TITLE: Russian Food Supplies in 1992 and the Prospects for 1993

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Russian Food Supplies in 1992 and the Prospects for 1993

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Abstract

Repeated warnings of impending famine in Russia's major cities have accompanied the breakdown of command agriculture since 1989. There have been spot shortages--European Community humanitarian aid provided the only vegetable oil available in Moscow in the fall of 1992, for instance. Products which Russia must import from a newly-independent republic of the former USSR, such as Ukrainian sugar, may be difficult to find because of transportation and customs problems. Regional attempts to maintain consumer-price subsidies also complicate food supplies because of interregional arbitraging. Residents of adjoining areas buy foodstuffs at the controlled price and return home with them, a situation which often leads to rationing in the low-price region. To maintain low consumer prices while attempting to keep something in its stores, Tatarstan was issuing tokens for the purchase of ten loaves of bread per person per month to its citizens in October 1992. People on fixed incomes or without access to garden plots or distribution networks at their workplaces are suffering. Food prices have certainly risen several times over. But fears of real starvation have not yet been realized.

As late as early August 1992 the Russian and foreign press were warning that drought, economic chaos and politically-motivated withholding of produce by the kolkhozes and sovkhozes threatened to repeat the procurement crisis of 1991 and cause a hungry winter in the cities. But by the end of 1992 the Russian government had met its grain procurement targets. Although final results were not yet available as of this writing, the 1992 grain harvest in the Russian Federation amounted to between 105 and 110 million tons. Procurements at the nine-month mark were running well ahead of those a year ago.

The 1992 harvest was larger than that of 1991, making procurements easier. All the CIS states together produced approximately 183 million clean-weight tons of grain, 25-30 million tons more than in 1991. Much of the improvement resulted from a bumper crop in the Virgin Lands areas of northern Kazakhstan. They produced some 17 million tons of grain more in 1992 than in 1991, when a severe drought caused a virtual crop failure. Russia will import
much of that grain. The Russian Federation itself produced 12 million tons of grain more than in 1991.²

Despite plans to change the system of state procurements to a tax-in-kind and increase the amount of free-market sales announced as part of the winter 1991 agrarian reform legislation, the procurement organizations in 1992 worked much as they have since the 1930s. But the state has lost much of its coercive power over the farms. Instead of simply ordering delivery, the Russian government had to pay for deliveries this year at prices negotiated with the major farm organizations. The gradual loss of direct state power over the harvest's disposition indicates that Russian agriculture is spontaneously developing a "free" (not directly commanded by the state) market in outputs, continuing an evolution that began under Mikhail Gorbachev before the USSR collapsed.

To prevent farms from withholding produce as they did in 1990 and 1991, the government gave in to farm demands for increased subsidies and higher state prices for the produce the farms were obliged to deliver. Free retail prices have also begun to change the pattern of demand and supply of food. Meat and dairy production is down, but bread and macaroni output has increased, so that a good grain harvest is more efficiently utilized (it takes more grain to make a pound of beef than to make a pound of bread). Military units were more widely used as harvest labor to make up for the lack of city dwellers who could no longer be called out to perform manual labor.

The apparent success this year does not mean that the procurements system is working smoothly again in the way popular memory sometimes believes it did under Brezhnev or even Stalin, however, nor that the danger of urban food shortages is past.¹ Once upon a time the state simply ordered farms to deliver their produce and used its power over industry to reward obedient farms with manufactured production inputs and consumer goods. Now the state must compete for the harvest with a growing free market. The Russian state's budgetary crisis means that neither the central nor local authorities have the funds to maintain the production subsidies with which the harvest was bought from the farms in 1992. As the emergence of a vociferous "managers' lobby" in the parliament makes clear, the state can no longer command industry to supply agriculture with production inputs at low prices. The industrialists would be happy to sell their output to the state, but only at prices which the state, like the farms, is likely to find ruinously high.
The continuing breakdown of the linkages between producers, suppliers, processors and retailers is likely to accelerate in 1993, and Russian agriculture is likely to face much more severe difficulties as marketization continues. Those problems will grow in severity even if, following the fall of the Gaidar government in December 1993, new leaders attempt to moderate the pace of privatization and marketization or stop the halting movement away from state subsidies to producers and consumers. The Russian state no longer possesses the physical and monetary resources, and it has not yet developed the political means, to repeat the procurements success of 1992 many more times.

Free prices without institutional reform demonstrated what should already have been obvious, that many state and collective farms cannot survive in a market environment without subsidies. The farm managers' lobby demands that state support be retained and increased to restore these farms to a semblance of financial health. But the government lacks the financial means even to make good on its existing commitments. It is too weak to effectively levy new taxes. The 1992 success will be much more difficult to repeat in 1993.
Introduction

Repeated warnings of impending famine in Russia’s major cities have accompanied the breakdown of command agriculture since 1989. There have been spot shortages—European Community humanitarian aid provided the only vegetable oil available in Moscow in the fall of 1992, for instance. Products which Russia must import from a newly-independent republic of the former USSR, such as Ukrainian sugar, may be difficult to find because of transportation and customs problems. Regional attempts to maintain consumer-price subsidies also complicate food supplies because of interregional arbitraging. Residents of adjoining areas buy foodstuffs at the controlled price and return home with them, a situation which often leads to rationing in the low-price region. To maintain low consumer prices while attempting to keep something in its stores, Tatarstan was issuing tokens for the purchase of ten loaves of bread per person per month to its citizens in October 1992. People on fixed incomes or without access to garden plots or distribution networks at their workplaces are suffering. Food prices have certainly risen several times over. But fears of real starvation have not yet been realized.

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**Recent Changes in Farm Supply and Procurement**

From the 1930s until November 1991, two parallel and competing administrative hierarchies extended from the individual farm upward through regional and republican levels to Moscow. One belonged to the Communist Party of the Soviet Union, the other to the Soviet government. Party discipline and nomenklatura privileges ensured that the state apparatus carried out central policy.

In 1989, the state agricultural management bureaucracy was reorganized, creating the State Commission on Food Supplies and Procurements. Planning, procurement and supply functions were pushed down from the all-union level to the individual republics. Deliveries to the central USSR grain and food stocks greatly decreased. One predictable result of decentralization was increasing difficulty in moving foodstuffs from surplus-producing areas to Moscow and Leningrad, as local and regional authorities opted to retain more produce in their own areas.

Under the 1989 agricultural reforms, farms were supposed to begin operating as independent, profit-making entities by 1990. They were promised that although the procurement plans, now renamed "state orders," would remain, they would be paid "market prices" for their required deliveries. In 1992 the state orders were once again rebaptized, becoming "contract agreements" (kontraktatsiia). In both cases, however, the "market prices" were still set by the Ministry of Agriculture and regional authorities, based on their judgment of what a fair market price should be. Political struggles over what counted as "fair market prices" shaped much of agricultural politics in 1992.
The Falling Percentage of State Procurements

The state used to take a relatively constant share of what the farms did produce. Despite fluctuations in the actual harvest, the state consistently obtained about 37% of the total grain yield from 1976 through 1986 (Table 5.1). This stable proportion is reasonable, since the country's needs for grain would be fairly constant from year to year. Beginning in 1987, however, the proportion of the harvest delivered to the state began to fall.

The fall in the percentage of the crop the state procures does not necessarily mean that people are getting less food. In 1986-1989, 75 million tons of grain annually went for feed, 21 million for seed and 3 million tons for industry. Since state procurements of feed and seed were eventually sold back to the farms, reduced procurements may actually increase available produce by cutting waste associated with cross-hauls. Overall 1992 meat and dairy production declined in comparison with 1991 by 14 and 12 percent, respectively. But longstanding problems with quality and assortment of products—such as pasteurized packed milk with a three-day shelf life—make it difficult to accurately forecast the impact of the reductions on supplies.

The number of cattle kept on the kolkhozy and sovkhozy certainly declined as a result of feed shortages in 1992. But because Soviet herds have generally been too large for the available feed supplies, a reduction in the number of livestock may not much reduce production if the herds are properly culled. Although state herd counts are down by as much as 20%, increases in privately-held livestock may make the overall fall in herd size as little as 3% for 1992. Since Russians eat a great deal of meat in proportion to their per capita income and the country's GNP, even such severe declines in the country's herds might be seen as a severe and unfortunate, but economically necessary, structural adjustment.

A fall in the percentage of the grain crop procured may not mean there will be a drop in the immediate availability of food supplies. But when announced state requirements have not declined and state officials annually declare that the targets must be met, the decline does show that the state's procurement mechanism is progressively breaking down. Table 5.1 traces a decline in the Soviet and Russian state's power.
TABLE 5.1
State Procurements as Percentage of Total Grain Crop, All USSR

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-1980 annual average</td>
<td>38%</td>
<td>na</td>
</tr>
<tr>
<td>1981-1985 annual average</td>
<td>37%</td>
<td>na</td>
</tr>
<tr>
<td>1986</td>
<td>38%</td>
<td>na</td>
</tr>
<tr>
<td>1987</td>
<td>35%</td>
<td>na</td>
</tr>
<tr>
<td>1988</td>
<td>31%</td>
<td>37%</td>
</tr>
<tr>
<td>1989</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>1990 (Russia only)</td>
<td>29%</td>
<td>na</td>
</tr>
<tr>
<td>1991 (Russia only)</td>
<td>25%</td>
<td>na</td>
</tr>
<tr>
<td>as of 10/12/91</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>1992 (Russia only)</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>as of 10/14/92</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>


Farm Prices

Kolkhoz and sovkhoz managers are increasingly reluctant to sell their grain to the state at the state's set price because their own costs are inexorably rising. Producers of agricultural supplies and equipment are passing their own costs through to the farmers by sharply raising their prices. Farms complain that they cannot afford to maintain and replenish their equipment parks. At the same time, agricultural-equipment producers complain that they cannot sell their output.
The kolkhozy and sovkhozy under the old Soviet system were never able to freely bargain about the prices they paid for supplies or received for their produce. During the 1970s, when state investment in the farms rose dramatically, farm profitability steadily fell as industry responded to state demands to meet profitability goals by raising prices charged to the farms. Only large increases in state procurement prices as part of the May 1982 "Food Program" restored a majority of farms to "profitability." But as long as the state subsidized their operations, paying wages and making many investments from the state budget, farm profitability mattered little. When Gorbachev began economic reform in 1987, newly-autonomous industries again began raising the prices charged their captive customers on the farms for equipment and supplies.

The Gaidar government's price liberalization in 1992 made this situation worse. Machinery and supply producers raised their prices further in order to cover their costs. Farms bought much less equipment, but still faced monopoly suppliers for items needed in order to do any harvesting at all. The farms particularly suffered from increases in the cost of petroleum products ordered in response to World Bank concerns in late summer. For instance, Mikhail Lapshin, chairman of the "Agrarian Union" faction in the Russian Supreme Soviet, complained at the end of October that farms had spent more on fuel to run their central boiler rooms (which provide heat and hot water to each collective or state farm's main village) than they had taken in from sales during the month.

In 1992 the farms were still required to sell much of their output to the state. In practice scarce equipment and supplies can generally still be obtained only by additional "above-plan" sales to the state—commodity exchanges and "dealerships" are still handling relatively small volumes of agricultural inputs. Since purchase price increases lagged behind supply and equipment prices, the state-set "market" prices for their inputs threatened to bankrupt many farms.

Farms could try to get more for their produce by selling it privately. Informal agencies for farm sales are now available. Commodity brokers are unwilling to discuss just how much business they do, apparently fearing the tax inspectorate, but sources in the Russian Ministry of Agriculture informally estimate that as much as 20% of the 1992 grain crop may have been handled through private commodity exchanges (birzhi).
The strongest kolkhozes and sovkhozes are most likely to sell their grain on the side, since they can operate profitably in the new environment. But they are not entirely free to do so. As it has done for years, in 1992 the Russian government again forbade farms to sell grain to anyone else until the state procurement quota had been met.

Even the best managers cannot necessarily make the transition to market entrepreneurs. For instance, the chairman of a profitable stock-breeding farm near Moscow spent much of August 1992 unsuccessfully trying to get the Ministry of Agriculture to allocate him feed for the coming winter. When asked why he didn't just use some of the farm's ready cash to buy feed grain, then at a low price that was certain to rise, on one of the new Moscow-area commodity exchanges, he simply shrugged his shoulders. Years of operating in a command economy made him unable to imagine doing business in any way except by asking the Ministry for help. He finally bought open-market grain in December 1992 at much higher prices.

The Harvest Mobilization Campaign

The Russian government resorted to a mobilization campaign—just as the Soviet regime did every year after collectivization—to bring in the 1992 harvest. The Russian government issued a harvest decree, promising supply priorities and concessionary prices for agriculture—in early July. The military rhetoric of the struggle for the harvest common in previous years sounded once again in the press. A government headquarters—a special interagency task force with broad powers—to ensure the delivery of supplies to agriculture, to mobilize extra labor for the harvest and to oversee storage and procurements was set up under first deputy premier Vladimir Shumeiko. A former plant manager, Shumeiko joined the government as part of a deal with the "centrist" political opposition to the "shock therapy" economic reforms promoted by the Gaidar government in 1992. Vice President Aleksandr Rutskoi ordinarily chaired the harvest staff's meetings, emphasizing its importance as well as the connection Rutskoi sees between agrarian reform and increasing production in the short term.
Since at least the mid-1960s, sending out urban workers to the countryside has been an important part of the annual harvest mobilization campaign. Although city workers are notoriously unproductive agricultural laborers, they have provided the sheer muscle to dig the potatoes and pick the vegetables. Since the state budget paid them through their city workplaces, the mobilized workers were profitable for the farms no matter how little they accomplished. As much of the countryside lost its population to the cities and the remaining rural labor force grew steadily older these workers became increasingly important.

The economic reforms begun under Gorbachev not only raised the price of industrial products to the farms, however. Managers grew less willing to pay workers sent to the countryside, and workers became less willing to go. One result was the growing tendency for individual industrial enterprises to conclude informal deals with particular farms, providing labor and materials in return for foodstuffs. Such individual deals did not solve the general problem of lack of labor at harvest time, however. (Vasili Starodubtsev, the USSR Peasants' Union chairman who joined the State Committee on the State of Emergency, the putsch leadership, in August 1991, explicitly justified his action by saying that without government action to mobilize city people for the harvest it would be lost and the country would starve.) In 1992 military units replaced many of the mobilized civilian workers in the countryside. Some 20,000 soldiers worked at the harvest just in Moscow oblast'.

Farm Managers' Demands for Greater State Subsidies

Since 1989 conservatives have argued that the way to cope with farms' financial problems and keep the country fed is to provide ever-greater levels of state subsidies and investment. In order to ensure passage of the land-reform legislation proposed at the same time, in December 1990 the Russian Supreme Soviet passed a Law on the Social Development of the Countryside promising that 15% of the national income would be devoted to rural development. That target has never been reached. Demands for the fifteen percent are
a standard part of the farm managers' bill of particulars against the Yeltsin government under both Ivan Silaev in 1990-1991 and Yegor Gaidar in 1992.

No Soviet or Russian government since 1989 has even paid the farms everything it owed them for deliveries made. Farms were promised that above-plan deliveries would be paid for in hard currency, on the argument that if Soviet/Russian farmers produced more grain less would need to be imported. But the special "harvest-90" and "harvest-91" certificates which promised payment in scarce goods bought with hard currency (apparently no actual cash was ever given out) have not been honored. The deputy head of the Ministry of Agriculture’s Administration of Agricultural Finance claimed in early August 1992 that all but 8.8 billion rubles of those arrears had been settled. But there are continuing complaints in the press that farmers still have not been paid.

The Threat of "Grain Strikes"

Since 1989, farm managers have repeatedly threatened not to sell their produce to the state. They consistently cite several reasons: the urban-rural terms of trade have been steadily turning against them; the government has failed to keep its investment promises and even failed to pay them for crops delivered; and they are unhappy with political changes which threaten their own power and their sense of what the country should be. The grain situation seems to have been most critical in 1991, when procurements ran very late.

By August 1992 some 85 district strike committees had been organized and the stage seemed set for a repeat of the previous year’s disturbances. The trade union representing agricultural workers, the Russian Council of Collective Farms and the Russian Agrarian Union called for two days of protest.

On August 5, 1992, "Peasant Unity Day" demonstrations were held around the country. Follow-up protests occurred on September 15 and October 24. The major peasant farmers’ interest group, AKKOR, decided not to participate. As a result, the group nearly split, because the leader of the Moscow province AKKOR affiliate, Vasiliy Vershinin, argued...
that individual farmers were affected by the same problems as their neighbors on kolkhozes and sovkhozes and so should join the anti-government actions.\textsuperscript{15}

Private farmers didn't join the strike because AKKOR had agreed, in a formal "contract" with the Yeltsin/Gaidar government in early February, 1992, to voluntarily deliver 25\% of their produce in return for subsidized state inputs.\textsuperscript{16} They had demanded such a guarantee because, until 1992, private farmers had been exempt from state delivery quotas for five years after they began operations. Then, at the beginning of the year, President Yeltsin unilaterally imposed a 25\% procurement quota on them, disregarding earlier legislative promises.\textsuperscript{17} (One reason farm managers opposed individual farmers was the common failure to reduce the kolkhoz' or sovkhoz' delivery quotas after individuals left to start their own farms). By agreeing to the "contract" with the individual farmers' lobby the government hoped to ensure the support of one important interest group for its reform policy. Shortly afterwards it began to explore the possibility of concluding similar formal agreements with other social groups, in particular organizations representing the kolkhozes and sovkhozes.\textsuperscript{18}

The Government Compromises with the Farm Leaders

In mid-summer the Russian government made a deal in an attempt to insure that the harvest would be delivered. The key element was a contract, like that already concluded with private farmers, by which the government guaranteed large farms inputs, subsidies and concessionary terms on state investments in return for promises to deliver production on time.\textsuperscript{19} A likely part of the agreement was the release of Vasili Starodubtsev from investigative detention in June 1992, six months before other accused coup plotters were freed.\textsuperscript{20}

The agreement by itself did not end the farmers' unrest. In mid-June the government released some 600 billion rubles in credit for the farms to get their harvesting done. A month later subsidies for livestock products were increased for the second time in four months.\textsuperscript{21} On August 12, 1992, the Russian government raised the price it paid for
grain from 10,000 to 12,000 rubles a ton. By November, the effective price, depending on the region and the quality of the grain, reached as much as 20-25,000 rubles a ton.

The substantial grain-price increases, plus a later government promise to compensate farms for all the increased fuel costs associated with harvest work, effectively bought the harvest, suddenly turning around lagging state grain procurements.

At the same time as it raised prices, the government reasserted control over food supplies. In August central grain reserves were reintroduced. But the government's continuing inability to enforce its directives means that food prices, and food availability, are likely to continue to depend on local authorities. The Russian government's ability to pay what it has promised is doubtful. The crisis is only temporarily past.

**Prospects for 1993**

Russia was wracked by a new round of rapid price inflation in late October and November. Creation of a vast amount of new money through state credits to the farms clearly made a large contribution to that inflation. Russia is also having increasing difficulty paying for its grain imports. Canada and the United States stopped grain deliveries because of overdue payments in December 1992 and it is unclear how Russia can find new hard currency reserves to pay for imports in 1993. The government is effectively broke—inside sources report that only about 15% of the amount due under the draconian value-added tax is actually being collected.

Price liberalization and inflation have drastically affected the prices of agricultural inputs, while food processors retain their monopoly ability to dictate farm-gate prices. Privatization to eliminate those monopolies is disrupting patterns of supply, procurement and sales. Many of the specialized agricultural agencies have already become legally independent companies, harder for the state to directly control.

Privatization decrees and statutes approved in the fall of 1992 require individual processing, transport and storage enterprises to be sold off, either to their workers, by open stock offerings, or through competitive bidding by any interested parties. About ten
percent of food processing, storage and transport enterprises have been denationalized—the
government planned to have privatized fifty percent of those enterprises by the end of the
year, a target which will not be reached on time but may well be attained by the spring of
1993.

Little production credit for getting a crop in the ground will be available in 1993
because the government is bankrupt and has few real resources to give the farms anyway.
Almost half of all state and collective farms have been reorganized, privatizing their land and
allowing them to be declared bankrupt if need be. The agrarian reform has progressed to the
point where farm workers on many good, prosperous farms in Southern Russia are demand-
ing the right to leave their large farm with their shares of its land and capital as the land
reform legislation allows them to do.

Although mechanisms which could lead to fundamental change in the agrarian
economy have been put in place in Russia over the past three years, agricultural management
in 1992 basically remained as it had been. As the 1992 bargaining between the government
and farm organizations suggests, however, state control over the farms, the producers of
agricultural inputs and processors and the distributors of agricultural products is steadily
weakening. The state’s power to directly control the economy continues to decline as it has
ever since Mikhail Gorbachev began the process of economic reform in 1987. Because the
agricultural economy is still made up of a few monopolies and because the state budget is
unbalanced, the Russian government has had no more success than the USSR one did in
exercising indirect economic control.

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been obvious, that many state and collective farms cannot survive in a market environment
without subsidies. The farm managers’ lobby demands that state support be retained and
increased to restore these farms to a semblance of financial health. But the government lacks
the financial means even to make good on its existing commitments. It is too weak to
effectively levy new taxes. The 1992 success will be much more difficult to repeat in 1993.
Notes


3. Nostalgia for the "good old days" of 1978 when food products were fairly abundant and cheap was a recurring theme in the author’s formal interviews and casual encounters in various Russian cities in the fall of 1992.


5. Nefedov and Sizov, p. 2.


8. Soviet accountants figure "rentabel'nost'" rather than profitability in the Western sense. In a bookkeeping system based on Marxist economics, farms keep account of their fixed capital (C); their variable costs, essentially wages (V); and the planned surplus value (S). The surplus is calculated by subtracting from the (state-set) unit price, since by Marxian definition, any commodity’s price is equal to C+V+S. A farm is "profitable" (rentabel'no) when S > V. The lack of concern for capital costs and reliance on administratively-set prices characteristic of Soviet-type economies are inherent in accounting practice.


12. Andrei Semenov, "Eshche mnogo-mnogo raz: 180 millionov rublei uzhe zaplacheno soldatam za uborku urozhaiia," Moskovskii komsomolets (October 15, 1992), p. 2. Soviet soldiers had always been sent to the harvest, though their participation was unpublicized. The difference in 1992 was the publicity given to them and the apparently much greater scale of soldiers' use as harvest workers.


