

## **SOVIET RETAIL PRICES**

On September 15 the USSR State Committee for Prices announced changes in the prices of a range of consumer goods and also of petrol. Much of the British press predictably responded with cries of 'inflation in the USSR', thereby lending support to the Thatcher government's often repeated claim that inflation, and the economic crisis in general, is an ineluctable worldwide phenomenon. *Soviet Weekly*, on the other hand, headlined the story 'Price cuts for con-

sumers'. These views are not easily reconciled. What exactly were the measures recently decreed?

Price reductions averaging from 12 to 37% have been adopted for fabrics and clothing made of synthetic fibres, certain pharmaceutical and household goods, and cosmetics. But at the same time the prices of jewellery, carpets, furs, cut glass, leather goods and high quality china and furniture have been raised by between 25 and 30%. Alcoholic drinks and tobacco have gone up by from 17 to 27% 'in order to limit their consumption', while the retail price of petrol has been raised to 30-40 kopecks per litre (about £1-25 per gallon at the official exchange rate). Pleasure boats will also cost more. The decree concluded by stressing that the prices of essential consumer goods, including food, remain unchanged and that this policy of stable prices will be maintained in the future. The decree is not the first of its kind in recent years: according to an earlier measure the prices of many newspapers and magazines are going up from January next year.

From commentaries in the Soviet press it is not possible to determine the overall impact of these changes on the average level of retail prices. The official retail price index of the Central Statistical Administration has shown a very slight upward trend, rising from 100 in 1970 to 102 in 1979, but this index appears to be based on a limited range of predominantly essential goods and cannot be considered a true measure of the magnitude of price increases. In particular, it does not reflect price rises occurring when new or improved goods are introduced, rises which, as regular complaints in the Soviet press testify, often outstrip the rate of product improvement actually achieved. Even with account of this factor, however, there is no doubt that the overall rate of increase of consumer prices in the USSR over the last decade has been extremely modest compared with the experience of the leading capitalist countries and also of some of her East European neighbours (eg. Poland and Hungary).

Several sources of upward pressure on retail prices can be identified. At present the State Committee is engaged on the formidable task of reviewing the entire structure of industrial wholesale prices, the first such review since 1967. The new system of prices will be introduced in January next year. During the last fourteen years the conditions of production of many products have changed substantially. For many raw materials costs have risen as readily available deposits have been exhausted. The need to conserve energy and other resources is leading to the adoption of higher prices in order to reduce demand. Greater use is being

made of the price mechanism as a means of stimulating the production of new more advanced and higher quality products. At the same time, the costs of some goods have fallen and the prices of others are being reduced to encourage their substitution for higher cost alternatives, eg. plastics instead of steel and non-ferrous metals. The new system of wholesale prices will take account of these factors and to some extent the recent retail price changes can be seen as responses to underlying cost movements. But this is not the whole story.

A feature of the Soviet economy during recent years has been the tendency for monetary earnings to rise at a faster rate than the production of consumer goods. This has been reflected in the rapid growth of personal bank savings and had led to some erosion of the impact of material incentives. Some of this excess purchasing power has been absorbed by increasing the prices of luxury goods and allowing greater price differentiation within particular product groups. With rising living standards the range of products officially regarded as essential and subject to strict price stability has tended to narrow. The new higher prices of non-essential goods and services often involve the adoption of higher rates of turnover tax (the Soviet equivalent of our VAT), thereby providing additional state revenue. This serves to offset the large and growing subsidies incurred in pegging the prices of basic food and non-food products. These subsidies amount to some 25,000 million rubles a year, plus a further 5,000 million rubles required to meet the gap between income from rents and housing costs. The stable prices policy thus involves a very substantial burden: these subsidies represent up to 10% of total annual state budget expenditure.

There are, thus, forces at work tending to push up the level of retail prices in the Soviet Union, but this inflation is different in degree and kind from that experienced here in Britain. The planned system of prices gives the possibility of protecting those on lower incomes, and consideration of the impact of price increases cannot be divorced from the broader context of a growing economy, full employment and steadily improved social benefits. The press commentators who gleefully seized on the price increases were more reticent about the substantial enhancement of maternity benefits, child and single-parent allowances and pensions announced a few days earlier. And Mrs Thatcher can draw little comfort from the 27% wage increase for miners which takes effect early next year.

*Contributors:* Jon Bloomfield, John Cox, John Kelly, Julian Cooper