

ties concerned with the foreign trade of the United States, a field in which the U S Administration has been making special efforts to bring about an improvement of the existing surplus as an instrument for strengthening the dollar. If a rise in the price of steel had raised the prices of automobiles for instance, there might have been an upsurge once again in U S imports of small cars from Great Britain and the Common Market countries, while there would probably also have been a fall in the exports of automobiles and automobile parts to Europe. The whole policy of the U S Administration, therefore, hinged on the maintenance of the price of steel at the present levels and the action of the steel companies, therefore, threatened the success of that policy.

Mr Kennedy acted swiftly by ordering a Grand Jury investigation of the way in which the steel companies raised prices in a concerted fashion contrary to the provision of the antitrust laws. At the same time the Defence Department, which would have been directly affected by the increase in the price of steel announced its decision to restrict its purchases of steel to those companies which did not increase steel prices. A Congressional investigation of the whole affair was also threatened and the steel companies evidently thought discretion the better part of valour. They, therefore, announced their decision to return to the original prices of steel even though they insisted that their case for increasing prices was strong. It must be admitted that the price of steel has remained unchanged since August 1958. though there have been a number of wage increases since then. It is claimed, however, that the wage increases have been absorbed by increasing productivity in the industry and have not lowered profits. The fact remains that the pattern of the industry's behaviour was suspect in the eyes of the general public which is reported to have given its full support to the Administration on this question. Many businessmen pointed out that an industry may be forced to raise prices when its costs rise but this argument did not find sympathy with the general

public because of the particular circumstances in which the price increases were brought about.

The success of the President in getting the steel companies to rescind the price increases provides a measure of the power which the American President possesses to implement his policies provided he is determined to do so and has the support of the general public in his actions. In this particular case, the President appeared to have the support of a Democratic Congress which has not always been with the President in the implementation of his other policies. Politically, the whole incident will strengthen the hands of the President. This is of considerable importance at a time when there is so much controversial legislation sponsored by the Administration still pending before Congress or yet to come up before it.

Management and Accounting

WHAT is the true purpose of accounting in a business? Should the accountant content himself with recording the financial transactions of the company with the objective of preparing at the end of the financial period the usual set of accounts for statutory and historical purposes? Of course, it is never completely so. since rudimentary extrapolations of present costs and performance consciously or otherwise influence even the most unenlightened decisions about the future of a business. But in a modern, streamlined organisation like Hindustan Lever, the work of the accounts department only begins with the maintenance of the conventional records.

In his address to the Annual General Meeting of the company, Shri P L Tandon, Chairman of Hindustan Lever, draws a distinction between maintenance accounting and management accounting. The former is concerned with maintaining historical and statutory records, while it is the task of management accounting to provide management with an efficient information and advisory service.

What precisely is management accounting? Shri Tandon defines it as the provision, analysis, reporting and discussion of accounting information as a guide to

management in the day to day running and, what is becoming increasingly more important, in the future planning of business. There are, of course, the annual estimates and budgets for the coming years which forecast production, expenses and sales and work out likely profits and the yield on capital employed and chart out the likely pattern of cash flow. Based on the annual estimates is a variety of returns prepared at different intervals to meet the specific requirements of each department's management. There are, for instance, monthly profit and loss reports to the board, reports on weekly and fortnightly margins to the marketing management and even daily reports on raw material yields to the production department.

Shri Tandon also referred briefly to the cost concepts applied by his company. How does a company like Hindustan Lever which makes a variety of products, many of them closely allied and competing with one another in the market, calculate the cost of each individual product so as to cover not only those costs which vary with production and are therefore simple to calculate but also the 'fixed' costs like marketing and administrative overheads, advertising and the annual charge on capital employed? The answer is that this is not done. For individual products only the varying costs are calculated; the overheads are apportioned out only among groups of products. Thus for any particular product the margin is arrived at after deducting only the variable costs: for a group of commodities, however, sale proceeds must cover both variable and fixed costs and give a sufficient return on the capital employed in producing and selling the products.

The functions of the accounting department do not, however, end with reporting on the company's performance to the production and sales managements. They extend further to advising on development...from introduction of new packs and products to initiation of new projects. Are we then heading for a stage when accounting will displace management or, at the very least, dictate what policies the management shall follow? Shri Tandon

does not think so, for though the management bases its decisions on the accounting information supplied, it considers also broader economic factors and may often decide to undertake projects with longer pay-back periods than the norms of short-period accounting may justify. Even broader "social objectives" are not ignored according to Shri Tandon, though he does not say what social objectives influence the decisions of a mammoth company like his which produces and markets a wide range of articles of every day consumption and controls the major share of the markets for many of them.

Ceylon Petroleum Corporation

CEVKKAL Asian and African under-developed countries are pursuing consciously or unconsciously certain aspects of the development policies adopted by India. For example, the establishment of a State-owned commercial bank as well as the nationalisation of life insurance business in both Burma and Ceylon are on the pattern set by India.

A recent example is the setting up of the Ceylon Petroleum Corporation on the lines of the Indian Corporation. The Ceylon Corporation is set up by the State to break the monopoly of foreign oil companies and will go into business in the last week of this month. It will initially supply oil to the Government departments: and supplies to the public will be undertaken at a later date.

It has been possible to start such a Government corporation because of the alternative *sources* of supply of oil from Russia, Rumania and the United Arab Republic. All these three countries are to supply oil at prices cheaper than those of the western oil companies.

In fact, the monopoly of the western oil companies has been completely shaken particularly after 1955 as a result of the Russian supplies as well as the Italian Government-owned ENL. Because of these, even in the setting up of refineries by the western companies, the under-developed countries are now able to get much more favourable terms. For example, the Burma Government was able to compel in 1960 the Burmah Oil Company not

to declare dividends of more than 6 per cent and that too after setting aside a substantial amount for oil exploration. Recently Thailand has allowed the Shell Company to start a refinery on condition that the ownership of the refinery will pass on to the Thai Government after ten years. Ceylon is at present negotiating with the Shell Company for starting a refinery and she is likely to get terms even more favourable to her than Thailand was able to secure.

The state of the world oil business has changed drastically since India entered into agreements with the western oil companies in 1951.

U K Balance of Payments

THE latest white paper issued by the U K Treasury on balance of payments throws interesting light on the U K's payments statistics. These statistics used to contain a large balancing item, representing the sum of unidentified receipts and payments; such a substantial balancing item made the payments statistics utterly unreliable. It was believed, however, that this item represented largely short-term capital movements and it was under this assumption that most of the policy conclusions were drawn from the payments data.

This assumption has now been found to be wrong. The Treasury has now been able to identify a pari of the unidentified receipts for 1961 as current income, notably commission on imports. And it has also found that a large part of the remaining receipts went into long term, rather than short term, investment. With all these adjustments, the current deficit for 1961 is only a little more than half of what it would have been — on the usual basis. Even the deficit of £70 million is illusory; for the Treasury believes that the unidentified receipts of £81 million represent current receipts. Thus the U K had a true current surplus during 1961 in spite of the sterling crisis.

The new statistics shed much more light on the capital account. There was a net surplus of £8 million on the capital account on the new basis. Of course, this surplus was largely on account of the prepayments of debts by Germany and France and the receipts from the

Ford take-over. But after allowing for these extraordinary items, the deficit on capital account comes to about £200 million, which, with appropriate adjustments, was more or less the same as during the previous two years. The interesting fact which emerges, however, from the new statistics is that long-term capital inflow — both in the form of direct investment and portfolio capital — is of a substantial magnitude and provides an offset to the gross capital outflow of about 1350 million. After all, the U K need not rely on merely the current surplus to provide an offset to its capital commitments. And, what is more important, this capital inflow, it appears, is largely the result of interest rate differentials. Thus a new dimension emerges for monetary policy; the capital account is amenable to deliberate policy measures. The 1961 capital inflow, particularly in the portfolio form, was largely on account of the July measures, which were also responsible for the true current surplus.

Selwyn Lloyd's Capital Gains Tax

THE city of London must have heaved a sigh of relief when the details of the Chancellor's proposal to tax speculative gains came to be known. It was in the air for quite some time that Mr Selwyn Lloyd had made up his mind to put a tax on capital gains. Naturally, the worst fears were entertained. It was feared that the Chancellor might be persuader! to tax all capital gains in view of the difficulties in distinguishing speculative capital gains from non-speculative capital gains. Worse, it was feared that Mr Lloyd might decide to tax capital gains as part of ordinary taxable income and subject it to income tax and sur tax at the same high rates.

Not that all genuinely entertained these fears, but the darkest pictures were painted. The intention, in some cases at least, must have been to deter Mr Lloyd from taxing capital gains *at all* — It was possibly a campaign to make him abandon the proposal altogether,

It must be said to Mr Lloyd's credit that he did not allow himself to be deterred by the propaganda. From the very outset he had made explicit his intention of bringing