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