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Why having a Maximum Retail Price on a Product is a Socialist Idea and Bad for the Indian Economy?

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ABSTRACT

In a capitalist society, the market uses the rules of supply and demand to set prices. For instance, a firm that wants to make money would raise prices as the demand for coffee rises. Tea growers would face reduced pricing and a decrease in overall production if society's taste for the beverage decreased simultaneously.

Keywords-- Retail, Product, Economy

I. INTRODUCTION

Some suppliers could even stop doing business in the long run. The amount produced more or less meets the public's demands since buyers and sellers agree on a new "market-clearing price" for these items.

In a truly socialist society, the government would be in charge of setting output and price levels. Aligning these choices with customer demands is a difficult task. Oskar Lange and other socialist economists have suggested that central planners may avoid significant production inefficiencies by adjusting inventory levels. Therefore, an excess of tea in stores indicates that prices should be reduced, and vice versa.

India is the only country where it is customary practice to print MRP on all consumer items. Sri Lanka, maybe. MRP was developed with the laudable goal of protecting the consumer, as with other excellent initiatives that have outlived their usefulness. In the good old days of socialism and managed production, this approach was developed when demand was far higher than supply.

In 1990, the Ministry of Civil Supplies' Department of Legal Metrology amended the Standards of Weights and Measures Act (Packaged Commodities' Rules) to add the maximum retail price (MRP), which is written on every packaged good that customers buy (1976). The government developed the idea of MRP to stop manufacturers, merchants, and retailers from taking advantage of helpless, defenseless consumers. Technically, overcharging was meant to be avoided by a printed MRP. This argument seemed reasonable at first glance. However, there is a straightforward technique in economics for preventing unethical behavior.

The marketplace is what it's called. What should be handled by market processes cannot be handled by the law. This realization led to liberalization as a result. India changed from being a managed economy to one with a free market throughout time. The MRP is one of these repulsive remnants of the past, though.

The seller did not spend on luring the buyer in the past since there was no market mechanism to remedy unfair trade practices. No matter the cost or the packaging, one bought what one could. Today's consumer is spoiled for choice and swarms to big-box stores to take advantage of the numerous deals and discounts they provide. The client will pick the chain supermarkets, which are available in nearly every medium-sized town in the nation, over the neighborhood grocer that offers everything at MRP because of their selection, size, and pricing.

How often do we go to the neighborhood kirana store late at night, right before closing, and order a few Coke cans or a loaf of bread? The grocer is not authorized to charge for this extra service when sending these items home. In the way is the dreaded MRP. It doesn't permit a premium for the services provided. Law mandates that tiny businesses offer products at the same MRP as your big-box supermarket.

The private ownership of the means of production and the market trade is viewed as natural things or moral rights by economic liberals and pro-capitalist libertarians, who hold them as essential to their notions of freedom and liberty. They consequently view economic planning, cooperatives, and public ownership of the means of production as violations of liberty. Some of the main objections to socialism include the notion that it produces distorted or nonexistent price signals, reduces incentives, decreases prosperity, has poor practicality, and has adverse social and political impacts.

Neoclassical school of economics critics attacks state ownership and centralization of capital on the grounds that these actions reduce overall economic welfare for society because state institutions lack the hard budget constraints that allow them to act on information as effectively as capitalist firms. Due to the lack of price signals and a free-price system, which they claim are necessary for rational economic calculation. Austrian school economists contend that socialist systems based on

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economic planning are infeasible because they lack the information to perform economic calculations in the first place.

II. CONCLUSION

In the past, producers either provided a maximum retail price (taxes included) or provided the retail price (excluding local taxes). The shops profited excessively by utilizing the second choice.

Given the above, the Ministry of Civil Food Supplies introduced amending legislation in 1976 to safeguard consumers by setting a maximum MRP.

Effects: Introduced during the pre-liberalization era, this focus is encouraging price fixing and, as a result, demonizing competition. But from the beginning, there have been a number of oddities with this, including:

- MRP is solely established for packaged goods; services are not.
- Because essential items don't come in packaging, they are not subject to MRP fixing.
- In venues like theatres, airports, high-end restaurants, etc., commoners sometimes pay more than the MRP for a variety of goods.
- Shopkeepers may impose extra fees, such as the "cooler/freezer tax," when customers purchase bottled water or chilled beverages.
- Selling goods for more than the MRP is a crime in India, which may be the only country to do so. The state government is still responsible for carrying out this inspection, but it is encouraging rent-seeking.

Socio-economic effects: According to many, it is necessary:

- To safeguard customers from rural areas since they do not have as many alternatives as consumers in urban areas.
- To safeguard the rural inhabitants, who are uninformed of outside events.

MRP fixation may have been carried out for the aforementioned reasons. Still, in the modern world, when internet and smartphone technologies have nearly reached every part of the nation, this argument is no longer valid.

- Information on commodity pricing is readily available to the public via mobile devices.
- Because of the additional delivery expense, shops in remote areas are less likely to hold big inventories, giving customers fewer alternatives.

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