

The Economic Impact of Property Rights: Russian Land Reform

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The following piece augments the opening article; it discusses the economic benefits that accompanied recognition of private property rights in Russia in the early 1900s. It first appeared as "The Man Who Saved Russia . . . With Capitalism," in the July 24, 1990 WALL STREET JOURNAL, Copyright 1990, Dow Jones & Company, Inc. It is reprinted with permission; all rights reserved.

Mikhail Gorbachev ostensibly wants to dismantle his centrally-planned economy. But after five years, the Soviet Union is still mired in slothfulness and inefficiency. Why? Because Mr. Gorbachev has not kept up the pace of his domestic reforms.

When Mr. Gorbachev took office in the spring of 1985, he is said to have commissioned a study of the Stolypin reforms. Piotr Stolypin was prime minister of Russia in the early 20th century. Unlike Mr. Gorbachev, Stolypin managed to stave off national disintegration while reviving a moribund economy.

In the summer of 1905, the humiliating loss of the war with Japan precipitated a wave of strikes, mutinies, and pogroms. Czar Nicholas II granted a constitution that established a democratically elected parliament in October, but that step failed to restore order. The following year, the new parliament called for the resignation of the czarist government and the expropriation of private property.

Enter Stolypin. An experienced civil servant, he took over the government with energy and decisiveness. He quickly suppressed the revolution, and rewrote the electoral laws to favor property owners. Stolypin believed that only broadly-based property ownership could provide the foundation for democracy and prosperity.

At the time, agriculture accounted for half the nation's GNP and an impoverished peasantry constituted 84% of the population. The peasants lived in approximately 100,000 villages across Russia, most without electricity and some inac-

cessible even by road. Their customs had changed little since the Middle Ages. Land was owned communally by the whole village and periodically redistributed in an egalitarian fashion by village elders. Capable individuals had no incentive to improve their farming practices, since the rewards would effectively revert back to the commune. The result was soil exhaustion and technological backwardness. The peasant commune was a primitive socialist society.

Stolypin blamed the peasant commune for many of the ills affecting Russia. Since individual peasants rarely owned any land of their own, they had no reason to respect anybody else's property. Whenever the squalor of village life became unbearable, they attacked the property of landowners, shopkeepers, or whoever else happened to have more than they did. These revolts had to be suppressed by force, propelling Russia into a cycle of revolt and repression.

Stolypin's solution was privatization. He wagered that the peasants would leap at the chance to own their farms independently of the village commune. He enacted a land reform that gave peasants the right to claim land they worked as private property. They could even trade their scattered strips for American-style homesteads.

Peasants' distrust of the government ran deep and their attachment to the village commune was reinforced by centuries of tradition. But it wasn't long before the benefits of Stolypin's reform became clear. The individual farmer could finally try out the innovative techniques he had dreamed of; finally he could plant alfalfa without having the village cattle come and eat it all; finally, he could skip the endless bargaining sessions at the village assembly and concentrate on his own business.

Within a few years, the creaking provincial bureaucracy could not survey the lands and draw up the deeds fast enough. By 1914, over 40% of peasant households held their land as private property and many more waited for their petitions

to be processed. To the dismay of socialist intellectuals, the peasants firmly rejected the notion of communal land tenure. The big gentry estates meanwhile were squeezed out of the market by more resilient peasant competitors; by 1916, the gentry farmed only 11% of Russia's farmland.

As a result, the efficiency of Russia's farming sector improved dramatically. Russian agricultural production in the period 1911-1913 was an average of 47% higher than in the period 1901-1905. Domestic food consumption rose, but agricultural exports rose even faster, by 61% between the two periods. Russia solidified its position as the world's largest exporter of agricultural products. Higher peasant incomes meant higher consumption of domestic manufactures and greater accumulation of capital (peasant savings increased ninefold in nine years). Increased export earnings and the solidity of the gold-backed ruble encouraged foreign businessmen who rushed to invest in Russia's booming economy.

Sadly, Stolypin did not live to see his reforms succeed. In 1911, while attending a performance at the Kiev Opera House, he was fatally wounded by a leftist gunman. With its restructuring only partially complete, Russia was thrown into the First World War. Strikes and mutinies precipitated a new revolution in February 1917. Stolypin's newly empowered peasants refrained from joining it. But they couldn't hold back the country's slide into anarchy and terror.

The lesson of Stolypin's reform is that given economic freedom, even backward peasants can become entrepreneurial and politically conservative. Simply put, privatization pays. But economic reform should be undertaken boldly: Vacillation only leads to economic deterioration and political polarization. If he is serious about economic reform, Mr. Gorbachev needs a prime minister like Stolypin. ■

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