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STATE REGULATION OF PRICES IN DOMESTIC MARKET

The analysis of international experience in regulating pricing in the sphere of domestic trade was conducted. There were defined deficiencies in Ukrainian model of regulating prices of some goods. There was discovered dichotomy between reasons of state price controls and decision-making of entrepreneurs on price changes in the sphere domestic trade.

Keywords: state regulation, pricing, price controls, domestic trade, trade premiums, price dumping, competition.

Пятницька Г. Государственное регулирование цен на внутреннем рынке. Проведен анализ международного опыта регулирования ценообразования в сфере внутренней торговли. Выделены недостатки украинской модели регулирования цен на отдельные товары. Выявлена дихотомия между причинами государственного контроля цен и принятием решений предпринимателями относительно ценовых изменений в сфере внутренней торговли.

Ключевые слова: государственное регулирование, ценообразование, контроль цен, внутренняя торговля, торговые надбавки, ценовой демпинг, конкуренция.

Background. Economic growth in domestic trade and full performance of its social functions in any country of the world is hard to achieve without forming a proper system of management that should combine effective mechanisms of trading activities regulation, effective decision making on development of trade infrastructure in the country and its particular regions taking into account both urban and rural population, creating favorable conditions for investments in enterprise development, etc. One of the most critical problems of regulatory policy in the sphere of domestic trade in previous years and now is pricing regulation (or price controls).

Analysis of recent research and publications. Methodological bases of research on pricing in the economic market system were in the focus of economic classic authors: L. Walras, A. Marshall, J. Schumpeter, M. Kondratiev, M. Tugan-Baranowski [1–5] and others. Some aspects of state price regulation were covered in the writings of modern scholars (including Ukrainian ones), namely: A. Boyladud, D. Nicoletti, E. Colla, E. Knysh, O. Hetalo, I. Sydor [6–9] and others. However, aspects of comprehensive analysis of international experience in pricing regulation of domestic trade with determination and comparison of differences in price controls in Ukraine and other countries has not been considered.

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The **aim** of the study is to determine the effects of price controls in domestic trade on the basis of comparative analysis results of international experience in pricing regulation. In accordance with the purpose were set the following objectives: to analyze the change of the rigidity indicator of the state pricing regulation of retail prices in different countries; to identify the drawbacks of Ukrainian model of price controls for some goods; to describe the relationship between reasons of state regulation of pricing decisions and decision making of entrepreneurs in relation to the change of prices in domestic trade.

Materials and methods. In the study were used methods of analysis and synthesis. The information base for the study were legislative and regulatory acts, OECD statistics, research findings of foreign scholars who studied the issues of state pricing regulation in the retail and wholesale trade, findings of personal research.

Results. In the international practice there are no common rules regulating retail and wholesale trade. This is due to differences in the needs of each country. Regulation rules vary from state to state, creating a complex system often represented by such elements as:

- general laws, i.e. rules that are widely used (tax, labor, antitrust law);
- special laws regulating activities in certain sector market or its segment (for example, laws that relate directly to the trade sector).

The influence of the state on pricing can be manifested both indirectly through the creation of a system of economic and legal instruments, and through direct administrative interference in the price mechanism operation. In various countries with the aim of price controls were adopted relevant laws and regulations (e.g. in Italy – the Law on Price Control (1973), France – Resolution on the liberalization of prices (1986), in Sweden – the Law on prices (1956), in the US – the Sherman Antitrust Act (1890) and Clayton Antitrust Act (1914), etc.).

State policy on price controls in domestic trade (particularly in the retail segment) during 1998–2013 was heterogeneous (*figure 1*). As illustrated in *figure 1*, price controls in some countries over the years have become overregulated (such as in Korea and the Netherlands where rigidity of pricing regulation in retail trade during 1998–2013 increased by 2.1 and 2 times respectively). Meanwhile, in other countries was formed the trend towards deregulation of pricing (for example, in Greece, Belgium and Mexico, where during 1998–2013 control over retail prices was moderated by 3.5, 2.5 and 2.3 times respectively). There are countries where regulation of pricing remains the same for over 15 years: tough enough in Canada (4), mild in Denmark (0.86) and Finland (0.86).

Experience of modern state influence on trade enterprises prices in Western countries contrasts sharply with the similar experience of Ukraine and other countries of the former Soviet Union. If, for example, in retail trade in Western Europe concern is caused by price dumping, resorted to by retailers as a result of stiff price competition, in Ukraine – economically unjustified price overstatement to obtain excess profits takes place. In the

first case, regulators have resorted to measures aimed at limiting the lower limit of trade prices, while in the second – to regulate the upper limit of trade margin (primarily for the protection of consumers).

In general, state control of prices as a means of consumer protection in modern internal trade regulation is a tool that is rarely used. In 85 % of countries-members of the Organization for Economic Cooperation and Development (OECD) there is no regulation at all; and for the remaining 15 % – there is controlled pricing of certain groups of goods (medicines, tobacco, alcohol). In addition, in Canada, Korea, Iceland product pricing of essential goods is controlled (bread, milk). In exceptional circumstances (war, natural disasters, epidemics, etc.) for a limited period of time, as the world practice shows, can be applied administrative (direct) methods of price regulation.

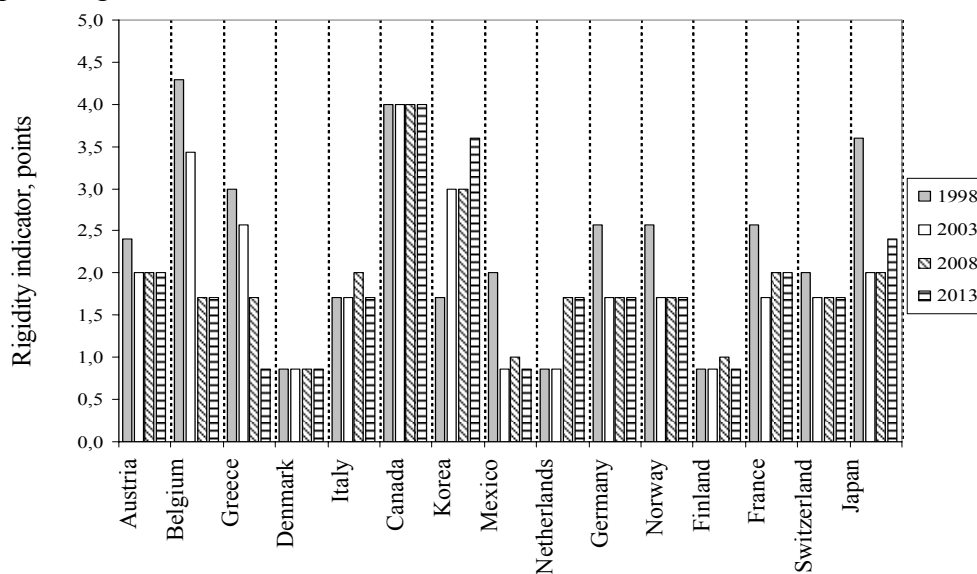


Figure 1. Dynamics of the rigidity indicator of state regulation on pricing (price controls) in retail trade in different countries of the world during 1998–2013 (developed by the author basing on the OECD statistics [10])

Ukraine's transition to a market economy has necessitated changes in pricing policy, from the directive pricing country moved to free pricing. However, the loss of purchasing power, considerable disparity in prices of different product groups has led to the need for state intervention in the pricing process. Due to the presence of all these problems nowadays prices for some goods continue to be regulated according to the provisions of the Law of Ukraine "On Prices and Pricing" [11].

Providing carrying out of the state pricing policy, the Cabinet of Ministers of Ukraine:

- performs state regulation of prices, defines the powers of the authorities on the formation, establishment and application of prices, unless otherwise provided by the law or international treaties of Ukraine ratified by the Verkhovna Rada of Ukraine;

- determines the list of goods, state regulated prices on which are approved by appropriate executive authorities, unless otherwise provided by the law.

According to Article 12 of the Law of Ukraine "On Prices and Pricing" government regulated prices are set on goods that have decisive impact on the overall level and dynamics of prices, have significant social importance and on goods produced by the subjects that have a monopolistic (dominant) position on the market. In addition, government regulated prices on goods can be introduced for the goods of entities that violate the law on protection of economic competition.

Methods of state regulation of prices, in accordance with Article 13 of the Law of Ukraine "On Prices and Pricing", are provided by: setting mandatory for the application by entities: fixed prices; marginal prices; maximum levels of trade margin and supply-marketing margin (supply fee); marginal profitability limits; amount of supply remuneration; amount of bonuses, discounts (bearish coefficients); introduction of a procedure for declaring changes and / or registration of prices.

As of early November 2015 in Ukraine price regulation for certain foods, medications, diesel fuel, motor gasoline is carried out by the state. In the country operates Resolution of the Cabinet of Ministers of Ukraine "On establishing powers of executive authorities and executive bodies of city councils regarding the regulation of prices (tariffs)" of 25 December 1996 № 1548 (as amended on March 25, 2015) [12], according to which it is established:

- marginal trade (supply and sale) premiums to the wholesale price (customs value) for flour, bread, pasta, cereals, sugar, beef, pork and poultry, sausage products, milk, cheese, sour cream, butter, sunflower oil, eggs not more than 15% excluding the cost of their transportation in the intercity traffic;

- marginal trade premiums for diesel fuel and motor gasoline sold through service stations at no higher than 15% of the wholesale price or customs value.

Meanwhile, the Ministry of Economic development of Ukraine within the framework of reducing administrative impact on the market has recently proposed to abandon the state regulation of prices, replacing the mechanism with marginal level of profitability, and to reduce the list of food for social purposes, the prices of which are regulated by the state, to 11 items. In the project developed by the Ministry Resolution of the Cabinet of Ministers of Ukraine it is stated that [13]:

- marginal trade margins and premiums will be determined by local authorities, and the marginal rate of return will range from 2 % to 15 % depending on the region and type of product;

- from the list of socially important goods will be excluded foods of so-called "premium segment", that are made with improved technology and using special packaging;

- maximum levels of trade and supply-marketing premiums will be applied at a level no higher than 15 % in determining the price of flour; simple-recipe bread; bread and bakery products for diabetics; cereals such as buckwheat, oats, millet; white sugar; pork (besides boneless meat); chicken (excluding fillets); drinking pasteurized cow's milk with a fat content of up to 3 % (packed in a film); cheese with fat content of up to 10 % (packed in parchment bag); refined sunflower oil (bottled in plastic bottles); table eggs of 1 and 2 categories, baby food.

Considering current Ukrainian practice of regulation of food prices, it should be stressed that one of its drawbacks is that neither current law nor the Ministry of Economic development of Ukraine offers clear rules on defining products that have an important social value. In addition, the competence of any public body of Ukraine does not include the one that provides classifying goods as socially significant. The latter, in turn, questions the legal validity of such regulation.

Along with this, the declaration of changes in wholesale price poses hidden registration of changes in wholesale prices. A mechanism of declaration contains corruption component, as it implies registration of the document in the body which introduced this method of regulation at its discretion and has no clear and understandable criteria for conducting such registration or refusing it.

The disadvantages of the Ukrainian model of regulating food prices also include:

- introducing parallelism in prices regulation (for example, the use of marginal levels of profitability and marginal wholesale and retail premiums on the one hand, and the declaration of changes in wholesale prices – on the other);
- lack of economic basis of necessity for this regulation and necessary volume of it.

These and other deficiencies lead to undue financial burden as on the activities in the field of domestic trade and other areas of the economy and the state as a whole: the administration of such a model of price regulation requires significant financial and human resources; absence of economic motivational component in the model causes the decline of business people interest to investment in the activities and development of their businesses / companies.

If the given project of the changes in the regulation of food prices still remains only a proposal, the state regulation of medicines pricing in Ukraine is already carried out under the new rules. Since 1 January 2015 came into effect changes to paragraph 1 of the Resolution of the Cabinet of Ministers of Ukraine "On measures to stabilize prices for medicines and medical products" of 17 October 2008 № 955 [14], the purpose of the introduction of which is to increase economic accessibility of domestic medicines for the low-income sections of the population and to create equal conditions for

the use of state regulation of prices for medicines for both foreign and domestic producers. In accordance with the changes now for medicines and medical goods included in the National list of essential medicines and medical products (except narcotic, psychotropic drugs, precursors and medical gases) and the minimum compulsory range (socially oriented) of medicines and medical products for pharmacies, defined by the Minister of Health, were established marginal supply-marketing premiums not higher than 10 %, which are calculated for the wholesale price including taxes and fees, and marginal commercial (retail) premiums not exceeding 25 % calculated for the purchase price including taxes. According to the Ministry of Health of Ukraine data, the amount of retail trade premiums on domestic medicines whose wholesale price is lower than 12 UAH per package, before the beginning of 2015 could be between 0.3 % and 169.5 % [15].

According to the practical experience, the kind of price regulation used in Ukraine (when marginal trade premiums are set), and the one common in Western Europe (where regulation is mainly aimed at preventing dumping prices), state intervention in the pricing often leads to a number of adverse effects (*figure 2*).

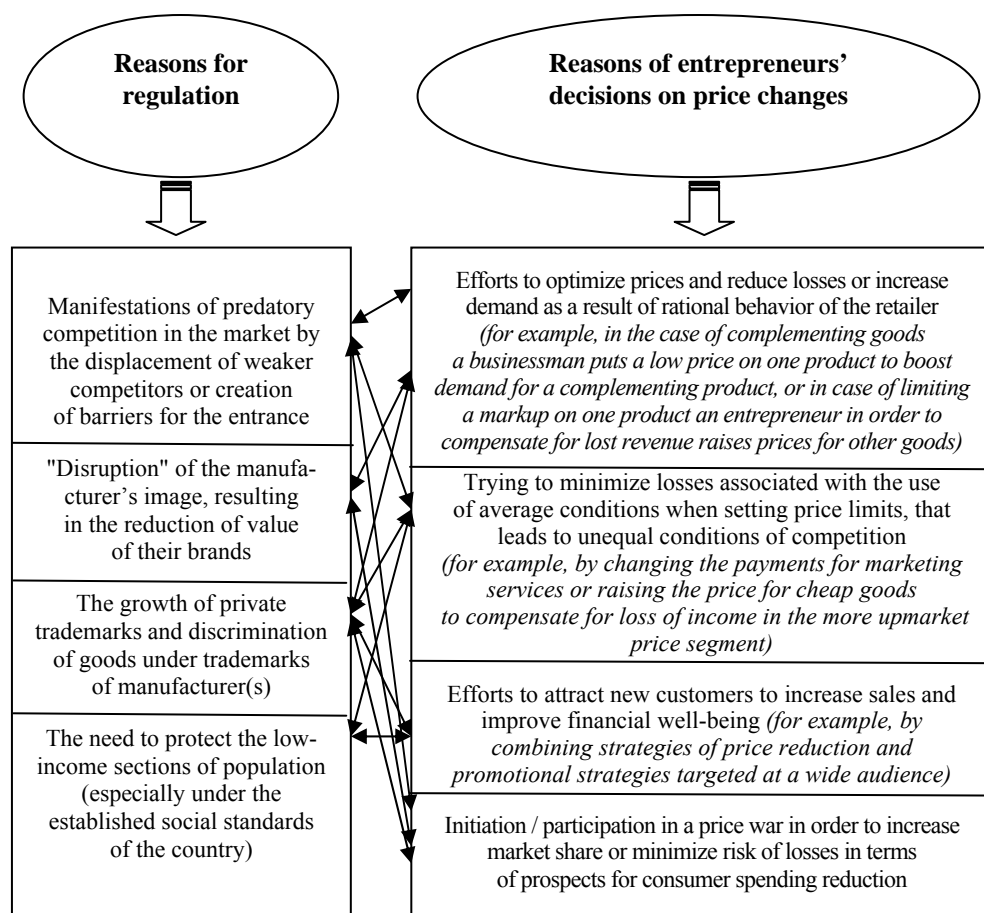
In case of setting	upper limit of prices (marginal trade premium)	<p>Abuse of the manufacturers' position, expressed in the reduction of internally branded competition, inflating the prices by suppliers of national brands in terms of the overall supply (e. g., as it was in France, Ireland).</p> <p>Containment of price competition between trade enterprises.</p> <p>Increased rigidity of prices in the conditions of establishing a particular method of calculating the minimum retail price.</p> <p>Increased costs for managing distribution centers in trade firms due to difficulties with the sale of surplus and goods stored in warehouses. between manufacturers and retailers</p>	<p>The growth of retail prices due to changes in the horizontal and vertical competition</p> <p>Complications in relationships between retailers and suppliers.</p> <p>Switching large retail companies to the forms of non-price competition.</p> <p>Development of own trademarks by trading networks and their active promotion on the market.</p> <p>Increased marketing payments (bonuses).</p> <p>Increased suppliers' purchase price.</p> <p>Hyper- and supermarkets concede their market share to discounters</p>
	lower limit of prices in trade *	<p>Redistribution of added value in the supply chain.</p> <p>The growth of retail prices.</p> <p>The emergence of trade deficit.</p> <p>Chain reaction of price increases to compensate for loss of earnings: setting the margins premium (or price) for certain type of goods leads to an increase in margins (prices) for other types of goods.</p> <p>Increase in the number of conflicts between retailers and their suppliers.</p> <p>Reduced quality of products distributed by points of sale (including through partial falsification of product ingredients by producers)</p>	<p>Spread of the practice of bypassing the restrictions (for example, by selling imported goods on which the price of supply can be set outside the country).</p> <p>Averaging of doing business conditions with the neglect of differences in the cost of renting retail space, maintenance of various trade formats, etc., which leads to the formation of unequal conditions of competition: greater losses from trade restrictions suffered by the objects of trade placed in the center of large cities, as well as goods of "medium" and "upmarket" price segments.</p> <p>Stimulation (although limited) of entrepreneurs to find ways to reduce costs</p>

* The effects of setting the lower price limit are determined on the basis of studies of various scientists, including [6; 7; 16; 17].

Figure 2. Likely effects of state regulation of pricing (developed by the author)

The nature of negative effects multitude of state pricing regulation in domestic trade lies in the dichotomy between reasons and causes of the regulation and reasons of entrepreneurs on price changes (figure 3). Only a compromise solution aimed at minimizing the gap between the slope of price changes vectors at the state level and the level of trade organizations or deregulation may stipulate reduce of the number of these adverse effects.

Of course, it is impossible to rely solely on self-regulation mechanism of market prices, because it not only does not guarantee but may conflict with the need to protect disadvantaged groups. However, solving this problem, instead of administrative (direct) state regulation of prices (for example, food products) it is possible to apply economic (indirect) ways of influence (for example, preferential loans, subsidies, tax benefits, etc.).



* The arrows indicate between which reasons of state regulation and entrepreneurs' decision on price changes dichotomy is observed.

Figure 3. The dichotomy between the reasons of state regulation of pricing and decision-making of entrepreneurs on price changes in domestic trade
(developed by the author)

In the United States since the 60s of XX century operates a program of targeted social aid to purchase food products (*Supplemental Nutrition Assistance Program, SNAP*). In the basis of the program is put a "Plan of economical nutrition" which is actually a mathematical model that determines the minimum volume of household income as a percentage that must be spent on purchasing food. If a household buys products for a lower part of income, the difference comes on the account of special electronic card using which it is only possible to buy food and non-alcoholic beverages in authorized stores. A similar pattern of targeted aid is used in the UK.

In the EU operates framework mechanism of food supply to people with the lowest income (*Distribution to the most deprived persons in the Community*). It provides the distribution of food products through certain non-profit organizations free of charge or at the lowest prices. This supply is carried out from intervention stocks, i.e. stocks of agricultural products, which were previously acquired by state institutions in the market due to lack of supply and reduction of prices.

Among international practices of price controls there are the ones which involve: the conclusion of contract with the state on the basis of which is established the right to raise prices of some goods, while reducing them of others (for example, in France); sectoral subsidizing of certain spheres of economic activity (for example, Switzerland or the United States).

Conclusion. Developing current model of regulation of domestic trade in Ukraine (including in terms of developing effective regulations of price controls) it is necessary to take into account international experience of such regulation and its consequences. By preventing the development of predatory competition in domestic trade (including by regulating pricing) it is important to pay attention to the feasibility of bridging the gap between the slope of price changes vectors at the national and enterprise levels.

The results of the study can be further used both in the process of improving the mechanisms of state regulation of domestic trade (in aspects of price controls) in Ukraine and other countries and for more in-depth study of issues of prices regulation for specific goods.

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Articles submitted to editors office of 13.11.2015.

П'ятницька Г. Державне регулювання цін на внутрішньому ринку.

Постановка проблеми. Одним з найбільш гострих питань регуляторної політики у сфері внутрішньої торгівлі донині є контроль цін. Незважаючи на те, що деякі аспекти державного регулювання цін висвітлено у працях сучасних іноземних

та українських науковців, проблематика комплексного аналізу міжнародного досвіду регулювання ціноутворення на ринку у внутрішній торгівлі з визначенням та порівнянням відмінностей контролю цін в Україні та інших країнах світу до цього не розглядалася.

Метою представлено у статті дослідження є визначення результатів контролю цін у внутрішній торгівлі на основі даних порівняльного аналізу міжнародного досвіду регулювання ціноутворення, взаємозв'язку між причинами державного регулювання ціноутворення та прийняттям рішень підприємцями щодо зміни цін у сфері внутрішньої торгівлі, виявлення недоліків української моделі регулювання цін на окремі товари.

Матеріали та методи. У ході дослідження використано методи аналізу та синтезу. Інформаційну базу дослідження становлять дані власних досліджень, законодавчо-нормативні акти, статистичні дані ОЕСР, результати досліджень зарубіжних науковців, які вивчали проблематику державного регулювання цін у роздрібній та оптовій торгівлі.

Результати дослідження. Встановлено, що вплив держави на ціноутворення може виявлятися як опосередковано через створення системи економічних і правових важелів, так і за допомогою прямого адміністративного втручання у дію цінового механізму. Досвід сучасного державного впливу на ціни підприємств торгівлі у західних країнах різко контрастує з аналогічним досвідом в Україні та багатьох країнах пострадянського простору. Наприклад, у роздрібній торгівлі країн Західної Європи стурбованість викликає ціновий демпінг, до якого вдаються торговельні мережі в результаті жорсткої цінової конкуренції, то в Україні та інших країнах пострадянського простору – економічно необґрунтоване завищення цін з метою отримання надприбутків.

Перехід України до ринкових відносин потребує зміни політики ціноутворення: від директивного встановлення ціни до вільного ціноутворення. Проте втрата купівельної спроможності населення, значний диспаритет цін між окремими групами товарів призвів до необхідності втручання держави в процес ціноутворення. Встановлено, що сучасна українська модель регулювання цін має ряд недоліків. Це запровадження паралельності у регулюванні цін на продовольчі товари, корупційна складова у механізмі декларування змін оптової ціни виробника та ін.

Висновки. Запобігаючи розвитку хижацької конкуренції у внутрішній торгівлі (у т.ч. шляхом регулювання ціноутворення), варто звертати увагу на доцільність подолання розриву між нахилом векторів причин державного регулювання цін та причин прийняття рішення щодо зміни цін на підприємницькому рівні.

Представлені результати дослідження у подальшому можуть бути використані як у процесі удосконалення механізмів державного регулювання внутрішньої торгівлі (в аспектах контролю цін) в Україні та інших країнах світу, так і для більш глибокого дослідження проблематики регулювання цін на конкретні групи товарів.

Ключові слова: державне регулювання, ціноутворення, контроль цін, внутрішня торгівля, торговельні надбавки, ціновий демпінг, конкуренція.