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**SWP 6/88      RURAL NON-FARM ENTERPRISE IN THE  
SOVIET UNION**

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## RURAL NON-FARM ENTERPRISE IN THE SOVIET UNION

### Introduction

The major concern of Soviet agriculture is to increase production of basic crops such as grain, dairy products, meat and vegetables. Sugar beet is the only major crop where present production is not considered insufficient, and even the most casual experience of shopping for foodstuffs in any Russian town demonstrates that basic items such as bread, apples, beef or cheese, are in short supply. The current five year plan includes production increases of 19% for grain and around 25% for dairy products, and, as in so many fields of the economy, comparative data of consumption per head between the USSR and the USA are used to press the case for continued expansion. The massive purchases of grain from abroad, and even the recent imports of surplus butter at giveaway prices from the EEC are viewed as a national disgrace; national self-sufficiency, and even some export capacity, are perceived to be the overall goals.

At the institutional level, this concern has recently been reflected in the formation of Gosagroprom, the so-called "Agro-Industrial Complex", which attempts to bring under one authority all the various sectors which can contribute to the achievement of targets, such as machinery and fertilizer production and distribution, as well as farming itself. There are still quite separate departments at the national, regional and district level for state and collective farms, although the distinction between them, which is largely historical in origin, is coming to mean less and less in day to day operational terms.

In spite of the fact that no new collective farms have been formed since the collectivisation of the Baltic States soon after the war, the collectives are still the focus of some international attention, and indeed of some emulation in those countries in Africa and elsewhere which are attempting to pursue a so-called socialist or even a mixed approach to development. Although the Soviet collectives have not been an enormous success in terms of increased productivity, and their results are in the aggregate very little different from the State Farms, they do nevertheless represent the largest and possibly the longest established group of co-operative enterprises anywhere; co-operatives are seen by many people in both the richer and poorer countries of the world as a possible third option to add to the classic choice between state and private ownership; it might be that the Soviet system, in spite of the special features inherent both in its origins and the system within which it currently operates, might have some valuable lessons for people elsewhere trying to introduce similar forms of ownership and control.

During a recent short visit undertaken under the auspices of the Anglo-Soviet Cultural Agreement, I was able to spend a day in each of three collective farms and two state farms, in the area around Vladimir, some 200 kilometers east of Moscow, and between Krasnodar and the Sea of Azov, near the Black Sea. I also had extensive discussions with district and national headquarters staff, after the field visits, where it was possible to ask whether the impressions I gained from the individual cases were in any way typical of the country as a whole. I was able to obtain a great deal of information about the ways

in which the farms were managed, and the degree of autonomy they enjoyed; I also observed some very interesting examples of non-farm economic activities being carried out by the collectives and the state farms.

These non-farm activities are quite different and distinct from the very small private vegetable gardens and pig or cattle rearing activities of individual members. Some involved agricultural inputs or equipment, others were adding value to farm crops, while others appeared quite unrelated to, and even in some cases to be in conflict with the overall national objective of increasing production of basic crops. The farm managers were somewhat surprised by my interest in these activities, but were delighted to tell me about them, while the regional and particularly the national level officials were not only surprised but somewhat irritated by my interest; they clearly felt that national and individual production targets for basic crops and their achievement or otherwise, were of far greater importance.

I felt nevertheless that these activities did merit some attention, and that they might be of interest to a wider public, particularly because they seemed to show how some Soviet farms have already begun to evolve solutions to the problems of over-production, rural de-population and the growing capital intensity of agriculture, long before those problems have become as serious as they have in Western Europe, North America or even many parts of Africa, Asia and Latin America. The Soviet initiatives have often been undertaken in response to quite different problems, and they are clearly unlikely to be immediately replicable in the context of the quite different systems of so called "mixed" or capitalist economies. They may nevertheless be of some relevance, both to the EEC and the USA as they struggle with overproduction, and to Third World rural development managers and planners.

### The Activities and Their Origins

The non-agricultural enterprises which I saw, and about which I was sometimes reluctantly informed, appeared to fall very broadly into three different types, motivated by three rather different concerns.

First, and possibly most obviously, there are downstream activities whereby the farm attempts to add more value to its crops, and thus to earn more surplus for further investment or for distribution to members in the annual bonus, which can be almost equal to the normal salary of a member in a successful year. These activities include canning and bottling of fruits, jam, fruit juice and similar products, and made use of crops which were either not subject to annual production quotas or where the farm could be quite confident that the quota would be comfortably exceeded, so that there would be no shortage of raw material for the processing facility.

Second, there were activities which had been started because the farm needed products or services which would normally be provided by outside organisations, but where the level of quality, the reliability, the price or some other aspect was unsatisfactory. These included the manufacture of farm machinery, as opposed to its maintenance, which is in any case a farm responsibility, sewing sacks, extruding packaging material, making fencing equipment, operating sawmills, brick making, and a large range of what are often very specialised construction activities, such as land reclamation, road building and large scale building contracting, carried out initially for the farm itself, but increasingly serving a wider market of neighbouring farms, communities and other organisations.

Thirdly, and perhaps most interesting, there are a number of activities which have been undertaken because of the need to employ people. In some cases, and particularly in Vladimir District east of Moscow where crops are sown in early May and harvested in September, this is mainly a seasonal problem; elsewhere, such activities are initiated in order to provide employment for women, or for young people who may not wish, or have the experience, to fill the increasingly technical jobs on the farm itself. These activities include brush making, garment manufacture, electronic sub-assembly and plastic moulding of components for nearby engineering works.

The original motive for starting the enterprise may have arisen from a combination of these three, but most of the non-farm activities I observed could be placed into one of the above categories. None of the managers to whom I spoke mentioned a fundamental shortage of employment on the farm, as opposed to seasonal inactivity or the problems of special groups of people. The farms are, however, communities as well as enterprises. The average farm occupies some 6000 hectares, of which 4000 are under cultivation, and there are around 500 working members, with a further 300 children, retired people and wives who work at home rather than on the farm or in other services. The managers appeared to feel very strongly that every member, every child of every member, and even the spouses of those who married outside the community should be able to have a job in the community.

In some districts, maintenance or increase in the numbers of members counts towards the marks for the annual competition for the best farm, and the managers and their staff seemed to be anxious to make their farms self-sufficient not only in terms of inputs and services, but also in terms of employment for succeeding generations. They were aware that their enthusiasm for mechanisation would eventually lead to the displacement of labour on a far greater scale, and realised that their initial efforts at diversification might eventually have to be considerably extended; the precedents were set, in terms of members' enthusiasm, and encouragement, or at least grudging acceptance by the planners, and they were optimistic that they would in this way be able to avoid many of the problems which have afflicted agricultural communities elsewhere, even when the national production targets have been achieved.

I was only able to obtain somewhat random data as to the scale and profitability of these non-farming activities, at the national, regional or individual farm level, partly because I did not ask for it in my first visits and partly because data is not available, at the national level at any rate, on this type of activity which may be perceived as arising in part from the failure of the farm support system, and which is in any case not central to the overall goals of ever higher production.

I was able, however, to obtain employment figures for the farm and the non-farm activities of Beysug and Russya Collective farms in Krasnodar District, for the Bolshevik Collective Farm in Vladimir District east of Moscow, and total figures for all the 80 collective farms and 140 state farms in Vladimir District. I also obtained some comparative data for investment, profits and turnover for farm and non-farm activities in some of the above units. The figures, which were not able to be checked and may not be totally comparable, are briefly summarised in the following tables:

**TABLE 1: Percentage of Non-Farm in Total Activities**

	Beysug	Russya	Bolshevik	Vladimir Collectives	Vladimir State Farms
Employment	2.8%	6%	2.5%	12%	10.4%
Revenue	3.6%	n a	25%	20%	19%
Investment	1.3%	n a	3.4%	3.7%	3%
Profits	2.6%	20%	20%	n a	n a

These figures suggest that non-farm activities are more important in the more northern region as is to be expected because of the longer winter period; they also show the rather wide variation in the significance of such activities between one farm and another. They also demonstrate the rather greater profits that can be earned from a given capital investment, or person employed, in non-farm as opposed to farming activities. This may also be reasonable, since the farm profits are depressed by the sales of quota production which is sold to the State at low prices, and which might be taken to include some allowance for imputed rent of the land. It is clear, nevertheless, that profits, which appeared to be of great importance to the various managers whom I met, since they provide the farms with funds for reinvestment and for bonus distribution, can more easily be obtained through deploying both labour and capital in non-farm activities, once the all-important quotas have been met.

The following even more scanty financial data suggest the greater profits, and lower cost per work place, of non-farm activities; one rouble is equal to approximately one pound sterling, at the official rate of exchange, and the investment figures do not include any allowance for the cost of land or of major irrigation works, trunk roads or other centrally provided infrastructure.

**TABLE 2: Comparative Financial Data**

	Beysug Rb	Russya Rb	Bolshevik Rb	Vladimir Collectives Rb	Vladimir State Farms Rb
<b>Capital/Job</b>					
Total	13600	12400	17000	20000	22000
Non-Farm	6250	n a	22800	6200	6500
<b>Profit/Job</b>					
Total	3600	1900	2900	n a	n a
Non-Farm	3250	6700	n a	n a	n a
<b>Sales/Job</b>					
Total	10000	n a	8800	8930	14700
Non-Farm	12500	n a	n a	14700	27700

It was only possible to obtain very limited information on the profitability in relation to sales and capital of the farm and the non-farm enterprises; for the Beysug Collective, the average profit on sales for all products is 36%, while the equivalent figure for the non-farm sales is twenty-six per cent. The comparison of the profit on investment, which is more significant in terms of the Collective's decisions on allocation of resources, is, however, far more in favour of the non-farm enterprises; the average figure for all activities is well below that achieved by the non-farm ventures.

The comparative figures for the collective and the state farms in Vladimir District also show that although collectives are nominally more autonomous and able to invest members' labour and their own capital, in such activities as they wish, the state farms also enjoy similar freedom. Although the latter are nominally under the direct control of the district and higher echelon authorities, and their managers have, at least until very recently, been appointed from above, they appeared in conversation to have similar autonomy as the collective farm chairmen, who are elected by the members, and answerable to them. Both groups of managers appeared to think and regard themselves in much the same way as do managers of large autonomous units of decentralised diversified corporations, with the additional element of responsibility for the community as well as the economic activities. So long as they satisfied their ultimate masters by producing the crop quotas each year, and remained solvent, the day to day decisions and even medium to long term commitment of resources were up to them, even if they had nominally to be approved or included in the plan of a higher authority. One state farm which I visited was also the base for a large agricultural research station and the other also housed a district agricultural training college. In both cases, great care was taken to ensure that the farms remained independent profit centres, and the school and the research centre were properly charged for the space they occupied and for any costs which might be caused because of the need to accommodate normal economic farming practices to the needs of research or training.

#### **The Bolshevik Collective Farm Plastic Moulding Unit**

The Bolshevik Collective Farm occupies some 7300 hectares of sandy forest land near Murom, some 200 kilometers southe east of the district centre of Vladimir. About 3500 hectares are cultivated, and the main crop is seed potatoes; they also raise heifers for sale to other farms in the district, and they produce milk which is sold to the state dairy system. Approximately 60% of the potatoes are sold on quota to the state for around thirty roubles per hundred kilos; a further 20% are used on the farm and the balance of 20% is sold on the free market, for around forty roubles per 100 kilos.

There are about 2500 people, living in the main village where the farm headquarters and other service departments are located, and in five smaller villages elsewhere on the farm's territory. Of these, some 1050 are fully employed on the farm and in its service and non-farm enterprises, while the others are either children, old people or are employed by the state in the schools, the health centre or other centrally provided social activities. The school and clinic buildings were built by the collective, but are staffed and run by the state.

In addition to the agricultural activities, the farm employs about 100 members in a number of construction teams; these were started to serve the needs of the farm itself, but have recently carried out a number of contracts for neighbouring state and collective farms. There is also a well equipped workshop which was originally set up to maintain the farm's own equipment; partly because of the long winter season, the workshop staff

moved from routine maintenance into total overhauls; its superintendent has recently designed and built a new loading system for crop sprayers which they are marketing to other farms.

Some years ago, the dairy section was having difficulty in obtaining supplies of plastic ear tags for their heifers; one of the staff designed an improved tag, and, as it happened, the Chairman had at the same time heard about a small plastic moulding unit which a nearby collective had established in order to provide winter employment for the women members. After some discussion and consultation with the membership, they decided to investigate the possibility of starting such a unit on the Bolshevik Farm, to manufacture the new ear tag, to provide employment, and, they hoped, to earn additional profits for the collective.

It was difficult to obtain equipment or raw materials, since the new venture had not had any resources allocated to it under the plan. A refrigerator factory in Murom, however, happened to have one rather old injection moulding machine surplus to its requirements; this factory also produced more scrap material from rejected mouldings of refrigerator parts than it was able to re-process, so they were happy to sell the Bolshevik Collective a simple re-grinding machine together with the injection moulder, in order to obtain a market for their scrap materials.

The unit started successfully, making ear tags for the farm's own cattle and for other customers; they then started to make plastic moulded cow combs, and, somewhat later, moved away from farm related products altogether when they were asked to make clear plastic lamp glasses by a factory making motor-cycles. By this time, the unit had been included in the plan allocations for equipment and raw materials; it now employs sixty women, working in three shifts, with a total of twenty small injection moulding machines. They make a range of components for factories in the region, as well as the agricultural products. The unit is still accommodated in some simple converted barns, but it has become an important source of profits for the collective as a whole.

Out of the total sales of some eight million roubles, 1,700,000 roubles are accounted for by the plastic moulding unit and the profits also amount to some twenty per cent of the total earnings of the collective. The capital invested in the unit is, however, far less than twenty per cent of the total, so in terms of return on investment, the plastic moulding enterprise is highly advantageous.

When they started the unit, the managers acted very much on their own, with no official assistance; they were advised informally by the specialists from the refrigerator factory in Murom. There is now, however, a special advisory and marketing assistance unit at the district office in Vladimir, to help collective and state farms with this type of **undertaking**. The Bolshevik Collective makes some use of this in obtaining new **contracts**; but the actual direction of the enterprise remains firmly in the hands of the collective and its managers; the assistance unit is only there for them to use if they want it.

### **'The Policy Environment'**

The plastic moulding unit at the Bolshevik Collective is not atypical, but I was able to observe and discuss a number of other non-farm activities; it is difficult to generalise, particularly because the very strength and interest of these activities lies in their individuality. There were nevertheless some common features which may be of interest, both because of their importance for the past and future development of this type of

activity, and for the light they throw on the way in which both collective and state farms operate in the Soviet Union.

My hosts conceded that the farms to which they took me were among the better in the respective districts, although they were not the best. None of their chairmen or managers admitted to any great problems in achieving their planned production quotas, which had to be sold to the state at lower than free market prices, although all accepted that this was naturally their first concern; if a collective fails to produce its quotas, the state will impose higher quotas for future years, and will bring pressure to bear in other less obvious ways. A state farm manager risks losing his job if his farm fails to produce the quota. Assuming that this level of production is achieved, however, both collective chairmen and state farm managers were agreed that their social and economic objectives were inextricably mixed.

We are in capitalist societies used to the tension between the social goals of a community, such as full employment, and the economic goals of profitability, for reinvestment and for distribution to the stake holders. This tension also exists in collective and state farms in the Soviet Union, but because the farms are so large, being based in most cases on the pre-revolutionary feudal estates, they are at the same time communities and businesses. The examples which I visited were within around one hours drive from fairly large towns, but were nevertheless discrete in physical as well as economic terms; by happenstance rather than design, they were at the same time viable social and economic communities. The conflict still exists, but at least it is to an extent simplified because it is within one organisation, rather than being between separate organisations with conflicting goals.

The chairmen and managers did not appear to consider themselves unduly constrained by external authorities. Once they had succeeded in persuading their members, or employees, of the wisdom of a new investment or other initiative, even if it involved moving into a quite different field, they had only to present a convincing case to the district authorities. None of the managers whom I met could recall an occasion when such an application had been refused, and the average approval time was apparently some two weeks.

Such approval did not, of course, mean that they had guaranteed access to materials and equipment. The Soviet Union is a shortage economy, for most commodities; when a new activity is approved by higher authority, it is then eligible for inclusion in The Plan, through which supplies are allocated. It might take a year or even more for a simple injection moulder to be delivered, and the methods by which the Bolshevik Collective obtained its initial supplies of equipment and moulding polymer from the refrigerator factory in Murom were forced on them not by the difficulty of obtaining permission for the whole activity, but by the shortage of commodities.

All the managers and chairmen felt that non-farm activities would expand in the future; one had plans for a small sausage factory to help members process pork from their private plots, another was planning to expand and diversify garment production and a third talked on specialised irrigation construction and other large scale contracting activities which would be carried out for farms and municipalities in the region and beyond. Unlike the central office authorities, they were aware of the trend towards greater capital intensity and were determined to maintain and if possible increase the population of the rural communities for which they were responsible. They were not anxious to recruit people from outside the community, and attempted whenever possible to plan for future manpower needs by sending young people from the community for specialised training in the field where they felt they would be needed. Outsiders were

recruited when necessary, but the main aim was to offer productive and satisfying employment to the "insiders"; this was consistent with the general aim to achieve self-sufficiency in welfare and social services, and generally to reduce their reliance on the state whenever possible.

As has already been suggested, the district and the Moscow headquarters staff had rather different attitudes to non-farm activities. The Vladimir office maintained the small assistance office which has already been mentioned, and were able to provide me with some aggregate figures for their area. The equivalent office in Krasnodar, by the Black Sea, showed less interest, perhaps because the far shorter winter season demands less seasonal employment, and were unable to provide any data on the subject, although they had comprehensive information on almost every imaginable aspect of the farms for which they considered themselves responsible.

On my arrival in the Soviet Union, I had a brief meeting in Moscow with the Director responsible for all collective farms in the Soviet Union, and on my departure I asked for a further meeting in order to find out more about the development of non-farm activities, which I had observed during my visits to Vladimir and Krasnodar Districts. Because of the short notice, he was only able to give me 15 minutes, but the actual meeting went on for over two hours, because the Director was so surprised and then irritated by my interest in the topic. He refused to accept that over-production could ever be a problem in the USSR, as it is in Western Europe and North America, and even referred to the possibility of export markets for sugar when I pointed out that sugar production had already reached the target level, and that sugar consumption per head was likely to decrease as it has in most industrialised countries. Given the present and likely world supply and demand situation for sugar, and the problems that the Soviet Union already has in absorbing Cuba's production at well above world prices, this seemed somewhat unrealistic.

The move towards locally initiated non-farm enterprises is not connected with the current efforts to promote restructuring and more local autonomy in Russian industry and society, but it may be that the somewhat blinkered attitude shown by central authority is inevitable given that the civil servants have not themselves usually worked in agriculture, and they have spent all their working lives attempting to cajole, coerce and encourage the agricultural sector to produce more and more of the basic crops. If the farms move further in the direction of diversified rural production enterprises, with reducing emphasis on crop production, the central planners and other authorities will become less and less relevant. It is already far from clear why there are separate administrative hierarchies for collective and for state farms; Gosagroprom may in time become little more than a gatherer of historic data, as the farms become ever more diversified and autonomous.

### Conclusions

In spite of past setbacks and disappointments, the Soviet Union is approaching self-sufficiency in most agricultural products; the food distribution and retailing system is currently perhaps the most obviously ineffective and disorganised aspect of the economy, at least to a casual observer from outside. This should in due course be improved, perhaps in part through the growth of small private shops which is forecast to take place when the Law on the Private Exercise of Trade, which was published in January 1987, and came into effect in May, starts to be acted upon. Such improvement may marginally increase demand for some farm commodities, but the country should be producing enough for its own needs well before the end of this century. The existence and growth

of non-farm enterprises actually undertaken on and by the farms themselves, may mean that the USSR will be able to avoid some at least of the problems of over-production and surplus disposal which have caused so many distortions in the EEC, through the operation of the Common Agricultural Policy. Agricultural surpluses, and their disposal, may be said to be one of the major causes of economic disagreement between trading blocs, and they have also inhibited the efforts of Third World policy makers to develop their own viable agricultural sector; it is to be hoped that the collective and state farms of the Soviet Union will not contribute further to this problem.

The experience of the Soviet farms may also be of wider relevance; there are many reasons why community, collective or co-operative enterprises fail to function as effectively as those which are initiated and managed by individuals or groups, primarily for profit, and the track record of such enterprises is far from impressive. Nearly every article on the subject refers to the Mondragon family of enterprises in northern Spain, because there are so few other examples of success. It may be that one of the reasons why some, at any rate, of the Soviet collectives have succeeded is that the boundaries of the enterprise and of the community are the same in both human and physical terms. It is perhaps unrealistic to look to collectivisation of whole rural communities as a solution to the over-production problems of the EEC, but there is little doubt that an integrated rural community, whether it is owned and managed by a collective or a benign private landowner, can respond more effectively to change than a community which is made up of a number of individual private farming units.

The normal Western pattern is for community organisations, whether they are voluntary or official, to be concerned with social and administrative affairs, while business enterprise is in the hands of quite separate organisations. These may themselves be co-operatives, or publicly owned, but they are separate from the local authority, municipality, parish council or other body responsible for administration and social affairs.

When the business enterprises contract or reduce their labour force, whether they be farms, steel mills, coal mines or textile mills, the community organisations are faced with the problems of attracting new enterprises from the outside, or attempting to help those who are out of work to start new businesses to employ themselves and their fellows. The shrinking older business may, in a few cases such as The British Steel Corporation, be in a position to help the community overcome the problems of change, but such assistance can never be as effective as when the business is the same entity as the community. Much is made of the importance of social responsibility for managers, but this must inevitably be peripheral to the main tasks of the enterprise, which are economic rather than social. Enterprise agencies, small firms starter schemes, or investment promotion campaigns can never have the same impact as the efforts of a community which is itself a business.

The "Company Town", on the model of Bournville or New Lanark, is perhaps an outdated concept, since we have come to believe that the goals of a business enterprise must be different from and potentially in conflict with those of a community. A company need not always be engaged in the same industry, however, and successful companies survive by evolving, adapting and initiating change; one explanation for the decay of both rural and urban communities may be the lack of identity between the goals of the community and of the enterprises in which its people are engaged. There is currently some debate, in the United Kingdom and elsewhere, as to the most appropriate form and scale for business enterprise and for community organisations. It may be that there would be something to be gained by considering the two problems as one, and by searching for institutions which can manage both the economic and the social activities

of a community at the same time, and can simultaneously be responsive to the needs and aspirations of the people who live and work in them.

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