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# Russian Price Reform Eliminates Shortages, Alters Meat Consumption

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Setting the stage for the evolution toward a free-market economy from central planning has entailed both positive and difficult adjustments in Russia—the largest former Soviet republic. Food shortages in state stores, once universal, are now sporadic. Overall food consumption has dropped—particularly consumption of livestock products, which had been maintained at artificially high levels before the reforms. These changes resulted from partial price deregulation (which eliminated shortages and shifted relative prices) and restrictive wage policy (which eroded real incomes).

These trends will likely continue in 1994, if prices remain deregulated and if the level of producer subsidies does not increase substantially.

## Before the 1992 Reforms

### *...Planned Distribution at Fixed Prices*

When Russia was part of the Soviet Union, most agricultural

products were produced on state and collective farms according to production quotas set by government planners. Products were delivered to state processors, slaughterhouses, and mills, which paid prices set by the government. Sales by processors were well below costs of production, and large subsidies were paid to cover losses. Wholesalers, in turn, sold the cheap food to retail stores at low prices plus an established margin. Consumers purchased the food in

retail stores at fixed prices after a retail margin was added.

### *...Short Supplies Directed Consumption*

Before 1992, food consumption trends were the direct result of state agricultural and price policies. Russian consumers faced widespread and worsening food shortages in state stores. Shortages formed as wages rose while state prices remained at low fixed rates. As wages rose, the income consum-



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ers wanted to spend on food greatly exceeded the value of the food available in state stores at fixed prices. Over time, consumers accumulated considerable savings that they could not spend on low-priced food in state stores due to shortages.

An indicator of the severity of food shortages in state stores is the ratio of free-market prices in collective-farm markets to controlled prices in state stores. In 1990, collective-farm market prices for meat were about four times those in state stores. Those for butter, potatoes, and vegetable oil were about three times as high. After reforms, in May 1993, collective-farm market prices for these products were only about double prices in state retail stores.

**...Agricultural Policy Aimed at Increasing Livestock Product Consumption**

Soviet agricultural policy since the 1970's aimed to increase per capita consumption of livestock products—as a sign of a high living standard. Consumer prices for meat, milk, butter, and other animal products were kept artificially low, presenting an implicit subsidy to consumers who were able to buy these products. Likewise, farm prices for animal products were kept slightly high, compared with world prices, so some livestock producers also received an implicit price subsidy.

Subsidies led to a dramatic increase in Soviet per capita meat consumption from the 1960's to 1990. In 1990, Russians consumed as much meat per capita each year as in Great Britain or Sweden, though per capita income in Russia was less than half that in those countries (table 1).

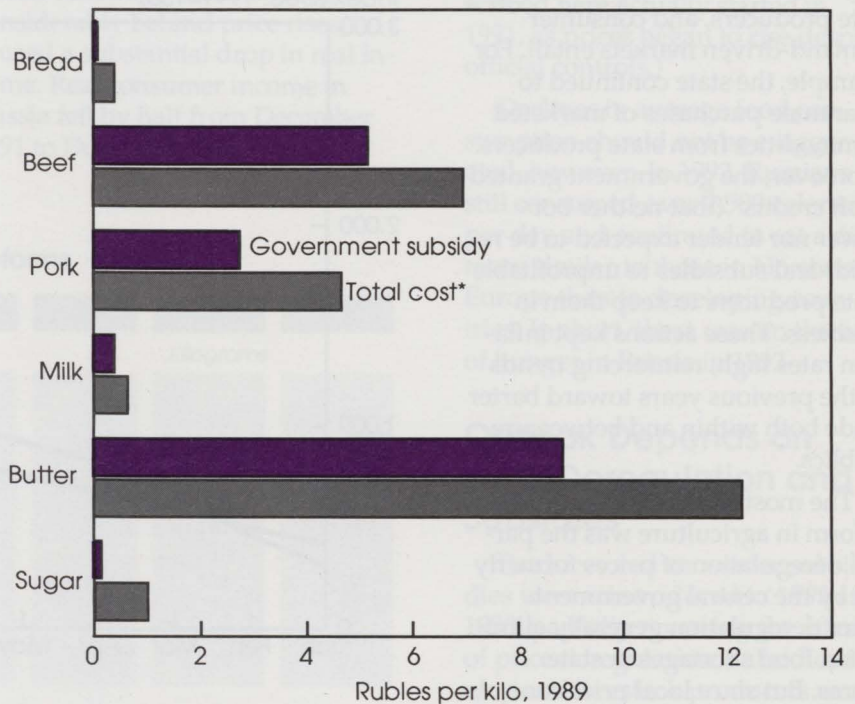
Russia's high level of meat consumption was supported by massive producer and consumer subsidies (fig. 1). For example, the price subsidy for livestock products actually exceeded the retail

Table 1  
**Before Reforms, Russia's Food Consumption Paralleled Finland's, Despite Much Lower Per Capita Income**

Item	Russia	Finland <sup>1</sup>	United States	Britain <sup>2</sup>
Kilograms				
Per capita consumption, 1989:				
Meat and products	66*	61	113	70
Milk and products	386	411	263	313
Eggs (number)	297	200	229	193
Fish and products	20*	22	12	12
Sugar	48*	35	28	40
Vegetable oil	10*	7	23	19
Potatoes	106	92	57	101
Vegetables and melons (fresh weight)	89	62	117	89
Fruit and berries (fresh weight)	37*	70	94	93
Bread and grain products	119*	77	100	90
1985 U.S. dollars				
Per capita gross domestic product, 1990	5,867	13,378	18,347	12,715

Notes: \*Estimate. <sup>1</sup>All data are 1986, except fish which is 1985. <sup>2</sup>Fish is 1986; sugar, potatoes, vegetables, fruit and berries, and bread are 1988. Sources: *Narodnoe khoziaistvo SSSR v 1990 godu (The USSR National Economy in 1990)*. Moscow 1991. pp. 670-71. *Potreblenie naseleniem produktov pitaniia za 1989 god (Consumption of Food in 1989)*. Moscow 1990. pp. 1-6. A. Illarionov, "Byvshie soiuznye respubliky v mirovoi sisteme ekonomicheskikh koordinat" ("The Former Soviet Republics in World Economic Perspective"), *Voprosy ekonomiki*, April/June 1992, pp. 122-43.

Figure 1  
**Subsidies Paid a Major Share of the Cost of Russian Food**



\*Total cost = subsidy + retail price.  
Source: World Bank, *Food & Agricultural Policy Reforms in the Former USSR*, 1992, p. 219.



price in state stores. The cost of direct food and agricultural subsidies in Russia in 1988-91 ranged from 10 percent to 12 percent of Russian gross domestic product (GDP).

### Agricultural Reforms Impact Food Consumption

Russian agricultural reforms in 1992 changed the system of production and marketing somewhat, though the reforms were partial and inconsistent. The Russian Government partially deregulated farm and food prices for agricultural commodities, allowed the establishment of a small number of private farms, and permitted the formation of a limited number of private commodity exchanges as well as private purchasers of agricultural goods. These policy changes allowed market forces and consumer demand to play a greater role in the Russian agricultural economy.

At the same time, producers were partially cushioned from the employment changes that price deregulation, the establishment of private producers, and consumer demand-driven markets entail. For example, the state continued to guarantee purchases of marketed commodities from state producers. Moreover, the government granted "soft credits" (that neither borrower nor lender expected to be repaid) and subsidies to unprofitable state producers to keep them in business. These actions kept inflation rates high, reinforcing trends of the previous years toward barter trade both within and between republics.

The most significant economic reform in agriculture was the partial deregulation of prices formerly set by the central government. Price deregulation generally eliminated food shortages in state stores. But since local price controls were allowed, state store prices lagged behind free-market prices

in some cities. Price deregulation also changed consumption patterns through a shift in relative prices (at least in the first half of 1992). Such deregulation also allowed prices to rise faster than consumer income, leading to a decrease in real consumer income.

#### Food Shortages Eliminated

When deregulated on January 2, 1992, consumer prices immediately jumped 245 percent. Nominal incomes increased by a mere 31 percent in January, leading to a sizable decrease in real incomes. By March, food shortages that resulted from consumer purchasing power exceeding the value of desired goods available at fixed prices were virtually eliminated.

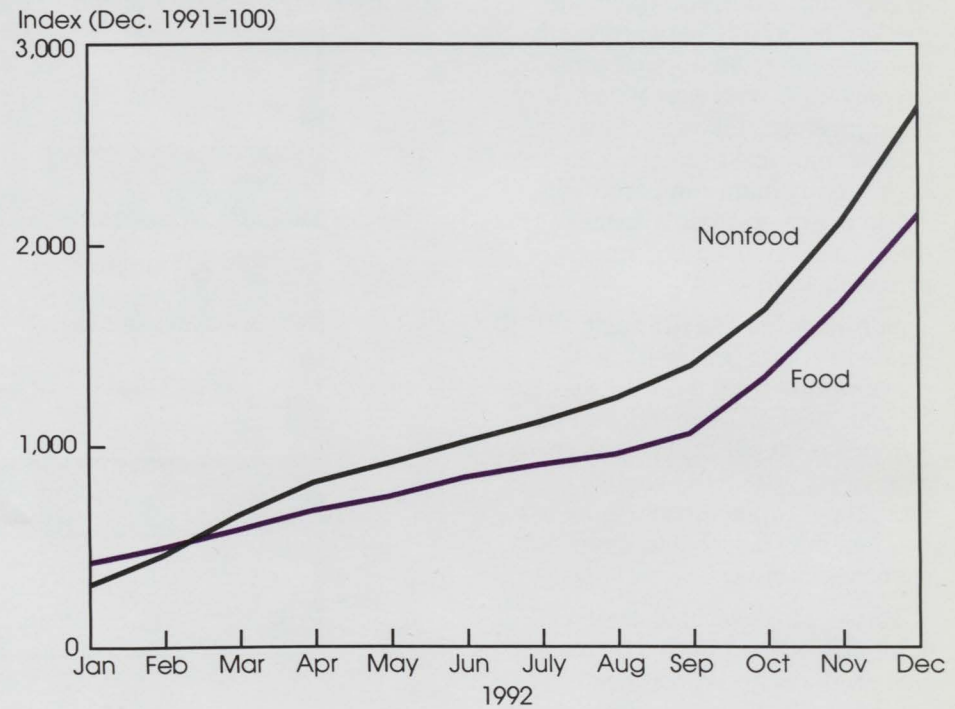
A good indicator of the elimination of food shortages is the narrowing of the difference between collective-farm market prices and state retail store prices mentioned

above. From December 1991 and July 1992, for example, the ratio of milk prices in Moscow collective-farm markets to those in state stores fell from 50.8 to 4.6. Retail stocks increased to the point where many warehouses had excess supplies of food. Meat inventories at Russian processors and in wholesale and retail trade doubled from January 1, 1992, to January 1, 1993, from 1.1 to 2.2 kilograms per capita.

#### Relative Prices Shifted

The relative prices of food compared with nonfood goods decreased in 1992 (fig. 2). This price shift increased purchases of food compared with other consumer goods. While deliveries to wholesale distributors fell in 1992, the declines were more for durable goods than for foods (table 2), reflecting greater falls in demand. Food spending as a portion of total consumer expenditures increased from 32.9 percent in 1991 to 40.3 percent

Figure 2  
Once Price Controls Were Lifted in January, Retail Prices in Russia Jumped



Source: O razvitii ekonomicheskikh reform v Rossiiskoi Federatsii v 1992 godu (The Development of Economic Reforms in the Russian Federation in 1992). 1993. p. 9.



Table 2  
Reforms Cause Wholesale Sales To Plunge<sup>1</sup>

Product	Change in deliveries to wholesalers, 1991-92
	Percent
Food:	
Meat and meat products	-47
Milk and dairy	-45
Eggs	-34
Sugar	-37
Vegetable oil	-29
Potatoes	-33
Vegetables	-40
Fruit and berries	-47
Nonfood:	
Cloth	-72
Sewn goods	-80
Knitted goods	-67
Leather footwear	-50

Note: <sup>1</sup>Includes imports and deliveries between republics. Source: *O razviti ekonomicheskikh reform v Rossiiskoi Federatsii v 1992 godu (The Development of Economic Reforms in the Russian Federation in 1992)*, 1993, pp. 16, 18.

in 1992, also reflecting a shift from nonfood purchases to food.

Prices also shifted among food items. With the removal of consumer subsidies, retail prices for livestock products rose more than for other food products. From March 1991 to March 1992, consumer prices of pork, beef, poultry, and butter rose 9-13 times, while prices for rice, bread, and wheat flour rose 6-8 times. This relative increase in livestock product prices

pushed down meat consumption in favor of other food products (table 3).

#### Real Consumer Income Fell

Severe inflation in 1992, combined with a wage policy that allowed consumer income to lag considerably behind price rises, caused a substantial drop in real income. Real consumer income in Russia fell by half from December 1991 to December 1992.

This large drop did not, however, lead to a comparable decrease in food purchases, because much of the "income" received in 1991 and prior years was largely unspendable. Therefore, the level of *spendable* real income in 1991 was actually considerably less than conventionally calculated. The 1992 price deregulation eliminated unspendable real income by eliminating shortages. In 1992, all real income earned could be used to purchase goods, so the apparent 50-percent fall in real income is actually equivalent to a 20- to 30-percent fall in *spendable* real income.

This drop in real income generally reduced consumer demand, though demand for staple items fell less than for luxury goods. Among consumer goods, food is more of a staple than are durable goods. Among foods, meat products are more of a luxury good than are other foods. Therefore, the decrease in income reduced consumption of nonfood goods relative to food and cut meat consumption relative to other foods (table 3). (The trend described here actually started in 1991, as prices began to rise despite official controls.)

Declines in average food consumption should not be exaggerated, however. In 1992, Russians still consumed over 2,500 calories per day and continued to eat a diet more similar to those in Northern Europe than to developing countries. In short, there was no threat of hunger in Russia in 1992.

#### Outlook Depends on Price Deregulation and Subsidies

Producer and consumer subsidies were reintroduced in 1992 and 1993, partially reversing the effects of price deregulation. Subsidies for crop and livestock producers were announced in May 1992 and increased in the fall.

Table 3  
Russia's Food Consumption Falls After Reforms

Product	1980	1990	1992*
	Kilograms		
Per capita consumption:			
Meat and products	59	69	52
Milk and products	328	386	295
Eggs (number)	279	297	256
Fish and products	23	20	13
Sugar	47	47	34
Vegetable oil	9	10	7
Potatoes	118	106	119
Vegetables	84	79	73
Fruit, berries, and grapes	30	35	33
Bread and grain products	126	119	122

Note: \*Estimate. Source: *Potreblenie osnovnykh produktov pitaniia naseleniem Rossiiskoi Federatsii 1992 (Consumption of Main Food Products by the Russian Population)*, 1992.



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Widespread local consumer subsidies also partially reversed the effects of price deregulation. For example, in 1993 farms delivering grain to state mills were to receive an advance equal to half the total value of the grain; a 50-percent discount on agricultural machinery prices; a 30-percent discount on fertilizer, chemicals, electricity, and fuel; and bank credit at highly negative real interest rates.

In December 1992, sizable federal subsidies to state bakers were announced to slow price increases for bread and bakery products.

Subsidies are a way of backtracking on reform, since they preserve the existing structure of production in agriculture, rather than allowing it to change in response to consumer demand. But despite subsidies, important reforms—such as the elimination of food shortages and a considerable drop in livestock production—were achieved in 1992.

If price deregulation continues, reforms in the Russian food economy should eventually decrease demand for livestock products and, thus, feed grains. Decreases in Russian demand for grain may be accompanied by increases in demand for oilmeal, as Russia's mixed-feed producers increase the protein content of their product to make up for the traditional protein shortfall in mixed feed. Increased demand for oilmeal and falling meat production may provide opportunities for American exports of oilmeal and poultry. ■