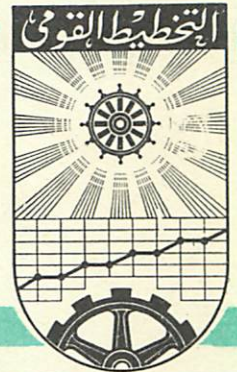


UNITED ARAB REPUBLIC



THE INSTITUTE OF NATIONAL PLANNING

Memo No. 1186

THE POLICY OF RETAIL PRICE STABILITY

BY

VACLAV SOVA

Feb. 1977

THE POLICY OF RETAIL PRICE STABILITY

Economic policy of the socialist state is characterized by the effort to maintain the stable level of retail prices. This policy is based not only on economic arguments connected with the problem of inflation, but also on extremely serious political factors, i.e. the price stability is considered to be an important part of population life securities, besides full employment, continuous growth of money incomes, free health care and other progressive social welfare securities. To strengthen these securities belongs to the main goals of economic and social growth stated by the Government ~~and the Party~~ in the process of national planning.

1. Different ways of rising real incomes of population in Czechoslovakia

When speaking about the stable level of retail prices we consider the long-run trend (regularities) demonstrated, e.g., by the Czechoslovak cost of living development during the period of 1937-1976. During these years the cost of living of the workers and employees households rose by 22.3 %. At the same time, in the individual periods the long-run trend did not exclude various modifications of the increase of real incomes and

thus the increase of purchasing ^{power} ability demand by means of various price, wage and social policies. Essentially the following variants exist:

1. the increase of money incomes with the maintenance of the fixed level of retail prices (e.g. in the Czechoslovak Socialist Republic during the present period from 1970 up to 1976);
2. the decrease of the retail price level and a certain reduction of the individual working income growth (e.g. in the period of 1953-1961);
3. a certain slight unimportant retail price rise and at the same time a faster income growth (e.g. in Czechoslovakia in the second half of the sixties).

Special attention is to be paid to the second variant, i.e. to the policy of mass cut in retail prices of goods which was realized every year (once a year to a certain date), mainly during the fifties and at the beginning of the sixties. By means of that, the standard of overall real income of the Czechoslovak population rose within nine years by one third and the cost of living index of workers' and employees' households decreased by more than 20 %.

In socialism, the policy of constant decrease of the retail price level is well founded first of all in the period of extensive economic growth when the net national income grows very quickly together with the

fast decrease of the social labour cost. In this way a space is made for dividing a part of the national income increment by means of sinking the price level which is also necessary for bringing about the demand for the starting mass industrial production of consumer goods.

The advantage of this price policy conception consists, ^{among} ~~beside~~ others, in the reduction of the problem of iterative adjustments of the social welfare income, because at the same time it retards the average income growth from the fundaments where the income was derived from. By concentrating on the decrease of the prices of the basic needs these changes valorize the income in whose structure of usage the proportion of these needs is always higher than a personal working income.

At the first glance it might seem that the retail price decrease ensures the growth of consumption of all population and, therefore, its impact is of universal character in contrast to other means of increasing the living standard (as, ^{such} e.g., rising of wages). In reality, the effect of retail price lowering varies, and it does so not only in direct correlation to the wage differentiation but principally in relation to the money income per head. A higher income per head means generally a higher consumption per head. The higher the consumption per head, the higher are, of course, the savings result-

ing from the price decrease. Taking into account that an equable lowering of prices of all goods is impracticable and that always only prices of certain goods can be lowered, it is important to determine for which kinds of goods the reduction is to be realized. It can be expected that the reduction of already cheaper kinds of goods will bring profit to the groups of households with lower income per head. On the contrary, the price reduction of certain more expensive products will be to the advantage of the groups in the higher income brackets. The limitations of such a tendency are evident: objectively, the space for a substantial reduction of prices is much larger for more expensive kinds of goods. However, the possibilities of extensive and repeated long-term retail price reduction are limited in view of other reasons as well.

An objective impediment is the fact that during the development period when in economics the factors of intensive growth are being applied to an ever increasing extent, the net national income grows more slowly than it did in the previous period. Consequently, the space for a systematic lowering of retail price level is reduced without simultaneously affecting the stimulative effect of the income growth. At this stage, a differentiated and non-proportional growth of productivity of labour gains importance and predetermines a different de-

velopment of costs and prices in individual branches of national economy. Hence it is evident that for the purpose of realizing the products, the prices should decrease in the fields of existing huge possibilities of mass applying of science and technology and, therefore, of increasing the productivity of labour (e.g. automatic production lines). On the other hand, in other branches where the possibilities of applying the results of scientific and technological development and the increased productivity of labour are more or less limited (e.g. in the branches producing coal, electricity, water and almost in all services), the costs and also the prices must inevitably grow as a consequence of the adjustments of working incomes in these industries to those in the progressive ones because of the necessity of maintaining proper proportions.

Moreover, a one-sided orientation towards a long-lasting price reduction restricts the possibilities of an effective employment of other means of rising the standard of living which are facilitated by the socialist planned economy. For example, at a certain development stage a faster growth of working incomes can be more urgent and effective (e.g. from the viewpoint of satisfying the needs of production); from the viewpoint of satisfying the needs of population it can sometimes be more urgent to accelerate the development

of public expenditures, such as social securities, health care, educational system and other fields of public consumption.

Therefore, at present the first variant is preferred in Czechoslovakia where the planned development of money incomes is essentially the same as the planned dynamics of real incomes development. For example, during the fifth five year plan, i.e. in the period of 1971-1975, the retail prices of certain commodities decreased totally by 4.27 milliard Czechoslovak crowns, while those of other commodities increased by 2.92 milliard Kčs, so that the retail price level has decreased by more than one milliard Kčs in aggregate. The price increase was strongly affected by the increased prices of petrol, which, however, was simultaneously compensated for, to the extent of three quarters, by abolishing the motor vehicle tax. The stability of retail prices, which is especially impressive in the case of foodstuffs, is demonstrated in detail by statistic indices. With the price level of 1970 equalling 100, the 1975 price level for foodstuffs was 99.7, that for industrial products was 100.9 and for the trade as a whole the price level was 100.5 (excluding the influence of the motor vehicle taxation).

2. How to attain the balance between demand and supply

It follows from what has been said above that the policy of retail price stability must respect the equalizing function of the prices affecting the demand with regard to the supply existing in the market of consumption goods. The confrontation of the planned demand and supply of goods is taking place on the basis of data on the balance of money incomes and expenditures of the population together with the planning of the retail turnover in the framework of forming the five year and one year development plans. This balance represents the planned money relations between the population and the socialist institutions and, as its name shows, it quantifies on the one hand all kinds of money incomes which the population will gain during the planned period and, on the other hand, it quantifies all kinds of money spent by the population. If the expenses of the population, ^{for services,} direct taxation and other financial payments and, lastly, the changes in the savings of the inhabitants are subtracted from all incomes of the inhabitants, the volume of money determined for buying goods in shops is obtained.

When planning the retail turnover, this volume of purchasing power demand is compared with the supply, i.e. with the volume of supplies of consumer goods, pro-

duced in the country as well as imported, which will be at the disposal during the planning period. The retail turnover which expresses the value of the goods sold in retail trade and public catering must correspond approximately to the volume of demand not only as a total, but also in its structure, i.e. according to the individual classes of goods and also according to all important sorts. At the central level eleven classes of foodstuffs and 12 classes of industrial products are planned which are then divided into individual items. The future demand for these classes and items is quantified by means of various methods (including the elasticity); in the first place the quantification is carried out in value terms but for more important items it is done even in physical units so as to make it possible to quantify even the requested supply of consumer goods, produced in the country and imported as well. These quotas are then consulted with the appropriate authorities responsible for ensuring them in appropriate enterprises.

All these procedures and methods which are necessary for creating one of the basic relations of harmony between the physical and value parts of the plan are rather labour-consuming and complicated and it is not our task to deal with them. From the viewpoint of our topic it is, however, important that during this con-

frontation of the planned demand and existing supply three possibilities can occur: either the retail turnover is covered by the stocks of commodities, or it is not covered to a certain extent, or the supplies exceed the turnover volume. Consequently, the second and third possibilities request an additional solution. In the second case it is necessary to look for new possibilities of ensuring the lacking goods from the own production, by importing them or by reducing the expected export. However, these possibilities always call for the solution of further problems, such as e.g. the increase of productive capacities, the increase of input of raw materials, the increased import of some other kinds of commodities etc. If it is not possible to realize some of these possibilities a decision must then be made either on the reduction of the expected volume of the retail turnover or on the increase of retail prices of deficient kinds of goods. However, the reduction of the retail turnover is, in its turn, to be reflected as the decrease of total incomes of the population as well as the reduction of expenditures designated for buying goods, i.e. it is to be reflected in the relevant indicators of the balance of money incomes and expenditures of the population.

The solution of this disharmony by means of increased retail prices can be accepted only after evaluating

the influence of this measure on the living standard of the individual income and social groups of population. Should this decision affect too severely even the households in the lower income brackets, then it is necessary to consider some compensations (e.g. rising children benefits, pensions etc.). However, in the present five year plan such disharmony which would enforce a more serious rise of retail prices is not considered.

In the process of forming the plan also the third possibility can occur: the volume of consumer goods supplies covers not only the required increase of the standards of industrial goods stocks, but also exceeds rather considerably the expected volume of purchasing funds of the population. In ^{that} ~~that~~ case the surplus of market funds can be considered a means for ensuring a faster growth of the personal consumption of the population. The main problem of decision making is above all to choose the trend and the way of how to utilize these larger sources. The solution is aimed especially at the decisions on

- accelerating the growth of working incomes by speeding up the growth of the average wage;
- extending social benefits;
- cutting down the retail prices, which, in fact, increases the consumption.

This kind of solution usually occurs and is utilized when forming the one year plan with the purpose of reacting on the structural problems of covering the demand. Such operational measures of the economic policy can be exemplified by the last five year plan. Favourable results of fulfilling the production goals created preconditions for the reduction of retail prices which in the year total amounted to 1.4 milliard KČs as early as in 1971. This was repeated also in the next two years and made it possible, ^{among} ~~beside~~ others, to accelerate the sale of some kinds of durable consumer goods and textile. Besides this, the sufficient sources facilitated even an amplification of the originally stated social programme.

3. Price as one of the regulators of the consumption

The changes in the retail prices influence globally not only the volume of ^{purchasing power} ~~buying ability~~ demand of the population but, as is well known, also the trends of consumption of concrete kinds of goods and services. Their effect is, of course, differentiated both according to the rate of intensity of individual goods in the system of human needs and according to the rate of price changes (reflected in the changes of price elasticity). Hence results also the importance of the price as

a certain regulator of the consumption structure which can purposely be used by the socialist society for a gradual achievement of the goals structure in the consumption. A direct tool of such control is the differentiated turnover tax imposed on individual groups of goods and services which creates - from the viewpoint of consumption - a complete system of stimulations and prohibitions. By means of it the society enforces central priorities in the consumption and thus interferes with the individual preference scales of the population.

Since such intervention necessarily is of a long-term character it is not inconsistent with the policy of the retail price stability. On the contrary this policy guarantees that no changes in the price relations will occur which could endanger the goals of attaining a certain consumption structure, or could considerably postpone the realization of these goals.

In this connection, the centrally regulated priorities tend to

- the rationalization of the consumption,
- the application of social aspects in the consumption.

In socialism the consumption is to ensure not the satisfaction of any optional needs, but first of all of rational needs. This conception does not mean restrict-

ion but respecting certain objective regularities in the development of needs, their recognition and utilization for ensuring a full development of all population. At the same time, the task of determining the rational needs cannot, naturally, be absolutized because their determination is always limited in time, both with regard to the relativity of our knowledge and simultaneously with regard to the possible resources of the society which will always be limited. The viewpoint of rationality is, of course, subordinated to the long-run goals of the society; in this respect the rational needs are those which bring benefit or at least are not inconsistent with the process of harmonic development of human personality. This general criterion implies:

- (a) the health criterion which is based on the results of medical research concerning the precondition of an adequate development of man, of the development of his physical and mental abilities (e.g. the question of the structure of nourishment, the tasks and necessity of physical ^{training} ~~exercise~~ etc.).
- (b) the social criterion, i.e. the viewpoint of philosophy, sociology, psychology, pedagogics and other sciences based on the knowledge of goal values of socialist way of living and of prerequisites and conditions necessary for its influencing by the society.

On the basis of these criteria the so-called perspective rational standards of consumption of various consumer goods as well as the standards of urban amenities and infrastructure were formulated. The five year development plans try to approach gradually these perspective values; in this connection the retail prices are an important tool concerning the standards of consumption.

Just as important from the social point of view is the control of the consumption structure. This control aims at preferring the households with lower income per head. In Czechoslovakia these aspects are typical of the prices of the decisive part of foodstuffs, also of the prices of coal, gas, electricity, children clothes and shoes and ~~for~~ of the prices of such fundamental services as housing, public transport, postal charges, telephone, radio, TV ^{and} culture. The prices of these commodities and services are substantially lower than in the non-socialist countries. For example, in the price of butter, cheese, fish and fish products the turnover tax is zero, for beef meat it amounts only to 1.3 %, the prices of rice and eggs in winter time are ^{loosing} ~~unprofitable~~, and ^{ruinous} ~~deeply unprofitable~~ are prices of coal. The State Budget subsidizes even the rents in state-owned houses, and the public transport as well. In our country

the railway fares are lowest in the whole of Europe and, in addition, reduced fares for employees, workers, children and young people exist (e.g. the fare for workers is by 50 - 80 % cheaper than the normal one). The costs of theatres are more than twice ^{as} higher and those of cinemas are half as ^{high} much as the ticket prices. In 1975 the subsidy from the State Budget for one spectator amounted to 45 Kčs (i.e. approximately 3 US \$).

the
The policy of retail price stability maintains these price relations constant in the long-term perspective.

4. State price control

The policy of the retail price stability is possible only if the prices are controlled by the State.

The system of this control consists of

- limiting the role and position of individual control levels (planning of the price development, setting the prices of new products, creating the price information system, the price control) and their mutual relations;
- imposing concrete measures for ensuring the decisive role of the price development planning in forming a rational price system.

10

The principles of price policy and price regulations which include the price level stability, especially the competency of the Federal Government to formulate conditions under which it is possible to increase or to decrease prices, are stated as orders in council for the whole republic. Universal principles concerning the setting of the prices of new products and the procedures of changing prices at price checking are established as well. The setting of prices of new products is in an increasing extent determined by the method of calculus comparison in which the principles of selecting the comparable products are set down. The price control leads to the consolidation of the price discipline.

The policy of the retail price stability is an important part of the economic and social policy in the Czechoslovak Socialist Republic. Its political impact consists in the fact that it occupies an important position in the system of life securities of the population and it is one of the tools for rising real incomes, consumption and living standard as a whole. At the same time it facilitates a purposeful influencing of the consumption structure both from the viewpoint of its rationality and social aspects. Its economic consequences make it possible to avoid all unfavourable inflation phenomena and thus to create one of the preconditions for a continuous planned development of economy and society.