UNIT 166 – UPSC - Government Control Over Price and Distribution

Government has significant role in regulating price and distribution to maintain smooth economy in nation. It has been established that if there is good production, but it has no value when the goods produced are not delivered to the end-users at the right time in the right quantity and at the reasonable price.

In order to shield the interest of customers, the government has to set the price of the products which is usually lower than the equilibrium price. Similarly, when there is plenteous crop of food grains, the price of food grains is determined at a lower level. At this price the farmers are incapable to meet their cost of production even. Therefore, the agriculturalists are seriously affected due very low rate. In such cases, the government fixes the price of food grains which is higher than the equilibrium price to support the interest of producers specially growers. Government can fix the price of the commodity either below the equilibrium price or above the equilibrium price (Sengupta, 2009).

It has been revealed in management studies that government may interfere in competitive market due to various reasons Such as equilibrium market price may be too low or too high, the government may wish to mobilize some tax revenue. Price intervention may be of two types: Price ceiling and price floors (Mukherjee, 2004).

The price factor in a free enterprise economy brings about best allocation of resources given certain assumptions. These are perfect competition in both the product and factor markets, perfect divisibility of all resources and products, absence of direct interdependence among producers and customers. In India, price control has been one of the mechanisms in the functions of the Government to accomplish economic objectives and to execute the Five Year Plans. Previously, price controls have often been imposed as part of a high incomes policy package also employing wage controls and other regulatory elements. Although price controls are used by governments, economists usually decide that price controls do not accomplish what they are proposed to do and are generally to be avoided (Rockoff, Hugh (2008).

Precisely, there are four objectives which price controls which are described below:
1. To protect the interests of the susceptible sections of the customers given the income distribution.
2. To enable investment in priority industries which are essential for laying the foundation for speedy economic growth of the country.
3. To avoid monopolistic exploitation by a few firms belonging to a single industry.
4. To ensure a reasonable degree of price stability.

In current scenario, private sector trade channels in India cannot be solely relied upon due to their malpractices and their general tendency to exploit the shortage period. Adulteration, hoarding, cornering, profiteering, black marketing and other anti-social and unethical practices are worst practices for public distribution system and people has to suffer a lot due to such malpractices.

Rationing of food grains was initiated during the Second World War period. It was inhibited after the Independence but it was again introduced on a statutory basis in 1954. The basic lawful frame for product control is provided by the Essential Commodities Act, 1955. The Essential Commodities Act, 1955 was passed to ensure the easy availability of essential commodities to customers and to shield them from mistreatment by dishonest traders. The Act provides for the regulation and control of production, distribution and pricing of commodities which are declared as essential for maintaining or increasing supplies or for securing their impartial distribution and availability at fair prices. Exercising powers under the Act, various Ministries/Departments of the Central Government and under the delegated powers, the State Governments/UT Administrations have issued orders for regulating production, distribution, pricing and other aspects of trading in respect of the commodities declared as essential. The enforcement/ implementation of the provisions of the Essential Commodities Act, 1955 lies with the State Governments and UT Administrations.

This Act provides, in the interest of the general public, for government control over the production, supply and distribution of essential commodities which are listed. These commodities fall into three classes (Sengupta, 2009):
1. Food items
2. Raw materials for industries
3. Products of the centrally-controlled industries.

Buy These Notes in PDF Format

The Central Government is authorised to declare any commodity as a vital commodity for the purpose of the Act. The Government has now itemized over sixty commodities as essential commodities. In this Act, essential commodity means any of the following classes of commodities:
1. Cattle fodder including oil cakes,
2. Coal including coke and other derivatives
3. Component parts of automobiles
4. Cotton and woollen textiles
5. Drugs
6. Foodstuffs including edible oils
7. Iron and steel,
8. Paper and newsprint

9. Petroleum and petroleum products
10. Raw cotton
11. Raw jute
12. Any other class of commodity which the Central Government may declare to be an essential commodity for the purpose of this Act.

Under essential commodity act, all power emanates from the central government and state government or the authorities subordinates to it acts as the delegate of the centre within the scope of the authority assigned to it and subject to any condition imposed or directions given by central government regarding the exercise of the delegated powers. This enables the government to keep an overall control over various state governments and also create uniformity of practice all over the country (Sengupta, 2009).
With reference to unparalleled rise in prices of some essential commodities in the mid-2006, it is necessary to take immediate steps to alleviate the rising trend of prices of essential commodities. Representations from the Chief Ministers of Punjab and Delhi and also from the Governments of Andhra Pradesh, Rajasthan and Maharashtra were received for restoration of powers under the Essential Commodities Act, 1955 for undertaking dishoarding operations in view of the supposition that there is speculative holding back of stocks specifically of wheat and pulses in expectation of more increase in cost.
Central Government has already taken numerous steps to control the price rise in essential commodities by trying to increase supply including through imports by reducing the duty level on import of both wheat and pulses to zero. The situation of price control was re-evaluated by the Government and it was decided with the consent of the Cabinet to keep in abeyance some provisions in the Central Order dated 15.2.2002 for a period of six months with respect to wheat and pulses so as to tackle the crises on availability and prices of these commodities.
In order to facilitate the State Governments/UT Administrations to continue to take effective action for undertaking de-hoarding operations under the Essential Commodities Act, 1955, the price situation was further revised by the Government and it has been decided with the approval of the Cabinet to further enforce similar restrictions by keeping in abeyance some provisions of the Central Order dated 15.02.2002 for a period of one year with respect to edible oils, oilseeds and rice, so as to tackle the rising trend of prices as well as to ensure availability of these commodities to the common people. Though, it has also been decided that there shall not be any restriction on the inter-state movement of these items and that imports of these items would also be kept out of the purview of any controls by the State Governments. To summarize, it is responsibility of Government in any country to ensure impartial supply of essential commodities to people at reasonable prices. Government has to fix prices of commodities when there is huge production or if there is scarcity of products. It will help to distribute the commodities in appropriate time to right person.