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A Planned Economy in Modern Russia? It Didn't Work Last Time and Won't Work Today.

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A woman shops for potatoes at a supermarket in Moscow. **Roman Balayev / TASS**

The Kremlin seems to be preparing to introduce state-mandated prices for food. Or at least some foodstuffs. Of course, for the benefit of the population. The effects of the government's own policies came to a boil when the price of potatoes in stores reached 120-130 rubles ($1.46-$1.58) per kilogram.

Thirteen leading industry associations representing food retailers, producers, processors and consumer advocates wrote to Prime Minister Mikhail Mishustin, requesting that the state not regulate food prices. The fact of this letter's existence shows that the government is close to making a decision. If Moscow ignores these businesses and experts, propaganda channels across the country will say that the government is taking care of the Russian people, stopping the price bacchanalia unleashed by greedy merchants.

It is not difficult to predict what will follow. We Russians have been in this position before. It was not even 40 years ago that we endured endless queues, coupons and "sausage trains" to buy goods in Moscow. Now, of course, we have a market economy. That does not preclude shop counters being divided between goods with state and private prices. If that happens, dishonest brokers will almost certainly cheat their customers by selling regulated produce at market prices.

Market prices will soar, just like how meat from a Soviet store was at first four times cheaper than meat from the open market, then ten times. The state audit office will be so busy catching price gougers that a separate state Planning Committee — like *Gosplan* — will have to be resurrected because there is simply not enough food to supply at state prices. The Kremlin will say there is no other way to deal with producers that cannot cope with demand, but insist on charging the public ever higher prices. Wherever this committee goes, destruction will follow.

The letter says that Moscow is placing producers under increasing pressure without consideration of the objective causes of price dynamics. Furthermore, the list of socially important goods, which are most likely to face price controls, is outdated. The consequence of restrictions will inevitably be a return to a planned economy.

But the most interesting thing is that the authors of the letter and economists are not the only ones who understand this. So does the government. They know they have engineered the current crisis through their own actions. But they are unable to do anything about it.

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Let us return to the potato. First of all, this crop has risen in price more than any other, at 300% compared to last year. Secondly, potatoes are highly dependent on weather conditions: they need just the right amount of rain and are sensitive to both heat and frost. The potatoes from the most recent growing season had to endure all these extremes.

The previous year, 2023, saw a record potato crop. But potatoes are not easy to store. While the surplus could have been exported in previous years, exports (imports too) face a lot of bureaucratic obstacles: it is impossible to export to "unfriendly" countries, and there are quotas for "friendly" countries. In general, it is easier to let them rot, which is what happened to part of 2023's bountiful harvest. After that, farmers reasonably decided to reduce the area they seeded.

But that is not the whole story. The weather has been unfavorable before without potatoes disappearing from Russian shelves. Prices have always been moderate, except during the spring when young and quick-ripening potatoes are more expensive. But the potatoes of the previous harvest were sold especially cheaply as suppliers were in a hurry to clear warehouses for new deliveries.

What happened?

Firstly, the quantity of imported potatoes decreased sharply. Most buyers did not notice when the gaps between Russian harvests were filled by deliveries from Egypt, Israel, Poland and the

Netherlands. Imported potatoes kept prices down and gave buyers a greater choice of varieties.

Imports from Poland and the Netherlands, the main foreign potato suppliers, are banned under retaliatory sanctions imposed by Russia in 2014 due to European sanctions following the annexation of Crimea. But they still found their way onto Russian shelves, albeit disguised as imports from Belarus.

But since the full-scale war with Ukraine, Russia has cut off all imports from "unfriendly" countries. Even the "friendly" ones are still reluctant to trade: because foreign currency is scarce, Moscow prefers to pay in rubles or even barter, like how Egypt accepts payment in Russian grain. This causes delays in deliveries.

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One would think that, in the absence of competitors, Russian potato growers would have flooded the shelves with home-grown products. But there is a second problem. Post-2014 sanctions not only hit finished products, but the materials farmers need to run their businesses: breeding bulls, fertilized chicken eggs. Planting material, including for potatoes, was also banned.

Farmers successfully lobbied for a limited number of these supplies to be imported from unfriendly countries. But these quotas are being reduced every year, with Agriculture Minister Olga Lut saying that Russia needs to accelerate the domestic production of seed and breeding material, instead of relying on foreign ones.

That puts Russia at a disadvantage. While Russian geneticists are struggling over the riddle of creating crop varieties resistant to weather and pests, potato growers wistfully remember that Dutch planting material successfully coped with the invasion of the Colorado potato beetle, drought, frost and heavy rains. Perhaps Russian seed breeders will come up with something in the next ten years. Meanwhile, farmers will need to use what they have, even as crop yields dwindle. They say that at the end of the U.S.S.R., Soviet potato production reached such gaping heights that dug up in the fall of the crop weighed less than planted in the spring. If current trends continue, that could happen again.

It is not just potatoes. Vegetable oil and related products, such as mayonnaise and margarine, have become more expensive since the beginning of the year. Not because of a poor harvest thanks to bad weather, but because the Agriculture Ministry did not issue additional quotas for imported seeds. That meant those who could not get imported seeds planted domestic seeds, which produce lower yields.

But it makes no difference to the combine harvester how much to harvest per hectare. The costs are the same, even when the value of the harvest is different. Therefore, farmers are forced to raise prices and even consider whether it is worth bothering with reseeding at all, if the result does not pay for itself.

Russian farmers are increasingly finding their position more unstable. Loans are becoming harder to obtain, while the state only provides money to restructure existing debts.

Farmers have never seen such tight margins before. Agricultural machinery is expensive. The price of imported machinery increased by 40-60%, with domestic versions following the same trend. It is easier to drop out of the industry, sell the farm, invest the returns and live a less laborious life.

Imagine what will happen when officials order farmers to sell their goods at a low mandatory price, without any schemes to reduce their initial costs. I do not want to scare you, but even if we do not reach the stage where the government starts requisitioning grain, nobody in Russia will escape the consequences of a planned economy.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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