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● CZECHOSLOVAKIA

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THE WHOLESALE PRICE REFORM IN THE NEW CZECHOSLOVAK ECONOMIC MODEL

Summary: An important condition of the further development of the improved method of management of the Czechoslovak national economy is an accelerated reform of the wholesale price structure. The wholesale prices, valid from 1 April 1964, did not correspond to the economic conditions and principles of the new management. It has been decided, after preliminary discussions, that the new wholesale prices are to be effective 1 January 1967. However, even these new wholesale prices will not be economic prices in the usual sense of the word. Economically justified price relations are to be set up later when the new Czechoslovak economic model has begun to operate fully.

At present, preparatory work to define the new wholesale prices is in progress. The adjustment of the prices of individual products to the new level is based on a new system employing indices for changing wholesale prices by product groups; the calculation is to be done with computers. This method has certain disadvantages. The wholesale price reform itself harbors some dangers; it will not be carried out with all the implications and a secondary effect could be the release of hidden inflationary pressures which exist in the Czechoslovak economy.

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The introduction of the new system of management in the Czechoslovak economy has reached a stage at which it is clear that the reform of the structure of wholesale prices must be accelerated if the new system is to be developed further. In general, price policy is envisaged as one of the most important instruments of management under the new system.(1) For this reason some changes in this sphere had already been prepared as part of the preparations for the gradual application of the new system of management starting from 1 January 1965. This preparatory work was intended to furnish practical experience for the general introduction and application of new principles for controlling price development and for planning and regulating prices.(2)

It had been admitted in the draft of the principles for the new system of management, published on 17 October 1965, that the "price policies pursued in the past were marked by a degree of rigidity," and a new role was assigned to price policy in the draft, the role of an effective economic tool. It is also indicated in the draft that price development in Czechoslovakia could not be isolated from price relations in world markets. The decision of the CC CPCS on the main trends for remodeling the planned management of the national economy and on Party work, passed at the CC CPCS session held 27-29 January 1965, provides that, in consonance with the development of economic conditions in production and consumption, prices would have to be regulated in ways guaranteeing maximal effectiveness of the national economy. Therefore, socially necessary expenditure on production, world prices and thus also the influence of world labor productivity on price relations in Czechoslovakia, must be regarded as the only valid gauge. It is also stated in the decision that the concept of prices unchangeable for long terms, must be replaced by a system in which the movement of prices is allowed but regulated in a planned manner, ensuring stability of the overall price level. At this time, articles began to appear in the Czechoslovak press which dealt directly with the problems of wholesale prices. Before examining the problem of wholesale prices in the new economic model in Czechoslovakia, it will be useful at least briefly to review how, until recently, the term wholesale prices had been defined in Czechoslovakia.

In this definition, wholesale prices comprised all production costs plus a profit for the production enterprise (i.e., "cost plus" method). In those cases in which the sale of products was transacted through the agency of a distributive organization, the cost of distribution and the profit of the sales organization were also included in the wholesale prices. In some specified instances, the wholesale price also included the turnover tax.(3) Sales of products by one enterprise to another and by production enterprises to foreign trade enterprises as well as sales for the purposes of investments were all transacted at wholesale prices.

The general level of wholesale prices always was maintained in overall reviews, the last of which was effected on 1 April 1964. However, the resulting wholesale prices in force as of this date, did not conform to the requirements of the new system of management. They had been fixed under different economic conditions and principles of management in which the level of prices, price relations, and their use in the process of social production played a different role. One of the elements taken into consideration at the wholesale price regulation of April 1964 was the requirement of minimal profitability. This proviso was designed to ensure that wholesale prices would exert pressure on cost reduction. As a result, profit margins in wholesale prices were small, to such a degree that they did not permit the introduction of the new economic instruments foreseen in the new economic model, for instance levies on production funds, levies on gross revenue, etc. Thus, these wholesale prices did not establish the necessary conditions for introducing and insuring an active effect of the remodeled system of planned management.(4)

It became apparent, after a short time, that it would be impossible to introduce the new system unless drastic measures were taken in the price sphere, specifically, unless the wholesale price structure were generally reformed. It also became apparent that measures of this nature could not be carried out on short notice. Proposals temporarily to limit the reform to consumer articles, goods for export, material for investment and industrial consumption were even examined. The amount involved in the proposed preliminary changes of wholesale prices was 3.5 milliard Kcs.(5)

Just as the introduction of the new economic model itself gave rise to disputes between two lines of thought among economic theorists, when one group wanted to carry out the changes at a single stroke on a given date, and the other wanted to introduce these changes gradually, the question of how the problem of the reform of the wholesale price structure could be solved was also studied in a number of possible variants. In the course of time, two divergent opinions crystallized. The first advocated that the level of wholesale prices should be generally raised at the beginning of 1966, and that gradual adjustments be subsequently carried out in the branches and for individual products. The second solution did not envisage a general increase of wholesale prices as of 1 January 1966; only partial adjustments were to be undertaken and the general adjustment of wholesale prices was to be carried out at a later date (mostly the years 1968 and 1969 were suggested).(6) These proposals were studied by a group of experts. Based on their findings, the State Commission for Management and Organization recommended to the government on 29 June 1965, that only a partial adjustment of wholesale prices should be carried to take effect on 1 January 1966; the general reform was to follow as of 1 January 1968, or, in some branches, before this date, conditions permitting and if the necessity arose.

On the basis of the government decision and the decision of the State Price Committee, the State Planning Commission approved some changes of wholesale prices, especially in the sectors of the consumer industries and the engineering industry. Very few changes occurred in the other branches. A partial reform of the wholesale prices was carried out for roughly 10 to 15 per cent of industrial products (7); it was meant contingently to provide for the anticipated levies which were connected with the abandonment of considerable subsidies paid from the state budget. Conditions for the optimal interest in production are to be established by the general reform of wholesale prices.

The preparatory work for this partial solution of the problem of the wholesale prices continued throughout 1965. The State Price Committee approved the draft decree on the methods and detailed delimitation of authority in planning, price control, formation, and statistics, submitted by the State Planning Commission.(8)

The government approved in December 1965, the political-economic directive for the general reform of wholesale prices and decreed

that the reform is to be completed not later than 1 January 1968. It was decided, in principle, that on 1 January 1966 only partial adjustments of wholesale prices would be made. As to the future course, two alternatives were taken into consideration. The first followed the possibility of completing the first part of the reform by the beginning of 1967 on the basis of calculations and the increase of individual wholesale prices to the new level according to production groups with further adjustments of wholesale prices to be made within the framework of the new level of economic system. The second alternative anticipated that when the new levels of wholesale prices have been established, the individual wholesale prices would be worked out within these levels and that the new wholesale prices would be effective only from 1 January 1968.(9) This date was considered as the latest.

The Czechoslovak economists began to realize that if the new system of planned management of the national economy is to function, a general reform of wholesale prices must be effected as soon as possible. They began to seek ways and means to achieve this aim. Experience has shown that it could not be achieved by a gradual determination of individual prices, from raw and basic materials right up to the products of the manufacturing industry. A new procedure was therefore beginning to take shape with a view to a better utilization of modern computing techniques and thus cutting substantially the time needed for the reform of wholesale prices. The conclusion was that this could be achieved by a further division in two stages. In the first stage, wholesale prices are determined by the index method in accordance with the group of products, effective 1 January 1967 and only after that, in the second stage, are the actual price changes for the individual products to follow, interdependently.(10) According to the Deputy Chairman of the State Planning Commission Miloslav Kohoutek (see supplement to Hospodarske Noviny of 25 February 1966) the government, acting upon Party CC instructions, decided in February 1966 on the accelerated method of wholesale price reform using the system of uniformly calculated coefficients by branches and groups of products.

It would seem at first sight that there is an actual acceleration of the wholesale prices reform compared to the original plan. However, there can be no question of an acceleration of the whole reform of wholesale prices but only of an earlier realization of the initial basis of the process of objectivization of the system of wholesale prices, which leaves many unsolved problems. These problems are to be solved only after 1 January 1967 under a uniform social criterion of economic efficiency and with the use of the other economic levers, as well as the system of the material interest of the enterprises and the economic production units.

At the beginning of last February, the State Planning Commission issued "Instructions for the Determination of the Data for the Calculation of Indices of Wholesale Price Changes" to be used in working out the new level of wholesale prices which should become effective on 1 January 1967. The deadline for the determination of these data was fixed at 30 May 1966.

Thus the present situation is this:

1) Effective 1 January 1966, the first partial adjustment of wholesale prices, affecting some 10 to 15 per cent of industrial products, was introduced.

2) By 30 May 1966, the data for the working out of the new wholesale prices are to be ready.

3) Following this, the indices are to be calculated by product groups and a new level of wholesale prices determined.

4) As of 1 January 1967, new wholesale prices are to be introduced; they will not fully reflect prices under economic equilibrium conditions.

This completes the first stage of the wholesale price reform in Czechoslovakia. Only afterward will come the second stage the purpose of which will be first, to establish economically justified price relations among the various products and adjust the development of prices to objective changes in the economy; in this process, the wholesale prices themselves must generate pressures for an accelerated realization of socially desirable changes in the Czechoslovak economy.

Before turning to the present adjustment of the wholesale prices in Czechoslovakia, let us observe briefly the differences between the current reform and the general adjustments of wholesale prices carried out in the past. In the earlier adjustments the wholesale prices were calculated individually for every product, from primary production to manufacturing. Due to the fact that the adjustments took between two and three years, their results lacked their intended usefulness; the new wholesale prices had to be calculated, more or less, on the basis of estimates. Thus the adjustment was gradual and proceeded from the primary production to the final production stages; This was the only course. In calculating the mutual price influences, preliminary or estimated prices had to be used and the price changes in the manufacturing industries could not be reflected retrospectively in the prices of the primary production branches.

The new method of calculating wholesale prices which is now being adopted in Czechoslovakia has departed from the system of sequence from primary production to manufacturing. The adjustment of the wholesale prices is carried out in all the branches simultaneously. The new procedure follows roughly the following principles:

a) the new price level will be calculated in every branch of the national economy simultaneously, on the basis of uniformly worked out data;

b) the change-over of the prices of the individual products to the new level will be executed with the help of

indices of wholesale price changes set centrally for the various product groups;

c) the supplementary price adjustments in the case of individual products, within the approved level, will be carried out in the second stage, with the actual market conditions being taken fully into account.

As has been mentioned already in the introductory part, the present work on the wholesale price reform is only the first stage and only subsequently will the establishment of economically justified price relations among the different products and the adjustments of the price development to the objective changes in the economy be tackled.

The new method has its advantages and disadvantages. It makes possible the projection of the mutual effects of the price changes between the branches (from the preliminary production to the manufacturing industries, and vice versa) simultaneously in all the branches and it is necessary therefore to await the determination of the prices in the various production stages. It is therefore possible to cut considerably the time required for implementing the wholesale price reform. It is also unnecessary to estimate the development of costs for the various products sometimes even years ahead -- the result of such estimates having often been that the new price level did not correspond to the conditions prevailing at the time of its introduction. On the other hand, the employment of computing techniques has limited the possible extent of the entry dates; the new method must use group data and the results of the calculations are wholesale price change indices for production groups only. It was therefore necessary to divide the production in all the branches of the national economy into homogenous groups of products.(11) These are the fundamental differences between the new adjustment of wholesale prices and the former adjustments.

In the new economic model in Czechoslovakia, the wholesale price includes:

1) direct costs and indirect expenditures of production, except for costs and expenses paid from the central funds of higher authorities;

2) the net economic result of production (profit or loss).

In accordance with the regulations issued by the Central Commission of People's Control and Statistics, the net economic result (profit or loss) includes the levies on capital assets, the basic levies on gross income profit, the supplementary levies, the repayments of investment credits, and payments into funds. To the wholesale price are added (or from the wholesale price are deducted) price subsidies (deductions) aimed at stimulating (reducing) production of some products, supplements to cover the expenses connected with repairs within the guarantee period, the trade margin of independent marketing or supply organizations, etc.

The main purpose of the wholesale price reform in Czechoslovakia is to change the structure and level of the wholesale prices so that they express not the current costs of production and distribution alone, but also that part of socially necessary work permanently tied up (i.e., invested) in production and distribution. This would create in the system of wholesale prices, conditions for the possible employment of the new economic instruments, especially the levies on capital assets, interest payments on current cash, and levies on gross profits, and the elimination of undesirable subsidies. The whole system of prices would be brought into harmony with the system of material incentives. The system of wholesale prices is to reflect clearly the demand placed by production upon the basic and current funds and it is to be a more reliable criterion of measuring the effectiveness of economic decisions, and is to influence actively all the production factors, especially as the increasing quality of the products and the intensive utilization of labor is concerned.

In view of the fact that the supplier-customer relations among organizations are affected not alone by the price level, but especially by the relationship between the prices of various products, it is imperative that the wholesale prices should express, apart from the requirements for central distribution of products and the other conditions of production, also the actual market conditions, the relations between supply and demand, and the influences of world markets upon the Czechoslovak national economy. This falls, however, under the second part of the wholesale price reform. The Czechoslovak economists believe that this cannot be achieved by a one-time adjustment effective from a given date. In their view the realization of this task should be carried out gradually so that the wholesale prices of the individual products are adjusted to the constantly changing conditions of production and distribution. An important condition of the materialization of this task is of course a full operation of market relations which requires a close connection between production and the market and a recognition of their interactions. (12) It follows that this further part of the reform -- the second stage -- can be carried out only later, that is to say when the newly fixed wholesale prices have been introduced, i.e., after 1 January 1967, and particularly after the new economic system is in full operation. In view of the fact that it is not known when the so-called final solution of the new system will be achieved, it cannot be predicted when the second stage of the wholesale price reform can be fully implemented.

What are the main principles of the wholesale price reform? The reform is to adjust all those prices which have the nature of wholesale prices, i.e., the prices applied to the trading of products, labor, and services among the socialist organizations. The starting point for the determination of the new level of wholesale prices of domestic production are the average costs of production. These costs are based on the planned level of costs for 1966. Other factors determining the level of the new wholesale prices are the fixed levies collected on the depreciated value of the capital investment also valued in new prices, the health insurance premiums, and the net profit corresponding to 12 per cent of the total wage premium and bonus payments for individual work results. The net

income also includes levies on the capital investments, interest payments on circulating funds, health insurance premiums, and a net profit of 12 per cent of the total wage and premium payments. This net income represents an average for the branch management (the economic production unit). Within the framework of the branch management, the net income may be differentiated (while the overall level of wholesale prices is maintained) with a view to favoring the progressive and discouraging the lagging branches and groups of products. The progressiveness and efficiency will be judged especially by the relative advantage in exports. Only in exceptional cases, when the proportion between resources and demand must be balanced will it be admissible to achieve the new level of prices by an additional tax or by a price subsidy.

In the view of the Czechoslovak economists, the new wholesale prices will express more accurately the value relations in the national economy. They will offer, therefore, a better criterion of the advantage or disadvantage of the possible variants on the solution of actual cases and will thus permit the selection of the variant which is economically most preferable.⁽¹³⁾ It is generally anticipated that the wholesale price reform will raise the price levels in industry by about 20 per cent. Official spokesmen say that this increase will not effect retail prices, due to the fact that wholesale prices operate exclusively among socialist organizations, but that it will be generally reflected in a reduction of the turnover tax. Theoretically it is possible, of course, that the increase of wholesale prices will be absorbed by a reduction of the turnover tax -- a tax which is one of the main sources of income of the Communist regime and which enabled the regime to hold prices at the decreed levels. Since central investments are to be reduced, the national government will require lesser tax receipts than under the old system of centralized allocation of investment funds. However, the question as to how it will work in practice, still remains to be answered.

The so-called categorization of prices is one of the main measures affecting wholesale prices in the price policy of the new system of management. The individual products or their groups are arranged in three price categories: in the fixed, limited and free price category. In accordance with the principles of the new economic model, this categorization is the principal way of implementing flexibility of prices under the new price policy rules. At the same time, however, centrally fixed price levels are maintained for major commodity groups. However, the authors of economic essays on the subject of price categorization expressly explain that this does not involve the replacement of one scheme of administrative price stability by another scheme based on frequent price changes. Real price stability remains the chief aim of the Czechoslovak economy because, it is claimed, real price stability is one of the foundations of a balanced development of the national economy under conditions of market production.⁽¹⁴⁾

The price categorization is of wide scope and comprises practically the entire range of products of Czechoslovak production, i.e. products and labor for subsequent industrial production, supplies for investments, agriculture, goods for export, etc.

It also affects the categorization of retail prices, since in the vast majority of cases the categories are identical for wholesale and for retail prices. The breakdown of the individual price categories for the whole of industrial production is as follows:

a)	fixed prices	64	per cent
b)	maximum limit prices	14.7	"
c)	maximum and minimum limit prices	14.1	"
f)	free prices	7.2	"

It must be pointed out that this distribution among the price categories is only valid for 1966 and that this breakdown in subsequent years is to differ from the above stated ratios. On the legal side, the meaning of the individual price categories was defined in an ordinance on price setting, control, and statistics, issued by the State Commission for Finance, Prices, and Wages on 24 January 1966. (15)

Thus, in the first year of the introduction of the new economic model in Czechoslovakia, fixed prices and maximum limit prices prevail in a large majority (Price increases in these two categories require the consent of the central authority concerned). Prices with upper and lower limits which may be increased or reduced within the fixed ranges by agreement between the enterprises included only 14.1 per cent of the overall volume of industrial production. And, finally, free prices whose movement will not be controlled by means of administrative measures only apply to 7.2 per cent of the volume of industrial production. However, in the course of time, the above proportions are to change in favor of limited and free price categories. There are further distinctions within the individual branches of industrial production. In the primary industrial branches (raw material extraction, production of basic materials, and power generation), almost the entire volume of production remains subject to fixed prices. Conversely the categories of limited and free prices apply to a larger degree in the manufacturing industries and in local industries in particular. (16)

It is one of the chief aims of the general reform of the wholesale price structure, also to bring wholesale prices closer in line with prices on world markets. Owing to the isolation of the Czechoslovak market from world markets, to the long-term stability of domestic prices, and to the rigid nature of domestic price relations -- while prices were changing on foreign markets -- the interrelations between Czechoslovak wholesale prices became gradually divorced from the changed world price structure. Furthermore, due to the fact that the entire cost of imports was not reflected in the internal pricing of imported products, these domestic prices were increasingly under-valued. Although the domestic customers received imported products at a relatively low price and seemingly at advantageous terms, the differences between import costs and invoice prices distorted the actual effectiveness of Czechoslovak production and imports. For all practical purposes, wholesale prices in Czechoslovakia were set without regard to changes in world prices. Differences were neither passed on to the products, nor did they affect the foreign trade enterprises; they were defrayed by the state by budgetary appropriations.

The general reform of wholesale prices for imported products

is to change all this radically, since their amount and relations will depend on world prices as a principle. (17)

How will wholesale prices be calculated in the new structure? As mentioned before, the basic principle governing the methods of calculating the wholesale prices which are to come into effect as of 1 January 1967, consists in dividing the production of all branches of the national economy into homogeneous groups of products for which a new level of costs will be calculated, and used as a basis for fixing the new price levels. A comparison between these cost levels and the old type of production costs in each group permits indexes of price changes to be compiled. These indexes will be used to adjust the existing prices of the given group of products to the new level. After these indexes have been compiled, computers will be used to establish the mutual projection of price influences on all production branches and divisions in stages, but to apply to a single date (the so-called method of gradual coordination). The indexes will be calculated for the individual groups of products in accordance with these principles:

- a) the depth of the breakdown should be optimal, while a surfeit of indexes is to be avoided,
- b) on the other hand, the breakdown should not be overly loose, lest the resulting prices fail in their economic purpose.

In practice, the methods for the general price reform can only be used and promise economic success in the case of products of mass and serial production, mostly involving products of types for which specific wholesale prices are fixed. In the case of accessory products of a serial and mini-serial character with a great variety of designs, it was necessary to form a large number of index groups and in spite of this it was impossible to include all the required criteria. And finally, as far as products of a non-standard character were concerned, it was necessary to combine the use of the index methods of the general price reform with elements of the so-called traditional methods, which proves that some shortcomings in the new method of calculating wholesale prices cannot be avoided, shortcomings which may make themselves felt in the resulting regulation of the new wholesale prices.

The overall machine calculations are organized by the department of computer techniques at the State Planning Commission. Medium computers of the LEO 360 and GAMMA 30 type were generally used for the calculation of price indexes; those computers are among the best computers available in Czechoslovakia, a fact which even the Communists admit. (18) The following method will be used:

In the first stage, the so-called "first step," a new margin of profit will be set for all groups of products, calculated in accordance with the principles laid down in the methodical instructions for the general regulation of wholesale prices. On the basis of the new profit margin arrived at in this manner, "new" price levels will be calculated for all groups of products. By dividing these "new" wholesale prices by the existing prices, indexes of changes in wholesale prices are obtained for the individual groups of products, for

super-groups of products, and for the individual production branches. In the next stage, these price indexes are used for recalculating the cost of material in all groups of products and for calculating new profit margins which result from a recalculation of the value of the circulating capital. This data is used for calculating new profit margins, new levels of wholesale prices and, as a result, a new level (value) of price indexes. These indexes are used for another recalculation of the cost of material and the whole process is repeated in this manner. Since the indexes used for recalculating the cost of material will, after each step, come nearer to the value of the indexes determining the level of changes in wholesale prices for the individual production groups, convergence of both types of indexes will be reached after a sufficient number of steps. This will meet the conditions that the cost of material must be recalculated by means of the indexes of changes in wholesale prices for the individual groups of products. In principle, only the indexes of changes in wholesale prices for individual groups, super-groups, and production branches will be recalculated. However, the calculation programs also envisages the possibility of a recalculation of the cost of material for every group, super-group, or branch, although this information cannot be obtained for all groups in the list. (19)

The problems connected with the use of computers for the calculation of the new level of wholesale prices will be dealt with by a group of specialists (mathematicians and computer program analysts) set up by the Department Computer Techniques at the State Planning Commission. However, the direct assistance of foreign experts also may be enlisted. (20) This fact demonstrates the enormous complexity of the task the Czechoslovak economists have undertaken and it also indicated that, due to their isolation from Western developments in economic theory and econometrics, they will hardly be able to master these demanding tasks unaided.

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Conclusions

Until now, it had been the practice in Czechoslovakia to set wholesale prices administratively and, as the Communist themselves admit, the Czechoslovak economy has been isolated from the influence of world markets and from world prices since 1937, i.e., for almost three decades. Thus wholesale prices employed in the Czechoslovak directive planning system were non-economic and did not reflect true relative scarcities.

The Czechoslovak economic fluctuations in the fifties and at the beginning of the sixties confirmed the failure of directive planning. In particular, the absolute collapse of the Third Five-Year Plan convinced the Czechoslovak economists that an improvement could only be brought about by means of radical changes in the economic system. The principles for the new management of the Czechoslovak economy stated that prices must serve as an effective economic instrument. Therefore, it was essential to change the existing price structure. The general reform of the wholesale price structure is a part of these changes. The Czechoslovak press published a number of statements to the effect that the introduction of the new economic system was practically impossible without a general

reform of the wholesale price structure. It became evident that the price reform was essential and would have to be carried out as soon as possible.

The Communists had two alternatives -- just as in the case of the introduction of the new system of management itself. They could either let wholesale prices develop without interference -- permitting free play to the factors of supply and demand -- or they could regulate this development centrally. However, they decided it was not feasible to let wholesale prices develop under the full influence of supplier-consumer relations and this course was also politically unpalatable for the Communist regime. A free development was not feasible because the supply and demand factors also have been not fully incorporated into the new economic system and therefore it could not fully influence the development of wholesale prices. And it would have been politically unpalatable because this would have meant a complete departure from the old ways, with the possibility of control of this process slipping entirely from the Communists. This was the reason given for adopting the particular method for the reform of the wholesale price structure. However, the question remains whether the new wholesale prices will be able to do the job that is expected of them.

The wholesale price reform, coming into force on 1 January 1967, will not entirely respect the socially necessary production cost and world prices, and thus reflect the influence of world labor productivity on price relations in Czechoslovakia. The new prices will still fail to reflect the real costs with all their implications. Hence, the wholesale prices coming into effect on 1 January 1967 will not yet constitute economically meaningful wholesale prices in the usual sense of the term since economically justified price relations between the individual products are only to come into play later, i.e. in the second phase when the development of prices is also to be coordinated with changes in the economy. This is to await the full operation of the new economic model. However, it cannot be gauged when these conditions will obtain. It follows from this that even after the new general reform, wholesale prices in Czechoslovakia will not function in the same manner in the West for a long time.

The chosen method for the reform has advantages and disadvantages. Individual setting of wholesale prices is replaced by a method of regulating wholesale prices by means of indexes according to groups of products. Thus, in practice, the chosen method will only have its fullest effect in the case of mass and serially produced products. The Communists themselves admit that this method has certain weaknesses which may make themselves felt in the result. In view of the fact that subsidized prices will exist in the transitory stage, the implementation of the direct economic connection between producer and consumer will be postponed. Therefore, the danger exists that the enterprises may choose a range of products attracting the highest subsidies.

In the categorization for 1966, the share of free prices is very small and in the primary industrial branches almost the entire volume of production remains in the category of fixed prices.

In view of the fact that the wholesale prices of these basic materials and raw materials are reflected in practically all the other products, the wholesale prices of manufactured products will be distorted, in other words the reform in its present form will partly miss its aim. It is possible, of course, and may in fact be expected that, in defining the price categories for the following years, the proportion of free prices will be substantially higher and that the distortion factor will be somewhat moderated even if not completely eliminated. According to the plan, prices should not be determined in the future by administrative methods as has been customary before. However, this conflicts with the fact that the fixed and limited prices make up the overwhelming majority of the prices, and that a flexible, yet planned movement of prices is envisaged. In this instance most clearly reflected is the logical discrepancy between the plan and intentions of the Communist regime on the one hand, and that which actually happens in practice, on the other.

The general reform of the wholesale price structure anticipates that the wholesale prices will increase by an average of 20 per cent. It may be noted that, e.g., at the price adjustment on 1 April 1964, wholesale prices of imported raw materials rose by one-third but still were not reflected in the production costs. It is therefore not certain that this further increase will actually include these costs and will be able to cover the levies. Much more important, however, is how will this increase of wholesale prices be neutralized so that a rise in the retail prices and an increase in the cost of living of the people of Czechoslovakia is avoided. The Communists maintain that the increase in wholesale prices is not to affect, in principle, the retail price level and that the price reform is not to affect individual incomes. According to the Communists, the wholesale price increase will be generally absorbed by the reduction of the turnover tax.

Due to the unusually high turnover tax, it is actually theoretically possible to absorb the increase of wholesale prices by a reduction of this tax. Naturally, what can and what will occur are two different things. The comment itself according to which the wholesale price increase is not to affect "in principle" the retail price level and that the wholesale prices will "to a large extent" be offset by a reduction of the turnover tax, is an indirect admission that the Communists visualize the possibility of an increase of some retail prices. What could be the result? (Naturally, what follows is a hypothesis, but one which is rather probable considering the present situation in the Czechoslovak national economy. Assuming that the increase of the wholesale price level will not be offset completely by a reduction of the turnover tax, then the wholesale price increases will necessarily be reflected in at least some increases of retail prices and thus in a higher cost of living. The next step will be an increase of the nominal wages if a drop in the real wages is to be avoided. Even today hidden and open price increases, growth of the unrealizable purchasing power reflected in rising savings and increasing quantities of money in circulation, and other aspects of the market situation are diametrically opposed to the policy of a stabilized economy and are signs of repressed inflation. These trends have

not been stopped by the various countermeasures, one of them having been the freezing of the average nominal wages from 1962 to 1964, introduced in spite of the fact that under normal circumstances, the development of wages as an element of the inflationary pressure anticipates a much higher growth of the nominal wages than has been the case in Czechoslovakia in the course of recent years. Sometimes even static average wages may contain an inflationary element if there is a lack of improvement in work efficiency, rising material costs, declining quality of the products, growing inventories of unsaleable consumer goods, and growing labor force. And this is exactly what has happened in Czechoslovakia.

The wholesale price reform -- because it will not be implemented consistently -- could be one of the influences triggering an inflationary spiral. One possible solution in such a situation would be a new monetary reform. It is understandable that the Communist regime abhors such a prospect, with the monetary reform of May 1951 and its accompanying signs still vividly in memory.

This brings us to the connection between the new economic model and the wholesale price reform. If the new economic model is to function effectively, the wholesale prices reform must be implemented at any price, i.e. including the price of inflation. If the Communists permit the wholesale prices to develop freely, reflecting supply and demand market forces, the possibility of an uncontrolled development and thus of inflation will be substantially greater. However, even under the present system of price reform this element should not be underrated. Thus the Communists face a dilemma, the way out of which is unbelievably difficult. Sooner or later the Communist regime will have to face many crucial problems emerging from the introduction of the new economical model and it can be hardly expected to find a solution which would enhance the position of socialist planning. But to continue without any economic reform is to invite the continuance of existing chronic economic problems and permanent economic stagnation.

Footnotes:

- (1) An NPL publication (Prague 1965) by Vladimir Janza, The Role of Prices in the New System of Management, deals with prices in NEM in detail
- (2) The so-called "price experiments" were the subject of a detailed article by Josef Haman, on the staff of the CC CPCs, "An Effective, But Delicate Instrument of Management," in Rude Pravo 24 August 1965.
- (3) A Brief Economic Encyclopedia, NPL, Prague, 1963, p.33
- (4) A detailed analysis of the system of wholesale prices introduced on 1 April 1964 appeared in Planovane Hospodarstvi No.2/1965 in an article by Vladislav Knobloch from the secretariat of the State Price Committee, entitled "The Chief Role of Wholesale Prices in 1965."

- (5) F.Hronec: "Principles Into Concrete Forms," Praca, 19 March 1965
- (6) The divergence of opinions on the reform of the wholesale price structure was admitted by the head of the price department of the State Planning Commission, Jiri Typolt, in an interview with Rude Pravo editor Zdislav Sulc. CF. Rude Pravo, 4 August 1965 "How Wholesale Prices Will Be Regulated."
- (7) Ibid. According to an article in Zemedelske Noviny of 11 March 1966 entitled "Why a Wholesale Price Reform?" (by Osvald Oulehla, CSc.) the temporary adjustment effective from 1 January 1966 raised the wholesale prices by only 3 per cent; the unprofitable production of many products could not be done away with by this step.
- (8) The "Decree of the State Commission of Finances, Prices, and Wages, issued on 24 January 1966 about the establishment, control, and statistics of prices" was published in the Collection of Laws of the CSSR only on 16 February 1966 and became effective on 1 March 1966. See Coll. of Laws, Part 3/1966, pp.18-28. The Decree of the Central Commission of Peoples Statistics and Control, dated 4 February 1966, on the control and statistics of prices was published in the same part pp.29-31.
- (9) Both alternatives are mentioned by Otakar Novak, member of the State Planning Commission, in the article "How the Reform of the System of Wholesale Prices is to be Effected." Rude Pravo 29 December 1965.
- (10) This method was mentioned for the first time in the interview granted by the deputy chairman of the State Commission for Finances, Prices, and Wages, Vladimir Jansa, to Jan Lipavsky, editor of the daily Praca, Bratislava ("Prices as We Do Not Know Them," Praca 5 February 1966).
- (11) This division has already been made and the industrial production has been divided into more than 20,000 groups of products, according to an article in Rude Pravo of 2 March 1966 "The New Level of Wholesale Prices as of 1 January 1967" by J. Typolt and O. Novak. It should be noted that for the purpose of previous adjustments some 1.5 million products had to be dealt with.
- (12) This requires a closer link-up between the individual kinds of prices, especially between the wholesale and purchasing prices, between the wholesale and retail prices and the prices achieved in foreign trade.
- (13) This view is expressed in an article by Vaclav Havel and Libuse Petrikova which appeared in Hospodarske Noviny on 11 February 1966 under the title "Before the General Reform of the Wholesale Price Structure."
- (14) This opinion is expounded by Vaclav Knobloch and Oldrich Novotny in an article in Hospodarske Noviny No.49/1965, "The Categorization of Prizes for 1966."

(15) Collected Laws of the CSSR, part three, 16 February 1966.
(The ordinance came into force on 1 March 1966.)

(16) In the sphere of the Ministry of Fuel, free prices were not introduced at all. On the other hand, the share of the category of free prices in the jurisdiction of the Central Administration of Local Economy and of the Central Administration of Production Cooperatives amounts to 28.0 per cent. The smallest share of fixed prices is in the sphere of the Ministry of Heavy Engineering (six per cent), but the share of maximum limit prices reaches 64.8 per cent and that of maximum-minimum limit prices 28.4 per cent, while free prices only apply to 0.8 per cent -- Detailed information about the price categories of wholesale prices is given in an article by Vaclav Knobloch and Oldrich Novy, "The Categorization of Prices for 1966," Hospodarske Noviny No.49/1965.

(17) The new method for regulating the prices of imported products is dealt with in part of a special supplement of Hospodarske Noviny No.8/1966, "In Aid of the Reform of Wholesale Prices."

(18) The LEO 360 computer is made in England by English Electric Leo-Marconi; the first computer of this type began operating in the CSSR on 7 March 1966. The GAMMA 30 computer is of French origin, made by BULL-GE; the first computer of this type began operating on 5 March 1966.

(19) Detailed information about the calculation with graphs appeared in the article cited in footnote No. (17).

(20) Ibid.

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