Gorbachev initially claimed that farm debt would not be written off because the budget was too constrained, but in December 1989 he wrote off over 70

billion rubles of debt. Old habits were hard to change even into the late 80s as farm managers faced few real economic pressures to their survival and were instead just pandered by the government to behave. The commitment to low food prices was the other tremendous financial burden on the Soviet budget which the Soviets were too scared to raise. So despite opportunities for agricultural enterprises to restructure, and improve their efficiency they were not even close to achieving profitability because it would take serious time for the restructuring to really matter. Even if Gorbachev had been really serious about financial discipline on enterprises they still needed to be able to set real market prices that corresponded with their costs.

Officials below Gorbachev within the various republics and regions were also worried of losing control. Support for Gorbachev’s reforms within the government was thereby divided and as Karen Brooks noted at the time: “no one speaks publicly against it. Rather, conservatives considered to be unenthusiastic about leasing argue that state and collective farms still have high potential as productive units and that small-scale contracting should be purely voluntary.” The kolkhoz was perceived as the bedrock of Soviet rural society that ensured stability that was difficult to eliminate Don Van Atta explained “the kolkhoz system is not so much an economic mechanism as a symbol of party authority. Altering or abolishing the institution threatens not so much agriculture as the party's right to rule.” Many officials within the Soviet Union were unwilling to enforce Gorbachev’s reforms and for a time they hoped they could wait it out until his policies could be revoked. Time was needed to convince officials that Perestroika was there to stay as Butterflied explained: “until local officials gain

84 Ibid, 68.
86 Don Van Atta, ""Full-Scale, Like Collectivization, but without Collectivization's Excesses": The Campaign to Introduce the Family and Lease Contract in Soviet Agriculture," Perestroika in the Countryside: Agricultural Reform In The Gorbachev Era, ed. William Moskoff (Armonk, New York: M.E. Sharpe, 1990), 100
confidence that perestroika will succeed, and that there will be no sudden end to it as a part of a conservative backlash, they will be hesitant to fully identify themselves with it”\textsuperscript{87}. Officials clung to old policies at the time as many local officials were accustomed to enforcing old regulations and often they feared disciplinary action from their immediate local superiors if they didn’t follow the same old policies\textsuperscript{88}. A problem of competing interests was forged between listening to immediate local authority or official central authority. The worsened when the republics began breaking away and pressure for populist measures was strong.

The old top down system of implementing reform was another road block in bringing about significant reform. Gorbachev often sharply decried the centralization and hierarchy of the Soviet system as he explained: “Executives in many regions have taken a facile approach to this matter. If there's not enough feed, they send a telegram to the Central Committee and the government; if there aren't enough resources of agricultural products, they telegraph the central authorities again”\textsuperscript{89}. Yet Gorbachev did not seek to seriously tackle the power in Moscow and his reformist efforts were still largely top down efforts. Gorbachev’s ultimate intention was to maintain the Soviet state by strengthening its foundations despite the iffy connection between some of his agricultural policies and their consistency with socialism. The focus on keeping power in Moscow was a major annoyance for the republics.

Starting around late 1989 deteriorating conditions and fear of collapse led to more radical economic ideas being earnestly discussed by high officials including Gorbachev. Still Gorbachev was tepid in really embracing market ideas. He was serious at points and he interestingly spoke of the market as a more effective way of satisfying an individual’s desires: “we regard the market not as an

\textsuperscript{88} Ibid, 37.
end in itself but as a means to increase the efficiency of the economy and raise people's standard of living”90. Still even in embracing market ideas Gorbachev maintained socialist principles that limited his conception of a market: “We must reject voluntaristic approaches and learn to regulate economic processes on the basis of the law of value, thereby creating powerful new stimuli for business activity”91. Other officials did want to seriously introduce a market. In the summer of 1990 the 500 days program of transition to market economy emerged that sought to save the Soviet economy at any cost as Stanislav Shatlin, one of creators of the program, described “it is not a question of saving socialism, communism or any other –ism, it is a question of saving our country, our people”92. Gorbachev wasn’t willing to fully embrace the plan and only accepted a scaled down version of the original plan which was itself not a true wholehearted call for a market economy. Social consequences were again a fear as economist Michael Marresse elaborated during the time “the authorities fear rebellion if a radical, market-oriented reform is implemented, yet the failure to implement such a reform, not only in agriculture but also in the rest of the economy, is a slow death for the Soviet people”93. Marresse was only wrong in calling it a slow death.

In agriculture the need for implementing markets were discussed. At this point more than ever Gorbachev realized the seriousness of the problem in agricultural sector: “I want to emphasize that there is probably no other branch of the national economy that is so critically in need of economic freedom, of a true market environment, as our countryside, our agrarian sector. We must act to see to it that this freedom is provided”94. He again reiterated the need to give peasants freedom and that further

Union began its work at 10 a.m. on July 2, 1990, in the Kremlin Palace of Congresses in Moscow.
91Ibid.
investment would do little: “Today we must say over and over again: If economic relations do not change, if new incentives for peasant labor are not introduced, if the position of the peasants is not changed, if they do not become true masters of the land, then no investments are going to help”\textsuperscript{95}. He tried to downplay how harsh the transition would be for agriculture in a social democratic vision of the market that embraced strong social-protection mechanism. He recognized an increase in prices was finally necessary but he rejected the demand for "total decollectivization"\textsuperscript{96}. This was reasonable in order to ease the transition, but the price rises were still limited and more was still needed as Karl-Eugen Wadekin noted: “Raising food prices alone, even freeing them from state interference, is a necessary but not sufficient part of a change to market economy”\textsuperscript{97}. A distinction between good and bad kolkhozy and sovkhozy was drawn Gorbachev that was used as an excuse to maintain the old system. The idea was fine and all expect for the fact that there were very few good kolkhozy or sovkhozy. They were the core problem of a failed agricultural system blocking progress.

Eventually it was clear from observers within and outside the Soviet state that collapse was likely irreversible. This point was late in coming. The USSR was riddled with problems when Gorbachev’ reign began but few believed it could disintegrate. Gorbachev’s attempts at greater openness and freedom through Glasnost and Perestroika unleashed repressed forces and helped to expose the horror of the Soviet regime. Things really were better for Soviet citizens under Gorbachev then they were in the past the problem as historian Stephen Kotkin reflected: “compared with their parents and grandparents the Soviet population was better fed, better clothed, and better educated. Comparisons, however were made not with the Soviet past, or developing countries, but with the

\textsuperscript{95}Ibid.
\textsuperscript{96}Ibid.
richest nations in the world, and both the leadership and population expressed increasing impatience”\textsuperscript{98}. Stagnating growth frustrated citizens leading to socialism losing its legitimacy among the population to provide improving living standards. The economy began to falter badly around 1989-90 when GDP growth became negative and the standard of living began to actually decrease. Shortages worsened as wages were increasing while price controls were maintained which represented a growing amount of repressed inflation that further increased the sense of crisis. The nationalist question also emerged as a serious threat to the Soviet regime. Nationalist unrest grew in tandem with worsening economic conditions. A vicious cycle emerged as economic conditions worsened so did nationalist unrest and thereby so did economic conditions worsen further. In September 1989 Gorbachev realized seriousness of the nationalist threat and called for a new Union treaty between the republics. The one thing Gorbachev unequivocally opposed was the disintegration of the USSR while he still had power. He could have accepted the introduction of a market economy or the eventual end of the kolkhoz and his policies hinted at such points, but he never sought to dissolve the Soviet Union.

Increasingly the republics looked inward focusing on their particular interests as a protectionist sentiment emerged. Gorbachev saw their actions as selfish attempts trying to destroy unity and the common sense of struggle among Soviet citizens while worsening the economic crisis\textsuperscript{99}. In agriculture republics increasingly sought to protect their own food supplies and were increasingly unwilling to give their supplies to the center. Good weather made the agricultural output for 1990 rather good, but this didn’t translate into more food on the Soviet plate. The distribution system, already in bad shape, deteriorated further as republics resisted attempts to move food away from home. Barter began to emerge and the prospect of a market economy seemed a sad joke as \textit{Pravda} article reported:” The supply system is totally disorganized. While we talk about a market economy, bartering flourishes.

Metal is traded for meat, wood for oil. At this point many Western outsiders thought that a threat of famine was real. This was unfounded. Food was harder to attain, especially in the cities, than it was in the past and general food consumption did decrease, but it was nowhere near famine levels. As economist Gale Johnson explained correctly in the early 80s “the threat of famine no longer exists in the USSR...only an unimaginable disaster would cause a famine in the USSR”\textsuperscript{101}. The problem was that the Soviet state was even less able than in the past to distribute food to its population. As the link between the republics deteriorated even more food rotted in the transportation process or in storage. Less money was also flowing to Moscow from an overall declining economy and from the republics sending less revenue which prevented the center from attempting to improve distribution. Hoarding also emerged which also worsened shortages as Laird explained: “faced with increased food shortages and field by prognostications of widespread famine, the people increasingly have turned to hording, which given tragically inadequate private storage capacities, only contributes to an increased spoilage of perishable commodities”\textsuperscript{102}. No famine occurred, but people believed a famine was possible and this led to hoarding.

Eventually a total loss of confidence in the Soviet state occurred where all those who stayed committed to Moscow were on a sinking ship. A wonderful analogy of the collapse being akin to a bank run is drawn by political scientist Steven Solnick:

> “Soviet institutions were victimized by the organizational equivalent of a colossal ‘bank run’ in which local officials rushed to claim their assets before the bureaucratic doors shut for good. As in a bank run, the loss of confidence in the institutions makes its demise a self-fulfilling prophecy. Unlike a bank run, the defecting officials were not

\textsuperscript{100} K. Lysenko, “Harvest Time: Sighing Won’t Fill the Granaries” \textit{Pravda}, July, 4, 1990 in \textit{The Current Digest of the Soviet/Post-Soviet Press}
\textsuperscript{102} Roy D. Laird, \textit{The Soviet Legacy}, (Westport: Praeger, 1993), 51
depositors claiming their rightful assets, but employees of the state appropriating state assets…the catalysts of state collapse were the agents of the state itself. Once the bank run was on, these officials were not merely stealing resources from the state they were stealing the state itself”\textsuperscript{103}

At this point collapse was irreversible. There was nothing that could restore the confidence of officials to stay committed to the Soviet state. Gorbachev knew that if the “run” occurred the whole process of perestroika would be exacerbated\textsuperscript{104}. Gorbachev claimed that republican leaders wanted the situation to worsen so that they could expand their power as he explained: “A shameless manipulation of public opinion is going on, and the sound of rally megaphones is being passed off as the voice of the people. Furious attempts are being made to discredit the institutions of state power, which embody the idea of a federal Union state and are its backbone…these people want to take advantage of the tension in society to achieve their political goals, operating according to the principle "the worse things get, the better for us," although this is presented in a different packaging, of course”\textsuperscript{105}. This depiction was partly true as the growing disruption in the republics was aggravating the economic situation further.

Within Ukraine the nationalist movement was more repressed and only began to really emerge in 1989 due to Volodymyr Shcherbytsky their secretary general resigning. Only a few years before the Soviet Union fell everything seemed jolly to Soviet insiders in Ukraine. Ukraine’s \textit{Socio-Economic Reference Book} in 1986 promoted a country that was proud to be in the USSR. The first chapter claimed was Ukraine part of an unbreakable Union where: "The history of the Ukrainian SSR is inseparably linked with the history of the Russian, Byelorussian, Moldavian, and other fraternal peoples. The unbreakable unity with the Russian people is of special importance for the historical

\textsuperscript{103}Steven Solnick \textit{Stealing the State}. Mass.: Harvard University Press. 8
\textsuperscript{104}Mikhail Gorbachev, “Gorbachev Keynotes 28th Party Congress” \textit{Izvestia}, July, 3, 1990 in The Current Digest of the Soviet/Post-Soviet Press
\textsuperscript{105}Mikhail Gorbachev, “Report by M.S. Gorbachev, President of the USSR” \textit{Izvestia}, November, 17, 1990 in The Current Digest of the Soviet/Post-Soviet Press
destiny of the Ukrainian people\textsuperscript{106}. The book was full of ever increasing graphs indicating continually increasing standards of living and the overall satisfaction of the Ukrainian people. The book even had the nerve to include a chapter on the progress made on environmental protection a year before the Chernobyl disaster. This was a gross hyperbole that was a product of the still existing Soviet propaganda, but most Ukrainians did not hold a deep-seated hatred for the Soviet regime. Dissatisfaction with the regime existed, but most were not active in a movement for independence or even greater rights for Ukrainians. Only a small part of the population was really moved by nationalist concerns.

The nationalist movement in Ukraine was never as strong or as united as in the Baltics who were the fiercest anti-communists. Ukraine faced a split between a nationalist west that were most active in the push for independence as opposed to the east that only rallied for independence when they believed it would increase economic prosperity. The 1986 Chernobyl disaster became one of the biggest rallying points that showcased the evil of the Soviet regime especially. The authorities continually tried to tell people dangerously close to the point of the disaster that everything was fine. In agriculture it was clear that nothing should have been grown in the area around the point of the disaster. However the Soviets carelessly increased production for meat and milk in an area dangerously close to the site claiming that nothing was wrong\textsuperscript{107}. The lives of Ukrainians were openly gamble upon in such a situation where farmers were producing on land that had plutonium readings more than 50 times above the amount allowed for farming. The disaster didn’t have any significant effect on overall agricultural production in the republic, but it showed the dangers an environmental catastrophe had on the land.


Ukraine was the most important republic outside of Russia within the Soviet Union without it the legitimacy of USSR was questioned. As Zbigniew Brzezinski said “Without Ukraine, Russia ceases to be a Eurasian empire” and when Ukraine finally broke away any illusion of the Soviet Union existing withered away with it\textsuperscript{108}. March 4\textsuperscript{th} 1990 saw Ukraine’s first semi-democratic elections where the communist party still won overwhelming as opposition parties were still not allowed to run, but independent candidates were allowed to contest and not all the communists were orthodox in their loyalty to the party. The election illustrated the increasingly apparent in Ukraine between west and east as the east in Ukraine. The east overwhelming voted for the communists while the west supported independent democratic candidates. This parliament lasted until 1994. The moderates in the communist party after this election splintered along three factions. The first was of a Gorbachev reformist bent in advocating privatization and a market economy but still within the framework of a market economy. The second group were the “red directors” who were moderate communists that represented the big industrial interests that would include Leonid Kuchma independent Ukraine’s second president. Lastly there were the national communists that included Leonid Kravchuk who became chairman of the Ukrainian Supreme Rada in July and future first president\textsuperscript{109}. Throughout many of the republics similar results occurred that made the republics look inward away from Moscow as communist insiders began to wrap themselves in flags of their independent countries gradually. Kravchuk took this role in Ukraine as he gradually started accepting more of the program from Rukh, the main underground nationalist opposition party in Ukraine. The first major economic program was formed in the fall of 1990. The program sought to begin an orderly withdraw from the Soviet Union while not pushing for


the introduction of a market economy. Rationing coupons were also created in attempt to maintain goods within Ukraine. During the same time Ukraine created its own land code for agriculture. The code was limited in scope as individuals could still only possess land but not own it officially. In 1991 further attempts were made but only meager results were made at serious economic reform until independence was declared late that year.

The unraveling in Ukraine occurred in the beginning of 1991 when most communist insiders threw their support behind the movement for independence. The speed of the change was incredible given that in 1989 Rukh was only pushing for Perestroika to be applied fully and then in 1991 even the communists got behind independence. When the communists realized they could have greater power within the republic they abandoned Moscow and as Taras Kuzio explained: “it became rational for local elites to seek an expanded role for local political institutions, in order to compete more effectively in a zero sum struggle over diminishing resources”\textsuperscript{110}. The competition for diminishing resources in the economy thereby began. Dissatisfaction at economic conditions was often a driving force in movements for independence from the republics. In Russia, where a nationalist tinge was relatively small, the dissatisfaction with communism was primarily focused on economic issues. In Ukraine Rukh focused on nation building and saw economic reform coming after nation building was complete. This policy continued after independence in Ukraine too when the slow pace of economic reform was attributed by Ukraine’s leaders due to the need for nation-building. The failed August coup was the final blow that set off a national referendum on independence that was overwhelmingly supported by all Ukrainians. A presidential election followed in December resulted in the victory of Victor Kravchuk then speaker of the Ukrainian Supreme Soviet winning over two thirds of the vote over nationalist Rukh candidate Viacheslav Chornilov. Krachuck’s victory was a co-option of the nationalist program that Chornilov had been propagating for decades while Kravhuck formed his in a matter of weeks for the election. Kuzio explains the logic of national communism being: “primarily one of the incubation

\textsuperscript{110}Taras Kuzio, \textit{Ukraine: Perestroika To Independence}, (New York: St. Martin's Press, 2000), 171
of nationally-minded elites in state structures, who then sought to gain power over their own societies whenever the imperial center contracted"^{111}. Kravchuk was able to perform especially well in the countryside where machine politics essentially emerged and kolkhoz chairman pushed their members to vote for him. The power of the kolkhoz to get votes in such a manner continued even after independence.

The collapse in the Soviet Union was very late in coming. Agricultural production for years was disappointing and unable to meet Soviet demands, but conditions were never really intolerable until late in the Gorbachev era when nationalist unrest was serious and economic reforms were slow in producing results. True crisis was late in hitting as Kotkin explained: “Relative to the West the planned economy performed inadequately, but it employed nearly every person of working age, and the Soviet standard of living, though disappointing, was tolerable for most people (given what they did not know owing to censorship and travel restrictions. The Soviet Union was not in turmoil. Nationalist separatism existed, but it didn’t remotely threaten the Soviet order”^{112}. That the view of Soviet citizens for most of Soviet history until Gorbachev. The process of economic change in the context that Gorbachev inherited was not easy, and the transition countries faced similar dilemmas and difficulties that Gorbachev faced in institutional inheritance. Ukraine faced one of the most difficult prospects as a new nation confused over its identity with a formerly great peasant agricultural heritage was born.

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^{111}Ibid, 172

Part II: Transition of Ukraine's Agricultural Economy

III. Reviving the Breadbasket

The fall of the Soviet Empire initially brought great optimism to the new Ukrainian nation. Ukraine, the great breadbasket, was freed from its oppressor that sucked it dry of its natural resources and inflicted irreversible damage on the nation. So the story went before the realities of nation building a state that never had any major precedent and building a new economic framework based on free markets set in. The process of economic transformation was unprecedented in economic history as the former communist states of Eastern Europe attempted to relinquish almost total state control of the economy. In agriculture the transition meant transforming the Soviet kolkhozy and sovkhozy into new organizations that could exist independently and competitively in a market economy. The process of transition took different approaches in the various former communist states with the nature of the transition being heavily influenced by inherited economic and national temperaments. Ukraine was unique in its transition with confusion over its national identity that resulted in the initial transition process being dominated by questions of nation building that put economic concerns as secondary. The confusion over national identity along with the continuance of Soviet institutions resulted in a resistance to either adopt radical economic reform or to cling to the Soviet past. Ukraine attempted a vaguely conceived “Ukrainian way” middle between the two extremes. In agriculture this entailed an eventual shift to private farming that attempted to avoid the sharp social consequences of a rapid transition.

Numerous theories of how to carry out the transition existed with the questions often coming down to the pace of the transition. The two main sects of reformers tended to break down between radical shock therapists who wanted a quick transition and gradualists who wanted to carefully adopt a free market. All reformers in principle at least claimed they wanted to establish a market economy. The meaning of what that meant varied throughout transition nations. In a way the debate during transition was somewhat similar, although today it is less extreme, to the debate on the Euro crisis today. The
question was between short term pain through austerity and restructuring versus concerns such measures would only impede recovery. Overall the two theories had varying success and each had their examples of successful countries that adopted their methods. The radical economists sought to impose shock treatment that sought a quick conversion to a market economy. They believed that if they didn’t act quickly during the revolutionary moment then rent seekers would take power and block future reform. Anders Aslund was one of the main theoreticians of the radical approach and served as an adviser to three transition countries, including Ukraine, in the 90s. In his work on the transition Building Capitalism: The Transformation of the Former Soviet Bloc he postulated that: “The reforms had to be radical, comprehensive, and fast to break the hold of the old system and introduce a viable new market economy. The very importance of the shock was emphasized from the outset”\textsuperscript{113}. It was believed that a change in attitudes could occur if people were faced with radical changes in their environment which they consider irreversible.

A common program for the transition was mostly agreed upon by the shock therapists. A group of orthodox economists including Nobel Prize winner Paul Krugman and former World Bank chief economist Lawrence Summers set out an outline of the steps needed to be taken by post-communist transition in Reform in Eastern Europe where the core program called for liberalization, privatization and restructuring\textsuperscript{114}. The first concerns were focused on macroeconomic stabilization. To end hyperinflation they called for immediate price liberalization, a balanced budget and an in\textsuperscript{115}. A social safety net to protect those lowest on the ladder, without hurting defect reduction was also advocated in order to reduce the threat of social unrest. General trade liberalization to allow foreign competition was another crux. They also wanted to quickly end old monopolies and privatize firms as quickly as possible with small firms privatized almost immediately and medium and large firms as soon as it was possible.

\textsuperscript{113}Anders Aslund, Building Capitalism: The Transformation of the Former Soviet Bloc, (New York: Cambridge University Press, 2002), 79


\textsuperscript{115}Ibid, 2-8.
feasible\textsuperscript{116}. Lastly, was restructuring which entailed reorganization of the laws, regulations and economic actors in the economy with the goal of fostering a competitive market environment that encouraged entrepreneurship without government interference\textsuperscript{117}. The radical economists believed privatization should precede restructuring as it was believed the market would be able to accurately allocate and restructure firms better than the state could. This last point, on whether to privatize or restructure first, proved one of the most contentious positions between the radical and gradual reformers.

The gradualist reform approach was often accused of not having an exact program. This was mostly true as the radical approach had, for the most part, broad agreements on the main polices with discrepancies existing on implementation of policies mostly. The gradualist approach often simply represented opposition to the radical program. In Ukraine this was the case as first two presidents liked to promote a “Ukrainian model” that was said to be a third way between capitalism and communism as neither system was suited to reform the country given its unique historical background. The “Ukrainian model” never had any program and it ended up being little more than excuses to slow down price liberalization, the pace of privatization and other reforms. Often the gradualists liked to point to the Chinese or Hungarian models which were supposedly successful in their transitions without taking a shock therapy approach. In the case of the China model this entailed a larger guiding role for state in guiding restructuring and especially industrial policy. Joseph Stiglitz in Whiter Reform gave a sharp critique of the radical program and contrasted the dramatic failure of Russia with the success of China in the 90s. Stiglitz critiqued the dogmatic belief of establishing a market as an end in itself when it should have served as the means for more important things\textsuperscript{118}. In particular Stiglitz was wary of rapid privatization which he believed could create an uncompetitive environment where a few small firms

\textsuperscript{116} Ibid, 57-58.
\textsuperscript{117} Ibid, 93-94
could exercise monopoly power. He believed that rapid privatization could undermine the whole process of transition: “if privatization is conducted in ways that are widely viewed as illegitimate and in an environment which lacks the necessary institutional infrastructure, the longer-run prospects of a market economy may actually be undermined. Worse still, the private property interests that are created contribute to the weakening of the state and the undermining of the social order, through corruption and regulatory capture”\textsuperscript{119}. Stiglitz thereby believed time was needed to establish the right environment in order for the reforms to work. He advocated continuous change as opposed to a sharp one time break with the past.

All these broader macroeconomic problems and questions of the speed of reform were of vital importance for agriculture in transition to get on its feet and grow. The question of price liberalization was important in ending widespread food shortages that continued to characterize the post-communist landscape due to price controls. Maintaining price controls helped to ensure a marginal level of food consumption that wouldn’t cause widespread social unrest yet it also represented repressed inflation that prevented agricultural institutions from setting their own market level prices. It was also very costly, just as it was in the Soviet era, contributing to fiscal deficits that were often monetized by central banks. A difficult question was whether to privatize or restructure the sovkhozy and kolkhozy that emerged from the Soviet era and were unparalleled in their size anywhere else in the world. The radicals contended that if restructuring could occur under the state than socialism should still exist. The worry was that quick privatization would lead to mass unemployment and a few large agricultural enterprises dominating the market place and exercising monopoly power as Stiglitz feared. If enterprises were privatized and financial discipline without state support was introduced most enterprises would fail. The few enterprises would then emerge and dominate the marketplace. This was the concern. Then the shock therapists believed that if the privatization was delayed the kolkhoz

managers would be able to exercise their influence on governments to block future reform. The gradualists feared the austerity economics of the shock therapists would destroy demand of the broad population and would severely undermine the opportunities for agricultural enterprises that were already being met by real costs. A stable demand needed to be ensured along with an attempt to minimize the decline in GDP to prevent catastrophe and the emergence of a few dominate firms that meant maintaining some price supports and subsidies. This posed a danger as it still represented the same system of reliance from the Soviet era.

The end goal of reformers was to achieve private farming, but the means to reaching that end were shaky. The divide was between restitution to former owners before communism was installed versus distribution of land shares to the population. Ukraine adopted a policy of distribution as most former Soviet republics, except for the Baltics, also did. Restitution was never seriously considered in Ukraine despite western Ukraine being incorporated into the USSR after WWII like the Baltics. Besides the means of distribution another question important question concerned the rights of land owners. An important right was the freedom for owners of land to be able to buy and sell land freely as any other commodity. This right could have allowed reallocation of land to efficient producers, but gradualists feared it would result in land being monopolized in a few hands. In Ukraine throughout the 90s attempts at establishing a land market were continually blocked and one never came into existence. Leasing of land was allowed, but that was just a continuation of Gorbachev’s policy. Private farming emerged in Ukraine and initially grew at a modest pace until stabilizing at around 2% of agricultural land in the mid-90s. Jessica Allina-Pisano claimed in her work *The Post-Soviet Potemkin Village*, which analyzed the broad similarities in the transition of agricultural in separate regions in Ukraine and Russia, that these discussions often missed the bigger as she claimed: “the rules governing those distributive battles were the rules of power and political hierarchy, not of market competition. For this reason, privatization of the commons often has not resulted in efficient allocation of resources: new
property rights arrangements come to reflect status quo ante power relationships rather then generating economically optimal distribution of resources”\(^{120}\).

Other theories thought that taking a simplistic gradual vs. shock therapy approach clouded what really a more complex picture. The question of the approach perhaps didn’t matter as much as the inherited institutions and the ideological beliefs of the population or of what the needs for local conditions might have been. As Allina-Pisano claimed: “In important respects, neither approach focused sufficient attention on the institutional mechanism that would drive change at the local level”\(^{121}\). Hilary Appel in *New Capitalist Order* emphasized the importance that ideology played in the transition and how different transition nations understood their communist past and attempted to move forward. Appel believed: “The implementation of a program of transformation is least costly and most effective when the ideas underlying those programs are easily compatible with the existing ideological context—that is when they resonate with the dominant beliefs of elite owner holders, economic groups, and mass society, and are not received to conflict with existing norms” she claimed\(^{122}\). All Soviet countries inherited essentially the same institutions; the difference was in the ideological perceptions that characterized the different transition countries. In the Baltics the widespread view was that communism was an aberration in their historical development that was forcibly installed on them. As a result their agricultural transition which used policies of restitution to privatize the sector turned out to be fairly successful relative to former Soviet republics. Ideologically communism was alien to them and an embrace of markets didn’t pose as difficult a task as it was for Belarus that was communism less as an aberration in their development. Belarus’s transition was thereby was characterized by little change from the command economy.


\(^{121}\) Ibid, 20

In Ukraine the situation was the most complex of any of the former Soviet republics as they held strong competing elements of both ideologies. The east west divide between the nationalist west and the more Russfised east that had trouble in uniting for the cause of independence continued to face problems. Western Ukraine was more willing to embrace market institutions and to throw away communism as a failed mentality. Indeed the presidential elections in the 90s were characterized by the West just voting for the non-communist candidate so in 1990 they voted against Kravchuk, but in 1994 they voted for him as his opponent Kuchma was more Russified and seemed to have deeper communist roots. Then in 1999 they voted for Kuchma as he ran against Petro Symonenko a communist. Eastern Ukraine, that was part of Russia before the Russian Revolution, saw Russians as Slavic brothers with inseparable cultural ties. Institutional change in Ukraine was thus much more difficult. The divide was apparent in support for agricultural reform as 67 percent of those in Eastern Ukraine opposed the establishment of a market for land while in Western Ukraine the figure was only 4 percent.\textsuperscript{123} Despite these divisions there was little desire for separatism in Ukraine during the 90s except in Crimea which had a majority Russian population.

In Ukraine the institutional environment inherited from the Soviet Union was one that was predominately alien to a notion of a market economy. Chapters 1 and 2 went into depth the problems that characterized Soviet agricultural economy and the difficulty in creating change. After, independence the prospect of change was no easier and the goals that Ukrainian policy makers faced were similar to Gorbachev’s it was just they no longer needed to act within the formal constraints of socialism. Democracy and markets were officially promulgated as the new norms and the institutions were to reflect that reality. The problem was, as Gorbachev also reflected, the need for restructuring lies not just in changing official rules and laws, but individuals themselves also needed to fundamentally restructure. Due to Gorbachev’s lack of time to change mentalities stemming from the nationalist

problem he failed in reforming the still largely Stalinist framework that characterized Soviet agriculture. This same partially changed framework was inherited by Ukraine and the same problems that faced Gorbachev were faced by Ukrainian policy makers. The same conclusion of time being a prerequisite to achieve change can also thereby be reached.

The initial collapse of Soviet authority and central authority in general changed the structure in which the economy used to work. Society went from having a strong third party enforcer that mediated between parties to a severely weakened one in independence. This had serious consequences and resulted in the rise of the barter economy and the emergence of local elites with tremendous power. The economy was increasingly characterized by a system of blat that entailed informal mutual networks between individuals. Under blat what mattered was the quantity and quality of your connections rather than the amount of increasingly worthless rubles or karbovanets (Ukraininan coupons that acted as currency between 1992-1996) you had. As anthropologist Catherine Wanner reflected: “Once the Soviet Union disintegrated and the economy went into free fall, most families began frenetically trading and hustling to put food on the table”\(^\text{124}\). This system was useful for individuals attempting to acquire land in the face of corrupt local power and overall weak enforcement mechanisms for land reform as many farmers were forced to turn to blat to acquire land\(^\text{125}\). Some felt it was nearly impossible to obtain land through the formal channels.

After achieving independence some thought that agriculture would make up the core of the economic revival of Ukraine and its potential was restricted by the Russians extracting their resources. As political scientist Vladimir Zviglyanic explained: “talk of Ukraine's independence brought about a belief that as soon as Ukraine stopped transferring foods and goods to Russia, it would become the richest republic of the former Soviet Union...The popular image that Ukraine was the breadbasket of


Europe was widely embraced. One commentator expressed the belief just before independence in Ukraine that: “the new government would only be recognizing the obvious: that because of depletion of raw materials over the past decades, Ukraine will once again have to become, first and foremost, an agricultural nation. To act otherwise would be to ensure that Ukraine as a country becomes uninhabitable for decades.” This belief depended on a notion that Ukraine was a net contributor in wealth to the other republics, and this was partly true. In agriculture Ukraine was mostly a net exporter to the other republics so many believed that Ukraine could sell its goods on the world market for better prices. The problem was that many of the inputs that Ukraine received that contributed to its productive agriculture came from other republics. So they tended to get their gas from Russia and tractors from Belarus. In the transition when national borders were erected many of the same trade linkages persisted, but Ukraine was no long receiving subsidized inputs. At best it could therefore be said that there was no major net positive or negative affect of leaving the Soviet Union and becoming independent. The overall consequences of breakup are uncertain. On the one hand the Soviet Union ensured lower transaction costs between the various republics with the same currency and regulation being prevalent throughout the republics. At the same time it was difficult to administer policy from one center to a large amount of diverse regions. If a republic was independent it could respond to their local problems better. In general the break up itself did not guarantee greater performance for the Ukrainian economy as the consequences were uncertain.

The stated goal of Ukrainian policy makers was to transition to a market economy and create the means for private farming to flourish. The problem was that economic policy took a secondary

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concern to nation-building in Ukraine's early development and a gradualist approach was adopted that was popularly called the “Ukrainian model”. The idea was to build national institutions first with the means for economic success then coming gradually. Economic hardship was even expected as Zviglyanich explains: “The patriotic model of statehood advocated by Kravchuk and intellectuals from the national-democratic camp...was based on the assumption that building a state would be a relatively long process. During this extended transition, it was argued, people should tolerate hardship because independence and civil rights would be forthcoming”\(^{128}\). The first prime minister for Ukraine Vitold Fokin, former head of the Ukrainian Central Planning Committee, basically maintained the same economic controls of the Soviet era. For agriculture a few measures were created early into the regime including a law “On Forms of Land Ownership” in January 1992 that finally ended the state monopoly over land ownership and established three types of land ownership: state, collective and private\(^{129}\). In the next month a law was passed that regulated the functioning of a collective agricultural enterprises and a process for the Soviet sovkhozy and kolkhozy to be transformed into them. The new legal type of agricultural collective was officially voluntary and farmers within them had a right to leave and establish their own farms it they wished. Leaving the collective was not as simple as that though.

In 1992 a new land code was created in Ukraine that created the basis of legal framework of land ownership. The 1992 land code was an improvement on the 1990 land code Ukraine constructed in the Soviet Union which still didn’t recognize private property. Still the 1992 reform was an improvement partly only on paper as the same idea of lifetime inheritance from the Soviet era continued. A six year moratorium was placed on the sale of privately owned land and the land


individuals held had to be continuously worked or else it could be confiscated\textsuperscript{130}. The moratorium on the sale of land was the most controversial part of the code. In December 1992 then Prime Minister Leonid Kuchma initially removed the provision, but it was reinstated the next month the Ukrainian Supreme Soviet. Liberal politicians sought to treat land as any other commodity, but conservatives in the government were horrified at the prospect of commoditizing the nation’s own land. Most land was initially transferred into new collectives as the Soviet sovkhozy withered away. The initial transfer was supposed to be part of a transitory phase that would lead to transfer of land to private farmers after restructuring. In reality things never really went beyond the initial transitory phase of phasing out the Soviet sovkhozy and kolkhozy. Collectively owned land, in principle, was supposed to be distributed among the members of the collective. In practice not all collective land was available for distribution as local governments or the general assembly of the collective declared the land indivisible.\textsuperscript{131}. Besides distribution of land from former Soviet agricultural enterprises legislation was created that allowed all adult citizens an equal right to their own parcel of land that could be acquired through government distributed coupons. This entailed a very small amount of land guaranteed akin to the size of Soviet household plots. Often this was the only land that individuals could really call their own and the despite the small size of these plots they proved, just as in the Soviet era, to be important for overall agricultural production.

Leonid Kuchma’s reign as prime minister that began in October 1992 was surprisingly liberal in some respects despite him being a Russian-speaking Ukraine who formerly ran the Ukraine’s largest missile factory in the Soviet era. His reform team consisted of nationalist reformers led by Viktor Pynzenyk, member of the nationalist Rukh party, as his deputy prime minister for economic reforms


and Victor Yushchenko, future prime minister and president, as the head of the national bank. They sought to control inflation, implemented some steps for privatization in the broader economy and seriously contemplated privatizing land. Still Kuchma was no radical reformer and also believed in the “Ukrainian model”. He was not prime minister long. Kravchuk removed him fearing he was a threat to his power. Subsequently Kravchuk sought to appoint a more submissive prime minister, but instead abolished the post and only appointed a deputy prime minister who was never approved by parliament. Beyond the initial reforms already explained Kravchuk did little else to significantly restructure agriculture. After, Kuchma he returned some Soviet era control policies and strived to the price of food low. In January 1993 Kravchuk imposed export duties on most goods in attempt to keep domestic prices low. The policy had disastrous results and was revoked in December 1993 only to be replaced by export quotas for most goods. This restriction sought to have similar effects as the export duty, but was an even worse policy as a few rent seekers exploited price differentials between low domestic prices for goods and high foreign prices. Export licenses were not distributed fairly and only the well-connected were able to attain them.

Kravchuk’s shortcoming in economic reform is often attributed to his focus on nation building a fragmented new Ukrainian state. The rationale was national institutions were first needed to be built up before market reforms could be undertaken. This was typical rhetoric of gradualist reformers. The problem was that the development and gradual understanding of the nature of markets, as North advocated, did not occur and instead, as shock therapists feared, the failure to undertake early reform resulted in elite interests being entrenched. In his time Kravchuk tried to reestablish many elements of the former command economy as he brought back price controls, increased subsidies and the same elements of central planning in allocation and collection of goods as in the Soviet era. These policies

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were not gradual approaches seeking to create a market economy, but steps backwards receding from a market economy. Kravchuk’s backward steps led the economy to spiral even further out of control leading to early parliamentary and presidential elections in 1994 that elected Leonid Kuchma as the new president.

Kuchma’s election reflected a slight shift. Kuchma held a different conception of Ukraine’s statehood as Zviglyanich explained: “According to Kravchuk’s idea of statehood, economic benefits would eventually be attained through the development of the norms and values of civil society. Kuchma's perspective, though, sees economic prosperity as something that can be attained directly by emphasizing a pragmatic, rather than a value-oriented, model of statehood”\(^{133}\). Kuchma believed that achieving independence represented an end in itself in establishing Ukraine as a nation. Kuchma started to take some serious steps in agricultural reform as land shares were distributed, some macroeconomic stabilization occurred and many export quotas and licenses restriction ended. In 1994 most prices were finally reformed although some key controls, like price controls on bread, still persisted. He attempted to spearhead agricultural reform initially and in November 1994 he put forward a presidential decree “On Urgent Measures to accelerate Land reform in Agriculture” that established a legal basis for land reform. The decree mainly just reaffirmed the right of private individuals to leave collectives and set up a mechanism that allowed collectives to reorganize into other entities. Still many regional export bans persisted from rent seekers and overall Kuchma reversed early liberal polices as Kravchuck also did. Whereby some claim Kravchuk can be absolved because of his attempts at nation-building there was no excuse for Kuchma. When Kuchma came into power he almost immediate announced that land reform would be a priority for his administration, but in practice the president lacked a clearly elaborated program and his failed to provide a blueprint for large-farm restructuring beyond basic

Kuchma was no reformer and didn’t have any sincere belief in the power or importance of establishing a market economy as Aslund claimed: “Kuchma’s attitude toward market reforms was not an ideological commitment but a pragmatic one. He saw himself as a man who solved one problem after the other, and market reforms formed one set of tools”.

Some success can be attributed to Kuchma in cleaning up the general macroeconomic environment. Overall stabilization and hyperinflation ended and a new currency, the hryvnia, was successfully introduced. This was all achieved by 1996 after which Kuchma lost interest in making liberal reforms as he cycled through four different prime ministers between 1996 and 1999. Import tariffs were kept high on agriculture and debt from collective farms was continually rolled over and any substantive attempts at land reform ceased. Rent seeking grew worse and had a prominent part in the export of grain. The state controlled grain procurement agency Khlib Ukrainy was abused by government officials who bought grain surpluses as low regulated prices and sold the grain for export for huge profits. Significant change and reform only initiated when Victor Yushchenko was appointed Prime Minister in 1999 when the economy again looked to again be on the brink of collapse and Kuchma turned to a liberal reformer who finally introduced another new land code that abolished collective land ownership and allowed land to be subject to sale. The damage from the 90s was done though and even Yuschenko’s time as prime minister did not last long as he was kicked out after a little over a year in power.

The failure of reform early on to make progress on a stable institutional framework violated the goals of both the advocates of the radical shock therapy approach and the gradualist approach.

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136 Ibid, 95
Ukrainian economist Oleh Havrylyshyn gave three reasons for the failure to reform early on consisting of “intellectual uncertainty about economic transition and debates about speed of reform… Priority of nation-building tasks… interests of the 'new-old' elites in an unreformed, or more accurately a half-reformed, economy”\(^\text{137}\). The first claim was a difficult one, but he claimed that after a few years a clear reform program existed from the successful transition countries making the claim shaky. As for the second concern of nation building that was, at best, also a problem that should only have been the concern early on in transition. The real problem then was the infiltration of elites into the reform process. Special interests dominated the agricultural process within the legislature, bureaucracy and through special interest groups whose power only grew as time passed. A lobby for collective farms became immensely influential with the emergence of the All-Ukrainian Committee of Collective Agriculture enterprises (Kolkhoz Council). They sought to obtain subsidies from the state through low interest credits for collective farms and they lobbied against private farming\(^\text{138}\). The group sought to present itself as an inclusive body, but real power was with collective farm directors. The influence of group showed in their leader attending all scheduled sessions of the ministry of agriculture while other interest groups had to be invited to attend thus as political scientist Paul Kubicek described: “despite the fact that the constitution states that 'All civic organizations are equal before the law,' it seems that the Kolkhoz Council—by virtue of its power and/or political affinities—is more equal than other groups that don't receive such special treatment”\(^\text{139}\). This infiltration blocked any serious reform efforts.

It seemed clear, just as in the Soviet era, that institutional reform could not occur quickly. Success in changing ideological beliefs required time as Appel claimed: “reception of new ideology


\(^{139}\) Ibid, 94.
depends upon the extent to which it builds upon an existing stock of beliefs, identities, and myths”\(^{140}\). Shock therapy and the program of privatization had a goal of not only transforming the material and formal conditions of the economy that the programs of transition had a fundamental goal to transform the mentalities of those in society as: “Mass privatization became a means of diminishing the capacity of the state bureaucracy to manipulate not only the economic decisions of firms but also the private behavior of individuals”\(^{141}\). In agriculture privatization didn't just try to change the structure of agriculture and property rights but also the people\(^{142}\). This was a bold attempt but it missed the hold that ideology can have on a people as Wanner noted: “When that ideology has informed an entire social system for seventy-four years, a rejection, even if cogently articulated, cannot erase the fact that the ideology has already dramatically informed the thinking, values, and character of those who were subject to it”\(^{143}\). As North also understood this mentality change was very difficult to change in a short span of time.

Still the importance of ideology should not be overemphasized and should not be an excuse not undertaking sound reforms. Just as it was not inevitable or necessary for Gorbachev's reform to have failed it was also not necessary for Ukraine's transition to fail. They were not simply slaves to their past. Even Appel admitted: “reorienting the ideological context is possible, but it requires exceptional leadership and carries a high cost”\(^{144}\). The process was difficult, but there was no excuse for implementing failed policies that reverted to elements that characterized the Soviet command economy. Ideology too often was just used an excuse to stop change because it would be too tough or couldn’t


\(^{141}\)Ibid, 119


work on society. Aslund went so far as to claim that they were merely tools of the elite to block reform: “The real controversies are easy to understand, if one accepts that ideology or social welfare were only tactical devices of the resistance, while the enrichment of a small elite was their real aim”\textsuperscript{145}. There was little excuse to not implement certain seemingly common sense polices. Delaying reforms early often only increased future pain and allowed rent seekers to profit from regulatory distortions.

A market economy with private farming could not have been produced overnight in Ukraine nor could it have happened in any other transition country. Ukraine's inherited Soviet institutions along with the ingrained informal norms and manners of enforcement of the bureaucracy were not easy to eliminate it did not even matter if all laws were changed as ideological the nation was only just escaping communism. Nonetheless change was not impossible and certain positive steps could have been taken. Foremost being attempts at macropconomic stabilization consisting of liberalization of prices, trade and Soviet era regulations along with a means for privatization and restructuring to occur over time. There was no excuse for Ukraine to not enact certain reforms. Reforms could not have introduced economic growth overnight, or eliminated the ingrained communist mentality, but it could have aided in putting Ukraine on the right path and making the future prospect of reform easier. The ideal should have been to try and maximize the choice set for economic players, in this case farmers, to allow them to leave collectives. The next chapter will go into the consequences of Ukraine's actions in transition on its performance.

IV. The Reality of Post-Soviet Ukrainian Agriculture

The transition from command economy to market economy was a difficult process that resulted in different consequences throughout the various models taken in different countries. In Ukraine the performance of agriculture turned out to be nothing but a disaster with few real accomplishments occurring to speak proudly of. Things didn’t have to turn out so badly. Other countries in transition were relatively successful in adopting different actions that seriously attempted to privatize farming and set up a market economy. The overall characteristic that came to dominate post-Soviet agriculture in Ukraine was the almost complete lack of change that occurred. Numerous practices and norms from the Soviet continued to persisted as nothing emerged to fill the void. Conditions, for most things although not all, actually got worse in terms of production, general welfare and the structure of agricultural enterprises. In the absence of any significant government attempts to change the inherited framework the manner of conditions seemed mostly the same for most in the countryside.

An absolute decline in total agricultural production in the initial years of the transition was unavoidable but the depth and length of the fall was controllable. The decline was true for all transition economies after the end of communism in Eastern Europe. Agricultural economist William Liefert constructed a simple model of agricultural production after communism ended that consisted of falling production and increasing prices. This was the result of former price controls and subsidies disappearing that made the marginal cost of producing goods match up to actual market conditions. Nothing immediately changed in terms of supply and demand after the end of communism. The same land, labor and capital exist and the same amount of food was desired. Instead there was a shift along the demand curve to the market clearing equilibrium price that the public willingly paid for and that firms were able to produce at. In the medium term Liefert expected that the supply curve would

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naturally shift from a market economy allocating resources more efficiently leading to greater productivity, production and prices.

Price liberalization was an essential aspect to reaching the normal equilibrium level, but it also had some negative consequences. Price liberalization led to higher prices for consumers that curtailed their spending and it also made it more difficult for enterprises to purchase inputs. A group of agricultural economists writing in the transition thereby warned that price rapid price liberalization: “frees processors with market power to act like monopolists, and many respond by raising prices to consumers and pressuring producer prices. The price increase that accompanies liberalization is thus in part due to removal of subsidies, and in part due to the exercise of market power”\textsuperscript{147}. Ensuring a competitive marketplace free of monopoly power was thereby needed to accompany price liberalization or else increases in supply and efficiency would be extremely difficult. This seemed to be agreed by most as economists who believed at the time that: “The hope of a quick improvement in agriculture that will facilitate change in other sectors is illusory unless a concerted effort to increase competition and the technological performance of food processing and marketing brings early results”\textsuperscript{148}. As the Soviet era showed greater focus needed to be on changing the agricultural structure of the system along with the incentive structure rather than pouring more investment that produced diminishing results. This was equally true in the Post-Soviet landscape when there was no more opportunity for investment. In order to promote competition a sound macroeconomic background was needed with sound institutions that could give confidence to those entering the market.

General macroeconomic performance was also of essential importance to the performance of agriculture. An uncertain macroeconomic environment in terms of high inflation, and uncertainty over


\textsuperscript{148}Ibid, 156
regulatory policy prevented firms from being able to effectively make future plans. Attaining finance was also difficult. Banks were worried about their loans being repaid or being repaid with money whose value was eroded away by inflation. It also scared away private farmers who are unsure if they can survive in such an environment. A relationship existed between agricultural production and economic output. This is illustrated in looking at the relationship between per capita GDP growth in Ukraine and the growth of value added agriculture in Figure 4.1. It also tended to be true throughout the transition countries as figure 4.2 shows with CEE representing Central and Eastern Europe and CIS representing the Commonwealth of Independent States.

**Figure 4.1**

![Growth Rates of value added Agriculture and Per Capita GDP](image)

*Source: World Bank*
The performance of Ukraine’s agriculture and its overall growth was very disappointing. It was unique for its poor performance relative to other transition countries\textsuperscript{149}. Post-Soviet agriculture in Ukraine proved to be immensely unproductive. As Figure 4.3 illustrates agriculture's contribution to GDP fell in the initial years of the transition yet employment in the sector continued to rise. Industry, the biggest contributor to GDP, is shown to contrast the trend as its contribution was fairly stable while employment decreased. Productivity in the sector that was already terribly disappointing in the Soviet

era only further worsened as the productivity of agricultural enterprises more than halved between 1990 and 2000\(^{150}\). Total aggregate production of agriculture was expected to fall from Soviet era subsides disappearing as it was the most subsidized sector, but the fall that occurred was abysmal.

**Figure 4.3**

![Graph showing Contribution of Industry and Agriculture to total GDP and their Total Employment](image)


Production of particular parts of particular agricultural crops varied. The performance of the main commercial agricultural crops was terrible. The main crops were predominantly grown on collective farms and required large tracts of land. More labor intensive crops that tended to be worked on that were traditionally produced on private plots during the Soviet era didn’t far too badly. As Figure 4.4 shows the production of the main big commercial crops of wheat and sugar beets fell drastically

\(^{150}\) *State statistics committee of Ukraine, Agriculture of Ukraine: Statistical Yearbook*, (Kyiv: State statistics committee of Ukraine, 2010).
while Figure 4.5 shows that potatoes and vegetables were relatively stable. This fact reflected the divide in the Ukrainian agriculture economy that persisted throughout the 90s between the relatively successful, but still very small, farmers on household plots and in the private sector vs. large and influential agricultural enterprises that performed horribly. Table 4.1 directly shows the gap. Household production remained relatively stable, but output for agricultural enterprises, which were mostly former kolkhozy and sovkhozy acting under various names, continually sank. In the productivity of crops, represented by yields, a similar trend occurred. Yields for crops like sugar beets and wheat fell significantly close to half for them while for potatoes and vegetables they were relatively stable throughout the 90s\textsuperscript{151}. The decline in production for livestock products was also substantial as the Soviet obsession with high meat consumption disappeared along with the massive supports to sustain the production. In 2000 nearly third as many cattle were in Ukraine as in 1990 while for pigs and chickens there around half as many\textsuperscript{152}. Meat production was mostly based in large enterprises and required large amounts of feed for animal which private farmers had difficulty and accessing. Feed was no longer as heavily subsidized as it was in the Soviet era and the new agricultural enterprises also couldn’t maintain production.

Figure 4.4
Production of Main Crops 1

Source: State Statistics Service of Ukraine

Figure 4.5
Production of Main Crops 2

Source: State Statistics Service of Ukraine
Table 4.1 Indices of gross agricultural production in Households, Agricultural Enterprises and

<table>
<thead>
<tr>
<th>Year (Base Year=1990)</th>
<th>Households</th>
<th>Agricultural Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1991</td>
<td>96.5</td>
<td>82.5</td>
</tr>
<tr>
<td>1992</td>
<td>105.6</td>
<td>68.2</td>
</tr>
<tr>
<td>1993</td>
<td>113.2</td>
<td>66.5</td>
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<tr>
<td>1994</td>
<td>100.8</td>
<td>52.7</td>
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<tr>
<td>1995</td>
<td>103.6</td>
<td>48</td>
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<td>1996</td>
<td>106.5</td>
<td>37.8</td>
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<tr>
<td>1997</td>
<td>107.2</td>
<td>36.1</td>
</tr>
</tbody>
</table>

Source: Ukraine statistical Yearbook 2008

The relative success of small household plots compared to the massive agricultural enterprises that still persisted were for fundamentally the same reasons that they were relatively successful in the Soviet era. The success of household counteracted the complete failure of the commercial sector as Allina-Pisano described: “The growth of household production in the 1990s depended in part on the weakness of commercial farming, as households used the resources of reorganized agricultural collectives to produce a marketable surplus”\textsuperscript{153}. Still this type of farming, as was also true in the Soviet era, was not a model for the future success of agriculture as private plots operated in very backward conditions that were highly labor intensive absent often of even basic machinery and they still relied heavily on big agricultural enterprises for inputs. The vast majority of what household plots produced was for consumption. A World Bank survey of farmers throughout Ukraine in 1996 found that they consumed over 80% of the potatoes they produced and over 90% of grain, sunflowers, vegetables, fruits and eggs\textsuperscript{154}. The little that was left over was sold usually to local markets. The general economic chaos led farmers to look inward and simply avoid risk and not move too far into commercial farming which, even they attempted, was still very limited on their tiny plots.


In the broader and growing private sector consisting of individuals that were able to establish their own farms independently things were also relatively good. Individuals in Ukrainian agricultural enterprises usually had the right to leave their enterprises with a plot of land and establish their own private farm. In spite of the success many private farmers had few chose to leave the agricultural enterprises they were on. Reasons abounded for why this was the case. In a 1994 World Bank survey on why individuals in Ukraine did not intend to become private farmers the top three responses were first “Difficulty obtaining machinery and farm output”, second was concerns it was “too risky” and third concerns over “insufficient capital”\textsuperscript{155}. Three years later in the same survey given by the World Bank the same top answers from the previous survey were given\textsuperscript{156}. There was little doubt that private farming could succeed and be very successful in Ukraine. The big problem was the broader macroeconomic economy and the institutions around private farming that prevented it from reaching its potential as the World Bank described: “private farming can survive and prosper in Ukraine in an appropriate institutional environment. It is unlikely, however, that private farming will be substantially strengthened as long as private farmers are forced to operate in the narrow and inhospitable gap between the command and market systems”\textsuperscript{157}. As the previous chapter explained this gap was never closed as Ukraine teetered in the middle of both systems.

General statistics also may have hid the distribution of land to private farmers. Allina-Pisano described a situation where only elite insiders were able to successfully the necessary land and machinery to be successful: “Elite private farmers with large landholdings and access to credit and other inputs began to evince important similarities with the production practices of former collectives; these farmers possessed an economy of scale that allowed true commercial agricultural production.


\textsuperscript{157}Ibid, 24.
Farmers on the margins, meanwhile, cultivated small plots using begged or borrowed machinery, animal-pulled plows, or hand-held tools. Statistics did give evidence of a social divide between private farmers and employees in agricultural enterprises as over 40% of private farmers had higher education compared to 22% for agricultural employees. The widespread introduction of private farming could also not have solved all problems overnight. Allina-Pissano decried how: “The rhetoric surrounding reform suggested private ownership would be a panacea, with dramatic benefit to the economy, the state, and rural populations.” This was true as private farming couldn’t be characterized by a wave of success as the problems with private farming in the last couple chapters illustrated, but private agriculture held great potential and was far more productive than collective agriculture.

Behind the disappointing productivity figures were two main drivers. The first was that investment disappeared in the era as Soviet era machines continued to be used and rusted away in the decade without being replaced. Figure 4.6 illustrates this deterioration as the application of tractors on land gradually declined. The lack of machinery was especially striking for those in the private sector and on household plots where: “By the end of the 1990s, agriculture had been demechanized...and it was not uncommon to witness people, rather than draft animals, pulling wooden plows and engaging in manual cultivation on former collectives.” By the start of the next decade 70% of the technical stock in agriculture was declared obsolete, fixed assets depreciated faster than their rate of renovation and in 2000 Ukraine produced only 60 new harvesters. The post-soviet landscape went from over-

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158 Ibid, 110.
161 Ibid, 147.
investment that was badly misplaced to underinvestment in a macroeconomic environment where capital was hard to come across and banks were afraid to lend. Lewig Strewe and Stephan von Carmon-Taubadel constructed a simple flow chart that illustrated how the poor environment for investment led to scare capital which led to outdated, damaged and/or missing inputs which then led to declining production. Everything there stemming back to problems in macroeconomic environment. The second major driving factor behind the disappointing productivity was the overall continuance of the Soviet institutional structures in the countryside. The Kolkhozy ceased to exist officially, but its successors governed themselves in essentially the same fashion as they did during the Soviet era. Greater investment is certainly important but, as in the Soviet-era, the persistent problem of institutions needed to also be tackled.

Figure 4.4

![Graph of Tractors Per 100 sp. km of Arable Land]

Source: World Bank

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The dream of agriculture leading economic revival proved a farce as Ukraine was a minnow in world agricultural production. In export markets Ukraine performed little better, if not worse, than in Soviet times. The restoration of the blue and yellow flag representing the blue skies and yellow wheat fields of the nation did not reflect the landscape of Ukraine too well. Wheat indeed was the great hope for export markets, but at Figure 4.5 illustrates aside from a very good year in 1998, which was likely the result of a temporary in export controls and a good overall wheat harvest, the export market was actually higher in the late Soviet era when Ukraine only exported within the USSR to other Soviet republics. The sharp decline in sugar beet production was also shocking as the nation went from being a net exporter to a net importer for sugar beets for a time in the decade.

**Figure 4.5**

Ukraine Wheat Exports 1987 to 2000

![Ukraine Wheat Exports 1987 to 2000](image.png)

*Source: State Statistics Service of Ukraine*

Consumption levels in Ukraine fell to astoundingly lows to the point. Meat consumption, despite being at a disappointing level throughout the Soviet era, was particularly badly hit. In the
decade between 1990 and 2000 overall consumption in terms of calories fell by almost 1000 calories\textsuperscript{164}. Potatoes, already over consumed in the Soviet era, became an even larger part of the diet as it was the most popular crop for households to produce. The income of farm employees was also very low. Within the poor performance of the economy working in agricultural continued to be a low prestige job and the average income for those working in agriculture was the very lowest in Ukraine throughout the 90s compared to other job classifications as Ukrainian statistics reported, and were around half the average overall wage in the economy.\textsuperscript{165}

In the ever deteriorating situation full of uncertainty and risk one constant source of stability remained was in the new collectives. Collectives held the same social role they did during Soviet times as Allina-Pisano claimed: “Amidst widespread economic crisis and political uncertainty, agricultural collectives fulfilled a critical social function – ensuring the survival and stability of rural communities”\textsuperscript{166}. During the Soviet era the kolkhoz had same function and in the late Soviet era conservatives feared the destruction of the kolkhoz meant the destruction of stability in the countryside. In independent Ukraine the kolkhoz was finally supposed to be destroyed as officially socialist ideology disappeared. The socialist ideology disappeared, but an alternative model that accommodated private farmers did not emerge as the collective continued. The new collectives offered fewer and lower quality services than it did in the Soviet era, but it the services were generally still better than state services. Amidst the safety of the collective it not surprising that few decided to leave as economist Zvi Lerman described: “In a risky environment characterized by legal uncertainty traditional lack of confidence in the government, and inadequate market services, rural residents prefer the safety of a

\textsuperscript{164} State statistics committee of Ukraine, Agriculture of Ukraine: Statistical Yearbook, (Kyiv: State statistics committee of Ukraine, 2010).


collective umbrella to potentially higher returns of independent entrepreneurship”\textsuperscript{167}. Private farmers did not have access to the same services as workers in collective enterprises and they often were resented by workers within collectives, but they were generally, and overwhelming, more optimistic and satisfied with their situation than those in collective farms. In 1997 survey data showed that over 85\% of private farmers were satisfied with their performance and general situation\textsuperscript{168}. In contrast over 85\% of farm employees in agricultural enterprises felt that their living standards had declined in the previous three years\textsuperscript{169}. The potentially higher returns in private farming however were not guaranteed and difficult to attain.

The remains of the Soviet command economy were evident in many parts of the post-Soviet Ukrainian agricultural economy. The suppression of individual initiative and attempts at creativity persisted. Inputs were still allocated from the same central and state sources instead of from private sources. There was little financial discipline and incentive for large enterprises to improve their efficiency. The agricultural economy effectively came full circle back to where it started at by the end of the 90s as economist David Sedik explained: “the Ukrainian countryside had nearly the same set of large farms, characterized by the same sets of problems (low technical efficiency and little innovation), as at the beginning of the decade...the polices created an environment in which a farm' primary objective was self-preservation, not profitability”\textsuperscript{170}. The massive artificial sized behemoths persisted with a lack of financial discipline for the same reason they did under Soviet times. Government authorities were too afraid to let enterprises fail or restructure them in any significant way as, despite the deep unhappiness of their members, they provided an order to the countryside that ensured social


\textsuperscript{168}Ibid, 59..

\textsuperscript{169}Ibid, 59.

stability. Sedik explained at the time how: “The creation of an 'enabling environment' has been subordinated to the aims of preserving large farms and arresting the decline in agricultural production”\textsuperscript{171}. By doing this they prevented an opportunity for the creative destruction that market economies tend to be characterized by.

In the Soviet era members of the kolkhoz never had any real power as the local communist party ultimately picked the manager. In post-Soviet Ukraine this continued as local authorities could fire collective managers they believed were unfit and they tended to be managers that didn’t answer demands of local elites\textsuperscript{172}. Individuals did not like the collective, but they understood no other alternative. This important role helped collectives to maintain power in the countryside as Havrylyshyn explained: “The new economic arrangement is straightforward. The state provides budgetary subsidies and cheap bank credits allegedly to keep the economy going and people at work. It also keeps bread prices low for the good of the average citizen\textsuperscript{173}”. This was essentially the same arrangement from the Soviet era as the state attempted to maintain a just manageable standard of living: “popular discontent is partially allayed as patriarchs fulfill their neofeudal obligation, ensuring that the workers have jobs and some privileges (health care, vacations, some consumer goods) and are paid enough to survive as before”\textsuperscript{174}. Post-Soviet collective farms were supposed to operate on new market principles but never really did and as time passed collectives were again able to reassert their power change was even more difficult.

The Ukrainian bureaucracy continued to operate under manners that they were conditioned into during the Soviet era and the same failed beliefs persisted. Local officials routinely low in the

\textsuperscript{171} Ibid, 92.
\textsuperscript{174} Ibid, 51.
bureaucratic hierarchy routinely blocked efforts made by the central government to try and restructure agriculture just as they blocked or only partially implemented Gorbachev’s reforms in the Soviet era. Local officials continued to be distrustful of private enterprise and routinely blocked efforts of local farmers. Allina-Pisano explained declared that some in the bureaucracy “did not regard private ownership as a good in itself: private farmers’ utility to society, as expressed through their obedience to the state, was the proper measure of their worth”\(^{175}\). The false belief that bigger is always better in achieving economies of scale also persisted in a form. A World Bank report highlighted this as a key blocking point in future progress: “There is a common fear that land reform and restructuring of traditional large farms will exacerbate the trend away from commercial production for markets, particularly if the process results in creation of many small and medium sized farms”\(^ {176}\). In moving forward these same Soviet beliefs blocked Ukraine achieving its potential.

The one success that can be given to the transition was that the state monopoly on land began to wither away and be dispersed into other forms of management. The state went from owning 100 per cent of the land in 1991 to only 35 per cent by 1994 and eventually it reached an insignificant amount by the end of the decade\(^ {177}\). This success though turned out to be partly, if not wholly, illusionary or at least insignificant as the land was mostly just transferred to collective tenure, under the new name, or some other form like a limited liability partnership that in reality was little more than changing the sign on the door of the enterprises and workers within the enterprises widely reported that they noticed little change or restructuring as the years went by. Allinia-Pisano brilliantly explained: “As agricultural collectives officially became known as joint-stock companies, limited liability companies, and other types of enterprises, the meaning of reorganization to worker-shareholders appeared no different from


\(^{177}\)Ibid, 10.
that of the cities, urban streets, and metro stations across Russia and Ukraine that shed their Soviet-era names to adopt new or historical nomenclature. Private farms and the household sector combined still only represented around 15% of all agricultural land. Private farming initially grew rapidly after independence but this was a rise from a previously nonexistent base and by the mid-90s its growth essentially stopped. Between 1992 and 1994 the amount of private farms nearly doubled from 14,500 farms to 28,000 but after growth slowed and by 1997 had effectively stopped where there were a little over 35,000 farms. Private farms were also much smaller than most agricultural enterprises. The average private farm was around 25 hectares while most agricultural enterprises had hundreds of acres under their control. It is thereby hard not to call the transition in Ukraine a failure.

At the end of the 90s after nearly a decade of transition most working in the agricultural sector saw little improvement. The false promises of transition even led many individuals to hark back to the supposedly good old Soviet times when they were generally paid better and ate better. Conditions for many working in agriculture seemed almost indistinguishable from the Soviet era so what difference did bringing back the official sovkhozy and kolkhozy actually make? Soviet institutions largely persisted in the same form they did during Soviet times with the same power relations resistant to power. Some hope existed in a successful private sector but entry into the sector was a terrifying prospect to most fraught with difficulties. Still the private sector gave evidence that a successful alternative was possible if Ukraine could take the proper steps.


Conclusion

The story of late Soviet regime and Ukraine’s subsequent transition was a story of almost continual disappointment. Bleakness permeated as the Empire that was supposed to be controlled by workers could barely provide its peoples a decent standard of living let alone a decent diet while the promised liberation of transition and markets only seemed to have worsened conditions. Hope existed in change, but continually fell flat. Perestroika did not lead to serious restructuring of the Soviet economy. The same institutions that dominated the Soviet countryside continued to dominate. Independence did not lead to a revival of the Ukrainian breadbasket or the emergence of economic prosperity. After the first decade of independence Ukrainians earned less, ate less and often worked under the same conditions they had under Soviet times. The deterioration and initial transition even led to a decrease in the life expectancy in Ukraine, as well as other Soviet republics, not just from lower income, lower state funding to health services and worse diets but also to a rise in alcoholism and depression as citizens couldn't deal with every worsening reality devoid of hope.

In agriculture the continual deterioration was clear for all that worked in the sector. Soviet agriculture was a mess by the time Gorbachev took power with a Kafkaesque bureaucracy and institutions that were modified relics of Stalin’s era. The old social compact of increasing living standards through higher wages and better diets that kept Soviet citizens in line was no longer sustainable. Gorbachev understood the problems in agriculture but was unable to change decades old beliefs in Soviet institutions and was cautious himself in fully moving away from socialism. The transition away from the Soviet system in Ukraine brought promises of a return to its proud peasant heritage. The kolkhozy and sovkhozy disappeared officially, but everywhere the agricultural organizations seemed to function in the same manner to the average Ukrainian farmer. Little change was actually visible as former Soviet agricultural institutions just changed the official name of their enterprises while retaining the same management. The escape from the emergence of subsistence
farming in the countryside was of little comfort to most agricultural workers who under Soviet times were generally paid better and ate better.

One of the few conclusions that economists can say with a high degree of confidence is that the style of socialism experimented by the Soviet Union was an economic catastrophe. As for how to develop countries successfully there is far from any consensus in means of moving forward. Some agreements on policy exist that are almost redundant like don't inflate your currency away by printing money, prevent the presence of monopolizes, or don't impose export bans. The trouble with Ukraine was that, despite little concrete understanding of how the transition really could have been successful especially due to different transition countries having success on adopting different models, they did not prescribe to some of the obvious don'ts. If anything positive could be said it's that Ukraine never reverted completely back to Soviet command controls that maintained the kolkhozy and sovkhozy with no hope of escaping from them. They at least created a semblance of a market economy that could be improved in the future, and at least some chance of greater independence and autonomy through private farming. This conclusion was not encouraging for many Ukrainians with the somewhat distorted yet, also somewhat truthful, belief that things were better in Soviet times.

The amount of importance that institutions have in blocking economic progress is uncertain. To say that it has no importance though would seem outlandish especially in analyzing Soviet attempts at economic reform and the transition of nations away from socialism. It is evident that certain norms of behavior formed under Stalin that were then reinforced and adapted by succeeding regimes came to dominate the Soviet mentality and bureaucracy that blocked ability of future reform to proceed in agriculture. The resistance met during Gorbachev's era wasn't just from elite insiders who just wanted to maintain power, although this also was a very important force in blocking reform, resistance also came from farmers within the kolkhozy and sovkhozy. The question is whether bolder leadership or stronger policies could have been effective in changing old mentalities quicker or whether any of it mattered in the face of inherent problems in the command economy and the nationalities question.
Understanding such causation in the social sciences is an immensely difficult task. At best it should be understood that institutions played an important role if not, perhaps, the pivotal role.

Just as the Soviet inability to reform throughout their regime had lingering effects late into their regime Ukraine's inability to reform successfully during the transition has lingering affects even into today. Ukraine's agricultural economy is still a minnow on the world stage and the broader economy is immensely corrupt from elite insiders that established themselves during the transition. Ukraine continues to have a problem understanding its identity into the 21st century uncertain whether to align itself with the liberal democratic market institutions of the West or to stay close to Russia and its Soviet past. The 2004 Orange Revolution presented hope of a break with its Soviet past, but the Revolution had the same tragic conclusions as the initial independence did. Hopes of the economy reviving and Ukraine breaking from its Soviet past were squandered by Victor Yuschenko the leader of the Orange Revolution and the man who effectively rigged the initial round of the 2004 elections, Viktor Yanukovych, was elected in the 2009 presidential elections.

Many of the European transition countries are doing rather well for themselves today. Agriculture has subsided as being a major economic sector in most of the successful transition nations as many have either shifted to a more service based economy or have become a cheap outlet for manufacturing for Western Europe. Many of these nations have clearly aligned themselves with broader European values as EU membership has spread eastward encompassing even former Soviet republics in the Baltics. A lingering communist influence along with nostalgia for communist times persists in many of the transition countries, but after the hectic transition days of the 90s most have moved on. Ukraine, as in the initial transition, is again in a tight confused spot, and understanding over its Soviet legacy is still complex. The recent Euromaidan protests initially provoked by the rejection of Ukraine's President Victor Yanukovych to sign a free trade agreement with the EU represent not just the pent up frustration of inability to move towards a European community but a frustration of a kleptocratic framework that has characterized all of independent Ukraine’s history. Still, the protesters
only represented a part of Ukraine as eastern Ukraine, for the most part, was not as supportive of the
protests. The reality of two Ukraines and the two agendas they push for should not be lost. The two
competing ideologies and the inability for Ukraine to reconcile them in the post-Soviet landscape
played a strong part in halting the success of the transition. The confusion on a way forward persists in
Ukraine and in order for them to move forward they still need to reconcile their Soviet past and the
transition period. This means understanding its Soviet heritage and the persistence of the mentalities
from the time and how they initially tried to move away from those mentalities in the transition. If any
lesson can be learned from both the Soviet and Ukrainian attempts at economic transition it is that
broad societal change is not easy and must be understood as requiring a large indeterminate amount of
time in order to be successful with few clear cut policy prescriptions being evidently necessary.
Ukraine right now is at a critical point of revolutionary fervor akin to the time during the Soviet fall.
Another opportunity exists to fundamentally change Ukrainian society. Despite the difficulty present in
changing their institutions it is possible. History is not an unmovable obstruction that chains nations to
their past. History is an ever present impediment that lingers but is moveable.
Bibliography


