

# ECONOMIC AND LEGAL PRINCIPLES OF THE GOVERNMENT PRICING REGULATION IN UKRAINE

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*The article characterizes economic and legal principles of the government pricing regulation in Ukraine and outlines priority areas of the national policy on pricing in today's conditions.*

***Free prices, economic activity, economic and legal regulation, government pricing policy, government-set prices, normative acts***

Today's market environment does not always prove the common belief that the basis of price as an economic category is represented by the value of a commodity determined by the socially-necessary labor input. For the price may represent an expression of the monetary or another proprietary equivalent agreed upon between the seller and the buyer, which the buyer is prepared to pay for a good, work or service provided to him.

In our opinion, these contradictions have occurred because of the nonobjective perceptions of pricing which existed in our country for a long time. In many cases, prices only fixed the level of production costs, and therefore, this level was quite far from the socially-necessary labor input. As a result, prices which had nothing to do with the objective cost base no longer corresponded to the socially-necessary quantity of labor.

Overall, a number of works by Ukrainian scholars in the sphere of commercial law and other fields of law deal with the study of government policy on regulation and control of pricing. Among these scholars are: O. Belianevych, S. Berveno, O. Vinnik, Y. Kubko, S. Tenkov, V. Shcherbyna and others, and also: Y. Alisov, O. Vasylieva, O. Vikhrov, O. Dzera, V. Yermolenko, V. Kurylo, O. Lukashev, N. Saniakhmetova, V. Semchyk, A. Stativka, and others.

The goal of this article is an attempt to characterize the economic and legal principles of the government pricing regulation in Ukraine and outline priority areas of the national policy on pricing in today's conditions.

Therefore, it is obvious that the pricing policy which existed before cannot be used in the conditions of reformed economy, when the most

complete reflection of the socially-necessary labor input in new prices becomes the fundamental aspect of pricing.

Although the government has declared in its normative acts that economic activity means activity of business entities in public production sphere aimed at manufacture and distribution of products, performance of works or provision of services of cost-based nature which have a determined price and which are offered in order to achieve economic and social results for the purpose of deriving profit (page 3) [1]. However, the state does not lose its regulatory function in economic relations and determines the pricing policy aimed at government regulation of exchange relationships between market participants in order to maintain equivalency in the process of distribution of the national product, observe the necessary parity of prices between industries and forms of economic activity, and ensure stability of wholesale and retail prices (page 10) [1].

Therefore, in order to analyze the economic and legal principles of the government pricing regulation in Ukraine and outline its priority areas, let's first take a look at the functions typical for the price during the period of building market relationships:

1) public labor quantity measuring function. By performing it, the price represents one of the most important production indicators and serves as a guide for making economic decisions;

2) the function of proportionality and equilibrium in economy. It is price that provides the link between production and consumption, between supply and demand. In the conditions of proportional distribution of the production means and labor among industries, the market equilibrium is maintained using the prices that reflect the socially-necessary labor input;

3) stimulating function. In the socioeconomic environment, prices may contribute to or obstruct the increase of production and consumption of certain goods. Thus, understated prices which do not ensure normal profitability or cause losses will not make businesses interested in increasing their manufacturing output. Overstated prices help receive excessive profit, create unmerited economic benefits for businesses, and at the same time may cause expansion of production which does not meet the public demand;

4) distribution function stemming from the price's possible deviation from cost. Thus, setting high prices for certain products enables the government to redistribute funds by subsidizing other goods or services [2, page 46].

Market transformations in economy were aimed at fundamental reconstruction of not only existing system of price functions but also the pricing methodology and organization of the very process of pricing, increasing responsibility of business entities for their business performance results, and reorganization of activity of pricing and price control

institutions. All that helped ensure adherence of the legal regulatory framework to the set course toward democratization of pricing policy.

The main normative acts which regulate the pricing system include the Constitution of Ukraine, Civil Code of Ukraine, Commercial Code of Ukraine, Tax Code of Ukraine, Laws of Ukraine *On Prices and the Pricing, On Natural Monopolies, On the Protection of Economic Competition*. In particular, the Law of Ukraine *On Prices and the Pricing* sets out the main principles of pricing policy and regulates relationships occurring in the course of formation, setting, and application of prices and in the course of government control (supervision) and monitoring of pricing.

The national policy on pricing represents a component of the national economic and social policy and is aimed at:

- development of the national economy and entrepreneurial activity;
- combating abuse of monopolistic position in pricing sphere;
- expanding the sphere of application of free prices;
- balancing the market of goods and improving their quality;
- providing social guarantees to the public in the event of price growth;
- providing the necessary economic guarantees to manufacturers;
- gearing prices on the domestic goods market toward the world market prices [3].

Practical implementation of the above methods of the national policy on pricing is done using the methods provided by commercial law. Various types of prices and tariffs are used in Ukraine depending on the pricing subjects, sphere of application, etc.:

- free prices and tariffs classified into agreed upon prices and prices set by business entities at own discretion;
- government-set fixed and regulated prices and tariffs.

Business entities may use free prices, government-set fixed prices and regulated prices – maximum prices or maximum deviation from government-set fixed prices (page 189) [1].

Free prices and tariffs are set for all products, goods and services except those to which government-set prices apply. Business entities set free prices at own discretion upon agreement of parties, and in the case of internal business relationships, also upon decision of a business entity (page 190) [1].

Government-set fixed and regulated prices and tariffs are set for resources that have decisive effect on the general level and dynamics of prices and for goods and services of essential social importance for the

public. The list of the aforementioned resources, products and services is approved by the Cabinet of Ministers of Ukraine (page 191) [1].

The Commercial Code of Ukraine stipulates that the government regulates prices and tariffs by applying:

- a) fixed government-set and communal prices;
- b) maximum price levels;
- c) maximum levels of retail markups and supplier's profit;
- d) maximum profitability margins;
- e) mandatory declaration of price changes (page 191) [1].

Government-set fixed and regulated prices are set by Ukrainian public authorities and must take into account the industry-average product cost price and ensure the minimum level of profitability of the product to which they apply. If the government-set prices cannot ensure the minimum level of profitability, the government must subsidize the product, under condition that this product is socially indispensable.

All free, government-set, fixed, and regulated prices are classified into wholesale and retail prices depending on the subject and product distribution time.

Wholesale (release) prices are used for settlement of debt between manufacturers and buyers of products and goods. In these cases, wholesale price includes cost price, profit, and value added tax. If the product (good) is classified as excisable according to the procedure provided by law, its price also includes excise tax – an indirect tax on particular goods. In that case, value added tax applies to the amount that includes excise tax.

Retail prices for goods are formed on the basis of wholesale prices by adding a retail markup. These prices are used for settlement of debt between retailers and consumers [4].

In order to establish in the agro-industrial complex an interrelated price system that gears all its elements toward high end results and ensures efficient performance of agricultural and food processing enterprises in the conditions of transition to market economy, procurement prices are used in payments for agricultural products sold by agricultural producers.

Therefore, government pricing regulation in Ukraine must be understood as a business and legal mechanism of implementing the pricing policy which is regulated by normative acts and aimed at government regulation of exchange relationships between market participants in order to maintain equivalency in the process of distribution of the national product, observe the necessary parity of prices between industries and

forms of economic activity, and ensure stability of wholesale and retail prices.

In today's conditions, normative regulation of the priority areas of the national policy on pricing must be aimed at ensuring: equal economic conditions and stimuli of development of all forms of ownership; objective correlation of prices for manufactured and agricultural products to ensure equivalency of inter-industry exchange and create the necessary economic guarantees for agricultural producers; economic independence of enterprises, organizations, and administrative regions of Ukraine.

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