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SELECTED MATERIALS ON THE SOVIET PRICE REFORM OF JULY 1967

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Foreword

This paper represents a compilation of available information on the Soviet price reforms of 1966-67 and related materials.

Section I lists specific price changes in percent for various industries and products, as gleaned from Soviet sources. (The sources are listed in Section IV.) All of the changes given are average for the industry or product in question; the change for a specific item may vary considerably from the average according to geographic region, type of consumer, use in production, or for other reasons. These and other particularities relating to specific changes are noted in Section II.

Section III comments briefly on selected aspects of Soviet pricing. The discussion is not intended to be exhaustive. It is hoped, however, that this brief presentation will assist in interpreting information that may be found in the Soviet press concerning new procedures for determining prices and the effects the actual prices may have on various aggregate measures of output and resource allocation.

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I. Average Percent Change in Industrial Wholesale Prices, by Given Industry or Product-Group.

<u>Industry or Product</u>	<u>Percent Change</u>
I. All Industry <sup>1*</sup>	8 a**
A. Heavy industry	15 a, b
1. Coal <sup>2</sup>	78 a, b, c
a. coking coal	93 a
b. coal for power	70 a
2. Crude oil <sup>3</sup>	230 a, c
a. refined oil products of which: diesel fuel; and lower quality products	0 b up slightly a down slightly a
b. Fuel oil	10 b to 11 a
c. lubricating oil	43 a
3. Natural gas <sup>4</sup>	51 a, c
4. Electricity for industry <sup>5</sup>	22 a, b
a. electric power	19 to 21 d
b. thermal energy	25 to 26 d
5. Iron and manganese ores <sup>6</sup>	more than 200 c
a. cast iron for steel	70 c
6. Rolled ferrous metals	43 a, c
a. from ordinary steel	54 a
b. from high quality steel	30 a

\* For number references, see notes in section II, following.  
\*\* For letter references, see sources, section IV.

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7. Non-ferrous metals	20 <sup>z</sup> to 22 <sup>a,c</sup> , 19.5 <sup>y</sup>
a. copper	26 <sup>a,y</sup> , 25.6 <sup>z</sup>
b. zinc of which: rolled zinc	64 <sup>a,y</sup> , 63.6 <sup>z</sup> 73 <sup>y</sup>
c. aluminum of which: aluminum sheet	33 <sup>a,y</sup> , 32.5 <sup>z</sup> 35 to 36 <sup>y</sup>
d. lead	-7 <sup>a,y</sup> , -7.5 <sup>z</sup>
e. titanium-magnesium and rare metals of which: titanium sponge magnesium	-14.2 <sup>y</sup> -4 <sup>y</sup> , -3.8 <sup>z</sup> 5.6 <sup>y</sup>
f. nickel	55 <sup>y</sup> , 53.7 <sup>z</sup>
g. antimony	7 <sup>y</sup>
h. tin	0 <sup>y,z</sup>
i. mercury	107.4 <sup>y</sup>
j. cadmium	0 <sup>y</sup>
k. germanium monocrystal	-17 <sup>y,z</sup>
l. silicon monocrystal	-19 <sup>y</sup> , -18.7 <sup>z</sup>
m. niobium concentrate	0 <sup>y,z</sup>
n. tellurium	67 <sup>y</sup>
o. wolfram (60% WO <sub>3</sub> )	56 <sup>y</sup>
p. molybdenum (51% Mo) concentrate metallic	0 <sup>y,z</sup> -8.4 <sup>z</sup>
q. brass of which: sheeting tubing	(52 to 55) <sup>y</sup> -5 <sup>y</sup>
r. vanadium	-28.6 <sup>z</sup>
s. gallium	-50.0 <sup>z</sup>
t. zirconium concentrate	-40.0 <sup>z</sup>
u. gold, diamonds, platinum, cobalt	0 <sup>z</sup>

8. Chemical products <sup>7</sup>	5 a, b
a. mineral-based chemicals	61 a
b. mineral fertilizers* peat fertilizer	34 a, b 83 l
c. chemical fibers of which: synthetic fibers and resins, plastics; and artificial fibers	-7 a  down a no decrease a
d. lacquers and dyes	5 a
e. citric acid	-69 l
9. Natural rubber	17 a
a. rubber products <sup>8</sup> of which: tires	0 b 16 a
10. Building materials	
a. wood, wood products <sup>9</sup> of which: lumber, plywood, wooden slabs; lumber; saw timber; cellulose; and fuel wood	26 a, c 40 e 36 c 33 a 46 a 0 a
b. cement	13 a
c. reinforced concrete	27 a
d. local construction materials (brick, tile, and lime)	25 to 30 a
11. Transport rates	
a. river freight	-8.6 a
b. coastal freight	4.4 a
c. auto-truck freight	0 a
d. railroad freight	(0)**

\* See note 11.

\*\* Estimated on the basis of earlier statements that railroad rates, in general, would not be changed for the present.

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12. Machine-building, metalworking <sup>10</sup>	0 a
a. machine-building	-1 or -2 to 0 b, f
b. metal-working	up a
c. tractors, agricultural machinery and equipment <sup>11</sup> of which: tractors; trucks agricultural machinery	20 g 5 g almost 12 g
d. series equipment for heavy industry and transport	0.3 to 3.7 f
e. equipment for light and food industries	-12 f
f. products of instrument-building, radio, electronics, and electro-technical industries <sup>12</sup> of which: electronics; and instruments	-12 a -19 f -25 f
g. power equipment <sup>13</sup>	-7 h
h. spare parts <sup>14</sup>	--
13. Construction-installation work <sup>15</sup>	11 f

B. Light industry\*

1. Textile products and knitwear	2.5 i
a. high quality cotton yarn (for suede and velveteen)	23 to 37 i
b. average change for the following groups -- total:	2.0 j
cotton	14.7 j
silk	-18.2 j
wool	1.2 j
linen-hemp	-0.3 j
knitted goods	-9.1 j
curtain lace	-8.3 j
cotton processing	4.1 j
primary wool processing	-5.3 j
flax processing	-6.0 j

C. Food Industry	-3.7 l
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\* See note 1.

II. Notes to Table

1. This includes wholesale price changes in the textile, leather and footwear, and other branches of light industry and most branches of food industry carried out in 1966 and early 1967. As of 1 October 1966 wholesale prices were changed on textile products, haberdashery, fabrics and piece goods of general assortment, felt products, carpets and hand-made rugs. On 1 January 1967 new prices were introduced on leather goods, footwear, bristle and brush items, confectionery items, macaroni products, beer, soft drinks, wines, juices, coffee, tea, mineral water, and food concentrates. k/ The sewing industry and several branches of the food industry that sell products at discount prices (retail prices minus the trade mark-up) were not affected by the new price lists. ll/ Except for the price changes on textile products noted in the table above, part B, there is no specific information on the changes in light industry. Wholesale prices in light industry as a whole must have increased by less than the 8 percent average for all industry. Many if not all of the increases were probably charged to turnover tax reductions.

2. Because transport costs were reduced, the price charged to the consumer did not rise 78 percent, but only by 53-54 percent. b/ The price charged to various consumers, however, may differ from the average. The price of coal used by the Nonferrous Metallurgy Industry went up an average of 58.8 percent. v/ The price change for individual enterprises may vary even more because coal prices are based on average zonal costs and differ by region. In the Kuznetsk basin the price/ton is 10 rubles 30 kopecks, and in the Donets basin 17 rubles 49 kopecks. z/



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The new prices on coal provide for 8 percent profitability, compared with an average of 15 percent for all branches of heavy industry. b/ Because of the low level of profitability, the new prices include a lower rate for payment for funds and exclude rent payments and costs for geological work. To include these would have necessitated a 60-70 percent increase in metal prices and a 15-20 percent increase in machinery prices. a/

3. The increased prices for oil will be charged to turnover tax reductions and will not result in increased wholesale prices on oil products. a/ There are seven zonal prices for oil, based on higher than average costs. Low cost producers will be charged rent payments totaling about 800 million rubles planned for 1967. b/ The rate for these payments is set at various levels ranging from 70 kopecks to 14 rubles/ton of oil. c/ In the Bakinsk rayon, where expenses are unusually high, accounting prices will also be used. b/

4. Prices charged to the population and public utilities will not change. a/ Any loss on gas -- and also on fuels and electricity -- for non-industrial consumers will be borne by the state. b/

As is the case for oil, prices on gas are based on higher than average costs, a/ and low-cost producers will pay rent payments ranging from 2 rubles 15 kopecks up to 12 rubles/1,000 cubic meters. c/

5. Rates charged to agriculture and the non-productive sphere for electric power will not change. a/ There are fifteen zonal rates set for industrial consumers, b/ for example, 6.3 kopecks/10 kilowatt hours in the Irkutsk and Krasnoyarsk power systems, 11.3 kopecks in the Ural system, and 14.5 kopecks in the Central region. a/

The percentage price change for particular industrial consumers varies considerably from the 22 percent average. The change for enterprises of the Nonferrous Metallurgy Industry averaged almost 60 percent. y/

6. Prices on iron ore and for other extracting branches are set by seven regions on the basis of average zonal costs. Rent payments range from 2 rubles 70 kopecks/ton in Magnitogorsk to 12 rubles in the Don. c/

7. The effect of price changes on chemicals for particular industries varied widely from the 5 percent average. For enterprises in nonferrous metallurgy it averaged almost 30 percent. y/

There will be no decrease in prices of artificial fibers; i.e., those made from cellulose, because of the increased prices for wood. a/

8. Sitnin reported no change on rubber products as a whole but lower prices for older types and higher prices for new and scarce products. b/

9. Prices on paper went up 28.8 percent. a/ This increase will be charged to lower profits of the publishing industry. a/

10. Prices in machine-building and metalworking will remain unchanged in general because increased costs of materials will be charged to profits. a/ In the past, some branches had such high profits that prices can be lowered in those branches. f/ Under the new prices profitability of machine-building and metalworking was to fall from 16.7 percent to 13-15 percent. b/

The new price handbooks for machinery provide flexibility for price adjustments by mutual agreement between buyer and seller in cases of single orders and custom handling. In the second half of 1967, special handbooks for price limits on non-standardized products were to be drafted. f/ These handbooks are probably part of the "new controls on temporary pricing" mentioned by Sitnin in 1966. At that time he noted that almost 1/2 of the total product of machine-building was sold at inflated temporary prices and that prices here should fall somewhat despite the expected rise in prices of raw materials. o/ While previously each factory that produced

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an item for the first time was allowed to sell at temporary prices, under the new system temporary prices will be used only for items produced for the first time in the USSR. m/

In addition, revised technical specifications for stiffer precision and operating requirements on machine tools and equipment were expected to go into effect in the last half of 1967, and prices for these items will be higher. f/

11. Although prices on agricultural machinery went up, the farms will pay the old prices. Soyuzsel'khoztekhnika will pay the new prices to the producers and will be reimbursed from the State Budget for the difference. The same arrangement pertains to fertilizer. l/\* Despite the higher wholesale prices, profitability for tractor and agricultural machine-building is only 10 percent. The average rate of profitability for machine-building in general is set at 15 percent. To compensate for this, the agricultural machinery branches have a lower rate of payment for funds. f/

12. Maizenberg reported lower prices for finished items of instrument-building, electronic, and electro-technical industries and also on many types of "inter-branch" (semi-finished) items. f/

13. The prices for power equipment went into effect on 1 July 1966. Power equipment previously sold at temporary prices was included in the new price lists and such prices were reduced an average of 20 percent. h/

14. Maizenberg stated that there would be a better correspondence between prices of finished items and prices of spare parts so that production

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\* The cost to the budget will probably total 700 million rubles for 1968. aa/

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of spare parts would be more profitable. f/ This suggests that prices on parts went up.

15. The wholesale prices on industrial products, rates for electric energy, and freight transportation also apply in construction. This leads to extra expenses for construction-installation work because new norms and estimate prices for construction work will not be effective until January 1, 1969. g/ These extra costs are compensated from the State Budget. r/

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III. Some Comments Concerning Particularities of the Soviet Price System

A. Pricing and the Defense Sector

There is historical evidence that pricing of civilian and military production, at least during certain periods, have been treated separately. There are also some logical reasons for supposing that prices on items for the defense sector are set in a different way and at different levels (presumably lower) than prices on civilian output. Although there is no direct evidence that previous wholesale price reforms (e.g., 1949- and 1955) pertained to both types of output, the 1967 price changes -- according to Sitnin <sup>b/</sup> -- affected all products of heavy industry, machine-building, and defense branches of industry.

Sitnin noted that price changes on products of industry in Category A would be reflected in the financial plans and the mutual relations of capital construction, light and food industry, the non-productive sphere, and other sectors with the State Budget. [ ]

None of the reporting on the price changes gives any direct information concerning effects on the military sector. Available data is rather contradictory in that it can be used to demonstrate (1) that price changes on defense output probably followed the trend of changes on similar civilian items and therefore show a general decline, or (2) that price changes on defense output must have taken a different direction from civilian pricing and probably show a general rise. While the first

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assumption is certainly a possibility; on the basis of various bits of information concerning Soviet financial and accounting practices, the latter assumption seems more likely.

The following sections will outline some financial practices that must be considered in any attempt to evaluate the effects of price changes on a particular sector or branch of industry -- be it military or civilian. Above all, it should be noted that the price changes given in the table in section I, above, are average changes; changes on individual items within the given categories and for individual users may vary significantly from the average. Average prices in machine-building and metalworking did not change, but prices for some branches of this sector declined by as much as 25 percent (see item 12 in table). We can assume that unreported prices for other branches must have increased significantly.

#### B. Temporary Prices

As a leftover from sovnrarkhoz price setting, about 50 percent of machine-building output, as of early 1967, was sold at temporary prices. <sup>m/</sup> Because major product pricing -- presumably including military production -- was carried out by central organs, it may be assumed that the temporary prices set by the sovnrarkhozy involved only civilian output of machine-building.

In the past, prices on machinery were fixed mainly by supplier-consumer agreements. <sup>s/</sup> It is conceivable under such arrangements that the defense consumer (the state), by buying at low prices, forced the supplier to sell his civilian output at higher prices to make ends meet. Sitnin promised that most machinery in the future would be sold at permanent prices with appropriate surcharges for quality. <sup>o/</sup> This might

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have the result of lowering prices on civilian output (see item 12 e of table, for example) and increasing prices on military production.

For more on temporary prices, see section II, above, note 10.

C. Role of Accounting Prices

Sitnin and others have noted that the new prices will not eliminate differences in profitability between individual enterprises and that additional economic tools will be used. <sup>4/</sup> One of these tools is accounting prices.

Under a system of accounting prices, a product is sold to consuming enterprises at a single wholesale price but each producer may receive a different "accounting price" depending on the actual factory cost of production. The positive differences between the wholesale and accounting prices accrue to some higher organ, usually the ministry, and are used to offset negative price differences. Thus, in effect the extra profits of low-cost enterprises are redistributed to cover the losses of high-cost producers. <sup>4/</sup>

Accounting prices may be used at a branch or zonal level or at the enterprise level. In the latter case, for a factory producing several items of varying levels of profitability, use of accounting prices can ensure equal levels of profitability for all products and provide an incentive for the enterprise to fulfill its product assortment plan. For a dyestuff factory producing items ranging in profitability from almost 120 percent to minus 25 percent under the new prices, use of accounting prices gave a profitability level of 4.8 percent for each item. <sup>5/</sup>

Although Soviet economists have criticized the use of accounting prices for various reasons, including the complexity of using two price lists, c/ they are still in use under the new price system -- at least in some of the extracting branches where wholesale prices are set on the basis of average branch costs. d/ These include salt and coal. w/ They are also used in at least one region for oil, where prices are set on the basis of higher than average costs. (See section II, above, note 3.)

D. Zonal Pricing, Transport Costs, and the Industrial Consumer

Because prices for many raw materials -- including coal and ores (see section II, notes 2 and 6) -- <sup>and</sup> for oil and electricity (notes 3 and 5) are set by zone, there is a problem of how to equalize the prices charged to consumers. This is done in some cases by use of some type of accounting prices. In other cases the consuming enterprise pays the appropriate zonal price depending upon the location of its supplier; and, to prevent supply problems, consumers are assigned to specific producers. c/

Prices on some materials include transport costs, as paid by the producer.\* The new prices for ferrous rolled metals, oil and oil products, gas, wood and wood products, and cement were worked out including transport costs. a, c/ The price lists for these items, differentiated by zone, reflect not only the zonal cost of production but also the various transport expenses. d/ Wholesale prices are set on the basis of average costs for 8 zones rather than the previous 5. c/

\* In cases where wholesale prices do not include transport costs, the latter are paid by the purchaser.



Including average transport costs in the wholesale price tends to equalize costs for the consuming enterprises and encourages suppliers to deal with near-by consumers.

E. Price and Profit: Special Financial Arrangements

In addition to accounting prices discussed in paragraph C, above, several other financial methods are used in an attempt to eliminate or compensate for large differences in enterprise profitability. These include different rates of payment for funds (see section II, notes 2 and 11), charging low-cost producers rent (see notes 3, 4, and 6), and use of price regulation funds.

A new price regulation fund was created in 1967 from funds of the State Budget and will be maintained in the future by charges levied on enterprises that reap "windfall" gains from price changes. Enterprises in financial difficulties may also apply for loans from the ministry aid fund formed from set percentage deductions on enterprise profits.

What these funds mean, in effect, is that profitable enterprises will be taxed to support low-profit or loss enterprises. While there may be less subsidization from the State Budget, there may be greater use of ministerial profit redistribution.

Other special arrangements made to keep prices below cost are the exclusion of costs for geological work in wholesale prices on coal and maintenance of artificially low prices on items sold to non-industrial consumers. (See section II, notes 4, 5, and 11.) Such arrangements are financed from the State Budget.

Although all the available examples of special arrangements, including accounting prices, pertain to civilian production; it is certainly possible that the same or similar arrangements are made for military production. The lack of information on financial practices in the defense

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sector arouses the suspicion that some kind of special procedures apply. Such methods are certainly available if Soviet leaders care to use them.

As a final point, it should be kept in mind that some of the price changes may be charged to turnover tax reductions and, thus, may affect neither wholesale prices nor profits. This pertains to oil (see section II, note 3) and perhaps other products of heavy industry. About 1/5 of all turnover tax comes from heavy industry. ~~X/~~ Consumer durables, for one, often have high turnover tax.

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