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*Research*

## EAST EUROPE

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### NEW PRICE SETTING CRITERIA FOR MACHINERY AND EQUIPMENT

Summary: In June, 1970, two Council of Ministers resolutions concerning the determination of prices for new types of machinery and equipment became effective. The basic determinant of the domestic prices of these products is to be the prices of analogous goods in "highly developed capitalist countries."

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The recently outlined, and now gradually being introduced, changes in the economic system in Poland entail the necessity of revising views and criteria which, at first glance, are devoid of any direct influence on the actual economic model. Such an area, in appearance only marginal in interest for economic reform, and in fact, a condition for its success, relates to all problems connected with the price policy, and in particular, the prices of the means of production. Putting it concisely, the fact is that, despite a number of steps designed to improve it, the present price determination system gives no assurance that prices will truly reflect all actual production costs, their mutual relations, not to mention any consideration of quality factors, such as the technological state of the product. Hence, one of the first moves of the new economic team was the initiation of a price reform on supply and investment products (July, 1968). In principle, this reform should have become effective before the beginning of the new five-year plan, but in practice, we must expect a long delay. Lately, in June, 1970, the Council of Ministers passed two resolutions concerning

the setting of prices for machinery and equipment which is new to production or modified.(x)

According to the principles formulated in both resolutions, the base and the starting point for establishing the domestic prices of this machinery and equipment are foreign currency prices changed in free currency markets of the highly developed capitalist countries.

The export currency prices are to be calculated minus possible agents' fees, discounts, price cuts and other elements directly influencing the price. Foreign currency prices on transactions made on credit are to be adjusted according to the credit rates, taking into consideration the actual payment conditions (length of payment, interest, payment schedule, etc.). Besides, in view of the purpose of the use of foreign currency prices for establishing domestic prices, the former should be adjusted, discounting temporary economic variations. The foreign currency price calculated in this manner, multiplied by the foreign exchange rate, constitutes the starting point in setting the selling price of new machinery and equipment. The domestic selling price should, as a rule, not exceed the level of that price.

The foreign currency price (after being multiplied by an appropriate exchange rate) thus plays, in the new price-setting system, the role of verifying production costs, and, at the same time, sets the domestic price level. The resolution permits various departures from the above norm. For instance, should the foreign currency price prove to be lower than the actual production costs, plus a profit margin -- which should be allowed during the period of mastering a new technology (maximum two years) -- the price would be set according to the foreign currency price and the remaining difference supplemented with subsidies. Should the price based on the foreign currency price be higher than the production cost, plus normal profit and other additions, the domestic price of the product would be based on the production costs, plus the normal additions and a surplus profit equal to one third of the producer's normal profit margin.

The domestic price may, in principle, be based on production costs solely when, at the time of the price setting,

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(x) See article by Franciszek Kubiak, Rynki Zagraniczne, 8 October 1970.

there are no reliable and adequate data on foreign prices. In this case, the price is only temporary and is subject to revision as soon as the foreign trade institutions obtain information on the foreign currency price of the given product.

A similar approach is to be followed in the case of a modernized product, where a modified product is treated as a new production line.

One might point out, while on the subject of the above two resolutions, that, despite the continued discussion on the final scope and political direction of the economic reform in Poland, the various solutions applied are highly pragmatic. In the above case, for instance, despite the growing campaign against the market theories, the solution adopted is marked by the acceptance of "capitalist market" results as a price base for the domestic economy.

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