



# Law of Value

Pricing  
in the

# National Economy of The USSR



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## **Introduction**

Price policy, as one of the areas of economic policy of the Communist Party and the Soviet state, is a reflection of the laws of economic development operating in socialist society.

V. I. Lenin and J. V. Stalin substantiated and comprehensively developed the position of Marxism regarding the objective nature of economic laws as applied to socialist production. They dealt a crushing blow to the subjectivist-idealist views on the nature of economic development in socialist society, which boil down to the negation of objective economic laws under socialism.

The objective nature of economic laws, however, does not mean that the actions of these laws are inevitable, carried out with a spontaneously implacable force that is not amenable to human influence. Society is not powerless in the face of economic laws. Knowing economic laws and relying on them, it can limit the scope of some laws, give room to other laws that make their way, learn to apply economic laws with full knowledge of the matter, use them in the interests of society and thus subjugate them, achieve dominance over them.

The conscious use of economic laws in the interests of socialist society finds its manifestation in the economic policy of the Communist Party and the Soviet state. Reflecting the requirements of the objective laws of economic development, the economic policy of the Communist Party and the Soviet state serves as a powerful factor in the use of these laws in the interests of socialist society, in the interests of building communism. In order to be successful, economic policy must first of all conform in everything to the requirements of the fundamental economic law of socialism. The Soviet price policy must also satisfy these requirements.

The essential features and requirements of the basic economic law of socialism, which determines the essence of socialist production, all the main aspects and all the main processes of its development, I. V. Stalin formulated as follows: ensuring maximum satisfaction of the

constantly growing material and cultural needs of the whole society through the continuous growth and improvement of socialist production based on high technology.

In contrast to modern capitalist production, the purpose of which is to ensure maximum capitalist profit, socialist production is subordinated to the interests of society, the individual, and the satisfaction of his material and cultural needs. The radical opposition between the goals of social production under capitalism and socialism leads to a fundamental difference in the means by which these goals are realized. The goal of modern capitalist production is achieved by exploiting, ruining, and impoverishing the majority of the population of a given country, by enslaving and systematically plundering the peoples of other countries, especially backward countries, and finally, by wars and the militarization of the national economy, used to ensure the highest profits. The goal of socialist production is achieved through the continuous growth and improvement of socialist production on the basis of higher technology. Instead of the development of production characteristic of capitalism, with interruptions from upswing to crisis and from crisis to upswing, socialist society achieves a continuous growth of production; instead of periodic interruptions in the development of technology, accompanied by the destruction of the productive forces of society under capitalism, there is the continuous improvement of production on the basis of higher technology under socialism.

Relying on the Marxist-Leninist theory of reproduction and developing it further in relation to the socialist economy, I. V. Stalin substantiated and formulated in his work "Economic Problems of Socialism in the USSR" the economic law of the planned, proportional development of the national economy under socialism. The essence of this law lies in the fact that as a result of the socialization of the means of production under socialism, there arises the possibility and objective necessity of the planned development of the national economy, i.e., proportionality in the development of all parts of the national economy, constantly maintained by society. "Constant,

consciously maintained proportionality, indeed, would mean regularity ..." 1 The transformation of this possibility and objective necessity into reality is carried out under socialism through state planning of the national economy, in the form of economic plans that reflect the requirements of the law of the planned development of the national economy, and the successful implementation of these plans.

One of the most important tasks of planning, which is the subject of the economic policy of the leading bodies of socialist society, is to ensure the proportional development of the national economy, to prevent and prevent the occurrence of disproportions and to eliminate them if they occur.

The operation of the law of planned, proportionate development of the national economy can produce the desired effect if they are based on the basic economic law of socialism. National economic planning "can achieve positive results only if two conditions are met:

a) if it correctly reflects the requirements of the law of the planned development of the national economy, b) if it is consistent in everything with the requirements of the basic economic law of socialism" 2 .

In a socialist society, the law of value and such economic categories as value, price, prime cost, profit, turnover tax, and interest on credit remain in force within certain limits.

Unlike the fundamental economic law of socialism and the law of the planned, proportional development of the national economy, the law of value does not belong to the economic laws that arose under socialism on the basis of the socialization of the means of production. The law of value is the law of commodity production. It arose along with commodity production under the slave system, and then served the feudal society and capitalism. The operation of the law of value under socialism is connected with the fact that commodity production and commodity circulation are preserved within certain limits in socialist society.



The existence of commodity production under socialism is a consequence of the fact that the development of socialist production under modern conditions takes place in two main forms—national and collective-farm. Under conditions of two forms of ownership, the exchange of products between industry and agriculture takes place, as a rule, only in the form of the sale and purchase of commodities. And where there are commodities, there are values and forms of value, and the law of value operates. However, since the sphere of commodity production and circulation in the USSR is significantly limited and covers mainly consumer products of industry and collective farms, the operation of the law of value is also limited to very narrow limits.

The operation of the law of value under socialism is directly limited only to the sphere of circulation of consumer goods, where it plays, within certain limits, the role of a regulator of exchange, a regulator of prices. However, the fact that consumer products necessary to cover the outlays of labor power are produced and sold under modern conditions as commodities subject to the operation of the law of value cannot but lead to the effect of the law of value on production as well. Since consumer products are not simply distributed, but are sold and bought for money, the share of individual workers in socialist society in the social consumption fund also appears in money form, in the form of money wages. The existence of money wages leads to the following: firstly, the real significance of the share of individual workers in a socialist society in the social consumption fund is most directly connected with the level of prices for consumer goods, the formation of which is exerted within certain limits by the law of value; secondly, by virtue of the necessity existing under socialism for a correspondence between the share of the individual worker in the social fund of consumption and his share in social labor, the expenditure of labor for the production of goods under socialism is also measured in monetary terms.

Thus, the law of value, which has completely lost its role as a regulator of production in the conditions of a socialist society, still retains a

certain influence on production, since it requires cost (monetary) accounting of labor costs and monetary control over the activities of enterprises. Even in the sphere of production of means of production, which are outside the scope of the law of value as a price regulator, there remains a need to use separate forms of value, to control the activity of the enterprise with the ruble, to calculate the costs of production, to use cash settlements in relations between enterprises, in pricing.

Insofar as the economic law of value thus remains in effect in the Soviet economy, this is reflected in the economic policy of the leading organs of socialist society. There are two sides to this issue. It is known that the law of value has a historically transient character. It is a historical category associated with the existence of commodity production. Commodity production and commodity circulation, Marxism-Leninism teaches, will not exist under communism.

However, there is another side to the question of the effects of the law of value on production, which consists in the fact that under modern conditions the law of value can and must be successfully used in the interests of socialist society. The dialectic of the development of socialist society is that the preparation for a real transition from socialism to communism, the existence of which is incompatible with commodity production and commodity circulation, requires the fullest use of such economic instruments of commodity production as Soviet trade and money.

When using the law of value in the interests of socialist production, the economic policy of the leading organs of socialist society cannot fail to take into account the danger of spontaneous manifestations of the law of value, as the law of commodity production, and the need to curb them, insofar as they impede the fulfillment of the requirements of the law of planned, proportional development of the national economy.

Thus, in introducing collective-farm trade in grain and other agricultural products, the Communist Party and the Soviet

government clearly distinguished two sides of the question of collective-farm trade. Collective-farm trade is necessary and useful in present-day conditions, inasmuch as it promotes the expansion of trade between town and country, provides the collective farms and collective farmers with an additional source of income, and thereby increases the interest of the collective farmers in strengthening the collective-farm system and the growth of social property. However, if collective-farm trade is carried out incorrectly and the management of collective farms is poor, it can also have a harmful effect, giving rise to speculative tendencies among some of the collective farmers, weakening the responsibility for fulfilling obligations to the state. In order to prevent this negative side of collective-farm trade from gaining the upper hand, the leadership of the collective farms must be strengthened.

Let's take one more example. Economic accounting is a method of managing enterprises on the basis of using the actions of the law of value in the interests of the development of socialist production. However, this method can be successfully used in the interests of socialism only if the practice of carrying out economic accounting meets the requirements of the law of the planned, proportional development of the national economy, if it is subordinated to the interests of fulfilling the state plan. Otherwise, spontaneous actions of the law of value are unleashed, leading to the substitution of national interests by the narrow departmental commercial interests of individual enterprises, departments, and regions. Such departmental and parochial perversions, contrary to the interests of fulfilling the state plan, were pointed out in the report of the Central Committee to the 19th Party Congress.

Consequently, to use the law of value in the interests of a socialist society means to curb the manifestations of the actions of the law of value that contradict the requirements of the law of planned, proportional development of the national economy, on the one hand, and to give scope and proper direction to those actions of the law of

value that can be used in the interests of continuous growth. and the improvement of socialist production, on the other.

In order to successfully use the law of value, you need to be familiar with the operation of the law of value, study them, and be able to take them into account in your calculations. Hence, the study of price formation in the USSR, the objective laws governing the formation of prices and their movement acquires great importance.

Price is the monetary form of the value of a commodity. It historically arose together with commodity production and commodity circulation. The existence of prices in socialist society is connected with the existence in it, within certain limits, of commodity production and commodity circulation, and thus also of the law of value.

Since price is a form of value, the formation of prices and the change in their level cannot be arbitrary; in the final analysis, it has as its objective basis a change in the socially necessary costs of production, expressed in monetary form.

At the same time, due to the socialization of the means of production, under the conditions of the operation of the basic economic law of socialism and the law of the planned, proportional development of the national economy, the setting of prices and the nature of their movement under socialism change radically.

First of all, on the basis of the socialist socialization of the means of production and the operation of the law of planned, proportional development of the national economy, the Soviet state was given the opportunity to systematically fix prices for a decisive part of the output of the national economy. In carrying out planned price fixing, the Soviet state proceeds from a price policy that provides for a systematic reduction in prices for the products of state-owned enterprises. This policy is a reflection of the essential requirements of the basic economic law of socialism.

The continuous growth and improvement of production on the basis of higher technology, inherent in socialism, lead to a continuous increase in the productive power of social labor and, on this basis, to a reduction in socially necessary outlays, the cost of production. Since socialist production is subordinated to the interests of satisfying the needs of society, the benefits that arise for society as a result of an increase in the productivity of social labor are realized in lower prices. In turn, the reduction in prices leads to an increase in the capacity of the domestic market, an increase in effective demand for products, and thus is an incentive for the growth of production.

Thus, the systematic reduction of prices is an objective law of socialist society. It assumes that the main means of production belong to the whole of society, and the goal of social production is the maximum satisfaction of the needs of the whole society.

On the contrary, a systematic reduction in prices is unthinkable under capitalism since this would go against the basic economic law of capitalism. Capitalism knows the forced fall of prices—the forced, forcible depreciation of capital during crises; it knows dumping—an acute means of competitive struggle in the interests of conquering the market and subsequent monopoly domination on it—but it does not and cannot know price reduction as a consciously and steadily carried out economic activity. politics, because that would mean that capitalism ceases to be capitalism. Modern capitalism is especially characterized by systematic price gouging, the growth of high prices as one of the methods of robbing the peoples of "one's own" and foreign countries by the monopolies.

Prices in a socialist society represent a form of value that is used in the most diverse sectors of the socialist economy: in the economic circulation of the means of production within the state production sector (wholesale prices), in the economic circulation of agricultural raw materials between collective farms and state industry (purchasing prices), in circulation consumer goods (retail prices). Prices in the USSR are used to systematically increase the real wages of workers and employees and the incomes of the peasants on the

basis of increasing the purchasing power of money, expanding the capacity of the domestic market, and organizing consumer demand, expanding trade, strengthening additional stimuli for the growth of production, and saving costs, and increasing socialist accumulation.

The manifold possibilities of using prices in the interests of socialist society require that our economic and planners be able to handle the instrument of prices with complete knowledge of the matter. Meanwhile, a poor knowledge of the operation of the law of value leads, in particular, to the fact that our planners and business executives often do not know how to correctly use such a form of value as prices, they do not know how to correctly understand the policy of prices.

The development of theoretical issues of pricing in the USSR, the generalization of the practice of price planning, the in-depth study of issues of Soviet price policy are of particular importance and significance in the current conditions of the development of the Soviet state, in the light of the directives of the 19th Congress of the Communist Party on increased attention to the mobilization of reserves lurking in the depths of the socialist economy, and the resolution of the September Plenum of the Central Committee of the CPSU in 1953 "On measures for the further development of agriculture in the USSR", providing for the all-round strengthening of economic incentives for the growth of agricultural production.

Without pretending to be a complete and comprehensive exposition of such an exceptionally complex problem as price formation in a socialist society, the present book aims, on the basis of a generalization of modern pricing practice in the USSR, to highlight some of the most important questions of the implementation of the Soviet price policy, as well as the methods of their planning.

1 V. I. Lenin, *Soch.*, vol. 3, p. 545.

2 I. V. Stalin, *Economic problems of socialism in the USSR*, Gospolitizdat, 1952, p. 41.

## **Price in a socialist society**

Marxist-Leninist economic theory teaches that price, as a category of commodity economy, is the most developed monetary form of the value of a commodity, "price," Marx points out, "is the monetary expression of value" 1 .

V. I. Lenin defines the ratio of price and value of goods as follows:

"Price is a manifestation of the law of value. Value is the law of prices, i.e., a generalized expression of the phenomenon of price" 2 . In prices, the first function of money as a measure of the value of commodities finds its manifestation, which consists, as Marx says, "to supply the world of commodities with material for expressing value, i.e., in order to express the values of commodities as quantities of the same name, qualitatively the same and quantitatively comparable" 3 .

In the price of a commodity, the magnitude of value does not appear directly as a quantitatively determined expenditure of social labor time, but "as the exchange relation of the given commodity to the money commodity located outside it" 4 . And since in this respect not only the magnitude of the value of a commodity can be expressed, but also the conditions of its alienation, the very form of price presupposes the possibility of a quantitative discrepancy between the price of an individual commodity and the magnitude of its value, or the possibility of a deviation of the price of a commodity from the magnitude of its value.

Prices presuppose the existence of commodity production, i.e., production calculated on the exchange of products through purchase and sale, with the help of money. Where there are commodities, there are also value and price, which is its money form. The objective necessity of prices and the specific forms in which price formation appears in socialist society are explained primarily and mainly by the existence here, within certain limits, of commodity production and commodity circulation. The exposition of questions of price formation

in socialist society is therefore connected with a description of commodity production and commodity circulation in the USSR.

## **Commercial Production and Commodity Circulation in the USSR**

Marxist-Leninist economic theory teaches that commodity production must not be confused with capitalist production. Capitalist production is the highest form of commodity production. However, commodity production does not necessarily and does not lead under all conditions to capitalism. Commodity production is older than capitalist production. It existed under the slave system and served it, but did not lead to capitalism. It existed under feudalism and served it, but despite the fact that it prepared some conditions for capitalist production, it did not lead to capitalism.

V. I. Lenin and J. V. Stalin discovered and substantiated the objective necessity and possibility of serving, within certain limits, the commodity production of the first phase of communist society.

In his brilliant works on the “tax in kind” and the “cooperative plan”, V. I. Lenin gave a detailed definition of the foundations of the economic policy of the Soviet state in the transition period from capitalism to socialism, a policy designed to build the foundation of a socialist economy and the complete victory of socialism over capitalism.

The main, decisive task of this economic policy, called NEP, Lenin defined as follows: “... the establishment of a link between the new economy that we began to build (very badly, very clumsily, but nevertheless began to build on the basis of a completely new socialist economy, new production, NEW distribution), and the peasant economy, which millions and millions of peasants live on” 5 .

That is why, as Lenin pointed out, the all-round development of state and cooperative trade, capable of supplying the small farmers with the best products, in greater quantities, faster and cheaper than before, the ousting of all and any capitalists from the commodity



circulation was at a certain stage the most important economic task of the Soviet state.

“Trade,” said Lenin, “is that ‘link’ in the historical chain of events, in the transitional forms of our socialist construction in 1921-1922, ‘which we, the proletarian state power, we, the leading Communist Party, must seize with all our might. If we “grab” this link firmly enough now, we will certainly master the entire chain in the near future. Otherwise, we will not be able to master the entire chain, we will not be able to create the foundation of socialist socio-economic relations” 6 .

Lenin connected the use of commodity production, trade, and money with the task of strengthening the personal material interest of the working people in building a new social system, in creating a powerful socialist industry capable of leading the entire national economy along the path of socialist large-scale production.

Developing Lenin's theses on the role of trade in the transition period from capitalism to socialism, I. V. Stalin exhaustively substantiated the objective necessity of using commodity production, trade, and the monetary system in the interests of building socialism and further developing the socialist economy along the path to communism.

At the Fourteenth Party Congress, J. V. Stalin pointed out that the conquest of power by the working class and the concentration of commanding heights of the economy in the hands of this power leads to a fundamental change in the role of trade and money, to their transformation from tools of the bourgeois economy into an instrument of socialist construction.

The Soviet state, consistently pursuing the economic policy of the Communist Party, successfully used trade and the monetary system, first for the purpose of limiting, ousting, and then for the purpose of completely eliminating the private capitalist elements of the economy, for the purpose of building a socialist society, systematically raising the well-being of the working class and peasantry.

The establishment of social ownership of the means of production and the elimination on this basis of the system of hired labor and exploitation did not and could not lead to the elimination of commodity production, which, even at the socialist stage of development, remained as a necessary and very useful element in the system of the national economy.

This, of course, does not mean at all that commodity production and commodity circulation under the conditions of victorious socialism can be identified with commodity production and trade at the first stage of the NEP.

Commodity production under socialism is commodity production of a special kind, commodity production without capitalists, commodity production calculated to serve the cause of developing and strengthening socialist production. It deals mainly with the goods of the united socialist producers (the state, collective farms, cooperatives).

Commodity production and commodity circulation in a socialist society presuppose the existence of socialist production in two basic forms: state-wide, and collective-farm, which cannot be called nation-wide.

In collective-farm enterprises, although the main means of production (land, machinery) belong to the state, the output of production is the property of individual collective farms. Only the collective farms dispose of the produce of the collective farms as their own property. But the collective farms under present conditions do not want to alienate their surplus products except in the form of commodities, in exchange for which they want to obtain the commodities they need. Thus, the circulation of consumer products cannot be carried out otherwise than in the form of commodity circulation with the help of money. But where there is commodity production, i.e., production calculated for exchange with the help of money, there cannot but be the law of value, value, forms of value, and, in particular, such a form of value as price.

Unlike capitalism, commodity production in the USSR does not have a comprehensive distribution. By virtue of such decisive economic conditions as social ownership of the means of production, the abolition of the system of wage labor, and the abolition of the system of exploitation, commodity production under socialism has been placed within strict limits.

First of all, in a socialist society there is no place for a specific product of the capitalist market - wage labor, which personifies the system of exploitation of man by man under capitalism. Further, as a result of nationalization, the land ceased to be an object of sale and purchase. The fixed assets of state enterprises constituting public property may also not be subject to trade. Finally, the means of production produced by our state enterprises and destined for domestic use cannot be classified as commodities.

The means of production, and above all the instruments of production produced in state industry, are not sold, they are only distributed by the state among its enterprises. They are not even sold to collective farms. In the economic circulation of the means of production between state enterprises there is no actual act of purchase and sale. When the means of production are transferred by one enterprise to another, the ownership of these means of production is fully retained by the state, since the state is the owner of both the supplier enterprise and the customer enterprise.

As for the agricultural raw materials supplied by the collective farms to state industry, this is not quite a commodity. It cannot be completely summed up under the category of goods, since not all the features of the goods are inherent in it. In fact, when the collective farms supply agricultural raw materials, there is a real alienation of property inherent in the act of purchase and sale: the collective farm loses the right of ownership of the raw material, and state industry acquires this right of ownership. However, due to the fact that the instruments of production necessary for the production of agricultural raw materials, and the instruments of production necessary for their processing, are public property (state) property,

agricultural raw materials are not sold to any buyer. Agricultural raw materials are supplied only to the state.

Only consumer products manufactured by state industry, as well as surplus products of collective farms entering the channels of Soviet trade, fully correspond to the main characteristics of the goods. They are freely, without any restrictions, sold to any buyer. When buying or selling these products, the seller loses ownership of the product, and the buyer acquires all rights to it and can do with this product at its discretion. That is why the sphere of commodity circulation in the USSR mainly embraces articles of personal consumption, consumer products of state enterprises, and surpluses of collective-farm products that go into trade.

### **Value, Forms of Value, and the Law of Value under socialism**

Insofar as the production of products as commodities is still preserved in socialist society, value and forms of value exist in it, and the law of value continues to operate, within certain limits. The transformation of labor products into commodities means that these products can "reach the consumer and give the producer the right to receive another social product only after taking the form of money, i.e., having previously undergone social accounting, both in qualitative and quantitative terms" 7. Through this social cost accounting, the socially and economically heterogeneous labor costs of workers in state industry and collective farms, embodied in the goods they produce, are reduced to qualitatively homogeneous abstract labor. Thus, insofar as consumer products are produced and circulated in a socialist society as commodities, the labor expenditures for their production appear as the values of these commodities.

The value of a commodity, Marxism teaches, is a materialized, materialized abstract human labor. Its magnitude is measured by the amount of socially necessary labor time expended, i.e., the labor time required for the production of some use-value under the socially normal conditions of production at hand and at the average level of skill and labor intensity in the given society.

In the process of value production, the outlays of socially necessary labor time are subdivided into: 1) past labor embodied in the means of production spent on the production of a commodity, and 2) living labor, which is the creator of new value.

The existence of value finds its expression in the concrete economic reality of socialist society in a number of forms. Such value forms include: price, cost, profit, turnover tax, interest on credit, etc. Since commodity production under socialism is commodity production of a special kind, this cannot but lead to a change in the role of the law of value, and at the same time, the roles and significance of individual value forms in the socialist economy, and especially the content and form of price.

First of all, the fact that commodity production in the USSR is placed within strict limits has the effect of limiting the scope of the law of value as a law of commodity production.

In bourgeois society, under the dominance of private ownership of the means of production, in the presence of competition and anarchy of production, crises of overproduction, the law of value plays the role of a regulator of production. This finds its manifestation in the fact that the movement of commodity prices and the movement of the rate of profit associated with it are an incentive for the distribution of labor and means of production between branches of production. At the same time, "supply and demand constantly determine commodity prices; they never coincide or coincide only by chance; the costs of production, for their part, determine fluctuations in supply and demand .

Under the conditions of a socialist society, the law of value ceases to play the role of a regulator of production.

In a socialist society, in which there is no private ownership of the means of production, and the goal of social production is the maximum satisfaction of the needs of the whole society, the movement of commodity prices and the associated movement of the rate of profit cannot determine the distribution of labor and means of

production among the branches of the national economy. The leading organs of socialist society ensure the necessary proportions in the distribution of labor and the means of production among the branches of the national economy, relying on the requirements of the law of planned, proportionate development of the national economy and conforming in everything to the requirements of the fundamental economic law of socialism.

Within what limits is the operation of the law of value preserved in socialist society? The scope of the law of value extends primarily to commodity circulation, to the exchange of commodities through purchase and sale. This finds its expression in the fact that in the sphere of commodity circulation there are prices which are formed under the regulating—of course, within certain limits—influence of the law of value. However, the operation of the law of value is not limited to the sphere of commodity circulation. We encounter forms of value (price, cost, profit, turnover tax, interest on credit) also in those areas of the socialist economy where products are not produced as commodities, for example, in the production of means of production.

The need to use individual old forms for the construction of a new social system has been exhaustively proven in a number of works by V.I. Lenin and I.V. Stalin.

The objective need to use forms of value and, in particular, prices within the state production sector of the economy, in the circulation of means of production between state enterprises and for checking and evaluating the economic activity of each enterprise separately is associated with the economic fact that the existence of commodity production within certain boundaries and commodity circulation cannot but have an indirect effect on socialist production as a whole, including the production of means of production. It is precisely because of this fact that the state production sector of the socialist economy needs to use the external form of commodity-money relations in the interests of the planned management of enterprises and control over them.

The socialist mode of production requires the strict control of society over the measure of labor and the measure of consumption in each enterprise. Socialist society establishes a direct relationship between the results of each worker's labor and his share in the total social consumption fund, implementing in the production and distribution of products the principle: "From each according to his ability, to each according to his work." The socialist principle of distributing products in accordance with the quantity and quality of labor presupposes: firstly, the application of the same measure for labor input and share in consumption, and, secondly, the existence of this measure as a single social measure for all enterprises and workers in a socialist society. The fact that at the stage of socialism social accounting of the expenditure of labor cannot be carried out in direct working time, that here the need remains to measure these expenditures of labor in a roundabout, indirect way, through the medium of value remains conditioned by the existence in the USSR, within certain limits, of commodity production and commodity circulation.

Since the consumer products needed to compensate for the outlays of labor power in the production process are produced and sold as commodities, it follows that the share of each employee of a state enterprise in the public consumption fund appears in monetary form, in the form of monetary wages. In turn, the objective necessity existing in socialist society to establish a direct relationship between the share of each worker in the total consumption fund and the results of his labor suggests that the results of the labor of individual workers and enterprises as a whole are also valued in monetary form.

Thus, monetary accounting of labor costs in the sphere of production is necessary, firstly, as a condition for determining the exchange relations that manifest themselves in the sphere of circulation (reimbursement of the full cost of consumer goods, including the reimbursement of the cost of consumed means of production), and, secondly, as a tool, with the help of which the state controls the costs of materialized and living labor at each individual enterprise,

stimulates the reduction of these costs, and organizes economic accounting.

### **Prices in the Socialist Economy**

The operation of the law of value in the USSR at a given stage of socialist development is manifested in the presence of prices in the following areas of the socialist economy:

- a) in the sphere of circulation of consumer goods;
- b) in the sphere of circulation of agricultural raw materials between collective farms and state industry;
- c) in the sphere of circulation of means of production between state enterprises.

Due to the limitation of the sphere of commodity production and commodity circulation, and at the same time the scope of the law of value, the role of the law of value in the formation of prices is not the same in each of the listed spheres of the socialist economy. In the sphere of circulation of consumer goods, the law of value acts as a regulator of the prices of goods (of course, within certain limits, which will be discussed below), moreover, commodity circulation in the USSR, under the conditions of the existence of two forms of socialist property, represents two markets - an organized market on which huge masses of commodities allowed by the state into trade at stable prices, and an unorganized market.

Let us first consider how the regulating effect of the law of value affects the formation of prices for commodities circulating on the organized market (in state and cooperative trade). Goods circulating in state and cooperative trade are sold at prices set by the state itself. However, the state cannot arbitrarily determine the level of commodity prices.

The level of prices for goods circulating in state and cooperative trade essentially determines the distribution of the total social product and national income between accumulation and consumption, between



the share of the whole society and the share received for personal consumption by individual members of socialist society. In determining the prices of commodities, the Soviet state proceeds from the reimbursement of society's costs of their production, from the reimbursement of their value. It is clear that in this case we are talking about the replacement of the cost of production of goods as a whole, within the limits of the entire mass of commodities circulating in state and cooperative trade, or the main commodity groups, and not about the exact coincidence of the price and value of each individual commodity. As stated at the beginning of the chapter, the very form of price presupposes the possibility of a quantitative discrepancy between the price and the value of an individual commodity. The Soviet state takes this feature of the price form into account and, if necessary, fixes prices for commodities with a deviation from their values.

The regulating influence of the law of value cannot but affect in a certain way the value relations between individual commodities. In contrast to the means of production, which are directly distributed among individual enterprises, consumer goods are acquired by consumers (collective farms, the population) in the form of free purchase of certain consumer goods. Due to the interchangeability of many material goods, purchasing demand can, depending on the ratio of income and prices, be distributed in the most diverse ways among different groups of goods. It follows from this that, firstly, the prices of consumer goods cannot represent something isolated from each other, but form a system of prices interconnected by known correlations, which are based on the ratio of goods by value, and, secondly, by the establishment of prices for goods cannot be carried out without taking into account the emerging purchasing demand for them.

As a result of the socialist socialization of the means of production, both in town and in the countryside, and the emergence on this basis of the law of planned, proportional development of the national economy, spontaneous price fluctuations typical of a commodity-

capitalist economy have been completely eliminated within the organized market. The anarchic nature of production inherent in the latter is manifested in the spontaneous, disorderly movement of market prices, which constantly deviate from the values of commodities, do not coincide with them, or coincide only as an exception. The law of value finds its way through this disorderly chaos of commodity prices only as the blindly operating law of averages. The cyclical nature of capitalist production finds its expression in the cyclical movement of commodity prices: their rise is in the upswing phase, sharp, impetuous, as a rule, fall, in the crisis phase.

In contrast to capitalism, one of the characteristic features of the economy of a socialist society is the direct planned fixing of prices for commodities circulating within the organized market. The possibility for the Soviet state to directly set prices for goods was the result of the nationalization of industry, transport, land, and banks; elimination of private capitalist elements in the economy on the basis of the socialist socialization of the means of production in industry and agriculture; establishing a monopoly of foreign trade; expanding the scope of the law of planned, proportional development.

Goods produced at state enterprises go directly to the disposal of the Soviet state as the owner of these enterprises. Through state procurement, contracting and purchases, and also as a result of the use of a system of payment in kind for the work performed by the MTS, the Soviet state also concentrates in its hands the bulk of the marketable output of the collective farms. By virtue of the monopoly of foreign trade in the USSR, imported goods, as well as goods of domestic production, enter the organized socialist trade turnover. Thus, at the disposal of the state are concentrated huge masses of goods, representing the vast majority of commodity circulation in the country.

Since the main part of the means of production is the direct property of the Soviet state and is used in state enterprises, and since the state acquires the bulk of the marketable output of the collective farms, the

solvent demand of the workers, the collective farm peasantry, the intelligentsia is determined mainly by the money income received from the state (wages of workers and employees, incomes peasants from the sale of agricultural products to the state, pensions, scholarships, etc.).

All this allows the state, taking into account the objective laws of commodity and monetary circulation, to establish the necessary correspondence between the monetary incomes of the population and the supply of goods at state prices. Finally, the determination of costs in state enterprises and the establishment of state prices for agricultural products placed at the disposal of the state make it possible to plan the costs of production and circulation of goods sent to state and cooperative trade, which is necessary for setting prices.

Thus, under the conditions of commodity circulation in socialist society, a new type of price arises, which history has not known until now, a price directly established by the socialist state, a stable price not subject to spontaneous fluctuations.

So far we have been talking about the nature of prices and the conditions that determine their formation within the limits of an organized market - state and cooperative trade. However, the presence of two forms of socialist property finds its manifestation at the present time in the existence of a collective-farm market in addition to state and cooperative trade. Part of the surplus of collective farm products is sold at this market. Here, too, individual collective farmers realize a part of their income in kind, received from the socialized economy in the order of distribution of production according to workdays, and also from personal household plots. Prices on the collective-farm market are not determined by the state, but are formed on the basis of an agreement between sellers and buyers. Hence the spontaneous manifestations of the action of the law of value in this market, which are found in spontaneous price fluctuations depending on the ratio of demand and supply of goods.

Thus, the existence of two markets means the existence within the limits of commodity circulation in the USSR of two prices, different in their nature and forms of formation, and the possibility of discrepancies between these prices. The discrepancies between state prices and the prices of the collective-farm market create the possibility of a certain spontaneous redistribution of the incomes of the population through the collective-farm market. This possibility turns into reality in cases where there is a discrepancy between supply and demand for individual food products at one point or another. That is why the range of deviations of prices on the collective-farm market from state prices for foodstuffs serves as an important indirect indicator of the state and cooperative trade in foodstuffs in individual regions of the USSR.

The absence of direct price planning for commodities circulating in collective-farm trade does not mean, however, that the operation of the law of value as a price regulator in this trade is absolutely unlimited. The main and decisive place in commodity circulation is occupied by state and cooperative trade. The collective farm market plays the role of an additional source of food supply. Therefore, the prices prevailing on the collective-farm market are not something isolated, independent of the stable planned prices at which the vast majority of commodities circulating in the country are sold. Using the law of value, the Soviet state influences the level of prices on the collective farm market by selling the masses of goods at its disposal at stable, consistently lower state prices. Growth in the production of commodities, the formation of substantial food reserves at the disposal of the state, and the all-round development of state and cooperative trade are the decisive means by which the state influences the collective-farm market and the prices that are formed on it.

The economic turnover of agricultural raw materials between collective farms and state industry is connected with the existence of prices at which these raw materials are sold to the state. What are these prices, does the law of value have a regulating effect on these prices, just as

it does with respect to the prices at which collective farms sell their surplus consumer products on the collective farm market?

Agricultural raw materials, in contrast to the surplus of consumer products, are not sold by collective farms to any buyer, but are supplied only to the state.

JV Stalin points out that "the influence of the law of value on the price of agricultural raw materials cannot in any way be regulating. First, our prices for agricultural raw materials are fixed, set by a plan, and not "free". Secondly, the scale of the production of agricultural raw materials is determined not by the elements and not by any random elements, but by a plan. Thirdly, the instruments of production necessary for the production of agricultural raw materials are concentrated not in the hands of individuals or groups of individuals, but in the hands of the state. What then remains of the regulating role of the law of value? It turns out that the law of value itself is regulated by the above-mentioned facts inherent in socialist production .

But not being a price regulator, the law of value has an impact on the formation of prices for agricultural raw materials, and is one of the factors in this matter. The circulation of agricultural raw materials between the collective farms and state industry takes place in such a way that the collective farms cede to the state the right of ownership of this part of their production, and the state acquires the right of ownership of it. The prices at which the collective farms supply raw materials and the state industry purchases them determine the cash income of the collective farms in this part of their output, on the one hand, and the amount of outlays, as well as the accumulation of state industry, on the other. That is why, in determining prices for agricultural raw materials, the state cannot act arbitrarily, disregarding the cost of production of products of individual branches of agriculture.

Since the turnover of the means of production within the country is not related to the actual ones. sale and purchase relations, prices in the sphere of production of the means of production do not fulfill the

functions of distributing the social product and national income between the production sectors of the socialist economy, and also between accumulation and consumption. Changes in prices affect here only relations within the state economy (a reduction in profits in some sectors and a reduction in costs in others, a reduction in deductions from profits to the state budget, on the one hand, and a reduction in state budget expenditures, on the other), without causing a redistribution of national income between accumulation fund and consumption fund, as well as between the state and collective farm sectors of the economy. With each successive reduction in prices for the means of production in industry, the balance of settlement relations between the state budget and the state economy is usually reduced without loss or gain for the state budget. The only exception is the loss from lower prices for horse-drawn agricultural implements and livestock-breeding equipment sold to collective farms at wholesale prices with a trade markup.

...and the expedient form by which socialist society can exercise this control in conditions where the direct measurement of labor costs by labor time is impossible.

The use of prices to check and control the work of an enterprise finds its manifestation in the fact that the scale of the production activities of individual enterprises is measured indirectly, as cash income from manufactured products at established state prices. The costs of enterprises for the manufacture of products are also calculated on the basis of current state prices for material elements of production. Since the assessment of the results of the economic activity of the enterprise, which determines the material incentives for the enterprise and its employees, is carried out on the basis of a comparison of cash income and cash expenditures of the enterprise, it becomes possible to use prices as an additional incentive for production growth and cost savings.

As a result of the socialist socialization of the means of production, both in town and in the countryside, the law of value also lost its significance as a regulator of prices for agricultural raw materials,

although it is one of the factors in their formation. Since the circulation of agricultural raw materials between the collective farms and state industry is connected with the distribution of the social product and national income between the productive sectors of socialist society, procurement prices for agricultural raw materials essentially determine the incomes of collective farms and collective farmers, on the one hand, and the accumulation of state industry, on the other.

In the sphere of commodity circulation, the law of value retains the role of price regulator. But since this regulating influence of the law of value is essentially limited by the socialist socialization of the means of production and the planned management of the economy, under socialism there is no "free" price play for consumer goods circulating on the organized market.

The planned setting of prices for consumer goods turns the retail price system, along with the wage system, into an instrument for the planned distribution of the created national income of the country for accumulation and consumption, as well as the total consumption fund among the working class, the peasantry, and the intelligentsia.

The ratio between the prices of services and goods purchased by the working class and the intelligentsia and the monetary payment for their labor determines the level of real wages. The ratio of prices for goods of state industry, on the one hand, and procurement and purchasing prices for agricultural products, on the other, is, along with incomes in kind, an important indicator of the level of real incomes of the collective farm peasantry.

The level of retail prices is most directly related to the purchasing power of the ruble and the capacity of the domestic market. The lower the price level, the higher the purchasing power of the ruble, the greater the effective demand for goods, the greater the capacity of the domestic market. The fact that our enterprises cannot do without taking into account the operation of the law of value, without using the form of value, makes it necessary to widely use in the practice of national economic planning, along with physical indicators, cost

(value) indicators, which are based on a system of effective prices. With the help of value meters are determined: the scale, pace of development, as well as the structure of social production; volumes and growth rates of gross and marketable output of sectors of the national economy; the correlation between the production of means of production and the production of consumer goods; proportions in the development of related and interrelated industries. All the synthetic problems of the national economic plan—the planning of the total social product, the planning of the national income and its distribution for accumulation and consumption, the planning of capital works, the planning of production and circulation costs, the planning of trade, the financial program of the plan—are connected with the use of value-based meters.

For the present stage of development of the Soviet state, mastery of the law of value, the ability to take its requirements into account in economic activity, the ability to implement a correct price policy are one of the most important tasks of our economic practice. Therefore, the study of the existing price system, its every possible improvement and skillful application are an urgent task for our economic and planners.

### **Soviet Price Policy**

Knowledge of how the law of value operates in individual areas of the Soviet economy makes it possible to skillfully use it in the practice of our economic construction in relation to the interests of the socialist social system.

Stalin's remark that our business executives and planners, with few exceptions, are not well acquainted with the operation of the law of value, do not study them, and do not know how to take them into account in their calculations, relates, in particular, to the poor knowledge of many of our business executives and planners of those possibilities which the skillful use of the price lever creates for our economic development. Meanwhile, prices are one of the most important instruments of the economic policy of the Soviet state.



Economic policy in socialist society is based on the conscious application and use in the interests of society as a whole of the objectively operating laws of economic development. All economic and organizational activity of the Soviet state, its economic plans and their practical implementation are firmly based on the knowledge of the laws of economic development, the ability to apply them with full knowledge of the matter, to use their action in the interests of society.

The Party and the Soviet state, relying on the known laws of socialism and using them in the interests of the whole society, organize people's labor on a national scale in accordance with the needs of the development of socialist society along the road to communism. This is the source of the mighty vitality and invincibility of the economic policy of the Communist Party and the Soviet state.

The law of the planned development of the national economy, and hence the planning of the national economy, which is a more or less true reflection of this law, can give the proper effect only if there is a task in the name of the implementation of which the planned development of the national economy is carried out. This task is contained in the basic economic law of socialism. Planning, reflecting the law of planned, proportionate development of the national economy, must conform in everything to the requirements of the basic economic law of socialism.

The Soviet price policy, in order to be successful, must conform in everything to the requirements of the basic economic law of socialism.

It means:

- to serve the interests of satisfying the ever-growing needs of socialist society as the goal of socialist production;
- meet the interests of the continuous growth and improvement of socialist production, which is a means of achieving this goal.

The main line of Soviet price policy, its core, is the systematic reduction of prices. This policy of price reduction, steadily pursued

by the Soviet state, is in direct opposition to the price gouging and high cost that characterize modern capitalism.

As is known, capitalism at the last, imperialist stage of its development is monopoly capitalism, the rule of capitalist monopolies.

One of the specific instruments by which the capitalist monopolies appropriate maximum profits are inflated prices for monopolized commodities.

The oppression of the monopolies and the rise in cost associated with it bring with it an unprecedented decline in the standard of living of the broadest masses of the people, the ruin and impoverishment of the population of each given country. Encountering the determined resistance of the organized workers on the path of a direct reduction in nominal wages, the capitalist monopolies carry out through the bourgeois state a policy of inflation as a proven means of lowering the real wages of the working class. The difference between the increased cost of the means of subsistence due to inflation and the level of nominal wages, which do not provide compensation for the cost of reproduction of the labor force, is one of the sources of enrichment for the monopolies. The average wage of workers as a percentage of the subsistence minimum was after the Second World War: in the USA (1950) - 72%, in West Germany (1949) - 63, in Italy (1951) - 50 and in Japan (1951) - 30%.

The oppression of the monopolies in modern bourgeois society is manifested, in particular, in the forcible imposition on small commodity producers of selling their agricultural raw materials, foodstuffs and other goods to the monopolies at exceptionally low prices. The difference between the low prices at which farmers and peasants are forced to sell the products of their labor and the final prices at which the monopolies sell these products or goods made from them to consumers is appropriated by the monopolies and becomes a source of growth for their profits.

Even according to deliberately falsified data from the US Department of Agriculture, the share of farmers in the retail price of 58 food items consumed annually by the average working family in the United States decreased in the 25 years before World War II (1913-1938) from 53 to 40%. After the end of the Second World War, the process of redistribution of farmers' incomes in favor of monopolies through the medium of prices intensified even more. Thus, according to official statistics, the index of retail prices for potatoes in the USA in 1949 amounted to 100% in relation to the level of 1935-1939. (taken as 100) 241.1. At the same time, the farm price index reached only 185.1. From 1947 to 1950, the price of wheat in the United States declined, according to official figures, by 15%, while the retail price of white bread increased by 14% during this period.

Simultaneously with the decrease in the share of the small commodity producer in the final price of the goods produced by him, the gap ("scissors") between the level of prices for goods sold by small commodity producers and goods purchased by them progressively increases.

The source of enrichment for the monopolies is also the forcible redistribution of part of the social value created by the working people of the colonies and dependent countries by imposing on them low prices for raw materials and high prices for monopolized goods. Typical of the period of monopoly capitalism is the ever widening gap between the prices of industrial and colonial goods in the metropolitan markets, and between the prices of imported and exported goods in the colonial markets. The period after the Second World War is characterized by systematic robbery by the monopolies, especially by the American monopolies, of the peoples of other capitalist countries who have fallen into bondage with them, by imposing on these peoples excessively high prices for American goods and obviously low prices for raw materials and semi-finished products exported from these countries.

The movement of prices for monopolized commodities during the period of imperialism is influenced by the actual strength of the

monopolies in a particular market. In those markets where monopolistic predators are masters of the situation, they tend to set the highest possible prices; on the same markets that still need to be conquered, the monopolies do not stop, if necessary, from using such an aggressive means of competition as dumping - the temporary sale of goods at bargain prices, below the actual costs of their production. High monopoly prices in the domestic market and in the markets of already subordinate and dependent countries, and dumping as one of the means of conquering new markets are characteristic features of monopoly capitalism.

An active role in the implementation of the monopolistic policy of price gouging is played by the bourgeois state, the instrument of the largest monopolies.

The provocation of wars, the whipping up of armaments, and the militarization of the economy serve as the means by which the monopolies dominating the USA and other capitalist countries and the governments subordinate to them artificially inflate demand in the home market and thereby promote the growth of commodity prices. At the same time, the financing of military orders at exorbitantly high prices is carried out at the expense of taxes paid by the working masses. The monstrous use of the tax system as an instrument by which the redistribution of the national income of the capitalist countries in favor of the financial oligarchy is carried out on an unprecedented scale is one of the characteristic features of monopoly capitalism during the Second World War and especially in the post-war period.

The growth of monopolies and their dominance in the economies of bourgeois countries greatly exacerbates the contradictions of capitalist production, especially at the present stage of the general crisis of capitalism. The main contradiction inherent in capitalism between the social character of production and the private capitalist form of appropriation of its results manifests itself, in particular, in the form of a conflict between the desire of the capitalists to increase the mass of goods sold at the most favorable prices for them, and the

limited effective demand of the working people, the level of which is increasingly declining. The dominance of the monopolies leads to an unprecedented sharpening of this contradiction. The gouging of prices by the capitalist monopolies, sharply exacerbating the conflict between production and consumption, is the strongest factor that precipitates crises of overproduction and aggravates their destructive consequences.

Powerless to prevent a general fall in prices during crises, the capitalist monopolies strive in every possible way to weaken the influence of the crisis on the prices of monopolized commodities. By stubbornly resisting lowering the prices of these commodities, they are delaying the dispersal of the accumulated masses of commodities, thereby making the way out of the crisis ever more difficult and the position of the working people still more difficult.

“Current capitalism, unlike the old capitalism, is monopoly capitalism, and this predetermines the inevitability of the struggle of capitalist associations to maintain high, monopoly prices for goods, despite overproduction. It is clear that this circumstance, making the crisis especially painful and ruinous for the masses of the people, who are the main consumers of goods, cannot but lead to a prolongation of the crisis, cannot but slow down its dissolution .

If price gouging and rising high prices are a characteristic law of modern, monopoly capitalism, then, on the contrary, systematic price reduction is a characteristic feature of the development of a socialist economy.

At all stages of the development of the Soviet state, the Communist Party invariably oriented industry and trade towards lower prices.

In the first phase of the Soviet state, the policy of lowering prices found expression in the main task of the state, from the point of view of internal conditions of development, which consisted in suppressing the resistance of the overthrown exploiting classes, in restoring and developing industry and agriculture, and in preparing the conditions for the liquidation of capitalist elements.

The movement of prices in this phase of the development of the Soviet state was directed in the interests of limiting and ousting capitalist elements, protecting, and systematically increasing the share of the working class and the working peasantry in the national income, strengthening the alliance between the working class and the peasantry, and creating accumulations that would ensure high rates of development of socialist industry.

In conditions when agriculture was an ocean of small and tiny peasant farms, indirect methods of regulation occupied a large place in the state's influence on the development of agriculture. The connection between state industry and individual peasant farming was carried out through the market. And in this market, in the first period of the New Economic Policy, private capital played a major intermediary role.

The struggle for state leadership of the peasant economy, for limiting and ousting capitalist elements, for the growth and predominance of socialist elements in the national economy, demanded mastery of the market. First of all, this meant the need to master the price mechanism. Therefore, the XIII Congress of the RCP (b) noted that "a direct measure of the degree of implementation of the leading role of the Soviet state in the market is the degree of influence that the state exercises in regulating market prices."

Concentrating in its hands the goods of socialist industry, relying on the monopoly of foreign trade, using its position as a monopoly in the main producer and exporter of agricultural products, the Soviet state countered the elements of the market, unleashed by private capital, with the systematic implementation of the Soviet price policy in the interests of socialism.

All economic, and consequently, political problems of that time rested in one way or another on the problem of prices. The question of "who - whom" was directly related to in whose hands the price mechanism was and in whose interests the price mechanism operated.

In the problem of prices," the resolution of the February plenum of the Central Committee of the All-Union Communist Party of Bolsheviks of 1927 states, "all the main economic, and, consequently, political problems of the Soviet state intersect. Questions of establishing correct relations between the peasantry and the working class, questions of ensuring the mutually connected and mutually conditioned development of agriculture and industry, questions of the distribution of the national income and related questions of the industrialization of the USSR and strengthening both economically and politically the working class, questions of ensuring real wages, the strengthening of the chervonets, and finally, the planned strengthening of the socialist elements of our economy and the further limitation of the private capitalist elements of the national economy — all this rests on the problem of prices .

Private capital and its defenders from the camp of the contemptible Trotskyist restorers of capitalism demanded a free play of prices in the market, tried to impose on the country the capitalist policy of high prices for manufactured goods and low, falling prices for agricultural products, meaning the pumping through of prices of accumulations into the private capitalist sector, the reduction wages of workers and cash incomes of working peasants, undermining the basis of the industrialization of the USSR and the alliance of the working class with the peasantry.

In contrast to this anti-popular policy, inspired by monopoly capital from outside, the Communist Party and the Soviet government resolutely defended and consistently pursued a policy of lowering the prices of manufactured goods and stabilizing the prices of agricultural products.

"One of the main conditions for strengthening our positions against private capital," the decisions of the Thirteenth Conference of the RCP(b) pointed out, "is price policy. Concentrating in its hands the bulk of the products needed by the countryside, the Soviet government must achieve such a situation that state organizations and cooperatives sell cheaper than a private trader .

Systematically guided by this policy, the Soviet state solved the specific problems of prices during the transition period from capitalism to socialism.

The question was to crush the attempts of private capital to use the price mechanism for the purpose of enriching itself at the expense of the working class and the working peasantry, at the expense of the socialist state; the question was to oust the capitalist elements from the sphere of production and circulation.

As is known, in 1923, taking advantage of the fact that state industry was lagging behind the growing demand for goods, the Nepmen and Nepman elements, who at that time had a significant share in the trading apparatus, managed to impose excessively high prices for manufactured goods on the country. This inflation of industrial prices, which resulted in interruptions in trade and a crisis in the sale of manufactured goods, the fluctuation and fall in the value of the ruble, which hampered the improvement in the condition of the workers and peasants and the development of industry, was carried out on the direct directives of the enemy Trotskyist elements who were operating at that time in a number of links in industry and trade.

To the Nepman, Trotskyist policy of raising prices for manufactured goods, the Party opposed the policy of systematically lowering wholesale and retail prices, which was one of the decisive conditions for the rapid growth of socialist industry, a means of overcoming the sales crisis and the victory of socialist elements over capitalist ones in industry and trade.

The task of eliminating the so-called wholesale and retail "scissors" was also successfully solved in the very first period of the NEP. The emergence and acuteness of this problem were associated with the still low level of industry at that time, with the insufficient mastery of the levers of trade by the Soviet state at the first stage of the NEP.

The fixed assets of consumer goods (manufactory, kerosene, salt, matches, etc.) were also at that time in the hands of state industry and its marketing apparatus. In retail trade, private capital occupied a



significant place. Under these conditions, an excessive gap has formed between wholesale and retail prices, which is not justified by distribution costs. Taking advantage of the scarcity of goods, private merchants inflated trade markups on wholesale prices. Capes of private trade, as a rule, exceeded 2 times the capes of state trade. The Nepman elements that had penetrated consumer cooperatives tried to direct cooperative trade along the same path. Cooperative retail capes, on average, significantly exceeded state trade capes.

It was necessary to eliminate the created "scissors" between wholesale and retail prices, achieving a reduction in retail prices, and to ensure, on the basis of setting lower retail prices, the exclusion of the private trader from trade.

Since private capital still occupied a significant place in retail trade, direct rationing of retail prices for all types of trade could take place during this period only for a limited group of goods that constituted a virtual state monopoly.

The Central Committee of the RCP (b), in its resolution "On Internal Trade and Cooperation", adopted in 1924, indicated: "Rating of retail prices should be extended to private trade in cases where state bodies ensured the saturation of the market with certain goods that actually constitute state monopoly, such as: kerosene, salt, matches, etc. Moreover, the establishment of marginal prices for private trade should be carried out in those areas where the grassroots cooperative apparatus and state retail organizations sufficiently fully organize this retail.

Under these conditions, the organized participation in the market of state trade and cooperation and the economic impact on private capital in trade acquired decisive importance. The Soviet state established maximum caps in state and cooperative retail trade.

With respect to goods in the production of which it occupied a predominant place, state industry began to dictate to private capital, when concluding contracts, the maximum rates of retail allowances. Thus, the problem of eliminating the excessive gap between

wholesale and retail prices, which was not justified by distribution costs, was successfully solved. The establishment of wholesale prices for the goods of state-owned enterprises and the regulation of trade markups created the conditions for direct planning of the level and scale of reduction in retail prices. As a result of the consistent implementation of the policy of lowering retail prices, the task set by the XIII Party Conference for state and cooperative trade was successfully carried out - to sell goods cheaper than a private trader. In 1923 /In 1924, the price level in state trade and cooperatives was only 3% lower than private trade prices, while in 1927/28 state organizations and cooperatives sold their goods 33% cheaper than private traders.

If during the period of restoration of the national economy and the transition to its reconstruction on the basis of industrialization, the problem of lowering prices for industrial goods was of particular importance, then during the transition to the implementation of the policy of expanding the collectivization of agriculture, along with the problem of lowering prices in industry, prices for agricultural products became the subject of a fierce class struggle. By this time, the lag of agriculture behind the rapidly growing socialist industry was especially pronounced, indicating the impossibility of "moving our socialized industry further at an accelerated pace, having such an agricultural base as small-peasant farming, incapable of expanded reproduction and, moreover, representing the predominant force in our national economy. economy" 13.

The kulaks, which at that time still existed in the country, tried to use the grain and raw materials difficulties in order to strengthen their positions and thwart the socialist offensive being waged by the Party in the countryside. The kulaks refused to hand over grain and agricultural raw materials to the state, demanding the abolition of stable state procurement prices for grain and agricultural raw materials, and a transition to a policy of "free" setting of market prices based on supply and demand.

The Bukharin capitulators and the restorers of capitalism acted as ardent defenders of kulak interests. Under the guise of false phrases about the "normalization" of the market, they demanded the establishment of complete freedom of trade, the free play of prices on the market, the rejection of the regulatory role of the state in the market, and the elimination of Soviet price policy.

The Party exposed the meaning of this anti-popular policy of the agents of the kulaks and foreign capital.

In his speech at the April Plenum of the Central Committee of the All-Union Communist Party of Bolsheviks in 1929, J. V. Stalin showed those exceptional dangers that are fraught with the fate of the dictatorship of the working class and its foundation - the alliance of the working class with the peasantry - the policy of rising grain prices imposed by the kulaks and agricultural raw materials. In the conditions of the difficulties that arose at that time with the provision of food to the cities, "once embarking on the path of raising the price of bread," I. V. Stalin pointed out, "we must continue to slide down, without a guarantee of obtaining a sufficient amount of bread."

But the matter does not end there. The question of the procurement price for grain cannot be considered in isolation from the entire system of prices in the country. Having embarked on the path of raising the price of grain, the Communist Party and the Soviet government would have had to increase prices for agricultural raw materials as well, without which it would be impossible to maintain the correct balance between the production of food and industrial crops. Further, by raising the procurement prices for grain, it would be impossible to maintain the retail prices for grain in the towns. And this, in turn, would lead to an increase in wages and, consequently, to an increase in the cost of production and prices for manufactured goods.

It is clear that the Party could not take this disastrous path.

The party crushed the resistance of the kulaks and preserved stable foam for bread and other agricultural products. The Party put

forward a new form of trade between town and country, between the state and the peasantry. It consisted in the transition to the sale of grain and other agricultural products by the peasantry to the state under pre-drawn agreements providing for mutual obligations (contracting). Contracting, based on firm adherence to prices and enormous economic assistance to the peasantry from the state, was for that time an important factor in strengthening the bond between the city and the working peasantry in the struggle against the kulaks and their agents.

At the same time, in order to ensure a stable supply of the urban population, the Soviet government at the beginning of 1929 switched to temporary rationing of food and industrial goods in the cities at fixed ration retail prices. Subsequently, with the abolition of the card system, a transition was made to uniform retail prices in the conditions of open trade in all goods.

In the second phase of the development of the Soviet state, when, together with the socialist socialization of the main means of production and the liquidation of the exploiting classes, the role of price as an instrument for limiting and ousting the exploiting classes from the economy, an instrument for redistributing their income in favor of the working class, the working peasantry, and the Soviet state, became decisive. The use of prices in the interests of maximum satisfaction of the material and cultural needs of the Soviet people, the continuous growth and improvement of socialist production.

Party decisions on price questions invariably point out that the reduction in the cost of industrial output and the prices of manufactured goods is not a temporary measure explained by the circumstances of a given period, but the main line of industrial development.

In his speech at the Fifth All-Union Conference of the Komsomol, I. V. Stalin noted that there are at least four main reasons that determine the objective necessity and expediency of such a line.

The first reason is that we need an industry that can advance with gigantic strides and lead agriculture. This cannot be an industry based on high prices, as it will inevitably degenerate into a greenhouse, non-viable plant.

The second reason is that socialist industry is based on the home market. Our industry develops and grows stronger in proportion to the development and expansion of our domestic market. The capacity of our home market is determined, among other things, by a systematic reduction in the prices of manufactured goods.

The third reason is that a fall in the price of manufactured goods is a condition for raising the real wages of the working class. The reduction in the prices of manufactured goods, in addition to a direct reduction in the costs of workers for the purchase of these goods, is also of great importance for ensuring the stability of prices for agricultural products procured by the state from the peasantry and consumed mainly by the urban population.

Under the conditions of the existence of the collective-farm market, the decline in prices for industrial goods causes a corresponding decrease in market prices for agricultural products and an additional increase in the wages of the working class at this expense.

The fourth reason is that a reduction in the prices of manufactured goods, along with the simultaneous stability of procurement prices for agricultural products, is an important condition for a consistent increase in the real incomes of the peasantry, a rise in their standard of living and, on this basis, the further strengthening of the alliance between the working class and the peasantry.

Price reduction requires, of course, the creation of the necessary material prerequisites and cannot be carried out by itself. It assumes as a necessary condition a systematic increase in labor productivity and a reduction in the cost of production. Without this, price cuts could undermine the sources of accumulation of socialist industry.

“Since accumulation in the depths of industry is one of the most important sources that ensures the rate of industrialization of the country envisaged by the Party, it is necessary to resolutely strive to reduce costs so that the reduction in selling prices is not a factor in reducing industrial accumulation. The reduction in selling prices should be a stimulus pushing industrial enterprises to greater achievements in the field of cost reduction” 14 .

Taking into account in their economic policy these objective laws of development of the socialist economy, the Communist Party and the Soviet government are directing the development of Soviet industry along the path of a systematic price reduction. After the abolition of the rationing system in 1935, the Soviet government twice (in 1935 and 1937) reduced prices for industrial goods.

During the Great Patriotic War, the Soviet government ensured complete stability of retail prices for all rationed supplies and wholesale prices in industry. At the same time, prices for military products were reduced by many tens of billions of rubles. The Soviet state was the only one of all the belligerent countries in which wholesale prices not only did not rise, but were systematically reduced on the basis of a reduction in the cost of production.

After the end of the Great Patriotic War, as soon as the post-war restructuring of the economy was completed, the Soviet government began to implement a large-scale reduction in retail and wholesale prices for goods of state industry. During 1947-1953. the party and the government successively, six times, carried out a reduction in state retail prices, accompanied by a corresponding reduction in prices in collective farm trade. This reduction in prices means a gain for the population in the amount of hundreds of billions of rubles, a sharp improvement in their material well-being. At the same time, in the course of 1950 wholesale prices for heavy industry products and freight rates were reduced twice. On January 1, 1952, a new, significant reduction in wholesale prices and tariffs for the transportation of goods was carried out.

The possibility for the Soviet state to go for a significant reduction in prices simultaneously with the implementation of a grandiose program for the restoration and further development of the socialist economy is the clearest confirmation of the mighty vitality of the socialist social system, its greatest advantages over the capitalist system.

The Soviet state can systematically lower prices because:

socialist property and the socialist system of the national economy, which are its economic basis, provide opportunities for increasing labor productivity and reducing production costs that are unthinkable under capitalism;

the development of production in a socialist society is subordinated to ensuring the maximum satisfaction of the ever-growing material and cultural needs of society as a whole;

The Soviet Union is pursuing a consistent policy of peace and is not squandering, as is done in bourgeois countries, huge funds on an arms race and preparations for a new war.

The Communist Party and the Soviet government are tirelessly concerned about meeting the growing material and cultural needs of the working people. Concern for the welfare of Soviet people, the prosperity of the entire Soviet people, is the law for our Party. A further systematic reduction in the prices of consumer goods, an increase in the real wages of workers and employees and the incomes of the peasants are an integral part of the economic policy of the Communist Party and the Soviet government.

The Soviet policy of consistently systematic price reduction reflects and proceeds from the essential requirements of the basic economic law of socialism.

The pursuit of this policy corresponds to the goal of socialist production, which is contained in the basic economic law of socialism and consists in ensuring the maximum satisfaction of the material and cultural needs of the whole society, since lowering the prices of

consumer goods is the main way to raise the material and cultural standard of living of the members of socialist society.

The implementation of this policy corresponds to the means contained in the basic economic law of socialism for achieving this goal, which consists in the continuous growth and improvement of socialist production on the basis of higher technology, since:

- a) the reduction in prices contributes to the expansion of the internal market for the goods of the state industry and thereby the continuous development and strengthening of our industry;
- b) price reduction can only be carried out on the basis of a systematic reduction in the cost of production, which involves the introduction of more advanced technology, the improvement of production, the organization of labor, methods, and forms of economic management.

What does it mean to carry out a policy of lowering prices, conforming in everything in its implementation to the requirements of the basic economic law of socialism?

This means, firstly, directing the activities of Soviet enterprises so that in all sectors of the socialist economy the material prerequisites for lowering prices are continuously created.

The reduction in prices has as its material basis the saving of living and past labor for the production of products, which finds its monetary expression in the reduction of production costs of socialist enterprises and the growth of their net income (profit), which is both a source of accumulation and a reserve for lowering prices. The socialist method by which the saving of living and past labor in the national economy is achieved is the regime of economy. "The austerity regime, as a method of socialist management, played a great role in the industrialization of the country. Now, when a new powerful upsurge of the national economy is taking place in our country, and at the same time a systematic reduction in the prices of consumer goods is being carried out, the regime of economy becomes even more important .



It follows that the implementation of a policy of price reduction is inextricably linked with the implementation of the austerity regime.

It cannot be said that this connection is clearly understood by all our economic and planners. As pointed out in the report of the Central Committee to the 19th Party Congress, many enterprises do not fulfill their planned targets for reducing production costs, hiding behind the general indicators of industry.

These violations of state planning discipline come into conflict with the Soviet price policy, hindering the gradual reduction of prices, limiting its size. Of course, one cannot put up with such anti-state practices. The implementation of the Soviet policy of price reduction requires strict observance by all enterprises of state planning discipline, the obligatory fulfillment by them of tasks for output, raising labor productivity and reducing costs.

The implementation of the Soviet policy of lowering prices means, secondly, the need to resolutely overcome, relying on the law of planned, proportional development of the national economy, all sorts of departmental, parochial, speculative perversions in price formation, leading to the unleashing of spontaneous manifestations of the law of value.

Let's take this fact as an example.

It is known that trade cooperation is allowed to purchase from collective farms and collective farmers after they fulfill their obligations to the state for the purpose of industrial processing of certain types of agricultural products and raw materials. This measure, provided that the cooperative organizations comply with the procurement procedures and the maximum purchase prices established by the state, can help the implementation of the Soviet price policy, inasmuch as it helps to increase the mass of manufactured goods directed to state and cooperative trade.

However, there were cases when, in separate links of industrial cooperation, the purchase of agricultural products and raw materials

was carried out in violation of the state marginal purchase prices. This practice of deliberately inflating state marginal purchase prices is anti-state, since it:

- a) leads not to the planned regulation of collective-farm trade prices, but, on the contrary, to their inflating through the purchase of agricultural products at high prices;
- b) hinders the reduction of prices for manufactured goods by artificially raising the cost of their production.

Such perversions of Soviet price policy are rightly met with severe persecution by the Soviet government.

Here is another example from the practice of pricing.

The existing pricing procedure allows for the possibility of setting prices for a part of products directly by ministries (departments), regional (territorial) executive committees of Soviets of working people's deputies and trade cooperation unions. This order, which takes into account the need to support local initiative and promotes an increase in the production of industrial goods, however, has a positive value only as long as the activities of these various organizations participating in price formation are determined by one and the same policy - the Soviet policy of systematic price reduction. That is why it is unacceptable that cases, which are still frequently encountered, are in which individual departmental and local bodies, especially co-operative organizations, inflate the prices they set, foreseeing excessively high profits in these prices.

- a) opposes the implementation of systematic price reductions;
- b) weakens planned price regulation;
- c) conflicts with the interests of the continuous improvement of socialist production, since excessively high profits cannot but weaken the incentive to improve the work of enterprises.

The implementation of the Soviet price policy requires a resolute elimination of this practice.

Accounting for the operation of the law of value finds its manifestation in pricing in the form of an objective need to determine the value relationships between various groups of products of the socialist national economy:

—between the products of state industry and the agricultural raw materials produced by the collective farms;

- between different types of products of state industry;

- between different types of agricultural raw materials and products produced by collective farms.

What determines the policy in the field of value relations? In this sphere, too, a price policy can be correct and successful only if it conforms in every way to the requirements of the basic economic law of socialism.

This means, firstly, that the correlation of prices between the products of various branches of the national economy must ensure the implementation of a systematic reduction in state retail prices, which is one of the decisive conditions for the maximum satisfaction of the ever-growing needs of the whole society. From this follows the need for systematic cost reduction and, on the basis of this, the wholesale prices of means of production.

This means, secondly, that the price ratios between the various types of products of state industry, cooperative enterprises and collective farms must be determined in such a way that they meet the requirements of continuous growth and improvement of socialist production contained in the basic economic law of socialism.

The planning of value relations must proceed from the fact that the law of value also has an effect on production, that it is necessary and expedient to take these actions into account in economic policy, insofar as this is in the interests of the continuous growth and improvement of socialist production.

This or that price system, insofar as its application is connected with the distribution of material goods among the members of socialist

society, can, if it is established correctly, become a powerful additional stimulus for the growth of production or, if it is determined incorrectly, a brake on the implementation of these plans. An example of this is the procurement prices for livestock products, as well as for potatoes and vegetables, which, as the September 1953 Plenum of the Central Committee of the CPSU pointed out, came into clear conflict with the interests of material incentives for production and thus became a brake on the development of such important branches of agriculture. like animal husbandry, potato, and vegetable production.

That's why it's so important

The ability to take into account the operation of the law of value in your calculations means that:

firstly, when determining the price of a particular type of product, one should not forget to check the relationship between this price and the prices of other products exchanged for this product, replacing it in consumption or connected with it by the general production process;

secondly, when checking the correctness of the value relationships between different types of products, it is necessary:

- a) proceed from stimulating the branches of the national economy that are decisive from the point of view of continuous growth of production;
- b) be sure to take into account the ratio between different types of products in terms of production costs (values).

What gross errors can result from the inability to take into account the operation of the law of value in price calculations, was shown by I. V. Stalin in his work "The Economic Problems of Socialism in the USSR":

"Some time ago it was decided to streamline the ratio of prices for cotton and grain in the interests of cotton growing, to clarify prices for grain sold to cotton growers, and to raise prices for cotton handed over to the state. In this regard, our business executives and planners made a proposal that could not help but amaze the members of the Central Committee, since under this proposal the price for a ton of

grain was offered almost the same as the price for a ton of cotton, while the price for a ton of grain was equated to the price for a ton of baked bread. To the remarks of the Central Committee members that the price per ton of baked bread should be higher than the price per ton of grain due to the additional costs of grinding and baking, that cotton in general is much more expensive than grain, which is also evidenced by world prices for cotton and grain, the authors of the proposal could not say anything intelligible. In view of this, the Central Committee had to take matters into its own hands, lowering the price of grain and raising the price of cotton. What would have happened if the proposal of these comrades had received legal force? We would have ruined the cotton growers and would have been left without cotton.”<sup>16</sup> .

The decision of the Central Committee of the Party on this question and the decision of the September Plenum of the Central Committee of the CPSU in 1953 are of exceptional importance for the practice of pricing in general, for the practice of fixing prices for agricultural products and raw materials in particular and in particular.

From the point of view of pricing practice for agricultural products and raw materials, this means the need to establish correlations between the prices of agricultural raw materials supplied by collective farms to state industry and the prices of products supplied by state industry to collective farms, in such a way that the sum of cash and natural income from collective farm production ensures based on the growth of labor productivity in agriculture, not only compensation for the costs of production of collective farms, but at the same time conditions for accumulation in social production and a systematic increase in the consumption of collective farmers. In turn, this implies the establishment of value relationships between various types of agricultural products and raw materials in such a way that the income from individual branches of collective farm production corresponds to or is approximately proportional to the expenditure of labor in these branches.

The planning of the right value ratios is no less important for the branches of state industry. True, since we are talking about the production of means of production circulating between state enterprises, certain correlations between the prices of various types of industrial products cannot lead to ruin or enrichment for producers of products, since the owner of enterprises both producing and consuming the corresponding kinds of products, is the state. However, this or that correlation of prices is by no means indifferent to the course of the implementation of economic plans by individual industrial enterprises and branches of industry.

As stated above, prices are used in the planned management of enterprises to:

- a) determining plan targets for the volume of products produced and evaluating their implementation;
- b) calculation of production costs;
- c) comparing the results of the production activities of enterprises and their production costs.

The correct correlation of prices between different types of products is of great importance for stimulating enterprises to the successful fulfillment of economic plans.

For example, an important indicator that characterizes the production activities of state-owned enterprises is the indicator of gross output. It is used to evaluate the implementation of the production program, to plan labor productivity, and serves as a criterion for paying the payroll.

However, in order to fulfill the plan for this indicator, it is by no means a matter of indifference how much the prices for individual types of products correspond to the costs of their production, how correctly the value relationships between individual types of products are determined. If, for example, labor-intensive types of products, especially needed by the national economy, prices are determined with a profitability of 2-3%, and for less labor-intensive secondary

products - with a profitability of 20-30%, then a self-supporting incentive will be created for enterprises to fulfill and overfulfill plans at the expense of secondary products, since the same volume of gross output can be created with less labor and material outlays. In this case, the value relationships would be in conflict with the interests of the state. If prices are determined correctly, then an additional incentive is created for enterprises to successfully fulfill the plan for the production of the most important types of products for the national economy. In the report of the Central Committee to the 19th Party Congress, it was noted that some enterprises, in order to fulfill the plan for gross output, allow the anti-state practice of excess production of secondary products due to failure to fulfill the tasks for the production of the most important types of products provided for by the state plan.

In order to put an end to such anti-state practices, it is necessary, among other measures, to put an end to departmental perversions of price policy, which are expressed in the deliberate overpricing of secondary products, the approval of which is entrusted to the ministries themselves, in comparison with the level of prices for the most important types of products included in the price lists. approved by the government.

As an example of such perversions of Soviet price policy, one can cite the once published fact of the anti-state practice of setting prices for factories of the Ministry of Railways in 1950. Prices for products supplied in cooperation with other enterprises were determined at the Mashinostroitel plant and the Mechanical Plant of the Metro with a return of over 50%.

The Soviet price policy includes the use of the price lever in the interests of stimulating enterprises to rational use of material resources and means of transport. The correct ratio of prices and tariffs can and should encourage enterprises and construction organizations to consume non-deficient types of raw materials and materials instead of scarce ones, to consume local products instead of distant ones.

How important this is for business practice can be seen from the following examples.

From the point of view of the rational use of metal products, in some cases it is advisable to use sheet steel instead of section steel for the production of metal structures. However, as a result of mistakes made in the preparation of the price list for metal products, which was put into effect on January 1, 1949 for factories producing metal structures, it turned out to be more profitable from the point of view of observing the estimated cost, using not sheet steel, but section steel. This led to excessive consumption of section steel. The situation was corrected from January 1, 1950, when a more correct ratio of prices for sheet and section steel was established.

Second example. The metallurgical industry has mastered the production of steel of a periodic profile, used in reinforced concrete work instead of conventional reinforcement. The use of a new type of steel made it possible to save metal in the amount of about 25%. However, since the price of steel of a periodic profile was set based on the cost of production in the first period of its development, without taking into account the correct ratios with the price of ordinary reinforcement, the use of steel of a periodic profile turned out to be relatively unprofitable for construction organizations. This began to hinder the introduction of a new steel profile into construction, which is very effective from the point of view of the interests of the state. The situation was remedied by lowering the prices of ribbed steel, which brought them into a more correct relationship with the prices of ordinary rebar.

All these and other facts that can be cited from the practice of price formation show the enormous possibilities associated with the use of the price lever in the interests of the growth and improvement of socialist production.

1 K. Marx, *Capital*, vol. III, 1951, p. 367.

2 V. I. Lenin, *Soch.*, vol. 20, p. 181.



- 3 K. Marx, *Capital*, vol. I, 1952, p. 101.
- 4 *Ibid.*, p. 109.
- 5 V. I. Lenin, *Soch.*, vol. 33, p. 241.
- 6 *Ibid.*, p. 89.
- 7 V. I. Lenin, *Soch.*, vol. 1, p. 386.
- 8 "Archive of Marx and Engels", vol. IV, 1935, p. 49.
- 9 I. V. Stalin, *Economic problems of socialism in the USSR*, p. 55.
- 10 I. V. Stalin, *Works*, vol. 12, p. 246.
- 11 "VKP(b) in resolutions and decisions of congresses, conferences, and plenums of the Central Committee", Part II, 1940, p. 159.
- 12 "VKP(b) in resolutions and decisions of congresses, conferences, and plenums of the Central Committee", Part I, 1940, p. 551.
- 13 I. V. Stalin, *Works*, vol. 12, p. 145.
- 14 "VKP(b) in resolutions and decisions of congresses, conferences, and plenums of the Central Committee", Part II, 1940, p. 161.
- 15 G. Malenkov. Report to the 19th Party Congress on the work of the Central Committee of the All-Union Communist Party of Bolsheviks, Gospolitizdat, 1952, p. 62.
- 16 I. V. Stalin, *Economic problems of socialism in the USSR*, p. 21.

### **The Structure and Basic Elements of Price in Socialist Industry**

The previous chapter gave a general description of price as an economic category of socialist society.

We now turn to the elucidation of specific questions of pricing in the sphere of state industry. As has already been pointed out above, when fixing prices for products, the Soviet state cannot do without taking

into account the operation of the law of value, without taking into account the value of labor expended on the production of products. At the same time, Marxist-Leninist political economy teaches, the value of a commodity cannot be expressed directly, outside the relation of this commodity to a monetary commodity, and this presupposes the existence of monetary, value forms in which it manifests itself. Therefore, in the practice of pricing, one deals not with value directly, but with those individual monetary forms in which it manifests itself in economic life.

In order to find out what forms of value the practice of pricing deals with, let us turn to the structure of prices for the products of state industry.

As already mentioned in the first chapter, the following are applied in state industry: 1) wholesale prices for means of production; 2) retail and wholesale prices for consumer goods.

Wholesale prices for capital goods in most industries have the following structure:

a) cost; b) profit of the enterprise; c) the costs and profits of industrial marketing organizations (for those types of products, the wholesale distribution of which is carried out by industry).

Retail prices for consumer goods include the following elements: a) prime cost; b) profit of the enterprise; c) turnover tax; d) costs and profits of marketing organizations of industry or wholesale trade; e) costs and profits of retail trade.

Industrial wholesale prices for commodities include the same elements as retail prices, with the exception of the costs and profits of wholesale and retail trade.

Thus, pricing in state industry deals with the following value forms: cost, profits of industrial and commercial enterprises, turnover tax, costs of economic turnover of means of production and commodity circulation of consumer goods. Consider the economic content of each of these categories.

## **Cost of Industrial Products as a Price Base**

The costs of labor for the production of a product include: past labor embodied in the means of production spent on the production of a commodity, and living labor embodied in a newly created product (net products that form the national income of the country). In turn, the newly created product includes that part of it that comes at the direct individual disposal of production workers and is used by them to satisfy personal needs, and the part that goes to expand material production and to satisfy the needs of society as a whole.

In a socialist society, the entire national income of the country belongs to the working people.

The growth of socialist production forms the material basis for improving the living conditions of the workers, peasants, and intelligentsia. The systematic improvement of the material conditions of the working people, the continuous growth of the needs and purchasing power of the population, in turn, serve as a constant source of expansion of socialist production. The continuous growth of the mass of the national income, directed to meet the needs of the whole society, is a condition for the simultaneous expansion of the scale of social production and the rise of the people's well-being.

One of the most important tasks of the socialist state is to exercise control over the measure of labor and the measure of consumption. This control is designed to ensure that the share of each direct participant in the production process in the total consumption fund corresponds to the quantity and quality of the labor expended by him.

Social production, as is well known, is carried out at numerous individual enterprises, and the interests of society as a whole require the strictest implementation of the regime of economy, control by the socialist state of production costs at each enterprise in order to exclude the possibility of squandering the results of social labor. State enterprises in a socialist society are socialist property of the whole people, and all the socially necessary costs of production, including

labor costs associated with expanding socialist production and satisfying the needs of society as a whole, serve as the costs of society.

At the same time, one of the features of the first phase of communist society is the use in the management of state enterprises of economic accounting methods, which involve the widespread use of personal material incentives in the interests of society, on the one hand, and the exercise of the strictest control over economic activity by the ruble, on the other.

Business accounting includes:

- 1) the turnover of products between state enterprises on the basis of state supply plans and economic contracts, which ensure, through monetary settlements, mutual control over the fulfillment of contractual obligations and the application of material sanctions in cases of their violation;
- 2) reimbursement of expenses of enterprises from their own income;
- 3) the direct dependence of the financial and economic situation of each enterprise on the efficiency of the use of the resources provided to it, on the successful implementation of the quantitative and qualitative indicators of the plan;
- 4) control over the economic activity of enterprises in the form of control over the formation and movement of funds, using the levers of credit and the budget;
- 5) the material interest of the staff of each enterprise in improving the financial results of its activities - in increasing the cash income of enterprises and reducing its cash costs;
- 6) the sole responsibility of the heads of enterprises for the use of public funds in accordance with the tasks of the state plan.

For an enterprise operating on a cost-benefit basis, its direct costs are the cash costs associated with the production and sale of products, i.e., the costs paid by the enterprise. These costs of the enterprise,

expressed in monetary terms, represent the cost of production of the enterprise's products.

In the form of the cost of production at state enterprises, monetary accounting is carried out for the costs of the means of production consumed in the manufacture of products, as well as the costs associated with the payment of labor to direct participants in the production process. Thus, the costs of labor do not find expression in the cost of labor in the proportion in which they are connected with the expansion of socialist production and servicing the needs of the whole society. The share of society in the newly created product is realized in prices in the form of profit and turnover tax, which act as an excess of the price of the product over its cost.

The difference between prime cost and value does not boil down only to the fact that the former is always quantitatively less than the latter since it embodies only a part of the outlays of socially necessary labor time. It also deserves to be noted that the form of cost is associated with the possibility of a discrepancy between the dynamics of the cost of production and the dynamics of its cost.

The magnitude of value is determined by the total amount of socially necessary labor time expended, including all expenditures of living labor. A change in the ratios in the distribution of the value newly created by living labor to the share of the direct participants in the production of a given product and the share of society as a whole does not change anything in the absolute magnitude of value.

Otherwise, it's about cost. Any change in the ratios in the distribution of newly created value, insofar as it affects the level of cash costs of enterprises, leads to a change in the absolute value of the cost of production. For example, a direct increase in wages does not affect the value of a commodity if it only changes the proportions in which the newly created value is divided into the share of the direct participants in this production and the share of the whole society. The same increase in wages, insofar as it increases the costs of enterprises, entails a corresponding increase in cost.

An increase in the productivity of social labor leads to a direct decrease in cost. The level of labor productivity and the value of the cost are inversely proportional to each other. On the value of the same cost, the growth of labor productivity has not a direct, but an indirect effect, through a change in wage costs.

The decrease in the cost of production due to the growth of labor productivity coincides in magnitude with the decrease in its value only in one case, when the growth in labor productivity is not accompanied by an increase in wages. With a simultaneous increase in labor productivity and wages, the reduction in the cost of production can go to the extent that the growth rate of labor productivity exceeds the growth rate of wages.

These features of the cost, reflecting in monetary terms not only the level of labor costs, but also the relations that are developing at any given moment in the distribution of the newly created value for accumulation and consumption, turn it into an important lever of state control over the measure of labor and measure of consumption in each individual enterprise.

At the same time, it should be noted that a change in the proportions in the distribution of newly created value for accumulation and consumption is reflected in the cost of production only if it is associated with a simultaneous change in the monetary costs of enterprises. An increase in real wages that is not accompanied by an increase in nominal wages does not lead to an increase in the cost of production.

For example, a 10% increase in the consumption of workers employed in the national economy can be achieved in two ways: the first way, which consists in raising wages by 10%, leads to an increase in the cost of production, unless the increase in wages is compensated by a corresponding increase in labor productivity; the second way is to reduce prices and tariffs for goods and services. In this case, wage costs do not increase, but material costs in the national economy decrease to the extent that the reduction in prices and tariffs extends

to goods that are partly consumed in production. Cost reduction in this case coincides with cost reduction.

The cost of industrial products includes the following elements of an enterprise's costs: wages and accruals, compensation for the depreciation of fixed assets, the cost of circulating production assets consumed in production - raw materials, materials, fuel, electricity, other cash costs that, by their nature, are not can be attributed to any of the above cost elements.

*Salary and accruals* make up on average for the industry about one-fifth of the total cost of production. It should be noted, however, that this average value does not give an accurate idea of the actual national economic significance of savings in wage costs per unit of output. Savings in wage costs, in addition to a direct impact on the level of production costs in each individual branch of industry, have an impact on the production costs of industry and other sectors of the national economy through the prices of raw materials, materials and fuel. The share of wages in the extractive industries of heavy industry is over 60%. The economy of wage costs per unit of output is, under these conditions, such a factor that determines to a decisive extent the level of prices for raw materials and fuel, and thus the level of material expenditures in all branches of the national economy.

One of the essential features of the socialist economy is the simultaneous growth of accumulation in the national economy and the incomes of the working people. This is manifested in industry in the fact that in the course of the development of the socialist economy: a) the wages of workers and employees increase; b) wage costs per unit of output are systematically reduced. The possibility of a simultaneous increase in the wages of workers employed in the national economy and a reduction in wage costs per unit of output is created as a result of the excess of the growth rate of labor productivity over the growth rate of wages. The excess of the growth rate of labor productivity over the growth rate of average wages creates a material basis both for the growth of real wages and for an

increase in the share that goes to satisfy the needs of the entire socialist society.

"... the growth of labor productivity should overtake the growth of wages. Only under this condition will a material base be created and funds will be accumulated both to ensure wage growth, and to expand production, which requires an increase in working capital, and to restore worn-out and obsolete equipment, and to meet ever-increasing cultural needs, and for the upbringing and education of the growing generations, and for the administration and defense of the state" <sup>1</sup> .

The greatest strength of the Soviet social system lies in the fact that it has created conditions for the highest interest of every worker in the results of his labor and, by equipping him with the most advanced technology, ensures a higher productivity of socialist labor than under capitalism.

The most important ways of increasing labor productivity and, on this basis, reducing the cost of production of Soviet industry are:

- 1) comprehensive mechanization of labor-intensive and hard work, automation of production and intensification of production processes;
- 2) raising the cultural, technical and qualification level of the working class;
- 3) improvement of the organization of labor and elimination on this basis of unproductive losses of working time;
- 4) strengthening of economic incentives for the growth of labor productivity.

The main method by which the Communist Party and the organizations led by it ensure an uninterrupted rise in the production activity of the working class, the Soviet technical intelligentsia, and other sections of the working people, and by which they discover and mobilize reserves for the growth of the productivity of socialist labor, is the development of socialist emulation, a movement of advanced workers who are innovators in production. The peculiarity of the



present stage of socialist competition consists, in particular, in the selection and wide organized distribution to all socialist enterprises of the best examples of the most productive labor put forward by the initiative of the foremost workers of the working class and the Soviet technical intelligentsia (the method of engineer F. Kovalev, turner V. Kolesov, etc.) .

*Compensation for depreciation of fixed assets* finds its expression in the cost of production in the form of depreciation deductions, which are set as a percentage of the original cost of existing machines, equipment, buildings, and structures. These norms are differentiated for individual sectors of the national economy and enterprises, taking into account the difference in types of production equipment and structures, the degree of intensity of use of fixed assets, and the associated difference in the service life of equipment and structures. Thus, in 1938, depreciation charges were set at an average rate of 5.6% for branches of heavy industry, and 13-14% for the oil industry (to the inventory value of wells).

The development of technical progress in the national economy of the USSR leads to an increase in the share of expenditures of fixed assets in the cost of production. At the same time, the growth of labor productivity on the basis of technical progress creates opportunities for reducing the absolute size of the costs of fixed assets per unit of output. Reducing the cost of fixed assets per unit of output is achieved in the following ways: 1) reducing the cost of material elements of fixed assets; 2) increasing the efficiency of the use of fixed assets; 3) improvement of fixed assets.

Since depreciation charges are set as a percentage of the original cost of fixed assets, a decrease in the cost of construction and installation works, as well as equipment prices, *ceteris paribus*, leads to a decrease in the absolute amount of depreciation charges. With the same amount of depreciation deductions, the amount of costs directly depends on the degree of productive use of fixed assets, that is, on an increase in the scale of production.

An increase in the volume of production with the same fixed assets leads to a direct decrease in depreciation charges per unit of output. Savings in the use of fixed assets are at the same time the result of continuous improvement of machinery, leading to a reduction in the wear and tear of fixed assets. Reducing the wear and tear of machines means not only a reduction in the cost of replacing the worn out part of fixed assets, but also savings in the costs associated with the repair and maintenance of equipment.

The socialist social system fundamentally changes the attitude of the working people towards the tools of labor. In capitalist society, the tools of labor confront the worker as property alien to him, as a means of exploiting his labour. Under socialism, where the tools of labor are turned into public property, where machines not only save labour, but at the same time lighten the work of the workers, the vital interest of all working people in saving the tools of labor and their more economical use develops more and more.

*The cost of raw materials and auxiliary materials* is immediately and entirely included in the cost of the product for the manufacture of which they are spent. At the same time, "as the productive power of labor develops, the value of raw materials forms an ever-increasing component of the value of the commodity product, and not only because it enters entirely into this latter, but also because in each share of the total product both parts, as a part, formed by the wear and tear of machinery, and the part created by the newly added labour, decrease. As a result of this downward movement, another part of the value, formed by raw materials, increases relatively, unless this increase is canceled out by a corresponding decrease in the value of raw materials, which is the result of an increasing productivity of labor employed in the manufacture of this raw material itself.

The costs of raw materials, auxiliary materials, and other circulating production assets account for more than two-thirds of all industry costs for the production of goods. From this one can clearly see the enormous importance of the utmost saving of circulating funds and their economical use in determining the level of prices. Reducing the

costs of working capital and the associated cost reduction are achieved as a result of reducing the norms of material costs per unit of output and reducing the cost of material elements of working capital.

The planning of material expenditures is based on progressive standards that take into account the technical progress being made in the national economy of the USSR and is expressed in the use of technically more advanced equipment, in improving the methods of processing raw materials, as well as methods of burning fuel, in reducing losses in the production process, storage and transportation, in efficient use of waste in the production process, etc. These progressive standards are built taking into account the achievements of advanced enterprises, workshops, production teams, production innovators from among the workers and the engineering and technical intelligentsia in their struggle to save material resources.

A decrease in the value of the material elements of working capital can take place as a result of a direct price reduction. In this case, the reduction in the cost of production and the increase in profits in some industries is offset by the reduction in profits in other industries. In general, the size of profit does not change. At the same time, the industry's expenses for the purchase of materials, fuel, electricity, semi-finished products, finished products may decrease while maintaining current prices due to the consumption structure. For example, the average price of one ton of reference fuel consumed by power plants may, while maintaining the current list prices for fuel, decrease under the influence of the following factors: 1) an increase in the share of short-range imported fuel at the expense of distant imported fuel; 2) reducing the consumption of expensive fuels while increasing the share of cheaper fuels. In the first case, fuel transportation costs will be reduced, in the second case, the average price of one ton of fuel consumed will decrease. The average cost of one ton of sulfuric acid for chemical industry enterprises is directly dependent on the specific gravity of certain types of processed raw materials (for example, exhaust gases or sulfur pyrites). An increase

in the specific gravity of sulfuric acid produced by the use of exhaust gases leads to a sharp decrease in the average cost of this product. In all these cases, the cost reduction due to changes in average prices reflects the real savings achieved in the respective industries.

*Other cash expenses* include expenses that, by their nature, cannot be directly attributed to wages or material costs, for example, postal and telegraph expenses, rental of premises, payment of travel expenses for seconded persons, interest paid for the use of borrowed working capital, etc.

Every possible saving on other monetary expenditures is of great importance for the national economy, because, in addition to saving considerable funds, it leads to streamlining the administrative apparatus of enterprises and to the elimination of all sorts of excesses that still exist in their work.

Reimbursement of the expenses of socialist enterprises at the expense of their income presupposes the establishment of state prices for industrial products on the basis of their prime cost.

However, the base of state prices cannot be the unit cost of production at individual enterprises. The use of the law of value in a socialist economy is reflected in the planned establishment of uniform state prices for identical products.

The state establishes uniform (for the entire territory of the Soviet Union or within a given belt) state retail prices for consumer goods. The unity of state retail prices is an important condition for the consistent implementation of the socialist principle of distribution according to work since it ensures the same purchasing power of money for all workers.

The state establishes uniform (for the entire territory of the Soviet Union or within a given zone) wholesale prices. The unity of wholesale prices provides:

a) the unity of the measure of material costs for all consumers of a given product, which strengthens state control over production

costs. The difference in prices for the same product, depending on who supplies this product, would undermine the basis for calculating the cost of industrial products and would make it extremely difficult to control the cost of construction. Since material costs account for more than two-thirds of the cost of industrial products, the difference in prices for elements of material costs would make the cost of the same product from different manufacturers incomparable;

b) the unity of the criterion for evaluating the results of the production activities of enterprises.

At different prices for the same products, two enterprises that have manufactured the same quantity of the same products would have a different volume of created products in terms of value and different amounts of income from the sale of products. Prices in this case would lose their significance as a criterion of socially necessary costs since they would express non-socially necessary conditions of production.

The unity of wholesale and retail prices presupposes their construction on the basis of industry cost. Prices cannot be based on the individual cost of individual enterprises. Setting prices based on the individual costs of each enterprise separately would mean the elimination of prices as an instrument of control over the measure of labor, the reduction of wholesale prices to a purely technical means of settlement between enterprises, and could lead to the loss of economic incentive for our enterprises to reduce production costs. Therefore, the basis for prices is not individual production costs, but the sectoral cost, expressing the socially necessary conditions of production in a given industry.

When determining the cost level as a basis for the price, not only the conditions of the given period are taken into account, but also the prospects for the development of the relevant sector of the economy. The price is not built on the basis of the actual, reported cost, but on the basis of the planned cost, taking into account the available reserves to further reduce production costs. Thus, the price

does not passively adapt to the current level of cost, but actively influences this level itself.

The unity of prices for identical products and the construction of prices on the basis of industry costs include the possibility of unprofitability of individual enterprises that are lagging behind in their technical development and in the organization of production from the average level for a given industry. The losses of such enterprises are covered in the order of redistribution of income realized in the respective industries.

Differences in the level of cost of homogeneous products at individual enterprises arise, however, not only as a result of the lag of some enterprises behind the average level of development of technology and organization of labor for a given industry. In some cases, these differences are associated with the specifics of the geographical location of enterprises in the country. Since the conditions for the development of individual industries are not the same in different economic regions of the country (different levels of transport costs in different regions, differences in wage rates, different scales of production and degrees of its specialization), regional (zone) differences in the level of production costs of such industries. In these cases, the industry cost of production is the cost formed as a result of equalizing the costs of enterprises in a given economic region (zone), and the prices determined on such a basis are uniform prices not for the entire territory of the country, but for a given economic region (zone).

In the mining and energy industries, sharp differences in the level of the cost of homogeneous products can also occur as a result of the fact that individual enterprises have especially favorable natural conditions that ensure higher labor productivity.

Thus, in the timber industry, the costs of timber harvesting enterprises significantly depend on the amount of timber per hectare of forest area and on the quality of the timber.

In the coal industry, the level of production costs of individual enterprises depends on the geological conditions of coal mining and, in particular, on the depth and nature of the formation, its thickness, etc.

In the mining industry, the cost of extracting basic ores fluctuates sharply depending on the presence of precious and rare metals in them: the more of these very valuable components in the ore, the lower the costs for the main substance.

In the electric power industry, the cost of electricity generated at hydroelectric power stations is much lower than the cost of electricity generated at thermal stations. The issues of determining the industry cost and the formation of uniform prices in such conditions will be considered later in connection with the characteristics of wholesale prices for industrial products and the methods of their formation.

### **Industrial Profit**

In a socialist society, where the exploiting classes and their appropriation of the results of social labor have been destroyed, the social causes that determined the existence of surplus value and its transformed forms—entrepreneurial profit, capitalist rent, loan interest—have completely disappeared.

In a socialist society, the entire newly created product—the national income—belongs to all working people. Here there is no antagonistic contradiction inherent in capitalism between necessary and surplus labor. The labor of the workers in the conditions of socialist production, given to society for the expansion of production, the development of health care, the organization of defense, etc., is just as necessary for the working class in power as the labor expended to cover the personal needs of the worker and his family. . But, since there is an objective need to distinguish between the share that goes to the direct disposal of the participants in production from the share directed to the needs of the whole society, at the stage of socialism, such cost instruments are used that ensure the realization of that share which goes to the needs of the whole society and its

concentration in the hands of the socialist state. Such value instruments are the profits of socialist enterprises and the turnover tax.

It must be said from the outset that the application of the word "profit" to the distribution of national income in a socialist society is, of course, conditional. In this case, we are talking about one of these old concepts that do not correspond to the new state of affairs, which must be replaced by new concepts that correspond to their new content.

What is meant by the profit of a socialist enterprise (the net income of an enterprise), as can be seen from what has been said above, has nothing in common in its economic content with entrepreneurial profit under capitalism. The term "turnover tax" is also conditional, since in its economic content it cannot be classified as a tax. In this case, we are talking about national income, as opposed to the net income of the enterprise itself.

The ratio between profit and turnover tax according to the plan and the State Budget of the USSR for 1953 is characterized by the following data <sup>3</sup> :

	Amount in billion rubles	In % of total
Sales tax	241.0	68.4
Profit	111.5	31.6
Total:	352.5	100.0

The existence of two different monetary forms, in which the share is realized through prices, directed to the needs of the entire socialist society, in conditions when the entire national income belongs to the working people organized in their own state, and only to them, is explained by the need for the Soviet state to use the law of value to control the course of social production and distribution. The purpose of each of these two forms is that they fulfill their specific function as



an economic instrument of the socialist organization of production and distribution.

Profit is that part of the price which, after deducting certain deductions to the state budget, remains at the disposal of the enterprise that has produced the product and is directed towards its further expansion, as well as the improvement of the living conditions of workers.

The allocation of an enterprise's share in the price of a product and the delimitation of this share in the form of profit are connected with the system of management of socialist enterprises existing in socialist society on the basis of cost accounting.

The profit of the enterprise is formed as the difference between its marketable products at established wholesale prices (excluding VAT) and the cost of the same marketable products. The share of profit in the price of production, therefore, directly reflects the change in the level of production costs. The mass of profit at a given price level is directly determined by: 1) the volume and structure (range) of products created and sold by the enterprise; 2) the level of its cost.

Since profit acts as an excess of the price of a product over its cost and its value is directly determined by a decrease in the cost of production, the level of profitability (profitability) of the production of an individual product or a set of goods is measured by the ratio of the mass of profit to the cost. This ratio is expressed as a fraction, the numerator of which is the difference between the wholesale price (without VAT) and the cost price, and the denominator is the cost price. Obviously, the condition for increasing such a fraction is to reduce the cost, since this increases the numerator and simultaneously decreases the denominator. For example, marketable products at wholesale prices (excluding VAT) amount to 10,500 thousand rubles. The same volume of production at cost equals 10,000 thousand rubles.

The amount of profit in this case will be:

RUB 10,500 thousand - 10,000 thousand rubles. = 500 thousand rubles.

The level of profitability is determined as follows:

$((10,500 \text{ thousand rubles} - 10,000 \text{ thousand rubles}) / 10,000 \text{ thousand rubles}) \times 100\% \approx 5\%$ .

At the same time, it deserves to be noted that the percentage of profit growth outstrips the percentage of reduction in production costs, and therefore profitability increases faster than profit. Using this example, let's say that the cost of all marketable products decreased by 10%. In this case, the mass of profit will be:

RUB 10,500 thousand - (10,000 rubles  $\times$  ((100-10) / 100))  $\approx$  1,500 thousand rubles, that is, it will increase by 3 times.

The level of profitability will change as follows:

$((10,500 \text{ thousand rubles} - 9,000 \text{ thousand rubles}) / 9,000 \text{ thousand rubles}) \times 100\% \approx 16.7\%$ , i.e. more than 3.3 times.

The amount of profit and the level of profitability are very important indicators of the success of the production activities of an enterprise or industry.

The distribution of profit in the USSR is carried out in such a way that both the entire staff of the enterprise as a whole and its individual employees are most interested in increasing it, and consequently in expanding production and reducing costs. Profit can be withdrawn to the budget only after meeting the needs of the enterprise provided for by the plan. Part of the profit goes to a specially established fund of the director of the enterprise. At the expense of funds from this fund, expenses are made for the construction of housing for workers and employees of the enterprise, for the organization of nurseries and kindergartens, sanatoriums, sports stadiums, for bonuses for distinguished workers, and material assistance is also provided to individual workers and employees.

In Soviet industry, incentives are widely used for workers who have ensured by their successful work that the enterprise fulfills its

obligations to the state. For these purposes, it is envisaged (in addition to the director's fund) to issue bonuses to managers and engineering and technical employees of enterprises for fulfilling the production plan while reducing the cost of production. At the same time, the heads of enterprises who have caused losses as a result of their mismanagement are liable to the state. The issuance of bonuses for the fulfillment and over fulfillment of plans for the production of products and cost reduction implies the obligatory simultaneous fulfillment of the plan for the assortment and quality of products. Making a profit by violating the planned assortment and quality of products is regarded as a flagrant violation of state plans.

What determines the level of profit in prices for industrial products, set by the state? What determines the principle of socialist profitability? The fundamental change in the essence of profit in a socialist society lies, in particular, in the fact that the level of profit of an individual enterprise or branch of industry is not the determining motive for the development or reduction of production.

This affects the limitation of the operation of the law of value in socialist society, which has already ceased to play the role of a regulator of production, a regulator of proportions in the distribution of labor between branches of production. This, however, by no means, means that the principle of profitability of production has lost its significance for the socialist economy. The case is just the opposite.

For a socialist society, the profitability of production as a whole remains important as the only source of expanded reproduction. Moreover, the operation in a socialist society of the economic law of the planned development of the national economy creates the possibility of ensuring such a high and stable profitability of all social production as a whole, with which the temporary and unstable profitability of individual capitalist enterprises cannot be compared.

That is why the question of the economic efficiency of the development of this or that enterprise or branch of production cannot

be decided only from the point of view of the indicators of profitability of this enterprise or branch, but necessarily taking into account the interests of the entire national economy.

It is known that the Soviet state, when necessary, went and goes on creating separate enterprises or branches of industry, which, although they are themselves unprofitable, at least in the first period of their activity, nevertheless, by their existence, create the possibility of a smooth, uninterrupted development of the entire national economy and thereby ensure the stable and high profitability of socialist production taken as a whole.

“But it would be wrong to conclude from this that the profitability of individual enterprises and branches of production is of no particular value and does not deserve serious attention. This, of course, is not true. The profitability of individual enterprises and branches of production is of great importance from the point of view of the development of our production. It must be taken into account both in construction planning and production planning. This is the ABC of our economic activity at the present stage of development”<sup>4</sup>.

The profit of an enterprise and a separate branch of industry is an important element in the organization of production on the basis of cost accounting. Since the evaluation of the activity of an enterprise or branch of industry, as well as the remuneration of managers and engineering and technical workers, is carried out taking into account profitability indicators, profit turns into a powerful incentive to save production costs, to implement a savings regime at enterprises.

The need to fulfill the tasks of state plans for profits educates our business executives in the spirit of rational production, disciplines them, teaches them to calculate production quantities, calculate costs, teaches them to look for, find and use hidden reserves lurking in the bowels of production, systematically improve production methods, reduce production costs, carry out business accounting. This is a good practical school which accelerates the growth of our economic cadres

and their transformation into real leaders of socialist production at the present stage of development.

Demanding from all enterprises a systematic increase in their profitability, the Party teaches our economic cadres that only a reduction in the cost of production can be a solid basis for the growth of the profitability of industry and other branches of the national economy. Only under this condition can the resulting profits be regarded as truly healthy sources of socialist accumulation. Orientation towards profits derived from high prices would bring exceptional harm to the development of the national economy.

“Absolutely erroneous and untenable is the position that the interests of accumulation and the pace of industrialization dictate a policy of high industrial prices. The maintenance of a high level of prices in the absence of competition, this main stimulus for the improvement and growth of the capitalist economy, in conditions of a monopoly position in production and on the market, and in conditions of a monopoly of foreign trade, can create dangers of bureaucratization of our production and trade apparatuses, a weakening of interest in the continuous improvement of production and trade. The policy of hidden accumulations, the forcing of unforeseen capital expenditures under the guise of current repairs, the increase in profits at excessively high costs, especially trade - all this is created by a policy of high prices and does not benefit, but harms the economy of the national economy, does not accelerate,<sup>5</sup>.

Thus, not a rise in prices, but a systematic reduction in the cost of production—such is the path leading to an increase in the profitability of socialist enterprises.

The question of the level of profitability (profitability) should be considered taking into account the functions that profit is designed to perform. Profit is one of the forms in which the share of the whole society in the newly created product (national income) appears. Because of this, profit cannot but ultimately obey the general

laws of the distribution of the national income into the part that goes to the direct participants in production and the part that goes to the whole of society.

However, it would be wrong to identify the conditions for such a distribution of national income with the conditions for the formation of profit, which performs its specific functions in the planned management of production. Indeed, when we talk about the factors that determine the part of the national income intended to meet the needs of the whole society, we mean:

- a) the amount of labor expended in material production; b) the productivity of social labor;
- c) the ratio between accumulation and consumption in the national income.

When it comes to the size and relative level of profit, they mean: in what respect the share of national income realized in the prices of products of state enterprises, directed to satisfy the needs of the whole society, is divided into a part that is directly placed at the disposal of the state, and into a part which is directly at the disposal of the enterprise. This ratio is determined by the interests of using profit as a lever for economic accounting.

The role of profit in a socialist society lies primarily in the fact that it is an additional stimulus for the development of production on the basis of cost accounting. The amount of profit provided for in wholesale prices must be sufficient to provide, as a rule, a given branch of the economy with a certain minimum of funds for the development of production and material incentives for workers; they must be sufficiently limited so as not to dampen the incentives for cost savings in production and distribution. The negative property of high profits lies in the fact that they provide enterprises with the opportunity for an "easy life", work without stress, without the full use of their reserves.

Along with profit in the socialist economy there is such a powerful source of money accumulation as the turnover tax. Therefore, it is not at all necessary that all the expenses of each branch of the economy connected with its expanded reproduction be fully covered by its own profits.

What is the minimum cost that should be covered by own profits? To answer this question, it is necessary to bear in mind to what ends profits can be directed within industry. There are at least four of them: 1) an increase in own working capital at existing enterprises; 2) capital investments; 3) formation of own working capital at newly commissioned enterprises; 4) deductions from the planned profit to the fund of the director of the enterprise.

The amount of deductions from the planned profit to the fund of the director of the enterprise is determined (in%) for each industry. Consequently, it remains to be decided to what extent each branch of industry should participate in financing the costs required to increase its own working capital at existing enterprises, as well as in financing the capital work it carries out and in the formation of working capital at newly commissioned enterprises.

At the same time, it is legitimate to proceed from the fact that profit should provide at least a normal increase in working capital at existing enterprises. As for the costs of capital work and the formation of working capital at newly commissioned enterprises, here we can talk about the share participation of each industry in financing these costs at the expense of its profits. However small this share may be, it will serve as an incentive for the respective branches of industry to fulfill and exceed the plan for profits and, as the most important condition for this, to save costs.

Since the planned level of profit is mainly determined by the conditions of expanded reproduction of individual branches of industry, which find their expression in the growth of fixed and circulating production assets, it would be wrong to establish a single level of profitability for all branches of industry.

In real economic activity, we encounter a sharp differentiation of industries in terms of the level of expenditures on capital work and the increase in working capital. This differentiation is mainly explained by the following:

First, differences in the rate of reproduction. Expanded reproduction, *ceteris paribus*, presupposes the accelerated development of industries that produce the means of production, and, consequently, more significant capital work in these industries;

secondly, differences in the structure of production assets, in particular in the share of fixed assets, the value of which is transferred to the product gradually, as they wear out. If, for example, in light industry the ratio between fixed and circulating production assets is approximately 1:1, in the food industry - 1.5:1, then in metallurgy it rises to 3.5:1, in the coal industry - up to 5.5 : 1, in the electric power industry - up to 7: 1, in the oil industry - up to 15: 1. Obviously, the higher the share of fixed production assets, the higher the costs of increasing fixed assets with the same increase in output;

thirdly, differences in the speed of turnover of working capital. The faster the turnover of working capital, the relatively less need for an increase in working capital. The turnover rate in light industry is 1.5 times higher than the turnover rate in metallurgy.

The measure of participation in the financing of capital works and in the formation of own working capital at new enterprises cannot be the same for all branches of industry. The level of profit of an individual branch of industry is directly related to the prices prevailing in other branches of industry consuming its products. A specific feature of the raw materials and fuel and energy branches of industry is, among other things, that the value of the output of these branches is repeatedly transferred by living labor to the products of the most diverse branches of the national economy. Each ruble of increase and decrease in prices for coal, ore, oil, electricity causes several rubles of additional increase or decrease in prices in other industries. The situation is different with the products of the machine-building, light,



and food industries, which produce mainly final products for consumption without additional industrial processing.

That is why, from the point of view of reducing the general level of prices in the national economy, a differentiated approach to determining the size of the share participation of individual industries in the financing of capital works and the formation of working capital at newly commissioned enterprises seems to be correct: industry, a large share - in the branches of engineering, light, and food industries.

Very important, as we shall see later, for determining the level of profitability of a particular industry is the establishment of value relationships between adjacent and interchangeable groups of products, taking into account the objectives of economic policy. A higher level of profitability in the production of non-ferrous metals compared to ferrous metals is associated with the need to stimulate the replacement of non-ferrous metals with ferrous metals in a number of industries.

In addition to these factors, the level of profitability is influenced by the peculiarities of the economics of production of individual industries, causing significant deviations from the average level of production costs by season, as well as by production areas. A relatively higher level of profitability in a number of sectors of the food, dairy, and fish industries, as well as in some sectors of heavy industry (power plants) is associated with taking into account such deviations.

### **Sales Tax**

In contrast to profits, turnover tax is entirely at the disposal of the state. The existence of a turnover tax along with profit is due to the fact that, due to price deviations from value, in the prices of products of individual industries, a part of the value created in other sectors of the national economy can be realized. Thus, a portion of the value created in heavy industries is realized in the prices of products of light industry. Wholesale prices for individual types of industrial raw materials, consumed primarily in the production of means of

production, are set at the level of cost and minimum profit. In those cases where this raw material is used for the production of consumer goods, the state cannot but reimburse the full costs of society for the extraction of raw materials.

In the costs of production of many types of foodstuffs and industrial consumer goods, a large share (from 60 to 80% of the cost) is occupied by the cost of agricultural raw materials, supplied mainly by collective farms. A significant part of the social costs for the production of agricultural products falls to the state (the work of the MTS, drainage of land, reclamation, afforestation, supply of pure varieties of seeds and breeding animals, pest control, zootechnical and veterinary services, etc.). Because of this, the total costs of society associated with the production of agricultural products do not coincide with the value created by the labor of collective farmers. They exceed it by the amount of value created by the labor of employees of state enterprises serving collective farm production. Since, however, the prices of industrial goods produced from agricultural raw materials must ensure the reimbursement of all social costs associated with their production, the value created by the labor of employees of state enterprises serving collective farm production is realized in the prices of goods for light and food industries.

In addition, part of the value created directly in collective farm production is realized in the prices of industrial goods produced from agricultural raw materials, since when setting procurement prices, the objective need for the participation of the collective farm peasantry, along with the working class, part of their labor in meeting the needs of the whole people (development of production, social cultural needs, government, national defense).

The turnover tax is an important tool through which - is carried out the mobilization and concentration in the hands of the state of financial resources directed to meet public needs. The advantage of this tool is that it allows you to quickly and without loss accumulate these resources in the hands of the state; the turnover tax is transferred to the state budget immediately after the sale of products,

which excludes the possibility of freezing significant funds. The amount of turnover tax received by the budget at any given moment depends only on the mass and range of goods sold.

The turnover tax is widely used by the Soviet state in the construction of the price system. The establishment of uniform prices in the context of existing differences in the levels of production costs at different enterprises involves the use of a turnover tax as a tool to compensate for these differences in production costs. This is achieved by introducing differentiated turnover tax rates for different groups of enterprises. Thus, it creates the possibility of break-even work for the vast majority of enterprises while maintaining a single price at the same time.

In the practice of pricing, the following three methods of determining value added tax in the price of goods are used:

- a) in the form of the difference between the retail price minus the trade discount and the wholesale price without VAT;
- b) in the form of an interest rate (as a percentage of the wholesale or retail price);
- c) in the form of an absolute rate in rubles per weight unit of goods.

The levying of a turnover tax in the form of the difference between the retail price minus a trade discount and the wholesale price without turnover tax was first introduced in 1939 in the textile industry and then extended to a number of other industries.

The essence of this system of taxation with turnover is as follows. For the entire range of products subject to VAT, along with the price list of retail prices, the government approves the price list of wholesale prices without VAT. When an invoice is issued by an industrial sales organization or an individual company, the retail price and the wholesale price without VAT are entered on this invoice for each article of the product. The difference between the value of a given consignment of goods at retail prices, net of trade discounts, and its

value at wholesale prices, excluding VAT, shall be credited to the state budget in each account.

The advantage of such a sales tax system is that it allows for a relatively equal level of profitability for all products produced in the Industry. Wholesale prices without VAT are determined for each product (item of goods), based on its cost and the planned percentage of profitability. Thus, it becomes possible to avoid the appearance of "profitable" and "unprofitable" types of products in terms of profitability, which is important for strengthening economic accounting and successfully fulfilling product assortment plans.

However, it should be noted that the collection of turnover tax by the budget difference method is associated with certain difficulties in verifying by financial authorities the correctness of payment of turnover tax by economic authorities. Since the amounts of value added tax are determined in this case for each product separately, verification of the correctness of payments often requires complete calculations for the entire product range. That is why in those branches of industry where it is possible, by introducing a relatively small number of differentiated rates, to ensure a relatively uniform profitability of individual product groups, the collection of turnover tax in the form of an interest rate is retained.

The turnover tax is levied in the form of a percentage rate: for a significant number of consumer goods with a relatively limited range of products (motorcycles, bicycles, watches, radio products, gramophones, electric lamps, matches, etc.); on building materials and products sold on a wide market; for goods produced by the local state and cooperative industries. At the same time, for consumer goods, for which price lists of uniform state retail prices have been approved, the turnover tax is determined, as a rule, as a percentage of the final retail price. For building materials, products for which retail prices are set only for a small part of the products sold on a wide market, as well as for goods produced by the local state and cooperative industries, for which uniform retail prices have not been established, the value added tax is determined as a percentage of

wholesale prices, including the value added tax. For example, the wholesale price (including VAT) is 1,000 rubles, and the VAT rate is 25%. In this case, the value added tax, realized in the price of the goods, will be 250 rubles.

Taxation on turnover in the form of an absolute rate in rubles per weight unit of goods is carried out for petroleum products. The application of this form of taxation is explained by technical difficulties in calculating the turnover tax on petroleum products in the form of interest rates in the conditions of the existence of wholesale prices differentiated by zone for petroleum products. Taxation on turnover in the form of an absolute rate per unit of goods has not been extended to other goods, since when applying it is extremely difficult to take into account differences in the level of production costs at different enterprises, as well as in the range of products.

### **Costs of Circulation of Goods and Economic Turnover of Production Instruments**

Expanded socialist reproduction presupposes as a necessary condition the economic circulation of consumer goods and means of production between town and countryside, branches of the national economy and regions of the country. The economic turnover of products within the country includes:

- 1) circulation of consumer goods;
- 2) turnover of means of production between state enterprises;
- 3) circulation of agricultural raw materials between collective farms and state industry.

The economic turnover of consumer goods and means of production is associated with the additional costs of socialist society and the need to compensate for them in the prices of commodities. Accordingly, we will consider:

- circulation costs of state and cooperative trade;

- the cost of wholesale distribution of means of production;
- the cost of procurement of agricultural raw materials.

As Marx points out in Volume II of Capital, the costs of circulation are, by their economic nature, heterogeneous. It is necessary first of all to distinguish between the so-called "pure costs" of circulation.

"These are the costs necessary to transform values from the commodity form into the money form."

Such costs include, in bourgeois society, the expenditure of labor time on the purchase and sale of commodities, on commercial advertising and the maintenance of trade books, as well as the costs associated with the circulation of gold and silver coins. These costs, arising from a simple change in the form of value of a commodity, do not add any value to it. They represent a deduction from the surplus product created during the production process.

Other properties are possessed by the costs of circulation, due to "processes of production, which only continue in circulation and whose productive character, therefore, is only obscured by the form of circulation" (*Marx*). These are the costs of circulation of commodities arising from the production process (for the formation of a socially necessary commodity stock, for the transportation, packaging, and further processing of commodities), which are added to the value of these commodities.

A feature of the capitalist economy is the growth of distribution costs, primarily the so-called "net costs" of circulation. This reflects the antagonistic contradiction inherent in bourgeois society between the social character of production and the capitalist form of appropriation of the results of production. The growing contradiction between the growth of the production possibilities of industry and the reduction in the effective demand of the working masses, which grows stronger during the period of imperialism, and especially in the context of the general crisis of capitalism, leads to an ever greater increase in capitalist costs associated with the realization of the value created,

with the transformation of value from the commodity form into the monetary form.

The socialist socialization of the means of production and the elimination of private capitalist elements in the trade turnover of the USSR created opportunities for a sharp reduction in the level of distribution costs. Socialist society does not know the contradiction inherent in capitalism between the nature of production and the form of appropriation of its results. The maximum satisfaction of the growing material and cultural needs of society is the driving motive and goal of socialist production. Thus, crises of overproduction of goods, which mean huge losses for society of the means of production and finished goods, are excluded, and wastefulness in the sphere of circulation of goods is eliminated. By virtue of the socialist socialization of the main means of production and the operation of the law of the planned, proportionate development of the national economy, the Soviet state is able to carry out planning of trade turnover, commodity reserves, and cargo flows for individual modes of transport on a countrywide scale. State planning of the circulation of goods allows the most rational use of material and labor resources in the sphere of circulation of goods and thereby minimizes the costs of circulation.

Marx pointed out that "the cost of keeping books decreases with the concentration of production and decreases the more, the more it turns into public accounting."

The destruction of capitalism and all forms of capitalist competition frees society from the squandering of material resources and labor time, with which (squandering) is connected capitalist trade with its frenzied advertising. The concentration of trade in the hands of the socialist state makes it possible to rationally build a commodity distribution network and economize on the labor force directly involved in the sale of goods.

The normal functioning of the trade turnover presupposes the presence of a constant stock of consumer goods. The costs associated

with the formation of this stock (outlays of living and past labor required to save the stock; material losses during storage) are the inevitable costs of a socialist society. However, these costs are immeasurably lower than the costs associated with the existence of a constant commodity stock in capitalist society.

First of all, “the higher the social concentration of reserves, the relatively lower these costs become” (*Marx*). The state organization of food and material reserves in the USSR makes it possible to make full use of these advantages of the high social concentration of reserves.

The greatest advantage of a socialist economy is the possibility of limiting the size of the commodity stock to the actual needs of social production and popular consumption, while under capitalism a significant part of the commodity stock is constantly in a stagnant state and owes its existence solely to the difficulties in realizing the value of commodities.

Finally, socialism creates unprecedented opportunities for saving on transport costs, both by raising the productivity of all means of transport and by more rational distribution of productive forces.

Thus, it is possible to establish the following changes that the category of distribution costs undergoes in a socialist society:

1. Losses in the sphere of circulation caused by the capitalist mode of production (*faux frais* of capitalist production) are eliminated.
2. The costs associated with the transformation of the value of a commodity from a commodity form into a monetary one are significantly reduced, both absolutely and relatively. The planning of production and distribution in the USSR makes it possible to sharply increase the turnover of goods in wholesale and retail trade, reduce the cost of storing commodity stocks, reduce the distance of transportation of goods and thereby ensure significant savings in transportation costs, and reduce the number of workers employed in trade.



In the USSR before the Second World War the average turnover of goods was less than 30 days, while in the USA it was 96 days in 1929, and in Germany 83 days. In 1940, there were 12 sales workers per 1,000 people in the USSR, and 40 workers in the USA; if small proprietors are included, the number of persons employed in US trade rises to 47 per 1,000 population.

3. The structure of distribution costs changes: the share of costs associated with the transformation of value from the commodity form into the monetary form decreases, and the share of costs associated with the continuation of the production process in the sphere of circulation increases accordingly.

Here is an example of the cost structure of retail trade in the USSR, which took shape in 1947 (in % of the total):

Fare	21.5
Salary with accruals	37.3
Expenses for rent, maintenance and current repair of premises and equipment	13.6
Expenses for storage, processing, and packaging of goods (including losses in packaging)	2.8
Loss of goods	6.1
Payment of interest on a loan	5.3
Administrative and management and other expenses	13.4
Total	100.0

The relatively small share of transport costs in retail trade distribution costs is explained by the changes that have taken place since 1939 in the formation of prices for consumer goods. These changes consisted, in particular, in the establishment of a procedure for the release of products by industry to the trading network of the ex-works station of destination for all consumer goods. As a result, all the costs of transporting these goods to the destination station by rail and water

were charged to industry; retail trade distribution costs currently include the payment of long-distance transport tariffs for only a small part of goods, mainly goods produced by local and cooperative industries, which are still delivered free of charge from the departure station.

At the same time, the absolute size of these costs is significantly reduced. In general, the level of distribution costs. in the USSR it is several times lower than in bourgeois countries. Thus, the costs of retail state and cooperative trade in the USSR in 1940 amounted to 10% in relation to the entire retail trade turnover, while the costs of retail trade in the USA and England amounted to 25-35% of the retail price of goods, and for agricultural products purchased farmers (together with the profits of the monopolies), as can be judged from the official data of the US Department of Agriculture - 60% of the retail price.

The reduction of distribution costs, despite their low level compared with bourgeois countries, is nevertheless a very important task for the national economy of the USSR.

Reducing the costs of distribution means, firstly, the release of part of the labor employed in the sphere of circulation, and an increase at this expense of labor resources directed to the sphere of material production; secondly, the expansion of the sources of socialist accumulation; thirdly, one of the necessary conditions (along with a reduction in the cost of production) for the implementation of the Soviet price policy.

The planned development of the national economy presupposes the distribution, according to the state plan, of the means of production among the branches of the national economy and individual enterprises. In contrast to the bourgeois economy, where, in the words of Marx, the whimsical game of chance determines the distribution of commodity producers and their means of production among various branches of social labor, in socialist society, in accordance with the requirements of the law of planned, proportional development of the

national economy, direct state distribution of raw materials, materials and instruments of production between branches of the economy and enterprises. The state distribution of the means of production finds its expression in the plans approved by the government for the material and technical supply of the national economy. The implementation of these plans necessitates the existence of special economic organizations that perform the functions of distributing material resources and bringing them to consumer enterprises (sales organizations of industry), as well as the need to control their activities. At the same time, for the uninterrupted development of the national economy of the USSR and to guarantee it against any accidents, the presence of significant, constantly replenished, and refreshed state material reserves is required. The formation of these reserves, their storage and refreshment are carried out by special economic organizations that have the necessary material base for this.

The planned material and technical supply of the national economy, as well as the storage of social material reserves, are inherent not only in socialism, and in the second phase of the development of communist society the need for these functions does not disappear.

The peculiarity of the socialist economy in this respect is that there is a need to use the form of the commodity and the form of value to control the correct distribution and use of material resources. This finds expression:

- 1) in establishing plans for the material and technical supply of the national economy and plans for replenishing state material reserves, not only in kind, but also in value terms;
- 2) in the sale of raw materials, materials, and tools of production to consumer enterprises on the basis of economic agreements that provide for cash payments for products sold at state wholesale prices and the application of material sanctions for violation of mutual obligations under these agreements;

3) in the ruble's control over the activities of economic organizations in charge of the material supply of the national economy, as well as the storage of state material reserves.

Hence the existence of the costs of the material and technical supply of the national economy, as well as the costs of maintaining state material reserves.

Characteristic of the costs of the material and technical supply of the national economy is that they are in the decisive part the costs associated with the continuation of the production process in the sphere of circulation of the means of production, as well as with the formation of the necessary reserve for the uninterrupted supply of the national economy. The costs associated with cash payments for sold products occupy a relatively small share.

So, the costs of Glavneftesbyt have the following structure:

- 1) expenses for transportation of products and loading and unloading operations - 85.0%;
- 2) expenses for storage and sale of products - 13.6%;
- 3) administrative and management expenses - 1.4%.

Saving the costs of the material and technical supply of the national economy, as well as the costs of storing state material reserves, is of exceptional importance. The fact is that achieving these savings means:

- reduction of losses during storage and transportation of products, and thereby an increase in material resources for the national economy;
- reduction of irrational transportation and thereby an increase in the country's transport resources;
- the release of part of the workers employed in servicing the turnover of material resources for direct participation in production;
- acceleration of the turnover of funds in the national economy.

The costs of procurement of agricultural products are one of the essential factors in the pricing of food and industrial goods produced from agricultural raw materials.

According to their economic content, these costs can be divided into the following main groups of costs: 1) procurement costs proper; 2) transport costs; 3) storage costs. The actual procurement costs include the costs of maintaining the harvesting apparatus, the workflow, and also the accounting of harvesting operations. Transport costs include the costs of delivering products and raw materials to the warehouses of procurement organizations or directly to industrial enterprises. The costs of storage include all the costs of providing a stock of products and raw materials necessary to maintain the uninterrupted operation of industry and the food supply of the country's population.

Depending on the conditions of procurement and the use of a particular type of agricultural product, both the level and the structure of procurement costs are determined. At the same time, however, a common feature for agricultural products is a high share in the costs of its procurement of costs associated with the transportation and storage of products.

As noted in the report to the 19th Party Congress on the work of the Central Committee of the All-Union Communist Party of Bolsheviks, the costs of procurement, storage and marketing of agricultural products are excessively high. This is primarily due to the fact that the apparatus of the procurement, trade and marketing organizations is exorbitantly swollen, and its work is poorly organized and not controlled by the ministries.

This lack of control on the part of the ministries in relation to the costs of procurement, storage and marketing of agricultural products was put to an end by the measures taken by the government in 1952 to reduce the level and introduce strict cost rationing. As a result of the measures taken, it was possible to significantly reduce the apparatus for the procurement, storage, and marketing of agricultural

products. However, the possibilities for obtaining significant savings on the costs of procurement of agricultural products have not yet been fully utilized.

Since the circulation of goods between branches of the national economy, between town and country and regions of the country, as well as the planned distribution of the means of production between branches of the economy and enterprises are a necessary condition for the process of expanded socialist reproduction, the costs associated with the circulation of goods, as well as the costs of material supply of the national economy refundable and included in the price of the product.

The existence in a socialist economy of the circulation of goods and the circulation of means of production and the exercise of these functions by special economic organizations operating on the basis of cost accounting determine the existence of the category of profit from trade, marketing, and procurement organizations.

Depending on the very nature of the turnover of products, the costs associated with this turnover and the profits of the corresponding supply, procurement and trade organizations participate in the formation of commodity prices in different ways. In the event that the function of marketing products is carried out by the industrial enterprises themselves, the costs associated *with* sales, constitute one of the elements of the cost (sales expenses of enterprises), and profit is an integral part of the total profit of industrial enterprises. In those cases when the functions of marketing products are carried out by special economic organizations, their costs, together with profits, form a special form of cape or discount, which is an integral part of the wholesale or retail price (capes of marketing organizations of industry, capes of supplies, discounts in favor of the wholesale and retail link of trade). ). The costs of procuring agricultural raw materials, together with the profits of procurement organizations, are included in the wholesale price of agricultural raw materials, and thus also in the cost of industries that process agricultural raw materials.

<sup>1</sup> "VKP(b) in resolutions and decisions of congresses, conferences, and plenums of the Central Committee", Part I, 1940, p. 627.

<sup>2</sup> *K. Marx, Capital*, vol. III, 1951, pp. 114-115.

<sup>3</sup> See *Izvestia*, August 6 and 7, 1953.

<sup>4</sup> *I. V. Stalin, Economic problems of socialism in the USSR*, p. 56.

<sup>5</sup> "VKP (b) in the resolutions and decisions of congresses, conferences and plenums of the Central Committee", Part II, 1940, p. 161.

## **State wholesale prices for capital goods**

Wholesale prices for means of production are the prices at which one state or cooperative industrial enterprise sells its products to other state or cooperative enterprises for production, maintenance, and construction purposes.

Under economic accounting conditions, each state enterprise sells its products at state wholesale prices; pays for raw materials, materials, fuel, electricity at state wholesale prices; keeps records of material costs for production in the same wholesale prices; carries out its financial relations with the state budget and the credit system, taking into account the current wholesale prices. Thus, through wholesale prices, the state has an active influence on the financial and economic situation of enterprises in the relevant industries, stimulating enterprises to successfully fulfill production plans while simultaneously saving the costs of living and materialized labor.

Wholesale prices for products of various industries have an unequal structure.

In most branches of heavy industry (coal, timber, chemical, engineering, etc.), wholesale prices have the following structure:

- a) the cost of production;
- b) profit of the enterprise.

In a number of branches of heavy industry, wholesale sales of products are concentrated in centralized marketing organizations; at the same time, branch sales assume all the costs of transporting products to the point (station, wharf) of destination. In such branches of heavy industry (cement, metallurgical), wholesale prices have the following structure:

- a) the cost of production;
- b) profit of the enterprise;
- c) the costs and profits of the marketing organization.

Finally, in such a branch of heavy industry as the oil industry, a turnover tax is realized in the wholesale prices of the industry. Here wholesale prices have the following structure:

- a) the cost of production;
- b) profit of the enterprise;
- c) turnover tax;
- d) the costs and profits of the marketing organization.

In industries where products are shipped ex-works to a destination station, as well as where products are subject to VAT, two types of wholesale prices are applied simultaneously: industrial wholesale prices and enterprise wholesale prices.

The wholesale price of an industry is the total end price at which a product is sold outside of that industry. It includes the following elements: the cost of production, the profit of the enterprise, turnover tax (for products subject to turnover tax), the costs of industrial sales for the sale of products (for products sold through industry sales of the free-carriage station of destination).

The wholesale price of the enterprise, in contrast to the price of the industry, includes only two elements: the cost of production and the profit of the enterprise. Therefore, it does not include sales tax and industrial marketing costs for the sale of products. The wholesale



price of the enterprise is the price at which the enterprise sells its products to the industry.

### **Cost of Planning as a Starting point for Determining the Price**

As we mentioned above, the reimbursement of the costs of enterprises in the production of products is the first, elementary condition of reproduction. The cost price is the price base. The determination of state prices for the means of production therefore begins with the planning of their cost.

When we talk about pricing, we mean:

- a) determination of the general level of prices for the products of this industry;
- b) determination of prices for certain types of products.

In the first case, it is supposed to plan the level of the cost of production of the industry as a whole, in the second - the calculation of the cost of individual types of products. Every more or less massive revision of prices necessarily includes both of these points.

In the event that the cost of the period for which the plan has already been approved is taken as the basis for determining prices, all calculations related to the development of a draft price are based on this approved plan.

If, however, the plan is not approved for the period taken as the starting point for determining the cost, price determination includes the preparation of planned calculations at the cost of the so-called marketable products of the industry. The preparation of such calculations begins with the development of a plan for production costs. This plan includes the following cost elements:

- 1) the cost of raw materials, materials, semi-finished products, and finished components;
- 2) the cost of fuel, electricity, and heat;
- 3) wages and accruals on it;

- 4) depreciation charges;
- 5) wear and tear of fast-wearing and low-value tools and inventory;
- 6) other monetary expenses.

The amount of production costs thus established, however, cannot be directly used to determine the general level of prices for the products of a given industry. First of all, not all the costs envisaged by this plan are actually connected with the production of the range of products for which prices are fixed.

It is known that individual links of an industrial enterprise can, along with their main activities, perform work that is not related to the implementation of the production program. Thus, the forces of the production workshops of the enterprise can carry out major repairs of buildings and structures. The costs associated with this are reimbursed from a special, independent source - the share of depreciation deductions allocated for major repairs. The transport department of an enterprise, which is on the general balance sheet of the enterprise, can provide services to non-industrial links of this enterprise or other enterprises. The cost of these services is not included in the gross output of the enterprise and is reimbursed from special revenue sources. Design bureaus and laboratories of the enterprise can perform work that is not embodied in finished products (work on design and construction, experimental work, laboratory analyzes performed in the course of providing services to other enterprises and organizations, etc.). The costs associated with the provision of all these services, since they are not embodied in the industrial output created by the enterprise (the so-called services that are not included in gross output), should be deducted from the cost of production. After subtracting the cost of services that are not included in gross output from the sum of production costs, we obtain the value of the factory cost of gross output. must be deducted from production costs. After subtracting the cost of services that are not included in gross output from the sum of production costs, we obtain the value of the factory cost of gross output. must be deducted from

production costs. After subtracting the cost of services that are not included in gross output from the sum of production costs, we obtain the value of the factory cost of gross output.

But for pricing purposes, this indicator is not yet sufficient. When people talk about the source of income for an enterprise or industry, they always mean the sale of marketable products, that is, products that can be sold at fixed prices. Meanwhile, in addition to marketable output, elements of work in progress are included in the composition of gross output. In order for the production process to be carried out continuously, the enterprise must constantly have a backlog of semi-finished products, parts, assembly units, in a word, maintain work in progress at a certain level.

Expenses associated with the manufacture of elements of work in progress in the planned period must be deducted from the total amount of the factory cost of gross output, since these expenses are not related to the creation of marketable products in this planning period. At the same time, part of the marketable output will be created in the planned period from the backlog of work in progress manufactured in the reporting period. Obviously, the cost of the backlog of work in progress, created in the reporting period and spent on the manufacture of marketable products in the planning period, should be added to the factory cost of gross output. Therefore, in order to move from the cost of gross output to the cost of commercial output, it is necessary to make an adjustment to the volume of gross output at factory cost for the change in work in progress by the end of the planned year compared to the beginning of the year: the increase in work in progress, estimated at cost, subtract, and the decrease add work in progress.

Mastering the production of new products is usually associated with significant costs for its preparation: product design, development of technological processes, production of prototypes of the product, etc. The costs associated with the development of new products are reimbursed for up to 2 years from the date of release of the first batch of products , distributed evenly in accordance with the release of

finished products. Thus, the costs and their reimbursement, as in all other cases, when it comes to the so-called "deferred expenses", do not coincide in time. Development costs incurred in a given planning period, if they are not reimbursed during this period, are excluded from the factory cost. In turn, the development costs incurred in the past period, but attributed to the marketable output of the given planning period, must be added to the volume of gross output at factory costs.

Thus, in order to switch from the cost of gross output to the cost of commercial output, it is also necessary to take into account the balance of development costs: if the sum of development costs in the planning period is greater than the reimbursement of these costs, then the difference is subtracted from the cost of gross output; if the amount of compensation is greater than the amount of costs, then the difference is added to the cost of gross output.

As a result of the clarifications made, the factory cost of commercial products is determined. To calculate the full cost of marketable products, you need to add the non-production costs of enterprises associated with the sale of products.

In general, the scheme for calculating the total cost of commercial products can be represented as follows:

1. The cost of raw materials, materials, semi-finished products, and *finished* products that complete products.
  2. The cost of fuel, electricity, and heat.
  3. Salary and charges on it.
  4. Depreciation deductions.
  5. Depreciation of wearing and low-value tools and inventory.
  6. Other cash expenses.
- total production costs.
7. Services not included in gross output (subtracted).

Total factory cost of gross output.

8. Growth (loss) of work in progress, remnants of dies, models, home-made tools.

9. Balance of costs for mastering the production of new types of products.

10. Non-manufacturing expenses.

### **Total cost of commercial products.**

The difference between commercial products in the wholesale prices of enterprises and at cost determines the amount of profit.

The amount of profit, related to the total cost of commercial products, determines the level of profitability of the industry's products. The same calculations can be made in the context of the main departments and the most important enterprises that are part of the relevant ministries, which will make it possible to determine the direction and extent of price changes even more accurately.

However, the revision of prices involves not only determining the general direction and scale of price changes, but also setting prices for individual products. Carrying out this work requires that the summary economic calculations for the industry as a whole be supplemented by the calculation of the cost of individual products.

Calculating the cost of an individual product has its own characteristics in comparison with the planning of the cost of all commercial products of an enterprise or industry as a whole.

In terms of an enterprise or industry, as mentioned above, the total amount of production costs is differentiated in accordance with the main factors of the labor process: tools of labor (depreciation), subject of labor (costs of raw materials, materials, fuel), labor itself (wages). The only complex cost item that is not decomposed into primary economic elements is other cash costs for paying for services related to production management.

The situation is different when it comes to determining the cost per unit of output. All costs of the enterprise in this case are distributed according to their economic purpose into two groups:

- 1) costs that are directly materialized in a particular product;
- 2) the costs associated with the provision of the entire production process as a whole.

This grouping of costs is determined by the very nature of the organization of the production process in modern industry, and it cannot be canceled by one or another system of calculation. Therefore, in the calculation of a unit of production, in contrast to the cost estimate of the entire enterprise or industry, complex cost items occupy a large place. At the same time, the amount of costs included in complex items can be determined for each individual product only in an indirect, conditional way.

Features of the economy of individual industries are reflected in the nomenclature of cost items used in calculating the cost of production.

So, the typical nomenclature of costing items in engineering industries is as follows:

1. Raw materials and basic materials.
2. Auxiliary materials used in the production of certain products.
3. Semi-finished products, components, and services of cooperative enterprises.
4. Waste (the cost of waste sold, deducted from the amount listed, is higher than material costs).
5. Fuel for technological purposes.
6. Energy for technological purposes.
7. Production wages (basic).
8. Salary is additional.
9. Social security contributions.

10. Expenses for maintenance and service of equipment and workplaces.
11. Shop expenses.
12. General production (general factory) expenses.
13. Expenses for the preparation and development of the production of new types of products.
14. Wear of tools, dies and devices for special purposes.
15. Special expenses.
16. Losses from marriage (in the accounting calculation).

All these cost elements result in the factory cost. Adding non-manufacturing costs to it, we get the total cost of production.

By the nature of reimbursement, the costs listed in the cost estimate can be combined into the following groups:

a) Costs that can not only be directly attributed to the cost of a certain type of product, but even to a given batch or unit of products. These include the costs provided for by the following costing items: raw materials and basic materials; auxiliary materials used in the production of certain products; semi-finished products, components and services of cooperative enterprises; waste; fuel for technological purposes; energy for technological purposes; basic production wage; special expenses, except for a part of the expenses for special tests carried out on a random basis; losses from defective products (in terms of internal defects).

b) Costs that can be directly attributed to the cost of a particular type of product, but not to the cost of a given batch or unit of product. These include the costs provided for by the following costing items: expenses for the preparation and development of new types of products; wear of tools, dies and special purpose devices; losses from defective products (in terms of external defects).

c) Costs that cannot be attributed to the cost of a certain type of product since they are related to the maintenance and management of the production process as a whole. These include the costs provided for by the following costing items: additional wages; social security contributions; expenses for the maintenance and service of equipment and workplaces, including the costs of auxiliary materials not related to the manufacture of certain products; shop expenses; overhead costs; non-manufacturing expenses.

Obviously, there are no ambiguities in the issue of the procedure for reimbursement of the first group of costs. The situation with the second group of costs is somewhat more complicated. Since these costs cannot be directly attributed to the cost of a given batch or unit of product, a certain procedure for distributing costs between individual products of this type of product must be provided. The establishment of this order is not connected with the solution of any complex methodological issues. The main requirement that should be presented to such a procedure regulated by the ministry is that it should ensure the uniform distribution of costs between products and exclude the possibility of artificial regulation by the enterprise of the level of cost by arbitrary repayment of costs over time.

As for the third group of costs, the question of the order of their distribution between individual types of products is one of the most difficult problems in calculating the cost of production. The starting point for solving this problem should be the economic purpose of the corresponding type of costs - the establishment of which side of the production or circulation process they are predominantly associated with. Taking into account this methodological premise, the complex costs listed by us in the third group can be distributed among individual products:

a) in proportion to the basic production wages (additional wages; social insurance contributions; workshop expenses; general production expenses), based on the fact that the decisive part of the costs included in these expenses is normalized in proportion to the



number of production workers or their wage fund (the number Engineering and junior staff, labor protection costs, etc.);

b) in proportion to the operating time of the equipment (expenses for the maintenance and service of equipment and workplaces);

c) in proportion to the volume of production at the factory cost (non-production costs).

Determining the level of production costs begins with the preparation of a reporting cost estimate for the product. However, the preparation of a cost estimate should be considered only as a means by which you can correctly determine the planned cost.

Reporting cost estimates for the same products produced at different enterprises help to identify advanced production conditions to which all enterprises in a given industry should be oriented.

In order for the reporting cost estimates of the same product manufactured at different enterprises, as well as planned and reporting cost estimates, to be comparable with each other and reliable conclusions can be drawn from their analysis, the following two conditions must be met:

1) full comparability of products;

2) full compliance with the applied calculation methodology.

An elementary precondition that must be observed in the analysis of cost estimates is to check the comparability of products according to the following criteria: OST or technical condition for which the product is produced, product configuration, grade.

Obviously, estimates for the same machine are made incomparable if in one case the cost of the product, for example, includes the cost of a motor, and in another case this cost is not included, or if in one case the calculation is based on an average grade, and in the other case - on the first grade. In all cases of revealing such incomparability of products, it is necessary to amend the calculations, bringing them into a comparable form. Incompatibility of cost estimates for the same

product can occur when using different methods of costing. For example, if at one enterprise the costs of semi-finished products of own production are distributed among the relevant costing items (raw materials, wages, workshop, and general factory expenses), and at another enterprise these costs are allocated as a complex item, then a comparison of individual costing items compiled at these two enterprises becomes practically impossible. Therefore, it is extremely important to ensure unity in the methodology for calculating the cost of production at all enterprises in this industry.

The wholesale price in industry is built on the basis of the industry's prime cost, which reflects the socially necessary conditions for the reproduction of goods in a given industry. Does this mean that the industry cost should be understood simply as the weighted average cost actually prevailing in the industry? Clearly, not. The wholesale price constructed in this way would lose its progressive significance, since it would be guided not by the technical progress in the given branch of industry, not by its future, but by what has already been achieved, by the past of this branch. That is why, in determining prices, it is necessary to proceed from an industry cost that is oriented towards progressive technology, progressive methods of production, which have already been mastered by advanced enterprises and can be extended to the overwhelming majority of enterprises in a given industry.

From this it follows that the determination of prices presupposes the identification of progressive trends in the economy and technology of each given branch of industry and orientation towards them, the identification of reserves for reducing the cost of production. The task of determining the industry cost as a basis for building prices requires a specific analysis of costs at enterprises producing this type of product. First of all, when calculating the wholesale price, it may turn out that the distribution of orders for the production of a given type of product is irrational, that enterprises that do not have the necessary technical equipment are involved in its production. Can increased costs in such enterprises participate in the formation of industry

costs? Obviously not since such costs cannot be recognized as essentially socially necessary.

Further, in the composition of enterprises that manufacture products, there may be those that have begun to master the production of products for the first time. The production costs of such enterprises will reflect the temporary circumstances of the period of development of products, namely: a) increased consumption of raw materials due to the still incomplete development of the technological process; b) deviations from the design standards of labor intensity, causing relatively high wage costs; c) large losses from marriage associated with the ongoing development of the technological process.

The increased costs of such enterprises do not characterize the really necessary level of costs. A wholesale price built on the basis of such a prime cost would not correctly reflect the conditions for the production of this type of product, would lead to unreasonably high profits and would become a brake on the path to improving production. Thus, when determining a constant price calculated for a number of years, the increased costs of enterprises mastering this type of product for the first time should not, in our opinion, be included in the industry cost.

We turn to the characteristics of the main articles of the calculation of the cost of production.

*"The cost of raw materials, basic materials, semi-finished products and components"* are determined mainly by the following factors: a) consumption rates, b) applied prices, c) the amount of transportation and procurement costs.

The composition of component parts is determined on the basis of the specification approved during the design of products and exactly corresponding to the complete set of finished products provided for in the standard.

The consumption of raw materials, basic materials and semi-finished products is determined on the basis of approved consumption rates.

The rate of consumption of raw materials, materials ultimately depends on two quantities: on the so-called finishing weight of products (the amount of raw materials, material in the finished product) and on losses during processing. It follows from this that the reserves for saving material costs consist, firstly, in reducing the "material consumption" of products by choosing the most economical designs in this respect and, secondly, in reducing the loss of raw materials during their processing. The experience of the leaders of the machine-building industry shows the variety of ways to solve these problems. Thus, the Ural Heavy Engineering Plant achieved a significant reduction in material costs in the production of rolling mills by choosing very economical blanks. The plant "Krasnoye Sormovo" chose as the main means of saving material costs in the production of ships the maximum unification of parts and assembly units, which made it possible to organize their large-scale production with minimal loss of metals during the processing of parts. The Kolomna Locomotive Plant has revealed great opportunities for saving material costs in the rational cutting of rolled ferrous metals.

Evidently, in drawing up expenditure standards, it is necessary to take into account everything new that is put forward by the creative initiative of workers at advanced enterprises in their struggle to save material costs. Consumption rates established for individual products must exactly correspond to the approved technological process. The practice that has been preserved in enterprises of certain industries of accounting for additional material costs for possible deviations from the technological process when compiling planned cost estimates for all products should be rejected as incorrect and harmful, since, firstly, it encourages the excessive consumption of raw materials and materials that is not caused by production technology, and, secondly, it legalizes violations of technological discipline.

Opportunities for savings in the cost of raw materials, materials, semi-finished products, and components due to the price factor lie primarily in the most rational choice in terms of the ratio of prices of consumed raw materials, materials, fuel. Each price list provides for

surcharges for the supply of products for special requirements of customers, causing deviations from the normal technical conditions of production. At the same time, the correlations between prices for various interchangeable groups of products are constructed in such a way that they, as a rule, encourage the use of mass types of products, the production of which is organized on a scale that fully meets the needs of the national economy, and limit the demand for scarce types of products.

A rational choice of raw materials and materials, providing the most economical conditions for the production of products, can thus become a significant factor in saving material costs and, on this basis, reducing the cost of production. This will be savings not only for individual enterprises using these types of raw materials and materials, but also real savings for the entire national economy, insofar as it reflects a more efficient use of material resources.

Among the factors of saving on material costs, one should also include an increase in revenue from the sale of waste. The cost of raw materials and materials in the calculation is determined minus the proceeds from the sale of waste. The task of the industry is not only to reduce waste from production to a minimum, but also to make the most economical use of the resulting waste. Therefore, when drawing up a planned cost estimate, it is important to determine the prices for the waste being sold, which would orient enterprises towards the collection and most rational use of waste. For those wastes for which price lists are approved, revenue is determined at the list prices established for waste sorted and brought into a "liquid" form. For the rest of the waste, the proceeds are determined at the prices of the possible sale.

Reducing the cost of raw materials and other material elements of circulating production assets can also be achieved through direct price reductions. Since the question of the impact on the cost of industrial production of mass price changes in the national economy will be considered separately in the future, in connection with the method of constructing a balance of values, here we will only touch

upon taking into account the so-called current price changes when calculating the cost of individual products. We are talking primarily about the costs of newly mastered types of raw materials, materials, components, for which prices are set for a certain period by agreement of the parties. Reducing temporary contract prices, reducing the costs of enterprises that consume newly mastered types of raw materials, materials, and components, at the same time actively affects the costs of enterprises, mastering the production of this product for the first time, encouraging them to reduce the time of development and the losses associated with it. Therefore, control over the prices of suppliers and taking into account the possibility of reducing them in the preparation of planned estimates are of great progressive importance.

According to their economic content, the procurement costs of industry can be divided into the following main groups of costs: 1) procurement costs proper, 2) transport costs, 3) storage costs. Procurement costs proper include the costs of purchasing by enterprises or special procurement (supply) organizations of raw materials, materials, semi-finished products, fuel, etc. These costs include expenses for the maintenance of the procurement (supply) apparatus, for document flow, and also for accounting for procurement operations. Transport costs include the costs of delivering raw materials, materials, etc. to the warehouses of industrial enterprises. Storage costs include all expenses for the formation and maintenance of inventories in the required size to ensure the uninterrupted operation of industrial enterprises.

An important reserve for savings in industry's expenditures for the procurement of raw materials, materials, fuel, and component parts is the reduction of superfluous links in the supply apparatus of industry. When calculating the amount of procurement costs in the planned cost estimate, one should proceed from transit importation as the main and predominant form of procurement by the enterprise of the raw materials, materials, fuel, and components it needs. The receipt of raw materials and materials through the marketing or

supply bases of industry should be taken into account only for procurements in sizes below the established transit norms, however, so that in these cases additional costs of only one link of the marketing or supply organization are reimbursed. Thus, planned costing should proceed from the rational promotion of goods, excluding the multi-link marketing and supply apparatus of industry.

Savings on transportation costs, which occupy a decisive place in all the procurement costs of industry, presuppose, first of all, a reduction in the distance of transportation of raw materials (materials, fuel, etc.) from the supplier to the consumer. Planned costing, since it is the basis for determining the wholesale price, cannot be guided by the actual conditions for the transportation of raw materials and materials, which, of course, reflect the existing shortcomings in the work of the supply and marketing apparatus of the industry, as well as in the organization of freight traffic by various modes of transport. The distance of transportation should be determined on the basis of rational transportation schemes approved for individual cargoes. The amount of transport costs, in addition to the distance of transportation, is determined by the choice of modes of transport. The ratio of transport tariffs, established as a result of the reform of wholesale prices and tariffs in 1949 and their subsequent reduction, provides a relatively lower level of costs for the transportation of goods by river transport in parallel with the railway directions. Thus, the freight rates, put into effect on January 1, 1949, provided for the following ratio of costs for the transportation of individual goods by rail and river transport:

cargo	The ratio of the river tariff to the railway tariff, taken as a unit
Ore	0.81
Coal	0.75

Forest (when transported by ships)	0.84
Mineral building materials	0.56

This means that, *ceteris paribus*, in the transportation of bulk cargoes, preference should be given to river transport.

At short distances, it is advisable both from the point of view of the rational use of the rolling stock of railways, and from the point of view of saving on consumer transport costs, the use of road transport for the transportation of goods.

Existing transport tariffs, in addition to the basic payment for a ton-kilometer of transported cargo, in some cases include increased prohibitive tariffs. The significance of these tariffs lies in the economic interest of shippers in reducing traffic in irrational directions, as well as in the most efficient use of various modes of transport. The payment of such a prohibitive tariff is equated to unproductive expenses. Therefore, when calculating the standard cost estimate, it should not include the payment of increased exceptional tariffs. It seems to us that these unproductive costs for the transportation of goods should not be attributed to the consignees at all, since they are the result of the incorrect organization of the transportation of goods by suppliers.

The calculation items *“Fuel for technological purposes”* and *“Energy for technological purposes”* include: the costs of all types of fuel and energy directly related to the production of certain products (for example, fuel for generating electricity, electricity consumed in electrochemical industries, etc.) .

The costs of fuel and electricity associated with the maintenance of the operation of equipment, as well as jobs, are included in the corresponding costing item. The main cost reduction factors for this cost item are the same as for raw materials.



The costs under the article "*Basic production wages*", directly attributable to a unit of production, are determined by: the amount of working time required for the production of this product; average tariff rate per hour of work; additional surcharges in excess of the basic wage at the tariff rate (in cases where these surcharges can be directly attributed to a specific product).

The amount of labor time required to produce a unit of a given product is not something invariable for all enterprises in a given industry. It directly reflects: the level of technical equipment of individual enterprises, the qualification composition of the workforce, the organization of the technological process, management and production services, the growth of the political consciousness and production activity of the working people, their attitude towards work and the development of socialist competition among them. All these factors of labor productivity in socialist industry are embodied in the norms for the expenditure of working time (the labor intensity of products). These norms of working time, on the basis of which wage costs are calculated in planned cost estimates, must be progressive norms, orientated on the experience of advanced enterprises, workshops, brigades, and thereby stimulate all enterprises in a given branch of industry to save costs in comparison with the level already achieved.

In a number of branches of industry, there is a practice of including in the general fund of working time, determined on the basis of a normal technological process, additional labor costs caused by supposedly inevitable deviations from technology and the standard quality of manufactured products. This practice cannot be recognized as correct since it weakens the significance of the planned cost in the struggle for the introduction of advanced technology into the national economy.

Therefore, when determining the cost of working time for the production of a unit of output, additional costs of working time caused by violations of technological discipline should be excluded.

Since the size of the tariff rate is related to the qualification level of the labor force employed in the production of the product, it is very important to check the need to involve the labor force of precisely this qualification in the production of this product. In individual plants of the machine-building industry, there are often facts of the use of highly skilled labor in the production of products that are relatively simple in design and manufacturing technology, which leads to an unreasonable overstatement of wage costs. Such excesses should be excluded when constructing a standard cost estimate.

The article "*Additional wages*" includes all types of additional payment for workers and employees for non-working at work (non-attendance) time: vacation pay, compensation for unused vacation, payment for breaks in the work of nursing mothers, payment for time associated with the performance of public duties. This article also includes all types of bonuses and wage surcharges that cannot be directly attributed to a particular product. These costs are distributed among the products in proportion to the basic production wage.

The cost item "*Deductions for social insurance*" includes contributions to social insurance bodies. These deductions are determined as a percentage of the sums of the basic and additional wages of production workers and are distributed among products in proportion to the costs of the main production wage.

*Expenses for the maintenance and service of equipment and workplaces* include the costs associated with the normal functioning of the production assets of the enterprise. These costs include:

- 1) wages and accruals on wages of workers engaged in the maintenance of equipment;
- 2) the cost of materials used to maintain production equipment (lubricants, cleaning materials, refractory materials, fasteners, and small spare parts, etc.);
- 3) expenses for the current repair of production equipment;
- 4) depreciation of production equipment and vehicles;

- 5) wear and tear of low-value and wear-out tools and inventory;
- 6) power energy and water for production needs.

The purpose of all these costs is to ensure the smooth operation of the enterprise. Savings on these costs are achieved mainly as a result of the fact that the growth of production outpaces the growth of equipment maintenance costs, which leads to a systematic decrease in unit costs.

Unlike the costs of materials and basic production wages, the costs associated with the operation of equipment cannot be directly charged to manufactured products. They can only be distributed indirectly. The criterion for distributing the costs associated with the operation of equipment between individual products can be the time the equipment is used in the production of a particular type of product and the costs of maintaining and servicing the equipment per unit of time determined by the normative way.

*Workshop and general production costs* include the costs of managing the workshop, enterprise and servicing their activities as a whole.

*Workshop expenses* include :

- 1) wages and administrative expenses of general shop personnel (engineering and technical workers, employees, junior service personnel, auxiliary workers);
- 2) depreciation, current repairs, and maintenance of fixed assets of workshops;
- 3) depreciation of low-value and fast-wearing household equipment;
- 4) fuel, energy and water for heating, lighting, and other household needs;
- 5) expenses for the maintenance of workshop laboratories;
- 6) expenses for labor protection, overalls, and special food;
- 7) shop expenses for rationalization and invention;

8) miscellaneous monetary expenses.

For *general production (general factory) expenses* are:

- 1) wages and administrative expenses of the plant management apparatus;
- 2) depreciation, maintenance, and current repair of plant fixed assets;
- 3) maintenance of factory warehouses;
- 4) labor protection costs of general plant significance;
- 5) expenses for the recruitment and training of labor, attributable to the cost;
- 6) expenses of the enterprise as a whole for rationalization, invention, and scientific research;
- 7) maintenance of design bureaus;
- 8) interest on a loan;
- 9) miscellaneous monetary expenses.

A decisive part of the administrative and management expenses of enterprises is concentrated in shop and general production costs. Every possible saving on these expenditures is of great progressive importance for the national economy, because, in addition to saving considerable money, it leads to streamlining the administrative apparatus of enterprises and to the elimination of all sorts of excesses.

The main factors for saving on workshop and general production costs are the following:

1. An increase in the volume of production that is not associated (up to certain limits) with a corresponding increase in workshop and general production costs. For example, the size of wages and administrative expenses of the plant management apparatus and workshops, depreciation, repair, and maintenance of fixed assets may remain the same or change slightly with an increase in the scale of

production. In this sense, it is customary to attribute workshop and general production costs to disproportionate costs, i.e. to costs that do not increase in direct proportion to the increase in output.

2. The streamlining of the administrative apparatus and its reduction in cost - this is the second source of reducing shop and general production costs. In this regard, it is of great importance to eliminate excesses in the administrative apparatus, in particular, excessive fragmentation of production sites and workshops, which leads to an increase in costs and complicates the management of production.

3. Elimination of unproductive expenses, in particular fines for non-fulfillment of obligations under contracts with suppliers and customers, increased costs for the use of borrowed funds as a result of non-fulfillment of obligations to the State Bank, fines for demurrage of wagons and ships, losses as a result of shortages and damage to products, materials and etc.

*Expenses related to the preparation and development of new types of products* include costs associated with the design and construction of a new product, the development of a technological process for its manufacture, the design and construction of tooling, the development and documentation of consumption standards, redevelopment, rearrangement and adjustment of equipment, testing of materials, semi-finished products, tools and fixtures for the production of a new product, as well as with the manufacture of a prototype of a new product.

Repayment of these expenses is made, as mentioned above, within a period of up to 2 years from the date of transition to serial or mass production of new products by evenly allocating the appropriate amount to each manufactured product.

When determining the costs for the preparation and development of new types of products attributable to a unit of product, the possibility of significant savings on this cost item due to the rational use of existing experience in the development of the same or similar products at other enterprises should be taken into account. Since the

costs of preparing and mastering the production of new types of products, attributable to a unit of product, are inversely proportional to the total number of products to be manufactured during the period of reimbursement of these costs, it is extremely important to correctly determine the volume of products manufactured throughout this period. This is especially important when calculating the cost of products undergoing rapid modernization.

The article "*Wear and tear of tools, dies, models and devices for special purposes*" reflects the repayment of the cost of tools specially designed for use in the production of certain types of products. The repayment of the cost of wear and tear of tools, dies, models and devices for special purposes is usually carried out according to a special estimate, taking into account the cost of a set of tools and their service life.

Opportunities for savings under this cost item are, firstly, in reducing the cost of manufacturing tools, dies, models and fixtures; secondly, in improving their quality and, in connection with this, in increasing their service life; thirdly, in the use of the remnants of tooling, previously intended for the manufacture of products that are currently out of production.

The article "*Special expenses*" in serial and mass production shows the costs associated with the manufacture of products for a separate order (the cost of documentary preparation, the cost of models, dies and fixtures, the cost of installation and testing). At the same time, this costing item includes the costs of special tests of serial and mass-produced products.

Since the costs of special tests have a rather significant share in the cost of individual products, it is necessary to ensure strict rationing of these costs in agreement with the apparatus of customers in charge of receiving and controlling the quality of finished products. Tests introduced by suppliers in excess of the established standards should be excluded from the planned cost estimate due to the unsatisfactory state of inter-operational in-house quality control.

Non -*manufacturing* expenses include the costs of the enterprise for the sale of products. The value of these costs is directly related to the terms of delivery of products. These costs are least of all in industries that sell their products at the place of their production (for example, at brick factories that sell products ex-warehouse of the factory). These costs are highest for enterprises that are obliged to deliver their products to the location of the consumer. The main sources of savings on non-production costs are:

a) reducing the cost of transporting products through a more rational promotion of it from suppliers to consumers;

b) saving on the cost of loading and unloading products through the mechanization of loading and unloading operations;

c) savings on the cost of road and horse-drawn transport due to the elimination of downtime and a more complete use of vehicles;

d) reducing storage costs by timely shipment of manufactured products.

### **Planning the Level of Wholesale prices and Value Ratio**

From what has been said above about the structure of wholesale prices for means of production, it follows that they are ultimately determined by cost and profit. Therefore, for the transition from cost to wholesale price, it is necessary to take into account the formation of profit.

Unlike consumer goods, the means of production, in their overwhelming mass, are consumed within the state economy. Here there is no place for commodity exchange, the means of production are not alienated, the right of ownership to them is not ceded. The wholesale prices of the means of production are therefore not required to compensate for the full cost to society of their production. The amount of money savings realized at wholesale prices for the means of production is limited to the minimum profit necessary to ensure the normal operation of the industry under economic accounting conditions.

Above, in the second chapter of this work, we pointed out the conditions that determine the amount of profit in individual branches of industry. At the same time, it was noted that for the normal development of the industry in terms of economic accounting, it is enough that own sources of accumulation provide the possibility of increasing own working capital at existing enterprises, a certain share participation in the financing of capital works and the formation of working capital at new enterprises put into operation. Calculations made in relation to the conditions of 1950 show that even with a profitability of 1.5 to 3%, the entire increase in own working capital of the main industries (including the formation of working capital at new enterprises) is provided at the expense of own savings.

Does this mean, however, that after the percentage of profit, which can be considered normal on average for a given branch of industry, has been calculated, all further work on the construction of wholesale prices will be reduced to mechanically adding this profit to the previously established cost of production? Such a representation would be extremely simplified. In fact, the construction of wholesale prices is a much more complicated matter. The prices of individual types of products do not represent something isolated from each other. Taken together, they constitute a single system of prices, reflecting in monetary form all the interactions and ties that exist between the branches of the national economy in the process of expanded socialist reproduction. That is why it is impossible to solve correctly the question of the price of an individual product without the connection of this individual price with the whole system of prices.

First of all, in the process of expanded reproduction, individual branches of industry can act as successive phases of a single production process, for example: ore mining, iron smelting, steel smelting, rolled products production, hardware production. Prices for products produced in each of these industries should provide cost recovery and a minimum profit. This means that the price of pig iron must be in a certain ratio with the price of steel, the price of steel - with



the price of rolled products, the price of rolled products - with the price of hardware. Ignoring these links, which really exist in metallurgical production, and the mechanical construction of prices for individual types of products in relation to their prevailing cost, without taking into account the current prices for other types of products, could lead to a deliberate distortion of prices. It might, for example, be that the price of commercial iron will be equal to the price of steel ingots, the price of steel ingots will be equal to the price of rails. The prices of mineral fertilizers must be in a certain ratio with the prices of agricultural products: the increase in income from the application of fertilizers must exceed the costs for these purposes, etc.

When determining wholesale prices, it is necessary, however, to take into account ratios of more complex orders. We are talking about the value relationships between different types of products that can be replaced by each other in the process of consumption. The possibility of choosing, within certain limits, one or another type of product, which arises in this case for the consumer, makes the task of actively using prices in the interests of pursuing the economic policy of the Soviet state extremely urgent.

Let us consider specifically in what forms wholesale prices can be used in the interests of stimulating the rational use of material resources.

1. *The ratio of prices for non-ferrous metals and ferrous metals replacing them.* When setting prices for non-ferrous metals, the need to stimulate their replacement with ferrous metals or alloys with a lower content of scarce non-ferrous metals is taken into account. To this end, a higher level of profitability for non-ferrous metals is deliberately provided for than for ferrous metals.

2. *The ratio of prices for interchangeable types of ferrous metals.* For the same production or construction purposes, different grades of ferrous metals can be used. For example, in the production of metal structures, ordinary rolled products and low-alloy steels can be used, in the production of ball bearings, sheet steel and pipes, etc. can be

used. wholesale prices to pursue a certain economic line, designed to encourage the consumption of certain types and grades of ferrous metals and to limit others. For example, prices for low-alloy steels are set higher than those for ordinary steels, but at a level that encourages the introduction of low-alloy steels, which are characterized by increased strength, into the national economy.

3. *The ratio of prices for long-distance and local types of fuel.* Reducing the distance of transportation of coal fuel is a matter of great national economic importance, since when transporting fuel over long distances, a significant part of it is burned in the furnaces of locomotives. Hence the need to stimulate the consumption of local fuel in every possible way. A serious obstacle to solving this problem is the relatively high cost of local coals (in terms of conventional fuel) due to their high ash content. Therefore, in a number of cases, it is necessary to set wholesale prices for local coals below their cost, compensating for the resulting losses of the coal industry at the expense of higher prices for distantly imported coals. The establishment of reduced tariffs for the transportation of local fuel in the zone of its rational consumption serves the same purpose.

4. *The ratio of prices for solid, liquid, and gaseous fuels.* Determination of prices for solid and liquid fuels at the level of their cost, without taking into account the value relationships between different types of fuel, would encourage the consumption of high-quality oil fuel, the production of which is relatively cheaper than coal. Since this would be contrary to the national interests, requiring every possible saving of oil fuel, when determining the wholesale prices for oil products, they included a turnover tax, which led to a higher level of prices for oil and products of its processing in comparison with other types of fuel.

In turn, in order to rationally use the resources of high-calorific natural gas, gas prices are set in relation to prices for liquid fuel.

5. *The ratio of prices for distant and local types of forest products.* In contrast to coal fuel, the rational use of wood resources implies the

fullest encouragement of timber harvesting in relatively remote forest-abundant areas while simultaneously limiting local timber harvesting in forest-consuming areas. The solution of this problem requires that the cost of wood harvested in forest surplus areas, including the cost of transporting it to forest consuming areas, should not exceed the prices of locally harvested wood at the place of consumption. The surplus of the price of local timber in comparison with its prime cost plus the normal profit goes to the state budget in the form of stomp fees and partly in the form of deductions from profits.

6. *The ratio of prices for various types of building materials.* One of the important issues to be solved in the construction of wholesale prices is the establishment of the correct ratio between different types of building materials: brick and wood, roofing iron and tiles, concrete, and iron structures. Mechanical alignment to the cost of each individual type of building materials without taking into account the value relationships between them can lead to the fact that prices come into conflict with the interests of the rational consumption of material resources. For example, it may be more advantageous to use iron structures where reinforced concrete is appropriate, roofing iron instead of tiles, commercial timber instead of brick, etc.

7. *The ratio of prices for raw materials and production waste.* In a number of industries, along with high-quality raw materials, production waste and scrap are used. So, in the production of steel, full-fledged pig iron and pig-iron scrap go into the charge. Naturally, there should be a certain ratio between the prices for high-quality raw materials and the prices for production waste and scrap, which would ensure the most rational use of raw materials. Prices for production wastes from enterprises of the union and union-republic industry, transferred for industrial use to enterprises of local industry, are determined within the limits of up to 70% of the cost of high-grade raw materials.

8. *The ratio of prices for various types of machines and mechanisms.* A certain ratio is also necessary between the prices of various types of

machines and mechanisms. For example, there are trucks with a carrying capacity of 1.5; 3; 5; 7 t. What should be the ratio of prices between these vehicles of different carrying capacity? If the prices of motor vehicles increase in direct proportion to their carrying capacity, then for many consumers it will be profitable to purchase low-power vehicles, since the use of heavy-duty vehicles requires the creation of a wide front of work, which is not possible in all cases; besides, it will require a large initial investment. Such a construction of prices will also be incorrect from the point of view of the economics of production: the production costs of motor vehicles do not increase in direct proportion to an increase in their carrying capacity. Therefore, the prices of motor vehicles should be determined in such a way that the price of motor vehicles in terms of a ton of carrying capacity consistently decreases as the carrying capacity increases.

It is very important to correctly determine the prices for new machines being mastered for the first time. Often there is such a practice when ministries set temporary prices for new machines based on the cost of the first period of their development, not taking into account the ratio of these prices to the prices of similar old machines. As a result, the cost of purchasing new types of machines to customers increases to a greater extent than the savings from replacing previously used types of machines. Such a narrowly commercial approach to determining prices for new machines makes it difficult to introduce new machines into the national economy and, by artificially limiting the scale of production of these machines, hinders the reduction in the cost of their manufacture. Prices for new machines must be fixed with the obligatory consideration of the interests of stimulating their rapid introduction into the national economy.

9. *The ratio of prices for new machines and repairs of the existing fleet of machines.* Prices for the repair of the existing fleet of machines and spare parts for them should be set in strict proportion to existing prices for new machines. Only under this condition can it be possible to provide incentives for saving and repairing the existing fleet of

vehicles. In the practice of pricing, a ratio has been established between the price of a new machine and the price of a set of spare parts and assemblies for it, as 1:1. This ratio means that the price of a set of parts that make up the finished machine should not exceed the price of the finished machine. Under this condition, it becomes profitable for the enterprise to replace parts and repair the machine until it is completely worn out.

So far we have been talking about taking into account, when setting wholesale prices, the correct ratios of these prices for various types of industrial products. We now intend to dwell on the other side of the pricing problem, on the use of prices in the interests of strengthening incentives for growth in production and improving product quality:

A properly constructed pricing system should provide:

- 1) the unity of prices for identical products, since only in this case the price can fulfill its function of a single measure of production costs and the volume of products created;
- 2) break-even and profitable operation of the bulk of enterprises in each branch of industry as the most important condition for economic accounting;
- 3) planning the profitability of various types of products produced by enterprises in a given industry, taking into account the interests of improving the range and quality of products.

Here we meet with one of the most difficult problems of pricing: how to ensure, in the conditions of existing differences in the level of production costs between enterprises, the unity of wholesale prices for identical products and at the same time the profitable operation of enterprises in each given industry?

First of all, it is necessary to establish what is to be understood by unity of prices. Does this principle of unity of prices mean the obligatory setting of equal prices in all cases for all regions of the Soviet Union, without taking into account the peculiarities in the economy of production and the sale of products? Does this mean, for

example, that the price of timber should be the same, for example, in the Donbass, where there are no timber harvesting, and in the Karelian-Finnish SSR, which is one of the main logging regions?

Such a "unity" of prices would mean that prices were divorced from the costs of production. With such a construction of prices, for example, it would be equally expedient to locate woodworking enterprises at timber harvesting points and in treeless areas. It is obvious that the unity of prices does not at all preclude, and even presupposes, the establishment of differentiated belt prices for products in those cases where the conditions for its production and transportation in different economic regions differ significantly from each other.

The establishment of zone prices solves the problem of unity of wholesale prices for all enterprises located in a given point of production, and at the same time makes it possible to take into account regional (zone) differences in the level of production costs. However, the differences between enterprises in the level of the cost of the same product cannot be reduced only to belt differences. In some cases, enterprises located in the same economic region have different cost of the same product. The reasons causing such significant differences in the cost of the same product at different enterprises can be reduced to the following:

- 1) the influence of natural and transport factors, the location of enterprises in relation to sources of raw materials and fuel, as well as areas of consumption; the capacity of the raw materials and fuel and energy base and the associated scale of production; the quality of raw materials and fuel, which creates a kind of "monopoly" conditions for individual enterprises for higher labor productivity and lower production costs;
- 2) differences between enterprises in the level of their technical equipment;
- 3) differences between enterprises in the degree (stage) of mastering new types of products;

- 4) differences in the cost of raw materials;
- 5) shortcomings in planning and organization of production:
  - a) shortcomings in planning the production program of enterprises, which boil down to the fact that ministries in some cases place orders between enterprises without due regard for their specialization and technical training;
  - 6) shortcomings in the organization of inter-factory cooperation of allied enterprises;
  - c) shortcomings in management at a particular enterprise, leading to the fact that often enterprises located nearby and in approximately equal conditions still have different costs per unit of the same product.

The question arises: how can these differences in the cost of production at individual enterprises be taken into account in the practice of pricing, or, in other words, how can sharp fluctuations in the levels of profitability by enterprises and product groups within each given branch of industry be eliminated with the unity of prices for identical products?

First of all, since wholesale prices act as a criterion for the socially necessary costs of producing goods, these prices cannot take into account the increased costs associated with the shortcomings of management at individual enterprises. These increased costs cannot participate in the formation of the industry's planned cost, on the basis of which wholesale prices are determined. Enterprises that allow such excessive expenses, leading to losses for a socialist society, naturally must suffer losses.

Wholesale prices also cannot be guided by the increased costs incurred by individual enterprises as a result of insufficiently rational planning of their production program, placing orders between enterprises by ministries without due regard for their specialization.

Similarly, apparently, the question of taking into account the increased costs of individual enterprises associated with the wrong organization - in certain cases - inter-factory cooperation, leading to

an unreasonable rise in the cost of semi-finished products and components for enterprises that produce final products, should be resolved. These increased costs should not be reflected in wholesale prices.

Thus, we come to the conclusion that when determining wholesale prices, differences in the cost of production caused by shortcomings in planning and organization of production cannot be taken into account. Otherwise, however, the issue of taking into account in pricing such factors as the influence of natural and transport conditions, differences in the level of technical equipment of enterprises, in the degree of development of new types of products, in the prices of raw materials should be decided. These factors do not directly depend on the enterprise or branch of industry and therefore cannot be ignored in setting prices without a significant violation of the interests of economic accounting.

In those cases where the deviations of the cost of production at individual enterprises from the level of the industry's cost are relatively small, the break-even and profitability of the main part of the enterprises can be ensured by some increase in the average level of profitability of the entire industry. For example, during the development of draft wholesale prices and tariffs, which were put into effect on January 1, 1949, it turned out that with an increase in profit from 5 to 8%, it was possible to ensure the profitability of all electric power systems.

With more significant deviations of the cost of production at individual enterprises from the level of the industry cost, in some cases it becomes necessary to take measures aimed at:

- a) to the equation of production costs for various enterprises for which uniform prices apply;
- b) to the redistribution of savings within the industry.



Thus, differences in the cost of production, caused by unequal costs for raw materials generated by different enterprises, can occur in cases where:

- a) the distance of transportation of raw materials, and thus the amount of transportation costs are not the same at different enterprises;
- b) there is a different procedure for calculating the cost of raw materials, depending on whether it is obtained from outside or manufactured at a given enterprise.

In the direction of the equation of transport costs for all enterprises located in the same point of production, there is a system of wholesale prices ex-carriage station of destination. The application of this price system in industries characterized by a high proportion of transportation costs in the cost of production can eliminate sharp gaps between the levels of profitability at various enterprises.

As for the differences in the cost of production arising from different valuation of materials and semi-finished products of own production and those received from outside, this issue can be resolved by moving to the valuation of materials and semi-finished products, regardless of the sources of their receipt, at uniform wholesale prices.

It must be said that in a number of industries there are still shortcomings in the calculation of the cost of production.

Thus, for example, the costs of ferrous metals at machine-building enterprises that do not have metallurgical shops are determined at uniform wholesale prices. At plants that have their own metallurgical base, these same metals are included in the cost estimates at the factory cost. Since the scale and degree of specialization in the production of ferrous metals in the metallurgical shops of machine-building plants differ significantly from the scale and degree of specialization in the plants of ferrous metallurgy, the cost of production of these shops, as a rule, exceeds the wholesale prices provided for by the unified price list for ferrous metals.

As a result, the cost of machine-building products of factories that have their own metallurgical base is significantly overestimated at this expense. This circumstance puts them in an unequal position with other machine-building enterprises, distorts the financial results of their economic activity and weakens incentives for the development of "small metallurgy".

At the present time, apparently, the time has come to introduce in industry a unified practice of calculating the costs of the main types of raw materials and semi-finished products, for which there are uniform wholesale foams approved by the government of the USSR. These types of raw materials and semi-finished products must be calculated by all enterprises at uniform state prices.

In the fields of mechanical engineering, when determining prices, it turns out to be necessary to take into account differences in the cost of identical products at individual enterprises associated with the development of new types of products. Usually, in these branches of industry, the development of a new type of product begins at one or two plants (the so-called head plants), and only after complete design and technological development of the product is it transferred for manufacture to backup plants. Since the costs of setting up new production facilities, as well as the cost of wear and tear of special devices and tools, are distributed evenly among products manufactured over a certain period, the cost of production of individual enterprises depends significantly on the stage at which a particular enterprise is in mastering a new product and in What is the scale of serial production of products.

The parent plant, which has been mass-producing a product for more than two years, will no longer have in its accounting costing the costs of setting up new production facilities, while the costs of special devices and tools will amount to a relatively small amount per unit of production, since the initial costs for these purposes already reimbursed, and the current costs for the renewal of special equipment are distributed among a large number of manufactured products. It is a different matter when it comes to an understudy plant

that has just started producing new products. Here, the increased costs associated with the development of new products are distributed among a small number of manufactured products, which leads to a sharp increase in the unit cost of the product.

Such differences in the cost of production of individual enterprises are inevitable, since they are determined by the current level of technological development, in particular, the existing conditions for the development of new types of products. As objectively unavoidable costs of social production, they must be compensated. The practice of pricing has put forward the following two forms of compensation for the differentiated costs of enterprises in the development of new types of products.

First, in some limited cases, it is planned to establish temporarily (for the period of development) increased prices for certain groups of enterprises that are starting to produce new products for the first time. These exceptions are allowed in cases where:

- a) we are talking about final products that are not sent for further processing or completing products;
- b) the products are delivered to the same customer;
- c) payment for products is made centrally at the expense of the state budget. This practice is used in some branches of engineering, where for the first time mastering a particular type of product, a temporary premium is set to wholesale prices.

The second way is that when uniform prices are established for identical products, reimbursement is provided in a centralized manner for the costs of enterprises associated with the development of new types of products. So, in 1945, a procedure was established that provided that when organizing the production of a product previously mastered at another enterprise at a new plant, the wholesale price set for the enterprise that initially mastered the production of this product applies to this new plant. At the same time, the difference between the planned cost of the product at the new

enterprise plus 3% profitability and the single wholesale price was to be reimbursed in the form of targeted financing from the state budget. This order proceeded from the existence of a system of state subsidies for heavy industry and therefore does not correspond to the new conditions for the work of industry.

After what has been said, it remains for us to consider the question of the influence on the level of profitability of the products of individual enterprises of differences in their technical equipment, as well as in the natural and transport conditions of production. This issue is of particular importance for modern pricing practices. And the fact that it is considered by us last in a row is explained solely by methodological considerations.

It is necessary to make the reservation from the outset that when we speak of taking into account differences in the technical level of individual groups of enterprises in pricing, we do not at all mean compensating for the excessively high costs of enterprises that are obviously lagging behind in their technical development from the normal conditions of production for a given industry. Such costs cannot be compensated by wholesale prices, which are guided by the socially necessary conditions of production. We are talking about such cases when, in individual branches of industry, at uniform wholesale prices determined on the basis of the average cost of production for a given branch, even enterprises that are quite modern in technical terms fall into the number of unprofitable enterprises. Such a situation exists, for example, in ferrous metallurgy, where the level of the average cost of the main types of products is decisively influenced by several enterprises that are unique in terms of the scale of output and the technical level of production (Kuznetsk Iron and Steel Works, Magnitogorsk Iron and Steel Works, etc.). The exceptionally large scale of production and the reduced cost of raw materials or fuel, to a certain extent associated with natural factors (large reserves of high-value raw materials and fuel), provide a particularly low level of production costs at these enterprises, which leads to a decrease in the industry production cost below the level at

which are the costs of other enterprises, also technically advanced, but operating in conditions that are less favorable in terms of the scale of production.

In conditions when for some enterprises, due to the direct or indirect influence of especially favorable natural and transport factors, a sharply reduced level of production costs is created, two possible methods for constructing prices arise.

1. The wholesale price is determined on the basis of the industry cost, in the formation of which enterprises with exceptionally favorable production conditions do not participate. Consequently, the sectoral cost in this case expresses not average, but worse than average conditions of production. The sectoral cost, on the basis of which a single price is formed, exceeds the actual costs of producing these products. Here lies the material basis for the extraction by enterprises operating in more favorable conditions of additional (differential) profit. This differential profit is directed to the state budget in a peculiar form of rent payments.

This method of constructing prices is accepted in the logging industry. The peculiarity of this industry lies, in particular, in the fact that timber harvesting is carried out by logging organizations subordinate to various ministries, central and local institutions. There is also no single centralized sales organization. Because of this, there is no possibility of reimbursement of the costs of all logging organizations through a centralized redistribution of accumulation.

Since 1949, the logging industry has introduced a system of collecting daily wages for timber, differentiated taking into account differences in the natural and transport conditions of loggers. This foam board is one of the elements that form the wholesale price of timber.

The stubble fee paid by loggers is differentiated by forest exploitation zones and wood species, as well as taking into account the distance.

It should be noted that this method of constructing prices was not widespread in the mining industry of the USSR. This is explained by

the interests of lowering prices for the products of the extractive branches of heavy industry, which supply the main types of industrial raw materials. The presence in most extractive industries of the heavy industry of the possibility of centralized redistribution of savings (concentration of management of the overwhelming number of enterprises in the industry in one ministry; the sale of all products of the industry through a single centralized market) creates conditions that make it possible to ensure the reimbursement of the costs of enterprises in the extractive industry without resorting to an increase in the price level.

2. The wholesale price is determined on the basis of the average industry cost of production of all enterprises in a given industry. In this case, even enterprises that have reached the level of the sectoral cost of production, formed without the participation of enterprises with especially favorable production conditions, become unprofitable. Here it is expedient to use the method of so-called settlement prices in the interests of redistributing accumulations within the respective branches of industry. The essence of this method lies in the fact that, along with the uniform wholesale prices of the industry, at which products are sold to consumers, special differentiated prices are set for settlements between branch sales and individual groups of enterprises. In this regard, the construction of prices in the oil industry can be recognized as typical. In this branch of industry, within the limits of average prices for associations, differentiated prices for trusts have been established. Glavneftesbyt sells products to consumers at half-length wholesale prices ex-works at the destination station, and settles accounts with oil industry enterprises at trust prices. This ensures profitability for each trust. The use of settlement prices cannot be recommended as a universal measure due to the following considerations.

In contrast to uniform (including zone) wholesale prices, built on the basis of the sectoral cost of production within the entire industry or a given economic region and therefore being uniform for all suppliers and consumers within these limits, settlement prices are based on the

unit cost of individual enterprises. and therefore may be different for different suppliers in the same production area. This characteristic remains in force even if, by grouping enterprises with approximately the same level of production costs, group settlement prices are established.

The introduction of settlement prices, therefore, means that along with a single social measure, which finds its expression in the state wholesale prices of industry, a single, individual measure appears. At the same time, the results of the enterprise's work are measured not by a single social measure, but by a single measure. This may lead to a weakening of the planning and regulatory role of the wholesale price.

It follows that the use of settlement prices can be considered justified only in cases where the existing gaps between the levels of profitability of the production of the same product at different enterprises cannot be eliminated by equalizing production costs, as well as by certain measures to streamline existing wholesale prices. industry. Such a situation may exist, in particular, in the extractive industries, where the cost level is significantly determined by the influence of natural factors. At the same time, the base of the applied settlement prices should be the current wholesale prices of enterprises. It means that:

- a) the application of the so-called settlement prices is conceived in the form of surcharges or discounts to the current wholesale prices of enterprises;
- b) these allowances (discounts) should be fairly stable and change, as a rule, with a change in the base on which they are built, i.e. wholesale prices of enterprises;
- c) allowances (discounts) are applied to a whole group of enterprises that are close in terms of the planned cost;
- d) the use of allowances (discounts) should not lead to a distortion of the value ratios provided for by the current wholesale prices.

The use of wholesale prices in the interests of stimulating the growth of production and improving the quality of products presupposes such a construction of prices in which each enterprise in the corresponding branch of industry would be equally interested in fulfilling the plan for the entire range of products. This means the need to avoid sharp gaps in the level of profitability

Between different groups of products, the release of which is provided for by the plan. At the same time, it is expedient to stimulate, by a slightly increased profitability, scarce types of products that are labor-intensive or require significant initial costs for their production. It is also expedient, in necessary cases, to establish reduced profitability or even unprofitable prices for products that, due to their outdated design and their uneconomical manufacture and operation, must be discontinued and replaced by other, more advanced types of products.

When setting price by type for one and the same type of product, encouragement - a higher profit margin - for the production of products of higher quality and limitation of the production of products of lower grade should be ensured.

### **Linking Prices of Different Industries, Balancing of Price Changes**

Until now, speaking of the cost of production as the basis for planning wholesale prices, we have limited ourselves to considering only those factors that determine the cost of production, which directly depend on the quality of work in a given industry. Now we must additionally include another factor that significantly affects the level of wholesale prices - this is the mutual influence on the cost of production in the national economy of changes in prices for means of production.

There is an inextricable link between the branches of the national economy, some branches of the national economy consume the products of other branches. Therefore, a change in the prices of the means of production produced by some industries causes a change in the costs of production in other industries. This circumstance is an



important additional factor in reducing the cost of production, and consequently, wholesale prices. The importance of this factor can be judged from the fact that with the decline in wholesale prices for heavy industry products from January 1, 1950, for every 100 rubles in the reduction in wholesale prices due to the reduction in each industry's own production costs, there were approximately 115 rubles. additional reduction due to the impact of cheaper products of one industry on the cost of other industries that consume these products.

The effect of mutual price reductions is the greater, the more significant the reduction in wholesale prices in raw materials and fuel and energy industries, the cost of production of which is repeatedly reimbursed in the costs of most sectors of the national economy. Because of this, one of the important points in determining the size of the reduction in wholesale prices is to take into account the effects of these mutual reductions in prices. Any change in wholesale prices in the national economy is reflected in the financial position of its individual branches and in their settlements with the state budget. For example, if the wholesale prices of any industry are reduced, then this means: a) a decrease in revenue in this industry; b) a simultaneous reduction in costs and an increase in profits in other industries that consume products for which there was a decrease in prices. At the same time, the relationship between individual sectors of the economy and the budget is changing in terms of deductions from profits and an increase in working capital. At the same time, since changes in wholesale prices do not affect retail prices, revenues, and expenditures of the state budget as a whole do not undergo changes. Only the distribution of the accumulation fund between branches of the economy changes.

In order to take into account the impact of changes in wholesale prices on individual sectors of the national economy and their relationship with the state budget, a staggered balance of price changes is built with any significant price change. It includes: 1) the balance of changes in revenue and costs of the national economy; 2) the balance

of changes in the relationship between the state budget and the economy.

The balance of revenues and expenditures of the national economy reflects: the change in revenue due to changes in the prices of products of individual industries, the distribution of this change among consumers. So, in the case of a decrease in wholesale prices, this balance will take the following form:

Industries where wholesale prices have been reduced	Amount of wholesale price reduction	Distribution of price reductions from price cuts by consumers				

As can be seen from the diagram above, accounting for the mutual effects of price changes includes:

- a) determination of the amount of price changes (change in revenue) for individual industries;
- b) the distribution of the sum of price changes among individual consumers.

The difficulty in carrying out such calculations lies in the fact that they cannot be performed in the form of a single act, but require a series of successive calculations, since a change in prices in one industry causes a corresponding change in prices in other related industries, which in turn affects the first industry. For example, a decrease in wholesale prices for coal makes it possible to reduce the cost of electricity tariffs at this expense, but a decrease in electricity tariffs causes an additional reduction in coal prices; an additional reduction in coal prices, in turn, leads to an additional reduction in electricity tariffs.

In view of such a complex interaction of individual industries with each other, a certain sequence is necessary in carrying out calculations of a possible change in prices (taking into account mutual reductions in prices). Practice suggests the following sequence.

First, the scale of possible changes in prices for the products of individual industries should be determined without taking into account the effect of mutual price cuts. Further, by means of a number of approaching options, the scale of changes in prices for products of raw materials and fuel and energy industries (wood, fuel, electricity, metals, paper, chemicals, rubber, building materials) is determined, taking into account the impact of mutual cheaper products of these industries. After that, the sizes of price changes for products of related and component industries serving the engineering and metalworking industries (ball bearings, electric lighting fixtures, motors, diesel engines, chassis, etc.) are projected in the same way. Finally, taking into account the impact of cheaper raw materials and component products, prices are determined for products of machine-building and other manufacturing industries.

In order to accurately and reliably take into account the impact of mutual price reductions, special attention must be paid to the exact distribution of the amount of price reductions for one or another type of product among different consumers. Here it is important not only to ensure that the overall amount of the decrease in revenue for suppliers coincides with the amount of reductions in prices for consumers. This is an elementary requirement, non-observance of which can lead to losses for the state budget. It is also required that the amount of discounts be accurately distributed among consumers. If this is not ensured, then significant violations of the established economic and financial plans are inevitable: some industries will exceed the plan in terms of cost and profits, while others will not fulfill these plans for reasons beyond their control. But the matter is not limited to this.

The current practice in the field of price development shows that most often errors here stem from the fact that when calculating the size of reductions in prices, a differentiated approach to various consumers is not provided: for reasons of technical convenience, industry sales companies that present calculations of reductions in prices from a decrease in wholesale prices for the products they sell often price

reductions are calculated by applying average group coefficients that are the same for all consumers, while the actual size of price reductions for individual types of products included in the same product group usually varies significantly. Thus, in order not to be mistaken in the calculations, it is necessary to proceed not from the average size of the price reduction for all consumers, but from the coefficients individually determined for each consumer individually, taking into account the range of products consumed by him.

Price reduction affects all aspects of activity and all types of costs incurred by the industry: production costs, capital investments, capital repairs costs, costs of non-industrial sectors of the economy, expenses of the administrative and managerial apparatus. Therefore, after the total amount of price reductions is determined for each ministry, it is necessary to distribute it by type of activity. Usually this distribution is given in the following section:

- 1) main activity, including production costs;
- 2) capital works;
- 3) overhaul;
- 4) other sectors of the economy.

However, to determine the cost of production, one cannot limit oneself to a single distribution of costs by type of activity. At this stage of calculations, we have the opportunity to obtain the volume of production costs (taking into account mutual reductions in prices). In order to determine the price level, this is still not enough. From production costs, it is necessary to move to the cost of commercial products.

We saw above that in order to determine the total cost of all marketable output, it is necessary to take into account the influence of the following factors: the cost of services that are not included in gross output; change in the volume of work in progress at cost, as well as the remains of semi-finished products, dies, models and tools of our own production; change in deferred expenses; non-manufacturing

expenses. Now, when it comes to determining the full cost of all marketable output, the matter comes down to distributing the amount of reduction in prices between the indicated cost elements.

For clarification, here is an example calculation scheme:

	at old prices	Amount of discounts	At new prices
Production costs	10000	1500	8 500
This includes:			
a) services not included in gross output (subtracted)	200	fifteen	185
b) increase in the growth of work in progress (subtracted)	500	60	440
c) deferred expenses:			
expenses (deductible)	150	ten	140
reimbursement of expenses (added)	100	—	100
d) non-manufacturing expenses (added)	100	5	95
Total cost of commercial products:	9 350	1420	7 930

In accordance with the balance of changes in revenues and expenditures of the national economy, the following changes in plans should be made:

a) for suppliers of products for which there was a price reduction, the volume of marketable products in wholesale prices and, accordingly, the amount of profits or turnover tax should be reduced;

b) for consumers of cheaper products, the costs of production, overhaul and capital construction will decrease, and the working

capital ratio will also decrease. Accordingly, they should increase the amount of profits or turnover tax.

All these changes should be reflected in the relationship between the state budget and the sectors of the economy: a reduction in budget revenues in sectors where prices have been reduced; reduction of expenses by branches of the economy and budgetary organizations consuming these products.

The balance of changes in the relationship between the state budget and the economy is presented as follows:

*A. Losses as a result of lower wholesale prices*

1. Reduction of proceeds from the sale of marketable products in wholesale prices of enterprises.
2. Reducing the mass of income of marketing organizations.
3. Cheaper mobilized resources in construction.
4. Losses from the markdown of excess balances of uncredited material assets.
5. Other losses.

Total.

*B. Savings and income gains from lower wholesale prices*

1. Reducing the cost of commercial products of industry.
2. Reducing the operating costs of transport.
3. Reducing the costs of trade, marketing, and procurement organizations.
4. Reducing the volume of financing of capital works.
5. Cheaper exploration work financed from the state budget.
6. Cheaper overhaul.
7. Cheaper growth of working capital in the national economy.

8. Cheaper production costs of MTS.
9. Cheaper cost of growth of state material and food reserves.
10. Cheaper socio-cultural costs.
11. Reducing the cost of other expenses of the state budget.
12. Increasing the turnover tax on consumer goods (in cases where the decrease in wholesale prices for means of production is not accompanied by a decrease in retail prices).
13. Increase in other income.

Total.

### **Types of Wholesale Prices for Industrial Products**

#### **(unified all-Union and differentiated wholesale prices)**

The principle of unity of wholesale prices for means of production sold to consumers is carried out in the following forms in various industries:

1. Uniform all-Union wholesale prices that exist for part of the products for industrial and construction purposes, the transportation costs of which occupy a relatively small share in the final wholesale price of industry (rubber products, ferrous metals, and hardware),
2. Uniform wholesale prices for each given region of consumption (belt). Such prices are set for certain types of industrial and construction products, for which there are zone wholesale prices in consumption areas (petroleum products, metal structures, cement, rolled roofing products).
3. Uniform all-Union wholesale prices for all points of production of goods. Such prices have been set for the majority of processing branches of heavy industry (chemical industry, paper, woodworking, building materials, machine building).
4. Uniform wholesale prices within each individual region of production (belt). Such prices are used in a number of extractive

branches of heavy industry, where there are sharp belt-line differences in the cost of production (coal industry, logging, ore mining).

The difference in prices applied in individual industries is due to the order in which these prices include the costs of transporting products.

The process of reproduction of products is not limited to the scope of their own production. The product can only be consumed if it is delivered to the consumer. The stage of transportation of products from producers to consumers is an organic link in the reproduction process, a continuation of the production process in the sphere of circulation. Transportation costs are added to the cost of production and find their monetary expression in its prices. For many types of industrial products, transport costs account for a significant share in the final costs of consumers for the purchase of products. In roundwood prices, transport costs, including transshipment costs from one mode of transport to another, account for over 45% of the final purchase price. About one third of the price of cement is also the cost of transport.

But the actual costs to society of transporting products may differ in magnitude from the costs of transport reimbursed in wholesale prices for the corresponding types of products. In one case, the wholesale price coincides with the final cost of purchasing products by consumers; in another case, the consumer, in excess of the established wholesale prices, must bear certain importation costs. All this depends on the link in which the product is delivered by the supplier to the consumer or, as it is commonly called, which franco is applied for this type of cargo. Franco indicates where the products are delivered to the consumer and how the transportation costs are reimbursed at the current list price.

In the industry of the USSR, the following main franco are used:

- 1) ex-factory supplier, in which all transport costs are borne by the consumer;



- 2) free wagon departure station, in which the supplier assumes the costs of delivering products to the departure station, as well as loading them into the wagon;
- 3) free-carriage to the destination station, in which the supplier additionally pays the tariff to the destination station;
- 4) ex-warehouse of the consumer, in which the supplier assumes all costs for the transportation of products, including the costs associated with transportation by road transport and loading and unloading operations at the location of the consumer.

In each price list of wholesale prices, the applicable type of franco must be indicated. At the same time, the order of payment for containers and packaging is stipulated (whether their cost is included in the price of the product or is payable in excess of the established prices).

The last decade is characterized by a consistent expansion of the practice of applying prices ex-freight to the destination station. The prices of the ex-carriage station of destination are used for many types of building materials (cement, glass, asbestos-cement, and roll-roofing materials), for petroleum products, rubber products. Since January 1, 1951, wholesale prices for ex-carriage station of destination have been introduced for ferrous metals.

The transition on a broad front to the prices of the ex-carriage station of destination is of great fundamental importance. First, wholesale prices for industrial products compensate, in this case, all the costs of its production and promotion from producers to consumers. Thus, wholesale prices coincide with the actual costs of consumers for the purchase of products. Secondly, since the suppliers of manufactured products reimburse the costs of transport, they are thereby stimulated to reduce these costs, to the rational use of vehicles. Thirdly, the prices of free-carriage station of destination, which ensure the unity of prices at each point of consumption, create a solid basis for calculating the cost of industrial production and design and estimate work in capital construction.

However, the use of wholesale prices ex-works at the destination station cannot, however, be recommended as a universal measure equally suitable for all branches of industry.

Practice shows that the application of the terms ex-car-station of destination for mass types of products for industrial and construction purposes is advisable in the following cases:

1. When the production and consumption of this type of product is not limited to local, local limits, but spread throughout the country. In this case, it becomes necessary to choose the most economically feasible options for freight transportation by rail or river transport from the place of production to the place of consumption. From this point of view, for example, it would be economically unreasonable to switch to prices ex-works at the destination station for local building materials. Local building materials are produced and consumed, as a rule, within the same region, and their transportation is carried out mainly by horse-drawn and motor vehicles.

2. When the wholesale sale of all or the vast majority of products is concentrated in a single centralized sale, since only in this case is it possible to correctly plan cargo flows and equalize transport costs.

In the transition for this or that type of product to the prices of the free-carriage station of destination, it is relevant to decide what these prices should be - uniform all-Union prices or differentiated, belt prices. In the first case, transport costs are equalized throughout the country; in the second case, they are included in wholesale prices in the amounts in which they actually add up in individual areas of consumption.

The following considerations can be given in favor of the equation of transport costs and the construction on this basis of the wholesale prices of the ex-carriage station of destination as uniform all-Union prices:

1. A single price for the same product, valid in all areas of consumption, contributes to the equalization of production costs for all enterprises - consumers of this product.
2. A single price increases the interest of sales organizations in reducing the distance of transportation, since any reduction in the distance of transportation against the average rate adopted when setting prices means a gain for sales.
3. With the existence of single prices, settlements with both consumers and supplier enterprises are greatly simplified (the presence of a single price list).
4. Finally, with uniform prices, the very process of compiling a price list for a free-carriage station of destination is facilitated, since the most time-consuming part of the calculation justification of prices, the differentiation of costs for the transportation of certain types of products according to consumption zones, is eliminated.

However, all these considerations retain their significance only if the cost of transporting products is relatively small.

Let us consider the case when transportation costs significantly determine the level of wholesale prices for a free-to-carriage station of destination. So, according to the calculations of the Ministry of Forestry and Paper Industry of the USSR, the amount of transportation costs for round timber changed under the conditions of the implementation plan for 1950 as follows for individual areas of wood consumption (in rubles and kopecks per cubic meter):

Karelo-Finnish SSR	27-02
BSSR	34-02
Moscow region	50-42
Chkalov region	96-96
Azerbaijan SSR	111-90
Uzbek SSR	142-87

With such significant differences in transportation costs, the equation of transportation costs would mean that the price no longer reflects the actual costs of society for the production and circulation of products. Timber prices constructed by equating transportation costs would exaggerate the actual costs in or adjacent to timber harvesting areas and underestimate the actual costs in forest-deficient areas. But such prices, obviously, would be incorrectly oriented in economic research and design of new construction. At these prices, for example, it would be equally economically feasible (from the point of view of transport costs) to build sawmills in logging sites and in treeless areas, since differences in the costs of transporting raw materials and finished products are eliminated.

Further, in a number of cases, the material interest of the sales organization in any reduction in the distance of transportation, arising from the equalization of transport costs, may come into conflict with the state interests of supplying remote areas. Reducing the distance of transportation should be carried out by rationalizing it, and not by refusing to supply remote areas. Therefore, the price must be structured in such a way that the corresponding sales organization has an equal material interest in fulfilling the supply plans for all regions. Finally, the disadvantage of uniform prices is that they provide little incentive for the development of local production of relevant products in remote areas. Thus, for example, the cost of production of ferrous metals in a number of new regions turns out to be higher than in the old regions of metallurgical production. By differentiating the prices of the ex-carriage, the destination station can use the difference in transportation costs to compensate for the increased costs in new areas of metallurgical production. When equalizing transportation costs, all areas of production are placed in the same conditions. Consequently, the noted advantages of single prices free-carriage-destination station retain their significance only if the costs of transporting the relevant types of products are insignificant and do not significantly affect the formation of prices. In

all other cases, it is expedient to establish zone wholesale prices for the ex-carriage station of destination, which provide:

- 1) the correct reflection in prices of the actual costs of transporting products in different areas of consumption;
- 2) the possibility of using prices as a criterion for economic research and design of new construction;
- 3) the material interest of marketing organizations in the exact implementation of supply plans in the regional context;
- 4) stimulation of local production of products in remote areas by reducing the importation of products imported from far away.

### **Procedure for Establishing State wholesale Prices for Production Instruments**

The list of means of production manufactured by industry, for which the government of the USSR sets prices, was originally determined by a resolution of the Committee on Prices at the STO dated February 26, 1932. It included a relatively limited group of products: 1) fuel and fuel: coal, coke, peat, oil, kerosene , gasoline; 2) ferrous and non-ferrous metals, wire, nails; 3) building materials: cement, brick, slate, roofing felt, roofing felt, window glass; 4) wood and products of woodworking and paper industry: roundwood and lumber, sleepers, firewood, plywood, paper, etc.; 5) forest chemistry products: gum rosin, turpentine oil, acetic acid; 6) mineral fertilizers; 7) tractors and agricultural machines; 8) cars; 9) locomotives and wagons; 10) ships - river and sea.

At the same time, for all the listed groups of goods, the government of the USSR set the initial prices, on the basis of which the corresponding people's commissariats developed and approved detailed price lists for the entire range of products manufactured by enterprises subordinate to them.

Subsequently, this practice has undergone significant changes. First, during the implementation of the reform of wholesale prices in 1936-

1940. the range of products for which wholesale prices were set by the government of the USSR was expanded. Secondly, the government has moved from setting initial prices to approving detailed price lists. At the present time the government of the USSR approves wholesale prices for all products manufactured in mass and large-scale production.

For products for which government price lists are not approved, wholesale prices are set:

- a) for the union and union-republican industry - by the relevant ministries-suppliers in agreement with the ministries-consumers;
- b) for republican industry - by the Councils of Ministers of the Union republics;
- c) for local and cooperative industry - by regional (territorial) executive committees.

After the end of the war, in connection with the mass development of new products by enterprises, the following procedure was established for paying for industrial products, which were first mastered by enterprises in certain industries.

1. Products for which the government of the USSR has established uniform list prices for all manufacturers are paid for at these list prices.
2. Products for which there are no single list prices, but there are wholesale prices set by the USSR government for individual manufacturers who have previously mastered the production of this product, are paid by the customer at these wholesale prices, even if the enterprise mastering these products for the first time was not subordinate to the ministry for which prices are set. At the same time, the ministry in charge of enterprises that have mastered the production of the corresponding industrial products for the first time is obliged, no later than 6 months from the date of delivery of the first batch of products, to submit proposals on prices for these products to the USSR government.

3. For products first mastered in the USSR and planned for release in the order of mass or large-scale production, temporary wholesale prices are established by agreement between the supplier ministry and the main customer ministry, based on the planned cost of the product, determined on the basis of cost estimates. Not later than 6 months (for some types of heavy engineering products from 9 to 12 months) from the date of delivery of the first batch of products, the supplier ministry is obliged to submit a draft fixed price for approval by the Council of Ministers of the USSR.

4. For products being mastered for the first time, planned for release in the order of a single order or small-scale production, wholesale prices are set by agreement between the supplying ministry and the customer ministry, based on the planned cost of the product, determined on the basis of cost estimates.

The ministries have been granted the right to approve wholesale prices for various types of non-standardized products and services produced and consumed by enterprises of the same ministry (parts and assembly units, special tools and devices supplied in the order of inter-ministerial cooperation, as well as specialized equipment manufactured according to the special technical conditions of enterprises, provision of production services for the processing of individual parts, manufacturing in the order of a single order of products for their own capital construction, etc.).

In those cases when products are released from the warehouse of marketing or supply organizations at the location of the consumer enterprise, mark-ups of marketing and supply organizations are charged in excess of the established wholesale prices in the amounts established by the ministries (departments) of the USSR - by the government of the USSR, and for organizations of the republican and local values - by the governments of the Union republics. For example, from January 1, 1950, Glavavtotractorosbyt has a mark-up of 9.5% to wholesale prices, Soyuzpodshipnikosbyt - 1.5%, Elektrosvyazsbyt - 3%, Glavstankoinstrumentsbyt when selling tools - 2.8%, when selling abrasives - four%. Differentiation of markups is

associated, firstly, with different conditions for the transportation of products and, secondly, with the difference in price levels of products sold.

The need to reimburse the costs of marketing organizations associated with the transit release of products from warehouses does not give grounds for charging any extra charges. These costs are reimbursed by providing discounts (bonuses) to the sales organization by the supplying enterprises. Thus, ferrous metallurgy enterprises provide Glavmetallobyt with a discount of 0.24% from the wholesale price of the enterprise, enterprises of the refractory industry - 0.25%, etc.

Price approval finds its final expression in the price list.

The price list in the conditions of state price planning is a document of great organizing power. The price list is, in particular, an expression of the state policy in the field of product assortment. The range of products included in the price list should reflect the assortment plan of this industry. Thus, through the price list, the state exercises control over the assortment of products, preventing this price list from being clogged with degraded products. The price list reflects state requirements for product quality. The price list must be drawn up in such a way as to exclude the possibility of supplying products of poor quality or incomplete.

In the price list for each product, a technical description is drawn up, including the name of the product, its brand or index, purpose, operational data, dimensions and weight, equipment, number, and date of approval of the standard or technical specifications.

In all cases when the approved standard provides for the production of several varieties of products, the price list indicates differentiated prices for varieties or discounts from prices of the highest grade.

The price list provides mutual control between the consumer and the supplier. Therefore, as a rule, the final price of the product should be directly indicated in the price list. The practice of setting markups on list prices, which takes place in individual price lists, leads to



confusing settlements between the supplier and consumers and creates the possibility of arbitrary violation of list prices. The use of surcharges for the supply of products for the so-called "special requirements" should be kept to a minimum. At the same time, the conditions for the application of surcharges and their size must be precisely stipulated in the price list.

As a general rule, the establishment of surcharges "by agreement of the parties", which actually grants the right to change list prices, should be avoided.

State retail and wholesale prices for commodities

### **State Retail Prices for State Industry Goods**

The final prices at which the population and collective farms purchase goods in state and cooperative retail trade are state retail prices.

As mentioned above, government retail yen for goods has the following structure:

<ul style="list-style-type: none"> <li>a) the cost of goods</li> <li>b) the profit of the enterprise,</li> <li>c) sales tax,</li> <li>d) the costs and profits of wholesale organizations of industry (discount or markup for covering the costs of marketing) in cases where the wholesale sale of goods is carried out by marketing organizations of industry,</li> <li>e) distribution costs and profits of wholesale and retail trade (trade discount or cape).</li> </ul>	industry wholesale price
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The retail price is used by the socialist state as one of the most important levers for distributing the total social product for accumulation and consumption. Associated with the movement of retail prices is an increase in the level of real wages of workers and intellectuals, and in the level of money incomes of collective farmers.

The ratio of the money incomes of the working people and the state retail prices expresses the proportions in which the national income is divided into the accumulated and consumed parts.

A change in retail prices means a change in the purchasing power of the Soviet ruble. The purchasing power of the ruble changes inversely to price changes: it rises when retail prices fall.

The purchasing power of the ruble is connected with the movement of prices for all goods circulating in the country, including the collective farm market. Since, however, the overwhelming mass of goods is concentrated in the hands of state and cooperative trade, the purchasing power of the ruble is primarily connected with the level of state retail prices for consumer goods.

The increase in the purchasing power of the ruble means that with the same amount of cash income, the population receives a large mass of material goods from the state. In monetary form, this is manifested in the fact that the state loses part of its monetary income, due to which the population accordingly wins.

Thus, the decline in prices since March 1950 meant a loss of revenue for the state in the amount of at least 80 billion rubles. (based on a year) and a gain for the population in the same amount. The decline in prices from March 1, 1951 meant an additional loss of government revenue and a corresponding gain for the population in the amount of 27.5 billion rubles. (per year). These losses of the state are compensated on the basis of an increase in the mass of goods sold and a decrease in their cost as a result of an increase in labor productivity in industry.

Retail prices for goods of the socialist industry are used by the Soviet state to actively influence the collective-farm market. The concentration of the vast majority of goods in the hands of the state and their circulation in the channels of state and cooperative trade at stable state prices is the decisive factor determining the movement of prices on the collective farm market.

The level of state retail prices is ultimately determined by the magnitude of the social costs of the production of commodities, on the one hand, and by the ratios established in a planned manner for the distribution of the national income into the accumulated and consumed parts, on the other.

The systematic reduction of production costs is a solid economic basis for the consistent reduction of retail prices under socialism. This reflects the advantages of the socialist social system, in which the growth of labor productivity and the saving (reduction) of production costs are the source of a simultaneous increase in accumulation in the national economy and a rise in the people's well-being.

The reduction in the social costs of production finds its expression in monetary form in the form of a reduction in the cost of production and the costs of circulation of goods, which is one of the decisive prerequisites for the implementation of the Soviet policy of consistently reducing retail prices. If this condition were not observed, the reduction in retail prices would inevitably lead to a reduction in the scale of accumulation, i.e., to the undermining of the economic base on which alone it is possible to achieve a serious long-term rise in production and the people's well-being.

Lowering the price level presupposes ensuring the correct ratio between the volume of masses of commodities put into circulation at planned prices and the amount of money income of the working people. To reduce prices, it is necessary to have such a ratio between the size of the market funds of goods (that is, the masses of goods that can be directed by the state into commodity circulation) and the total money incomes of the working people, in which the growth of market funds at current prices outpaces the growth of money incomes.

An important instrument that serves to test the emerging correlations between the volume of market funds and the total money income of the working people is the balance of money income and expenditures of the population. The revenue part of this balance includes all types of current cash income received by workers from the state, including

such income as: a) wages; b) temporary disability benefits; c) income from the sale of agricultural products, furs, fish, game to the state; d) pensions and scholarships; e) income paid by the State Insurance; e) winnings on government loans, etc.

The expenditure part of the balance sheet includes all types of current cash expenditures and savings of the population, including:

a) expenses for the purchase of goods; b) taxes and obligatory payments; c) payment for non-commodity services (rent, utilities, transportation costs, payment for the services of communication institutions, expenses for health care, culture, etc.); d) loan payments; e) deposits in savings banks; f) expenses for voluntary life and property insurance.

From an analysis of the structure of the balance of monetary income and expenditure of the population, it follows that the size of a possible reduction in retail prices for goods at any given moment depends to a decisive extent on three factors; 1) growth of money incomes of the population; 2) the scale of paid non-commodity services provided to the population; 3) an increase in the mass of goods sent by the state to organized trade.

A characteristic feature of the socialist economy is the growth of the working people's money incomes on the basis of an increase in labor productivity ahead of this growth. The growth of labor productivity, systematically and in all branches of the national economy, must outstrip the growth of the money incomes of the working people. Only under this condition can both the interests of socialist accumulation and the consistent reduction of prices be ensured.

A very important material prerequisite for lowering prices is the all-round increase in state commodity reserves. The production of consumer goods must be developed on a scale designed not only to satisfy current consumer demand at given prices, but also to create large commodity reserves that ensure a reduction in retail prices. Non-commodity services rendered to the population are also one of the important sources of meeting consumer demand. The all-

round expansion of the sphere of non-commodity services leads to an improvement in the ratio between money income and the volume of commodity circulation, insofar as it eases the tension of consumer demand in the commodity market and thereby facilitates the reduction of retail prices for goods.

To determine the volume of commodity resources that can be directed to the channels of state and cooperative retail trade (market funds), the balance of commodity funds is used.

The balance of commodity funds consists of two parts: resources and their distribution.

In the first part of the balance, all commodity resources are determined, including: a) current production; b) stocks of goods in industry and in the commodity distribution network;

c) receipt of goods from state reserves; d) receipt of goods in the order of import; e) other receipts of goods.

The second part of the balance indicates the distribution of commodity resources by directions, including: a) the formation of commodity stocks; b) replenishment of state reserves; c) industrial processing; d) the needs of the armed forces; e) the needs of budget organizations; e) export; g) market commodity funds.

It goes without saying that the volume of market stocks of commodities is not defined as a simple balance obtained by deducting non-market consumption from the total volume of stocks of commodities. On the contrary, all other balance sheet items are determined taking into account the need to maximize the increase in market funds.

The balance of commodity funds and the balance of cash income and expenditure of the population make it possible to determine the approximate size of the reserve for reducing retail prices. The price reduction reserve is calculated as the difference between the volume of market funds at current prices and the amount of money that can

be directed by the population to purchase goods (that is, minus payment for services and similar expenses).

However, in order to reduce retail prices, it is necessary to ensure not only the proper ratio between the volume of trade and the total monetary income of the population. Here it is extremely important to take into account the ratio of trade turnover and consumer demand for the main assortment groups of goods, moreover, necessarily in the regional context.

To study consumer demand, we use:

- a) balances of monetary incomes and expenditures of the population, calculated in individual territories, regions, and republics;
- b) materials of the survey of workers' budgets;
- c) monitoring data on consumer demand in the state trade network;
- d) materials on the dynamics of prices in the cooperative and collective farm markets in various centers and regions of the USSR.

At the same time, it is important not only to study the situation with consumer demand at the time of the price decline, but also to determine how it will develop as a result of this decline. The fact is that an increase in the demand of the population does not necessarily correspond to the size of a decrease in prices for certain types of products. For example, the more the prices of everyday goods fall, the more the demand for high-value goods, including durables, increases. Comrade Mikoyan drew attention to these trends in consumer demand in his speech at the meeting of voters of the Yerevan-Stalin constituency on March 10, 1950. sizes, including for bread and flour from 20 to 30%, for meat - from 24 to 35%,

“It is interesting what shifts and changes the decline in prices has caused in the nature of the survey of the population and in the development of trade. It is still too early to have a final judgment on this issue, but interesting developments in this area have already emerged in the first week since the price decline. According to data from the 60 largest cities, all types of bread are sold on average per

day by only 2% more than in February. At the same time, the purchase of rye bread by the population decreased and the purchase and demand for white wheat bread increased. Thus, only a part of the savings received by the population from lowering the price of bread is used here to increase the consumption of white bread, and most of the savings are directed to the increased purchase of more valuable foodstuffs, such as meat, sausages, animal fats, canned food, and others.

These tendencies are quite natural and require our industry to increase the production of exactly those goods for which the population has the greatest demand after the price reduction, in order to fully satisfy the new increased demand”<sup>1</sup>.

In addition to these two factors that determine the general level of state retail prices in the country, in setting prices for single goods or groups of goods, it is important to ensure the correct value relationships between different groups of goods.

We will show the value of this factor on the example of determining the price of a single product. Suppose at one of the factories of radio products, the production of a radio receiver has begun; the planned cost price of the radio receiver is determined in the amount of 600 rubles. The profit on similar products at the same plant is 5%, the turnover tax for a group of radio products is set at 20%, and finally, for a group of radio products, there is a discount to cover the costs of trading organizations in the amount of 8%.

Using these data, we calculate the main elements that form the retail price (we warn in advance about the conditionality of the numbers given in the calculation). If we leave the same level of profit for a new type of radio as for other similar products, then the amount of profit per unit will be:

$$(600 \times 5) / 100 = 30 \text{ rubles.}$$

In this case, the wholesale price of the enterprise will be determined as follows:

The cost of the radio	600 rub.
Profit	thirty "
Wholesale price of the enterprise for a radio receiver	630 rub.

We already know that a VAT rate of 20% applies to the group of radio products. The value added tax is calculated on the full wholesale price of the industry (or, equivalently, on the retail price minus the cake discount), including the value added tax. Consequently, the wholesale price of the enterprise is a part of the wholesale price of the industry, it is less than the latter by a share of the turnover tax. Knowing this, we can easily calculate the industrial wholesale price for a radio receiver; it will be equal to:

$$(630 / (100 - 20)) \times 100 \approx 787 \text{ rubles. } 50 \text{ kop.}$$

Now it remains only to include in the price a discount to cover the costs of trading organizations. The trade discount is calculated as a percentage of the full retail price, including the trade discount. Since a discount of 8% is set for a group of radio products, the total retail price of the radio will be determined as follows:

$$(787 \text{ rubles } 50 \text{ kopecks} / (100 - 8)) \times 100 \approx 856 \text{ rubles. (with rounding).}$$

Thus, by calculation, we determined the price for a new type of radio in the amount of 856 rubles. However, can it be sold at this price? Indeed, in addition to this type of radio, which has just begun production, there are other types of radios for which retail prices have already been approved. In what relation is the retail price determined by us on the basis of calculation for a given radio receiver with retail prices for other types of radio receivers previously mastered?

Looking at the price list of radio receivers, we will be convinced that it is impossible to set prices for a new radio receiver at 856 rubles. In fact, a more powerful radio is priced at 900 rubles. Taking into account the difference in power, as well as in the finish, prices for a



new radio cannot be set more than 725-735 rubles. In order to reduce the price of the radio, you will have to take the following measures:

a) for the period of mastering the production of a radio receiver, refuse to receive profit on it;

b) at the same time, for about a year, establish a preferential rate of turnover tax on the radio, say, 10% instead of 20%.

In this case, the wholesale price of the enterprise will be equal to the cost, i.e., in our example - 600 rubles. The wholesale price of the industry will be:

$(600 / (100 - 10)) \times 100 \approx 666$  rubles. 67 kop.

The retail price will be determined in the amount of:

$(666 \text{ rubles } 67 \text{ kopecks} / (100 - 8)) \times 100 \approx 725$  rubles. (with rounding)

Thus, when determining retail prices for individual goods, it is impossible not to take into account the emerging value relationships with other goods. The planning of monetary accumulation in value (profit, turnover tax) is the instrument by which the correct value ratios are ensured. This does not at all mean a passive adaptation to the established value relations. When planning prices, the state consciously determines the value relationships between individual groups of goods in the interests of actively influencing production and consumer demand. By determining the prices for certain groups of goods, the state stimulates an increase in the production of goods especially needed by the population, an expansion of the assortment and an increase in the quality of manufactured products.

Through the retail price, the state has an active influence on the nature and structure of the consumer survey, stimulates the consumption of necessary goods and non-commodity services, makes it more profitable for consumers to purchase goods made from substitutes for scarce raw materials or local products instead of distant ones, encourages the repair and conservation of scarce products, organizes rational consumption of seasonal products, the production of which

cannot be ensured evenly throughout the year. At least the following essential ratios should be properly taken into account when determining retail prices for individual goods.

1. The ratio of prices between different varieties of the same product. For example, different widths or densities of the same fabric, different types of packaging, weight or bottling of the same food product, different types, designs of perfumery or confectionery products, etc.

When setting prices for fabrics of the same article, but of different widths, retail prices are determined with recalculation for the corresponding width.

The situation is different when determining prices for food products sold in various packages and weights (bottling). Since the release of goods in larger containers (packaging) creates savings for industry in the costs of packaging, weight, bottling, retail prices increase in a smaller proportion than the weight of the goods increases. For example, prices for canned meat - stewed meat - of the 1st grade in zones I and II increase as follows depending on the net weight:

Can net weight (in g)	Weight coefficients (bank 250 g = 1.0)	Value coefficients (the price of a can of 250 g is 1.0).
250	1.0	1.0
500	2.0	1.83
1000	4.0	3.58
3000	12.0	10.28

2. The ratio of prices between different varieties of the same product. The correct definition of value relationships between varieties is extremely important for stimulating the production of high-quality products. The ratio is determined, as a rule, in such a way that when producing low-grade products, industrial enterprises

do not even reimburse their costs; on the contrary, when producing products of high grades, enterprises not only fully reimburse the cost, but also ensure sufficient profit.

For example, prices for beef fat and above average fatness in the II zone change as follows by grade: 1st grade - 100%; 2nd grade - 80.7%; 3rd grade - 62.5%; 4th grade - 21.7%.

In a number of cases, retail prices for products of lower quality for the consumer are set lower, despite the fact that, according to the conditions of production, their production is associated with increased costs. Thus, the cost of salted fish significantly exceeds the cost of chilled fish. However, prices for salted fish (except for herring) are lower than for chilled and frozen fish. So, for selected large and medium-sized pike perch, depending on processing, they change as follows (the price of hard-salted pike perch is taken as 1.0): hard-salted - 1.0; slightly and medium salty - 1.16; chilled and frozen - 1.25.

3. The ratio of prices for the same types of products sold in different seasons of the year: for example, prices for early and late vegetables and fruits, seasonal prices for milk and eggs. Price differentiation ensures here the most rational use of seasonal products.

4. The ratio of prices for interchangeable groups of different types of goods, for example: for fabrics and ready-made clothes, for flour and baked bread, for animal oil and vegetable oil, for meat and fish, for bread and potatoes, for cereals and vegetables, for goods from natural raw materials and substitutes, for goods from local types of raw materials and distantly imported, etc.

Since mass tailoring provides the most rational, from the point of view of the interests of the national economy, the use of fabric resources, prices for fabrics and ready-made clothes made from them are set in such a way as to encourage consumers to purchase ready-made clothes.

In the interests of the economical use of food resources, relatively reduced prices for bread are installed compared to flour, for potatoes

compared to bread, for vegetables compared to cereals. In order to limit the consumption of vodka, retail prices for it are set much higher than for grape wine. The price of 1 *liter* of vodka is currently almost 2 times higher than the price of 1 *liter* of vintage port wine. The ratio of prices for industrial goods provides more favorable conditions for consumers when purchasing goods produced from substitutes for scarce types of raw materials, or products made from local types of raw materials.

5. The ratio of prices for new and restored goods. Prices for the repair of products, as well as for restored products, must be built in such a way as to ensure the profitability of repairs, as well as the purchase of restored products.

6. The ratio of prices for disposable and durable goods. Prices for durable goods (cars, refrigerators, musical instruments, televisions, radios, etc.) cannot be determined without taking into account the level of prices for food and industrial consumer goods.

*Ceteris paribus*, the lower the level of prices for food and industrial consumer goods, the more favorable conditions are created for the sale of durable goods.

The peculiarity of the state retail price is that it is a single price. The funds received by the working people from their state and expressing their share in the total fund of consumption have a single purchasing power in the organized market. Uniform prices are established: a) within the entire USSR (such prices have been established for all major types of industrial goods and for a number of foodstuffs);

b) within the belt. For all basic foodstuffs, 2-3 belt prices are set. When establishing the belts, the difference in the costs of transporting food from the areas of procurement to the areas of consumption was mainly taken into account. As a rule, prices are lower in the main agricultural areas and higher in areas that cover part of consumer demand through food imports from other areas. When assigning individual regions to the zone of relatively low prices (Central Asian

republics), the need to stimulate the cultivation of cotton at low prices and grain was taken into account.

For individual goods, taking into account differences in transport costs, differentiated retail prices have been established for urban and rural retail chains. At the same time, in some cases, rural consumer cooperatives, located in places remote from railways and river piers, are allowed to collect, in addition to retail prices, in strictly limited amounts, surcharges to cover auto-drawn expenses for the delivery of goods.

As a rule, uniform prices for all commodities also apply to non-market consumers. At the same time, non-market consumers who receive commodities in bulk purchases pay for them at retail prices minus trade discounts. An exception is allowed only for certain types of food raw materials, which are sold for industrial consumption at wholesale prices of enterprises (vegetable oil for the paint and varnish industry, salt for the fishing and chemical industries, etc.).

The establishment of state retail prices is carried out in the following order:

1. For all main types of foodstuffs and industrial consumer goods, the Council of Ministers of the USSR establishes retail prices and the amount of discounts to cover the costs of trade. The concentration in the hands of the government of the USSR of the matter of approving state retail prices for all basic types of consumer goods is explained by the fact that these prices determine to a decisive extent the level of real wages of workers and employees and the incomes of peasants, the purchasing power of the Soviet ruble.
2. For goods manufactured in Union and Union-Republican industries not included in the price lists approved by the USSR government, wholesale and retail prices are set by the USSR Ministry of Trade in agreement with the relevant supplying ministries or on their behalf by local bodies. The USSR Ministry of Trade is also permitted to approve, on the proposal of the relevant consumer ministries, retail prices for new types of consumer goods belonging to

commodity groups, provided for by the current price lists. At the same time, prices for new types of consumer goods are set based on the level of current prices for similar products.

3. For other types of goods produced by the republican and local industry, not included in the price lists approved by the governments of the USSR, wholesale prices are set respectively by the Councils of Ministers of the Union republics, the Councils of Ministers of the ASSR, the executive committees of the regional (regional) Soviets, as well as the Soviets of cities of republican subordination. At the same time, retail prices are formed by adding trade markups to the wholesale prices in the places where these goods are sold.

Soviet legislation guarantees the stability of state retail prices. Ministries and local authorities do not have the right to raise prices even for the products for which they initially set prices.

### **State Wholesale Prices for Industry Goods**

As can be seen from the structure of the state retail price given at the beginning of this chapter, the industrial wholesale price for consumer goods is a part of the state retail price, differing from it in magnitude by the amount of the established trade discount. The state directly establishes firm retail prices and trade discounts. This also determines the wholesale prices of industry. It follows from this that the movement of wholesale prices for consumer goods is closely connected with the movement of retail prices. Each change in retail prices is accompanied by a corresponding change in the wholesale prices of the industry. In view of this dependence between wholesale and retail prices for consumer goods, there is no need to approve special industrial wholesale price lists.

Industrial wholesale prices for consumer goods have a number of features that distinguish them from wholesale prices for means of production.

First, if the wholesale prices of means of production, with some exceptions, do not include turnover tax, then the wholesale prices of

industry for consumer goods, due to the circumstances outlined above, include, as a rule, turnover tax as one of their elements.

Second, the wholesale prices of commodities are usually the prices of ex-works at the destination station. Such a construction of wholesale prices is explained by the fact that only on the basis of wholesale prices, the ex-carriage station of destination can ensure the unity of retail prices, since their introduction eliminates the discrepancy in the costs of the distribution network for the importation of the same products from different points of production. At the same time, for a significant range of industrial goods, the wholesale prices of industry, ex-car, station of destination, are the same for the entire territory of the USSR, which serves as an important condition for building all-Union uniform retail prices for consumer goods.

The government, as has already been pointed out above, does not approve special price lists for industrial wholesale prices for consumer goods. On the other hand, the government approves the wholesale price lists of enterprises for all the main consumer goods produced by the state industry.

The wholesale price of the enterprise for consumer goods is the price at which the enterprise delivers its products to the branch sales or wholesale trade organization. The components of the wholesale price of the enterprise are: cost and profit.

The wholesale prices of enterprises for consumer goods, as well as for means of production, are called upon to serve the interests of the planned management of enterprises on the basis of economic accounting.

The existence of special wholesale price lists for enterprises is designed to ensure control over the costs of enterprises in the production of products and the conditions for normal profitability of all basic products. In order to ensure the successful implementation of the plan for the range of products, sharply unprofitable products, on the one hand, and excessively profitable ones, on the other, should not be allowed. At the same time, it is necessary to stimulate the

production of labor-intensive and especially necessary for the state products by slightly increased profitability.

Since the enterprise's wholesale price for consumer goods includes only cost and profit, its determination ultimately comes down to determining the level of cost and the amount of planned profit. The peculiarity of the price of consumer goods in comparison with the prices of means of production is that the amount of profit realized in the wholesale price of the enterprise does not directly determine the level of final prices at which products are sold to consumers. Only the ratios in which the share of the whole society realized in the prices of commodities of consumption is divided into turnover tax and profit depend on the size of profits.

For industries that produce consumer goods, a particularly difficult methodological problem is the construction of uniform (including belt) wholesale prices for enterprises, taking into account significant differences between enterprises in the level of production costs. These differences are connected, in particular, with the fact that prices for agricultural raw materials are sharply differentiated depending on the conditions of procurement. For example, the cost of raw materials in the meat industry depends most directly on the proportions of various forms of livestock procurement—compulsory deliveries, purchases, delivery by state farms—for each of which special prices are set; the level of procurement prices for cotton, sugar beet, and tobacco varies significantly depending on the amount of progressive premiums paid for exceeding the planned quotas for the delivery of these types of technical raw materials.

At the same time, the production of consumer goods is concentrated in a large number of enterprises that differ significantly from each other in terms of the scale of production and technical equipment (for example, the same goods are produced at large enterprises of allied significance and at enterprises of local, regional and district industry).

In the practice of pricing, methods have been determined by which it is possible to ensure the equalization of the costs of agricultural raw



materials and thereby exclude the possibility of the existence of unprofitable enterprises, on the one hand, and excessively profitable enterprises, on the other, for this reason. In the light and food industries that consume agricultural raw materials supplied at differentiated procurement prices, the method of special accounts in the State Bank, centralized settlements with the state budget, or differentiation of the turnover tax are used to equalize the costs of raw materials. In the meat industry, raw materials, regardless of their sources, are valued by all enterprises at uniform average prices. The difference between these average prices and the actual prices is reflected in the sub-account at the State Bank. In the sugar industry, when planning the cost of production, beets are valued at the current basic procurement price and a fixed rate of payment of bonuses for over fulfillment of the plan for the delivery of raw materials. In those cases where the actual bonus-surcharges are paid in smaller amounts than provided for in the plan, the resulting savings go to the state budget, and, conversely, if the planned size of the payment of premiums-surcharges is actually exceeded, the difference is reimbursed to the sugar industry from the state budget. In the alcohol industry, the equalization of costs for raw materials is achieved by introducing differentiated turnover tax rates for various types of raw materials.

As for taking into account differences in the scale of production and technical equipment of enterprises, this is ensured by: a) distribution of price lists of wholesale prices of the enterprise, as a rule, only to enterprises of the union and republican industry;

b) price differentiation by zones.

### **Retail and Wholesale prices for agricultural Products**

In state and cooperative trade, in addition to industrial goods, agricultural products are also circulated, sent to the trade network without industrial processing. These foods include: potatoes, vegetables, fruits, whole milk, and eggs.

This product group features:

1. The seasonal nature of production and the associated irregularity of their entry into trade throughout the year, suggesting the formation of significant stocks of products in trade and the need for long-term storage of these stocks.

2. The difference in production conditions in different regions of the country and the need for inter-regional transportation for a certain part of agricultural products.

Hence the differentiation of retail prices characteristic of agricultural products by the seasons of the year and regions of the country.

So, for milk and eggs, spring-summer (from April 1 to October 1) and autumn-winter (from October 1 to April 1) retail prices are set. Retail prices for the spring-summer season, during which most of the harvested milk and eggs are supplied, are set at a significantly lower level than in the autumn-winter season. For example, for pasteurized whole milk sold in liter bottles, the retail price in the I zone in the spring-summer season is lower than in the autumn-winter season by about 25%. For table eggs of the 1st grade, the retail price in the 1st zone in the spring-summer season is lower than in the autumn-winter season, by about 29%.

For potatoes and vegetables, different prices are set for early varieties and late varieties laid down for winter storage. Prices for potatoes and vegetables of early varieties are higher than for late varieties. For fruits, retail prices during the period of their mass harvest are lower than for fruits stored for winter storage. So, for apples of the first group of the 1st grade, the retail price in the 1st zone from the moment of harvesting the fruits until September 15 is lower than after September 15 by 34%. All agricultural products are subject to zone retail prices.

Retail prices for agricultural products are approved in the following order:

1. The Council of Ministers of the USSR approves retail prices: for potatoes, cabbage, carrots, and late beets - for republican, regional,

regional centers, and regions of the Far North; on apples, pears, grapes, and citrus fruits; for milk and eggs.

2. The USSR Ministry of Trade approves retail prices: for early potatoes and cabbage, carrots and beets, onions, cucumbers, and tomatoes (including greenhouse tomatoes and cucumbers) for republican, regional, regional centers, and major industrial cities.

3. The ministries of trade of the republics that do not have a regional division, the regional (territory) trade departments and trade departments of cities of republican subordination approve retail prices for early potatoes and cabbage, carrots and beetroot trimmed, onions, cucumbers and tomatoes for other areas of the USSR, while not higher than the retail prices approved by the USSR Ministry of Trade for republican, krai and regional centers, as well as retail prices for other vegetables in relation to retail prices for the main types of vegetables.

State regulation of prices for agricultural products is not limited to the approval of final retail prices for these products.

In order to ensure the possibility of a systematic reduction in retail prices, the state determines the main price-forming factors for agricultural products on a planned basis. Since procurement prices are firmly established, the level of retail prices for agricultural products is determined by the costs of moving the products from the place of procurement to the consumer and by the profit margins of the corresponding economic organizations servicing the circulation of agricultural products. A new thing that characterizes the pricing of agricultural products at the present time is the transition to direct state regulation of costs and profits for each individual procurement and trading link serving the circulation of agricultural products.

The transition to such a direct state regulation of the costs and profits of procurement and trade organizations made it possible to significantly reduce the procurement and trade costs of agricultural products. The task is to ensure in state plans the necessary measures

to further reduce procurement and trade costs and, on this basis, to consistently reduce retail prices for agricultural products.

State rationing of the costs and profits of procurement and trade organizations means, at the same time, the direct planned establishment of wholesale prices for agricultural products for various stages of their advancement on the way to the consumer.

Here, for example, is how the price of potatoes is formed. The promotion of potatoes from the collective farm to the consumer includes the following three successive stages:

1. Blanks.
2. Wholesale.
3. Retail trade.

Accordingly, the retail price structure for agricultural products can be schematically represented as follows:

1. Average procurement price (for all sources of receipt of agricultural products: in the order of mandatory deliveries, delivery of state farm products, purchases through cooperation).

2. Costs and profits of procurement organizations.

Total wholesale price of procurement organizations.

3. Costs and profits of the wholesale link of trade.

Total wholesale price for retail outlet potatoes.

4. Costs and profits of a retail trade network (trade discount).

Total retail price.

Let us consider in more detail the structure of wholesale prices at which potatoes are sold by procurement and trade organizations.

The wholesale price of procurement organizations includes:

1. Procurement price.

## 2. Procurement costs.

Including:

- a) general and administrative and management expenses of procurement organizations;
- b) the costs of bringing products into a liquid state (sorting, sorting, and weighing);
- c) packaging costs;
- d) the cost of transportation from the near-station or near-station procurement point to the station or pier of departure;
- e) natural loss, shrinkage, losses during sorting, sorting, and short-term storage;
- f) forwarding expenses.

## 3. Profits of procurement organizations.

The wholesale trade price has the following structure:

1. Wholesale price of the procurement organization.
2. Costs of wholesale trade organizations.

Including:

- a) general and administrative and management expenses of wholesale trade organizations;
  - b) the cost of rail and water transportation;
  - c) the cost of road transport;
  - d) expenses for underworking and sorting;
  - e) natural loss in transit and during storage;
  - f) costs and losses in packaging.
3. Profit of wholesale trade organizations.

As mentioned above with the example of potatoes, the retail price of agricultural products differs from the wholesale trade price by the amount of the trade discount used to reimburse costs and the minimum profit of the retail chain.

<sup>1</sup> Pravda, March 11, 1950

## **State tariffs**

Along with wholesale and retail prices, the Soviet state sets tariffs for certain types of products of state-owned enterprises. The system of tariffs existing in the USSR includes, in particular:

- 1) tariffs for freight and passenger transportation of all types of transport (railway, river, sea, road, horse-drawn, etc.);
- 2) electricity tariffs;
- 3) tariffs for thermal energy;
- 4) tariffs of communication enterprises (post, telephone, telegraph, radio);
- 5) utility company tariffs;
- 6) the tariffs of entertainment enterprises;
- 7) rent rates.

How can one explain the existence of tariff systems along with wholesale and retail prices?

From what was said above about wholesale and retail prices, it is clear that they are set for products manufactured by enterprises in the branches of material production, that is, for “use values that have an independent form, separate from both the producer and the consumer, i.e., such objects that can exist in the interval between production and consumption can, therefore, circulate during this interval as salable commodities...”<sup>1</sup>.

The situation is different for products subject to tariffs. These products, as a rule, do not have an independent real form, separate

from both the producer and the consumer; the existence of these products, as well as their consumption, is inseparable from. productive act. Because of this, such products cannot exist in the interval between production and consumption, they cannot circulate during this interval as "commodities for sale".

Let's take a few examples to clarify this point.

The products of power plants - electrical energy - exist only in the process of its production; outside the production activities of power plants, electricity does not exist. Its consumption is inseparable from the production process, the cessation of electricity production means the simultaneous cessation of its consumption. At the same time, since the formation of reserves of produced electricity is excluded, the consumption of electricity determines the size of its production; Shortage of generated electricity by consumers would mean the actual loss of this part of the production.

The products of all branches of transport are freight and passenger transportation. It does not exist outside the production process carried out in transport. And here the cessation of production activity means the simultaneous cessation of the consumption of services provided by transport. At the same time, the consumption of transport services determines the size of the products created in transport. For example, the non-provision of goods by the clientele and the empty run of the rolling stock associated with this means at the same time a decrease in the volume of traffic. Products for which tariffs are applied, therefore, "refers to a special kind of use value delivered by labor that provides a service not in a *material* form, but in the form of *activity* ..." <sup>2</sup>. The scope of tariffs is industrial and consumer services.

Since tariffs serve to pay for industrial services, on the one hand, and consumer services, on the other, the general principles of the Soviet policy in the field of wholesale and retail prices are accordingly applicable to tariffs. However, the features of the service sector compared to the production of goods make significant differences in

the formation of tariffs in comparison with the formation of wholesale and retail prices.

Since in all the above examples the consumption of products (services for industrial and consumer purposes) is inseparable from the production process, the conditions for the consumption of this product significantly determine the level of costs for its creation.

For example, the greater the amount of useful supply of electricity to consumers, the lower the cost of 1 *kWh* of electricity. Therefore, from the point of view of the level of costs per unit of output, power plants are interested in the development of such energy-intensive industries that ensure the full and uniform use of all the electricity that they can generate.

For the level of the cost of transportation, it is not indifferent at all what the composition of the transport clientele is and how the vehicles provided at its disposal are used. So, it affects the cost of transport products in different ways, whether the transportation of goods is carried out in areas with significant reserves of throughput capacity and, in particular, reserves of rolling stock (empty mileage of wagons), or in very busy areas where there are no such obvious reserves. In the first case, at the same costs or with a slight increase, a sharp increase in the volume of traffic can be ensured, and thereby a reduction in their cost. In the second case, ensuring an increase in traffic will require, in addition to capital costs, also significant additional operating costs, causing an increase in the cost of production.

It is also not indifferent to the cost of transport products, what is the value of the distance of cargo transportation. A number of transport costs is a relatively constant value, independent of the distance at which transportation is carried out (costs for loading operations, train formation, etc.). Obviously, the shorter the transportation distance, the higher the level of these costs per 1 *ton/km* of transportation. Because of this, at the shortest distances (up to 50 *km*), the cost of 1 *t/km* reaches its maximum level.



Further, the use of the lifting force of the rolling stock of transport is associated with the characteristics of the goods transported (the ratio between their volume and weight).

So, when determining the amount of payment for wagon transportation by rail, the following differentiated loading rates are applied to one 2-axle wagon with a lifting force of 15-18 tons:

for coal	17 t
for coke	fifteen "
on industrial and agricultural machines, as well as means of transportation in	
disassembled	eight "
by means of transportation in unassembled form	3 »
on electric machines and batteries	17 »
on radio devices and radio accessories	6"
new electric light bulbs	four "
by old electric light bulbs	6"
on silk wool	eleven "
on cotton wool	3 »
according to earthenware	12 "
for aluminum utensils	6"

Thus, this or that composition of goods, since it determines the degree of use of the rolling stock of railways, has a different effect on the cost of transportation.

The situation is similar with the costs of enterprises in the non-productive sphere of activity.

Thus, the absolute size of the operating costs of entertainment enterprises practically do not depend on the attendance of theater performances by spectators. It follows that the number of viewers in different periods of time (for example, at evening and afternoon screenings, on holidays or working days) can significantly affect the level of costs for serving one viewer.

The above examples allow us to draw one very important conclusion.

In serial and mass production of industrial products, identical products produced by an enterprise at the same time (for example, within one month) have the same cost of their production. At the same time, the value of the cost of production of a product is not affected by the circumstance which consumer and how it consumes. The situation is different in the sphere of industrial or consumer services. Here, services provided to different consumers result in different levels of costs.

The unity of costs for the production of the same industrial product intended for different consumers serves as the material basis for the unity of prices for identical products. Differentiated costs for services provided to different consumers serve as the material basis for differentiating tariffs for consumers.

A distinctive feature of tariffs in comparison with wholesale and retail prices is their differentiation by consumers.

What are the principles of tariff differentiation? In our literature on tariff issues, one often comes across such a point of view that the differentiation of tariffs should be limited only to taking into account the difference in the cost of production. According to economists who share this point of view, the most rational system of tariffs would be a system based on the cost of individual services and a single rate of return. It seems to us that such a point of view is one-sided and therefore incorrect.

Tariffs, as a kind of planned price, must, of course, take into account in their construction the objective need for cost recovery in the

industries providing services. However, the economic significance of tariffs goes far beyond this. So, a feature of production services is that they cover all or almost all branches of the national economy or life. Indeed, is there such a branch of the national economy or socio-cultural area, the development of which would not be associated with the consumption of electricity or transport services? That is why tariffs are such an instrument with the help of which the Soviet state actively influences the economy of the sectors of the national economy that consume certain services, stimulating them to the rational distribution of productive forces, saving raw materials and fuel resources, rational use of vehicles. Tariffs, insofar as they serve the sphere of personal consumption, are used by the state in the interests of the planned organization of consumer demand and, in particular, in the interests of an all-round increase in the share of socio-cultural services in the consumption of workers.

Therefore, mechanical equalization in determining tariffs for the cost of certain types of services would mean a refusal to use them as an important tool in the economic, organizational, and educational activities of the Soviet state.

Moreover, the construction of tariffs taking into account only the reimbursement of enterprises' costs could in some cases even lead to the fact that the self-supporting incentives of enterprises would come into conflict with the general state interests. To confirm this position, we will cite several examples from the practice of setting tariffs in railway transport. From the point of view of the cost of rail transportation, the most favorable are long-distance transportation. Therefore, if railway transport tariffs were built in relation to the narrow departmental interests of this branch of the national economy, they should have taken into account the need to stimulate shippers who carry out transportation over long distances. But excessive, not caused by national interests, the range of transportation is evil, because it leads to significant losses for society as a whole of material values and living labor. What transport gains by reducing the cost of transportation is more than offset by these

losses. It is obvious, therefore, that national interests should take precedence over narrow departmental considerations in determining tariffs. And therefore, as we will see later, the tariffs of railway transport provide for the conditions for stimulating shippers to reduce the distance of transportation.

Consider the following example from the same area. As we have already indicated above, from the point of view of the cost of rail transport, the most undesirable are the transportation of bulk cargo over the shortest distances. However, in a number of cases such transportation, which is "unprofitable" for the railways, is quite rational from the point of view of the national economy as a whole.

We mean, for example, the transportation of local fuel over short distances, which, by facilitating the replacement of long-distance fuel with local fuel, increases the national fuel resources and leads to savings in vehicles.

It turns out that when constructing tariffs, one cannot proceed from a single rate of profit, that the differentiation of tariffs must take into account not only differences in the cost of production, but also provide for differences in the level of profit. Moreover, in necessary cases, when it is dictated by the national economic interests, it is lawful to set tariffs for certain types of services below the cost price while ensuring reimbursement of the costs of the industry as a whole.

Features of tariffs are reflected in their structure. Recall that wholesale prices for industrial products have the following structure: - 1) the cost of production, 2) the profit of the enterprise, 3) turnover tax (for goods subject to turnover tax), 4) the costs of wholesale marketing of products (when selling goods through centralized sales organizations).

Retail prices include another element: retail costs. Tariffs break down only into the following two elements: the cost of production and profit. The only exception is electricity tariffs, which also include VAT.

## **Rates for Freight transportation by Railway Transport**

Railway transport carries out the decisive part of freight traffic in the USSR. The costs of rail freight transportation are one of the most important elements of the cost and wholesale prices of many of the most massive types of products of the national economy: fuel, metals, timber, building materials, petroleum products, some food products, etc.

Therefore, by determining the level of railway tariffs, the Soviet state thereby actively influences the economy of the branches of the national economy in a direction consistent with its economic policy.

When constructing tariffs, the need to stimulate is taken into account:

a) rational geographical distribution of the country's productive forces on the basis of bringing industry closer to sources of raw materials and fuel and thereby eliminating unnecessarily long distance transportation;

b) improving the use of vehicles in the national economy in every possible way (full use of the lifting power of wagons, accelerating their turnover, reducing the empty mileage of wagons, expanding the practice of transporting goods by sending routes, eliminating counter traffic, etc.).

In order to solve these problems, railway tariffs provide for the differentiation of payment for transportation depending on: a) the nature of the cargo; b) transportation distances; c) speed of transportation (high and low speed); d) the scale of transportation (shipping routes, carload, and small shipments).

Rail freight rates include:

a) basic tariff rates, uniform for each cargo for the entire territory of the USSR;

b) premiums or penalties paid depending on the quality of use of vehicles;

c) exclusive (reduced and increased) tariffs for transportation in certain directions, providing for special conditions for stimulating or restricting the transportation of certain goods;

d) additional charges for the performance by railways of certain works on behalf of consignors.

The current tariff schemes provide for the establishment of tariffs in two forms: in the form of a single rate applied at any distance (proportional tariffs), as well as in the form of so-called differential rates, i.e., changing depending on the distance.

It should be noted that the application of proportional tariffs is an exception and applies only to vehicles traveling on their own axles (covered wagons, platforms, tanks, single tenders, steam locomotives, other means of transportation), as well as when transporting household goods of the Ministry of Railways, intended for needs of operation (maintenance of the path and road connections). As for the rest of the goods, they are subject to differential tariffs.

The construction of tariff schemes for goods, therefore, implies the need to differentiate the average tariff (revenue) rate by distance. This differentiation comes down, first of all, to the determination of the initial rate and the so-called growth rates for tariff zones.

The initial rate is the payment for the transportation of goods over the shortest distance. *For all cargoes, except for peat, slates and sugar beet, transportation of 50 km is taken as such the shortest distance* . In the current tariffs, it is assumed that the initial rates are 3-5 times higher than the rates at a distance of 3 thousand *km* , except for peat and shale, where this coefficient is 1.5.

Differences in the level of tariffs for individual cargoes find their expression primarily in the differentiation of initial rates. The lowest rates are for mass types of industrial raw materials and fuels, higher rates are for finished products that are not further processed, as well as for those types of raw materials that are used to manufacture products subject to turnover tax.

So, if we take the initial rate for coal, established from January 1, 1952, as 1.0, then the initial rates for other cargoes were:

for all kinds of ore and firewood	1.0
» cotton	2.0
» tobacco	2.3
» wooden furniture	3.2
» industrial machines	2.3

The establishment of lower tariffs for mass types of industrial raw materials is in the interests of implementing the Soviet policy of lowering prices. Since the cost of raw materials and fuel is repeatedly transferred by living labor to the products of many branches of industry, limiting the level of tariffs for raw materials and fuel is an important factor in reducing the cost of industrial products.

A higher level of tariffs for finished products that do not go into further processing cannot have such a significant impact on the general level of prices for industrial products. The same should be said with regard to raw materials used to manufacture products subject to turnover tax, since here one or another level of tariffs will affect not the price level of industrial products, but the amount of turnover taxation.

As for the so-called build-up rates, different principles for their construction are applied for different product groups.

So, for those goods, the restriction of the transportation distance of which is currently inappropriate, a gradual reduction in rates per 1 ton / km is provided.

With regard to a number of goods, it is still impossible to go for a direct restriction of long-distance transportation under the conditions

of production. However, it is quite advisable to apply incentives to gradually reduce the distance of transportation of these goods as well. To this end, the tariff schemes adopted for such goods provide that, after a certain distance, the reduction of rates per 1 ton/km of transportation stops. Thus, from this distance, tariffs turn from differential into proportional ones.

Let us cite as an example the tariff scheme for cotton in the form in which it was put into effect on January 1, 1952.

### Tariff scale

Distance (km)	Rate for 1 t/km (kop.)	Distance (km)	Rate for 1 t/km (kop.)
fifty	21.92	1 300	4.67
75	15.78	1500	4.61
150	9.65	1700	4.57
250	7.20	1900	4.53
350	6.15	2200	4.49
500	5.36	2500	4.49
700	5.04	2700	4.49
900	4.86	2900	4.49
1 100	4.76	3000	4.49

Finally, for a number of cargoes, state interests require direct restrictions on long-distance transportation. In this case, from a certain distance, tariffs become prohibitive. Not only do they not decrease as the transportation distance increases, but, on the contrary, they increase.

Such a construction of tariffs is accepted for coal, ore, ferrous metals (except for rolled products), timber, firewood, local building materials, cement, peat and shale, salt, sugar beets, and potatoes.



As an example, we present the tariff scheme for peat and shale in the form in which it has been in force since January 1, 1949.

### Tariff scale

Distance (km)	Rate for 1 t/km (kop.)	Distance (km)	Rate for 1 t/km (kop.)
25	20.00	1 100	11.73
fifty	12.00	1 300	11.92
75	8.80	1500	12.06
150	6.67	1700	12.18
250	7.40	1900	12.26
350	9.00	2200	12.36
500	10.20	2500	12.44
700	11.00	2700	12.48
900	11.44	2900	12.51
		3000	12.51

For the convenience of calculating the payment for the carriage of goods on the basis of tariff schemes, calculation tables are being developed. In these tables, the rates are differentiated by tariff zones.

The system of belts is adopted uniform for all cargoes, namely:

From 51 to 100 km	5 belts of 10 km
From 101 to 300 km	10 belts of 20 km
From 301 to 600 km	10 belts of 30 km
From 601 to 1000 km	10 belts of 40 km
From 1001 to 1500 km	10 belts of 50 km
From 1501 to 5500 km	40 belts of 100 km

From 5501 to 13500 km	40 belts of 200 km
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The peculiarity of the current tariffs of railway transport is that the payment for the carriage of goods is determined on the basis of wagon shipments. At the same time, the estimated loading rate is established for each cargo. Since the consignor pays the railway tariff for the carriage of goods, regardless of the actual loading of the wagon, this circumstance cannot but stimulate the better use of the wagon's lifting power. Since, in addition to carload shipments of goods, small shipments are also actually used, the rates of railway transport provide for the amount of payment for these shipments. However, they are built on the basis of the wagon tariff, which is the main tariff for rail freight transportation.

Along with the main tariffs for the carriage of goods by rail, as mentioned above, bonuses, on the one hand, and fines, on the other, paid depending on the quality indicators of the use of vehicles by shippers, have been widely used. For example, from the point of view of accelerating the turnover of wagons, the transportation of railway cargo by sending routes is very effective. Therefore, the tariffs stipulate that when goods are transported by sending routes, the road administration pays bonuses to the consignor of the cargo, the amounts of which are differentiated depending on the route category, type of cargo and transportation distance. The premium is further paid if the consignor presents an enlarged batch of small shipments, for example, if the number of goods included in such a batch *tons* for a 2-axle and 18 *tons* for a 4-axle wagon.

The premium is paid to the consignor and recipient also for the acceleration of the turnover of wagons, i.e., for the early release of wagons in comparison with the time set for loading and unloading them by means of the sender and recipient.

At the same time, the tariffs provide for the collection of fines from shippers and recipients in all cases of irrational use of vehicles placed at their disposal: for failure to comply with the norms for loading wagons established by the monthly plan, for demurrage of wagons,

for underloading wagons, for failure to comply with the norms for exporting goods at night, for untimely delivery of wagons for loading and unloading, etc.

The system of exceptional (increased or reduced) tariffs is of the greatest economic importance. If bonuses or fines are intended to influence the acceleration of the turnover of wagons and a more complete use of their carrying capacity, then exceptional tariffs are designed to contribute to the rational organization of cargo flows and, in particular, to ensure the implementation of the following tasks:

1. Stimulate cargo flows in directions with capacity reserves and limit cargo flows in busy directions. So, for example, rail transportation of grain in grain to Central Asia from Ukraine, the Caucasus and Transcaucasia is irrational in the presence of less loaded routes from Siberia. Therefore, the tariffs provide that for the transportation of bread from all stations of the Transcaucasian, Ordzhonikidze, Donetsk, North Caucasian, Stalin, South-Eastern and Southern railways to all stations of the Ashgabat and Tashkent railways, the fee is charged with an increase of 50%.

2. Eliminate unnecessarily long-distance interregional transportation of products, which is not caused by the conditions of production and material supply of the national economy. For example, when transporting coke from Ukraine to the eastern regions of the country, where there is a coke-chemical industry of its own, the fee is charged according to the general tariff with an increase of 100%. A 100% higher tariff is also applied for the transportation of, for example, ore from the stations of the Stalinist railway to the stations of the Sverdlovsk, South Ural, Karaganda, Omsk, and Tomsk railways. When transporting roofing iron from the stations of the Tomsk railway to the stations of the Donbass roads, the fee is charged according to the general tariff with an increase of 25%.

3. Ensure the correct organization of transportation in time (mitigation of the seasonality of transportation). The summer-autumn period is the most stressful in terms of transportation due to the

seasonality of transportation of bulk agricultural goods. Under these conditions, it is especially important to stimulate the transportation of water (river and sea) transport. To this end, the tariffs of railway transport provide for the use for the period of navigation (in most directions - from May 1 to September 30) of exceptionally increased tariffs for the carriage of goods in a continuous railway communication parallel to water transport. The exclusive tariffs that encourage water transportation will be discussed in more detail below, in connection with the question of the combination of tariffs for different modes of transport.

4. To materially interest shippers in the transportation of products in a more transportable form. For example, when transporting furniture in finished form, the loading rate of the wagon is 6 tons. When transporting it in the form of parts, the loading rate of the wagon will be at least 10 tons. Therefore, the tariffs provide that when transporting wooden furniture not dismantled by wagons over a distance of more than 600 km, a fee is charged with a 100% increase. For carload transportation of coal and peat in the form of a briquette, a 20% discount is made from the total tariff.

5. Encourage the transportation of local products by reducing the importation of long-distance products. For example, in order to encourage the delivery of coal from Moscow Region to the zone of their rational consumption, a discount of 50% from the general tariff is applied for the transportation of this coal. When transporting local coals from other basins, a 20% discount is applied.

At the same time, surcharges are applied to the tariff for the transportation of local types of raw materials and materials over long distances. So, when transporting earth, sand, and clay over a distance of more than 150 km, the fee is collected at the general rate with an increase of 75%. When transporting building stone and lime over a distance of more than 250 km, the increase against the general tariff is 50%, when transporting building brick over a distance of more than 300 km - 75%, etc.

## **Tariffs for Water (River and Sea) Transport**

Tariffs for cargo transportation of the river fleet differ from the tariffs of railway transport, first of all, by greater differentiation. Differentiation of tariffs was carried out not only depending on the type of cargo, speed of transportation and distance, but also depending on which river route transportation is carried out, as well as on the type of transportation.

To determine the fee, all river routes along which transportation is carried out are grouped into 5 classifications that differ in the level of tariffs. As a result, within the same shipping company, several different tariffs may operate on different sections of the route. For example, in the North-Western Shipping Company, the Leningrad-Vyborg line belongs to the second classification, the stretch between the points of the Vyborg pier belongs to the third classification, and the stretch between the rest of the shipping company's marinas belongs to the first classification.

The differentiation of tariffs depending on the place and direction of transportation is based on the existing sharp differences in the conditions of transportation on individual rivers and sections of rivers, which is reflected in the cost level. However, with such differentiation within the limits of even the same shipping company, the procedure for calculating the total distance of transportation is extremely complicated. Therefore, the introduction of greater uniformity in the system of river tariffs is undoubtedly an important task.

Differentiation of tariffs for river transportation depending on the type of transportation is due to the fact that there are various ways of delivering goods on river transport: a) transportation of dry cargo on ships; b) transportation of oil cargoes in bulk; c) raft towing; d) towing ships.

At the same time, the cost of river transportation, depending on the method of delivery of goods, is significantly different. Thus, the cost of transporting oil cargo in bulk, as well as transporting timber cargo

in rafts, is significantly lower than the cost of transporting the same cargo by rail. As for the cost of transporting dry cargo on ships, on the whole it does not differ significantly from the cost of rail transport, and in a number of directions it even exceeds it.

The current tariff guide of the river fleet, therefore, provides for different tariffs for each of the listed methods of cargo transportation.

In addition, the rates are divided into:

- a) basic rates;
- b) exclusive tariffs, the application of which is limited to certain goods, a certain section of the route or a certain area of operation;
- c) local tariffs (set by the Ministry of the Sea and River Fleet in agreement with the executive committees of local Soviets) for the transportation of goods along local rivers.

The construction of tariffs for dry cargo carried on ships is carried out as follows. Certain types of cargo included in a particular commodity group are divided into positions.

Tariffs, depending on the level, are divided into 26 tariff classes, with the highest in terms of tariffs being the 1st class and the lowest being the 26th class.

Differentiation of river tariffs depending on transportation distances has one important feature in comparison with rail transport. If in relation to railway transport the task is to limit the range of transportation, then in river transport, on the contrary, the maximum attraction of long-distance cargo, an increase in the range of transportation, is essential. Therefore, typical for the tariffs of the river fleet is a gradual decrease in the payment for the transportation of 1 *t/km* of cargo as the distance of transportation increases.

Tariffs for the carriage of goods by sea have the following differences from the tariffs of the river fleet:

- a) differentiation of tariffs depending on the method of transportation provides for special tariffs for dry cargo and oil shipping

companies; payment for towing rafts is calculated on the basis of tariffs for the carriage of goods on ships with an appropriate discount;

b) differentiation of tariffs depending on which shipping companies carry out transportation, provides for the existence of two classifications instead of five for river transport: the Azov, Caspian, Sochi, Black Sea shipping companies *also* include classification No. 1, the rest of the shipping companies belong to classification No. 2. Within the same shipping company does not exist, as is the case in river transport, different tariffs;

c) the number of tariff classes in the navy is 21 instead of 26 in the river fleet;

d) the collection of fees for loading and unloading operations has been significantly simplified in comparison with the river fleet; instead of differentiated rates for individual operations, as in river transport, lump-sum rates per ton of cargo are used in maritime transport.

### **Combination of Tariffs for different modes of transportation**

In addition to rail, river and sea tariffs, the government approves tariffs for road and horse-drawn transport. The existence of tariffs of different modes of transport for the carriage of the same cargo makes it necessary to ensure the correct ratios between these tariffs. Thus, it is necessary to ensure the correct combination of tariffs for local (for example, road) transport with rail transport. When transporting over short distances, the full use of road transport is advisable. To this end, conditions are being created that encourage the use of road transport by shippers instead of rail. This is achieved in two ways:

a) a systematic reduction in tariffs for road freight transportation based on a reduction in the cost of road transport and a reduction in prices for fuel, rubber, spare parts, and other materials;

b) setting tariffs for rail transportation over short distances at a significantly higher level than the average.

Further, the system of transport tariffs should ensure the all-round attraction of goods for water transport.

This is achieved, firstly, by harmonizing railway and water tariffs in parallel directions, in which the payment for transportation by river and sea transport is set at a lower level than for rail transport; secondly, the tariffs provide for a special promotion of transportation in mixed rail and water traffic. Thus, the tariffs of railway transport provide that in the case of transportation of goods in direct mixed railway-water traffic for the railway part of the route, the freight charge is collected at the corresponding general tariffs with a 30% discount.

However, when agreeing on the whole tariffs of railway and water transport in certain directions, it may still turn out that the transportation of individual goods in a continuous railway connection is cheaper than in transportation in a mixed railway-water transport or in direct water transport.

In order to eliminate this kind of private discrepancies in tariffs, exceptional increased (navigation) tariffs are applied in railway transport. So, for example, when transporting coal from May 1 to September 30 in continuous rail traffic from Donbass stations to Volga pristan stations, payment is charged with an increase in the total tariff by 50%. When transporting cement in the same period in a continuous railway communication from the stations of the Stalinskaya railway to the pristan stations of the Dnieper River, located outside the Stalinskaya railway, the fee is charged according to the general tariff with an increase of 100%. When transporting cement from the cement plants of the Volga group to all stations adjacent to the Volga main lines, in continuous railway traffic, the fee is charged according to the general tariff with an increase of 50%.

In turn, the tariffs of river and sea transport provide for the reduction of fees for the water part of the route by several classes for the transportation of individual goods in direct mixed railway-water traffic.



## **Tariffs for Electric and Heat Energy for National Economy needs**

A feature of tariffs for electric and thermal energy is their differentiation by consumers. Thus, electricity tariffs are set separately for industrial consumers, for electric transport, for city trams and trolleybus services, for consumers with small motor loads, for the Moscow Canal, for lighting, etc. At the same time, the lowest tariffs are applied for industrial electricity consumption, the highest tariffs are for lighting. The existence of a centralized supply of electricity to wholesale consumers (cities) receiving energy from common meters and then distributing it through their own power grids has necessitated the establishment of special tariffs for resellers.

Within the limits of tariffs for industrial needs, there are especially reduced, preferential tariffs for the most energy-intensive industries.

Tariffs for electricity and heat energy are designed in such a way as to encourage consumers to consume electricity evenly and reduce its losses. For this purpose, for large industrial consumers (with the connected power of transformers or electric motors of 50 kVA and above), as well as for resellers of electrical energy with a maximum load of 1,000 kW and above, a two-part tariff system has been established.

The two-part tariff for electricity consists of:

- a) the basic fee paid for the total power of transformers or electric motors or for the maximum load, regardless of the amount of energy consumed;
- b) an additional fee for each released kilowatt-hour of active energy, accounted for by the meter.

Heat tariffs also consist of a fixed fee for each maximum megacalorie per year and an additional fee for each megacalorie actually consumed. Obviously, in cases where consumers do not provide uniform consumption of electrical and thermal energy, they incur losses due to the constant part of the tariffs.

Stimulating consumers to reduce losses of electrical and thermal energy is achieved by applying premiums and penalties for the "cosine of phi" (for electrical energy) and for the return of condensate (for thermal energy).

<sup>1</sup> *K. Marx* , Theories of Surplus Value, vol. 1, Partizdat, 1936, p. 264.

<sup>2</sup> *K. Marx* , Theories of Surplus Value, vol. 1, Partizdat, 1936, p. 261.

### **State procurement prices**

The economic turnover of agricultural products in modern conditions is based on the development of socialist production in two main forms: state (national) and collective-farm-group.

Industrial enterprises, including enterprises that process agricultural raw materials and also manufacture implements of production and consumer products for the countryside, with the exception of a certain number of cooperative enterprises, constitute public property; their products are fully controlled by the state, distributing them in accordance with the needs of the material life of society.

As far as agriculture is concerned, the bulk of its products are produced on collective farms. The collective farm, as you know, is an unusual enterprise. The collective farm operates on land that is public property. It carries out its production activities with the help of the main instruments of production, which also represent public property. With the strengthening of the social economy and the growth of technical progress in collective-farm production, an increasing part of the work carried out on collective farms is carried out with the help of tools of production concentrated in state machine and tractor stations (MTS). At the same time, the collective farm is a group, cooperative enterprise. He owns a part of the means of production: seeds, which are renewed annually and go into production, working and productive lambing.

Insofar as the collective farm carries out production by the labor of its members and at its own expense, the results of production belong directly to the collective farm and can be drawn into the national

circulation only by exchanging it for the output of state enterprises. Hence the need to use the commodity-money form of communication between collective farms and state industry.

However, commodity circulation is not the only, universal form of economic circulation of the products of collective farm production. The existence of state ownership of the main means of production and the operation of the law of planned, proportional development of the national economy cannot but lead to a certain limitation of the scope of commodity circulation in the turnover of collective farm products.

The participation of state machine and tractor stations in the production process of the collective farms presupposes direct reimbursement of the state's expenses connected with this in the form of payment in kind by the collective farms for the services of the MTS. Products supplied to the state in the order of reimbursement of production costs of the MTS do not take on the external appearance of the goods, here there is a mutual exchange of activities that are not mediated by commodity-money relations.

The economic turnover of agricultural raw materials between collective farms and state industry is mediated by commodity-money relations (contracting raw materials at state prices). However, it is based not on the free play of supply and demand, but on the levels of production of agricultural raw materials firmly established by the plan. Deliveries of the latter are directly included in the state planning system and serve as a material justification for the plan for the production of consumer goods and the plan for the turnover. Mandatory deliveries of agricultural products are also directly included in the system of state planning.

The system of compulsory deliveries is based on the fact that the collective farms operate on state-owned land and with huge production assistance from the state. This is the basis for the establishment of such relations between the state and collective farms in the economic turnover of consumer products of collective farms,

which at the same time provide a solid, stable base for the food supply of the population and create incentives for the continuous growth and improvement of collective farm production. Compulsory deliveries are determined in the form of fixed norms per hectare of land assigned to collective farms.

They cover only a certain part of the consumer products of the collective farms and assume that all surpluses of this product, after the fulfillment of obligations to the state, remain at the full disposal of the collective farms. "After the fulfillment of obligations to hand over grain and rice to the state, all surplus grain remains at the complete disposal of collective farms, collective farmers and individual farmers" <sup>1</sup>. The collective farms dispose of these surpluses at their own discretion, guided by the Rules of the Agricultural Artel.

The exemplary Rules of an agricultural artel provide for the following procedure for the distribution of collective farm products remaining at the disposal of collective farms after fulfilling obligations to the state for the supply and return of seed loans and payment in kind for the work of the MTS.

First of all, the artel forms public funds (seed, fodder, etc.). Further, the artel allocates, in amounts determined by the general meeting of the members of the artel, part of the products for sale to the co-operatives (or state bodies) and on the market. The artel distributes the rest of the harvest and livestock products among its members according to workdays. Thus, the Law on Compulsory Deliveries and the Charter of the Agricultural Artel presuppose the right of collective farms to sell the commodity surpluses remaining after the fulfillment of obligations to the state, cooperatives (or state bodies) and on the market.

Sale of the specified commodity surpluses is carried out on the basis of free purchase and sale. At the same time, consumer cooperation (or a state organization that makes purchases) is limited in its purchases by the level of marginal purchase prices. The collective farms, on the other hand, decide the question of the desirability and extent of the

sale of surplus commodities at their own discretion, taking into account their economic benefits.

Consequently, the economic turnover of collective farm products is carried out in various forms:

- 1) in the form of reimbursement of production costs of state enterprises serving collective farm production (payment in kind by MTS);
- 2) in the form of compulsory deliveries of agricultural products to the state;
- 3) in the form of deliveries of agricultural raw materials by collective farms to the state in the order of contracting;
- 4) in the form of free sale of commodity surpluses to cooperatives (or state organizations) and on the market.

In economic relations between state industry and collective farms, which are mediated by the turnover of collective farm products, the Soviet state takes into account the necessity of observing the principle of the material interest of collective farms and collective farmers in the development and improvement of collective farm production.

The principle of the material interest of each enterprise and each worker in the results of his labor is one of the fundamental principles of socialist management. Socialist society establishes a direct relationship between the results of each worker's labor and his share in the total consumption fund, and thereby creates the conditions for the worker's personal material interest in raising the productivity of his labor. Combining in this way individual interests with social interests, socialist society transforms personal material interest into a powerful driving force of social production.

V. I. Lenin, in his article "On the Fourth Anniversary of the October Revolution," pointed out that it is possible to prepare the transition to communism "not on the basis of enthusiasm directly, but with the help of the enthusiasm born of the great revolution, on personal interest, on personal interest, on economic calculation .. »<sup>2</sup>.

Speaking with a report at the II All-Russian Congress of Political Education, V. I. Lenin again pointed out: "... every large branch of the national economy must be built on personal interest"<sup>3</sup> .

If the principle of the material interest of workers in the results of their labor is one of the fundamental principles of socialist economic management, then it cannot fail to find its consistent expression in the economic relations between the two kindred classes of socialist society—the working class and the peasantry—the union between which serves as a solid foundation for the socialist state. workers and peasants.

The practice of socialist construction in the USSR shows that strict observance of this principle of socialist economic management is a powerful engine in the development of agricultural production. At the same time, in those areas of agriculture where the principle of the material interest of collective farms and collective farmers in the results of their labor is violated, this inevitably leads to a lag in the development of agricultural production.

The socialist state uses the law of value, the form of value, in the interests of socialist economic management.

This manifests itself:

firstly, in the need to take into account, when pricing agricultural products, reimbursement of the costs of collective farms for their production: the sum of all incomes of collective farms, both in cash and in kind, should reimburse their costs of production as a whole, ensure conditions for accumulation on collective farms and a progressive increase in income of collective farmers from the public economy;

secondly, in the need to ensure correlations in prices for various types of agricultural products, taking into account differences in labor costs for their production;

thirdly, it is necessary in all cases when the procurement of agricultural products is carried out on the terms of the counter sale of

goods by the state (“commodification”), the establishment of value relationships between interchangeable products that correspond to the ratios between them in terms of labor costs.

At the same time, the issues of procurement prices cannot be considered outside of the implementation of a policy of consistent reduction in state retail prices for consumer goods.

Establishing procurement prices for agricultural products and raw materials at a level that would make it impossible to reduce state retail prices for consumer goods would not be in the fundamental interests of the people.

In accordance with various forms of economic turnover of agricultural products in the economy of the USSR, there are the following types of procurement prices for agricultural products and raw materials supplied and sold to the state:

procurement prices for agricultural products supplied to the state in the order of mandatory deliveries;

procurement prices for agricultural raw materials supplied to the state in the order of contracting;

purchase prices for agricultural products purchased from collective farms and collective farmers after they have fulfilled their obligations to the state.

The formation of procurement prices and the role of the law of value in this matter have significant differences in various forms of economic turnover of collective-farm production. As already noted in the first chapter, the law of value does not have a regulating effect on the formation of prices for agricultural raw materials, but is one of the factors in this matter. Due to the nationalization of the industry for processing agricultural raw materials and the concentration in the hands of the state of the main tools for the production of this raw material on collective farms, agricultural raw materials cannot be sold to any buyer. The only consumer of agricultural raw materials is the state industry. Therefore, procurement prices for agricultural raw

materials, as well as other forms of reimbursement for production costs used in the procurement of these raw materials ("commodification"), entirely determine the gross income and conditions for expanded reproduction on collective farms specialized in the production of agricultural raw materials.

The situation is different with the consumer products of the collective farms, which are placed at the disposal of the state in the order of obligatory deliveries. The system of obligatory deliveries assumes that only a part of the output produced by the collective farms is placed at the disposal of the state. After the fulfillment of obligations to the state and payment in kind for the work of the MTS, the bulk of the output remains at the disposal of the collective farms, is distributed mainly according to workdays, and is sold in significant quantities to the cooperatives (or state organizations) and on the market. The need to compensate for the socially necessary costs of collective farms, the value of products created by their labor, is carried out in relation to the entire mass of products produced, including that which is consumed within the collective farms, and also sold) at higher prices to consumer cooperation (or state organizations) and on the market. Therefore, procurement prices for products placed at the disposal of the state in the order of obligatory deliveries do not and cannot determine, under modern conditions, all the income of collective farms from the production of this product.

The amount of income of collective farms from the delivery and sale of products for which there is a system of mandatory deliveries is determined not only by the level of procurement prices, but to a decisive extent also by what part of the total output produced by collective farms goes to the state through mandatory deliveries, and what part remains at the disposal of collective farms. and can be used at their discretion, including sold at higher purchase prices, as well as on the market.

It is obvious that the greater the proportion of the total output of a particular branch of agricultural production produced by the collective farms is made up of compulsory deliveries, the greater the



income of the collective farms is directly determined by the level of procurement prices for mandatory deliveries, and vice versa. That is why, for example, with the increase in procurement prices for a number of agricultural products, carried out in September 1953, the question of increasing the income of collective-farm production was solved differently in relation to livestock products, on the one hand, and to potatoes and vegetables, on the other.

In the production of meat, the volume of obligatory deliveries of which, taking into account the interests of national consumption, was increased, the growth of incomes of collective farms was ensured by a sharp increase in procurement prices and a simultaneous increase in purchase prices. As regards potatoes and vegetables, at the prevailing retail prices it was impossible to go for such a significant increase in procurement prices.

In addition to raising procurement prices, the growth of collective farm incomes under these conditions was ensured by reducing the volume of mandatory deliveries. This increased the share of products that can be sold at higher purchase prices, as well as on the market.

Insofar as the consumer products of the collective farms, which are sold to the cooperatives and state organizations, are included in commodity circulation, the formation of prices for these products is carried out under the regulating influence, of course, within certain limits, of the law of value. Unlike the collective-farm market, purchase prices are not formed spontaneously on the basis of supply and demand, but are set by the state. However, when setting these prices, the state considers the need to create conditions for the economic profitability of selling the products of cooperation (or to state organizations). Purchase prices are obviously not indifferent to how the price level changes on the collective-farm market. The lower the level of market prices, the more strengthened the collective farms (material incentives to sell the products of cooperation (or state organizations)). In general, the level of purchase prices is below market prices. And if, with a significant difference in prices, cooperation and state organizations have the opportunity to make

significant purchases of agricultural products, this is due to the fact that:

1) purchases of large batches of collective farm products free the latter from significant transport and trade expenses, not to mention the fact that they lead to large savings in labor power, which is usually diverted for collective farm trade;

2) purchases of agricultural products are combined with countertrade, profitable for the collective farms, in goods necessary for their production and household needs (cars, building materials, feed, etc.).

Let's move on to the presentation of the issues of constructing procurement prices for products delivered in the order of contracting and mandatory deliveries.

Practice shows that the principle of the material interest of collective farms in the development of collective farm production is most consistently and successfully applied in sectors that produce agricultural raw materials supplied by contract (cotton, sugar beets, tea, grapes, etc.), and this circumstance to a decisive extent determined the high the pace of development of these branches of agriculture.

The material interest of the collective farms in the production of cotton and other industrial crops is ensured primarily by the high level of basic procurement prices, which ensure the reimbursement of the costs of collective farm production.

Further, a feature of procurement prices for these crops is the use of premiums, increments that progressively increase as the yield increases and the size of the supply of products per hectare. This bonus system was first introduced for cotton in 1935, and after its successful application was extended to other industrial crops.

The essence of this system is the progressive growth of the revenues of collective farms as the supply of agricultural raw materials to the state increases. The use of the system of premiums-surcharges had an

exceptionally effective impact on the fulfillment of plans for the supply of cotton to the state. If in 1934 the cotton harvest in the USSR was only 12 million *centners*, then in 1936 it was already 24 million *centners*. In two years, the cotton harvest has doubled. In subsequent years, the yield and gross harvest of cotton continued to grow unceasingly. The success of the system of premiums-surcharges led to the fact that it was extended to all types of agricultural raw materials. Thus, for cotton of Soviet varieties, the following scale of premiums-surcharges for irrigated areas is applied: if the plan for the delivery of raw cotton is not more than 6 *centners* per hectare, for each *centner* delivered in excess of the plan, a surcharge is issued to the basic procurement price in the amount of 50%; if the plan for the delivery of raw cotton is more than 6 *centners*, but not more than 10 *centners* per hectare, for each *centner* delivered in excess of the plan, an allowance is issued to the basic procurement price in the amount of 100%; if the plan for the delivery of raw cotton is more than 10 *centners*, but not more than 15 *centners* per hectare, for each *centner* delivered in excess of the plan, an allowance is issued to the basic procurement price of 150%. The same amount of allowances is paid to collective farms with a plan to deliver raw cotton per hectare in excess of 15 *centners* for each *centner* delivered in excess of 15 *centners* within the approved plan; with a plan for the delivery of raw cotton over 15 *q* per hectare for each *centner* delivered in excess of the plan, a surcharge is issued to the basic procurement price in the amount of 200%.

For sugar beets supplied to the state industry, premiums are also provided for, progressively increasing depending on the increase in the delivery of sugar beets to the state. So, in the old beet-growing regions, with a plan for the delivery of beets in excess of 120 *centners* per hectare for beets delivered in excess of 80 *centners* to 100 *centners* per hectare, premiums are paid in the amount of 100% of the basic price; for beets sold in excess of 100 *centners* to 120 *centners* per hectare - in the amount of 200% of the basic price, and for beets sold in excess of 120 *centners* per hectare - in the amount of 300%.

For tobacco, the following scale of progressive premiums-surcharges is applied: if the contracting plan is exceeded by up to 25%, premiums-surcharges are paid in the amount of 100%, and if the plan is exceeded by more than 25% - in the amount of 150% for the entire quantity delivered in excess of the plan. In addition, in some areas of tobacco growing, bonuses of 50% are applied when tobacco is delivered within the plan, but not less than the established number of centners per hectare.

For fiber flax in the main areas of flax growing, the following premiums are applied: with a contracting plan of up to 100 kg per hectare, a premium of 150% is paid for the entire amount delivered in excess of the plan; with a contracting plan in excess of 100 kg per hectare, but not exceeding 150 kg, for the entire amount in excess of 100 kg, a premium is paid in the amount of 100%, and for an excess delivery - in the amount of 200%; with a contracting plan of more than 150 kg per hectare, but not more than 200 kg, for the entire amount handed over in excess of 100 kg, a 100% bonus is paid, and for products in excess of 250%; with a contracting plan over 200 kg per hectare, for the entire amount delivered in excess of 100 kg, a premium-surcharge of 100% is paid, and for an excess delivery - in the amount of 300%.

Another feature of the system of procurement of agricultural raw materials is that the reimbursement of the expenses of the collective farms in the supply of this raw material is carried out not only in the form of cash payment, but also by selling the products of the state industry to the collective farms on preferential terms. The advantages arising for collective farms in connection with the use of such a system are:

- 1) in the guaranteed, preferential supply of collective farms with the most necessary industrial products for them, as well as with certain types of agricultural products from centralized state resources;
- 2) the sale by the state of this industrial output to the collective farms at lower prices than those that apply to all buyers in state and

cooperative trade. Thus, the collective farms of the main beet-growing districts receive from the state sugar industry for sugar beet delivered within the established contracting plan and payment in kind for the work of the MTS, in excess of the procurement price, sugar at a price that is approximately 40% of the retail price of the 1st zone, and beet pulp - free of charge. For beets sold in excess of the plan, the rate of sugar issuance progressively increases.

The collective farms of the cotton districts receive, in excess of procurement prices, for each ton of Soviet medium-staple raw cotton delivered, 350 kg (500 kg for Soviet fine-staple varieties) of wheat at a wholesale price, which is lower than the current retail price.

Flax-growing collective farms for each centner of flax fiber (average No. 10), trusts (average No. 1) and fiber flax seeds, handed over to the MTS contracting plan and payment in kind, receive from procuring organizations in excess of the procuring price wheat in quantities of 150, 20 and 60 kg, respectively, at a wholesale price, which is lower than the retail price in these areas.

At the same time, flax seed dealers receive, in addition, for each centner of flax seeds, 3 kg of vegetable oil at a price of approximately 40% of the current retail price in these areas, and 15 kg of cake at a price of approximately 65% of the retail price in these areas.

Thus, the current system of procurement prices and counter-sale of products of the state industry ("commodification") provides for especially favorable conditions for collective farms that supply agricultural raw materials to the state under contractual agreements.

This ultimately finds expression in the high level of profitability of the collective farms cultivating industrial crops. The available calculations, given in the report of the Secretary of the Central Committee of the CPSU Comrade Khrushchev at the September Plenum of the Central Committee of 1953, show that the revenue of collective farms from the delivery of cotton to the state is calculated per one labor day spent on this crop - in the republics of Central Asia

from 17 to 36 rubles ., and in the whole of the USSR for all industrial crops, about 18 rubles.

At the same time, for a number of the most important types of consumer products handed over by collective farms in the order of obligatory deliveries, procurement prices did not provide normal income. Until recently, animal products, potatoes and vegetables belonged to such types of products. According to the calculations mentioned above, the income per labor day spent in animal husbandry averaged only 5 rubles in the USSR, and a little more than 4 rubles in the Ukrainian SSR, that is, it was approximately 2-2.5 times less income from grain crops and 3.5-4 times less than income from industrial crops. These calculations indicate that animal husbandry has turned out to be in an unfavorable economic situation compared to other branches of agriculture. The same was true for potatoes and vegetables. Consequently, The principle of the material interest of workers in the results of their labor, which was successfully applied in the production of cotton, sugar beet, tea, and a number of other industrial crops, was not applied to animal husbandry, as well as to the production of potatoes and vegetables. This circumstance could not but lead to a slowdown in the development of such important branches of agricultural production.

As noted in the resolution of the September Plenum of the Central Committee of the CPSU (1953), the lag in the development of animal husbandry, as well as in the development of the production of vegetables and potatoes, was largely the result of insufficient material incentives for the development of these branches of agriculture.

How could it happen that procurement prices for the obligatory deliveries of livestock products, potatoes and vegetables turned out to be in obvious discrepancy with one of the fundamental principles of socialist economic management and turned into a brake on the development of such important branches of agriculture? Procurement prices for livestock products, potatoes and vegetables were established more than 20 years ago, on the basis of the procurement prices for bread in force at that time and taking into account the

normal value relations between bread and other products for that time.

However, throughout this entire period, since the establishment of procurement prices, the conditions for the production and procurement of livestock products, potatoes, and vegetables, on the one hand, and bread, on the other hand, have changed in various ways.

For grain crops, mechanization of all basic labor processes has been carried out. In 1952, the following levels of mechanization of work in the production of grain crops were achieved: for sowing grain - 87%; for harvesting grain combines - 70; on the rise of steam - 96; on the rise of the fall - 97%. As a result of the mechanization of labor, the cost of labor and, consequently, the cost of grain production on collective farms has dropped sharply. At the same time, mechanization of the main labor processes has not yet been carried out in the production of potatoes and vegetables. For example, in 1952, potato planting was mechanized by only 14%, and potato harvesting by less than 6%.

Animal husbandry also remained an industry with a clear predominance of manual labor. It follows from this that the procurement prices for livestock products, potatoes, and vegetables, established more than 20 years ago, have ceased to reflect real value relations in agriculture and have thus turned out to be unfair with respect to the collective farms producing these types of products.

It should also be taken into account that the conditions for the procurement of livestock products have changed significantly in comparison with the time when procurement prices were established for these products. If at the time of the establishment of procurement prices public animal husbandry of collective farms did not play a significant role in the formation of state resources of meat and dairy products, at present it is the main source of state resources of livestock products. During these years, the share of mandatory deliveries in all livestock products of the collective farms has grown noticeably.

Procurement prices, insofar as they did not reflect the changes that had taken place in the conditions of procurement of livestock products, could not but lead to a weakening of the economic incentives for the collective farms and collective farmers to develop animal husbandry. Taking into account the importance of procurement prices as an economic stimulus for the growth of agricultural crop yields and the development of animal husbandry, the Council of Ministers of the USSR and the Presidium of the Central Committee of the Party recognized the need to correct the current procurement prices for livestock products, potatoes, and vegetables. Procurement prices for livestock and poultry, handed over to the state in the order of mandatory deliveries, have been increased since the second half of 1953: more than 5.5 times, for milk and butter - 2 times, for potatoes - 2.5 times and for vegetables - an average of 25-40 % .

Along with a direct increase in procurement prices, a number of measures were taken to provide additional material incentives for agricultural production. Thus, following the example of incentives used for industrial crops, the sale of grain from state warehouses to collective farms in suburban areas of Moscow, Leningrad and the cities of Donbass, as well as collective farms in other regions specialized in the production of potatoes and vegetables, was introduced at uniform retail belt prices with a discount of 40 %, at the rate of 1 *and*, grain for every 10 *centners* of potatoes and vegetables handed over on account of mandatory deliveries and payment in kind for the work of the MTS, and in the regions of Central Asia, the North Caucasus, Transcaucasia and the Crimean region - at the rate of 1 *centner* of grain for every 5 *centners* potatoes and vegetables.

At the same time, preferential conditions have been introduced for supplying collective farms with mineral fertilizers for potatoes and vegetables. Mineral fertilizers for the sowing of these crops in 1953 and 1954. are issued to collective farms on credit with subsequent payment in kind from the current year's crop of potatoes or one of the vegetable crops.



The state assumed the costs of delivering vegetables and potatoes to procurement points, which were previously charged to the collective farms. When vegetables and potatoes are transported by collective farm transport or by outsourced transport, these services are paid for by procurement organizations at uniform road transport rates. At the same time, a procedure was introduced for the distribution of collective farm transport and attracted transport engaged in the transport of potatoes and vegetables to procurement points, gasoline and lubricating oils at wholesale selling prices, and not at retail prices, as was the case before.

Reporting to the Plenum of the Central Committee of the CPSU on the measures taken by the Soviet government and the Central Committee of the Party in the interests of strengthening the material interest of the collective farms and collective farmers in the further advancement of agriculture, Comrade Khrushchev pointed out that these measures must be correctly evaluated economically. Their importance and necessity are now obvious. But they do not determine the main path for the development of collective-farm production.

A characteristic feature of the economy of a socialist society is the systematic reduction in the prices of consumer goods. The line of lowering the prices of consumer goods will be steadily pursued in the future as well. And this presupposes the stability of procurement prices for agricultural products. That is why, after the correction of procurement prices has strengthened the economic incentives for the growth of animal husbandry, the production of potatoes and vegetables, the main way for a further powerful advance in all branches of agriculture is to raise the level of collective-farm production, increase labor productivity, and reduce costs per unit of output.

The new procurement prices, under the conditions of a systematic reduction in state retail prices and a continuous increase in gross and marketable agricultural output, ensure a steep rise in the incomes of collective farms and collective farmers.

Determination of state purchase prices is carried out with strict observance of the policy of reducing state retail prices for consumer goods. This means that purchase prices should ensure the possibility of selling agricultural products purchased by state organizations and consumer cooperatives without loss at state retail prices. At the same time, they should take into account the prospect of lowering state retail prices for agricultural products.

What is new in the field of the system of purchases and purchase prices of agricultural products is as follows.

First, in order of rendering! assistance to collective farms in the sale of marketable surpluses of consumer products remaining with collective farms and collective farmers after they have fulfilled their obligations to the state, state, and cooperative purchases of agricultural products at purchase prices have been significantly expanded.

Secondly, a transition is being made from the current procurement procedure to contracting, which allows the state to plan in advance the amount of products received in excess of mandatory supplies, and for collective farms and collective farmers to have guaranteed sales of products and enjoy a number of advantages associated with contracting (the right to receive monetary advance payments and for the purchase of necessary industrial goods in the order of their counter sale).

Thirdly, along with the increase in procurement prices, purchase prices for certain livestock products have been slightly increased: prices for meat have been increased by an average of 30% and for milk by 50%.

In conclusion, let us consider the questions of using procurement prices in the interests of expanding agricultural production in new regions, ensuring an economically correct combination of agricultural branches within each given region, improving the quality of agricultural production, and also organizing the supply of products in certain periods of the year in accordance with the needs of trade.

The importance of procurement prices lies in the fact that if they are properly constructed, taking into account the operation of the law of value, they can be successfully used as a powerful material incentive to expand agricultural production in accordance with the state plan and improve its quality. This applies, in particular, to new areas for the development of individual agricultural crops, where a raw material base is being created for branches of the processing industry, or where the own food supply base for large industrial centers is being expanded.

To this end, procurement prices in new areas for the development of agricultural crops, as well as other types of economic incentives, are set at a higher level than in old areas. For example, the procurement prices for sugar beet, established in the new beet-growing areas, are higher than the prices existing in the old areas (Ukrainian SSR, Kursk and Voronezh regions), in the following amounts:

in Central Asia, Transcaucasia, the Volga region	by 40%
in the Moldavian SSR and the western regions of the Ukrainian SSR	» 60%
in Primorsky Krai, Buryat-Mongolian Autonomous Soviet Socialist Republic and Altai Krai	2.2 times
for the Byelorussian SSR, the Lithuanian SSR and the Latvian SSR	» 2.5—2.8 times

At the same time, the norms for the supply of sugar in the new beet-growing areas are 100-350 grams higher (per centner of beet delivered) than in the old areas. Procurement prices for potatoes set for the regions of the Far East are 3-4 times higher than the level of prices for potatoes operating in the central regions of the RSFSR, in the Ukrainian SSR and the Byelorussian SSR.

For vegetables grown in the suburban areas of large cities and industrial centers, promotional procurement prices have been set that

are 25-50% higher than the procurement prices set for other districts of the respective regions. At the same time, from the 2nd half of 1953, all districts of the Leningrad, Moscow, Stalin, and Voroshilovgrad regions were classified as suburban areas.

The economic rationale for determining a higher level of prices for crops in new areas of their cultivation, as well as in suburban areas around large industrial centers, is the following:

- 1) procurement prices should take into account the increased initial costs for the development of agricultural crops in new areas;
- 2) the introduction of certain agricultural crops into new areas assumes that the profitability of these crops will not be lower than the profitability of other crops previously developed in the same areas;
- 3) procurement prices also take into account the savings received by the state on transportation costs and from the reduction of losses in transportation as a result of the approach of agricultural bases to the centers of consumption of products and to the points of industrial processing of agricultural raw materials.

Procurement prices are based on stimulating the collective farms to improve the quality of their products in every possible way. To this end, the following activities are envisaged:

1. For many types of agricultural products (cotton, tobacco, tea, vegetables, pome and stone fruits, wool, etc.), differentiated prices are established by grade.

The prices for the selected grade of cotton are 3-4 times higher than the prices for the 6th grade. The price of tobacco of the 1st grade is about 7 times higher than the price of tobacco of the 5th grade. The price of tea of the 1st grade is more than 3 times higher than the price of tea of the 3rd grade.

2. For certain types of agricultural products (potatoes, milk, etc.) going for industrial processing, procurement prices are set depending on the content of the main substance. So, for potatoes used for the production of alcohol and starch, procurement prices are set in

proportion to the percentage of starch. For milk, the procurement price varies in proportion to the fat content. For grapes, the procurement price varies depending on the sugar content.

3. For grain and oilseeds, where the standards do not provide for division by grade, there is a system of allowances and discounts (bonification and refraction) depending on the quality of the raw material.

It is very important in the construction of procurement prices to ensure the correct ratio of prices for different types of agricultural products within the same region (zone). The following points are decisive:

1. The level of profitability for the main (for a given region or a given zone) agricultural products. Evidently, for the areas of grain farming, the level of profitability in grain will be decisive, for the regions of Central Asia, the level of profitability in cotton. Prices for all other types of products are determined in such a way as to provide maximum incentives for the main type of product.

2. The ratio of profitability and labor intensity of cultivation of individual crops. At the same time, the indicator of net income per hectare of sown area is taken as one of the profitability criteria. Net income is calculated as the difference between the total amount of income from one hectare of crops of a given agricultural crop (cash income from the sale of products to the state, cooperation and on the market, income from in-kind incentives, in-kind consumption of products) and the costs - monetary and material, associated with its cultivation ( expenses for seeds and fertilizers, maintenance of working livestock, inventory depreciation, etc.). Labor intensity is determined in man-days of labor expended on one hectare of sown area.

Taking into account the seasonality of agricultural production, as well as the need to stimulate the supply of agricultural products in accordance with the needs of trade, differentiated prices for certain types of products have been set for periods of the year.

Thus, the purchase prices for meat provide for the payment of a monetary premium in excess of the established price for the sale of livestock and poultry in the II quarter in the amount of: 1 rub. per kilogram of live weight of cattle and sheep and 1 p. 50 k. per kilogram of live weight of pigs and poultry.

Milk also provides for the payment of a surcharge when it is sold through public procurement in the autumn-winter period (from 1/X to 1/V).

Procurement prices for eggs delivered on mandatory deliveries are differentiated by periods of the year. If prices in April are taken as 100, then in May-July they will be 75, in August-September - 100, in October-March - 125.

The Soviet state, as indicated above, establishes differentiated procurement prices for individual agricultural regions (belts). This takes into account the difficulties of developing individual crops in new areas, as well as differences in yield levels associated with natural conditions. However, even within the same belt of procurement prices, there are sharp differences between the collective farms in the conditions of cultivation of agricultural products: in the natural fertility of the lands they use; in the location of collective farms in relation to large industrial centers, transport routes and procurement points; in the effectiveness of additional investments of past and living labor in the same land area.

Since society's needs for agricultural products cannot be satisfied only with the best plots of land, the Soviet state sets the amount of procurements and procurement prices for agricultural products, taking into account the need to compensate for the costs of collective farms operating in relatively worse natural conditions. At the same time, collective farms operating in relatively better conditions receive additional income. Additional income arising from differences in the natural fertility and location of different plots of land form differential rent I. Additional income arising from the different efficiency of

additional investments of past and living labor in the same land area form differential rent II.

Since there is no private land ownership in the USSR, the differential rent formed in agriculture goes to the state and collective farms.

<sup>1</sup> See *Izvestia*, April 12, 1940, - Resolution of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party of Bolsheviks of April 11, 1940 "On the mandatory supply of grain and rice to the state by collective farms and individual farms" (p. 10) .

<sup>2</sup> *V. I. Lenin*, Op. v. 33, p. 36.

<sup>3</sup> *Ibid.*, p. 47.

## **The use of value meters in the practice of national economic planning**

### **Plan Values**

The law of planned, proportional development of the national economy that operates in the socialist economy signifies an objective necessity and, at the same time, the possibility of constant, consciously maintained proportionality (mutual correspondence) in the development of all parts and aspects of the socialist economy. In connection with this, the fundamental propositions of Marx's theory of reproduction become especially important for a socialist society.

The expanded socialist reproduction of the social product is carried out both materially and in terms of value. This finds its manifestation in the planning of the national economy in the form of the use of natural and cost (value) indicators of the national economic plan.

Determining in cost form the plan assignments (value indicators of the plan) for the branches of the national economy, the Soviet state uses prices as an instrument of planned guidance for the development of the socialist economy. Prices are used to determine tasks in the field of production, capital construction, material supply, labor, commodity circulation, production and circulation costs, national

income, etc., forming a unified system of value indicators of the state plan for the development of the national economy.

Production planning in value terms is carried out using indicators of the volume, dynamics, and structure of the created products. Planning the volume of production "in kind" is extremely important. First of all, it makes it possible to directly ensure conformity in the development of related branches of material production, to identify and eliminate disproportions in the output of various types of products, and to ensure a comprehensive material supply for all branches of the national economy. However, production planning in physical terms alone is not sufficient: it does not make it possible to determine the volume and structure of production within an individual industry and the entire national economy as a whole. In planning and accounting for the volume of output of the national economy, value indicators of gross and marketable output are used along with natural output.

The *gross output* of an enterprise is understood as the value of the products of all the shops of the enterprise, developed for a given planning or reporting period, minus the value of the products of its own production, consumed by the enterprise for production, regardless of when it was produced.

The *marketable output* of an enterprise is understood as the value of that part of its products that is intended for release to the outside, including here the release of products to its own capital construction and for overhaul, as well as the release to its own enterprises and organizations of a non-industrial nature (housing, ors, canteens, etc.).d.).

In a number of industries characterized by a long production cycle (many branches of engineering, the military industry, forest exploitation, the peat industry, etc.), part of the current production costs goes to the formation of a reserve for the production of finished products in the next production period. These costs are carried out in the form of an increase in work in progress, semi-finished products,



parts, dies, tools, and devices of our own production. Evidently, in such industries, commodity output differs from gross output by the value of this increase.

Gross and marketable output is measured in wholesale prices. Accordingly, indicators are used in industry to plan the volume of gross (and marketable) output at wholesale prices of the enterprise and gross (and marketable) output at wholesale prices of industry. The use of wholesale prices of the enterprise and wholesale prices of industry in planning the gross and marketable output of industry is associated with the following circumstances. The final wholesale price for industrial products is the industrial wholesale price. At these prices, industrial products are sold to other branches of the national economy, and also enter the channels of Soviet trade. Therefore, the full, real value of industrial output as a whole can only be determined by valuing this output at industrial wholesale prices.

However, to assess the production activity of an individual enterprise, a separate industry, it is necessary to use the wholesale prices of enterprises. Indeed, one of the elements that constitute the wholesale price of industry is the turnover tax. As we have already seen, the specific value of the turnover tax in the wholesale prices of industry is not the same in different branches. In heavy industries, as a rule, there is no taxation of products with turnover tax. In the light and food industries, the share of value added tax in prices differs for individual groups of goods. As a result, depending on the share of value added tax in the prices of individual goods, the same production costs can lead to sharply different values of created products, if these products are measured at wholesale prices of the industry.

For a number of goods, the share of the turnover tax, and at the same time the value of the industrial wholesale price, directly depends on the conditions for the sale of these goods. Thus, for some food products (salt, alcohol, vegetable oil), the wholesale prices of the industry are differentiated depending on the category of

consumers. Under these conditions, a change in consumers that does not depend on the enterprise itself can lead, in one case, to a significant increase in the volume of created products in terms of value, and in the other case, to a decrease in the volume of these products.

Finally, of no small importance is the fact that in a number of branches of industry the sale of products at the full wholesale price (industry price) is carried out not by enterprises, but by branch sales. For example, oil industry enterprises sell their products to Glavneftesbyt at wholesale prices of enterprises, and the latter sells these products at industrial wholesale prices. Consequently, the real price at which the enterprise sells its products is the wholesale price of the enterprise.

In view of all these considerations, wholesale prices of enterprises are used to assess the fulfillment of the plan in terms of output by individual enterprises and ministries, and wholesale prices of industry are used to assess the volume of all marketable industrial output.

Gross and marketable agricultural output is measured in the prices at which it is sold, while that part of the gross output that is directed to domestic needs is valued at the so-called average commodity prices.

Prices are used in *capital planning* to determine the volume of capital construction, its structure (clean construction, equipment, installation work) and dynamics. One of the features of the socialist economy is that the new fixed assets built in the process of capital construction do not take the form of commodities and do not serve as objects of purchase and sale. Money, as an instrument of state control over the expenditure of social labor, finds its expression in the sphere of capital construction in the form of the cost of constructed facilities. In state plans, the volume of capital work is determined on the basis of the estimated cost of the facilities under construction.

At the same time, the construction industry, like other branches of industry, operates on the basis of economic calculation. This means, in particular, that her expenses are reimbursed from her income. The

income of the enterprises of the construction industry has as its source payment by economic organizations-customers of the completed construction work. This payment is made at special rates, which are a kind of wholesale prices: unit prices for structural elements of general construction and special construction works, prices for equipment installation. In turn, payment for installed and non-installed equipment is made at wholesale prices approved for this equipment. The cost of materials taken into account in the unit prices for the elements of construction work, as well as in the prices for the installation of equipment, is also determined on the basis of wholesale prices.

Prices are used in *labor planning* as a measure of the level of labor productivity in the national economy and its individual branches. Labor productivity is determined in the national economic plan by means of the indicator of output per worker. Along with natural indicators of production (the number of tons of coal per worker employed in coal mining, the number of cubic meters of impersonal wood per worker in forest exploitation, etc.), value indicators are used in the plan. The value indicator of output per employee is defined as the quotient of dividing the gross output in wholesale prices of enterprises by the number of employees whose labor productivity is characterized by this indicator.

Prices are used in the interests of *planning the costs of production and circulation* in the national economy. All costs of fixed and circulating production assets are estimated at current state wholesale prices.

Calculation of the cost of production of industry, state farms, tractor work of the MTS and transportation of all types of transport is also carried out on the basis of state wholesale prices at which raw materials, fuel and other elements of productive consumption are purchased.

Prices are used in the *planning of goods turnover*. The volume of state and cooperative trade, both as a whole and for individual trading systems, is calculated in state retail prices.

Prices are used in *compiling the balance of the national economy* and, in particular, in planning the production, distribution, consumption and accumulation of the total product and national income. In a word, the development and verification of the implementation of all the most important components of the state plan for the development of the national economy, one way or another, is connected with the use of the price instrument.

### **Measuring the Dynamics of the National Economy and Price Indices**

Up to now we have limited ourselves to characterizing the use of prices in planning the so-called volume targets for the branches of the national economy. It was about the volume of gross and marketable output for the planned period, about the size of the planned output per employee, about the amount of production costs, about the volume of retail trade. However, in addition to ambitious targets, state plans also provide for indicators of the dynamics of the national economy.

Our state economic plans are plans for the development of the Soviet economy. Reflecting the essential requirements of the objectively operating laws of economic development, they determine where the development of the national economy is going and at what pace. Creating an abundance of material goods in the country, ensuring the defense capability and independence of the USSR, strengthening the international positions and foreign economic ties of the world's first socialist state—the solution of all these tasks is most directly related to the pace of development of socialist production.

However, the use of current prices in planning the value indicators of the dynamics of the national economy is associated with methodological difficulties. For a reliable measurement of dynamics over a number of years, it is necessary that the measure by which this measurement is carried out be identical, that is, the same throughout this entire period. The current state prices by their very nature cannot be such a measure. In the Soviet state, a consistent reduction in prices

is being carried out. This means that prices in any period of time for which this plan is calculated may differ from the prices of the previous period and from the prices in which the plan is drawn up.

Let's take, for example, the five-year task for product A and the performance indicators for this task in current prices:

Indicators	unit of measurement	1945	1950	1950 in % to 1945
Number of products according to the plan	PCS.	10,000	16,000	160.0
Plan price	rub.	1000	1000	100.0
The volume of production in terms of value according to the plan	million rubles	10.0	16.0	160.0
Number of products according to the report	PCS.	10,000	18,000	180.0
actual price	rub.	1000	800	80.0
The volume of production in value terms according to the report	million rubles	10.0	14.4	144.0

It can be seen from the table that with the planned target for the growth of the volume of this product in value terms by 60%, the volume of production actually increased by 44%, i.e., it turns out that the plan is allegedly not being fulfilled. Meanwhile, it suffices to refer to the indicators of the implementation of the plan for output in physical terms, contained in the table above, to make sure that the plan for production has been significantly overfulfilled: it was planned to increase production in kind by 60%, but in fact the number of products increased by 80%.

The distortion of production activity indicators in this case takes place as a result of the incomparability of actual prices with the prices provided for in the plan: the plan provided for the same price for 1950 as in 1945, i.e., in the amount of 1,000 rubles. per unit, and in fact the price was reduced to 800 rubles. In order to determine the actual change in the physical volume of production, it is necessary to exclude the effect of price changes. The indicator (index) of the physical volume of production is defined as the ratio of the index of production volume in value terms to the price index. In our example, the volume index in value terms is 144, and the price index is 80.

The index of the physical volume of production will be:

$$(144/80) \times 100 = 180.$$

Thus, the use of prices in planning presupposes the development of a system of price indices and the use of these indices to determine indicators of the dynamics of the national economy of the USSR.

### **Price Index System**

The price index is understood as a relative value that characterizes the change in prices over two specific periods. In this case, one of them is taken as the base for measuring price dynamics. Thus, in the price change index for 1950 compared to 1945, the last year is considered as the base, i.e., the price level in 1945 is taken as 100. The reporting or planning period can be taken as the base. For example, in planning practice, it is necessary to measure prices on a certain date in comparison with the actual level prevailing in one of the reporting periods, as well as in comparison with the prices provided for in the plan. The date on which the price index is determined can also be reporting and planned. In the first case, we are talking about reporting price indices, in the second case, about planned price indices.

When determining the price index for an individual product, it is calculated as the ratio of the price of the product on a certain date to

the price on the date taken as a base. In our example above, the price index of product A, i.e., the individual index, is equal to:

$$(80/1000) \times 100 = 80.$$

In the same case, if it is necessary to calculate the price index for a whole group of products, an additional complication will have to be introduced into the calculation. Suppose we have not one product, but five, the prices of which have changed as follows:

Products	Price index
BUT	80
B	90
AT	75
G	65
D	95

What is the average price change for the entire product group?

Let us take as such an average the arithmetic mean of the indicated five price indices. It will be:

$$(80 + 90 + 75 + 65 + 95) / 5 = 81.$$

How dependable would such an index be? It will be quite accurate if the share of each of the five products in the total output is the same. If this condition is not met, the index calculated in this way will be unreliable. Let's see how the readings of the group index change depending on the specific gravity of individual products.

Options	Specific weight of products in %					Group price index
	BUT	B	AT	G	D	
I	20	20	20	20	20	81.0
II	40	20	15	10	15	82.0

III	10	30	15	5	40	87.5
IV	20	10	10	35	5	75.0
V	15	15	20	40	10	76.0

It follows that in order to construct a group price index, it is necessary to take into account the structure of products according to which the index is calculated. Compared to the base period, there may be a change not only in the individual prices of products, but also in the specific weights of individual products. In order to exclude the distorting effect of this factor, the same product structure for the base period and at the date of the index calculation should be adopted.

The group price index, determined by the formula of the aggregate index, is presented in the following form:

$$V = \frac{p_1 Q_1 + p_2 Q_2 + p_3 Q_3 + \dots + p_n Q_n}{p_1 Q_1 + p_2 Q_2 + p_3 Q_3 + \dots + p_n Q_n} = \frac{\sum pQ}{\sum pQ}$$

where  $V$  is a group (average) price index,  $p_1, p_2, p_3, p_n$  are product prices at the time of compiling the index (planned or reporting period),  $p_1, p_2, p_3, p_n$  are prices for the same products in the base period,  $Q_1, Q_2, Q_3, Q_n$  - the number of products.

There are the following methods for calculating price indices:

- 1) for a certain sustainable set of products;
- 2) on the basis of constant specific weights of individual product groups;
- 3) on the basis of the specific weights of individual product groups that are formed in a particular period for which the price index is calculated;
- 4) by direct recalculation of all products in two prices (basic and current).

Price indices calculated on the basis of a constant set of products have the advantage, and perhaps the only advantage, that their



construction is relatively simple, all their calculations are directly verifiable. However, the indications of such indices can count on reliability only if the set of products covers the types of products that are decisive in terms of quantity and typical in terms of value. Meanwhile, this is essentially excluded by the very form of the index, which presupposes the selection of a relatively limited range of product representatives.

Price indices calculated on the basis of constant product weights compare favorably with the previous type of indices in that they involve the calculation of price changes over the entire range of Products. However, the ratios between individual product groups are assumed to be unchanged. Therefore, with significant structural changes in products and unequal price dynamics for individual groups of products, the readings of such an index cannot be recognized as completely dependable.

In the planning and statistics of the national economy of the USSR, it is customary to calculate price indices on the basis of the specific weights of individual product groups that take shape in a particular period for which the price index is calculated.

Price indices are calculated according to the structure of the base period or on the date of index calculation. As a rule, the structure of production is taken at the date of the index. The general (total) price index for the industry as a whole or for a particular industry can be calculated on the basis of data on the average change in prices for individual product groups and the specific weight of individual product groups. The indications of this index will be sufficiently dependable to characterize the general change in prices for the industry as a whole and its individual branches. But the indices constructed in this way cannot always be used to calculate the physical volume of production (or labor productivity) at a separate enterprise. Indeed, the average change in prices for a particular group of products as a whole may not characterize the actual price changes for the products included in this group, manufactured by this enterprise, if there is no uniform price reduction for all

products. Meanwhile, production planning at current prices requires the calculation of price indices not only for industry as a whole, not only for branches of industry, but also for individual enterprises. This involves the construction of price indices for an individual enterprise based on direct conversion of products in two prices (basic and current).

The need to plan the dynamics of production and labor productivity in comparable prices and the impossibility of determining price indices for individual enterprises except by directly recalculating products in two prices (basic and current) causes the use in planning as a measure of the dynamics of production of prices fixed on a certain date. Thus, starting from 1952, to plan the dynamics of gross output and output per worker during the fifth five-year plan, the wholesale prices of enterprises in force on January 1, 1952 are used.

In the Soviet Union, in the planning and statistics of the national economy, the following price indices are calculated and applied: 1) the wholesale price index of industry, 2) the total general retail price index, 3) the retail price index of state and cooperative trade, 4) the price index of collective farm trade, 5) procurement price index.

## **The system of Soviet prices at various stages of the development of a socialist society**

### **Price System in the USSR in the Pre-War Period**

The system of prices currently existing in the USSR took shape mainly in the last five years before the Great Patriotic War, after the entry of the Soviet state into the second phase of its development.

Already in the transitional period from capitalism to socialism, the Soviet state, relying on objective economic laws, determined mainly the movement of prices in the country.

However, the existence at that time of capitalist elements both in production and in the sphere of circulation allowed for the possibility of a spontaneous redistribution through prices of part of the national income in favor of these capitalist elements. This made it urgent for

the Soviet state to make full use of the price instrument in the interests of ousting capitalist elements from the country's economy, distributing and redistributing the national income in favor of the working class and working peasants, increasing socialist accumulation for the industrialization of the country, and preparing the material conditions for the complete elimination of the exploiting elements.

All price problems of this period were solved in the conditions of a fierce class struggle. The ousted capitalist elements in town and country tried to use prices in order to strengthen their positions and undermine the dictatorship of the proletariat. Under these conditions, they tried to impose on the country a policy of high, rising prices, to undermine the Soviet ruble. The Party, the Soviet state, in contrast to this, consistently carried out in the interests of the masses, a policy of stabilizing prices for agricultural products and falling prices for manufactured goods.

“In our market,” J. V. Stalin said in a speech at a plenum of the Central Committee and Central Control Commission of the All-Union Communist Party of Bolsheviks in 1929, “there is no free play of prices, as is usually the case in capitalist countries. We determine the price of bread mainly. We determine the prices for manufactured goods. We are trying to pursue a policy of reducing production costs and reducing prices for manufactured goods, trying to maintain price stability for agricultural products. Isn't it clear that there are no such special and specific market conditions in the capitalist countries ?

The victory of the socialist economy in the USSR led to a change in the role and nature of the use of prices.

With the liquidation of capitalist elements in production and in the sphere of commodity circulation, there was no need to use prices as an instrument for restricting and ousting capitalist elements and redistributing their income in favor of the socialist economy. At the same time, the importance of prices as an instrument of economic and organizational activity of the Soviet state increased: stimulating the

growth of production and the development of trade between town and country, between branches of the economy and regions of the country; systematic growth of public consumption on the basis of an increase in the purchasing power of the Soviet ruble. The level of influence of the state on pricing in the country has increased unprecedentedly.

In the field of retail prices, this found its expression in the gradual transition, after the abolition in 1935 of the system of rationed supply of food and industrial goods to the population for all consumer goods, to uniform (including belt) retail prices directly set by the state.

A feature of the formation of retail prices until that time was the establishment of final prices for most goods in the distribution network itself, based on individual pricing factors determined by various government agencies. Only for a small group of goods there were fixed retail prices directly set by the government and indicated on the labels of goods, the so-called label prices (for cigarettes, tobacco, matches, toilet soap, student notebooks, electric lamps). For the rest of the goods, the retail prices of each consignment of goods were calculated by trade organizations by adding trade and transport allowances to the wholesale selling prices of the industry, and in rural areas also auto-cart surcharges. At the same time, trade and transport caps were established by the government only for some goods: for other goods, caps were determined by the Ministry of Trade and even (for the so-called "3rd group goods") by the trading organizations themselves. The size of auto-horse surcharges was approved by regional (territorial) organizations. This practice of determining retail prices inevitably led to discrepancies in prices for identical goods sold by different trade organizations within the same point. At the same time, it extremely complicated the matter of setting prices, required the maintenance of a significant number of calculators in the trading network, and delayed the circulation of goods. Of no small importance was also the fact that the then existing retail price calculation system made it difficult for consumers to control compliance with prices.

The introduction of government-approved price lists for unified retail prices was a powerful factor in strengthening the purchasing power of the ruble and increasing the stability of wages.

First, retail prices could no longer fluctuate depending on changes in the costs of the trading network. Secondly, the differentiation of food prices across a limited number of belts and the introduction of uniform prices for most manufactured goods led to a significant convergence of real wage levels in different areas.

The introduction of price lists for uniform retail prices played an important role in stimulating trading organizations to improve their work and in strengthening control over their compliance with the Soviet price policy. Uniform retail price lists have created unprecedented opportunities for consumers to control prices.

Trading organizations were freed from their unusual functions of calculating state retail prices for all major consumer goods. Instead of trade and transport caps, which were added by trading organizations to wholesale prices, discounts were firmly fixed by the government in each approved price list to cover trade expenses (as a percentage of retail prices).

The transition to a system of firmly fixed uniform state retail prices meant a significant change in the role of the wholesale price of industry in the pricing of consumer goods. By approving fixed retail prices and setting the size of the discount to cover the costs of trade, the state thereby determines the size of the wholesale price of industry.

The wholesale price of the industry acts as a share of the industry in the final price at which the goods are sold to the consumer - the state retail price. Thus, the external isolation of the wholesale prices of industry from retail prices was eliminated. The retail price of consumer goods now determines the upper limit of the wholesale price of the industry. This encourages industry to measure its costs of production with the retail price.

The attitude of the industry towards the pricing process itself has also changed. Retail prices and the market have ceased to be an area of interest only to trading organizations. The financial results of the economic activity of industrial enterprises directly depend on how the sale of mass consumption products develops.

As long as retail prices were formed by adding trade markups to wholesale prices, the value of distribution costs in the trade network did not directly affect the financial results of industry. In the transition to fixed retail prices, the final retail price is divided into two components: the share of trade, fixed in the trade discount, and the share of industry, representing the rest of the price after deducting the trade discount from it. Obviously, the larger the share of trade, the smaller the share of industry. Such a construction of prices contributed to the strengthening of mutual control over the costs of production and circulation.

Of great importance for the pricing of consumer goods were the changes made in the system of withdrawals of monetary savings, realized in the prices of goods, to the state budget that had been in force until that time. Instead of a separate existence, along with the turnover tax of the budget difference and the budget margin, which were a relic of the price system of the rationed supply period, a single form of exemptions was introduced - the turnover tax.

At the same time, in a number of branches of light industry, the procedure for calculating and paying the turnover tax to the state budget was changed. Practice has shown that for commodity groups with a large assortment of products (for example, for fabrics), the existing form of exemptions from turnover tax in the form of a percentage rate on the wholesale price of industry turned out to be unsuccessful. In the presence of even a large number of rates, it was impossible to ensure a more or less uniform profitability for articles and varieties of goods. This led to distortions in the formation of the director's fund at individual enterprises and to the violation of planned targets for the assortment. Since 1939, first in the textile industry, and then in a number of other industries, a system of two

price lists was introduced. This system provided for the existence, along with a fixed retail price list, of a wholesale price list (excluding VAT), built on the basis of the planned cost of individual types of products and normal profitability. The difference between retail prices, net of trade discounts, and wholesale prices, net of VAT, went to the state budget. The introduction of wholesale price lists without VAT ensured not only a greater uniformity in the profitability of various articles and product varieties, but also a greater stability of the financial position of enterprises.

The interests of strengthening the role of prices in every possible way as an instrument of economic and organizational activity of the Soviet state demanded a reform of wholesale prices for means of production. The system of wholesale prices that had taken shape at one time provided for state subsidies to the most important branches of heavy industry.

Subsidies from the state budget were inevitable at a certain stage in the development of our industry. In a short time, the Soviet state built a huge number of new enterprises, created a number of industries that did not previously exist in Russia. The development of these enterprises required a certain amount of time, and it is quite natural that in the beginning many new types of products had increased production costs.

To build wholesale prices on the basis of these temporarily increased production costs would be to misdirect economic organizations, to promote their complacency, to deprive them of incentives to improve production methods. Obviously, the level of wholesale prices and the issues of profitability could not be approached from the point of view of the moment. It was imperative to take into account the prospects for a further significant reduction in the cost of production and to subordinate all the work of economic organizations to this perspective.

After during the first half of the second five-year plan significant successes were achieved in reducing the cost of production and the

opportunities for savings increased not only in light, but also in heavy industry, the question naturally arose of abolishing the system of state subsidies and building prices on the basis of reimbursement of industry costs. . The system of state subsidies, absolutely inevitable and justified at a certain stage in the construction of Soviet industry, then became a brake on its development. During 1936-1940. reform of the wholesale prices of the industry was carried out. The essence of the reform was to build wholesale prices based on cost and minimum profitability.

At the same time, transport tariffs were reformed. Railway transport tariffs were determined taking into account the reimbursement of the cost of freight traffic and profitability in amounts that ensure the expanded reproduction of railway transport mainly from its own sources of accumulation. Tariffs for river and sea transport were determined with the expectation of stimulating consumers to the comprehensive use of water transport resources.

During the same period, the current state procurement prices were finally formed, which were brought into line with the new conditions for the procurement of agricultural products that had developed as a result of the abolition of rationed supply. The question was raised in a new way of strengthening the role of procurement prices in stimulating productivity and increasing the delivery of products and agricultural raw materials to the state. To this end, first for cotton, and then for a number of other types of agricultural products, special bonuses were introduced for increasing supplies to the state.

Thus, by the beginning of the Great Patriotic War, a unified system of fixed state wholesale, retail and procurement prices had developed. The presence of this system was an important factor in the stability of the Soviet economy during the period of severe military trials.

### **Soviet Price System during the Great Patriotic War**

The war was a severe test for the Soviet economy, which convincingly demonstrated its enormous advantages over the capitalist economy



during the terrible war years. Withstood the test of wartime and the Soviet price system.

During the Great Patriotic War, the socialist state successfully used the price instrument. It used this tool in order to reduce the hardships of war experienced by the people by actively influencing the costs of the war industry, in order to protect the real wages of workers and employees from the influence of spontaneous price fluctuations in the unorganized market, in order to strengthen incentives for collective farms and collective farmers to fulfill their economic obligations to the state. In the course of the war, the socialist state succeeded in ensuring the stability of wholesale prices for raw materials, fuel, industrial equipment, and retail prices for consumer goods in rationed trade, and at the same time significantly reduced wholesale prices for military products.

The significance of this fact will become clear if we take into account the exceptional difficulties that faced the economy of the USSR during this period in the way of implementing the Soviet price policy.

The Great Patriotic War caused significant changes in the commodity circulation of the country. The temporary loss of part of the territory with highly developed agriculture, heavy, light and food industries, the switching of very many enterprises to the production of military equipment - all this led to a significant reduction in the production of food and industrial goods; at the same time, the share of the market fund in the total balance of consumer goods fell sharply in favor of increased military consumption. Huge military spending, in turn, required the partial use of emissions in the first years of the war as an additional source of financial resources allocated by the state to finance the war.

By introducing rationing of consumer goods, the state has maintained a stable level of state retail prices for food and other essential goods. The preservation of pre-war prices for rationed goods was associated with certain losses for the state. These losses were caused, in particular, by the fact that pre-war prices did not correspond to the

costs of production of consumer goods, which increased significantly as a result of: the temporary loss of areas that supplied many branches of industry with the cheapest agricultural raw materials; reducing the yield of agricultural raw materials and the productivity of livestock; deterioration in the indicators of the use of raw materials due to the retirement of many technically advanced enterprises; growth in wage costs per unit of output.

However, the state deliberately accepted these losses, considering them as inevitable losses of the war period, without which it is impossible to ensure the stability of the budget of the working people, and, consequently, the level of labor productivity necessary for the developing military economy.

Other relations in the field of prices have developed outside the organized market. Since the state prices for rationed goods remained unchanged, the entire excess money supply went to the collective farm market, which continued to function during the war. The share of the collective farm market before the war in the entire volume of retail trade was 19%. In the first years of the war, the amount of money opposed to goods sold in collective farm trade increased many times over. As a result, prices at the collective farm markets in the cities rose sharply during the first period of the war. Price increases continued until mid-1943.

Having ensured a regular supply of the population at stable rates and prices, the Soviet state was able, as agricultural production was restored and the output of industrial goods increased, to send a certain amount of food and other essentials to supply the population in excess of cards in the form of special, commercial trade. With the help of such irregular, commercial trade, the Soviet state satisfied the excess consumer demand that was not covered by the rationed supply, and also extracted additional financial resources to finance military needs and the national economy. Prices in commercial trade were determined taking into account: the availability of commodity resources that could be directed by the state into the channels of commercial trade, the need for a certain compensation for losses

caused by the preservation of pre-war prices in normalized trade, as well as the interests of strengthening the economic impact on the collective farm market.

The development of commercial trade and the gradual reduction of the prices operating in it had a beneficial effect on the collective-farm market. At the same time, commercial trading was an extremely important preparatory stage for the development of open trading without cards.

Simultaneously with the stability of retail prices for consumer goods sold in rationed trade, the Soviet state ensured during the war a sharp decline in wholesale prices for military equipment, equipment of the armed forces, as well as the stability of wholesale prices for means of production and other types of civilian products.

The major successes achieved by Soviet industry in the design of models of military equipment, the introduction of advanced technology and the organization of mass military production created the conditions for reducing the cost of producing weapons and equipment for the armed forces.

The cost of certain types of tanks, aircraft, artillery, and small arms decreased by 2-3 times. In general, during the war, the cost of military products decreased by more than 50 billion rubles. This made it possible to correspondingly reduce wholesale prices for products supplied under military orders, and at this expense to achieve significant savings in military spending.

The situation with the cost of production of heavy industry was somewhat different. During the war years, there were significant changes in the economy of the most important branches of heavy industry: the temporary loss of the Donetsk coal basin, Krivoy Rog iron ore basin, southern metallurgy, Dnieper electric power system; relocation of many first-class machine-building enterprises to the east; fundamental changes in transport links; loss of qualified personnel. The interests of the accelerated development of the raw materials and fuel and energy branches of heavy industry demanded

the introduction of especially stimulating wage systems in these branches of industry.

Under these conditions, the cost of production in a number of branches of heavy industry increased during the war period. The gap formed as a result of rising costs between the increased level of production costs of heavy industries and the relatively low wholesale prices for the products of these industries established before the war could be eliminated in two ways: either by raising wholesale prices to the level of increased costs, or by covering the resulting planned losses of heavy industries through subsidies from the state budget.

The Soviet government maintained pre-war wholesale prices for heavy industry products, introducing as a temporary measure for the period of the war a system of state subsidies to planned unprofitable branches of heavy industry.

The stability of wholesale prices for industrial raw materials and fuel, as well as transport tariffs, was an essential factor in the struggle to reduce the costs of military production. In order for the huge reserves in industry associated with the deployment of mass military production to be fully revealed and mobilized for the needs of the state, accurate, reliable accounting of the own costs of military enterprises was required. Such accounting of costs and the effective impact of the state on their level could not be ensured with unstable, rising prices for industrial raw materials, fuel, and electricity.

The preservation of pre-war prices for industrial raw materials and fuel, as well as transport tariffs, despite their unprofitability caused by wartime circumstances, was also dictated by the interests of stability of state retail prices for consumer goods. The needs of the population for goods of mass demand could be satisfied in the conditions of war by involving not only centralized funds, but also local resources in the trade turnover. At the same time, compliance with the Soviet price system, i.e., the stability of state retail prices for all rationed goods, including locally produced products, and a consistent reduction in commercial prices could not be ensured under

the conditions of growing wholesale prices for means of production and tariffs for freight transportation.

Finally, bringing the wholesale prices of the means of production into line with their prime cost established during the war would mean that the post-war restructuring of the national economy had to be carried out on the basis of high prices and value relations between the sectors of the Soviet economy that did not meet the conditions of peaceful construction. This circumstance could create additional difficulties in the transition of industry after the end of the war to the rails of peaceful economic development.

All this made it expedient to maintain pre-war wholesale prices for heavy industry products. At the same time, the losses of heavy industry were more than offset by the savings from the reduction in production costs of the military industry, which was redistributed with the help of the levers of the state budget.

Of all the belligerent states, only the Soviet state systematically reduced prices for military products during the war.

Things were different in the bourgeois countries. The capitalist monopolies of the USA, Britain and other bourgeois countries used the war as a means of monstrous gain. Thus, with the help of the notorious policy of the state "regulation of wages and prices", American monopoly capitalism achieved a "freeze" of wages and turned all the benefits associated with the growth of labor productivity in conditions of mass war production into the source of its colossal enrichment.

At the same time, under the pretext of allegedly having to make sacrifices on the part of the state in the interests of stabilizing prices, the American monopolies made extensive use of the tax pressure to further redistribute the incomes of the working people in their favor. Thus, the so-called regulation of prices in the USA, England and other capitalist countries during the Second World War represented the form of "regulation of economic life" that V. I. Lenin had in mind when he said in the days of the First World War:

“Both America and Germany “regulate economic life” in such a way as to create *military hard labor for the workers (and peasants in part), and paradise* for bankers and capitalists . Their regulation consists in the fact that the workers are "pulled up" up to starvation, and the capitalists are provided (secretly, reactionary-bureaucratically) with profits *higher than* those that were before the war .

First of all, the "regulation" of prices in the capitalist countries did not rule out a direct and, moreover, quite significant increase in official list prices during the war.

As early as 1943, according to official data, wholesale prices in the USA increased by 35% and in England by 67% against 1939. 3 In this case, the actual increase in prices was much higher than according to official statistics. Firstly, in each of the warring bourgeois countries, along with the market, which was subjected to certain state influence, there was a so-called black market with significantly higher prices. Secondly, official state statistics provide only data on the movement of list wholesale prices, ignoring other sources of increasing the incomes of the capitalist monopolies and thereby concealing from the working people the real prices and profits of the capitalists. Meanwhile, the Second World War introduced a lot of new things in relation to the sources of monopoly profits of the capitalist associations. Along with a direct increase in prices, the bourgeois states during the Second World War made extensive use of tax methods of redistributing the incomes of the working people in favor of the capitalist monopolies. Thus, under the guise of the need to stabilize prices for goods, state subsidies were issued in excess of the established prices. In England, at the expense of taxpayers, a state subsidy was paid to firms in charge of the wholesale supply of food, amounting to about 600 million pounds during the war years. In the United States, government subsidies were paid from the state budget, that is, also at the expense of taxpayers, for many types of strategic raw materials (copper, lead, liquid fuel, etc.). Thus, by giving the appearance of price stability and rejecting demands for higher wages,

the bourgeois states ensured, by raising taxes on wages, an increase in the incomes of the capitalist monopolies.

Another form of deliberate concealment of the real rise in prices and profits of the capitalist monopolies during the war was the attribution to the taxpayers of a significant part of the costs associated with the production of products for state orders.

For government orders in the United States, an unheard-of high rate of depreciation of fixed capital was adopted - 20% per year. At the same time, the capitalist monopolies were allowed to include deductions to various insurance and reserve funds in their calculations, which allowed them to hide a significant part of their profits from taxation. The prices of military products guaranteed a huge level of profit in all cases. This is a consequence of the management of the capitalist monopolies, which used the fulfillment of military orders to obtain the highest possible profits.

That is why the Second World War was so exceptionally advantageous for the capitalist monopolies. During the war, the net profits of all American corporations (net of taxes paid) exceeded almost 3 times the level of pre-war profits, as can be seen from the following table:

	Five pre-war years (1935-1939)	Five years of World War II (1940-1944)
Net profits of all American corporations	\$15.3 billion	\$42.3 billion

### **Post-War Restructuring of the Economy and Transition to Unified State Retail Prices**

A system of stable prices for rationed goods and consistently declining commercial prices for goods sold in excess of established rations was inevitable and most in line with the interests of the country during wartime.

However, the presence of commercial trade has led to a plurality of government prices. By the end of the war, for the same product, depending on the channels of its sale, there were the following state retail prices: ration prices, which remained at the pre-war level; slightly higher prices for industrial goods sold without cards in the countryside in order to restock purchases of agricultural products (rural prices); high commercial prices. At the same time, at the beginning of the organization of commercial trade, there were, along with general commercial prices, differentiated preferential prices for certain categories of consumers.

The multiplicity of prices created a situation in which the same quantity of labor, expressed in the money income of the working people, was exchanged for a different quantity of labor embodied in consumer goods. This reduced the purchasing power of the ruble and weakened the importance of wages as a stimulus for productivity growth. In the presence of different prices, there was a spontaneous leakage to the market of part of the products and manufactured goods sold by cards. The existence of a plurality of prices created the possibility of speculation, allowed speculative elements to profit at the expense of the population and the state.

That is why, as soon as the war ended, the Central Committee of the Party and the Soviet government recognized it necessary, as the most important measure of the post-war period, to eliminate the multiplicity of prices, which is harmful to the further development of the Soviet economy, to switch to normal trade at uniform state retail prices, established taking into account the social costs of production..

The transition to uniform prices was prepared by the gradual convergence of ration and commercial prices on the basis of a systematic reduction in prices in commercial trade as its turnover increased. After the next significant reduction in prices for all goods in commercial trade in September 1946 and the deliberately low ration prices for certain types of food, the gap between ration and commercial prices narrowed to the maximum. This facilitated the transition to uniform prices. However, the introduction of uniform



retail prices required one more condition: it was necessary to streamline monetary circulation, free it from excess, inferior money, which put pressure on the market and create instability in trade. This condition was provided by the monetary reform.

The new unified state retail prices were set on average more than 2.5 times lower than commercial prices for foodstuffs and 3.2 times lower for industrial goods. At the same time, for such consumer goods as bread, cereals, pasta, prices were set below the current ration prices by 10-12%. For meat, fish, fats, sugar, confectionery, potatoes, vegetables, tobacco products, matches, the prices were kept at the level of the previous ration prices.

The transition to uniform state retail prices meant the destruction of wartime vestiges in the field of distribution and the strengthening of the role of the economic levers of socialist society. The role of money as an economic instrument of the Soviet state in the organization of production and distribution increased. The transition to a system of unified state retail prices based on stable wholesale and procurement prices - with the concentration of the bulk of goods in the hands of the state, greatly increased the stability of monetary circulation.

The elimination of gaps between prices for the same commodity undermined the economic basis for speculation, for spontaneous violations of the planned circulation of money, leading to discrepancies between money circulation and commodity circulation. Under the conditions of the application of uniform state prices, the abolition of the rationing system and the streamlining of monetary circulation, a really wide scope has opened up for the operation of the principles of the socialist organization of labor and wages, characteristic of the first phase of communist society. The role of money as *a single measure of labor costs and consumption has been strengthened*. This ensures consistent implementation of the socialist principle of distribution according to work in accordance with the quantity and quality of labor expended.

The sharp gap that existed during the period of the rationing system between the prices of rationed supplies and commercial prices for goods purchased in excess of rations led to a significant decrease in the differences in the levels of real wages of skilled and unskilled workers employed in the main and service industries, in heavy and lighter work. This circumstance also limited the possibility of using incentive forms of wages as an additional stimulus for the growth of labor productivity.

The elimination of the plurality of prices on the basis of the abolition of supply rationing dealt a blow to the *equalization of monetary wages* and created all the necessary prerequisites for the consistent implementation of the Soviet state's wage policy, which provides for the construction of wages for workers in accordance with the qualifications of the work performed and depending on the severity of working conditions.

Under the conditions of uniform prices, it becomes possible to use incentive forms of wages—progressive piecework wages for workers, as well as bonuses to engineering and technical workers—in order to achieve high labor productivity and systematic over fulfillment of production plans.

The steady rise in the living standards of the working people is the law of socialist production. Price and wages are links in the general mechanism of distribution of national income for accumulation and consumption. In the Soviet Union, a steady rise in the well-being of the masses is being carried out, both through an increase in the money incomes of the working people, and through a reduction in retail prices. The ratio of these links under the specific conditions of a given period may change, while one thing remains unchanged - the systematic improvement of the material and cultural conditions of the working people.

After the circulation of money has been regulated and the transition to a system of uniform state retail prices has been carried out, the rise in the standard of living of the working people and, in particular, the

increase in real wages is determined to a decisive extent by the systematic *growth in the purchasing power of the Soviet ruble* on the basis of the consistent implementation of the Soviet policy of lowering retail prices.

The role of prices in *stimulating the growth of agricultural production has increased*. The high level of prices in commercial trade and in the collective farm markets contributed to a decrease in the real value of procurement prices. At the same time, the ratios between the branches of agriculture in terms of their profitability were sharply disturbed. Whereas before the war the most profitable branches of agriculture were technical crops, which were distinguished by high marketability, during the war period food crops occupied the first place in terms of monetary yield, providing high revenue from the sale of a part of marketable products on the collective farm market. The system of incentive cash bonuses, which played an exceptionally important role in the pre-war period in the rapid rise in agricultural production, and above all industrial crops, has significantly lost its former significance as a result of the decrease in the purchasing power of the ruble in the first period of the war.

The introduction of unified state retail prices, with a general decrease in the level of retail prices in the country and the improvement, in particular, of the collective farm market, meant a significant increase in the economic significance of procurement prices. A stable procurement price in the conditions of a consistent increase in the purchasing power of the Soviet ruble became the basis for a systematic and steady growth in the real money incomes of collective farms and collective farmers.

Under the conditions of the abolition of rationed supplies and the increase in the purchasing power of the Soviet ruble, the role of progressive premiums for the delivery of agricultural products and raw materials to the state in excess of the plan, in stimulating the high yield of all agricultural crops and the growth of livestock productivity has significantly increased and will continue to grow. The increase in the economic importance of procurement prices and the growth on

this basis of the real incomes of the collective-farm peasantry from the socialized economy were one of the important factors in strengthening labor discipline in the collective farms and in the general strengthening of the collective-farm system in the countryside.

### **Consistent Reduction of State Retail Prices in the Post-War Time**

As mentioned above, the abolition of the card system and the transition from multiple prices to single prices were accompanied by a decrease in the level of retail prices. The introduction of uniform retail prices led to a reduction in the cost of consumer goods through the state retail trade by 57 billion rubles. (Based on the first year alone). The decrease in state prices for consumer goods, in turn, caused a decrease in prices in the collective farm and cooperative markets in the amount of 29 billion rubles. Consequently, the population won already at the first stage of the reduction in retail prices, carried out simultaneously with the implementation of the monetary reform, about 86 billion rubles. in year. "This means," as stated in the resolution of the Council of Ministers of the USSR and the Central Committee of the All-Union Communist Party of Bolsheviks dated March 1, 1949, "that as a result of lower prices at the first stage, the purchasing power of the ruble increased significantly,

The introduction of new, reduced retail prices was associated with certain losses for the state. However, as the Central Committee of the Party and the Soviet government foresaw, the abolition of rationed supplies and the rise in the standard of living of the working masses on the basis of lower prices gave rise to such powerful stimuli for the growth of labor productivity, such a broad popular movement for saving state resources and the growth of intra-industrial accumulation, which soon covered the losses of the state.

In connection with the powerful rise of the national economy, the growth in the production of consumer goods and the over fulfillment of plans in the field of socialist accumulation, the necessary

commodity and monetary reserves formed at the disposal of the Soviet state, which could be used to further reduce prices. This made it possible to carry out the second stage of reducing retail prices, which began in 1948 and was fully completed by March 1, 1949. all sectors of retail trade - about 71 billion rubles.

Despite such a significant scale produced in 1947-1949. reduction in state retail prices, the Soviet state found powerful reserves in the development of its socialist economy, which made it possible not only to compensate for the temporary loss of part of the revenue revenues to the state budget, but already in the next, 1950, to make a new, third in a row price reduction.

In connection with the increase in the purchasing power of the Soviet ruble as a result of a consistent decline in prices and at the same time the continuing depreciation of the currencies of the capitalist countries, the Soviet government recognized the need to transfer the ruble exchange rate to a more stable, gold basis in accordance with the gold content of the ruble, ceasing from March 1, 1950, the determination of the ruble exchange rate in relation to the exchange rate of foreign currencies on the basis of the dollar.

The major successes achieved by the national economy of the Soviet Union in 1950, the over fulfillment of industrial production plans, the growth of labor productivity, a significant reduction in the cost of production and distribution costs allowed the Soviet state to carry out from March 1, 1951, the fourth reduction in state retail prices after the end of the war by 10- 15-20% for all basic foodstuffs and many types of manufactured goods. This reduction in prices provided the population with savings of 27.5 billion rubles on purchases of goods in state and cooperative trade. (based on the volume of trade in 1951). In addition, the urban population received an additional benefit from the reduction in prices in the collective farm markets, which followed the reduction in state retail prices, in the amount of about 7 billion rubles in a year.

On April 1, 1952, the fifth in a row after the abolition of the rationing system was carried out a reduction in state retail prices for all major types of food products in the amount of 10 to 30%. At the same time, retail prices for books, including textbooks, were reduced by an average of 18%. This next decrease in retail prices provided the population with a net gain of more than 23 billion rubles only on purchases in the state and cooperative trading networks. in year. Finally, on April 1, 1953, a new, sixth reduction in retail prices for consumer goods was carried out, which, in terms of savings for the population, was the most significant over the past three years. Price cuts covered all major types of goods. At the same time, for such consumer goods as potatoes, vegetables, fruits, prices fell by 2 times, for industrial and other food products - from 5 to 30%.

As a result of this reduction in prices in state and cooperative trade, the net gain for the population will be 46 billion rubles. In addition, the urban population received an additional benefit from the reduction in prices in the collective farm markets, which followed the reduction in state retail prices, in the amount of about 7 billion rubles per year.

Thus, throughout the entire post-war period, after the abolition of the rationing system and the transition to expanded Soviet trade, the Soviet Union saw a gradual reduction in prices for consumer goods. As a result, even before the price reduction in 1953, the prices of consumer goods fell by more than 2 times compared to the level at which they were at the end of 1947, i.e., by the time the rationing system was abolished.

The systematic reduction in retail prices and the rise in the material well-being of the Soviet people that is taking place on this basis are the clearest evidence that the fundamental economic law of socialism has gained wide scope in the Soviet state, that all the activities of the Communist Party and the Soviet state, reflecting the requirements of this law, are imbued with the greatest concern for the good of the people, about the maximum satisfaction of their ever-growing material and cultural needs.

The decline in prices has its material basis in the continuous growth and improvement of socialist production, which ensures a systematic increase in the production of consumer goods, an increase in labor productivity in all branches of the national economy, and a reduction in production costs and distribution costs.

### **Liquidation of the System of State subsidies and Reform on wholesale Prices and Tariffs in the National Economy of The USSR**

After the monetary reform was carried out, the transition to uniform, reduced state retail prices was carried out, and major successes were achieved in reducing the cost of industrial production, conditions were created for streamlining wholesale prices in the national economy.

The system of state subsidies, designed to cover planned losses in heavy industry, was inevitable during the war. But when the country switched to peaceful construction, the system of state subsidies could no longer be tolerated, since it interfered with the strengthening of economic accounting at enterprises, weakened the incentives to fight for the reduction of production costs, and was in conflict with the task of further enhancing the role of the ruble in the national economy.

Economic accounting as a method of planned management of state enterprises requires that the expenses of enterprises be reimbursed at the expense of their income. At the same time, the source of income for state enterprises is the sale of their products to other production enterprises or trade organizations at state prices. The turnover of products between socialist enterprises is carried out on the basis of economic contracts and implies mutual control of economic organizations over the fulfillment of contracts, sanctions for violation of contracts, and state arbitration on disagreements arising in the course of the implementation of economic contracts. Under the conditions of state subsidies, the costs of enterprises are ultimately reimbursed. However, along with the wholesale price as an essential, and in some cases even direct financing from the state

budget becomes a decisive source of income. Thus, the reimbursement of enterprises' expenses is achieved by unilaterally increasing the role of budgetary control over the economy and at the same time weakening the role of general mutual control of economic organizations in the course of product turnover between socialist enterprises.

The system of state subsidies inevitably leads to a weakening of the significance of economic contracts. The income of the enterprise in the part in which they are formed at the expense of state subsidies become independent of the control of the customer. The right to refuse payment, as well as the right to sanctions in case of violation of business contracts, practically extends only to that part of the enterprise's income, which is formed due to the sale of products at established prices.

The system of state subsidies does not abolish the turnover of products between branches of the socialist economy at state wholesale prices, but it diminishes the role of wholesale prices. They only partially reimburse the costs of enterprises related to production. Since this is so, wholesale prices are largely losing their role as a social criterion of production costs, and the economic interest of consumers in controlling the correctness of setting and observing the established prices is weakened.

The separation of prices in a number of branches of heavy industry from the cost of production meant, firstly, an underestimation of the volume of output created in branches of heavy industry, and secondly, an underestimation of costs in the branches of the national economy consuming products sold at planned unprofitable prices. Ego, in turn, led to an artificial underestimation of the share of material costs in the cost of industrial production, which could not but weaken incentives to save raw materials, materials, and fuel.

The interests of the further development of the national economy demanded an all-round increase in the role of the economic instruments of the Soviet state, the strengthening of economic



accounting, and this could not be done without the abolition of state subsidies. However, the abolition of state subsidies could not be carried out immediately after the end of the war since this would mean the establishment of wholesale prices on the basis of the high costs of the first period of post-war restructuring of industry.

The abolition of state subsidies could be the result of a significant reduction in the cost of heavy industry products. And this, in turn, assumed the implementation of a number of measures to eliminate the remnants of the war in the field of product distribution, the implementation of a monetary reform, the strengthening of the role of wages and, on this basis, ensuring a serious rise in labor productivity.

The abolition of the system of state subsidies was carried out mainly **from** January 1, 1949, in the context of a powerful economic upsurge in the country, the successful implementation and over fulfillment of established plans to reduce production costs. In 1948, the reduction in the cost of production (in comparable prices) amounted to 8.6%, and in 1949 - 7.3%. However, no matter how significant the successes of industry in the field of were reducing the cost of production, the abolition of the system of state subsidies could not be ensured due to this factor alone.

At the same time, it turned out to be necessary to raise wholesale prices in some extractive branches of heavy industry (coal, ore, logging), where, due to a significant increase in wages made during the war, wholesale prices have significantly separated from the cost of production.

As regards the manufacturing branches of heavy industry, the level of wholesale prices applicable to their products on the whole corresponded to the planned cost price stipulated by the Fourth Five-Year Plan.

In addition, certain types of products of these industries were subject to turnover taxation. This circumstance made it possible to offset a significant share of the rise in prices associated with an increase in wholesale prices for products of unprofitable sectors of the extractive

industry in the manufacturing industry by reducing profits, abolishing the turnover tax, and limiting itself to only a partial increase in prices in cases where the rise in the cost of raw materials and fuel was *especially* significant . or when it was caused by the need to correct deliberately incorrect value relationships between individual groups of products.

In the sectors of the light and food industries, all the rise in prices caused by the increase in wholesale prices for the products of certain sectors of the heavy industry and tariffs for freight transportation were compensated by reducing the turnover tax without increasing wholesale prices. Moreover, after March 1, 1949, wholesale prices for products of the light and food industries were reduced to the extent of the next reduction in retail prices for food and industrial consumer goods.

In connection with such an unequal change in wholesale prices for products of industries, the following structural changes occurred in the cost of industrial products, expressed in current wholesale prices:

firstly, the ratio between the production of means of production and the production of consumer goods at current prices has changed in favor of the means of production;

secondly, the proportion of products of the extractive industries increased in the composition of heavy industry products;

thirdly, in the volume of total industrial output in current prices, the share of prime cost and profit increased, while the share of turnover tax decreased.

This meant a more complete account of the share of production of heavy industries in the total social product.

Significant changes also occurred in the cost of industrial products:

- a) the share of material costs in all industry costs has increased;
- b) the proportion of expenditures on fossil raw materials and fuel increased in the composition of material costs;

c) in the costs of the light and food industries, the consumed means of production supplied by heavy industry received a more complete and accurate assessment.

The introduction of new wholesale prices and tariffs thus provided a more accurate assessment of material costs in the cost of production and thus increased incentives for savings through material costs.

At the same time, the ratio in wholesale prices for interchangeable types of heavy industry products, as well as in tariffs for freight transportation, was improved.

In the composition of the fuel, the ratio between coal and peat prices has improved, as can be seen from the comparison table below:

	unit of measurement	Value coefficients (the price of 1 ton of coal is taken as 100)	
		before 1949	from January 1, 1949
Coal Donetsk "AK"	t	100.0	100.0
Peat (average)	»	57.5	35.7

When developing a new price list for coal fuel, it was envisaged that prices would stimulate an increase in the production and economic use of coking coal. Thus, the price for coking coal of the western coal basins was set at 25% higher than the average price of hard coal fuel; for the eastern basins, the price for coking coal was set approximately 20% higher than the average price of hard coal 1 fuel. While in the coal industry as a whole it was envisaged to eliminate unprofitability only from 1950, normal profitability was ensured for coking coal in 1949.

Much has been done during the wholesale price reform period to eliminate discrepancies in prices for long-distance and local coal, although this task has not been fully resolved.

In the eastern regions of the country, with the new transport tariffs, it was possible, on the whole, to equalize for the consumer the cost of

long-distance and local coals (in terms of equivalent fuel), and in some cases even create conditions for the "competitiveness" of local coals in comparison with distant imported ones. For example, according to the calculations made, after the introduction of new wholesale prices for coal and tariffs for its transportation, the cost of a ton of normal steam for the enterprises of the city of Molotov, with the consumption of Kuznetsk coal, was 20 rubles. 60 k., and Kizelovsky coal - 18 p. 10 k.

For the enterprises of Chelyabinsk, the following values have developed, respectively: with the consumption of Kuznetsk coal - 18 r. 40 k., with the consumption of Karaganda coals - 19 rubles. 65 k., with the consumption of Chelyabinsk coal - 17 rubles. 08 k.

For enterprises located in Gubakha, the cost of a ton of normal steam was: when consuming Kuznetsk coal - 19 rubles. 67 k., with the consumption of local Kizel coals - 16 rubles. 80 k.

The situation with wholesale prices for coal fuel in the western and southern regions of the country was different. And here the ratio in prices for distant and local coals was generally improved. Prior to the reform of 1949, the wholesale price for ordinary coal of the BR brand near Moscow was set almost at the level of the price for Donetsk anthracite of the ARSh brand, although the calorific value of BR coal is lower than for anthracite of the ARSh brand, approximately 2.4 times. With the introduction of a new price list on January 1, 1949, the wholesale price for BR coal near Moscow was set lower than for Donetsk anthracite ARSh by 20%. At the same time, tariffs for the transportation of coal from the Moscow Region were set (in absolute terms) significantly lower than for the transportation of Donetsk coal. And yet, taking into account the lower calorific value of coals near Moscow, the cost of a ton of normal steam for Moscow consumers turned out to be lower when using Donetsk coals than when using coals near Moscow. This required further implementation of a number of additional measures to stimulate the consumption of coal near Moscow by prices.

In order to limit the consumption of the most scarce non-ferrous metals, the ratio of prices for lead and zinc and other non-ferrous metals was changed.

During the reform of wholesale prices and tariffs, the practice of free delivery of standing timber to loggers was eliminated, which hindered the progress of logging into the depths of forests and impeded the rational organization of forest management.

In developing new tariffs for freight transportation by rail, the interests of stimulating shippers to more rational use of vehicles and to reduce excessively long distances were taken into account.

Along with stimulating shippers to more rational transportation, the new tariffs also provide incentives for railways in this regard. Thus, in the previous tariffs it was envisaged that the payment for the carriage of goods is calculated based on the actual distance of transportation. In turn, all calculations between the Ministry of Railways and the roads were also made on the basis of operational ton-kilometers of transportation. The volume of traffic was calculated in the same way. This weakened the incentives for transportation over the shortest distances, since the excessive overrun of goods did not affect the financial position of the railways (all costs were fully compensated by shippers), at the same time creating the appearance of over fulfillment of the transportation plan.

To combat the circle of transportation in the new tariffs, it was established that the amount of payment for the transportation of goods should be calculated based on the distances determined in the shortest directions.

With the new transport tariffs for freight transportation, the ratio between the cost of rail, river and road transportation has been improved. Consignors are provided with more favorable conditions for the carriage of goods by river transport in directions parallel to railways, as well as for the carriage of goods in a mixed (railway-water) traffic.

Simultaneously with the reform of wholesale prices, a number of changes were made in the pricing itself. The list of industries whose products were subject to sales tax by that time was revised. Considering that in all sectors of the heavy industry (except oil) the turnover tax was levied in the amount of only 0.5 to 3% of wholesale prices, it was considered necessary to completely abolish, with the introduction of new wholesale prices, the levying of turnover taxes on products of all sectors of the ore industry, non-metallic minerals, fuel (except for oil products), products of the logging and woodworking industry, building materials, metals, chemical industry products, heat energy, machinery and equipment.

When developing the price lists of new wholesale prices, a line was consistently drawn on the use of two types of free: free-carriage station of destination and free-carriage station of departure. Therefore, in most industries where the ex-factory was previously used, an ex-works departure station was introduced. At the same time, the costs of tare and packaging, with the exception of special tare provided at the special request of customers, were charged to suppliers. This measure ensures greater stability of list prices, since it reduces the possibility of applying any kind of additional surcharges in excess of the approved prices determined by agreement of the parties (covering the costs of transporting products to the station of departure, payment for loading operations, reimbursement of the cost of containers and packaging).

### **Reduction of Wholesale Prices and tariffs for cargo Transportation in 1950-1952.**

The reform of wholesale prices in industry and tariffs for freight transport, carried out on January 1, 1949, was associated with a slight increase in wholesale prices and tariffs. However, this increase was temporary. Since the reform of wholesale prices and tariffs, by bringing prices (tariffs) into proper conformity with the cost of heavy industry products and freight transportation, helped to strengthen economic accounting and increased incentives to save production costs, it thereby created material prerequisites for lowering newly

established prices in the future. and tariffs. New major successes in the development of industry and transport, the growth of labor productivity and the reduction in the cost of production, achieved in 1949 as a result of the further labor upsurge of the Soviet people, the strengthening of the Soviet ruble and economic accounting, as well as the significant reserves that emerged in 1950 for a further serious reduction in the cost of production. created opportunities to reduce the new wholesale prices and tariffs introduced on January 1, 1949.

As a first stage in the reduction of wholesale prices and tariffs in industry and transport, from January 1, 1950, wholesale prices for metals, chemicals, building materials, timber, paper, engineering products, as well as tariffs for electricity and freight rail transportation were reduced.

Subsequently, from July 1, 1950, bearing in mind the need to reduce the cost of construction, wholesale prices for roundwood, sawn timber and woodworking products, ordinary rolling of ferrous metals, building materials, equipment, as well as tariffs for freight transportation by rail, river, road, and horse-drawn transport. The large scale of the two-fold reduction in wholesale prices for many types of industrial products in 1950 can be judged by the fact that wholesale prices on July 1, 1950 were lower than their level on January 1, 1949:

For cast iron	by 20%
For steel of ordinary quality	» 37-47%
Through steel, cast iron pipes and cylinders	» 15-50%
For commercial softwood	" 10%
On rubber and chemical industry products	more than 20%
By cement	by 20%
For gasoline	"20%
For machines and equipment	» 20—30%.

At the same time, the following were reduced: tariffs for rail transportation of a number of goods - from 10 to 40%; tariffs for river transportation of timber, building materials, hardware, and machinery - by 15-25%; tariffs for freight transportation by road - by 8% and tariffs for freight transportation by horse-drawn transport - by 12%.

Together with the reduction in wholesale prices and tariffs on such a significant scale, the value ratios in the national economy were significantly improved.

Overall, the ratio of prices for ferrous and non-ferrous metals, as well as between individual types of metals in each of these groups, has been improved.

In the composition of ferrous metals, the price ratio for ordinary and low-alloy steels has been improved. Prices for low-alloy steel grades SHL1, SHL2, SHLZ and SHL4 were additionally reduced by 10% against the corresponding replaceable ordinary steel grades. This price reduction was meant to stimulate the introduction of low-alloy steels into construction.

In the composition of non-ferrous metals, the price ratio between aluminum and magnesium alloys has been changed. At the same time, the interests of the comprehensive introduction of magnesium-aluminum alloys into the national economy were taken into account.

Additionally, the price ratio for Donetsk and Moscow region coal has been improved. While the prices for Donetsk coal were left unchanged, and the tariffs for their transportation were reduced by only 10%, the prices for coal near Moscow were reduced by 25%, and the tariffs for their transportation - by 50%.

Value ratios between separate groups of building materials have been improved. Prices for industrial wood were reduced by 10%, while for bricks the price reduction was 24%, for cement - 20%. The new price ratio was meant to stimulate the economy of wood in construction. The reduction in prices for lime was made on a larger



scale than for cement, which is associated with the need to stimulate the use of local resources of binders in construction.

Changed the price ratio between roundwood (sawlog) and lumber. While lumber prices are down 25%, sawlog prices in effect in 1949 are down 10%. This circumstance encourages consumers to import lumber instead of sawlogs, which is economically feasible from the point of view of the rational use of vehicles.

Wholesale prices have been reduced for coal and oil shale, for peat, for electrical and thermal energy, for ferrous metals, for chemicals and products of the rubber industry, for paper and products of the woodworking industry, for building materials, as well as for all types of machinery and equipment. The decline in wholesale prices for machinery and equipment turned out to be the largest, as a result of which the level of wholesale prices for products of the machine-building industry is now much lower than before the war. This circumstance is of great progressive significance since it additionally stimulates the widespread introduction of new technology into the national economy.

Simultaneously with the reduction in wholesale prices, tariffs for freight rail transportation, as well as tariffs for freight transportation by river, sea, and road transport, have been significantly reduced.

Along with lowering the price level and improving value relations in the national economy, a number of measures have been taken to streamline the existing practice of pricing. First of all, more consistently than was the case during the reform of wholesale prices, the principle of unity of prices for identical products was introduced. To this end, when developing price lists for individual product groups, they included, as a rule, all products of the corresponding industry, regardless of the subordination of the enterprises that manufacture these products. This approach to compiling price lists contributed to the elimination of discrepancy in prices for the same products from different manufacturers. Nevertheless, work on the unification of wholesale

prices for the relevant branches of industry cannot yet be considered fully completed.

An important feature of the reduction in wholesale prices and tariffs in 1950 is that it was carried out under the conditions of the complete abolition of the system of state subsidies for heavy industry and transport.

From January 1, 1950, in addition to eliminating the practice of reimbursement from the state budget for the difference between the cost and wholesale prices (tariffs), the issuance of subsidies to individual sectors of the national economy for the purpose of major repairs was also canceled. Depreciation rates were brought into line with the needs of individual industries in capital repairs. For this purpose, temporary rates of depreciation deductions were introduced for 1950, the effect of which, with some adjustments, was then extended for subsequent years.

On January 1, 1952, a new significant reduction in wholesale prices in industry and tariffs for freight transportation was carried out in the USSR.

Despite the fact that since January 1, 1950, wholesale prices and tariffs have already been reduced three times, the national economy of the USSR has achieved a fairly high level of profitability as a result of reducing the cost of production. The state budget of the USSR for 1953 provides for an increase in the amount of profits in the national economy to 111.5 billion rubles, which is approximately 3.5 times more than in 1940.

The large-scale reduction of wholesale prices and tariffs, while at the same time ensuring a healthy profitability of heavy industry and transport, is one of the clearest indicators of the powerful rise of heavy industry and transport, the strengthening of the Soviet monetary system in the post-war period. The fact that the Soviet state was able in the shortest possible time after the end of the war not only to restore and significantly further develop heavy industry, but also to raise it to a higher technical and economic level, that by the end of the Fourth

Five-Year Plan this industry was not only able to work profitably, without state subsidies, but also to reduce wholesale prices on a significant scale, is extremely convincing and indisputable proof of the enormous vitality of the socialist system and its material basis— heavy industry.

<sup>1</sup> *I. V. Stalin*, *Soch.*, vol. 12, pp. 43-44.

<sup>2</sup> *V. I. Lenin*, *Soch.*, vol. 25, p. 309.

<sup>3</sup> *Monthly Bulletin of Statistics*, June 1944. p. 186.

## **Conclusion**

Commodity production and its economic categories cannot be regarded as something self-contained, independent of the surrounding conditions. A feature of commodity production is that its existence does not belong to any one particular socio-economic formation.

The purpose and functions of the economic instruments of commodity production (goods, money, price, etc.) cannot, therefore, remain unchanged, independent of the surrounding economic conditions. Along with the historical change of socio-economic formations and the basic economic laws inherent in them, the functions of the economic instruments of commodity production change, they lose their old purpose and acquire a new one, corresponding to the newly emerged economic conditions.

The existence of commodity production in a socialist society, within certain limits, also determines the existence of corresponding economic instruments of commodity production. At the same time, the socialist socialization of the main means of production, the operation of the basic economic law of socialism and the law of the planned, proportional development of the national economy lead to a radical change in the functions of these instruments, the nature of their action. "This is the situation not only with commodities, but also

with money in our economic circulation, as well as with banks, which, losing their old functions and acquiring new ones, retain the old form used by the socialist system”<sup>1</sup>. Price is one such instrument of commodity production used by the socialist system.

Under socialism, the functions and appointment of prices have changed radically compared to capitalism. The operation of the law of competition and anarchy of production under capitalism is manifested in the disorderly, spontaneous movement of commodity prices. The law of planned, proportional development of the national economy, which arose on the basis of the socialist socialization of the fixed means of production, signifies the objective possibility and necessity of price planning. In price planning one of the expressions is the use of the law of value in the interests of the socialist system.

By virtue of the socialist socialization of the means of production and the operation of the law of the planned, proportional development of the national economy, the law of value is not and cannot be the regulator of socialist production. But since in a socialist society, commodity production and commodity circulation are preserved, within certain limits, the law of value cannot but exert its influence on production, which is manifested in the existence of a monetary form of remuneration for the labor of members of a socialist society, in the necessity and expediency of using the external appearance of a commodity and forms value for accounting for labor costs and controlling the activities of enterprises, in the application of the self-supporting form of enterprise management within the state production sector of the socialist economy.

This circumstance makes it possible to actively use prices as an instrument of the economic policy of the socialist state, which meets the requirements of the basic economic law of socialism and the law of planned, proportional development of the national economy.

With the help of a planned system of state prices, the Soviet state:

a) carries out the distribution of the national income of the country in accordance with the goal of socialist production, which consists in the

maximum satisfaction of the constantly growing material and cultural needs of the whole society;

b) contributes to the strengthening of additional incentives for the implementation of plans for the development of industrial and agricultural production;

c) ensures control over the costs of production and circulation in the national economy, contributing to their systematic reduction on the basis of the continuous improvement of socialist production;

d) stimulate the rational use of material resources and vehicles in the national economy;

e) organizes the consumer demand of the population and contributes to the comprehensive development of trade.

The action of the basic economic law of modern capitalism is manifested in the field of prices in the form of an increase in the high cost of living, inflating monopoly prices. The growth of high prices is used by the monopolies to exploit the majority of the population of a given country, to systematically rob the peoples of other countries and thus secure the highest profits for themselves. The action of the basic economic law of socialism is manifested in the field of prices in the form of a systematic, planned reduction in prices. The continuous growth and improvement of socialist production, the continuous increase in the mass of commodities directed by the state into organized trade, the reduction in the cost of production and distribution costs in the national economy serve as the material basis for the implementation of the Soviet policy of price reduction. In turn, the reduction in prices, which means the strengthening of the Soviet ruble, an increase in its purchasing power, and an increase in the real incomes of the working people, contributes to the further strengthening of material incentives for growth and the improvement of socialist production.

Thus, the two opposite lines of modern economic development, determined by the action of two opposite basic economic laws -

capitalism and socialism - find their manifestation in the nature of price movements and in the influence that it has on the position of working people in countries where capitalism prevails, on the one hand. one side, and in the countries of socialism and people's democracy, on the other.

The unrestrained growth of high prices in the countries of monopoly capitalism is connected in particular with the policy of militarization pursued in these countries and the preparation of a new war, which are used to ensure the highest profits for the monopolies.

Entangled in insoluble and escalating contradictions, in fear of a brewing economic crisis, the monopolists and the governments completely subordinate to them took the path of unleashing a new world war. According to the US state budget for the 1952/53 fiscal year, direct military spending alone on the maintenance of the armed forces is \$58.2 billion. This means that over the past five years, direct US military spending has grown almost 5 times. Military orders have become an unprecedented source of enrichment for the largest monopolies.

State contracts for the supply of weapons are concluded with US corporations on such favorable terms for them that provide a fabulously high level of profits. The monopolies are, first of all, guaranteed a deliberately high and ever-increasing level of prices for military supplies. In less than six months after the start of the US aggression in Korea, prices for radar installations in the US were increased 3 times, for aircraft - 2 times, for fuel for the army - more than 1.5 times, for steel scrap - 1, 5 times, for rubber - almost 5 times.

The US government gives huge sums to monopoly capital at the expense of taxpayers in the form of various benefits and subsidies for the development of military production. When pricing military orders, corporations are allowed to include in the cost of orders an unheard-of depreciation rate, up to one-fifth of the value of fixed capital per year. Corporate spending on building new facilities is funded by the US government's income tax rebate. The government

also provides extensive guarantees for private loans used to develop the military industry. As a result, in 1951 the total profits of the American monopolies (before taxes) increased 13 times compared to 1938.

Before World War II, each American spent an average of \$8.75 a year on government military spending. In 1952/53, it spends \$413 for this purpose. In 1951, \$75 billion was collected from the US population in taxes, while spending on food for the entire population amounted to only \$55 billion this year.

The growing resistance of the popular masses to a further increase in the already monstrous increase in taxes is forcing the ruling circles of the capitalist countries to increasingly resort to such a hidden, veiled form of financing the arms race at the expense of the working people, which is inflation.

The most striking expression of inflation is the rise in retail prices for consumer goods and thus the rise in the cost of living. According to estimates made by the American Electrician Union, the "cost of living" in the United States in 1952 reached 289%, and food prices - 334% of the pre-war level. In England, even according to official, deliberately underestimated data, the cost of living in 1952 exceeded the pre-war level by 2.25 times. During 1952 alone, retail prices increased by 25% for bread, 20% for meat, 92% for ham, 86% for cheese, 20% for butter, 17% for sugar, etc. In addition, prices for a number of manufactured goods rose. The rise in prices reflects the reduction in the per capita consumption of food, clothing, and other goods by the working people of the capitalist countries. In the United States, per capita oil consumption in 1952 decreased in comparison with the pre-war period by 46%, beef consumption - by 14, flour - by 16%. In France for 1949-1951. meat consumption decreased by 24%.

The systematic reduction of prices in the USSR has as its economic basis the planned, crisis-free development of the peaceful Soviet economy, subordinated to the interests of maximizing the satisfaction of the ever-growing material and cultural needs of socialist

society. The Soviet Union, faithful to the end to the policy of peace, does not reduce, but, on the contrary, expands civilian industry and peaceful economic development, does not stop, but, on the contrary, continues the policy of lowering prices.

The post-war development of the Soviet economy is taking place under the sign of a powerful upsurge in all branches of the national economy, the strengthening of the monetary system, and the continuous growth of people's consumption. In 1952, the industrial output of the USSR was approximately 2.3 times higher than the level of the pre-war 1940. The pre-war level of agricultural production was considerably exceeded.

A striking indicator of the powerful economic upsurge of the USSR is the continuous growth of the national income of the USSR. In 1952, the national income of the USSR more than doubled compared to 1940. Since there are no exploiting classes in the USSR and the entire national income belongs to the working people and their state, the growth of the output of the national economy and the national income of the USSR made it possible for during 1947-1953. Reduce retail prices for consumer goods 6 times.

In 1952, the price level for the most important foodstuffs in the USSR, the USA, England, and France was in the following relation to 1947 (in %) <sup>1</sup> :

	USSR	USA	England	France
Bread	39	128	190	208
Meat	42	126	135	188
Butter	37	104	225	192
Milk	72	118	130	174
Sugar	49	106	233	376

After another reduction in prices from April 1, 1953, the price level for the most important foodstuffs in the USSR further decreased and



by 1947 amounted to 35% for bread, 36% for meat, 33% for butter, and 44% for sugar.

As a result of a systematic price reduction, as well as an increase in the wages of workers and employees, an increase in monetary and in-kind incomes of peasants and other payments to the population at the expense of the state, the real incomes of workers and employees (based on one worker) in 1951 were higher than in the prewar period. 1940, by about 57%, and the real incomes of peasants (also calculated per worker) were higher than the level of 1940 by about 60%. In 1952 there was a further increase in the real incomes of the working people by 7-8%.

The decrease in retail prices in the USSR for consumer goods is not a temporary campaign dictated by one or another opportunistic reasons. This is an objective law of the development of the socialist economy. Price reduction meets the main requirements of the basic economic law of socialism, corresponds to the goal of socialist social production.

In a socialist society, where there are no exploiting classes and the results of social labor belong to all working people, the continuous growth and improvement of socialist production means at the same time a continuous growth in the consumption of the people. At the same time, since distribution in a socialist society is mediated by commodity-money relations, an increase in consumption presupposes an expansion of the effective demand of the population on the basis of lower prices.

It should be noted, however, that such a major undertaking as lowering prices each time requires the creation of the serious material prerequisites necessary for this.

In order to further reduce retail prices, it is necessary:

first, to ensure that in the future the outstripping, and, moreover, on a significant scale, growth of commodity funds intended for sale to the population, in comparison with the growth of the population's

money incomes; only under this condition is a material basis for lowering prices formed;

secondly, to continue to ensure such a reduction in the costs of production and distribution costs in the national economy, in which it would be possible to reduce prices while simultaneously solving the problems of socialist accumulation.

This means that the implementation of a reduction in retail prices requires an all-round increase in commodity resources coming both from centralized sources and through local production. This means, furthermore, that industry and trade organizations must study consumer demand better and involve in the commodity circulation goods that are really needed by the population, preventing the production of slow-moving goods that turn into frozen stocks of material values that cannot be used as a reserve for lowering prices. This also means that in order to increase the volume of commodity resources, such an important means as improving the assortment and raising the grade of products produced must be used in every possible way. At the same time, this means that the growth of labor productivity must continue to systematically and in all branches of material production outstrip the growth of wages and other monetary incomes of the working people.

This means, finally, that the strictest austerity regime must be carried out in all branches of the national economy.

The decrease in retail prices is based on a systematic decrease in wholesale prices, which in turn is based on savings in production and distribution costs. Only under the condition of a systematic economy of production and circulation costs is it possible to simultaneously increase socialist accumulation and bring about a gradual reduction in prices. This means that the implementation of the Soviet price policy presupposes the identification and mobilization of more and more reserves for increasing the productivity of social labor, reserves for saving living and materialized labor in the national economy of the USSR.

The directives of the 19th Party Congress on the Fifth Five-Year Plan demand the implementation of the strictest austerity regime in all large and small sectors of economic construction, as one of the most important conditions for fulfilling the tasks of the new five-year plan in the field of developing the national economy and improving the well-being of the people.

The increase in the real wages of workers and employees by at least 35% and the income of collective farmers by at least 40%, envisaged by these directives, presupposes a significant reduction in the cost of production and distribution costs in all branches of the national economy. Over the course of the five-year plan, the cost of industrial production should be reduced by 25%, the cost of construction by at least 20%, the cost of rail transportation by 15%, and retail trade distribution costs by 23%.

The fulfillment of such major tasks in the field of cost savings in the national economy requires the fullest use of technical progress as a method of raising the productivity of social labor, the resolute implementation of the comprehensive mechanization of all hard and labor-intensive work, the improvement of the culture of production, and above all, ensuring the rhythmic, well-coordinated work of all enterprises, the complete elimination of losses, unproductive costs and mismanagement in the use of production resources.

The implementation of a policy of systematically lowering the prices of consumer goods requires, furthermore, an all-round increase in the output of agriculture, the light industry, and the food industry. The directives of the 19th Party Congress on the Fifth Five-Year Plan for the Development of the National Economy of the USSR provide for a sharp increase in the gross output of agriculture and animal husbandry on the basis of an increase in the yield of all agricultural crops and an increase in the productivity of animal husbandry. On the basis of increasing resources of agricultural raw materials and large capital investments in the fixed assets of the light and food industries, the output of these industries must increase by at least 70% over the five years.

The directives of the 19th Party Congress provide for a significant expansion of trade in the country as an important condition for the implementation of the Soviet policy of systematically reducing prices and raising the material and cultural level of the Soviet people.

During the years of the Fourth Five-Year Plan, retail trade turnover in state and cooperative trade significantly exceeded the pre-war level. During the fifth five-year period, the state retail trade turnover should increase by another 70%.

The decisions of the September Plenum of the Central Committee of the CPSU in 1953 and the speech of the Chairman of the Council of Ministers of the USSR G.M. fulfillment of the tasks of the fifth five-year plan for the growth of national consumption in a shorter time than it was envisaged by the five-year plan.

On the basis of the successes achieved in the development of heavy industry, the Party and the Soviet government are organizing a sharp rise in the production of consumer goods. The point is to sharply increase the provision of the population with foodstuffs and manufactured goods within two or three years, having fulfilled the assignments of the five-year plan in this respect much earlier.

In order to sharply increase the provision of the entire population of our country with foodstuffs and the light and food industry with agricultural raw materials, and at the same time ensure a higher level of material well-being for the entire mass of the collective-farm peasantry, it is necessary to overcome the lag in a number of the most important branches of agriculture. The decisions of the September Plenum of the Central Committee of the CPSU on urgent measures to improve the lagging branches of agriculture represent an extensive program for the development of agriculture, ensuring a powerful upsurge in all its branches and, on this basis, creating an abundance of agricultural products in the country.

The socialist economic system, in which the goal of social production is the maximum satisfaction of human needs, a system that continuously develops production on the basis of higher technology,

with all its successes demonstrates to the whole world its superiority over the capitalist economic system and testifies to the inevitability of the final triumph of communism.

With a tremendous political and production upsurge, the Soviet people are implementing the directives of the 19th Congress of the Communist Party on the Fifth Five-Year Plan for the Development of the USSR and the system of measures taken by the Central Committee of our Party and the Soviet government to solve urgent problems in the field of industry and agriculture, seeing in their implementation a guarantee further flourishing of the socialist motherland, a vivid confirmation of the greatest concern of the Communist Party and the Soviet government for meeting the growing needs of the working people.

The Soviet people, under the tried and tested leadership of the Communist Party—the guiding and guiding force of Soviet society—will successfully accomplish the historical tasks that confront them.

<sup>1</sup>*I. V. Stalin*, *Economic problems of socialism in the USSR*, p. 53.

<sup>2</sup>*A. Mikoyan*, *Speech at the 19th Congress of the All-Union Communist Party of Bolsheviks*, Gospolitizdat, 1953, p. 17.