# Weekly Notes

## *Steel Control*

THE harder the Minister for Steel tries to get Others to make up his mind on steel control for him the more difficult the task seems to become, When the Raj Committees final report was submitted in October last it was expected that a decision would be taken before the end of the year, Subramamam himself told the Steel Advisory Council in November that he would announce his decision ' soon .' He then proceeded to refer the Committee's report to steel producers who failed to agree among themselves *on* the Committee's recommendation that the producers' prices should be fixed by a joint committee of the producers, subject to the approval of the Government. The private steel producers wanted to dissociate the Government completely from the fixation of producers' prices. They suggested instead that a board on the British model should be set up to take over the functions of the Iron and Steel Controller and to deal with matters of policy, including price fixation.

Unable to secure agreement among the producers, Subramaniam fell back on his officials and appointed a committee of top brass from the Ministries of Steel, Economic Affairs and Coordination and the Planning Commission to report on the Raj Committee's report. This Committee has now concluded its labours but judging by newspaper reports, it has not made Subramaniam's task any easier.

Should control aim at making steel available to consumers at fixed prices or should the aim be to ensure that essential industries and users get their steel on a priority basis ? Taking the view that 'a rational control system' should aim at the latter, the Raj Committee attaches the greatest importance to the determination of 'essential' consumption and to the administrative machinery following up every priority indent up to the point of final delivery. Once the priority demands are defined and met, the task of allocating the remaining supply among consumers is to be left to free trade channels. There is to be no attempt to control the price and even priority consumers will not get any price preference.

The Raj Committee found — and with this the committee of officials reportedly agree — that the present controls on prices and distribution have failed in their purpose which is to matte steel available to the consumers at controlled prices. Though prices are fixed, all the way through many layers 01 distributors, it is impossible to ensure that the actual *save* paces conform to Government-fixed prices at the different stages, except at that of the first safe by the main producers. In tact, the prices actually enarged to the final consumers, except to those who get their steel directly from the producers, are not the controlled prices, but prices determined by demand and supply. The Raj Committee, therefore, limits price control to the first sale by the producers and leaves subsequent distribution to the market. Even the first sale prices are to reflect free market prices and are to be fixed by a joint committee of producers which will be in a position to adjust prices from time to time according to market conditions.

The committee of officials has recommended, however, that while categories of steel in relatively easy-supply should be decontrolled, ' strict control' should continue on categories which are in short supply. Now, the control-vs-decontrol issue is relevant only in regard to categories which are scarce and the officials' position is thus diametrically opposed to that of the Raj Committee. But even if he decides to continue the hopeless battle to sup. ply steel at Government-fixed prices, Minister Subramaniam can hardly persist with the present system of control — so thoroughly has it been discredited by the painstaking investigations of the Raj Committee. What changes will he make, and when ?

## *Industrial Profits*

TO supplement the series on industrial profits which Reserve Bank has been publishing so far, the December 1963 issue of the *Bulletin* has added two gets of indices which cover private limited companies. These index numbers with 1955 as the base year relate to gross profits including depreciation, profits before tax and the ratio of gross profits, excluding depreciation, to total capital employed. Such data had not been available for private limited companies hitherio; even now they are presented in a lump; the break down by 17 industries is given only for public companies,

A serious deficiency in all Reserve Bank studies of corporate profits is that some of the concepts of profits and profitability employed are different from those which are understood and applied by businessmen. There is, first, the concept of total capital employed, which the Reserve Bank identifies with the balance sheet total. The more general definition of capital employed, which is accepted by the Tariff Commission also, is net fixed assets *plus* net working capital (i e current assets *minus* current liabilities), which is roughly equal to the sum of paid up capital, reserves and loans. Second, and more important, is the computation of profit. The Reserve Bank's principal measures of profitability are 'net earnings after tax on net worth, gross profit on sales and gross profit on capital employed. None of its studies of company finances and profits give the cash earning ratio, which businessmen regard as crucial. A net earning after tax of about 10 per cent on net worth, which is the average profitability shown in Reserve Bank studies, contrasts sharply with the 25 to 30 per cent earning (monev back in three or four years) which Indian businessmen and their foreign collaborators regard as fair or Viormal. The market concept of profitability relates to profits after tax but before depreciation to the total investment, equity as well as loan. It would be worthwhile for the Reserve Bank to add this series of ratios and present them in the form of index numbers.

To come back to the index number of gross profit to total capital employed, it is clear that private companies, which are engaged mainly in trade, have done much better and more consistently than public companies, which are engaged mainly in trade have done much better and more consistently than public companies, which are engaged mainly in industry. The index for public companies stood at 100.4 in 1961 (1955 = 100) after a downward plunge in 1957 and 1958, while that for private companies went up consistently to 170.8. Those of the public companies which engage in trading shared the trend for private companies; their index stood at 143 in 1961. The inference to he drawn from this, however, is not so plain as it appears at first sight, for many business groups consciously and deliberately siphon off some part of the profits of their public companies to close, ' owned' trading companies within the group which are private limited.

The negligible increase in the profitability of public companies over the period 1955 to 1961 was due mainly to the substantial decline in the profit ratios in plantations, sugar, iron and steel, mineral oil, cement, paper and shipping. The industries which improved their profitability were vegetable oils, all textiles, engineering, chemicals, matches, and trading. The most significant increase in profitability was recorded in silk and woollen textiles, and chemicals; their respective index numbers in 1961 were 208 and 161. Why should one be surprised, then, if the actual pattern of private investment tends to be different from what is intended in the Plans?

### *Unrest in Ceylon*

THE problems of Mrs Bandaranaike have recently assumed a more gloomy aspect. Things have not yet assumed the pattern preceding the abortive coup of early 1962, nor do they justify a return to the Emergency, but nevertheless substantial grievances are visible. Last August's budget touched off frictions in the Government Party over Finance Minister Hangaratne's alleged failure to cope with rising inflation. Colombo Municipal elections in September (which went to the rightist United National Party) sharpened the criticism, and the trade unions became increasingly restive under the wage-freeze. To this purely economic stimulation of the trade unions has subsequently been added the split in the Ceylonese Communist Party which leaver the militant Peking-inclined trade union leaders to work independently of the Moscow-inclined Communist Party leadership. At the end of the year, port clerical staff struck, and some 13,000 other white-collar workers subsequently came out in solidarity — such that on January 9 the Government was forced to issue a straight ultimatum to the unions.

But this was not the only sign of unrest. The loss of a Government stronghold in a by-election at Nikawaratiya (again to the United National Party) precipitated an angry Party meeting in which Ministers were shouted down, and ordered to resign if they could not stabilise the cost of living by next April. The Government's response to all this has been to press on with its elaborate Ceylonisation measures (including the new nationalisation moves) and the linguistic reforms to enforce national unity. On January 1 general insurance and domestic petrol and petroleum products distribution points were nationalised, and Sinhala replaced English as the national language.

The nationalisation measures were part of the general Ceylonese attempt to control the economy and provide opportunities for the Ceylonese — they cover two of the most profitable interests in Ceylon and are thus not an encouragemerii to foreign investors to come to the island for new ventures. Henceforth, the State petroleum corporation will maintain all petrol stations, and private companies will be restricted to the sale of aviation spirit, bunker fuel and lubricants. American protests have been strong, particularly after the earlier experience of Ceylonese nationalisation (which led to the suspension of U S aid), but the British have been more circumspect, primarily to protect their extensive interests in the plantations, even though they claim that here the State already takes some 90 per cent of the profits in taxes or export duty.

While compensation was offered to the oil companies, it has so far been refused to insurance companies on the grounds that no physical assets are involved. Some fifty or so companies are affected (10 Ceylonese, a few Commonwealth, American and Swiss, and the rest British). The measure follows the 1961 appropriation of all new life insurance by the State Insurance Company, In addition, banks have been warned to behave (whatever that means in such contexts), and measures are afoot to Ceylonise the export-import trade. At present about half the import trade is controlled by foreigners although the State reserves to its nationals the right to trade with the Eastern bloc and in certain key commodities. It is proposed to set up a State Trading Corporation. In the coming year, some 175 non-Ceyloncse textile importers have been excluded from the trade; and on January 10, a new 10 per cent tax on remittances abroad for the maintenance or transfer of assets was introduced, along with a 20 per cent tax on the purchase of foreign exchange (or tickets for foreign travell. All this will have its effect on the Indian nationals on temporary residence permits in Ceylon who number some 5,688 of the 6,679 foreign nationals employed in the private sector. In addition, the problem of the almost seven lakh ' stateless' persons remains.

### *Leftists Divided*

THE linguistic approach to unity has received its 'final solution'. While the DMK is still officially prohibited, the Tamils still have their Federal Party and Jatika Vimukti Peramuna, both of which have been active in opposition to the introduction of Sinhala. On October 1, the Federal Party launched a campaign of civil resistance, demanding a boycott of all who follow the Government policy in the Tamil areas, and culminating in a mass demonstra. tion against the official Language Act at the beginning of this month. Many— some 1,110 Sinhalese and 848 Tamils — in the Civil Service have availed themselves of the opportunity to retire with full pension rights (on the grounds of. lack of proficiency in Sinhala).

The sharpness of the left opposition attack, however, has been increasingly blunted by the split in two of the three parties comprising the United Left Front, announced with much flourish in August. In November, the left Communists, expelled from the Party, decided to convoke the Party Congress (postponed since December, 1962) in defiance of the central committee majority; and when the Trade Union Federation held its annual session in