

## **SCIENTIFIC BASES OF PRICING REGULATION IN AGRO-INDUSTRIAL COMPLEX**

### **Abstract**

The essence of price and pricing mechanism have been considered. It is noted that price formation has a special role as a tool of social labor cost measurement, equivalent exchange is ensured, production is stimulated, supply-demand ratio is regulated, and market equilibrium is achieved. The principles of market pricing have been revealed. The processes of pricing in agricultural production, conditioned by its specific features have been shown, in particular, that main production means is land, as well as its limited resources, natural and climatic features, seasonal character of production. The author states that in economically developed society prices are based on character of service, State impact, account of time factor, the way of getting information, they depend on type of market, terms of delivery and sales, as well as world prices. It has been revealed that main reason of financial problems of agricultural sector of economy is price disparity. Various mechanisms of achieving price parity, which exist in the world practice, have been presented. The author notes that significant government spending on price support is not always effective. Distortion of objective prices leads to economically biased redistribution of resources between industries, namely, irrational use of material and technical resources and means of the end user. Prices for agricultural products are largely formed depending on their quality, which is based on standardization.

Key words: agro-industrial complex, prices, production, agricultural products, gross income, profit, resources, efficiency.

In economic theory and practice, various approaches to revealing the essence of price and pricing mechanism are used, which is connected with diversity, complexity, and inconsistency of theoretical concepts in the world science. Pricing and simple reproduction are based on product and commodity cost, which plays an important role in regulation of investment processes, justification of prices of raw materials for its processing and cost management.

In market economic mechanism, price formation plays an important role and serves as a tool of social labor costs measurement, ensuring equivalent exchange, which stimulate production, regulators of supply-demand correlation, which facilitate achievement of equilibrium on market [1]. These indicators are used for evaluation of the effective economic activity of work teams and specialists of agricultural enterprise. However, the economic efficiency of using resource potential is not determined, i.e. gaining profit per cost unit (resources-whether the enterprise has enough funds for expanded reproduction, material incentives for workers.) It should be noted that the criterion of the effective agricultural production is the ratio of gross output to live and materialized labor costs.

In general world science has not revealed the economic essence of price. The principles of market pricing include: reflection of market supply and demand; tendency to reach the equilibrium market price, as well as compensation of full costs and gaining average profit rate of each agricultural enterprise; reflection of socially needed costs and consumer value of goods through prices; specific and target price, while each specific commodity has its own specific price; determination of centralized income of the State by including system of taxes, fees and deductions by means of prices; solution of economic, social, political problems of economic entities and the State in general; the need of their subordination to the discipline and price policy existing in the State.

In the developed society, prices function according to the character of service, State influence, the way of setting and fixation. They take into account time factor, the way of receiving information, and depend on market type, terms of delivery and sales, world prices (Figure 1, p. 53).

The pricing processes in agricultural production are determined by its specific features, in particular, main production means is land which resources are limited; the production and reproduction process depends on natural and climatic features; produced goods serve as raw materials for other industries; seasonal character of production; inelastic demand for agricultural products in terms of price and income [2].

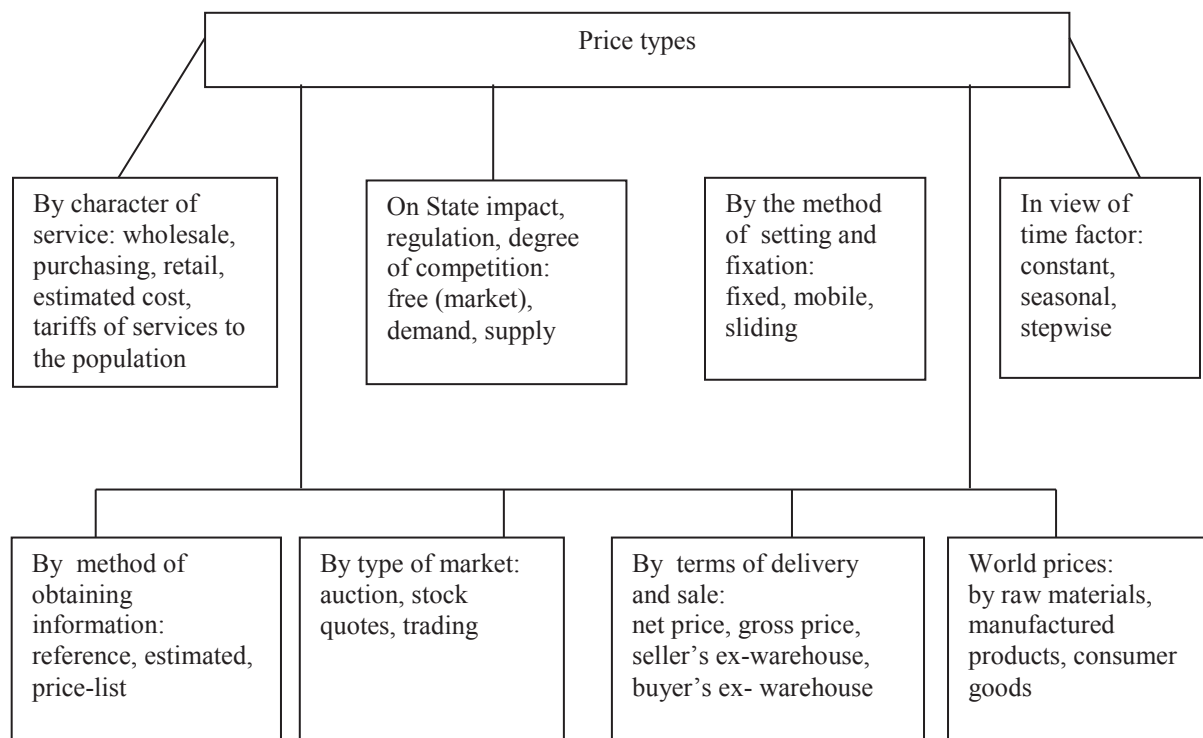


Figure 1 – Price types

The main reason of financial problems of agricultural sector of economy is price disparity. The experience of countries with developed market economy shows the usual process of market economy, rapid price increase for agricultural production resources in comparison with price increase for agricultural products.

The reasons of price disparity include low share of agricultural products supplied to market in total production volume and services provided in agricultural sector; strong links between reproduction and demographic processes in agriculture, etc.

One of the forms of equivalent inter-industry exchange -is price parity, which expresses price ratio for agricultural products and products of related industries. The status of price parity reflects price index ratio for agricultural products and industrial products. An important indicator of price parity is ratio of quantity of specific type of agricultural products, which price is adequate to industrial product unit price.

The formal characterization of the equivalent inter-industry exchange conditions can be obtained by economic and mathematical modeling, which is related and meets the following principles: principle of labor payment, equivalent inter-industry exchange, consisting of time unit, which creates equal value; labor of the same qualification and intensity, regardless of application scope; principle of equitable sector development, when each unit of fixed production assets provides same profit, regardless of the industry.

In agriculture, parity equilibrium with other industries should be understood as a state of its inter-industry relations, in which: industry profitability rate and average rate of national economy coincide; equal average salary in agriculture and economy, adjusted for the relative intensity and complexity of labor; depreciation rates correspond to general economic standards, and the level of depreciation of fixed assets doesn't significantly differ from average national economy.

There is also a relative parity level. Such inter-industry relations mean the condition when capital profitability, wages in agriculture are lower than average prices in national economy in certain period, but this deviation does not prevent the extended reproduction in the industry.

Despite the loss of main production factors, the resource potential of agricultural producers, reduction of basic and working labor and land capital, they should not determine a return to the old production and resource potential structure, although the issues of restoring unused agricultural lands, their fertility, development of agricultural technical basis are very relevant [3].

Industry losses in the absence of parity – the loss of current incomes and main production factors (labor, capital, land). In market economy, full compensation for industry losses would mean abandoning structural changes. For effective public support for agricultural development, regular calculations (monitoring) and compensation of losses of current incomes are very important in the frame of relative level of parity relations that are needed in minimal for carrying out the expanded reproduction at the rates required in certain period. Special measures are also needed to increase capital equipment of agriculture.

Prices for agricultural products are largely formed depending on quality. The basis for quality rates of agricultural products, raw materials and food is standardization. Its objectives – to improve product quality, maintain its optimal level and conditions for the development of exports of high-quality goods that meet the world market requirements [4].

In the world practice, various mechanisms of achieving price parity have emerged: the use of target prices; setting guaranteed and collateral rates; State procurement and commodity interventions; subsidies and compensation of part of agricultural production costs; State regulation of product prices, material and technical resources and services for agriculture; tax benefits; preferential crediting of rural commodity producers.

Many arguments speak in favor of such measures. In the USA, for example, target prices for agricultural products are used as a calculated value and are applied only when market prices for certain product types fall below their target price level. This is necessary to determine the amount of additional payments to farmers. The level of target price is determined taking into account cost compensation (including average income rate on farm capital and estimated land rent) and obtaining a certain income above the average income rate and land rent. For many years in the United States, the price growth rate for agricultural products is lower than for logistical resources. The demand for agricultural products and food products is inelastic. In recent years, the level of farmers' incomes support here depends on the effect of various programs, loans, and restriction of maximum rates. The main function of target price in the US is to support farm incomes, which determines not the level of farm prices, but the lower level of their incomes and compensation price premium (the difference between market price and selling price). Target prices regulate farmers' income level for grain and cotton, which is important for revealing the correlation of funding sources.

Target prices in Russia (normative indicators) for agricultural products are used as a basis in determining their guaranteed prices, as well as calculating subsidies and compensations to agricultural producers provided by legislation. The functions of target prices in agriculture in Russia differ significantly from those in the US [5].

In the EU countries, guaranteed prices are used in implementation of intervention purchases of agricultural products. The target price is the basis of price support mechanism. It is annually set and becomes a benchmark for producers and a basis for calculating parameters of the common agricultural policy of the EU countries, and serves as the basis for calculating intervention and price thresholds.

In France, the upper and lower limit of prices is set for agricultural products. The increased tax rate on profit gained from product sales at inflated prices (the amount of levied tax may reach 50%) is applied as an effective tool.

Direct methods of public regulation of domestic prices are used in Canada when setting prices for agricultural products. Prices of domestic market are regulated by guaranteeing a certain level of selling prices and subsidizing production costs to the producers. A guaranteed price level is ensured by providing subsidies to producers from budget, if market prices are lower than this level.

As the concept of price parity in agricultural sector of economy shows, significant government spending on price support is not always effective. Distortion of objective prices leads to economically biased redistribution of resources between industries, namely, irrational use of material and technical resources and means of the end user.

Intervention prices perform the function of minimum prices. At pre-fixed prices, government procurement organizations purchase agricultural products from farmers. This is an effective measure against the decline in market prices below the permissible level.

The experience of price regulation in some developed foreign countries shows the following. In Canada, for example, direct methods of public regulation of domestic prices for agricultural products are used, which is implemented through guaranteeing a certain level of sales (purchasing) prices to producers; subsidizing production costs.

The State monopoly on food trade is established in Japan, here mandatory procurement and retail prices for agricultural products are determined at centralized level.

Thus, the system of pricing in agroindustrial complex of foreign countries provides an operative observation of the price dynamics for production means, costs and incomes in agriculture, prices for final products and services. All this is reflected in the target (guaranteed) and other support prices.

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#### Аңдатпа

Мақалада баға мен баға белгілеу механизмінің мәні зерттеледі, бағаның қалыптасуы әлеуметтік еңбек шығындарын өлшейтін, биржаның эквиваленттік деңгейін қамтамасыз ететін, өндірісті ынталандыратын, сұраныс пен ұсыныс қатынасын реттейтін және нарықтағы тепе-теңдікті қамтамасыз ететін құрал ретінде ерекше рөл атқарады. Атап айтқанда шектеулі ресурстары, табиғи және климаттық ерекшеліктері, маусымдық өндірісі бар өндірістің негізгі құралы жер болып табылады, оның өндірістегі баға белгілеу үдерісіне негізделген нарықтық баға белгілеу принциптері ашылды, аграрлы өнеркәсіпте баға белгілеу үдерісі көрсетілді. Автор экономикасы дамыған қоғамда бағалар қызмет сипатына, мемлекеттік әсері бойынша қызмет атқарады, уақыт факторын, ақпарат алу тәсілін ескереді, нарықтың түріне, жеткізу және сату шарттарына, әлемдік бағаларға байланысты екендігін көрсетеді. Экономиканың аграрлық секторының қаржылық мәселелерінің негізгі себебі – бағалардың теңсіздігі екені анықталған. Әлемдік тәжірибеде дамыған бағалық теңдікке қол жеткізудің әр түрлі механизмдері көрсетілген. Автордың пікірінше, мемлекеттік қолдаудың айтарлықтай шығыны үнемі тиімді бола бермейді. Объективті бағаларды бұрмалау салалар арасындағы ресурстарды экономикалық жағынан әділетсіз қайта бөлуге, атап айтқанда, материалдық-техникалық ресурстарды және соңғы тұтынушының қаражатын тиімсіз пайдалануға әкеледі. Ауыл шаруашылығы өнімдерінің бағасы негізінен оның сапасына қарай қалыптасады, ал оның негізі стандарттау болып табылады.

Тірек сөздер: агроөнеркәсіптік кешен, баға, өндіріс, ауылшаруашылық өнімдері, жалпы табыс, пайда, ресурстар, тиімділік.

#### Аннотация

В статье рассматривается сущность цены и механизма ценообразования, отмечается, что особую роль играет формирование цен как инструмента, с помощью которого измеряются затраты общественного труда, обеспечивается эквивалентность обмена, стимулируется производство, регулируется соотношение спроса и предложения, достигается равновесие на рынке. Раскрываются принципы рыночного ценообразования, показаны процессы ценообразования в аграрном производстве, обусловленные его спецификой, а именно тем, что основным средством производства является земля с ее ограниченными ресурсами, природно-климатическими особенностями, сезонностью производства. Автор констатирует, что в экономически развитом обществе цены функционируют по характеру обслуживания, государственному воздействию, учитывают фактор времени, способ получения информации, зависят от вида рынка, условий поставки и продажи, мировых цен. Выявлено, что главной причиной финансовых проблем аграрного сектора экономики является диспаритет цен. Показаны различные механизмы достижения ценового паритета, сложившиеся в мировой практике. Автор отмечает, что значительные государственные расходы на поддержку цен не всегда эффективны. Искажение объективных цен ведет к экономически необъективному перераспределению ресурсов между отраслями, а именно нерациональному использованию материально-технических ресурсов и средств конечного потребителя. Цены на сельскохозяйственную продукцию во многом формируются в зависимости от ее качества, основой которого является стандартизация.

Ключевые слова: агропромышленный комплекс, цена, производство, сельскохозяйственная продукция, валовой доход, прибыль, ресурсы, эффективность.