TOWARDS A NEW PRICE REVOLUTION

By

B. CSIKÓS-NAGY

TOWARDS A NEW PRICE REVOLUTION

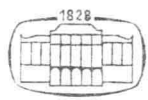
By

B. CSIKÓS-NAGY

TOWARDS A NEW PRICE REVOLUTION

By

B. CSIKÓS-NAGY



AKADÉMIAI KIADÓ · BUDAPEST 1979

Translated from Hungarian by

L. HALÁPY

English text revised by

Professor ALEC NOVE

ISBN 963 05 1851 1

Printed in Hungary

CONTENTS

PREFACE

After *Socialist Economic Policy* and *Socialist Price Theory and Price Policy* this is my third work published in English and Hungarian at the same time. On this occasion Professor Alec Nove of Glasgow University undertook revising the English text. It is with his consent that I quote a passage from the comprehensive appraisal he wrote to the publishers. "Dr. Csikós-Nagy has a whole number of important and interesting things to say. Could I suggest that the form of presentation be reviewed, so that the arguments are more accessible and acceptable to the average Western economist. The barrier is essentially connected with the use of what I would call elementary Marxist phraseology. The reason why it is a barrier is that the words are unfamiliar to the Western non-Marxist reader, or have only reached him in the context of the abstractions of Marxist political economy."

On the basis of these critical remarks I have perused the manuscript again and again and have made changes. I have left out certain passages. And yet, I think that if Marxist phraseology constitutes a "barrier", I have not completely torn it down —because I have not been able to do so. This very fact makes me present to the reader, by way of an introduction, the episodes that caused me to write this work, episodes in the wake of which the problems to be dealt with in this book have taken shape.

In the course of the four decades I have spent in the study of economics I have always devoted the greatest attention to the price problem. For more than half of this period I have been engaged in performing the task confronting me as head of the Hungarian price office. But the *first episode* connected with the writing of this work fell to a time prior to this. As a relatively young economist I did important work in government planning.

The "theory of socialist accumulation" was the basis of planning. This theory considers the reduction of a specific input (the labour input of a product) an objective trend. Accordingly, the rate of economic growth is mainly determined by two factors: (1) The share of the national income allocated to accumulation; (2) the rate of cost reductions. According to this theory there is a reciprocal relationship between the increase of the productivity of labour and the decrease of production costs.

However, experience has shown me that in practice this reciprocity is accidental; there are cases when the costs rise, although productivity significantly improves. This can not be always explained by the deterioration of natural conditions. The "irregularity" can be observed in extractive and non-extractive sectors alike.

It does not need to be emphasized how significant a disequilibrium may ensue when the actual trend of specific inputs differs considerably from what has been planned. Already then it was my view that all the negative manifestations of what is called "repressed inflation" are strongly linked with the *a priori* theses of the theory of socialist accumulation. To put it more exactly: Marx formulated the law of decreas-

ing commodity value under the conditions of classical capitalism. Thus his investigations were based on a free market system in which, though there already existed monopolies, nevertheless the competitive market was the predominant form. This model was the basis of the theory of socialist accumulation. I have always called into question the idea that an economic law can be severed from the socio-economic background against which it was formulated. But, independent of this, the question also puzzled me how the factors determining socio-economic development in our present times could be characterized.

The *second episode* is connected with the conditions under which a *rise of the price level* could be made acceptable in Hungary. When treating the price problem, Marxist economists set out from three hypotheses: (1) Value is the key to price; (2) planned pricing must be enforced by government control; (3) the decrease of commodity value must be expressed in a fall in the price level. All this taken as a whole presupposes two things. On the one hand, relying upon government planning, that the control of production according to needs will be consistently realized; that is to say, the equilibrium price always emerges on the basis of the value (input) price. On the other hand, again relying on government planning, that the economy will develop on the basis of overall equilibrium. In other words, that the value of the currency can be considered constant.

Today the older generation of Hungarians can recall a trend of price decreases only in the first half of the 1930s. That was, at the same time, the period of the Great Depression and, with it, of hopelessness. After the Second World War, in the three decades of socialist construction, a government policy of price reduction could be applied only in the short transitory period between 1952 and 1955. It should be added that, prior to that, the reform of consumer prices had raised the retail price level by about 40% at the end of 1951. In the past three decades only the way in which the rise of the price level has been managed has changed.

A regular rise of the price level in itself would not put the law of decreasing commodity (input) value into question. Though these trends appear to be contradictory, they could be harmonized if the price rose due to excess demand, i.e. to inflation, which means a decrease in the value of money. But manifold analyses of specific inputs convinced me that, in numerous cases, the factors that raise the value of inputs, and have accordingly a price raising effect, spring from the commodity side.

While writing the present work I started reading the book *Prices in a Planned Economy* by Yu. V. Yakovets,* Director of the Price Institute connected to the Board of Prices of the Soviet Union. It is a work most useful for those who wish to get acquainted with the history of price policy in the Soviet Union and with the criteria determining price policy there at present. For me the book had surprises in store. It was from this work that I learned that the policy of price reductions had been formulated in the second half of the 1920s and this decision was later repeatedly reaffirmed. At the same time this was the very period when prices rose extraordinarily rapidly. It was hard for me to understand why policy advocated price decreases, when curbing inflation seemed to be a more realistic task. The question also arose whether this inflation was a phenomenon of transition from capitalism to socialism or had greater significance. If we consider only price statistics then—as you will see—inflation in socialism is only a transitory phenomenon. From this angle inflation can be connected with the debates that took place in the Soviet Union in the 1920s about "primitive socialist accumulation". We may reach different conclusions if we direct attention to

* (Yakovets, Yu. V.) Яковец, Ю. В.: *Цены в плановом хозяйстве* (Prices in a planned economy), Moscow, 1974.

disturbances in commodity supply and the various manifestations of repressed inflation. But what are these conclusions?

The *third episode* is connected with the experiences gained during the oil price explosion brought about by OPEC in 1973. Hungary is one of the countries that has suffered heavy losses in consequence of the new prices on the world market. Certainly, I am not the only person asking the question what the power was that had enabled a group of oil exporting countries to take this step, totally unusual in the history of prices. This price policy could be contrasted with everything we knew about market prices and what had been laid down in economics as criteria of the equilibrium price. In fact, it was in this connexion that I made up my mind to contrast what is taking place at present on the scale of world economy with the price revolution of the sixteenth and the early seventeenth centuries.

Who was the first to use the expression "price revolution"? It may have been O. Wiebe, in his work *Zur Geschichte der Preisrevolution des 16. und 17. Jahrhunderts*, published in Leipzig in 1895. This is as difficult to ascertain as would be to clarify what is exactly meant by price revolution. Is it permanent inflation or something else?

And here I have reached the *fourth episode*. In 1975 the International Economic Association staged a conference in Salstjöbaden about "Inflation Theory and Anti-Inflation Policy". It was for the first time that the publication of the conference papers of the International Economic Association (MacMillan Press Ltd.) included not only the lectures but the debate as well. This may have been so thanks to Eric Lundberg, the eminent Swedish economist. Thus we have a publication that provides information not only about existing various inflation theories, but also presents in a manysided way the controversial elements of the individual theories. As a member of the Program Committee and an active participant of the conference I was deeply impressed by the debates, but—I must admit—I am unable to bring the new theories into harmony with the traditional theses of economics. All this has but strengthened my impression that the process taking place on a world scale can be characterized as a permanent structural crisis, which cannot be cured by traditional treatment.

Now the reader may perhaps understand how my thoughts on the "theory of socialist accumulation" induced me to write the present book and how the theme became of an increasingly "universal" character. Have I succeeded in adequately synthetizing the two aspects in this work? It follows from Alec Nove's remarks that I have only partly done so. Of course, I do not know what his opinion about the revised text is. But, when all is said and done, it will not do the Western economist any harm if he is tipped out of his everyday way of thinking. Anyhow, I hope to have made myself understood even where the terminology is unusual for a non-Marxist economist.

Budapest, January 1979

The Author

Chapter One

PRICE INTERDEPENDENCIES

1. Value and price

Price types and relative prices

The price of a commodity produced for exchange is regulated by its value, and its value by the quantity of work expended on its production. All investigations of price theory must be based on this. This is the point from which we have to start when we examine the causes of price movements: their nature, secular price trends and our opinion on price trends to be expected.

Today the quantification of the commodity value is feasible, though, of course, when interpreting secular price trends in *historic retrospect* we have to use hypotheses that cannot be unambiguously proved. And yet a static analysis of commodity value interdependencies offers knowledge useful in investigating price trends, both past and future.

Commodity value can be quantified by means of *price-type calculations*. These indicate the principle by which the financial system distributes net incomes among branches (products).

In a financial system consistently based upon *value price*, the budget derives the part of the revenue needed to cover public expenditure from the place where income is created in the process of production. Since live labour creates the new value, a tax proportionate to wage costs is appropriate to such a financial system. The system of value prices appears as a concomitant of such a financial system, in which—in principle—the ratio between net income *(s)* and wage costs *(v)* is equal in every branch of production (in every product) to the ratio between the total social net income *(S)* and the wage costs *(V)* of the whole economy.

In a financial system consistent with the *production price*, the budget derives the part of the revenue needed for covering public expenditure from the place where it is realized in the production process. The production price system appears as a concomitant of such a financial system, in which—in principle—the ratio between the net income *(s)* and the capital engaged *(e)* is equal in every branch of production (in every product) to the ratio between the total social net income *(S)* and the total capital engaged in production *(E)*.

If the type of prices alters, costs change in their function. Costs presuppose set prices, indeed a whole price system. To determine the costs of any commodity one has to know, among other things, the prices of capital goods used in producing the commodity (buildings, machines, vehicles) as well as the prices of the materials contained in a unit of the commodity. Before one knows these prices one cannot calculate the costs of the end product. However, these prices differ, in price systems of the "value" type, from those of the "production" type. That is why with different types of prices the costs of commodities are different too.

In the value price system the costs of every product are calculated at their value price. In such a price system the cost of electrical energy, for instance, is calculated in terms of the value prices of the equipment of power plants, of coal, etc. In produc-

tion price systems every product is expressed in costs at its production price. Thus costs are functions of the price system and, accordingly, costs are also of different types. The type of costs is determined by the type of prices. Regarding the matter from this aspect costs are "incomplete" prices for the products in question, but these products appear in their "complete" prices for every product in which they are used as inputs. The peculiar link between the type of prices and costs indicates clearly the mutual dependency of prices and the organic relationship of the prices of products within the price system; it also indicates that—other things equal—relative prices will change as a function of the type of prices.

We shall not undertake the manysided analysis of the interdependency of prices and, within it, the divergences of relative prices appearing as a function of the type of price in the Hungarian production structure and under the production conditions valid in Hungary. This, of course, limits the validity of the results obtained, since the institutional system of the social production organization, its sectoral composition, its macro- and micro-structure, the general level of the productivity of labour and of production standards—and within the latter the conditions of production—widely differ in different countries. Moreover, parallel with the development of productive forces these conditions will also systematically change within the same country too. But even so we may acquire knowledge that enables us to draw some conclusions which may even hold internationally. When calculating the type of prices, we have taken as a basis the input–output balance of the 1976 plan, comprising 19 sectors. In it gross output shows the following composition:

Table 1

The nomenclature of the input-output balance comprising 19 sectors

No.	Sector	No.	Sector
1.	Mining	11.	Agriculture
2.	Energy	12.	Forestry
3.	Metallurgy	13.	Economy of water supplies
4.	Engineering	14.	Transport and communication
5.	Building materials	15.	Domestic trade
6.	Chemicals	16.	Foreign trade
7.	Light industry	17.	Personal services
8.	Other industries	18.	Public health and social services
9.	Foodstuffs	19.	Administration and other services
10.	Construction		

When analysing the interdependency of prices, we have used—with a view to simplification—the terms "price of social product" and "sectoral price". In the calculations of the price index both appear as aggregated indices. The "price of the social product" is the price index which expresses the production structure of products and of services in all sectors of the economy. The "sectoral price" is the price index of the products produced and services rendered in the given sector.

To show the connexion between variants of the price type and the relative prices of a given sector, we have taken the value price, the production price as well as the type of prices valid in Hungary in 1976 as a basis. The net income pattern of the three price types is the following:

With respect to Hungarian economy, in 1976 prices of the value type could be obtained by a 100% supplement of the wage input, while prices of the production

Table 2

Variants of the price type

channels	Type of price		
	Value price	Production price	Hungarian 1976
In percentage of the wage input	100%	—	35%
In percentage of the capital input	—	25%	5%
Different channels altogether in percentage of the wage input	—	—	45%

type by supplementing 25% of the capital tied up in production. Thus the real type of prices in 1976 can be described as follows: taxes of 35% were levied on the wage input, and taxes of 5% on the capital tied up in production; besides, according to different branches (products), various kinds of taxes were levied, their total being 45% of the wage cost. The following differences can be observed in the relative sectoral prices.

Table 3

Divergences of the relative sectoral prices according to types of prices

Sector	Value price	Production price	Actual price
	actual price = 100	value price = 100	value price = 100
Mining	89.8	101.1	111.3
Energy	76.7	146.6	130.5
Metallurgy	77.4	113.7	129.1
Engineering	73.8	103.8	135.5
Building materials	79.0	119.4	126.5
Chemicals	74.4	115.6	134.4
Light industry	84.0	100.9	119.1
Foodstuffs	107.3	110.8	93.2
Construction	86.4	88.2	115.8
Agriculture	121.1	104.1	82.6
Transport	88.2	89.6	113.4
Personal services	99.1	78.6	100.9

Seven sectors of negligible significance in the present context have been omitted. In the connexion between the type of price and the sectoral ratio there are two questions, different in character, and therefore deserving separate investigation. One is the connexion between value price and production price and the other between value price and actual price.

In sectors (products) whose organic composition of capital is average, the production price coincides with the value price. That is to say the production price is a function of the sector's capital requirement, either below or above the level of value. At the same time value price and production price can be considered the two extreme poles from the point of view of all mixed price types which realize the s by two channels (proportionately to wages and capital), but differ from each other in the proportion of these two channels. Under the conditions of highly developed large-scale production based on a concentration of capital, the actual price will, evidently, tend to approximate to the production price.

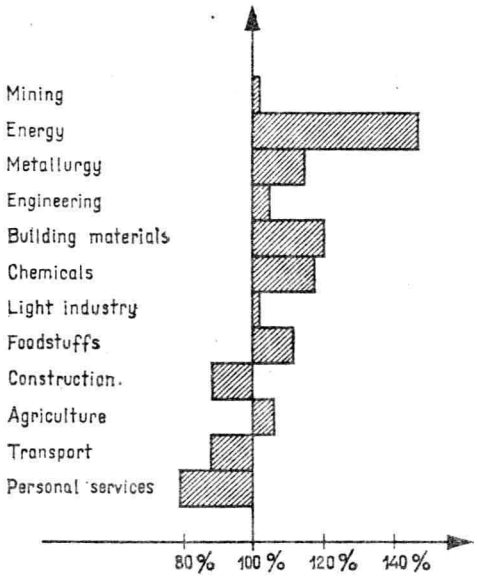


Chart 1. Divergence of the production price from value

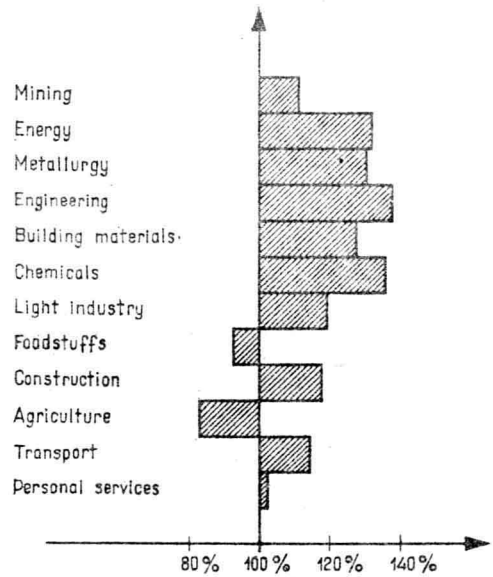


Chart 2. Divergence of the actual price from value