

Radio Free Europe/Munich
Office of the Policy Advisor
Background Information USSR

November 13, 1959

PRICES - UP OR DOWN?

The outlook for Soviet prices in 1960 is more than ordinarily obscure. In this field Khrushchev is an orthodox conservative economist of the anti-inflation school of thought, as he showed in his recent speech at Krasnoyarsk (October 11th, 1959):

"What will happen if we venture to reduce sharply the prices of all goods at once? There may be queues in the shops because we cannot yet secure the production of sufficient quantities of all goods. We cannot permit this because such a situation would encourage the development of speculation..."

Despite this evidence of the continuation of the policy on prices which Khrushchev has followed, by and large, since 1954, the Economist (November 7th 1959) has come to the conclusion that in 1960 "the expected drop in receipts from the turnover tax, levied mainly on consumer goods, shows that it is intended to cut prices." However in the next sentence the Economist goes on to say: "This (the drop in receipts - r.r.g) is more than made up by increased returns from the profits tax."

It is by no means clear how prices can be reduced by cutting a tax levied on the consumer and transferring it to industry instead. The industrialist seems likely to raise his wholesale prices in an effort to preserve his profit margin, with the result that the consumer pays as much as before. Moreover according to the figures given by V. Garbuzov, a 1st Deputy Minister of Finance, while turnover tax is to be reduced by 12.9 billion rubles in 1960 as compared with the 1959 estimates, the profits tax is to go up by no less than 48 billion.¹ Since the Kremlin can presumably be relied on not to tax itself, as the owner of all the important sectors of industry, this switch in emphasis looks like providing little or no elbow-room for a price-cutting campaign, even supposing Khrushchev thought it desirable..

Meanwhile, the Minister of Trade of the Ukraine, G. Sakhnovsky (Pravda Ukrainy, 8 August 1959) has provided a straw in the wind which suggests that some prices may in fact be going to rise. Admitting that there is pressure from some Ukrainian factory managers to be allowed to raise prices in order to replace their obsolescent machinery more quickly, and describing this as "an unhealthy aspiration" Sakhnovsky writes:

¹The figures given to the Supreme Soviet estimated 317 billion rubles of revenue from the turnover tax in 1960. The 1959 estimate amounted to 330 billion rubles, and actual revenue that year was 333 billion (A. Kosygin, Pravda, 28 October 1959) from this tax, or 46.6% of the retail value of trade.

"Of course in a number of cases, when it is necessary to use additional materials or to expand the labor force, some increase in prices may be justified."

Although the remainder of his remarks are anti-inflationary, the escape clause which Sakhnovsky has thoughtfully provided is of considerable importance.

The seven-hour day has already been extended to wide sections of the Ukraine's heavy industry such as the Zaporozhstal metallurgical plant, for example. At this plant, which has 15,600 workers, a correspondent of the Süddeutsche Zeitung (11 November 1959) reports that the working month has been cut from 208 hours in 1957 to 160 hours today. Since this reduction is equivalent to approximately 25%, there is good reason to suppose that during the past two years a fourth shift has been instituted. (It will be recalled that in 1957 Khrushchev went on record with the statement that the reduction in the work day would help to increase the demand for labor - see Background Information, 8th October 1958 "Once More on the Labor Shortage", p. 1)

Thus heavy industry already has the necessary objective economic excuse for raising its prices, should the Government allow it to do so. Many of its products are used in light industrial production, and in the Ukraine light industry is scheduled to switch over to the seven-hour day in the 3rd and 4th quarters of 1960 (Pravda, September 20, 1959, Background Information, "The Seven-Hour Day", 23 September 1959). Hence during the second and third quarters of this year it may be expected that Ukrainian light industry plants which have well filled order books will begin recruiting the labor for their fourth shifts. On the basis of Sakhnovsky's escape clause, the possibility of subsequent price increases should not be overlooked.

r.r.g.