

CHAPTER - II :CONCEPTS AND MEASUREMENT OF PROFITS
AND CAPITAL EMPLOYED

The main purpose of undertaking this chapter is to examine the various concepts of profits and the measurement problems faced while defining capital employed. The need for such an exercise arises from the fact that 'profit rate' on which the whole study is based; is itself a derived term. 'Profits' and 'Capital' are the two concepts from which 'profit rate' is derived. However, these two concepts themselves are highly controversial.

The choice of definition of profit depends mainly on the purpose of the inquiry, as it carries different meanings to different groups of people, e.g. entrepreneurs, tax collectors, workers, academicians etc. Similarly, when one comes to relate the profits to capital in order to derive profit rate, one has to take that concept of capital which corresponds well to the concept of profit. ~~Thus, we have attempted to choose the profit rate.~~ Thus, we have attempted to choose the 'profit rate' concept, through studying the conceptual and measurement problems involved in defining 'profits' and 'capital'.

I. PROFITS :

(A) Different Definitions of Profits :

1. "Economists' Index of Profit" as worked out in U.K. takes net profit as the amount of earnings left after deducting taxes besides other charges.
2. The Federal Reserve Bulletin, U.S.A., while preparing an index of profitability of large scale corporations in the U.S.A. defined net profit as "before dividends and after all charges including depreciation, interest, special reserves charges as expenses and all taxes.
3. Federal Trade Commission of U.S.A., defines profits as, "Earnings of a business unit less operating expenses and returns from outside investment. Interest on funded debt and federal taxes are generally included in the net earnings."
4. Taxation Enquiry Commission while examining some aspects of company finances in their report and the Reserve Bank of India in its publications on "Joint-Stock Company Finance," have defined profits in two ways : (i) Net Profit after deducting all charges as well as taxes (ii) Gross Profits which includes interest charges, Provision for taxes, dividends and retained earnings.
5. Sing A. and Whittington, G.¹ in their study have

¹ Singh, A. and Whittington, G. : "Growth Profitability and Valuation". Cambridge University Press, Cambridge, 1968, pp.25-32.

defined net profits similar to that defined in 4 above, and termed it as Post-Tax Rate of Return. However, their concept of gross profits included interest charges on long-term loans plus taxes plus dividends and retained earnings. They have excluded interest charges on short term loans from gross profits because they have excluded short term loans from the definition of capital employed.

6. G.J. Stigler² in his study defines profits as inclusive of interest payments, dividends on all types of stock, unadjusted profits less income taxes (and dividends received from other corporations).

7. Bowman, R.T.³ in his study on "Statistical Study of Profits" has defined profits as net earnings as computed before the payment of interest and federal taxes and has related it to the total capital equities.

8. Economic and Scientific Research Foundation⁴, while examining the performance of Top 200 companies in India, defines profits in two ways: (i) Gross Profits which are defined as Profits before taxation i.e. after deduction of manufacturing costs, wages and salaries, managing agency

2 Stigler, G.J.: Capital and Rate of Return in Manufacturing Industries, Princeton University Press, Princeton, 1963, pp.123-125.

3 Bowman, R.T.: "Statistical Study of Profits", Philadelphia, 1934, Ch.1.

4 Economic and Scientific Research Foundation (ESRF): A Guide to the Performance of Top 200 Companies, E.S.R.F., New Delhi, 1964, p.42.

commission, interest and depreciation but before development rebate reserve and certain other provisions like doubtful debts and contingencies. It consists of net surplus (before taxation) accruing to the company. (ii) Net Profits are defined as gross profits minus provision of taxation.

9. The Industrial Credit and Investment Corporation of India Limited (ICICI),⁵ while examining the financial performance of 671 companies in India in 1975-76, defines profits in three ways: (i) Gross profits as total income minus total expenditure. Hence, gross profits comprise of Interest Charges, Depreciation, Provision for Taxation, Dividends and Retained Profits. (ii) Profits before tax are defined as gross profits minus interest and depreciation (iii) Profits after tax are profits before tax minus provision for taxes. Thus profits after tax comprise of dividends and retained profits only.

While summing-up we can say that different institutions have adopted different definitions of profits according to their objectives. However, a closer examination of all these definitions indicates that the profits are mainly defined in three ways :

5 THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED: "Financial Performance of Companies, Portfolio, 1975-76 ICICI, August, 1977, p.203.

i. Gross Profits : These are defined as total income minus total expenditure. In other words gross profits mainly comprise of interest charges, provision for taxation, dividends and retained earnings. However, inclusion of depreciation charges depends upon the type of definition adopted for defining total capital employed. Hence, if total capital comprises of gross fixed assets, the depreciation charges are included in gross profits (i.e. ICICI definition) and vice-versa (see Definitions, 4,6,7).

ii. Profits Before Tax : These can be defined as gross profits minus interest charges on short term loans (definitions, 3,5). Thus profits before tax comprise of interest charges on long term loans, provision for taxes, dividends and retained earnings.

iii. Profits After Tax or Net Profits : These comprise of gross profits minus interest charges (all) minus taxes. In other words, net profits comprise of dividends and retained earnings (definitions 1,2,4,8,9).

From the brief summary of this type we can deduce that in the UK, USA or even in India, the most popular way of defining profits is found to be in terms of either gross profits or net profits. Why this is so would be seen when we would come down to the question of defining capital

employed to which these profits are related while computing the rate of profit.

(B) Fundamental Problems in the Definition of Profits :

However, a closer study of these definitions reveals that three fundamental problems are faced while defining profits :

- i. Whether profit should be taken before or after tax provision.
- ii. Whether interest charges on borrowed funds should be included in profits.
- iii. Whether non-operative income i.e. income from outside investment, should be considered as a part of profit. Let us examine these three problems one after the other.

i. The Problem of Taxation :

Whether taxes should be included in profits or not is determined by the purpose for which profits are studied. If the aim of the study is to compare the net return to the business, it is advisable to deduct amount of taxes from profits. This is so because, a business firm is more interested in the amount left after deduction of taxes, because, it is this amount, which decides the fortune of the business as well as the shareholders. Hence, studies dealing with incentive aspects of profit or competitive mechanism of

profit that guides the mobility of the risk capital have to focus their attention on the profit after taxes.

However, a comparative analysis of profitability, either inter-industry or among different countries, necessitates the inclusion of taxes in profit. Wide differences in the tax structure of different countries or different taxes for different industries make comparative study of profit rates (inter-industry or among different countries) difficult when taxes are excluded from profit. Hence, taxes should be included in profit for this type of studies.

Moreover, profit without tax does not measure the actual or real earning power of the industry.

ii. The Problem of Interest Charges :

Similarly, the problem of interest charges arises when the goal of study differs. As far as the entrepreneurs are concerned, interest charges on borrowed funds (whether long term or short term loans) is clearly a cost item. Hence, if one is interested in showing the profits earned on equity capital, one has to deduct all interest charges (on borrowed funds) from profits. However, if the intention of the study is to examine the earnings of total capital employed, the interest charges should be included in profit.

Moreover, capital structures of different companies differs from each other. Though the total capital employed in two different companies is of the same amount, the proportion of owned to borrowed funds need not be same. Therefore, if both the companies are earning equal amount of gross profits, their return on total capital would be same. However, a company with more borrowed capital will have higher return on equity capital than the one with less borrowed capital. Though the absolute amount of profit left after deduction of interest charges for the former company would be less than the latter, it would be divided by a very small amount of equity capital. To avoid this distorting influence of capital structure, it is advisable to use profit figure before interest charges and relate it to the total capital, rather than only to the net worth segment of it.

The RBI data provides information on interest charges (as cost) on borrowed capital only, while total capital constitutes both borrowed and equity capital. Hence, when interest charges are deducted, they are deducted for a part of the capital and not whole of it. Thus, either we should be able to impute it (i.e. interest) for the other part (which is rather difficult) or alternatively do not deduct interest charges at all.

Borrowed capital is acquired in two forms. On one hand, it is acquired in the form of long term loans and, is used for fixed assets formation. On the other hand, it is received in the form of short term loans and, is used for day to day requirements of the company.

Hence, the long term loan is treated on par with the equity capital and return on this capital,⁶ (i.e. interest charges on long term loans, are included in profit. Short term loans are considered as current liabilities and are excluded from total capital to eliminate their stochastic character (as current liabilities) at any moment of time.⁷

However, if the intention of the study is to make inter-firm or inter-industry comparisons of profit rates, treating profits as return on equity capital, exclusion of total interest charges is warranted. However, when the question of treating profits as return on total capital arises its inclusion is necessary. Similarly, if one aims at examining the return on capital of long term nature, one can deduct interest charges on short term capital from profits.

6 Equity Capital + Long term loans = Net Fixed Assets + Current Assets - Current liabilities.

7 Singh, A. and Whittington, G. : Growth, Profitability and Valuations, op.cit., pp.294-295, (References to chapters).

iii. The Problem of Non-Operating Income :

Non-operating income is defined as income accruing due to activities other than the sales of output of the company. It may include interest and dividends earned on the outside investment and administrative income such as transfer fees, transfers from dividend equalisation and, other reserves, credit for over provision of tax and receipts of capital nature etc. These sources of income being outside the productive activity of the company, should be excluded from total income, so that, we can arrive at a technically better measure of business efficiency.

(C) Profits Defined in This Study :

The discussion forwarded above leads us to the fact that there is no inherent sanctity in any definition of profit. The choice of the definition of profit depends solely upon the purpose of the inquiry. The business sector is interested in knowing that amount of profit which accrues to equity capital. Hence, from the point of view of an individual investor profits after tax or 'Net Profits' as proportion of 'Net Worth' is the best indicator of business performance. Net profit rate thus calculated, reveals how profitably shareholder's funds are employed to earn profit. The main tradition of economic theory asserts that entre-

preneur seeks to maximize the present value of his net worth, and that this usually implies under perfect competition ~~is~~ that, the rate of return on the entrepreneur's net-worth guides the allocation of new investment. Thus, competition among businessmen ultimately drives net profit rates among different industries towards a central value.

Thus, for indicating how such yield would one rupee invested in one industry give to the investor, we have chosen 'Net Profits' as our one concept of profits. We define ~~Net~~ profits in the following way :

1. Net Profits : Net profits are defined as total income minus total manufacturing expenses minus interest charges and taxes. Total manufacturing expenses include expenses on raw materials, fuels etc., wages and salaries, managerial remuneration, and depreciation. In other words, our net profits comprise ~~or~~ dividends and retained profits only. Interest charges on both long and short term capital are treated as cost items and are deducted from profits. Similarly, taxes are to be paid out of gross profits and what is left thereafter is the income of entrepreneur's invested capital. Hence, taxes also are deducted from profit.

However, this concept of profits reflects only entrepreneur's income and therefore is not adequate for explaining

the performance of the industry to the full extent. Hence the necessity of examining another concept of profit which is discussed below.

Our second objective is to examine the performance of the industry as a whole. This requires to take into account the total earnings accruing to the industry with available total capital. Moreover, the net profit being the return on equity capital, leaves the characteristics of capital lenders unexplained. Lenders also wish to maximize the present value of their future income, and differ from entrepreneurs only in placing a higher value on security relative to earnings. This would require to consider that amount of profit, which accrues to total capital invested, whether owned or borrowed. Hence the necessity of studying gross profits also.

ii. Gross Profits : Gross profits are defined as total income minus total manufacturing expenditure.⁸ In other words, gross profits comprise of interest charges plus provision for taxation plus dividends and retained profits. Since our capital concept comprises net of depreciation charges, we have excluded depreciation charges from gross profits.

8 For details See Appendix II.I(B) and II.III.

One more point to be noticed here is that our definition of net or gross profit excludes non-operating income but includes income from outside investment⁹ because our concept of capital includes outside investment also. This was done because of the great practical consideration given to the easiness of ascertaining these ratios from published accounts. These two concepts of Net and Gross Profits are then related to the appropriate concepts of capital employed viz., Net worth and total capital employed respectively. However, similar to the problem of definition of profit is the problem of defining capital. Before defining our concept of capital it would be useful to observe the main definitions of capital followed by different institutions.

II. CAPITAL EMPLOYED :

(A) Different Definitions of Capital Employed :

1. In India, the Taxation Enquiry Commission and the Reserve Bank of India, have defined total capital employed in their studies on company finances, as the total net assets of a business, i.e. net fixed assets plus all the circulating or current assets.

9 Moreover RBI data reveals that income from other sources in 1950-51 was below 2.5% for all industries (except Iron & Steel, Aluminium, Other Chemical Products, Cement & Pottery, China Clay etc.) and except Iron & Steel in 1960 and except Iron Steel, Aluminium & Ferrous/Nonferrous Metal Product in 1970.

2. The Federal Trade Commission in the USA, defined capital employed by adding to its capital stock, bonds, surplus, surplus reserves and minority interest by deducting therefrom outside investments, appreciation, goodwill and other intangibles.

3. In England, Monopolies Commission followed the following definition of capital. Total capital comprises of net fixed assets plus current assets (except goodwill) less current liabilities and provision.

4. R.T. Bowman in his work, "Statistical Study of Profits," defines total capital as net worth plus bonded and long term debt less intangible assets. This would be equal to net fixed assets plus inventories plus current assets less current liabilities.

5. Singh, A. and Whittington, G.,¹⁰ in their study define capital employed as ~~Net Worth~~ ^{plus} bonded and long term loan which is equal to net fixed assets plus current assets less current liabilities.

6. Stigler, G.J.¹¹, includes all assets in his definition of capital except outside investment.

7. ESRF¹² defines capital as net assets comprising of net

10 Singh, A. and Whittington, G.: op.cit., pp.25-& 32.

11 Stigler, G.J.: op.cit., pp.124-125.

12 E.S.R.F. : op.cit., p.28.

fixed assets investment, plus current assets less current liabilities.

8. The ICICI¹³ defines total capital employed as total share capital plus reserves and surplus and all borrowings i.e. Total net assets of the company.

The scrutinization of these definitions leaves us with three problems which are discussed below :

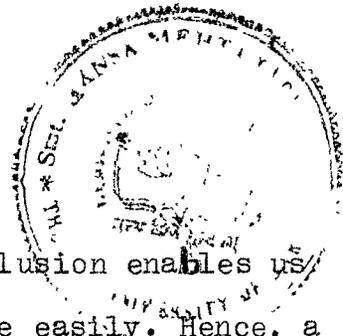
(B) Fundamental Problems Involved in Defining

Total Capital Employed :

1. The Problem of Outside Investment :

A technically better measure of operative efficiency of a business requires an exclusion of outside investment from the total capital employed. However, the income from these investments is a very small amount (even industry-wise) and is included in the total income in RBI published Income Statement. Hence, there is a great practical ease in including outside investment as a part of the total capital employed which tempted us to retain it. It is assumed that inclusion of other income in total income as well as that of outside investment in total capital employed would not change the results very significantly because of their small proportions

13 ICICI : Op.cit., p.204.



in the total figures. Moreover, the inclusion enables us to compute the profitability ratios more easily. Hence, a practical consideration tempted us to include them in our figures and to follow the definition of gross profit rate given by Reserve Bank of India.

2. The Problem of Intangible Assets :

The intangible investment is a dubious item and is likely to conceal the real picture of the investment in the business. However, ~~looking at~~ its insignificant proportion¹⁴ in total capital employed, and ~~justifying~~ the practical ease in its inclusion in total capital employed have compelled us to include this item in the definition of total capital employed.

3. The Gross Vs Net Working Assets :

The third and the most serious issue involved in the definition of capital is that of treating the circulating or the current assets in the definition.

The gross assets represent the total current-assets of the industry. Net working assets are defined as the net difference between the total current assets and current liabilities. Hence, the net working assets represent the earning power with the industry over and above the fixed

14 The RBI data reveal that the proportion of intangible assets in total assets was less than 1.5% in case of all industries except (Tobacco, Electrical Machinery and Cement in 1950-51 and for Tobacco for whole period) in the years 1950-51, 1960-61 and 1970-71. Moreover, the share of intangible assets is falling for all industries over ~~the~~ the period 1950-51 to 1974-75.

assets. Moreover, when a question of analysing the performance of the industries' earning power over a long period arises, the net working assets (plus net fixed assets) are supposed to be a better measure than current assets while defining total capital. Finally inclusion of net working capital in total capital is observed to be a most common definition used in comparing corporate industrial performance. Hence, the general prevalent opinion of including net working capital (i.e. current assets, minus current liabilities) in the definition of total capital employed though is well founded, we could not follow it due to the imperfections involved in the data.

The computation of net working assets requires that current liabilities be deducted from the current assets. Hence, bank loans which are a form of current liabilities also need to be deducted from current assets. We are unable to deduct these because our concept of profit includes interest charges on bank loans too. Since our data do not give separate information on short term and long term interest charges, it is not possible to deduct interest charges on (mainly bank loans) short term loans from profits. Hence, there is a logical compulsion of not deducting bank loans and other current liabilities from current assets.

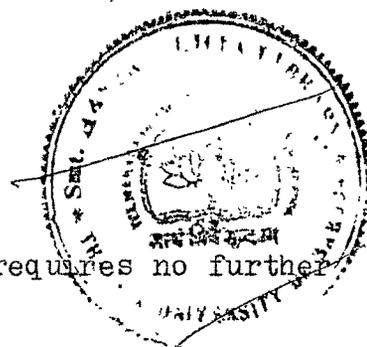
4. The Problem of Cash and Bank Balances :

Mr. M.C. Munshi in his "Industrial Profits in India" has computed the total Capital employed by subtracting from the total assets of a business outside investment and cash and bank balances. He argues that idle balances cannot be treated as properly employed in the business. However, this is erroneous because the idleness of cash etc. is momentary and hence it is deceptive. This is because cash is used for the current transactions in the business. Hence we have not deducted it from our capital concept. We have adopted following two definitions of capital in relation to the above given two concepts of profits.

(C) Capital Defined in This Study :

i. Net Worth : Corresponding to our concept of net profits (i.e. Profits after tax and comprising of dividends plus retained profits) we have taken the concept of capital termed as 'net worth'. This term is a non-controversial one and indicates the share-holder's equity capital. The Net worth comprises of paid-up capital (all ordinary, preference, deferred), premium, if any, on capital and all reserves except depreciation and taxation reserves.¹⁵ This concept of

15 For details of balance sheet please refer to Appendix : II.I(A) and II.II.



net worth being universally accepted requires no further discussion.

ii. The Total Capital Employed :

Considering all the points given above we feel that total net assets of the industry would serve as a satisfactory measure of total capital employed. The limitations involved in the nature of data and the simplicity and easiness in its computation have been responsible for our choice of 'Total Assets' definition of 'Total Capital Employed'.

Thus our concept of total capital employed is all inclusive and comprises of total net fixed assets and all current or circulating capital of the industry.

In short, corresponding to the concept of net profits we have taken net worth while gross profits are related to total capital employed. Thus, we have taken two measures of earning performance of the industry and have termed them as follows :

III. TWO CONCEPTS OF PROFIT RATE STUDIED :

(A) Net Profit Rate : Net Profit rate is estimated by calculating the percentage share of 'Net Profits' of the Industry in its 'Net Worth' (i.e. profits after tax as percentage of net worth). This concept of profit rate is an

indicator of the efficiency with which shareholders' equity capital is used to earn profits in the industry. It gives guidelines to the investors. However, this concept deals with only equity capital and leaves the characteristics of borrowed capital unexplained. Hence the necessity of defining and studying gross profit rate.

(B1) Gross Profit Rate : The term gross profit rate is derived by calculating the percentage share of 'Gross Profits' in the 'Total Capital Employed' of the industry. It is an indicator of the efficiency of employing all the capital for earning profits. It indicates therefore the return on investment. The return on investment concept is however derived by the product of two different ratios as follows :

$$\frac{\text{Profits}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Capital Employed}} \times 100$$

The ratio $\frac{\text{Profits}}{\text{Sales}}$ indicates the 'profit margin' while the ratio $\frac{\text{Sales}}{\text{Total Capital Employed}}$ indicates the 'turnover ratio of capital'. Hence the 'return on investment' concept takes into consideration both these ratios and is greatly affected by the changes in any one of these two ratios.

IV. ACCOUNTANTS VS ECONOMISTS CONCEPT OF PROFIT RATE :

The concepts of profit rate followed in the study are the ones adopted by the accountants while determining the

share of earnings over expenses in relation to the capital employed. Hence, our profit rate is calculated net of depreciation charges (Profits net of Depreciation as well as Fixed Assets net of Depreciation). This means that our definitions of profit rate have a number of limitations caused due to differences in accounting methods.

However, before going into these limitations, let us justify our choice of accountants concepts of profit rate. This requires to define the economists concept of profit rate and the difficulties involved in its calculation. Let us first look into these.

Economists Concept of Profit Rate :

The concept of profit evolved in economics has passed through a number of stages. A number of economists while explaining the distributive shares of different factors of production have defined profits in following ways :

1st Stage : Profit, an Income of the Capitalist

Entrepreneur :

The classical economists regarded profits as an income accruing to the entrepreneur who was capitalist too. Profits were considered to be the payment for a number of functions performed i.e. management of labour and capital, organisation and bearing of risk. J.S. Mill in his book on "Principles

of Political Economy", defined profits as an aggregate of the incomes as interest on capital, wages for management, and, reward for risk bearing.

II Stage : Separation of Interest Charges from Profit :

The industrial development of different countries brought institutional changes along with it. The modern institutions of finance, of borrowing and lending, enabled the entrepreneur to obtain the required capital to start a new venture. The interest charges on borrowed funds were then treated as cost item and therefore deducted from the amount of profits.

III Stage : Separation of Wages of Management :

With the further progress of the society, it was possible to hire adequate managerial skill by employing salaried managers. This called for treating management salaries as a cost item, hence its deduction from profits. Thus what was left out of the classical concept was the risk bearing function of the entrepreneur to which profits accrued.

Final Stage : Reward for Uncertainty :

Prof. F.H. Knight in his work on, "Risk, Uncertainty and Profit", brought a further refinement in the concept of profit by dividing risk into two parts, viz., measurable and

non-measurable. The risks which can be insured were to be omitted from definition because they could be measured. The amount of premium paid for such risks (e.g. risk of fire etc.) is treated as cost item and then deducted from the profits (III definition). However, non-measurable risks, or uncertainties as they are termed, cannot be predicted and hence profit is said to be the reward for taking such unpredictable risks. This concept of profit is generally referred to as 'pure profit' which exists only in dynamic conditions.

A concept of 'pure profit', as defined above, carries with it a number of problems when a question of quantifying it arises. The net profit as mentioned in the accounts of joint-stock companies consists of interest on shareholders' funds and the reward for uncertainty bearing. This is true only if we assume that all other factors of production receive income from the perfectly competitive system. If this assumption of perfect competition is impaired in actual reality, net profit may contain an element of monopoly revenue, fortuitious gains, rent of business ability, etc. There is no tool in statistical armoury which can measure and demarket these various elements to arrive at the abstract concept of pure profit.

However, if rate of interest on equity capital is imputed and deducted from net profits we can arrive at pure profit as defined above. However, a number of practical difficulties are faced when the question of imputation comes. They are as follows :

1. The first problem faced would be, which rate of interest be applied to impute the rate of interest on owned capital? Should we apply the same market rate of interest for all industries or should it be different? and why?
2. Secondly, since different industries borrow funds for different time periods, it is very difficult to get full details on interest charges (industry-wise).
3. Finally, the problem of measuring opportunity cost of capital would also crop in and would make the task more difficult.

Considering these problems and the difficulty of imputing interest charges on equity capital, we have decided to stick to the accountants concept of profits and profit rates. Hence, Prof. B.V. Mehta¹⁶ comments, "Specialisation of entrepreneurial function is not carried to anywhere near theoretical completeness in the business world.

16 Mehta, B.V.: Industrial Profits in India since 1946. Unpublished Ph.D. Thesis, Dept. of Economics, University of Bombay, 1960, p.38.

Moreover, the business practice of not deducting interest on entire capital reflects the importance attached to the entrepreneurial capital as against the borrowed capital." Considering all these problems, it was felt that accountants concept represents an idea of profit to some extent and hence was chosen for the study. However, this concept of profit and the two concepts of profit rate following this also, face a number of limitations which arise due to the methods followed for accounting. These are as follows :

V. LIMITATIONS OF THE STUDY :

1. The main limitation of the study follows from the definitions of the two concepts of profitability. Both, the net as well as gross concept of profit rate, overstate the actual profitability of the industry for two reasons. Firstly, fixed assets tend to be undervalued in company accounts in a period of inflation. Therefore, the denominator of the profit rate ratio is understated while, (Profits) numerator is overstated, because depreciation charges are very low (depreciation charges are accumulated amounts on fixed assets which are valued at historical prices). Secondly, companies give information on loans existing at the end of one year. Therefore, loans repaid (written off) within a short period of 3-4 months do not enter the final figures whereas companies

invariably give the full amount of interest charges as a total cost of loans (i.e. existing one plus written off loans). Therefore, if interest charges are included in the amount of profits and if there exist some loans which are written off it leads to overstating of profit rates.

2. Both the concepts of profit rate studied represent the financial ratios. Hence, they do not take into account the price variations.

3. Ours being a macro-level study suffers from a number of other limitations. First amongst them is that different industries work under different conditions and are affected in different ways by any event whereas a study dealing with inter-firm comparisons does not face this problem because all the firms in the same industry are generally affected in similar way by a certain event. However, there is no escape from this but to accept and work with this limitation.

Secondly, a macro level study of inter-industry comparisons compels us to compare the earning powers of the different industries with great differences in their age components. For example, the Cotton & Jute Textiles in India are nearly 125 years' old were as Medicines and Pharmaceutical Industries and majority of the capital goods industries are of recent

origin (25 to 30 years old). However, a comparative macro-level study cannot overcome the problems of this type.

Hence considering these limitations we proceed to analyse the problems discussed ^{earlier} ~~above~~, in the next chapter.
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