THE BUSINESS WORLD

(667)

Costs, Wages and Work-Loads

BY CROESUS

WHEN a seasoned business man complains that, notwithstanding a dividend of 12 per cent, subject to deduction of tax—now all dividends are under a like disability—and despite higher profits, the results in a given year are disappointing, many may wonder how this could be. And when they are further told that this remark applies to last year's (year ended July 31, 1960) performance of the Associated Cement Companies, Ltd., they may wonder still more. But truth, as the old adage goes, is stranger than fiction, and, for unbelievers, if any, even after this assurance, I would advise a careful study of the speech of Mr Dharamsey M. Khatau, Chairman of the A.C.C. at the Company's twenty-fifth annual meeting. Without fully weighing the debit and the credit sides of the picture, he would never have gone on record, which he did last week, as saying that, as regards the future outlook for the Company, he was as much at sea as the shareholders. This is a depressing matter not only for the A.C.C. or the cement industry, but for the corporate sector generally. It was with this thought weighing in my mind that I emerged from the first important annual general meeting of the new year. I also decided simultaneously to devote this week's despatch to an enumeration, if not a detailed examination, of the several factors that must have combined to make the customarily genial chairman of the A.C.C. so cussed as he seemed to me at the meeting this year. Perhaps that also explains some of the most outspoken observations I have heard these days from any company chairman, least of all from Mr Khatau.

The first of such factors is undoubtedly the frustration that overtakes an industry when, even with an adequate installed capacity and no dearth of demand, it is not enabled to take full advantage of the improved demand. This has happened to the cement industry generally and to A.C.C. in particular. The reason? Shortage of railway wagons leading to acute shortage of transport for coal ("a number of our works were obliged to curtail production for want of coal supplies towards the end of the year under review") inwards and of cement outwards. According to Mr Khatau, "the transport situation still continues to be grave," although the authorities are doing all they can and the A.C.C. itself has appreciably increased its despatches of cement by road.

The second factor is the "future increase in the cost of various materials, enhanced railway freight, a further rise in the cost of coal and power, higher incidence of labour costs, etc. The incidence of depreciation was also higher on account of the high capital cost of expansion and rehabilitation projects. This, by itself, is understandable, if not beareable, but the fact is that "the major increase in costs which have been responsible for the progressive reduction of profits from year to year over the past few years have been due to factors entirely beyond the control of the Company." They are, in Mr Khatau's own words, again, "the direct consequence of Government's own fiscal, monetary, labour and welfare policies, in an attempt, on the one hand, to implement the second Five-Year Plan (which many of us regarded as extravagant) and, on the other, to move nearer to the goal of a socialistic pattern of society (which, at this juncture, most of us consider impracticable)."

The third factor is that, when the Government itself has recognized that the increases in cost thus are beyond the control of the company or the industry concerned, and even undertakes to provide for them in determining the price, it fails to fulfil this assurance or do so only partially, for reasons best known to itself. In computing the incidence of the labour cost per ton of cement (consequent on the implementation of the recommendations of the Cement Wage Board), for instance, the installed "rated" capacity has been taken as the base, instead of the actual production which was considerably lower. Similarly, while compelling the industry to use second hand jute bags for packing cement, the Government has conceived (as an average price for packing in new bags and used bags) a price so low that "it makes the whole scheme both impossible of performance and grossly expropriatory."

Again, it is one thing if the increases in costs to be taken for the purpose of fixing prices are arbitarily supplied by the industry concerned but quite another if these are meticulously worked out after minute study by a statutory body such as the Tariff Commission. Normally one would expect the authorities to accept the findings and also implement the recommendations, of such an impartial agency. Had this been done, no occasion would have arisen for Mr Khatau to say that "the Government's failure to implement the last Tariff Commission's recommendations concerning the retrospective operation of the enhanced retention price fixed in 1958 and the need to alter that price with every change in the cost of coal" is "reprehensible." No less reprehensible is the practice of taking decisions affecting the prices of any commodity after once the Tariff Commission is seized of the question.

These are merely by way of illustration, which is all I can do within the limitations of space and time at my disposal, but the list can be enlarged further. What I have catalogued, however, are serious enough to have driven the A.C.C. Chairman to declare "......I feel bound to say, with all the emphasis at my command and with a full sense of responsibility, that the recent policies of

Government affecting this major industry are fraught with grave consequences to its future and to the early satisfaction of the country's urgent need for cement."

I must now turn to two other important points of general interest to the entire corporate sector made by Mr Khatau—the concept of a "fair net distributable return" as distinct from "a fair return" and the real significance of the Wage Board approach to a solution of the problems of wage fixation. These, again, involve broad questions of policy applicable to every industry.

At the outset alone, Mr Khatau indicated in his speech that the dividend recommended by the A.C.C. Board was "by no means a fair return on shareholders' capital." Accordingly, the Company proposes to urge before the Tariff Commission that the "fair return" on the capital employed in the cement industry should be conceived as a "fair net distributable return," after meeting all items of cost. It may not be known to many that, in the so-called "fair return," to the cement industry today, such items as full charges for packing, commission payable to stockists, bonus and accruing gratuity to employees, remuneration payable to managing agents, development rebate reserve and company taxation are excluded from the overall "cost" of cement. "To admit, on the one hand, that the industry is entitled to a fair return on capital employed, but to insist, at the same time, that, from this return itself, the industry should, in effect, meet the cost of the items to which I have just referred is, as the A.C.C. Chairman rightly described, "a contradiction in terms." That apart, it results in the industry being left with a net distributable return as in the case of the cement industry, which can be hardly described as fair. How far the Tariff Commission will persuade itself to accept this view is more than I can say, but I have no doubt whatsaever that the view requires to be carefully examined in the interests of this country's industrial development. No industry, least of all a basic industry like the cement industry, should be allowed to nurse feeling that it is possibly being singled out for harsh treatment, or that there is no clear understanding of its problems by the Government, or that there is some other motive influencing the Government's attitude towards it.

As regards Wage Boards, now that these boards have come to stay, it is just as well that some one like Mr Khatau thought of the real significance of this approach to resolve the complex problem of wage fixation and also looked into the vital question of whether all wage boards have been scrupulously following the Central Government's terms of reference to them. From what the A.C.C. Chief said, it seems doubtful whether the latter is being done. Indeed, his charge was: "It seems to me that the Wage Board has, for all practical purposes, ignored the importance of fair work loads as an essential element in any fair wage fixation." Although he did not say so in as many words, Mr Khatau must be feeling whether it was at all prudent on the part of the A.C.C. to have gone ahead with the implementation of the Cement Wage Board's recommendations at most of the Company's works, "without waiting either for the actual realization of the revised retention price or the assessment of proper work-loads." On both the counts, it is unfortunate, the A.C.C.'s fine gesture has not been reciprocated.

Now, for reasons best known to itself, although the Government has accepted it in principle, it does not seem to be very keen on making the assessment of proper work-loads a precondition to the enforcement of wage board awards. Besides being contrary to the specific stipulation to this effect made by the Fair Wages Committee, it is an invitation to other industries, on whom wage boards may be imposed by the Government in future, to insist on proper work-loads being worked out before they agreed to abide by the decisions of any Wage Boards. It is not clear why the Government has chosen to relegate work-load studies to a secondary stage of importance thus, when it has itself (not to speak of the Planning Commission) proclaimed ere now that "higher productivity is the only sure basis of prosperity and well-being of the workers." One thought everybody had realized by now that the productivity of Indian workers is very much lower than that of workers in other industrialized countries. In any case, it is high time that the authorities at least realized that raising the wages of workers, unaccompanied by a corresponding assessment of fair work-loads or a rise in productivity, is "a dubious and somewhat self-defeating device," especially in a developing economy.

Business Notes

Power

LIGHT ON KOYNA

ALTHOUGH THE State of Maharashtra — the third biggest State in the Indian Union, both in area and in population—is predominantly agricultural, the State is bound to rank quite high industrially also, what with a number of important industries, such as engineering, sugar, cotton textiles, chemicals and a host of others, being already there, and many more industries still expected to be started. Fortunately for the industries, the generation and consumption of electrical energy—an important index of economic growth—is fairly high. Thus, the per capita power generation in the State of Maharashtra is about 71.1 kw., as against the all India figure of only 27.1 k.w. The position is expected to improve further, thanks to new State projects like the Koyna Project.

Addressing the first meeting of the Bombay Chapter of the Society for International Development last week, Mr S. G. Barve, Secretary, Maharashtra State Irrigation and Power Department, chose this project - one of the largest hydro-electrical projects under execution in the country - as the theme of his inaugural talk. The Koyna Project has certain outstanding features from the technical and engineering point of view, Mr Barve said: "It is the only project in the country and one of the two in the whole world where the entire works, apart from the storage, that is to say the head race, pressure shafts, power house, tail race and other elements, are all underground. Also in the construction of the dam wall of the project rubble concrete is being used for the first time in the country, thereby effecting a substantial economy." The project, which is designed to have an installed capacity of 650,000 kw. (approx.) will be executed in three stages. The first stage of the project, which is estimated to cost Rs. 38 crores, will be completed by the end of 1961, with an installed capacity of 240,000 kw. The second stage of the project is to be taken up in continuation of the first, making available an installed capacity of an additional 300,000 kw. by the end of the Third Plan period. The balance of 100,000 kw. is to be undertaken from tail race utilization of the Koyna storage. After completion of the entire project, Mr Barve said, the Koyna power would probably meet the requirements of the mounting demand in the Bombay-Poona area for over perhaps the next 6 or 7 years.

Briefly, the project consists of a gravity type dam across Koyna, where a storage of 73,000 M.Cft. would be