CHAPTER IV

PRICING POLICY

Pricing policies of Public Sector Undertakings are of concern not only to consumers of their products but to the entire community. As a determinant of the inflationary gap they are second only to the budget itself; and they exert enormous influence on both the gilt-edged market and the general credit situation. The problem of pricing is not simple and cannot be discussed in isolation. It is intimately connected with the profit policy. If the target of profits is fixed high, the prices are high and vice versa. But this is subject to certain qualifications.

As long as the State owned public utility undertakings on welfare grounds, the problem of pricing was a simple affair. Such enterprises were generally started to promote social welfare. But now with the acceptance of the Socialist pattern as the ideal and consequent enlargement of public sector in India, the question of pricing has come in the forefront.

A decision on a proper price policy will very much depend on the main objectives for which the public enterprises have been started. The objectives in the case of India are:

1) Maximising the rate of economic growth and achieving the take-off stage within a defined period;

2) Maximising the growth of national income and of consumption level consistently with the first objective;
3) Maximising the reduction in inequalities of income and wealth and promoting equality of opportunity; and

4) Preventing the concentration of economic power in private hands.

The above objectives mean that sector of economic activity which give rise to monopoly conditions or strategic economic power or possession of large resources in private hands should be publicly owned and operated as public enterprises. It also means that the extension of the public sector in economic field will be followed by a substantial growth in the volume of national savings and investment as well as of the funds available for Governmental outlay in social services and for re-investment in the economic activities. Every thing will depend upon the manner in which the public enterprise is operated and the policy it follows in regard to pricing of its products and the distribution of its profits between wages and salaries, savings and contribution to the national exchequer.

Any useful commodity has a price because it is scarce, whatever the cost of production. Even if no cost of production is involved, a commodity will claim a price if demand is more than its supply; on the other hand no commodity could be sold at a price if no one wanted it irrespective of its cost of production. Cost of production sets the upper limit to price since at any price above the cost of production it always pays to increase output assuming it can be increased to meet demand. It sets
the lower limit because at any lower price production no longer pays. This lower limit is important for the best employment of the country's productive resources. The cost of producing a commodity is simply the cost of the resources which could have been used in producing something else. Men material and other resources used in producing something could be employed alternatively in the production of something else and from community's stand-point, price should not be less than cost.

The above view on pricing has been unanimously accepted by the British Committee on National Policy for the use of Fuel and Power Resources.¹

Advocates of Public sector argue that the public ownership should free the public enterprises from the tyranny of the profit and loss account. Profit motive should be replaced by dedication to the welfare of the community and to promote national interest. But what is national interest is no where defined. In different British Acts relating to Nationalized Industries adequacy, efficiency, economy and coordination are cited as highly commendable virtues which are decidedly in the national interest but no attempt is made to indicate which actions in particular are likely to be 'adequate', 'efficient', 'economical' and 'coordinated'. These might imply that prices should be kept as low as possible. But this is

subject to the over riding requirement that all expenses must be recovered. As the British Electricity Act phrases it, prices should not be less than sufficient to meet (the corporation's) combined out-goings properly chargeable to revenue account taking one year with another.

A similar pricing policy was suggested by Mr. Gorwala for Indian State Enterprises. He says, "The General pricing policy should be to fix such a price for the product as to enable the enterprise to 'break even' over a period of years or taking one year with another as is sometimes stated. In other words taking several years together the enterprise should make neither loss nor profit". 2

In the case of Hindustan Antibiotics the agreement entered into on 24.7.1961 between the Government of India, W.H.O. and the UNICEF setting up the plant provided that the plant would operate on a 'sound business basis but entirely on a non-profit making basis'. The management consequently fixed the price of penicillin that was a little less than the estimated cost of production because of competition of imported stuff. The Estimates Committee examined the working of the Unit and recommended that the selling price of penicillin is not kept below the cost of production. 3 The no-profit clause was deleted from the original agreement during 1961-62. Thereafter

the price of penicillin was fixed at 50 paise per m.u. thereby making a profit of 32 paise thereon.

The Public Accounts Committee was not happy with the price policy of the Unit (because of profits being earned on the sale of penicillin) and stated that in a Welfare state the undertakings manufacturing drugs and medicines of common use should not be run on profit motive. Their aim should be to render service to the common man by selling their products at the cheapest rate. The Committee suggested that the question of the sale price of penicillin be referred to the Tariff Commission. The Committee on Public Undertakings examined the affairs of this Company and remarked that its prices have been fixed in such a manner as to leave a sufficient margin of surplus. The Committee recommended that it should be the endeavour of the Company to make available its products to agriculturists and public health agencies at a cheaper price. But this view is no more acceptable.

The days of the classical economists are dead and gone and with them the somewhat notorious no-profit, no-loss concept once applied to state enterprises. The subject was discussed at the Ooty Seminar when Dr. V.K.R.V. Rao most vigorously put forth the view-point that public enterprises should play their part in the generation of

6 Ooty Seminar on Prices Income, Wages and Profits in a Socialist Society, All India Congress Committee-Papers. p.- 176.
surpluses or profits. He said, 'Public enterprise must be carried on a profit-making basis, not only in the sense that public enterprise must yield an economic price- but must also get for the community sufficient resources for financing a part of the investment and maintenance expenditure of Government. Increasingly, the share of the profits of public enterprises in financing the investment and maintenance expenditure of Government must keep on increasing. It is not only the expenditure on the public sector as such that will indicate the march of the economy towards its socialist goal. Even more important is the increasing role that the public sector must play for finding the resources needed for meeting both the maintenance and investment expenditure of Government. This involves a price and profit policy in regard to public enterprise which goes against accepted opinion so far in regard to public enterprise. The theory of 'No profit no loss' in public enterprises is particularly inconsistent with a socialist economy, and if pursued in a mixed economy it will hamper the evolution of the mixed economy into a socialist society. The sooner, therefore, this theory of 'No profit, no loss' in public enterprise is given up and the policy accepted of having a price and profit policy for public enterprises such as will make the state increasingly reliant on its own resources (as distinguished from taxing the personal incomes of its citizens) the quicker will be
the evolution of a socialist society. "Our public enterprises are expected to operate with profit motive as one of their primary objectives. There is nothing vicious or immoral about profit in an industrial unit."

But this does not mean that Public Enterprises must always and under all circumstances sell their products on profit. Sometimes in the larger interest of the nation public enterprises may have to sell at a loss or at no profit no loss basis. Therefore, it is wrong to assume that public enterprises should always be run on 'No loss basis'. In fact the growth of national economy may well require that certain products should be deliberately sold at a loss. It all depends upon what the commodity or service is, what part it plays in stimulating economic growth and what the overall effect on national income and savings would be. The private sector always looks towards its own profit and concerns itself with the net value added to its private account, whereas the public sector aims at the net value added on account of the rest of the national economy. Dr. Rao writing sometimes later stated that pricing policy in public enterprises should be 'net value added to the national economy as a whole both in terms of national income and in terms of national saving and the funds available to the exchequer for social development programmes'.

7 C. Subramaniam, Minister in the Central Government Inaugural address at the All India Seminar on Public Enterprise, reported in the 'Working of Public Sector' edited by V.V. Ramanadham (1965) p.-2.
others suffering losses. It all depends on commodity and the stage of economic development. "It is, therefore, high time that we finally abandon the hoary myth of the so-called principles of no-profit, no loss for public enterprises and substitute for it the more rational principle of maximisation of national income, national savings and national funds available for social development programmes. Public Enterprises shall not indulge in profit making on the narrow criterion of maximisation of profits on the model of private sector." 9 "I believe, however, that it is a national waste to sell power (products of the public sector) cheaper than its cost." 10 "The cardinal point to be borne in mind on price policy for public enterprise is the sum total of its effects both on the individual concern and on the rest of the economy and it is profits or the surpluses in this sense of the sum total of the two that needs to be maximised". 11 The Taxation Enquiry Commission was also of the view that the no-profit, no-loss concept had no place in the long run in a developing economy. The Rangoon Seminar on 'Organisation and Administration of Public Enterprises in the Industrial Field' held under the auspices of ECAFE also came to the conclusion that the public enterprises should make a profit. And in view of the scarcity of capital resources in under-developed countries a portion of this surplus should be made available for industrial development in the country as a

9 Ib id.
10 Subramanium op. cit., -3.
whole while the other portion should be ploughed back into the industry itself for its further expansion.

The problem of pricing may be discussed from different angles such as:

a) The nature of market, i.e., whether competitive or monopoly;

b) Cost of production; and

c) Statutory position.

Now let the problem be examined under each head separately:

a) THE NATURE OF MARKET:

It is usual to discuss this issue by distinguishing between enterprises operating in a competitive market and those enjoying the advantages of monopoly. If there is competition and if the competing enterprise is not enjoying any special privileges in the nature of tax remissions, low capital charges, etc., then the profits that it makes are held to involve no exploitation of the consumer and are justifiable as those made by the private enterprises with which it competes. Rather in such a case its profitability will reflect its efficiency. If under such circumstances a public enterprise deliberately eschews profits it will induce certain distortions in the price and demand structure and will eventually lead to socialise the sector, if given full facilities for expansion, by driving out private enterprises by way of bankruptcies or liquidations. But such a policy is not always bad. One cannot regret the driving out of a money lender from the rural credit market when an Agricultural
credit society comes into the market and provides cheaper credit facilities. But this is an exceptional case because money lender has been condemned as a socially and economically undesirable. In more usual circumstances such a policy may lead to eradicate private enterprises from the market which can hardly be justified in underdeveloped countries. The eschewing of profits by public enterprises will mean that there is no direct capital formation on its part although indirectly it may stimulate saving and investment by the cheapness of the commodity or service it produces. In most cases, therefore, a public enterprise in a competitive field should aim at a normal rate of profit on the basis of a price policy reflecting real costs. If by reducing its costs and prices through productive efficiency it can compel its competitors to do the same, it will benefit all.

On the other hand in a monopoly or semi-monopoly conditions like 'Utility' deliberate profit making should be avoided, because in this case the level of profits provides no index of efficiency and the exploitation of the consumer is too easy. By the same token, extensive financing of the enterprises through the ploughing back of profits is illegitimate because immediate consumer is compelled to pay for installations whose cost, as reflected in prices, ought to be spread over the entire productive period. Herbert Committee Report on the British Electricity Supply Industries expressed the same view.

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In monopoly enjoying enterprises if no profits are charged by the price mechanism the benefit is passed on as lower prices to the consumers of their products and may ultimately lead to national advantage as for example such lower prices may lead to larger demand and enable the enterprises to work to full capacity or may help in the development of other industries where these products may be used as the necessary raw material. But there are other considerations also. If the enterprise makes no profit, it cannot help finance its own expansion programme. In such a case capital needs shall have to be met by the Government which in turn may resort to taxation or by inducing inflation which is always dangerous. Government may raise public loans to provide funds to public enterprises but then again it is the consumer who in the long run pays for it. Moreover, even if the benefit is passed on to the consumer in the form of lower prices where is the guarantee that he will save more and use his savings to the best national advantage. Making of profits, therefore, by some (if not all) public enterprises will be both desirable and necessary.\(^{13}\) Prof. J.K. Galbraith in one of his lectures said, "If I had to lay down a measure for performance for the publicly owned corporations in the developing country it would be the earnings that it is able to put into its own expansion. The most successful firm would be the one

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which by its efficiency and drive finds the earnings that allow it the greatest growth". India's Third Five Year Plan regarding price policy for the public enterprises says, "The public enterprises have an important role in enlarging public savings. They must therefore, operate at a profit and maintain the high standards of efficiency required for this purpose. Their price policy should be such as would secure an adequate return on the investment made from public funds." Further it says "By efficient conduct of enterprises and following a rational and economically sound price policy for its products and services, the public sector undertakings ought to secure adequate return on capital employed and contribute their full share to the increase in the portion of national resources devoted to investment."

b) COST OF PRODUCTION:

It is elementary knowledge of economics that prices must be related to the cost of production. But what is meant by 'Cost of Production'? Is it the 'Marginal Cost' or 'Average Cost'?

It is suggested that prices should be fixed on marginal cost of production basis so as to ensure the maximum utilisation of all factors of production and to obtain optimum output. But due to practical difficulties in measuring marginal costs it would appear that average

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16 Ibid. p.-264.
economy like ours, is more valid. Every day running costs, labour, materials, and fuel—elements of cost—present no problem and bear a reasonably stable relationship to output and must be covered in full. The allocation of overhead costs, those associated with the fixed capital of the industry is a more difficult problem. A common characteristic of any big industry is the large capital investment needed to provide even the smallest output. In public utilities such as Electricity, gas or transport the size of installations required bear no close relation to the output. For example, a railway track cannot have less than two rails and a certain number of sleepers because only one train a day will use it. These overhead, capital, costs would still be incurred if production ceases but remain constant over the wide range of output and unit production cost decreases as output rises. With such a heavy capital expenditure if prices are fixed to recover current costs how are overhead costs to be met? It is generally agreed that full costs of the overheads must be recouped in one way or another from the consumers of the products.

Overhead costs consist of two principal items—interest on borrowed capital invested in the assets and amortisation of these assets to provide their replacement at the end of their working life. The payment of interest on past investment needs no defence. It is merely a method of charging a past cost against a present
benefit or of capitalising a future benefit into a present cost. The interest should ideally be based upon the current value of the capital and not on its historic value. Likewise nobody questions the need to provide for depreciation—some provision must be made for its replacement out of current earnings if the continuation of business is to be assured. The traditional accounting method of writing down the original cost of the asset over the whole of its working life has been severely criticised of late on the ground that in times of inflation it fails to provide a fund sufficient to replace the asset at the new higher level of cost. Therefore, depreciation should be based not upon historic cost but upon current replacement cost of the asset. The Herbert Committee which reported on the Electricity Supply Industry were unanimously in favour of replacement cost. Among the overhead costs chargeable to revenue account, the British Statutes include 'proper provision for redemption of Capital' which they seemingly regard as something distinct from proper provision for depreciation of assets. Interpreted literally, this requires the Corporation earnings to be sufficient not only to maintain physical capital intact but to repay the borrowed capital over the life of the asset. The British Government seems to have accepted this interpretation as is evident from the various provisions contained in different Acts relating to Nationalized Industries.
c) STATUTORY POSITION:

The Acts lean heavily in favour of average costs. Government's general policy is found in section 36(1) of the Electricity Act 1947 which says "It shall be the duty of the British Electricity Authority so to exercise and perform their functions as to secure that the combined revenues are not less than sufficient to meet their combined outgoings properly chargeable to revenue account taking one year with another. The Coal Act uses the phrase 'on an average of good and bad years.' Section 93 of the Transport Act 1947 reads "The Commission shall charge to revenue in every year all charges which are proper to be made to revenue, including in particular proper allocations to general reserve, proper provision for depreciation or renewal of assets and proper provisions for redemption of Capital." These provisions of law require the Boards of Nationalized Industries to charge prices which will enable them not only to cover ordinary operating costs, depreciation and interest on capital but also actually to pay off part of their capital each year. What is the real meaning of 'taking one year with another' or on an average of good and bad years? The general impression seems to refer to a comparatively short period and indeed the main stress is on the accounts being balanced annually.

History of public enterprises in India is not very old. Public enterprises, as they exist today, were started only after the attainment of independence when free India adopted to follow the policy of planned
economy for the development of the country. To begin with public enterprises in India were not set up with the expectation of earning profits, rather the main objectives were non-fiscal. Therefore, the problem of pricing did not assume any importance for the public sector undertakings.

The Second Plan envisaged an expanding public sector. The Industrial Policy Resolution 1956 stated "It is to be expected that public enterprises will augment the revenue of the state and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises should be judged by their total results." It is expected that Railways shall contribute at least ₹ 150 crores from their own resources to their plan expenditure. As regards other public enterprises the Plan did not have much to say because most of them were in their initial stages of development. It was in the Third Plan that for the first time a sum of ₹ 300 crores was estimated as the surpluses of Central Government enterprises and another ₹ 150 crores from the State Government enterprises. The Railway were expected to produce a surplus of ₹ 100 crores. The Perspective Planning Division of the Planning Commission in its preliminary draft on the 'Perspective of Development 1960-61 to 1975-76 estimated a return of 10 per cent on investment. Thus it is evident that public enterprises are expected to run in such a manner as to yield profits. Prof. Ramanadham suggests
that public enterprises ought to earn reasonable profits and be able to plough back reasonable amounts, so that their relative role in the national economy does not lag behind the financial performance of the private sector.  

Committee on Public Undertakings also examined the question of profitability and observed that "public undertakings are expected to earn reasonable profits after providing for depreciation and reserves." In the opinion of the Committee the Corporation should aim to fulfil at least those expectations if not earn the profits normal in this industry. Since the share capital of public undertakings is financed from borrowings on which Government pays an interest ranging between 4 and 4½ per cent, it is reasonable to expect that they should declare some dividend which should cover not only the interest charges on its share capital but much more."  

While examining the affairs of National Mineral Development Corporation the Estimates Committee suggested that the Corporation should earn a reasonable

17 Ramanadham V.V.- The Finances of Public Enterprises (1963) p.-12.
return on its capital. The Estimates Committee made
the Sindri Fertilizers and Chemicals Ltd., also/suggestions
on the same lines.

The statutes governing the Indian public
Corporations do not unequivocally call for commercial
bias in their operations. Only a few Acts clearly require
it. For example, Section 24 of the State Financial Corpo-
ration Act, 1951 requires that "the Board in discharging
its functions under this Act shall act on business
principles". The Industrial Finance Corporation has
been making far more profits than the State Financial
Corporations although the Act establishing the Industrial
Finance Corporation is silent in the matter. The Air
Corporations are required to 'act so far as may be on
business principles'. The Road Transport Corporations
Act, 1950 under Section 22, lays down that "it shall be
the general principle of a Corporation that in carrying
its undertaking it shall act on business principles."
The Electricity Supply Act, 1948 also contains a provision
to work on commercial lines. When enterprises are required
to operate on commercial lines it can safely be assumed
that prices shall be so determined that their full costs

21 E.C. (Second Lok Sabha) 120th Report. para-24
reads as follows:
In the Committee's opinion a public undertaking should
not only give a reasonable return on the capital,
after providing for depreciation and reserves, but
also provide funds for expansion. Alternatively, the
undertaking should be in a position after a specified
period, to redeem from its accumulated funds its
capital which can be utilised by Government for other
purposes. The Sindri Fertilizers and Chemicals Ltd.,
have not so far been able to meet these requirements.
The Committee hopes that the future working of the
undertaking would satisfy requirements.'
including interest or dividend on capital are recovered. Specific provisions in this regard are found in only two Acts. The Electricity Supply Act, 1948 under Section 59 lays down that "the Board shall not carry on its operations under this Act at a loss". The Road Transport Corporations Act, 1960 provides not only interest on capital but dividend on capital raised by the issue of shares as "a part of the expenditure of the Corporation". If other enactments do not contain such provisions it does not mean that they are precluded from acting on business principles. Although these Acts require their business to be conducted on commercial lines but none of these contains any guidelines for fixation of prices of their products as is the case with the British Acts (discussed above). In the absence of such guidance there are chances of the exploitation of consumers of these enterprises, particularly in the case of those enterprises which may be working under monopoly or semi-monopoly conditions.

Here, Public enterprises enjoy varying degrees of autonomy in regard to price fixation. In certain cases, like fertilizers, drugs and petroleum products, the prices are controlled or regulated by the Government. The fares charged by the Indian Airlines Corporation and the Mogul Line require Government approval. The other undertakings generally are free to price their products or services and the usual practice so far has been to arrive at prices on cost plus basis or on the landed
cost formula, subject to the overall constraints of the market situation. The Public Accounts Committee in its 23rd Report laid down the following guidelines for the fixation of prices in the public enterprises: (a) public undertakings should earn a profit in order to finance their own expansion and to earn "good" dividends; (b) they should not, however, become instruments of indirect taxation, which is a prerogative of Parliament; and (c) the Government should consider fixing a maximum ceiling to profits, with the approval of Parliament, and take powers to vary the profit to be earned by each industry within this overall ceiling.

In the conference convened by the Prime Minister in June 1966, the problem of pricing was discussed and the decisions which emerged out of the discussions are: (i) that profit should be recognised as an index of efficiency and was not inconsistent with the broad objective of the socialist pattern of society; (ii) that a pricing formula, which would not be out of line with international prices and would also not invite public criticism within the country, should be evolved. It was suggested that 15 per cent below the landed cost of comparable goods would be a reasonable formula. If on this price, an undertaking was not able to earn 20 percent gross on capital (equity capital plus free reserves), then the affairs of the undertaking deserved a special study; if,
on the other hand, this formula gave very high profits, the question of reducing the price for the benefit of consumers would need consideration. Thus any price policy that is formulated has to take note of what the market will bear in order to ensure that the products of the public sector undertakings can be sold. Again, indigenous production has to compete with imports in certain cases, e.g., fertilizers, transformers, iron and steel. World prices of such articles should provide a useful yardstick for determining indigenous prices.

Of late, the Administrative Reforms Commission examined the question of pricing in the public sector undertakings very thoroughly. In the opinion of the Commission: (1) the public enterprises in the industrial and manufacturing field should aim at earning surpluses to make a substantial contribution to capital development out of their earnings besides making a contribution to the Exchequer; (2) Public enterprises should in any event pay their way and should not run into losses except in pursuance of express directives issued by Government in public interest; (3) in the case of public utilities and services, greater stress should be laid on output than on return on investment, the former being extended up to a level at which final cost is equal to rice.

Regarding the fixation of fair prices in respect of those public undertakings which are operating under monopoly conditions the Commission recommended that (i) if in the public interest, Government require an undertaking to keep prices at an artificially low level, the financial obligations of that undertaking should be revised, (ii) wherever public undertakings are operating under non-competitive conditions or where the number of buyers of the product is limited, the price levels should be determined on the basis of the c.i.f. value of similar items in preference to the cost plus formula. In cases where the imported goods have the benefit of export subsidies in the countries of origin, the c.i.f. prices should be proportionately weighted.

Pricing Policy Obtaining in Different Industries:

Fertilizers:

Sindri was the earliest fertilizer plant to be established. Its prices had been fixed on ad-hoc considerations where cost of production was one factor. Fertilizers are supplied to the cultivator at a pooled price from the fertilizer pool which is managed by the Ministry of Food and Agriculture. Into this pool go the prices paid to Sindri and the Fertilizers and Chemicals Travancore (F.A.C.T.) and the prices paid for imported fertilizer, and so will go into the pooled price policy the retention prices to be paid to other fertilizer producing units.

The basis of price fixation for fertilizers produced at Sindri Unit was laid down by the Tariff Commission in 1959-60 after a detailed examination of the cost of Ammonium Sulphate produced there. Until then the retention prices were fixed on purely ad-hoc consideration after discussion with the parties concerned. The price for Calcium Ammonium Nitrate produced at Nangal has also been determined on the recommendations of the Tariff Commission for fertiliser produced at Sindri, which were based on 'Cost plus basis'.

The following retention prices were fixed for the years 1963-64 to 1966-67:

**SINDRI**:
- Ammonium Sulphate: Rs. 316 per M. ton f.o.r. Sindri
- Double Salt: Rs. 426 per M. ton f.o.r. Sindri
- Urea: Rs. 582 per M. ton f.o.r. Sindri

**NANGAL**:
- Calcium Ammonium Nitrate: Rs. 256 per M. ton f.o.r. Nangal

Due to the increase in the cost of material and labour, the cost of production of all fertilizers has gone up and as such Government have been requested for a revision in the prices fixed 5 years ago.

The price of Nitrophosphate (16:13:0) which was fixed at Rs. 380 for popularising the product was raised to Rs. 500 per tonne with effect from 15.12.1966.
The prices of free sale fertilizers were fixed in such a way so as to correspond with the pool prices fixed by Government for fertilizers distributed through the Pool. Ex-railhead prices of free sale fertilizers on 31.3.1967 were as under:

<table>
<thead>
<tr>
<th>Product</th>
<th>Price (₹/tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ammonium Sulphate</td>
<td>355</td>
</tr>
<tr>
<td>Double Salt</td>
<td>455</td>
</tr>
<tr>
<td>Urea</td>
<td>610</td>
</tr>
<tr>
<td>Calcium Ammonium Nitrate</td>
<td>335</td>
</tr>
</tbody>
</table>

**INSECTICIDES:**

During the early phase of its production because of the agreement with UNICEF and WHO who supplied the first DDT plant to India, the company was to operate on no profit no loss basis. This clause was removed during 1961-62. Since then company has fixed the prices of its products of its own. The prices fixed in April, 1964 have not been raised. The ex-factory rates fixed in April 1964, are as under:

<table>
<thead>
<tr>
<th>Product</th>
<th>Price (₹/kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech. DDT for private eradication programme</td>
<td>₹ 3.70 per kg.</td>
</tr>
<tr>
<td>Tech. DDT for private formulators and other consumers</td>
<td>₹ 4.90 per kg.</td>
</tr>
<tr>
<td>50 per cent Formulated DDT for malaria eradication programme</td>
<td>₹ 3.20 per kg.</td>
</tr>
<tr>
<td>50 per cent Formulated DDT for private formulators and other consumers</td>
<td>₹ 4.70 per kg.</td>
</tr>
</tbody>
</table>

These rates are competitive with the price of DDT imported in the country. During 1966-67, DDT was imported on Government account from U.S.A. and the c.i.f. price in terms of technical DDT was Rs. 5.2 per kg.

Reasons contributing to the maintenance of price level fixed as far back as 1964 are mainly: successful experimentation in the manufacture of a range of by-products, high productivity, and economy in use of raw materials.

Sulphuric acid, Hydrochloric acid, Ethyl Chloride, and Chloral Hydrate are produced as by-products and marketed.

HINDUSTAN SHIPYARD:

In this case the price is based upon what is known as the UK parity. The buyer of its ships has to pay a price which he would have paid if that ship had been bought in Britain. As compared to India the British ship building industry is far more advanced and there could be no comparison of the two. The cost of ships built at Vishakhapatnam has consistently been higher than those built in Britain. The Hindustan Shipyard is reimbursed by the Government in the form of a subsidy to the extent of the difference between the price charged in India and the price of the ship in Britain. The Estimates Committee has made it clear that it is not desirable to link prices with foreign ship-yard prices. The Committee recommended that any price policy that is adopted for Hindustan Shipyard should be such as to
provide adequate incentive to the Company to reduce the cost of production while at the same time not compelling the buyer to pay more than what he would have paid for a similar ship constructed elsewhere. 27

The unsatisfactory state of affairs, in regard to cost and prices at the shipyard, was again examined by the Committee on Public Undertakings 28. The Committee found that the element of subsidy is not only high but has also risen by about 100 per cent in respect of ships built recently. This shows that the Shipyard has failed to keep a check over its cost of construction. Payment of higher subsidies implies that the tax payer has to pay more and more for the failures of the management. It is suggested that the reasons for increase in costs should be analysed by experts not connected with the Shipyard and steps taken to bring them down. The principle of giving subsidy to cover all the excess cost of construction of a ship over the price received by the Shipyard is not desirable in as much as it does not give necessary incentive to the Shipyard to improve its performance. The buyer should also not be asked to pay appreciably more than that he would have paid for a similar ship constructed elsewhere. So far as the Shipyard is concerned, if any subsidy has to be paid to it, Government should lay down a norm for the purpose with an upper limit instead of

28 C.P.U. (Third Lok Sabha) 37th Report on the Hindustan Shipyard Ltd. paras 38 and 39.
paying in full the difference between the cost of construction and the sale price. The above procedure would save Government and the taxpayer from bearing the entire burden of the deficiencies of the Shipyard and at the same time induce the Shipyard to reduce its cost of construction.

**PETROLEUM PRODUCTS:**

The pricing of imported crude as well as of the indigenous crude ex-Gauhati oil-fields, is done on the basis of Persian Gulf parity, but the pricing of crude oil shipped by Oil India Limited to the Government refineries at Gauhati and Barauni and the Assam Oil Company's refinery at Digboi is fixed in terms of the formula laid down in the second supplemental agreement relating to the operation of this company. The pricing of finished products ex-all refineries in India is done on the basis of Persian Gulf parity.

Each port installation constitutes the pricing point for supply of products for all stations in its hinterland nearest to it by the most economical route. The basic ceiling selling prices of refinery products at the port installations are presently determined on the basis of import parity from Bandar Mah Shahr in the Persian Gulf.

The ex-refinery prices of products ex-Bombay and Vizag refineries have to be determined on the principle of import parity in terms of the assurances
in the agreements relating to the establishment of these refineries. Their production constitutes about 47 per cent of the all-India production at present. It is not practicable to adopt a pricing basis different from import parity for products of one refinery, annual throughput of which is a small portion of the total all-India throughput.

The pricing of products follows the recommendations made in the report of the working group on oil prices, which also did not favour treating Gauhati as a pricing point.

STEEL:

The selling prices of steel were controlled till 1st March, 1964, and the retention prices fixed by Government were applicable to all main products. The retention prices over the last few years contained some provision to enable the industry to develop and even to expand. Since 1st March, 1964 price control was retained only in certain short supply items. The prices of the decontrolled categories are fixed by the Joint Plant Committee in which Hindustan Steel Ltd., is represented along with other main producers.

HINDUSTAN MACHINE TOOLS:

In Hindustan Machine Tools the prices are fixed by the Board of Directors. The Board takes into account all relevant factors including the cost of production
and the prevailing price of comparable machines imported into the country. It is the policy of the Company to keep prices close to the landed cost of imported machines. The Estimates Committee was critical of the price policy followed by the Company and did not like the reduction in prices.29

BHARAT ELECTRONICS:

The Company takes into consideration the actual cost of production and certain overhead charges and a 10 per cent profit.

STATE TRADING CORPORATION:

The rates are based on the cost of operations so as to provide a margin of profit to cover depreciation and future expansion activities.

DAMODAR VALLEY CORPORATION:

The Corporation has followed a policy of discriminating pricing. Water is supplied at different rates for industrial, domestic and irrigation purposes, the object being to charge on equitable price. For irrigation, water was supplied at no profit no loss basis, i.e., covering interest charges, operation cost and depreciation but no profits.

It will be seen from the above discussion that there are no hard and fast rules for the fixation of prices for public undertakings. In India prices of goods

29 Estimates Committee (Second Lok Sabha) 1969-60 94th Report.
very much depend on the nature of the product and the kind of economy. In a mixed economy, as that of India, the prices of goods produced under competition are determined on the demand supply basis. In a state of semi-monopoly, as in steel and fertilizers the position is quite different. In the case of fertilizers, as discussed above, prices are fixed on pool basis. In the case of steel it is the Joint Plant Committee which is responsible for price fixations. Consumer's interests are duly safeguarded but adequate incentives are also provided to producing units.

Pricing policy no doubt is a potential device especially in a planned economy to bring about a proper allocation of resources according to planned priorities. It is, therefore, necessary that in a planned economy there should be a planned price policy if the benefits of planning are to be reaped at all. However, this is possible only when there is a Central Body of experts to fix prices on the pattern of the National Board for Prices and Incomes in England. This body of experts should take into account the economic factors operating in the country and the future trend which the price policy is intended to create. Since price fixation should be the responsibility of Government, this body of experts should function in an advisory capacity to the Central Cabinet.
Beside many other obligations, a public enterprise owes a greater obligation to the consumers of its products. Whenever a public enterprise is set up, one of its obligation is to provide quick, efficient, cheap and best quality goods or services and the best judge for this purpose is the consumer. Consumer has a right to demand satisfaction from an enterprise. Because it is his money that is invested in it. But unfortunately, in the present set up, he is the most neglected party. Ordinarily public enterprises operate in the field of such goods or services where they enjoy either monopoly or at least semi-monopoly position and the chances of exploitation of the consumer are much greater. Therefore, in the regulation of prices, one of the factors that has to be considered is the relation between a public undertaking and the consumer of its products or services. It may be argued that the Government, Parliament and public enterprises are sufficiently aware of consumers' interest to provide the necessary safeguard. Such an assumption may not always be correct particularly when the Government may be always worried to generate funds out of Public Enterprises and the efficiency is measured in terms of profitability. Therefore, something more is required to be done than leaving the matter to be taken care of by the Government.

In England, in the post-1965 period of nationalisation this aspect of consumers' protection attracted
attention and it was provided to constitute Consumers' Councils in different nationalized industries to seek their advice and guidance. They were not to collaborate in the policy making, which remained the prerogative of the Board of each industry. The Transport Act of 1947 provided for the setting up of a Transport Consultative Committee. Members of the committee were appointed by the Minister and a membership of about twenty was considered reasonable. Members represented different interests such as agriculture, industry and commerce, shipping, labour, etc., etc. This Committee provides a forum to the users to convey their views to the Minister and to the British Transport Commission. Experience has shown that such Committees did not work well. One of the reasons was that the Committees lacked the technical ability necessary for the assessment of the complex issues of costs and revenues presented to them. So, objective criticism was not possible. The main difficulty appears to be of the non-availability of real public spirited persons to serve on these Committees, who have time and energy to do the work. 'Unity is strength and division is weakness', consumers being unorganised, suffer on that account and feel helpless. The consumer needs a champion over whom he has some influence. Such Committees can function effectively if proper type of persons with a sense of service and devotion to the public cause are appointed on them. There is nothing in the legislation that would stand in their way from fulfilling the hopes expressed
in 1948 by Herbert Morrison (now Lord Morrison): 'I want them to be critically minded in every good sense of the term and I want their reports to Ministers and the public to be frank.' They must be ready to fight when it is necessary for them to fight. These bodies can become important if they are properly run and the consumers' representatives are sufficiently active and vigorous'. If such committees have failed in achieving their objective it is due to their own fault. They have failed to exercise initiative in developing any policy to represent the consumers' view.

In India, there is an elaborate consultative machinery in the Railways where Railway users Committees function at various levels. In some of the statutory Corporation also, provision has been made for such machinery. For example, the Air Corporation Act 1953 provides for the constitution of an Air Transport Council. No such machinery has, however, been set up in the case of public undertakings functioning as Government companies. Administrative Reforms Commission in its report has suggested the setting up of such Consumers' Consultative Councils in other spheres also, to keep a watch over consumers' interest. But in view of the experience of England discussed above it is very difficult to put any faith in the efficacy of such Consultative Committees. Indian consumer is much more unorganised, illiterate and passive.

in his attitude. He will continue to suffer than raising his feeble voice in the matter. But all the same experiment is worth trying.

**SUMMARY AND CONCLUSION:**

1) Determination of proper pricing policies for public sector undertakings is of utmost importance as it affects the entire community. Therefore, pricing policy should be decided keeping in view the objectives of each industry.

2) Public enterprises should be run on sound commercial lines. The old concept of 'No Profit' and 'No Loss' has no place in the present context. The enterprises are expected to earn sufficient profits to be ploughed back in the expansion of industry and to provide funds to Government.

3) In the larger interest of the nation, sometimes, some products may have to be sold even at a loss if it helps in stimulating economic growth. Therefore, public enterprises should be judged on the basis of net value added to the national economy as a whole and not on the result of individual concerns.

4) Prices should be fixed in such a manner as to cover full cost, i.e., on the average cost concept rather than on the basis of marginal cost.

5) Price fixation should be the responsibility of the Government. There should be a body of experts to advise the Government in this regard.
6) One of the obligations of a public enterprise is to provide quick, efficient, cheap and best quality goods or services to its consumers. Therefore, his interests are to be reckoned with at the time of price determination.

7) Consumers' Consultative Councils need be set up to protect the interest of consumers.