

OPTIMUM CAPACITY AND IMBALANCE OF CAPITAL STRUCTURE: THE CASE OF MACHINE MANUFACTURING INDUSTRIES

P. N. MATHUR, S. P. VALAVADE *and* M. V. KIRLOSKAR

I. *Introduction*

1. Under-utilisation of capacity in metal and machine manufacturing industries in India has become endemic by now. The industry is running below capacity at least from 1959.¹ This is an unfortunate situation in a developing country like India and this shows that the policy that led to this structure of capital creation has been not well integrated. An under-utilisation of capacity results in a higher capital-output ratio than is technically warranted. A developing country with a paucity of capital, as well as of foreign exchange by which to purchase it, can hardly afford this luxury.

2. It is high time that the extent and reasons of this under-utilisation are studied in detail. It may be either due to bottlenecks in production or paucity of demand for the products of these industries. Both these require detailed overall economic investigations. In a developing and planned economy it will be very surprising, indeed, to find that there is not sufficient demand for the products of machinery manufacturing industries both electrical as well as non-electrical. Something has gone wrong somewhere and a detailed investigation to understand the causes for these imbalances is called for. A detailed input-output analysis of the economy is necessary for this.

3. Apart from this overall problem there is a problem of the imbalance of equipment within a firm. In uniproduct industries like sugar, cement, etc. this problem does not show itself up. There, the concept of capacity is well defined. If raw material passes through n processes before becoming final product, the minimum of the capacities of these processes will become the capacity of the total industry.

¹ See Mathur, P.N., 'Unutilised Industrial Capacity' *Yojana*, Vol. VII, No. 20, October 13, 1963.