

PRICE METHODS OF AGRICULTURE SUPPORT IN RUSSIA

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ABSTRACT

The main object of this report is an entry of Russian agro-industrial complex into the world market is the management by price policy and non-price policy forms of support of producers, which is the most important factor in forming a new geopolitical status of the country and its strategic management in the world arena.

The problem of the governmental regulation of the agro-industrial complex is in price policy and non-price policy forms of support of producers, a strategic choice of these forms revealed itself specifically in the agricultural sector of economy, especially in the export and import of agricultural products, where the transformational recession rates happened to be the highest, and the consequences of the crisis are threatening the provisional safety of the country.

Keywords : Russian agro-industrial complex into the world market, management, price policy and non-price policy forms of support of producers, new important factor in forming a new geopolitical status of the country, strategic choice of forms revealed itself specifically in the agricultural sector.

INTRODUCTION

The share of the agricultural production in the world trade is reducing significantly. In 1950, agricultural production exceeded a third of the world trade; by now it has reduced to one tenth. While the world agricultural production has been multiplied up to 5 times with in the last 10 years, and has reduced its share in the world trade, in Russia, agricultural production has increased only in 2.4 times; the share of Russia in the world agricultural production has been reduced from 5% down to 2%.

In agriculture and food industry produces about 8.5% of gross domestic product (including in agriculture, 4.4%), it employs 7.1 million people (about 11% of those employed in the whole economy) concentrated 3.6% of fixed assets. Russia has one of the world's largest agricultural potentials. It accounted for 8.9% of the world's arable land, 2.6% pasture, 20% of the world's fresh water, 8,3% of the production of mineral fertilizers.

Content, forms and methods of the agro-industrial policy in Russia, in the European Union, in USA are being transformed considerably (Serova E. V., Shik O.V. (2007) World Agrarian Policy, Government University Publishing Company, Moscow; data OECD; Federal services of the State Statistics, Russia and Countries of the World, 1986-2007 etc.) The majority of the state methods are due to the regulations of the income increase of farmers .These methods can be sorted into two groups:

- effecting the reduction of costs of production;
- effecting the growth of aggregate income of farmers.

METHODS AFFECTING THE REDUCTION OF COSTS OF PRODUCTION

The main method of reduction of the production costs is subsidizing of all production expenses, which is equivalent to their price decrease for a farmer (while the market price for the resources stays the same). The state subsidizes particular production expenses: gaining fertilizers, means of defence, improvement of the land fertility, restoration of the violated lands, irrigation, drainage and etc.

Farmers are able to gain access to the financial resources on the privileged rates. Subsidizing of the expenses on resources increases the income of farmers, and also causes the increase of the demand on subsidized resources and interrelated resources, increases the magnitude of the supply of according goods and services.

In addition to methods, reducing the production costs of farmers, other methods, which cause the reduction of the amount of purchased resources, can be related to the ones above, which is possible based on the productivity of agrarian production, usage of resource saving technologies, perfecting the methods of organizing the work and management.

METHODS AFFECTING THE GROWN OF AGGREGATE INCOME OF FARMERS

The state policy of the growth stimulation of aggregate income of farmers includes three main areas:

- maintaining the growth in prices of the agricultural products;
- stimulating the volumes of releases of the agricultural products;
- combination of the two methods above.

Realization of the purposes listed above can be achieved by using four possible approaches:

- the policy of the release volume stimulation of the agricultural products;
- policy of the price subsidizing of the agricultural products;
- control policy of importing the agricultural products;
- control policy of the national release volume.

Realization of approaches of economical policy, listed above, has a variety of effects in countries, where exporting and importing volumes have a great influence on the world prices in agrarian market.

POLICY OF SUPPORTING PRICES

The most important political method of the growth income is maintaining the prices (Kleiner.G, System structure of economy and economic policy, (2006)). It includes two main approaches:

- subsidization of price per single unit of a product;

- subsidization of a price above the market price in order to compensate the difference between the market price and the currently stated guaranteed price.

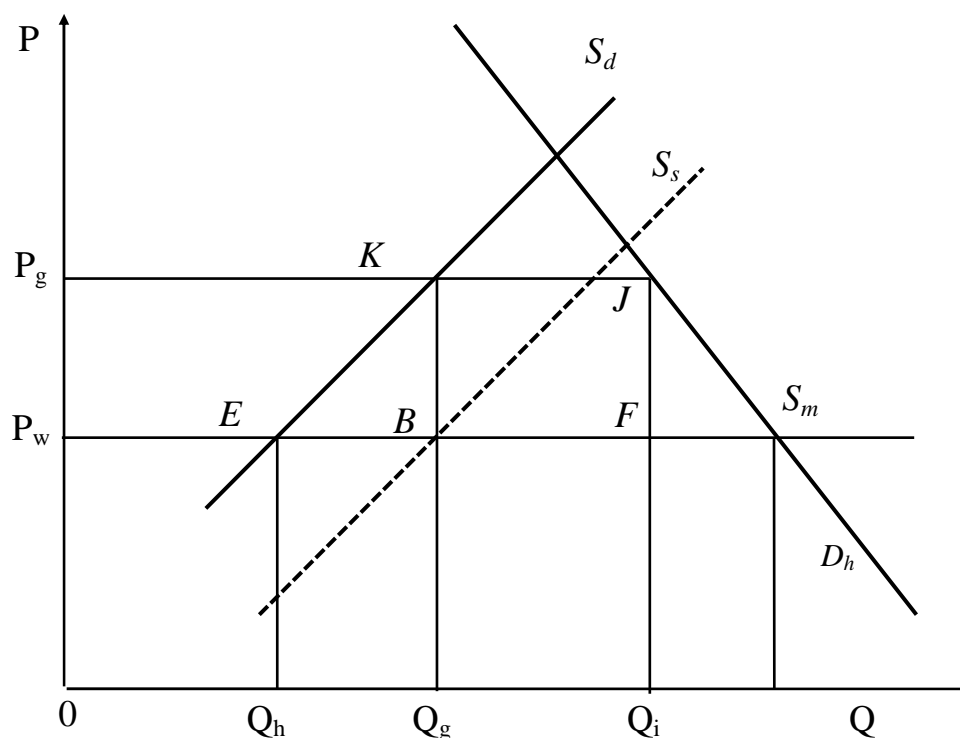


Fig.1. A regulation mechanism of prices of agricultural products for countries with open economics

Figure 1 can be seen the mechanism and consequences of public policy to stimulate output of agricultural products in countries where exports and imports of agricultural products do not have a significant value at world prices. Understood the case of an open economy, i.e. exports and imports are not subject to state regulation.

An important focus of policy proceeds is to support prices. It includes two main directions: unit price subsidies and subsidies for more than market price, in order to compensate for the difference between market price and a guaranteed fixed price. In any case, it should be borne in mind that if you stimulate the volume of production gives rise to the trend of reducing prices, the subsidies will create price trend output growth. For the first group of countries, the volume of imports and exports which do not affect the volume of world production subsidy policy implications can be illustrated by using the schedule in Fig.1.

Suppose the value of subsidy per unit of output will be $P_w P_g$, for producers is equivalent to the reaction to increase the market price to the value P_g . The volume of proposals for such a price represents the value Q_g . According to the law of the market equilibrium curve shifted to the right to point B. Suppose further that the price P_g - is guaranteed by the state price. It will be an effective tool to encourage manufacturers only if more than the market price. Curve in this case will then appear $Q_g B K S_d$. Stimulating effect of this policy will be the greater, the smaller the individual producer price compared to market price. Both types of policies conducive to increased

domestic supply and reduce imports. Total income of agricultural producers with increased value $0PwEQh$ to $0PgKQg$. The grant will be $PwPgKB$. The use of price support policy needs to take into account the elasticity of supply factors in the short and long periods. On the one hand, the response of producers to support prices reflected more in the long term, on the other hand, difficult to predict changes in the prices of other products over time.

In general, the policy of supporting prices in the agricultural sector should be applied when the policy of supporting prices contributes to the income growth of the owners of factors of production; the income of consumers with relatively high income is reduced; the government has a set of strongly pronounced redistribution preferences; expenses of the support price fixed by government are relatively low (this condition will be adhered, if the demand and supply are relatively inelastic in the short-term period); the direct administrative expenses are relatively low, which is more common for the importing country; the budgetary costs are relatively low; other costs, caused by applying less contradictory instruments, are quite high.

METHOD OF REDUCTION AND GROWTH IN EXPORTING AND IMPORTING VOLUMES

A significant difference of the analyzed types of policies reveals itself as soon as we consider the influence of the world price. Subsidization of the production unit of the supplier will have an increase of the national supply volume prior to the lowered price as a consequence, since subsidization – is a fixed quantity of the added price to the market price. In case of the compensation policy of the price difference, the supplier will be getting it until the guaranteed price goes down to the same level as the world price.

The differences from the countries, which do not have a significant influence on the supply proportions of the world market, are as follows: the consuming price will be declined according to the growth of consuming the more compensational payments lead to a decline in the world prices, the greater the quantity of the subsidization the wealth of the community increases according to the price decline of the imported goods a replacement of import and the growth of export, resulted by subsidizing, can cause an international depressing influence on the world prices

Since in both cases, the consequence of the subsidizing policy is the increase in the supply volumes, it must be taken into consideration that the result will be defined by the supply price flexibility, and therefore, it will have significant differences for different kinds of agricultural products.

The parity policy of the prices is about setting the support for the minimum prices on the agricultural products. As a matter of fact, these prices are higher than the equilibrium ones, therefore, according to the law of the demand and supply, the parity policy leads to forming of the excess of agricultural products. As a result of the parity policy, the agricultural suppliers are getting an upper hand, since their income is stabilized on a maintained level. The consumers and the community in general, are undergoing declines. The consumers pay by high prices and consume a lesser amount of products. The maintained prices also cause international economic deformations

and set a barrier as a quotes and tariffs being more effective foreign suppliers.

METHODS OF NON PRICE APPLY

Ministry of Agriculture of Russia in 2007 introduced the practice of the economic mechanism of budgetary funds for the medium term. The relevance of the adoption of the State program is determined by the fact that agriculture has been and remains one of the major industries in Russia and in the world economy.

In agriculture and food industry produces about 8.5% of gross domestic product (including in agriculture, 4.4%), here employs 7.1 million people (about 11% of the number of employees throughout the economy), concentrated 3.6% of fixed assets. Russia has one of the world's largest agricultural potentials. It accounted for 8.9% of the world's arable land, 2.6% pasture, 20% of the world's fresh water, 8.3% of the production of mineral fertilizers. The development of the State program is an exceptional value of agriculture in the provision of high quality food industry - raw materials.

The first state program requires a systematic approach to addressing the production, financial and social problems in the industry. It should be noted that the priority national project "Development of Agroindustrial Complex", as federal and departmental earmarked programs, form its core, a whole farm policy in 2008 has become a priority of state policy. This creates the prerequisites for reducing poverty and improving food security. Moreover, departmental target programs are a new tool for medium-term planning of ongoing activities and create favorable conditions for the development of industries and sectors of the economy. As a priority development sectors of agricultural production, livestock selection, due to increasing demand for livestock products as incomes increase. Animal husbandry sector in comparison with the crop is a long production cycle and high infrastructure costs. The development of animal husbandry from the federal budget allocated 47.5 billion rubles. 1 state program provides subsidized investment loans for construction and renovation of animal facilities; grants for the reimbursement of expenses of the sheep and the goats,

Appendix 1

Plan budget of the project «Priority actions for the development of agribusiness»

Activities	2006	2007	Total, billion rubles.
Management accelerated development of livestock			
Subsidization of the cost of paying interest on loans obtained for up to 8 years for the construction, reconstruction and modernization of livestock farms (farms)	1,383	8,684	10,067
Subsidizing interest rates on loans by commercial banks, received a term of up to 8 years in the construction,	–	0,08	0,08

reconstruction and modernization of industrial fish farming			
Subsidization of the cost of paying interest on loans obtained for up to 5 years for the purchase of breeding livestock, machinery and equipment for livestock farms (farms)	1,0	2,436	3,436
Subsidizing interest rates on loans by commercial banks, received a term of up to 5 years for the purchase of breeding material, equipment and machinery for industrial fish farming	–	0,04	0,04
Subsidization of the cost of paying interest on loans obtained for up to 1 year in the Russian credit organizations	–	4,178	4,178
Grants to support the breeding of livestock	–	1,325	1,325
Grants to support the sheep	–	0,3	0,3
Grants to support: - the northern herd of reindeer herding and horse	–	0,25	0,25
Acquisition and transfer of leased machinery and equipment for livestock	1,0	1,0	2,0
Acquisition and transfer of leased highly breeding stock	3,0	3,0	6,0
Total	6,383	21,293	27,676

deer and horse meat herd. It is also proposed to support the growth of tribal affairs in the livestock sector. In 2008, for this purpose provision is 2.7 billion rubles, that 2 times the level of 2007. In 2012, the level of public support for the event will be 5.1 billion rubles that exceeds the level of 2007, almost 4 times. The state program provides for reimbursement of costs for the purchase of young breeding and breeding material of agricultural organizations and the peasant (individual) farms, which will be an important factor in improving productivity and efficiency of livestock.

REGIONAL PECULIARITY

Regional peculiarity is considered to be one of the most important aspects in methodology of managing economy in agrarian sector. Regional support system becomes dominant amongst the other sources of state support system in agrobusiness (federal budget, regional budget, a fund of beneficial crediting). Effectiveness of regional policy shows itself in flexibility, high opportunities in controlling the usage of budgetary means. Absence of prerequisites, listed above, on a federal level, rapidly decreases the effectiveness of budgetary means regulation.

CONTRADICTIONARY CONSEQUENCES OF APPLYING THE METHODS OF SUPPORT

Generally, the support of the state in agrarian production must be accompanied by a serious estimate of possible conflicts of purposes and disorders, rising in the process of regulation. The price support and non price support the most contradictory instrument of management in the agricultural policy, since the price issued by the government gives a wrong signal to both producers and consumers (Table 1).

CONCLUSION AND RECOMENDATION

The most adequate method in the current times of Russia, from the principles of method rationalization point of view, is the price support and non price support of the agricultural suppliers. Supporting the methods of budgetary policy can be effective only in the effective coordination of the federal and local control, presence of the according control mechanisms of the addressed usage of budgetary means.

The structure and budget parameters for consideration of the major indicators of draft state program provide for the allocation in 2008 - 76,8 billion rubles in 2009 - 100 billion rubles in 2010 - 119,5 billion rubles, in 2011 - 125, 0 billion rubles in 2012 - 131.7 billion rubles. The resources for the five-year implementation of state of more than 550 billion rubles from the federal budget. Budget for agriculture in 2012 increased by 2 times compared to 2007. Attracting investment in fixed assets of agriculture for the years 2008-2012 could reach 1trl. rubles. In accordance with the Law «On the development of agriculture» is an effective mechanism for monitoring and evaluating the progress of implementation of state. Yearly evaluation of the results of the program will be implemented by an expert committee. Its members will include representatives of industry associations and associations of agricultural producers and consumers of agricultural commodities and food, representatives of federal executive authorities, authorities of the Russian Federation. The website of the Ministry of Agriculture open access will provide information on the content and implementation of program activities. Every year, in Russia the Ministry of Agriculture will prepare a national report on the progress and results of the state program and after its approval by the Government will be sent to the Federal Assembly.

Table 1

Contradictory consequences of applying the methods of support of producers of the agricultural production	
Method of management	Contradictory consequences
Stimulating the growth of the national production volume	<ul style="list-style-type: none"> - growth tendency of the producers' aggregate income will be weakened by an according price cut; - the national agrarian policy has global consequences according to its

	influence on the supply volume of the agricultural production;
The price parity policy	<ul style="list-style-type: none"> - formation of a agricultural production surplus; - the price growth of the agricultural production in the domestic market; - the decrease of consumption volume; - tax increase in order to compensate the increasing prices and the storage expenses; - decline in public welfare as a result of irrational redistribution of the means into the agrobusiness; - deformation in the world agricultural market, caused by disturbance of the market signals;
The import taxes	<ul style="list-style-type: none"> - the price growth of agricultural products;
The structural policy	<ul style="list-style-type: none"> - while the population migrates from rural areas, providing cost of public goods per capita increases; - a long term decline in the economic potential of agricultural regions;
The direct support of income	<ul style="list-style-type: none"> - significant budgetary expenses; - the problem of the administrative control and a high level of transactional costs; - a slowdown of structural changes in agrobusiness; - forming irrational expectations of the producers in agrobusiness;
Subsidization of production expenses	<ul style="list-style-type: none"> - growth of budgetary expenses; method is successful, if it doesn't contradict the producers' pricing policy;
The price support	<ul style="list-style-type: none"> - the producers' reaction shows itself in the long-term outlook; - long-term prediction of how the

	<p>other products' price will change, is very abstract;</p> <ul style="list-style-type: none"> - the more compensatory payments lead to the decrease in world prices, the more subsidies are needed; - import replacement and export stimulation are likely to have a negative effect on the world prices;
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