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DEBATE ON PRICE-FIXING MOVES AHEAD

The recent articles by senior officials of the State Prices Committee and of the Central Statistical Administration have been disappointingly conservative in their exclusion of any reference to supply and demand as a factor in price formation.¹ But V. Sitnin, the new Chairman of the State Prices Committee, has contributed an article to the November issue of Economic Gazette (no. 45, 1965) which shows that at present he is maintaining an open mind on several aspects of the current debate.

It has not yet been decided whether interest rates should be levied at differentiated or fixed norms, and until this is done prices for the industries concerned cannot be determined. Nor has the degree of redistribution in the new prices yet been agreed. Certainly heavy industry prices must rise and consumer goods prices are (in theory, at least) supposed to fall but argument goes on as to precisely how great the changes should be.

Lastly Sitnin has not yet decided how to deal with the inefficient plants, the prices of which are inevitably for geographical or technological reasons going to be above the new average levels. To what extent should they be subsidized for local political or strategic reasons?

The clearest account of the present state of the controversy since the September Plenum appears in the same issue of Economic Gazette. Written by V. Dyachenko, a corresponding member of the Academy of Sciences who has been in the revisionist camp for ten years now,² it suggests strongly that supply and demand are to play a small part in the new prices, even though these will be of the "administered" rather than free market variety.

1) See I. Malyshev, Voprosy Ekonomiki, No. 9, 1965 and C.A. paper 19 October 1965.

2) See his article in Voprosy Ekonomiki, No. 10, 1955, for an outspoken attack on "dogmatism and quotationism" in political economy.

Dyachenko begins by rejecting the view that profit margins should be uniform throughout the economy, and that prices should be adjusted to make them so. He argues that

prices will only be an effective stimulus if profitability reflects the efficiency of production and the use of various types of production.

[Emphasis supplied]

The words underlined imply clearly that, at least as far as Dyachenko is concerned, prices must reflect demand. This is a reformist proposal which Sitnin will have to consider in drawing up his new price lists.

Should Prices Reflect Capital Employed?

On this question there are, as usual, two factions. The more dogmatic school of economists is called by Dyachenko "supporters of the value concept." It holds that the phrase "socially necessary labor costs," which is the authorized way of describing the basis for planned prices, covers only the cost of labor currently employed with an allowance for amortization but not for basic production funds (i.e. capital).

Dyachenko will have none of this old-fashioned Marxist concept. Proclaiming himself a supporter of the "production price" school, he argues that although the value concept may have been applicable in the pre-capitalist era, today prices must reflect the relative capital intensity of various industries.

But at this point the revisionists themselves split into two camps. One group thinks that capital intensity should only be reflected in prices where goods are interchangeable.

Dyachenko points out that this argument is untenable, since so many goods are in fact interchangeable. Almost everyone agrees that prices should not include the whole of net income, but only part of it. How does one determine which part? Here again there are two schools of thought.

On the one hand the advocates of "socialist production price" say that, from the net income, one should deduct that part of it which goes to satisfy the personal needs of production workers and their families, and then the remainder should be divided into the total of production funds employed.

Dyachenko argues that in such a procedure the remainder of net income bears no direct relation to capital employed either as regards its origin or its utilization. It would therefore be better to relate only that part of income which is directed towards increasing production funds to the total of capital employed, and then use the result as the norm.

In rejecting the theory that a uniform rate of interest should be unincorporated in prices, Dyachenko says that this procedure would inevitably mean higher prices in such capital-intensive industries as rail transport and electric power. However he accepts the theory of a uniform price coefficient for turnover funds and for new basic funds.

Is the Customer Always Right?

Dyachenko never loses sight of the consumer in his theorizing. He writes:

In order that output which is more profitable to the producer should also be more profitable to the consumer, prices must reflect the economic effect of its use. Therefore a system of technical and economic parameters measuring these consumer qualities must be worked out.

However he refuses to move wholly to the right, and to accept the revisionist argument that prices should be strictly proportional to consumer qualities. His centralist position is that such a system would not stimulate the use of the more "progressive and economical" goods. Why he should think, in view of Gosplan's protracted underestimation of plastics, synthetics and the candy-floss civilization in general, that any group in Moscow can determine what is "progressive and economical" better than the consumer is by no means clear. But probably Dyachenko knows the impossibility of achieving a demand-based economy in the near future, and is therefore moving deliberately at the restrained pace which is likely to be accepted by the orthodox without provoking them to too furious resistance.

Flexibility

Dyachenko concludes his article with a passage on the need for stable yet flexible prices. To achieve flexibility he suggests wider application of the practice of making rebates

or surcharges, the introduction of seasonal prices, the imposition of higher prices on new products which are in great demand etc.

For the first time in the current Soviet debate, he suggests the use of "limit" prices, for which Moscow would set only the upper and lower limits, leaving the price to float in the prescribed area in accordance with supply and demand. He also proposes that some local prices should be on a supply-demand basis.

Dyachenko defines the price system which he advocates as one based on "socially necessary labor costs taking into account capital intensity and consumer qualities" [Emphasis supplied].

These last three words constitute the most revisionist noise yet made in the price-fixing debate. The ball is now firmly in Sitnin's court.

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