INTRODUCTION

The present thesis entitled, "Pricing System In The Public Enterprises of India With Special Reference to Iron and Steel Industry", is the fruit of seven years of persistent work on the problem. Enormity of the work can be judged from heterogeneous nature and size of public enterprises whose working and problems I have analysed, besides presenting a case study of Iron and Steel Industry.

The purpose of this study is to examine the pricing policies of our public enterprises which are expected to generate resources through the sale of goods and services. The State has made massive investment in the public sector to provide social and economic overheads and public utilities. To accelerate the growth rate further, it is essential that the capital is accumulated at every convenient point of activity. The public enterprises should not lag behind the rest of the economy in capital formation. In fact, 'surplus' from public enterprises would constitute savings for productive investment on the one hand and contribution to the national social welfare programmes on the other. 'Surplus' is also necessary for public enterprises to
self-finance their expansion and modernisation. This being the policy goal, a pricing system to secure an adequate return on the capital invested in public enterprises is not only unobjectionable but is, indeed, desirable. Thus the main purpose of this study is to analyse the pricing system of public enterprises and make suggestions compatible with improvement in marketing and technological position, efficiency in management and reduction in costs to a minimum level. It must be only through the device of an appropriate pricing policy that a successful public enterprise, by its efficiency and drive, finds the earnings for its own growth and the growth of the economy as a whole.

Critical evaluation of working results of public enterprises, cost pattern, organisation and management underline the following facts:

(i) Trading results of public enterprises are by far and large highly unsatisfactory.

(ii) Costs in their cases are excessive due to a variety of reasons, including idle capacity, lack of harmony between social and economic interests, etc.

(iii) There is lack of initiative to reduce cost of production and take prompt decisions due to inefficient
organisation and management which is over-centralised in the hands of bureaucrats.

(iv) There is arbitrariness in the formulation of pricing policies.

In a bid to resolve the above problems, I have made the following recommendations of far-reaching consequences:

(a) Non-commercial activities of public enterprises must be separated from the economic ones to avoid confusion in the mind of management who, at present, in most cases do not incur statutory financial obligations to fulfil.

(b) When prices are determined, there must obtain a 'minimum level of cost' viz-a-viz prices for the products of our public enterprises. Prices determined on the basis of 'cost plus' formula are not conducive to reduction of costs. These arbitrary methods must be replaced by the 'marginal cost pricing' system.

(c) To reduce costs to a minimum level, public enterprises must be run on sound principles of management so that prompt decisions are taken.

(d) Efficiency must be measured in relation to
certain objectives, instead of money-profits alone, viz., economical use of capital resources and other inputs, savings on overheads and inventories, higher productivity of labour and capital, changes in unit cost of production of a given standard.

(e) 'Surplus' targets must be determined for individual concerns in close consultation with the management who alone can say what is feasible and what is unfeasible under existing demand and supply conditions.

(f) A competent body must be constituted to take into consideration the impact of changes in pricing policies on the private sector vis-a-vis the national economy as a whole.

NATURE AND SCOPE OF THE ENQUIRY

The enquiry deals with the pricing problem of public enterprises in relation to the following questions:

(i) have the objectives been specified to harmonize economic and social interests which the public enterprises are called upon to fulfil and the norms to measure efficiency;

(ii) is there a consistent pricing policy;
(iii) does there obtain 'minimum cost level' vis-a-vis pricing; and

(iv) does there exist a system of sufficient consultation with the management to fix prices including profit margin or 'surplus' targets?

To resolve the above problems, an attempt is made to recommend the methods most suited to our public enterprises under existing socio-economic conditions.

**RESEARCH METHODOLOGY**

The research methodology is based on the technique of thesis-writing to present the problem in its true perspective. The study has been made with theoretical justifications and practical applicability, with a view to reach conclusions with the help of sound economic reasoning, experiences gained in the public enterprises and the lessons learnt from the economic history of their development.

The statistical analysis is based on personal interviews and the collection of primary data. The reports of the Bureau of public Enterprises and public documents are the secondary sources. The case study gives independent estimates of individual components of
works cost. Studies by the Research Bureau of the Reserve Bank of India and reports carried by a number of dailies on public enterprises have been used to illuminate the problem.

For the purpose of scientific investigation, the period 1965-74 of the working of our public enterprises, including iron and steel industry, has been selected. The long period has been studied to analyse the continuous impact of pricing policies on the working and profitability of these undertakings.

LAY-OUT OF THE WORK

The study is divided into seven chapters: Chapter I, "Development of Public Enterprises in India - An Analytical Study", examines the development of public enterprises with an emphasis on their role in mobilising resources. It shows that public enterprises have been established to attain the goal of "Socialistic Pattern of Society" and to provide infrastructure for further socio-economic development of the country. In pursuance of this objective, the Government has to perform functions ranging from the provision of public utilities to industrialisation of the economy. These multifarious activities call for huge investments.
To explore the extent and size of potentialities of resource-mobilisation by the public enterprises for their own future expansion, modernization and for the plan outlays, financial performance of the public enterprises during the period 1965-74 has been analysed in the Chapter II, "Financial Performance of the Public Enterprises". The contention that performance of our public enterprises is not satisfactory is tenable on the basis of the study conducted in this chapter.

There are various factors which depressed profitability of these enterprises, viz., large idle capacity, conflicting 'economic' and 'social' obligations, etc. Chapter III, "Cost Behaviour and Influences on Cost Composition", has critically analysed those factors which inflate the costs in public enterprises.

In addition to these, Chapter IV, "Cost Pattern In Relation to Organisation and Management", is devoted to the problem of excessive costs which continues to haunt our public enterprises due to lack of sound principles of management.

Chapter V, "Pricing System In Public Enterprises", deals with the following questions which have arisen out of the discussions presented in the foregoing chapters, viz:
(a) to harmonize the 'economic' and 'social' interests and specify the norms to measure the efficiency of public enterprises;

(b) to recommend a consistent pricing policy;

(c) to specify methods of reducing costs to a minimum level vis-a-vis pricing; and

(d) to recommend a system of consultation with the management to fix 'surplus' targets for individual concerns.

Chapter VI, "Pricing System In Iron and Steel Industry", which is a case study, substantiates the view of the research scholar that our public enterprises need a forward-looking pricing policy rather than a system of price controls which has tarnished the image of public enterprises in India. Indeed, the reforms recommended in the Chapter VII, "Conclusions", are essential for the fulfilment of the social responsibilities of the public enterprises and their trusteeship towards the citizens of the country.