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pricing policy in public enterprises The investment policy of the Government aims at channelizing public investment in basic and infrastructural sector and for continuing with the provisions of essential commodities.

The policy is based on the type of services provided by public sector undertakings. In context, we can divide the pricing policies into four categories. First, Services rendered by public sectors in the case of public utilities, Second, no-profit, no loss policy, Third marginal cost pricing and Fourth Profit Price policy. Pricing of Public Utility Services There are a number of principles which govern the pricing of public utility services. There are public utilities like education, sewage, roads etc. Dalton calls it the general taxation principle. Such services are pure public goods whose benefits cannot be priced for the reason that they are invisible. It is not possible to identify the individual beneficiaries and charge them for the services. In some cases, the beneficiaries may be identified but they cannot be charged for their use. For instance, the users of flyover over the railway line can be identified, but it may be inconvenient to the taxing authority to collect the road tax and for the road users to pay the tax due for the time involved. The best course is to finance the flyover out of general taxation. JF Due has mentioned the following four rules where public services should be provided free and their costs covered from general taxation. In the case of such services where little waste will occur if they are provided free. Where charging a price will restrict the use of the service. Where the cost of collecting taxes is high. Where the pattern of distribution of tax burden on service is inequitable. These rules are applicable to a few essential public services like education, sewage, roads etc. Dalton hence, advocates the compulsory cost of service principle whereby the government should charge a price for the service provided to the people. This is essential for the reason that municipal services such as sewage, sweeping street, street lighting etc are under priced. Every family of a locality may be asked to pay for them. But since they are public utilities, they may be charged nominally and the gap between revenues and costs remains. This is met from general taxation. This is a sort of government subsidy to the users of such services. Nonetheless, Dalton favours the voluntary price principle for public utilities. According to this principle the consumers of a public service are required to pay the price fixed by the Public Sector Enterprises PSE. The PSE may have a monopoly in a particular service, such as water or power supply and it may fix a price for it. But the services being a public utility, it may set a price lower than its cost of production so that the welfare of the community is not adversely affected. Total costs include all type of expenses incurred by a PSE in producing a product. They are short period and long period fixed and variable costs of production, current and replacement costs, depreciation charges, interest on capital employed and advertisement, selling and distribution expenses. These costs may be covered by making the price equal to the average total costs of production or by following two parts or multipart policy. The full cost or average cost pricing policy is advocated on the following reasons. It is better to fix full cost price for merit goods, such as highways, public transport, public education, public libraries, museums, recreation parks etc. For all such services, people should be charged a price instead of providing them free or at concession rates. Full cost prices lead to profits which compensate for losses, so that there is neither loss nor profit. This enables the enterprise to break even by covering its average total costs of production. It earns normal profit. If the PSE has a monopoly in supplying public utility service, it may have increasing economies of scale over a wide range of output, showing increasing returns or diminishing costs. Marginal Cost Pricing Rule One of the prime objectives of Public Sector Enterprise is to be economically efficient or to maximise social welfare. Thus the application of the marginal cost pricing rule to PSE has implications for the financial position of the enterprise. In case the price is higher or lower than the average cost AC, the output will not be of the optimum size for the reason that the enterprise will be earning either supernormal profits or incurring losses. Again the output will not be of the optimum size even if the price of the product of the enterprise should be increased. This is only feasible if the marginal cost pricing principle is followed. This is represented in the diagram 2, which represents the case of diminishing returns or increasing costs. Thus resources are not optimally allocated under monopoly. There is misallocation of resources. Thus the marginal cost price combination at point K leads to optimal resource allocation even though the enterprise incurs a loss of LK per unit of output.

To meet this loss, the government should compensate the enterprise from taxes levied on consumers of the product. If the enterprise is operating under increasing returns or decreasing costs, the marginal cost pricing principle will also lead to losses. This is represented in the diagram 2 where MC curve lies below the AC curve throughout its length. It earns AP profit per unit of output. But is incurs a loss of KL per unit of OS output. Nevertheless, OS is the optimum output of the enterprise under marginal cost pricing. We have the best tutors in Economics in the industry. Our tutors can break down a complex No Profit, No Loss Policy, Marginal Cost Pricing Rule problem into its sub parts and explain to you in detail how each step is performed. You will get one-to-one personalized attention through our online tutoring which will make learning fun and easy. Our tutors are highly qualified and hold advanced degrees. If you are stuck with a Pricing of Public Undertakings, Pricing of Public Utility Services Homework problem and need help, we have excellent tutors who can provide you with Homework Help. Please do send us the Pricing of Public Undertakings, Pricing of Public Utility Services problems on which you need help and we will forward then to our tutors for review. Other topics under Product Pricing:

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Chapter 2 : Problems of the Public Sector Enterprises in India

Article shared by. After reading this article you will learn about the price policy of public enterprises in India. For a long time, there was no definite price policy prescribed for public enterprises in India.

Until the mids the proportion of economic activity controlled by the government and the share of taxes in national income tended to increase in most countries. Since then, however, challenges to this growth in the role of government have become increasinglyâ€¦ Although the provision of these services by public enterprises is a common practice in Europe and elsewhere, in the United States private companies are generally allowed to provide such services subject to strict legal regulations. In some countries industries such as railways, coal mining , steel, banking, and insurance have been nationalized for ideological reasons, while another group, such as armaments and aircraft manufacture, have been brought into the public sector for strategic reasons. In communist countries most forms of production, commerce, and finance belong to the state; in many newly independent and less-developed countries, there is a very large public-enterprise sector. In Europe the prevailing pattern is a mixed economy with the public enterprises operating side by side with private corporations. In Great Britain during the early years of the 20th century, the post office, utilities, armaments, and the Port of London belonged to the public sector; to them were later added various forms of public transport, thus markedly widening the role of the state sector. Under the â€”50 Labour government, a massive nationalization program was effected embracing coal mining, the iron and steel industry, the gas industry, railways, and long-distance road transport. During the Conservative regime of Prime Minister Margaret Thatcher â€”90 , many public enterprises were privatized. The postwar French government undertook a similar extensive nationalization program that included banks, insurance companies, finance houses, and manufacturing concerns. Many were subsequently privatized. The United States has few public enterprises. In the U. Public enterprises are by definition intended to be operated in the public interest. This gives rise to a number of organizational and commercial issues. One problem is how to reconcile the need for close political control with the need for sufficient management autonomy. The public corporation form, used extensively in Great Britain and widely copied in other parts of the world, is created by a special act of Parliament that defines its powers, management structure, and relationship with government bodies. As a corporation it has legal entity. Its capital requirements are met by the treasury, but it is supposed to meet its current expenses from its normal commercial operations. Its employees are not civil servants, and the top management is often appointed by the minister in charge. Another administrative form that is popular in parts of the world is the state company, which is simply an ordinary joint-stock company whose shares are owned wholly or partly by the state. Public enterprises are usually intended to pay their way in the longer term, and yet they may be subject to political constraints in their pricing policy that could be in conflict with that objective. Conversely, for social reasons they may receive hidden subsidies or enjoy additional protection not available to competitors. Such factors tend to distort the normal commercial operations of the corporation or the company and often lead to managerial disorientation. Partly because of these noncommercial considerations, public enterprises may appear to be highly inefficient and, in times of difficult trading conditions, may be a drain on public resources. However, the measurement of the efficiency of a public enterprise is no easy matter. When it produces a marketable product, such as coal or steel, that competes with other products, the normal commercial criterion of profit may be adopted to assess its performance. In the case of a utility enjoying monopoly power, economists have developed concepts like cost-benefit analysis as a performance measurement tool. In recent years many state enterprises in the developed world have been given financial targets that take into account both social and commercial responsibilities. Learn More in these related Britannica articles:

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Chapter 3 : Public Policy - USC Price

According to this principle the consumers of a public service are required to pay the price fixed by the Public Sector Enterprises (PSE). The PSE may have a monopoly in a particular service, such as water or power supply and it may fix a price for it.

Here we detail about the eleven major problems of the public sector enterprises in India. Some of the public sector enterprises, particularly some of the loss-incurring enterprises are suffering from endowment constraints as the selection of sites of these enterprises were done on political considerations rather than on rational considerations. Under-utilisation of the production capacities are one of the common constraints from which almost all public sector enterprises are suffering. In , out of the public sector units 90 units had been able to utilize over 75 per cent of its capacities, 56 units achieved utilisation of capacities between 50 and 75 per cent and the rest 29 units could somehow managed to utilize under 50 per cent of its capacities. This had been mainly due to the reasons such as long gestation periods, huge in-built capacities, ambitious scales of planning based on inadequate economic particularly market data, inadequate motivation, lack of initiatives and obsolescence of the product mix. Public sector enterprises in India are suffering from absent of rational pricing as the prices of their products are determined by such a price policy which has three considerations like: Thus, formal and informal regulations of prices by the Government in the interest of the economy and consumers, in general, and of price stabilization are also responsible for huge losses incurred by some of these enterprises of our country. Moreover, subsidization of the prices of some of the produce by these public enterprises had added a new dimension to the problems. Some of the public sector enterprises in India are suffering from technological gap as these enterprises could not adopt up-to-date technologies in their production system leading to high unit cost and lower yield. Much government interference in the day to day activities of the public sector enterprises has reduced the degree of autonomy of the managements in respect of employment, pricing, purchase etc. Public sector enterprises are suffering from heavy social costs such as the outlays on townships and allied provision of amenities to its employees. The public sector enterprises in India are also suffering from operational and managerial inadequacies and inefficiencies leading to huge wastages and leakages of funds in their day-to-day activities. Between the public sector and private sector units within the same industry sometimes there exists evil competition which leads to sabotaging of public sector units at a large scale. Some public sector units are even faced with marketing constraints where due to repetitive type of production mix they could not collect a good market for some of their products where the market is already captured by some big private industrial houses leading to a constant increase in inventories. In some of the public sector units there is the problem of surplus manpower which is creating drainage of resources unnecessarily leading to increase in the unit cost of production. Political considerations have also contributed towards overstaffing of unskilled workers in these units. Workers engaged in the public sector enterprises are lacking sincerity and devotion to their job leading to wastage of working hours which finally affects productive capacities of these enterprises. Moreover, external factors like too much trade unionism, union rivalries and labour troubles are also disrupting the smooth functioning of the production system of these public sector enterprises in the country. Considering the problems of sickness faced by the Public enterprises, the Standing Conference on Public Enterprises SCOPE had recently constituted a committee to study various aspects of sickness of public enterprises. In its recently submitted report in December, on its analysis of PSU problems, the committee felt that too much interference by the Government in areas like autonomy and accountability, constitution of board of directors, continuity to top management and little discretionary powers to management for investment, employment, pricing and wages affected the PSU performance. Bad financial planning was another cause of PSU sickness and many sick companies had over- borrowed. The SCOPE Committee further regretted that the Government as a promoter, was charging one per cent fee from its own sick companies for providing guarantees to bank loans and that too for a limited period of one year at a time whereas private sector promoters were not charging any fee for such guarantee. Various other problems such as allocation of resources, delays in filling up top-level posts, tight regulations and procedures for investment and restrictions on functional autonomy of the enterprises, e.

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3. No-Profit No-Loss Policy. 4. Profit-Price Policy. A good deal of controversy exists over the subject of pricing policy of public undertakings. The policy is based on the type of services and goods provided by public sector enterprises (PSEs).

P3 Government information is in fixed supply In all cases Market-clearing prices Source: In more detail, the pricing principles are: When general distribution of government information is desirable for a public policy purpose or when it is not feasible or cost-effective to recover the cost of distribution, government information should be distributed free of charge. Information provided for public policy purpose is defined as information relating to the necessary processes of government that regulates the lives of people or that is important to the general health and welfare of people. Examples include public health and safety information, promotional educational material, information on traffic regulations, and information for the internal administrative purposes of government. When copies of government information can be readily reproduced and distributed at low unit cost, the price depends on the nature of the market. Potential competition is defined as existing when more than one agency could supply the information and recover the relevant supply costs. When government information is in limited supply, then whatever the competitive position, the charge for information should be the market-clearing price. In applying these principles, when prices are based on costs, they should be based on efficient costs, that is the least cost method of supply. In addition, in order to ensure maximum use of government information and fair dealing for all users of the information, P4: The pricing principles should apply generally to all users within and without government. Agencies should not provide preferential prices to some users other than for strict commercial reasons, such as volume discounting based on costs. If a general budget agency considers that for equity reasons some prices should be reduced for some groups in the community, the Minister should submit a case for budget funding. A public trading enterprise would apply for a community service obligation payment. All government agencies are expected to publish an overall information pricing strategy that incorporates these pricing principles. The written document should describe the pricing measures adopted for each category of information and the basis for the adopted prices. The strategy should be publicly available, transparent and accountable. Further, where wide use of information is desirable, government agencies may consider waiving copyright, subject to acknowledgment of the source. The draft policy paper recognises that revenue from charges may not cover the full costs of data production and distribution, especially with SRMC P2a pricing. Budget agencies are expected to absorb small shortfalls, if any, in revenue. When government requires an agency to achieve full cost recovery, prices may have to be adjusted in order to increase revenues. If so, they should be raised so as to have the least impact on the amount and type of information that would be provided under the basic pricing principles. The draft policy recommends the use of two-part tariffs separate access and user charges where feasible. If access charges are not feasible, consideration can be given to marking up prices on the basis of what the market can bear, taking into account the price sensitivity of the demand for information and equity issues. And, where there is divergence between the two sets of principles, can this be justified? The proposed pricing principles for government information are broadly consistent with the general pricing principles enunciated in section 2. Different pricing principles are recommended for different market conditions. When government is a sole supplier, SRMC pricing principle P2a ensures efficient use of government information. Charges for information should cover the variable costs of reproduction and distribution because these resources have an opportunity cost. Lower charges would encourage inefficient use of resources. On the other hand, prices in excess of reproduction and distribution costs would exclude users who are willing to pay the costs of supply. SRMC pricing for data also encourages private firms to compete in the production of value-added information services. It helps to prevent information monopolies arising as a result of privileged access to government data. It discourages potential users from developing inferior in-house databases. Using resources to produce similar or inferior substitutes for information already available in the public sector is evidently wasteful. However, when government information can be readily reproduced and there is a potential competitive source of supply, the charge for the information should be based on LRMC prices principle P2b. This principle applies mainly to value-added information provided by government agencies that could be provided by private firms. In order that government costs are comparable to private costs, estimated LRMC prices should include allowances for indirect taxes and fees similar to those borne by private firms. This principle encourages competition and efficiency in the production of value-added services for all government information. LRMC prices give signals to the market that encourages competition and provides information about the kind of value-added services that users are willing to pay for. On the other hand, without actual competition, charging what the market could bear market pricing could lead to excessively high prices. Prices based on LRMC limit the rents that might be extracted by exercise of monopoly power. When Government information can be readily reproduced and there is actual competition in the supply of information, the draft policy recommended that charges be based on market prices. Market prices signal the value that users place on value-added services. The prices guide production decisions, in some cases leading to increased production to meet demand, and in other cases to less production. This policy is consistent with National Competition Policy, which requires that the public sector does not underprice its services. Market prices encourage competition in service provision, especially in conjunction with pricing principle P2 a. If an agency provides its basic data to the public at SRMC, a public agency cannot price value-added information services at levels that would allow monopoly rents to be extracted from privileged access to the underlying government controlled information. Market pricing helps to pay for fixed costs, which limits the call on public funds that would result if SRMC pricing were extended far beyond the provision of basic information in primary form. However, when prices are based on market prices, government should not exploit any market power that it may have to obtain excessive rate of return on resources employed. The pricing principle P3 that information in limited supply should be charged at the marketâ€"clearing price, whatever the competitive position, ensures efficient use of information in scarce supply. If prices exceed the market-clearing price, some information products are stored and not used. On the other hand, if the products are sold at below the market-clearing price, they may be sold to users who place a relatively low value on the product. Also, the products may be resold at a higher price, thus depriving the government of revenue that should accrue to the taxpayer. Nevertheless there are differences in terminology and substance between the pricing principles outlined in section 2 and the proposed principles for government information described in section 3. The working party therefore attempted to define in a fairly restricted way the concept of information required for public purposes that should be provided free of charge. It remains to be seen whether this is an operational definition. This does not seem a practical definition for many government purposes. For practical reasons, principle P2 c draws on the notion of actual competition rather than of perfect competition, but actual competition is not defined. In terms of the pricing principles, when competition for supply of information exists, principle P2 c recommends the use of market pricing. This is different from Equation 2 , which is not a practical option for most government agencies. Market prices are in turn preferred to LRMC pricing because the former is more observable. However, when prices are based on market prices, government agencies may exploit their market position to obtain an excessive rate of return on resources employed unless there is substantial competition. The pricing policy contains warnings that this is not acceptable. The proposed pricing principle P4 requiring government agencies to provide goods of a given kind at the same price to all users is also a departure from efficient pricing principles. As we have noted, price discrimination based on the elasticity of demand of users is a common practice of private firms and a practice that reduces deadweight losses. However the working party was concerned that, if agencies were allowed to discriminate between users, prices would be based on political gain and administrative convenience rather than the elasticity of demand for the service. There is much casual evidence that government agencies are inclined to reduce charges for other public agencies. The working party considered that allowing price discrimination, other than in very limited cases, would increase rather than reduce economic inefficiency. In summary, there is a close relationship between the pricing principles of economists and the information pricing principles recommended by the working party. However, in the interests of practicality, some definitions relating to public goods and types of markets were softened. This may introduce a certain looseness into the pricing policies adopted. Also, when markets are competitive, agencies would be allowed to charge market prices instead of a carefully calculated welfare optimising price.

And, as noted, price discrimination is discouraged. However, all government agencies are expected to publish an overall information pricing strategy that describes the pricing measures adopted and the basis for them. This provides an opportunity for a monitoring body to check whether government agencies are using inappropriate definitions of public policy purpose and markets structures. In the early s, NSW government agencies successfully resisted a similar attempt to change pricing practices and to introduce efficient user charges. In this section I describe the main concerns that agencies have raised to the introduction of draft pricing principles, some of which were also raised in the debate in the early s, and provide some responses. A common concern of agencies is that it is difficult to define information and more specifically to define government information. Some agencies also argue that they are willing to charge for information, but do not agree with charging for services. Neither concern is well founded. The concern about the definition of information is not of any substantive moment if government has a consistent, wholeâ€"ofâ€"government, user charge policy as the NSW government does, in which information price policy is essentially a subset of the more general pricing policy. Moreover, the provision of information is a service and embodies numerous service activities. Trying to distinguish the information from its service components, or from some valueâ€"added activity, seems futile and unnecessary. Charges by government agencies should not vary according to whether a service is declared an information service or some other kind of service. Second, some agencies find it difficult to decide what information should be distributed free of charge for public policy purposes, especially where there are positive externalities. For example an agency responsible for mines may consider that information and regulations about mining safety should be distributed free of charge. An agricultural agency may consider that information about sustainable environmental practices should be distributed free of charge. It is difficult to draw firm lines in these areas. Under the draft pricing policy, an agency for mining would charge mining companies for safety information that will principally benefit the companies and their employees. A department of agriculture would likewise charge for environmental information that will principally benefit the farmers who receive the information. The requirement to publish the basis for the prices adopted ensures that agency decisions will be based on a consistent interpretation and not be entirely arbitrary. Third, the concept of a marginal cost is somewhat elastic. The concept of marginal cost presupposes that the fixed costs are known. But, in the public sector, what is a fixed cost is often a political judgement as much as a technical one. If government is committed to distributing information, only the copying and the distribution is a marginal cost. If the government is not committed to distribution, the overheads and capital locked up in the distribution process must be allocated to each unit of distribution. In any case, distribution may involve some wear and tear on machines. Fourth, and perhaps most crucially, general government agencies that are likely to lose revenue, because they are monopolies that will not be allowed to charge average cost prices, tend to strongly oppose the policy changes.

Chapter 5 : MANAGEMENT PORTAL: PRICING POLICY IN PUBLIC ENTERPRISES

There are a number of principles which govern the pricing of public utility services. There are public utilities like education, sewage, roads, etc. Dalton calls it the general taxation principle. Pricing of Public Utility Services 2. No-Profit No-Loss Policy 4. Profit-Price Policy A good deal of controversy exists over the subject of pricing policy of public undertakings. The policy is based on the type of services and goods provided by public sector enterprises PSEs. In this context, we can divide the pricing policies of PSEs into four categories. First, services rendered by PSEs in the case of public utilities. Second, no-profit no-loss policy. Third, marginal cost pricing. We discuss these policies of PSEs as under. Pricing of Public Utility Services: Such services are pure public goods whose benefits cannot be priced because they are indivisible. It is not possible to identify the individual beneficiaries and charge them for the services. In some cases, the beneficiaries may be identified but they cannot be charged for their use. For instance, the users of a bridge flyover over the railway line can be identified, but it may be inconvenient to the taxing authority to collect the road tax and for the road users to pay the tax due to the time involved. The best course is to finance the flyover out of general taxation. First, in the case of such services where little waste will occur if they are provided free. Second, where charging a price will restrict the use of the service. Third, where the cost of collecting taxes is high. Fourth, where the pattern of distribution of tax burden on services is inequitable. These rules are applicable to a few essential public services like education, sewage, roads, etc. But in the case of services other than those included under pure public goods, free services might lead to wastage of resources. Dalton, therefore, advocates the compulsory cost of service principle whereby the government should charge a price for the service provided to the people. This is essential because municipal services such as sewage, sweeping streets, street lighting, etc. Every family of a locality may be asked to pay for them. But since they are public utilities, they may be charged nominally and the gap between revenues and costs remains. This is met from general taxation. This is a sort of government subsidy to the users of such services. However, Dalton favours the voluntary price principle for public utilities. According to this principle, the consumers of a public service are required to pay the price fixed by the PSE. The PSE may- have a monopoly in a particular service, such as water or power supply and it may fix a price for it. But the service being a public utility, it may set a price lower than its cost of production so that the welfare of the community is not adversely affected. The general principle for pricing such public services is to recover costs without distorting the allocation of resources. This is done by making selling price equal to short-run marginal cost while keeping productive capacity constant. In such cases, average costs fall as production is increased and the actual price charged is below the average cost. Charging that price would lead to a loss to the PSE. In such a situation, the public price has to be revised to cover the cost of providing the service. This is usually done by increasing-block or multi-part tariff and time-of-use rate structures. Under an increasing-block or multi-part tariff the consumption of water or power is priced at a low initial rate upto a specified volume of water or power used block and at a higher rate per block thereafter. The number of blocks may vary from 3 to For instance, power charges for domestic light for the first units may be Re. Under the time-use-rate structure, consumers pay a premium during periods of high demand. It increases the overall utilisation capacity of the service and also profits of the PSE supplying the service. But its main advantage is that this rate structure encourages consumers to shift demand to lean off-peak periods. For instance, time-of-use rates vary by time of day for telephones, and mobiles Time-of- use rates vary by season in the case of water supply to agriculture in the case of LDCs, and natural gas for heating purposes in developed countries. Marginal Cost Pricing Rule: One of the aims of PSEs is to be economically efficient or to maximise social welfare. However, for more efficient resource allocation, it is essential to find out whether the PSE is operating under decreasing or increasing returns. Thus the application of the marginal cost pricing rule to PSEs has implications for the financial position of the enterprise. In case the price is higher or lower than the average cost AC , the output will not be of the optimum size because the enterprise will be earning either supernormal profits or incurring losses. Again, the output will not be of the optimum size even if the price of the product equals the average cost. To secure optimum resource allocation, the output of the enterprise should be increased. This is illustrated in Fig. Thus increased output MS is sold at the lower price SK. Thus resources are not optimally allocated under monopoly. The price is further reduced to QR which leads to excess demand for the product as well as the resources of the enterprise. There is malallocation of resources. Thus the marginal cost-price combination at point leads to optimal resource allocation even though the enterprise incurs a loss of LK per unit of output. To meet this loss, the government should compensate the enterprise from taxes levied on consumers of the product. If the enterprise is operating under increasing returns or decreasing costs, the marginal cost pricing principle will also lead to losses. This is shown in Fig. It earns AP profit per unit of output. But it incurs a loss of KL per unit of OS output. However, OS is the optimum output of the enterprise under marginal cost pricing. The marginal cost price-output combination is also better than the price-output combination under the average cost pricing rule. But under the law of decreasing costs, the enterprise adopting the marginal cost pricing rule incurs KL loss per unit of output because the AC curve is above the AR price curve. But this does not follow that the enterprise should not follow the marginal cost pricing rule which gives the optimum resource allocation at OS output. Various solutions have been offered to this problem. Hoteling suggests that the government should give subsidies to such decreasing cost PSEs to cover the loss by levying lumpsum taxes. Lumpsum taxes do not violate the marginal conditions for consumers of firms. They will, therefore, leave economic behaviour unchanged. If lumpsum taxes, such as poll tax, cannot be levied, the two-part tariff is the other device to cover the loss. The first part is the price which is set equal to marginal cost. The second part is a lumpsum tax per period paid by all users. The fixed fee entrance fee is used to cover installation and maintenance costs and variable charges are imposed to pay for the operating costs of specific items of amusement. Whichever method is adopted to cover the loss of a PSE attributable to marginal cost pricing there are associated difficulties. Conceptual and Practical Difficulties: All factors are variable in the long run. For example, in the case of a flyover, it is very high. But so far as its use is concerned, the marginal cost of using the flyover by an additional vehicle is very negligible. This makes the calculation of marginal cost a difficult work. It fails to supply a principle which is clear and unambiguous. The MC pricing is inequitable. When the loss of an enterprise is covered by general taxation, it is a subsidy which the users of a service or good get from the government. But this subsidy is at the expense of the non-users of the service who are taxed by the government. Thus MC pricing is inequitable. This may hamper economic development. When all prices in all industries are equal to marginal cost, it is called the best optimum. But it is possible that some PSEs have a monopoly so that price is higher than MC and it may be possible to force the price down to the MC level. In this case, the first best position cannot be attained. What then is the second best position, that is, the next best position actually achievable. There is no theoretical answer to this question because it is not possible to identify the precise nature of the second best solution. Adverse Effects of Taxation: The levying of additional taxes by the government for subsidisation of PSEs leads to adverse effects on the people and the economy. People have to pay more in the form of additional taxes and their ability to save and work is adversely affected. Problems in Two-Part Tariff: For some public utilities such as national parks, public zoos, amusement parks, etc.

Chapter 6 : Practical Academic: Purchase Preference to Public Sector Enterprises: A Short History

price policy while some public enterprises whose products are m direct competition with imported goods have adhered to a policy of import-parity prices. Price.

Public enterprises in India suffer from several problems some of which are as follows: Investment decisions in many public enterprises are not based upon proper evaluation of demand and supply, cost-benefit analysis and technical feasibility. Lack of a precise criterion and flaws in planning have caused undue delays and inflated costs in the commissioning of projects. Sometimes, projects are launched without clear-cut objectives and serious thought. Many projects in the public sector have not been finished according to the time schedule. Barauni Refinery was commissioned two years behind schedule and the Trombay Fertilizer plant was delayed by three years thereby causing an increase of Rs. There is lack of clear-cut objectives and managers in the public sector often find themselves torn between conflicting goals of profitability and social service. Due to inefficient financial planning, lack of effective financial control and easy availability of money from the Government, several public enterprises suffer from over-capitalisation. Such over-capitalization resulted in high capital-output ratio and wastage of scarce capital resources. Location in backward regions and the desire to make the undertaking a model employer lead to huge capital outlay on housing and other amenities for labour. Recurring expenditure is required to maintain these facilities. High establishment costs, overhead costs and other expenses reduce the profitability of public enterprises. Manpower planning is not effective due to which several State enterprises like Bhilai Steel have excess manpower. Recruitment is not based on sound labour projections. On the other hand, posts of Chief Executives remain unfilled for years despite the availability of required personnel. One serious problem of the public sector has been low utilisation of installed capacity. The average capacity utilisation in more than 50 per cent of the public enterprises has been less than 75 per cent. There is considerable idle capacity. In some cases productivity is low on account of poor materials management or ineffective inventory control. Lack of a proper price policy: There is no clear-cut price policy for State enterprises and the Government has not laid down guidelines for the rate of return to be earned by different undertakings. State enterprises are expected to achieve various socio-economic objectives and in the absence of a clear directive, pricing decisions are not always based on rational analysis. In addition to dogmatic price policy, there is lack of cost-consciousness, quality consciousness, and effective control on waste and efficiency. Millions of days and output worth crores of rupees have been lost due to strikes and gheraos. Wage disparities have been the main cause of labour trouble in the public sector. The percentage increase in the per capita emoluments of public sector employees has been higher than the percentage increase in consumer price index. Various state enterprises are dependent on one another as the output of one enterprise is the input of another. For instance, the efficient functioning of power and steel plants depends on the production and transportation of coal which in turn is dependent upon supplies of heavy equipment and machinery. Directors and managers of public enterprises have little personal stake. There is little incentive to work hard and improve efficiency. Centralisation of authority and rigid bureaucratic control hamper initiative, quick decisions and flexibility of operations. There is excessive influence and interference by political leaders and civil servants in the functioning of public enterprises. Parliamentary control reduces the autonomy of these enterprises.

Chapter 7 : What are the important characteristics of public enterprises?

The paper sees determinants of pricing policy in Nigerian public sector enterprises to be among others, the financial and non- financial objectives for establishing the enterprises, the market structure, the nature of the economy and its vertical and horizontal linkages for a specific commodity.

Another dimension of the pricing policy is to create a balance between the social objectives of these enterprises and their commercial viability and also the overall economic policies of the Government. It has been accepted principle that prices of products produced and service rendered by public enterprises should be so determined that at a satisfactory level of capacity utilization these enterprises not only cover their costs of production, but also generate a reasonable amount of surplus. This will assist in capital formation and enable redeployment of the capital for further strengthening of economic and social infrastructure. In this sense, product making in public enterprises is not quite inconsistent with the public purpose. It is therefore, recognized that subject to the total overall impact of certain product prices on the economy, the producers in the public sector should generally have proper control in determining the prices of their commodities. These policies are applicable to public sector as well as private sector and are discussed below: The stress is on adoption of a pricing policy which will provide a minimum fair return to the producers, reduce fluctuations in prices and achieve an equitable distribution of essential consumer goods. An efficient public distribution system is an essential ingredient to ensure that this pricing strategy Works equitably. Under this policy, Govt. At the same time, Government ensures supply of major grains to weaker sections of society at reasonable rates through public distribution system. COAL The pricing of coal has been completely deregulated after colliery control order, Under the colliery control order, , the central government has no power to fix the prices of coal and the coal companies themselves are competent to fix grade-wise prices for coal produced by them based on marketing economics. The statutorily notified sale price and indicative MRP is generally kept less than the cost of production of the respective manufacturing unit. As the consumer prices of both indigenous and imported fertilizers are fixed uniformly, financial support is also given on imported urea and decontrolled phosphates and potassic fertilizers. However, the Government, through its policy initiatives attempts to ensure adequate availability of steel in the domestic market and a stable price regime. As per the decision taken at the time of announcement of APM dismantling, post APM Government subsidies on PDS kerosene and Domestic LPG were to be on flat rages basis to be provided from the fiscal budget and after providing for this subsidy , the retail prices were to vary as per changes in the international prices. As per the Electricity Act, , the Regulatory commission shall be guided by Electricity Tariff policy to be notified by the Central Government in near future. As per DPCO, the pharmaceutical products are categorized as scheduled and Non-scheduled formulations. The purchase preference policy PPP was initially made applicable for a period of three years. However, over the period of time it has been reviewed and extended from time to time with or without certain modifications. The policy was last reviewed by the Government in June, and extended vide O.

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Chapter 8 : What are the Problems of Public Enterprises?

SUMMARY. The pricing in private and public enterprise differs primarily on the supply side. In the long run, private enterprises must cover total costs and provide an adequate return necessary to attract venture capital.

Practical Academic "I realise that some of my criticisms may be mistaken; but to refuse to criticize judgements for fear of being mistaken is to abandon criticism altogether If any of my criticisms are found to be correct, the cause is served; and if any are found to be incorrect the very process of finding out my mistakes must lead to the discovery of the right reasons, or better reasons than I have been able to give, and the cause is served just as well. HM Seervai, Preface to the 1st ed. The purpose of this is to act as a first reference point to researchers interested in the subject. The Government deemed protection of public enterprises through price or purchase preference was not in accordance with the liberalised industrial policy. Therefore, the Department of Public Enterprises recommended replacing the then prevailing price preference with purchase preference in public procurement. Under purchase preference, where the price quoted by a public enterprise in public procurement was within 10 per cent of the lowest bidder L1 price, ceterus paribus, purchase preference may be granted to the said public enterprise concerned provided it was willing to match the L1 price, that is, supply at the price quoted by the lowest bidder. This policy was transitory and was operable for three years. However, the policy was extended in up to March [2] and in October up to March Further, the notification clarified in that in case of joint ventures with public enterprises, there had to be a value addition of at least 20 per cent by the public sector enterprises in the item manufactured. In February , it was clarified that the above notification was applicable even in case of services provided by public sector enterprises. The extension was to be effective till March However, the policy was reviewed pursuant to the decision of the Supreme Court in Caterpillar India Pvt. Further complaint was raised regarding the efficacy of such a policy which granted monopoly to public sector enterprises. Consequently, the Supreme Court issued the following guidelines in the case: The concerned ministries are directed to consider the issues raised by the Appellant and to consider We, therefore, direct that industry-wise assessment be done and to perform an industry-wise assessment of the need for preference. Where there is cost-effectiveness in a public sector enterprise, there is no need to give preference over others. The assessment should also decide whether and to what extent there should be preference so as to ensure a level playing field. If purchase preference is required, the margin of preference should be fixed. Further, if the object of the tender is to invite foreign direct investment, the impact of purchase preference on such investment should be considered. The extent of discretion is to be given as to whether the purchase preference should be followed or not should be re-introduced. The above exercise is to be undertaken by the concerned ministries within four months from the date of the judgement. In the interim, the present policy shall continue to apply till the issue is reconsidered afresh by the concerned departments of the Government of India. While fixing the norms, the capacity of a party to deliver the subject matter of the contract and that of the competitors should be taken note of. Consequently, the DPE revisited its previous notifications and came up with the fresh notification in November [10] and instructed the following: The Purchase Preference Policy would terminate with effect from In view of the above notification, the Purchase Preference Policy ceased to be effective from

Lack of a proper price policy: There is no clear-cut price policy for State enterprises and the Government has not laid down guidelines for the rate of return to be earned by different undertakings. State enterprises are expected to achieve various socio-economic objectives and in the absence of a clear directive, pricing decisions are not.

What are the important characteristics of public enterprises? Government ownership and control of business enterprises has become a common feature in every country. In India public sector has achieved commanding position in several industries. During the last fifty years, public enterprises have laid down the base for heavy and basic industries. These enterprises have created the infrastructure for the rapid industrialisation of the country. Public sector is serving as an instrument for attaining the economic and social objectives of the state as laid down in the Constitution of India. These enterprises are known collectively as the public sector. Hanson, "Public enterprise means state ownership and operation of industrial, agricultural, financial and commercial undertakings". In the words of S. Khera, "by state undertakings is meant the industrial, commercial and economic activities carried on by the Central Government or by a state government, and in each case, either solely or in association with private enterprise, so long as it is managed by a self-contained management". In the Encyclopedia Britannica a public enterprise has been defined as "an undertaking that is owned by a national, State or local government, supplies services or goods at price, and is operated on a more or less self-supporting basis. A public enterprise is wholly owned by the Central Government or State Governments s or local authority or jointly owned by two or more of them. In case the enterprise is owned both by the Government and private sector, the State must have at least 51 per cent share in ownership. The ultimate control of a public enterprise lies with the Government which appoints its Board of Directors and the Chief Executive. The whole or a major portion of the capital of a public enterprise is provided by the Government. The primary aim of a public enterprise is to render service to the society at large. It may have even to incur losses for this purpose. Public enterprises are financed out of public money. Therefore, they are accountable for their results to the elected representatives of the public, i. That is why; the working of public enterprises is scrutinized by the Committees of the Parliament or the State Legislature. Public enterprises are autonomous or semi-autonomous bodies. In some cases they work under the control of Government departments. Distinction between Private Enterprises and Public Enterprises The main points of distinction between a private enterprise and a Public enterprise are as follows: Private enterprises are motivated primarily by considerations of profit. On the other hand, Public enterprises are guided by several socio-economic and political objectives. They cover a wide spectrum of operations with little regard for considerations of profit. On the contrary, the ownership of a private enterprise vests in one or more private individuals or corporate bodies. The management has to abide by the guidelines laid down by the owners. However, there is enough scope for initiative and dynamism because policies can be modified or even discarded according to the requirements of the particular situation. Its capacity to raise capital is limited and it can face shortage of funds. On the other hand, the entire or at least 51 per cent of the capital of a Public enterprise is provided by the Government from public funds. Such an enterprise can never be short of funds because Government can mobilise unlimited financial resources. In a private enterprise, the owners are free to manage and control the affairs with little interference. But a Public enterprise faces continuous interference from several agencies, e. Quite often there is interference in day-to-day affairs of the enterprise. A private enterprise can easily modify its policies and operations to meet the requirements of any specific situation. There are few restrictions on its owners for attaining the objects and policies of the enterprise. However, in a Public enterprise any change in objects and policies requires the approval of the Government and its functionaries. But Public enterprises operate mainly in the field of basic and strategic industries, public utility services and other areas of social benefit.