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V. BOYEV
U.S.S.R.

Pricing as a Tool for the Stimulation and Regional Distribution of Farm Production

OPTIMAL structure and territorial distribution of production of plant and livestock products is one of the major prerequisites for effective utilization not only of agricultural production resources but also of enterprises engaged in the processing and marketing of such products.

The problem of regional distribution of agricultural production in the U.S.S.R. is solved through a complex of organizational and economic procedures. They relate to the evaluation of natural and economic factors directly or indirectly affecting the efficiency of agricultural production and the determination of feasible (maximum and minimum) volumes of products that can be obtained during the planned period with due consideration for the resources available. Such estimates provide an initial basis for planning the national and regional elements for the development of the agro-industrial complex.

From the viewpoint of the requirements of particular agricultural products, the interests of society are reflected in current and long-term state plans of production and consumption development. An integral part of such plans are the plan-orders for purchasing the principal plant and livestock products set up for the country, large administrative regions and agricultural enterprises.

Since the socialist society is first of all interested in obtaining particular products (in volume, quality, assortment and terms of delivery) to meet consumer demand, the natural and material aspects of plans assumes prime importance. But for the direct producers of commodities —collective and state farms—not only the natural but also the cost aspect of production is of great significance. That is why the improvement of links between the village and town as well as inner economic relations within collective or state farms have been made during recent years on the basis of increasing utilization of cost indices of production and distribution and involvement in the commodity-monetary circulation of the growing mass of agricultural products and industrial means of production.

Early elimination of disproportions that may occur in the process of production and exchange of plant and animal products for industrial commodities is the necessary condition for a balanced development of agriculture and other branches of planned economy. The accumulated

experience demonstrates that the stable growth of gross and marketable agricultural produce, labour productivity and material remuneration to agricultural workers, is secured only when collective and state farms can fully meet production costs from the return they receive through marketing products to the state and get enough profit to set up certain accumulation funds.

The changes which are taking place in the U.S.S.R. in the field of planning and economic stimulation are based on the fact that this condition is obligatory both for agriculture as a whole, as a branch of social production, and for each normally functioning enterprise which is involved in the production of agricultural products on a planned basis.

The first part of this condition is observed through balancing the cost-and-kind indices of development of each branch of the economy within the framework of national economic planning, and the second by means of a system of organizational and economic tools through which the interbranch proportions in the formation and utilization of national income are linked with the production and financial activity of all agricultural enterprises, with due consideration for social and economic features of their development.

The concrete forms of balancing the interests of society and individual enterprises are: (*a*) planning procedures which convey the quantitative and qualitative indices for sales of particular agricultural products down to the enterprises or organizations; (*b*) supply of collective or state farms with the required material and technical means of production; (*c*) application of a set of economic measures. The latter includes a system of purchase prices for agricultural products and wholesale prices for industrial means of production, credit, tax, free of charge budget financing for the development of the production base, etc.

In economic stimulation of particular quantitative and qualitative elements of agricultural production and its distribution over the country as a whole a system of planned purchase prices for agricultural products plays an important role under present conditions. The major feature of such prices lies in the fact that their level is not a result of market conditions, but is determined by planning organs depending on the requirements of the particular economic policy in the development of industry and agriculture. Therefore, already at the stage of planning of agricultural production the purchase price plays the role of norm of socially required labour, as an active tool in balancing production and consumption. At the exchange stage only the actual relation between the production and consumption structures is revealed.

The planned prices for agricultural products, purchased by the state are used for: (*a*) calculation of social costs of production; (*b*) economic stimulation of particular elements of agricultural development in the country and individual regions; (*c*) redistribution of the surplus product to ensure the required inter-branch proportionality of production and evening out the economic conditions and development of agricultural regions and enterprises located in different soil and climatic conditions.

In connection with changes occurring recently in the conditions of production and marketing of agricultural products and industrial means of production, the registrative and stimulating functions of prices are increasing. So the real production costs, consumer properties of produce, and interest in stimulation of particular quantitative production elements, are more fully reflected in the prices. Thus, for stimulating the prevailing production and marketing to the state of grain crops, raw cotton, fibre flax, sunflower seeds, meat and other products above the planned volumes fixed for several years, or above the level attained 2–3 years ago, increments of 50–100 per cent are added to the basic prices.

Such a system of stimulation ensures the direct relation between the objectives and the results of production, in this particular case between the increase of state purchases of agricultural products and the profit of enterprises, which, as is known, enhances the possibility for material remuneration to the actual producers—collective farmers or state farm workers. The use of higher prices creates material incentives for increasing agricultural production, even if the production costs rise somewhat due to the use of less fertile or remote lands. This is important for strengthening the economy of farm enterprises on the basis of introducing more intensive methods of production.

The increasingly stimulating function of purchase prices shows that planned pricing in agriculture, as well as in other branches of socialist economy, is developed not through mechanically copying the changes in production costs, but on the basis of due consideration for the objective requirements of economic practice, the main purpose of which is to obtain maximum production with minimum expenditure of labour and materials.

An important aim of planned pricing is the maximum objective differentiation of the natural and economic conditions of production in various country's regions. The problem is that by using particular economic tools to ensure conditions for the development of agricultural industry, so that the difference between the economic returns of farms located on the worst and best soil and climatic conditions could not grow, and the labour, material and technical resources of all collective and state farms could be utilized effectively.

The following data show the differences in the production conditions in various U.S.S.R. regions. The duration of vegetational period (with the temperature above 10°C), even if we take relatively large regions, varies from 80 to 240 days, the annual precipitation—from 200 to 850 mm and the average annual sum of positive temperatures—from 1200 to 5600°C. Still greater variations are observed in physical and chemical composition of soil, relief, configuration of plots, solar radiation and other factors, affecting the yielding capacity of land, livestock productivity and cost structure. There are 36 major natural and economic zones on the territory of the Soviet Union and 546 microregions.

As practical experience has shown, if soil and climatic differences are not duly considered in organizational policy they are inevitably transformed into stable economic differences, into differences in the level

of profitability of agricultural enterprises, availability of labour resources and production funds. This confirms the conclusion that technological progress in agriculture does not always eliminate the differences in soil fertility, and thus in productivity of equivalent labour, which emphasizes the importance of planned economic regulation of production and exchange.

The conditions of marketing of farm products have been improved in recent years through: (*a*) raising the average level of purchase prices, which led to the redistribution of the national income in favour of agriculture; (*b*) greater differentiation in purchase prices depending on the quality of products and territorial differences in the costs of production. This has raised the incentive for agricultural workers to use more advanced agricultural technology, ensured a marked evening out of economic conditions for improving the profitability in regions with relatively good and poor soil-climatic conditions.

In planning zonal prices not all costs are socially recognized but only costs economically justified in meeting the requirements of rational specialization of production. This is where their active role in stimulating the required regional distribution and the reduction of individual and social costs is realized. High efficiency in such prices is attained only when regions with similar natural and economic conditions are included in zones of fixed prices, when the level of zonal prices compensates for the costs incurred and ensures a profit necessary for the economic activity of farms.

Step-by-step introduction of economic methods of management necessitates the setting of base points for price levels and determining the boundaries of price zones for each product. It is necessary to take into consideration unavoidable differentiation in the levels of production costs for similar products not only within the boundaries of large natural-economic zones, but also within individual relatively small regions. Therefore, the areas of price zones are determined not by the formal area of territories, but by the differences in natural and economic conditions of production, which are relatively stable. For products produced on a limited area with relatively little differences in costs, territorial price differentiation would not be rational. For instance, under the U.S.S.R. conditions there is no differentiation in purchase prices for flax, hemp, legumes and some other crops.

The importance of balanced development of social production, and elimination of extreme territorial differences in the cost efficiency is quite clear. However, mechanical evening out of the profitability of similar products in all regions should be avoided since such an approach may cause damage to the interest of rational territorial specialization of farms.

To stimulate the desirable structure of production, purchase prices should be set up in such a way, that from the view point of net profit per 100 roubles of costs and hectares of land in grain-growing regions, grain production should be most profitable; in sugar-beet growing—sugar-beet production; in cotton growing—cotton production, in

suburban—vegetable, milk, berry, fruit and other production. As far as the grain industry is concerned, higher profitability of individual crops (wheat, rye or barley) should be in regions where production costs are minimal. It is only by this way that the economic prerequisites for improvement of specialization, and thus for a higher efficiency of farming in all regions of the country, can be created.

Because of great zonal and microzonal differences in the conditions and results of agricultural production a high efficiency of economic regulation is attained through a flexible combination of price, organizational and financial tools for registration and redistribution of incomes of farm enterprises with relatively good and bad natural-economic conditions. It is because of these factors, along with the improvement of purchase prices, that other economic mechanisms—credit, taxation, budget financing and management are being improved in the U.S.S.R. Thus, according to the existing system, income tax is applied to only that part of the profit of collective farms which exceeds 15 per cent.* In such cases taxation is made differentially depending on the level of profitability of farms.

To maintain the interest of producers in increasing profitability, the tax should not exceed 25 per cent of the income even at the highest profitability.

The special budget investments by the state intended for the development of agriculture are used chiefly for training specialists, construction of irrigation and drainage systems, improvement of soil fertility, control of animal diseases, plant pests, etc. The amount of such investments can be seen from the following data. In 1966–67 the cost of soil improvement operations financed by the state exceeded 11 milliard roubles, which resulted in the improvement of about 6 million hectares of land. In 1971–75 nearly 27 milliard roubles will be spent for these purposes.†

Conduct of economic reform in the management of the public economy required some increase in wholesale prices for industrial products, including means of production used in agriculture. However, the wholesale prices were changed without raising the retail prices for consumer goods, and thus without a fall in the material well-being of the people. The agricultural industry's spending for purchasing material and technical resources employed for production purposes has not changed either. This was attained by using two guidance measures, namely, budget subsidy for organizations supplying collective and state farms with industrial means of production, as well as by raising purchase prices.

For evening out the costs of delivery of material and technical means to collective and state farms in many regions, machinery, mineral fertilizers and other industrial means, are sold at wholesale prices with uniform price increases, and they are delivered by the Selkhoztechnica's transport which creates more equal conditions for the improvement of

* Profitability = relation of the profit to the production costs.

† *Selskoye Khozyaistvo SSSR na Sovremennom Etapye* (The U.S.S.R. Agriculture of Today). Gospolitizdat, 1972, p. 15.

profitability of social production and growth of material well-being on the farms.

In conclusion, it should be pointed out that optimization of quantitative and qualitative indices of development of agriculture is a complex problem. It can be solved properly only if the economic stimuli of specialization (prices, credit, etc.) are combined with a differential system of technological and organizational procedures. These must ensure the rational utilization of natural resources, the strengthening of material incentives for agricultural workers to use scientific achievements in ensuring the growth of production, reduction of costs and improvement in the quality of crop and animal products.