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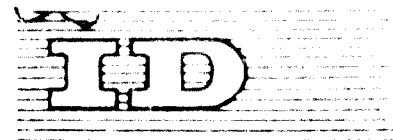
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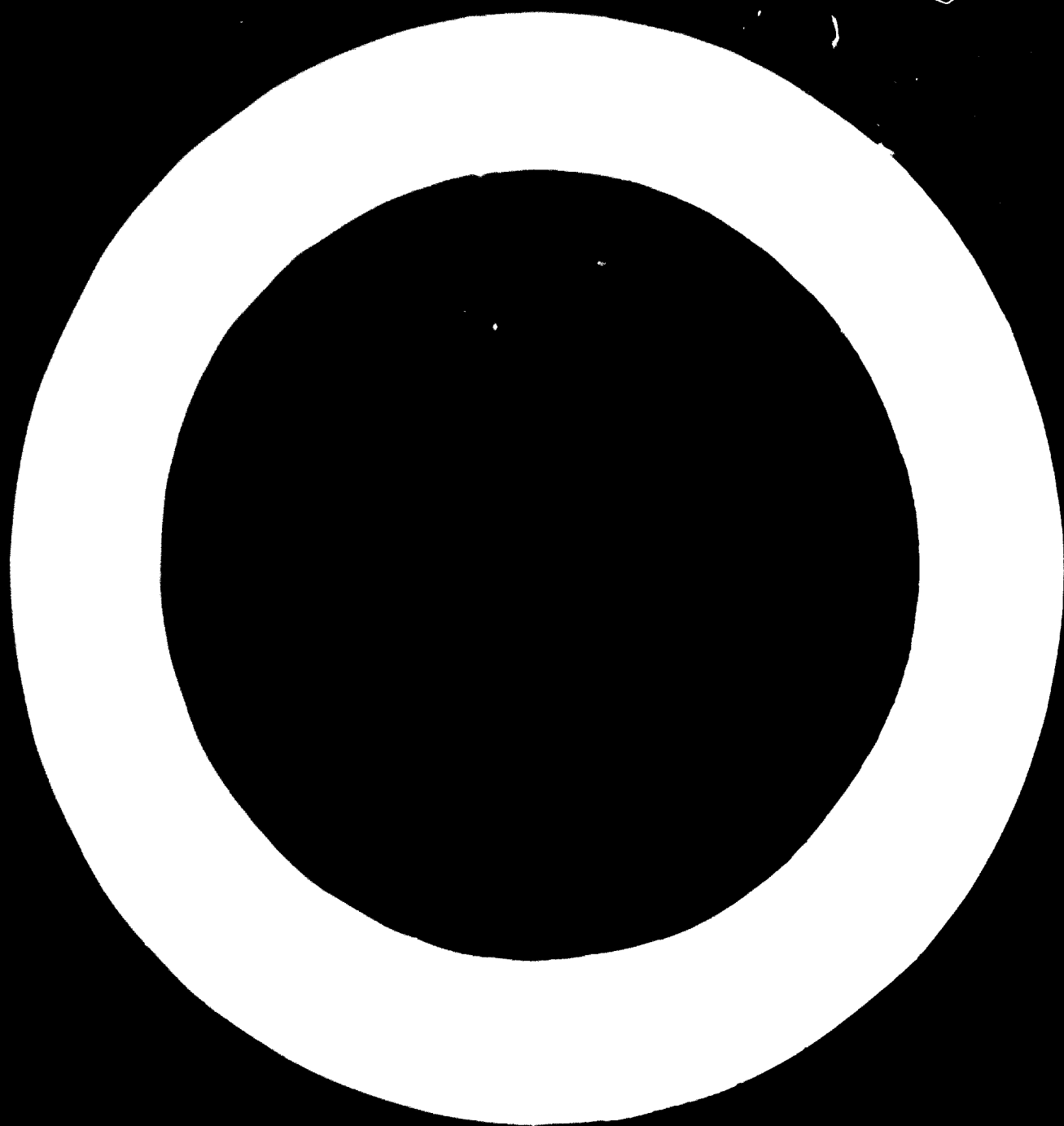
PRICING POLICIES OF PUBLIC MANUFACTURING ENTERPRISES

The Expansion of Centrally-planned Economies^{1/}

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^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.
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I. The Basic Principles of Price Policy

A complete centralization of the accumulation fund and the non-repayable financing in general meant that retained only that incomes be balanced with the requirements of the national economy. The prices of all commodities produced in the public sector, together with the tax revenues from other sectors, had to secure a sufficient income for financing the socio-economic programs of the country. In these circumstances it was not necessary to translate in the price of every commodity the particular income needed for the development of its production. In some cases the prices of certain commodities did not only insure profit but also contributed sufficiently to cover the cost incurred in their production. These were the cases of the government outlays. The government also organized the large-scale investments, amalgamation of enterprises, the enterprises' amalgamation. Although this system was possible to accompany the necessary concentration of funds, it was not always possible to reproduce in the economic structure of the country but it at the same time produced a number of negative phenomena. The system rather deprived the enterprises of the proper incentives to raise the efficiency of their operations, not to be sensitive to the effective utilization of the accumulated funds and therefore created an investment pressure brought to bear by the enterprises.

The basic assumptions of the economic structure of the socialist countries together with the necessity of using intensively on a large scale the accumulated funds for socio-economic development contributed to the formation of the price structure of prices. In the national price structure an important part was the requirement of ensuring a sufficient income in the price structure of all commodities produced by the government enterprises to be referred into the principle of self-financing of the development of production by the enterprises or amalgamation. The principle last principle should cover the average cost of production and ensure a minimum profit, usually about 10 percent, to be taken in normal conditions, although in practice, because of long periods of time during which prices remained unchanged, there occurred serious deviations from it. Non-material reductions in the costs of production in particular in the 1950s and sometimes increases prevailed in certain parts of the extractive industries, changed rapidly the real relations in profitability in comparison with the assumed ones. The minimum profit was the principle of self-financing observed now and then which consisted in covering the average plus a minimum profit constant in value but dependent on the requirements of development in certain parts of production and in increasing its share in the price structure.

In setting prices an important role is played by the principle of balancing the demand for, and the supply of, the particular products. With respect to the prices of consumer goods this principle is observed by all socialist countries while with respect to the prices of the means of production only some countries (Hungary, Yugoslavia, Czechoslovakia) abide by it but not to a full extent. Within the

necessity of resorting to grants, etc.) and, therefore, it displays no tendency to spread. On the contrary, in recent years, in several countries (Czechia, Czechoslovakia and Hungary) the reforms of wholesale prices have combined with a rise in retail prices which liquidated or limited losses in the production of some consumer goods and lowered the relative profitability of the production of others. As the structure of nominal income (approved and allowed increases grow more rapidly) is not to be spent, that the redistribution function of prices will be further limited. The redistribution of nominal incomes through prices will, of course, persist also in the future, but more and more frequently it will be a side effect of the social preferences in the field of the structure of consumption.

II. The Factors Which Determine the Price Level

The level of prices is determined by two groups of elements: in the first group there are various items of the cost of production and marketing, in the second - the components of financial accumulation.

(i) Cost of Production Component -

In the prices there appear the following typical elements of the cost of production: wages, social insurance premiums, depreciation, the value of used-up materials, fuel and power, other material costs (e.g. repair of machinery and equipment, postal and tele-communication dues, etc.) and non-material costs (e.g. rent, local dues and taxes, bank charges, etc.). In practice the notion of production costs is used, i.e. the costs actually incurred by the enterprise to produce and market their products which, unlike companies, in addition to the actual cost of production, bear an element of pure social income, e.g. interest on loans, margin for the technical progress fund, penalties, and in Yugoslavia and Hungary also the interest on the production assets.

The cost of materials and fuels are taken according to their prices. The prices of imported means of production vary in particular socialist countries. In some of them (in the USSR, Rumania, the German Democratic Republic) the prices of imported means of production are set on the basis of domestic prices of the same or similar products, while in other countries (in Yugoslavia, Hungary, Bulgaria, Czechoslovakia and from 1970 also in Poland), although not to the same extent, the domestic prices of imported means of production are based on international price ratios (the price in foreign exchange is converted through proper rates of exchange into the domestic currency).

In prices there appear also the costs of transportation. Until recently the normal practice in this field in socialist countries was to sell at the price from the railway station of the purchaser. The price included the railway cost of transportation which was borne by all customers regardless of their location with respect to the supplier. This system of covering the cost of transportation was the result of striving to create uniform terms of delivery to all customers so that the

difference in profitability of the enterprises producing the same commodities results only from differences in production, it is in line also with the prevailing system of centrally planned production with the principle of the central allocation of resources of production.

New terms of distribution of resources are based on the industry and to a certain extent on the geographical location of enterprises. In Czechoslovakia, for instance, they are based on the geographical location, the choice of capital goods, the mode of transportation, the access to the whole sale price of raw materials and other production means of enterprises. The terms of the price are affected by the cost of transportation relative to the cost of the production of production enterprises. Besides, the principle of the better location for equipment matters. The result of the distribution of resources at the enterprise becomes more consistent with the actual cost of production, the specific cost of production and the cost of transportation. This principle, to some extent, has the same effect as the principle of the systems of centrally planned production. The change in the terms of production for the system of the centrally planned production, an increase in economic independence of the enterprises, etc.).

A fairly typical, although specific to socialist countries, is that component of actual production (own) costs which constitutes one of the elements of pure overhead costs, the surcharge for the technical progress fund. It exists, although not to the same extent, in all socialist countries, except Yugoslavia. The main source of the technical progress fund is the surcharge on own costs of planned production, a share of the products of the enterprises. This surcharge is not the same for all enterprises. At the most of its contribution is primarily the degree of capital-outlay on the investment related to technical progress in central facilities of production. The operation of the technical progress fund within own costs is intended to make it independent of the level of income achieved by the enterprises.

The technical progress fund is used for financing research and experimental works, design and construction intended to establish and master new technologies of production, the production of new commodities, mainly machinery, equipment and materials, etc. From this fund also the expenditures for the purchase of licences and patents are covered and bonuses are paid for inventions and improvement projects.

In most socialist countries the technical progress fund is at the disposal of the units which control the enterprises, primarily the amalgamations. Only in Czechoslovakia and in Hungary is it generally at the disposal of the enterprise.

It should be noted that the technical progress fund formed from the surcharge on own costs of the enterprises is only one of the sources of financing technical progress, namely technical progress in the branch of production of a non-investment nature exposed to a considerable risk.

of production funds and it is easier to tie in segment accounting at the enterprise or subsector level with general social accounting.

In Czechoslovakia the accepted model of prices combines the principle of capital-output ratio with the principle of labour-output ratio. The profit margin in the price is determined here on the basis of two criteria: the value of production funds and the work fund, and a major part of that profit is divided on the basis of the capital-output ratio. The object of considering in the price the labour intensity of production is to stress the fact that the labour power is limited and, moreover, in connection with the accepted principles of establishing the share of material incentives for the workers. Other countries reflect, to some extent, in the prices the labour intensity of production by a further restriction of the rate of profit. This kind of differentiation of profitability computed in relation to the capital involved is the consequence of the necessity of establishing development funds and material incentives for the workers in the particular enterprises and subsectors.

The price reform that will be accepted in Poland in 1970/71 is also of a mixed nature. The "cost" model of prices now in general use in industrial production is to be replaced by a model in which the margin of profits in the price will be determined on the basis of three criteria. Two of them represent the capital-output ratio in production, one being the new capital-output ratio, i.e. according to the initial value of the used means of production, and the second being the net capital-output ratio, i.e. according to the depreciated value of the used means of production), and the third reflects the average costs incurred in the production of particular commodities.

In Yugoslavia the new pricing rule is to set prices on the basis of conditions in the domestic and international markets. Generally free movements of prices under changing market conditions result, in the short run, in distribution of profit ability. In the long run prices are influenced, similarly to the other countries, by the capital-output ratio and the labour-output ratio in production. Of all the countries discussed here only Germany still uses the traditional "cost" model of prices and does not examine its change.

The Level of Prices of the Means of Production and of the Means of Consumption

Comparisons of national price levels are based on the differentiation of the rate of pure social income and, in practice, on the rate of financial accumulation expressed as the quotient of financial accumulation and own costs, or the value of capital used in production, depending upon the price model.

It is also justified to replace the category of pure social income by financial accumulation because elements of pure social income included in own costs are distributed more or less evenly among the prices of the particular commodities.

Commodity turnover among the socialized enterprises is usually direct or it takes place through central sales agencies acting as intermediaries. In the second case the prices at which the exchange takes place include also the margin of central trade agency.

Analysing more closely the system of prices for the means of production in Poland one finds that without considering in detail the level of prices of the particular commodities or of related groups of commodities there is a lower level of prices for the objects of labour (raw materials, utilities, fuels) than for the means of labour (machines, equipment, tools). A similar tendency is also noticeable, it seems, in other socialist countries.

The prices of the means of consumption contain the turnover tax and subsidies to a much greater extent than the prices of the means of production. Since the weight of the turnover tax is many times greater than of subsidies, the level of prices of the means of consumption is higher than the level of prices of the means of production. Even though recent price reforms, aiming at the equalization of the general level of profit in the price system, certain equalization of profitability, reduce these differences but, to a lesser or greater extent, they still exist in the socialist countries.

A second property of the price system of the means of consumption is a much greater difference in their levels. The differences in the price levels of particular consumer goods are the result of differences in the profitability of their production and of considerable differences in the turnover tax and subsidies.

A considerable increase in the supply of goods which are scarce in the market removes one of the reasons justifying a high level of their prices. The relatively fast rapid increase in the lowest incomes of the consumers reduces the importance of another reason for differentiation in the level of prices resulting from the redistribution function of the prices. A persistent reason for differentiation in price levels of consumer goods is the consequence of the redistribution function of prices and of their influence on personal consumption in accordance with social preferences. One of the most important reasons for differentiation in price levels between particular groups of commodities depending upon their standards and among different groups of commodities is the redistribution function of the prices. Recent price reforms encompassed in some countries (Poland, Czechoslovakia, Yugoslavia and Hungary) also retail prices. They reduce, to some extent, internal differentiation of the level of retail prices. Also this tendency, although it operates with different intensities, appears to dominate in price movements in the socialist countries. It should be added, however, that so far retail prices are usually lower than the prices of the means of production.

Historically the most important reason for using two levels in the price system (a higher one for consumer goods and a lower one for the means of production) was the argument of its more advantageous

budget impact on technical progress and the convenience in collecting in this way revenues. Cheap means of production were supposed to promote technical progress and the principle of concentration of income of the socialized sector in the enterprise producing consumer goods was supposed to facilitate income transfer to the budget. In practice it has turned out that the price of means of production may also affect negatively technical progress, i.e. cheap means of production hamper progress in modernizing, etc. This kind of differentiation of price by industries, moreover, the calculation of the cost of production are very difficult realistic accounting. Finally, the principle of concentration of income from the socialized sector in branches producing consumer goods is not in line with the idea of creating the conditions for self-financing the development of particular branches and restructuring processes of decentralization of management. Thus, experience and price reforms now being implemented on its basis have undermined the most important reasons for a double level system of prices.

Outline of Prices in Industry^{1/}

Material costs (raw materials, fuels, depreciation, etc.)	Wages	Pure social income produced in industry			Wholesale	Retail
		Social insurance	Interest	Profit	trade margin	trade margin
				Financial accumulation	margin	margin
				local taxes etc.	Turnover tax	
<hr/>						
Own costs						
<hr/>						
Factory price						
<hr/>						
Wholesale price						
<hr/>						
Retail price						

^{1/} The above outline represents the price in which there is included the turnover tax paid by industry. In some countries the turnover tax is charged in the sphere of exchange (wholesale trade in Hungary and retail trade in Yugoslavia and Bulgaria). In that price in industry, particularly the prices of the means of production do not include the turnover tax. Then the factory price equals the wholesale price. Finally, some prices and particularly the prices of consumer goods, include budget subsidies instead of the turnover tax. In such cases the factory price is higher than the wholesale price.

income achieved in enterprises with workers the basic wage, bonus, and profit.

... workers' income need only the effects ... In this respect the most important role is ... industrializa- ... the govern- ... The realization ... their develop- ... norms set ... or for ... of the ... from income of the ... modernization investments ... production facilities, ... the general principles of the ... enterprises have ... in using ...

... superior units ... participate in the distribution ... superior units in profits ... development funds are formed. ... research, ... etc. while the reserve fund ... and operating ...

The government ... profits (gross incomes) of ... change interest on ... Humania it ... in one part. ... until ... as a ...

There ... previously used ... an alter- ... primarily in the ... of evaluation of ... Its non-ideal task ... increases in the ...

Those who participate in the distribution of profit (gross income) i.e. workers, the enterprise, superior unit, the state, do it on the basis of the basic moral principle: the more participants in the distribution of profit (gross income) priority is given to the state (in the order of priority to the productive assets of the enterprise and to the workers (in the order of guaranteed wages and to the superior units). Further in order, the needs of the enterprise and of the superior units are satisfied, regardless of priority in the order of distribution, income of all participants depend upon the amount of profit (gross income) of the particular enterprise.

IV. The System of Setting Prices

In the existing system of setting prices we can single out constant prices, limited prices, contract prices and free prices.

Constant prices are set by the central and local authorities and are set at a central level. This category of prices is predominant in Bulgaria, Poland, Hungary and the USSR. In the former East, the former Comecon rate, and since Hungary it comprises ship building, iron and steel production, primarily raw materials, and semi-finished products as well as most of the consumer goods.

Limited prices appear in an interval between maximum or minimum prices and no prices set within intervals. In the latter case the price is set by proper central authorities and is set within a limit of deviation from it that is reserved for a certain identification purposes. Within the limits of the prescribed interval the enterprises are free to set the price of their products. A kind of price control extensively used in the former Democratic Republics were the so-called maximum price products and services, as in Yugoslavia were they used for basic consumer goods, other than medicines, semi-finished products and services. Also in Hungary the so-called maximum price interval, semi-finished products and consumer goods in respect to maximum prices. In the remaining countries this type of price control is not used, but in fact, in Poland applies only to small scale industry. Maximum prices set for the enterprise, the upper limit below which the price can be set. Minimum prices apply only to the purchase of agricultural products and are more extensively used only in Yugoslavia. Finally, the prices with a limited interval of deviations are used exclusively in Czechoslovakia, mainly for the means of production.

Contract prices are set by direct negotiations between the producer and the purchaser, provided the binding principles of determining prices are observed. The scope of their application is small; they are used primarily for non-typical commodities and services produced or rendered to individual orders. In Yugoslavia contract prices of significant nature, they replace frozen prices provided that they are approved by the Federal Price Bureau.

Free prices are arbitrarily set by the producer. They are of great importance in Yugoslavia where they apply to one-half of commodities

in the market. Recent price reforms in Hungary and Czechoslovakia also introduce them on a large scale. In the remaining countries the extent of their use is negligible and is limited as a rule to the free market for agricultural products. Free prices are subject to government control and can be frozen.

Although the authorities which determine governmental prices in Socialist countries are similar (the Council of Ministers, the State Price Commission, and, in some branches, ministries, amalgamations and enterprises) their scope of competence are not the same.

In most countries the Council of Ministers not only determines the basic principles of price policy and their general level but also sets directly, approves or issues directives for the prices of basic raw materials, consumer goods and services.

Special authorities or state price committees (or bureaux) which are responsible for the implementation of government price policy, prepare suggestions for the government concerning trends in price policy, determines and change prices, prepare directives for setting prices by other authorities, organize the control of prices, etc. The scope of direct determination of prices by these central authorities varies from one country to another; it is the greatest in Bulgaria, Poland and the USSR, much smaller in Czechoslovakia and Hungary, and quite small in Yugoslavia. The Federal Price Bureau in Yugoslavia is responsible primarily for the analysis and control of prices. Besides constant prices central price authorities set limited prices.

Considerable differences appear also in the scope of competence of ministries. Greater authority in setting and changing sale prices is invested in ministries in Czechoslovakia, the German Democratic Republic and Hungary, but much lesser in the USSR and Poland.

Local price authorities in all countries, with the exception of Yugoslavia, determine and change the prices of commodities and services mainly of local importance, produced by small-scale industry. In Yugoslavia local price authorities have greater responsibility. In addition to studying the market and analyzing the prices of basic foodstuffs and services they determine, on the basis of directives, the maximum prices of many basic consumer goods.

Corresponding to considerable differentiation of the scope of competence of the highest authorities responsible for setting prices are serious differences in the rights of amalgamations and enterprises. In Yugoslavia the prices are usually set by the enterprises, freely or within price limits. Similarly in Hungary, the enterprises set the prices (freely or within limits) of most finished products of the manufacturing industry and of some semi-products. In Czechoslovakia these rights are divided among amalgamations and enterprises. A wide scope of competence for fixing sale prices by amalgamations and enterprises in the German Democratic Republic. However, in their decisions they must observe the binding principles of calculation of costs and prices. In the remaining

countries the rights of interpretation to set production prices and, less frequently, fixed prices, primarily to a small portion of their production, i.e. non-typical commodities and services produced or rendered to individual orders, not covered by price lists of parts and semi-products produced within the framework of industrial cooperation, minor production and repairs, etc.

In order that certain price production levels may become more widespread and to facilitate the transition to replacing constant prices in foreign trade, a project of limited scope and in other respects of lower priority in constant prices. This process, however, may be difficult in setting prices, differs from one country to another.





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