CHAPTER 4

PRICING AND PROFIT POLICY OF PUBLIC SECTOR ENTERPRISES
IN MIZORAM

4.1. Introduction:

Formulation and implementation of proper and efficient pricing policy is of great significance in case of Public Enterprises. It is very much difficult to lay down a general rule or prescription with regard to the pricing policies due to various factors, viz; lack of clear-cut statutes or guideline of government, variety of theories of pricing as advocated by the authorities, divergent nature or activities in various enterprises and emphasis on social objective in their functioning.

The nature of different enterprises vary greatly; some are industrial and trading, some are developmental and promotional, and some are either basic, or provide essential services. Much also depends upon the competitive environment, domestic and international, in which an enterprise operates. ¹

Again, the pricing policy will not be uniform in all the economies—capitalist, socialist and mixed. In socialist where public enterprises operate as a rule, the pricing of products manufactured by public enterprises is done by a Central Planning Authority. In capitalist economies, the products manufactured by PEs are priced on the base of maried forces of demand
and supply. Interference of the state in this sphere is rarely found. PEs have to function in a competitive environment and they are not given any protection by the Government.

In a mixed economy, as in India, the process of price-fixation results in a different type of problem which we do not find either in socialist economies or in capitalist economies. It is very much difficult to lay down a general prescription for pricing the products of PEs in such economy.

While the be all and end all of private enterprises is usually the maximisation of profits and dividends, Public Enterprises are set up with a variety of objectives in mind. All these motives, varying and at times conflicting in nature, account for the difficulty in arriving at a clear-cut policy of fixation of prices in public enterprises.

In almost all the cases the prices of the products of the Public Enterprises are administered prices. That is, these are fixed by the administration or management, and not by the market forces of demand and supply. As such, the fixation of prices has to be based and justified in terms of some principles and objectives.

In view of the inherent conflict between the social objectives of the PEs and their commercial viability, a rational pricing policy is all the more necessary. Accordingly, the Administrative Reforms Commission in its reports on public undertak-
ings had made far reaching recommendations in this connection and had suggested the following principles for the formulation of an appropriate pricing policy for the PEs:

(a) PEs in the industrial and manufacturing fields should aim at earning surpluses to make a substantial contribution to capital development out of their earnings besides making a contribution to the exchequer.

(b) Stress should be laid on output than on return on investment in public utilities.

(c) PEs should not run into losses except in pursuance of express directives issued by the Government in public interest.

(d) While determining the price structure commensurate with the surpluses expected from them, PEs should keep the level of output as near the rated capacity as possible, subject, of course, to the volume of demand for the product.

A number of theories of pricing in PEs have been put forward. Most of them are as follows:

(a) Marginal Cost of Production Theory,
(b) Average Cost of Production Theory,
(c) No Profit No Loss Theory,
(d) Theory of Making Profit,
(e) Theory of Below Cost Price,
(f) Discriminating Price Theory.
(g) General Theory of Demand and Supply,
(h) Two-Par Tariff Theory, and
(i) Import Parity Theory.

Economists have propounded a number of theories of pricing in Public Enterprises. They are usually divided into two categories - The classical theory or the theory of no profit no-loss and the theories supporting the idea of surplus being earned by public enterprises.

Those who believe in no-profit no-loss principle advocate that the Public Enterprises should be able to meet their cost, should be able to compensate for depreciations of capital and should also build up reserve funds for replacements of machines out of their income. This means fixation of a price according to the Marginal Cost of Production. However, Public Enterprises should not aim at Profit-Making. But many economists have criticised this theory on the ground of theoretical as well as administrative difficulties. Hence, the principle of Marginal Cost pricing cannot be accepted as the only or the main principle for determining the price of goods and services produced and supplied by Public Enterprises. Regarding the non-desirability of adoption of break-even method, the Taxation Enquiry Commission stated that "A policy of 'no profit no loss' may be appropriate for public utilities in an advanced country, and is, perhaps, the best to be hoped for in the earlier stages of working of some Public Enterprise here. But we do not recommend it as the long-term goal for public enterprise or as a permanent policy for
Another theory which has been suggested is average cost pricing policy. Averaging of costs and prices is very much prevalent even in Private Enterprises. It has been pointed out that Indian railways are rendering services throughout the country but it is not feasible nor very desirable that from each area they should charge at such varying rates that the cost of rendering service is met areawise. It may incur losses in some areas while it earn some surplus in some areas. However, this principle has also many limitations.

There are some economic and political thinkers, who believe that public enterprises should be run on commercial line. They opined that public enterprises should contribute a definite amount to the public exchequer in lieu of the capital earlier provided to it by the government for its establishment and also for occasionally meeting its losses.

4.2. Price Policies of Public Enterprises in India:

A policy of charging discriminating prices, higher prices for consumers' goods and lower prices for capital goods has also been advocated in the context of developing countries. The idea behind the advocacy is that consumption will be discouraged and investment encouraged.

There may be no single policy which is acceptable to
a large mass of economic and political thinkers. In order to make public enterprises in developing economies self-sufficient, they should be allowed to fix the price of their products in such a way that they are able to earn adequate funds for their growth and expansion and do not have to depend on the government for this purpose. Besides, if not all most of the public enterprises should try to contribute something to the treasury.

Government undertakings in India have not developed any precise and uniform policy of pricing. Each undertaking has been following a price policy conditioned by certain internal and external circumstances. Some of the following features of price policy of Public Enterprises in India are:

- Profit as the basis of price policy
- No profit No loss basis
- Import-parity price

Public Enterprises in India generally follow a policy of profitability. Profits of public enterprise indicate its efficiency as well as serve important sources of self-financing. Some Government enterprises have been required by law or by the Memorandum and Articles of Association to form a "no profit no loss" price policy while some public enterprises whose products are in direct competition with imported goods have adhered to a policy of import-parity prices.
4.3. Price Policies of selected Public Enterprises in Mizoram:

Public sector undertakings in Mizoram do not have precise formulation of the price policy. Basically the price policy is determined by the state government in case of departmental undertakings, prices of goods and services are fixed by the State Government while government companies also follow government directives. In case of financial institution like Zoram Industrial Development Corporation Ltd., interest rates are fixed by the Reserve Bank of India.

4.3.1. Price and Profit Policy of Mizoram State Transport Department:

Transport being a departmentally managed enterprise, the fares of passengers’ bus and also Trucks carrying goods is fixed by the Government of Mizoram. Certainly, profit making is not the guiding principle while fixing the fares. The State Transport Authority looked after and fixed the fares with the approval of the government. Social obligation is rather more important, it appears, while fixing the fares. The decision making machinery is influenced by the principle of ‘social service’ because the fare collected by private bus owners is much higher than that of the Buses and Trucks of the department. For example, private buses plying between Aizawl to Champhai Road of 198 kms., the fare of the private bus is Rs.80/- per passenger whereas the MST is Rs.60/-. 
4.3.2. Price and Profit Policy of Zoram Industrial Development Corporation Ltd.

Interest rates of loans chargeable by the corporation is subjected to the RBI guidelines. The Corporation then received instruction for that through Industrial Development Bank of India (IDBI) which in turn formally approved by the Board of Directors.

Table 4.1. Interest rates under ZIDCO Ltd. as on 1st April, 1996:

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Particulars</th>
<th>With effect from 21st.2.1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Term Loans</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Upto and inclusive of Rs.25000</td>
<td>12.50%</td>
</tr>
<tr>
<td>2.</td>
<td>Over Rs.25000 &amp; upto 2 lakhs</td>
<td>14.00%</td>
</tr>
<tr>
<td>3.</td>
<td>Over Rs.2 lakhs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) SSI Units</td>
<td>16.00%</td>
</tr>
<tr>
<td></td>
<td>(b) SRTO Units</td>
<td>17.25%</td>
</tr>
<tr>
<td></td>
<td><strong>IBBI Purview (Non-SSI)</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Hotel &amp; Tourism related activities</td>
<td>18.25%</td>
</tr>
<tr>
<td>2.</td>
<td>Electro-Medical equipment</td>
<td>18.25%</td>
</tr>
<tr>
<td>3.</td>
<td>Hospital &amp; Nursing Home</td>
<td>18.25%</td>
</tr>
<tr>
<td>4.</td>
<td>Mobile sale Van</td>
<td>18.75%</td>
</tr>
</tbody>
</table>

Source: ZIDCO Ltd.
4.3.3. Price and Profit Policy of Mizoram Khadi and Village Industries Board:

The Mf VIB has showroom cum Emporium in Aizawl and Lunglei where the products of the small industrial units financed by the Board are displayed and sold for a price. The Purchase Committee of the Corporation constituted by the Board decides how to buy and sell the products. The guiding principle is that Mf VIB is a promotional agency in which profit is not the main objective in fixing the prices of the commodities. Again, the necessity to preserve and popularise the local custom is also an important factor while fixing the prices of commodities. For example, the hand-made cane hat is the traditional dress of the Mizos. The Purchase Committee of the Board fixed the price of cane hat much lower than its cost of buying from the local producers.

Regarding fixation of interest chargeable to different kinds of loans, the Corporation is controlled by the Mf VIB Commission in Bombay. However, the Commission follows the prevailing guidelines made by the Reserve Bank of India.

4.3.4. Price and Profit Policy of Mizoram Co-operative Apex Bank:

While fixing the interest rates of different kinds of loans and advances paid to loanees, the Apex Bank followed the guidelines made by the Reserve Bank of India. However, the RBI
deregularised fixation of interest chargeable since October, 1995. The RBI fixed only the floor rate, that is 12%. Since then, the interest rates on loans/advances are fixed at the Bank's discretion but subject to the prevailing RBI guidelines. It is the Board which exercises final authority for that.

Table 4.2. Interest rates under Apex Bank as on 1st, April, 1996:

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Particulars</th>
<th>Rate in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Deposit</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Saving Bank Account</td>
<td>5%</td>
</tr>
<tr>
<td>2.</td>
<td>46 days to 179 days</td>
<td>7.5%</td>
</tr>
<tr>
<td>3.</td>
<td>180 days to less than a year</td>
<td>8%</td>
</tr>
<tr>
<td>4.</td>
<td>1 year and above but less than 2 years</td>
<td>9.5%</td>
</tr>
<tr>
<td>5.</td>
<td>2 years and above</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Loans and Advances</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Upto inclusive of Rs. 25,000/-</td>
<td>13.5%</td>
</tr>
<tr>
<td>2.</td>
<td>Rs. 25,000/- to Rs. 1 lakh</td>
<td>14.5%</td>
</tr>
<tr>
<td>3.</td>
<td>Rs. 1 lakh to Rs. 3 lakhs</td>
<td>16%</td>
</tr>
<tr>
<td>4.</td>
<td>Above 3 lakhs</td>
<td>17.5%</td>
</tr>
<tr>
<td>5.</td>
<td>Personal loans to Govt. employees</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: The Manager i/c Loan of the Bank.
4.4. Control, Autonomy and Accountability in Public Enterprises:

4.4.1 Ministerial and Parliamentary Control:

The creation of an adequate structure and making suitable arrangements for effective control system occupy a central position in an enterprise.

Controlling is the "Steering wheel" or the "Short rein" which keeps activities of the enterprise from wandering away from Primary Objectives. Control need not have any negative connotation. If control is introduced and applied with a clear understanding of the contributory role it has to play in the process of achievement of objectives there should not be any conflict with the highly valued notions of freedom of action and exercise of authority in a public enterprise.

Since Public Enterprises are set up out of the precious scarce money paid up by the tax-payers, they have a right to make them accountable. Hence the Legislature can make Public Enterprises accountable both directly and indirectly. It can make Public Enterprises directly responsible through its various committees and also through different other methods, while indirectly it can make them accountable through the concern ministers which are in a parliamentary system of Government, responsible to it for their commissions and omissions.

The property of PEs, its assets, functions, powers, organisation etc., all spring from the Act of Parliament. It is Parliament in case of PEs created and owned by the Central Gov-
ernment and the State Legislature in case of State Controlled PEs, which are required to provide finances to them, in the form of grant, loans and subsidies.

Legislature has the right to discuss and determine the important matters concerning PEs, however, it should not interfere in the day-to-day matters and working of the enterprises. The usual practice is that it is left to the discretion of the minister concerned to decide whether the matter is connected with the general policy or the day-to-day administration regarding the enterprises.

The Parliament controls the Public Enterprises in the following ways:

(1) The Parliamentary questions is the most immediate and convenient way open to member of parliament to obtain information about public matters.

(ii) Debates and discussion is another mean by which the parliament controls the PEs. Debates on budget covers a wide range of matters including PEs performance and working on other occasions, debates on PEs statutes and amendments thereto also provided an opportunity for a discussion on PEs.

(iii) The most effective and important instrument of parliamentary control is Committee on Public Undertakings. The Committee comments upon important aspects of PE working. The reports of the Committee provide much useful data and analysis of the enterprises studied by it.
4.4.2. Nature and Elements of Autonomy:

The autonomy implies freedom to act, it is related to the freedom in internal management. Om Prakash takes autonomy as a great motivational force and points out that the concept of autonomy, however, should not be taken to mean violation of established government policies. It only implies freedom of decision making within the limits of these policies and safeguard against arbitrary interference and behind the scene manipulations on the part of those wielding political power or individual influence.¹⁰

Om Prakash¹¹ has pointed out the following seven elements of autonomy:

(1) The minister and other officials of the government should not interfere, in the decision making of state corporations.

(11) The Governing Board should have full powers to make appointment within the organisation.

(111) The Financial Adviser and Account Officers should not be a deputationist from the government; he should not be allowed to become de facto decision maker in policy matters. He should not be permitted to introduce a perpetual elements of antagonism within the organisations.

(1iv) The pattern of audit should be drastically changed so that attention is focussed on major variables in the assessment of performance rather than on petty technical objections which have only a nuisance value (of increasing harassment and of killing initiative)
(v) The people and their representative and parliament should improve a self-denying ordinance on their curiosity for information with regard to petty matters so that they can concentrate their attention on overall objective assessment of the progress of an enterprise, and the decision-makers within the organisation can do their job in an atmosphere free from suspicion and strain.

(vi) The Governing Board should be free from delegate powers to lower levels of management within the organisation.

(vii) The structure of government control in relation to various public enterprises would be rationalised so that historical anomalies can be wiped out in the context of changes in price level, increase in size, integration of enterprises, other current developments and past experiences.

Public Enterprises should be given sufficient autonomy so that they may be run on commercial lines efficiently and may achieve their objectives. However, autonomy or flexibility should not wrongly be interpreted as meaning that they could work in exactly as the same manner as private entrepreneurs.

4.4.3. Accountability of Public Enterprises:

The accountability of Public Enterprises implies rendering of accounts by the Public Enterprises to the public who own these enterprises. N.Das has defined accountability in the following words. "It means that account should be rendered by a public undertaking to some higher authority and that, if the
latter is dissatisfied, it can order that steps be taken to put matters right. Accountability, therefore, include control: One is meaningless without the other".  

The need for accountability arises because the investment in PEs is from the public funds and the public would like them to uphold those values and achieve those objectives for which they were established.

The Legislature can make PEs directly responsible to it through its various committees and also in the form of questions, short discussions and debates, while indirectly it can make them accountable through the concerned minister who is, in a parliamentary system of government, responsible to it.

Public Enterprises are accountable through audit. The Auditor and Comptroller General has a legal authority to audit the affairs of PEs, and his reports are laid before the legislatures as prescribed by Article 151 of the constitution.  

The annual report is again an important medium through which an enterprise gives an account of itself. It is the only instrument issued by every PE which provides to the public and parliament information on a continuous basis about the activities of PEs.

The Government, too, as the sole shareholder, should
respond to the changing needs and among other things consider giving the public sector more effective autonomy, together with better accountability.

4.5. Nature of Control, Autonomy and Accountability of Public Sector Enterprises in Mizoram.

It is learnt that the Government of Mizoram controls its Public Enterprises at the maximum. This can be seen in its overwhelming authority in appointing the members of the Board of Directors and Managing Directors and the personnel of the enterprises.
NOTES AND REFERENCE


6. -ibid-. p. 84.


10. Prakash, Om., Thoery and Working of State Corporations with Special Reference to India', London, 1962, p. 219

11. Prakash, Om, op. cit. pp. 218-219


13 Narain, Laxmi, op. cit. p. 269.