

SOCIAL COST BENEFIT ANALYSIS: A STUDY

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ABSTRACT

The term Social Cost Benefit Analysis (SCBA) was earlier used in project analysis but now it is very well used in the field of accounting. It is based on quantification of Social Cost and Social Benefits. This is very nearer to social accounting for an organization as Social Accounting is based on analysis of social costs and benefits. Social cost is the external cost which the society bears, rather than the owners of a firm. Likewise, social benefit is an external benefit which the society enjoys, rather than the owners of the firms. Thus, pollution is social cost which the society bears. On the other hand, expenditure on environmental improvement is a social benefit.

KEYWORDS: *Social Cost Benefit Analysis, Social Accounting, Social Benefit, Social Cost.*

Introduction

Social Cost Benefit Analysis is a process whereby a project is assessed for its social and welfare benefits as well as the financial return on investment. Examples of factors considered might be the environmental impact of an industrial plant or the convenience for users of a new railways. A major difficulty in SCBA is finding a method of quantifying net social costs and benefits. Basically, there are only two components of social cost benefits analysis i.e. social costs and social benefits and it also includes analysis of both to find out whether social benefits are more than social costs or not. But, it is difficult to understand meaning, concept and components of social costs and social benefits unless one understands meaning, concept and components of the term "Cost" and "Benefits".

Cost-Benefit calculations typically involve using the time value of money formula. This usually done by converting the future expected streams of costs and benefits to present value amount. Cost-Benefit analysis is the exercise of evaluating an action's consequences by weighing the pluses or benefits, against the minuses or costs.

However, it is very important to note that matching concept is very important in 'Cost-Benefit Analysis'. It shows that meaning and concept of benefits should have symmetry with meaning and concept of cost otherwise whole exercise of Cost Benefit Analysis will go in vein. For example, in 'Social Cost Benefit Analysis', the term 'Benefit' con- notes social benefits. But analysis is useful only if social cost, not the financial cost is compared with the social benefits otherwise, whole of the efforts will be futile exercise and results will be misleading.

Social Cost-Benefit Analysis can also be exercised at 'Micro-level' as well as 'Macro-level'. Social Cost-Benefit Analysis is very essential if the object of product is not for profit motive as in the most of projects under Government sector and NGOs. For example, Hospitals in Government sector, Bridges, etc. In private sector also, it is very important to find how far they have perform their social duties and at what cost. In fact, when the term 'Social Cost-Benefit Analysis' is used it indicates about 'Social Cost' and 'Social Benefit' of a particular project i.e. 'Micro-level'. Continue to it, when one is talking about Social Cost-Benefit of an organization over-a-year, it is better known as 'Social Accounting', 'Social Audit' or 'Corporate Social Reporting'.

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Cost-Benefit Ratio

A cost-benefit ratio is determined by dividing the projected benefits of a program by the projected costs. In general, a program having a high benefit-cost ratio will take priority over others with lower ratios. Determining this ratio is a difficult task, however, because of the wide range of variable involved. Both, quantitative and qualitative factors must be taken into account, especially when dealing with social programs. For instance, the monetary value of the presumed benefits of a given program may be indirect, intangible or projected far into the future. The time factor must be considered in estimating costs, especially in long-term planning. Variable interest rates, tying-up of funds and the disruption of normal cash flow must be an important factor in the analysis if an accurate cost-benefit ratio is to be determined.

Significance of Social Cost Benefit Analysis

Significance of SCBA is unquestioned for each and every organization but it is specially required in a service providing organization like Railway so proposed research is most needed in the present economic environment. Profit is main motive behind each venture and it is true that main business of business is business. But, at the same time it is also true that there are certain social responsibilities of business which should be followed by every business. Society expects more from a Government sector compared to private sector and in the same manner expectation from service providing enterprise is higher compared to other enterprise engaged in trade and manufacturing. Indian Railways is a service providing Central Govt. enterprises hence it is very essential to find out how far it is performing its social obligations.

Indian Railways: An overview

A standard passenger train consists of eighteen coaches but some popular trains can have up to 24 coaches. Coaches are designed to accommodate anywhere from 18 to 72 passengers but may actually accommodate many more during the holiday seasons and on busy routes. The coaches in use are vestibules but some of these may be dummied on some trains for operational reasons. Freight trains use a large variety of wagons.

Overcrowding is the most widely faced problem with Indian Railways. In the holiday seasons or on long weekends, trains are usually packed more than their prescribed limit. Ticket-less travel which results in large losses for the IR is also an additional problem faced.

Indian Railways makes 70% of its revenues and most of its profits from the freight sector and uses these profits to cross-subsidize the loss-making passenger sector. However, competition from trucks which offer cheaper rates has seen a decrease in freight traffic in recent years. Since the 1990s, Indian Railways has switched from small consignments to larger container movement which has helped speed up its operations. Most of its freight earnings come from such rakes carrying bulk goods such as coal, cement, food grains and iron ore.

Today, railways stations are being given the shape of large complexes and besides having the usual amenities like retiring rooms, restaurants, they now include large office areas. Over bridges are now being replaced by underground passages providing more space above on the platforms. Moreover, Indian Railways are planning to have in-train internet and telephone system, so that the passengers' time is not wasted, but rather utilized properly. Indian Railways are improving and enhancing by adopting world class standards in order to every possible facility to the passengers.

As a means of mass transport the railways have the ability to integrate people connect far-flung places and spread a social wave of solidarity. Its development through five year plans has not only been desirable but also a necessity for bringing people together transporting commodities materials and goods and building the national economy with the advantage of a centrally controlled system.

The railways retained a strategic position as part of the public sector no less important than defense or atomic energy undertakings. After the economic reforms the railways were regarded as the lifeline of Indian economy an integrating force of the nation and a prestigious sector to be controlled by the government for the benefit of the common man. Any attempt to underestimate the role of the railways in the Indian economy would mean creating a void and misunderstanding between the government and the people for it played a valuable part as a role model from the public sector controlling and developing the economy. Left to itself the public sector could generate the proper environment have the best possible scheme of management and fight gallantly with the market forces.

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The Concept of Value Added

The concept of value added is useful for managerial decision making and is considered as an appropriate approach to measure the operating efficiency and profitability of a concern. It is considered as a rod for measuring the wealth created by an enterprise and hence the success of a business unit.

Value added differs from the conventional profit depicted by Profit and Loss account in the sense that value added is calculated by deducting cost of bought in material and services from the sales revenue whereas, the figure of conventional profit is found out by deducting all costs from sales revenue. Value added is a kind of wealth created by the efforts and ingenuity of mankind.

It's a common belief among the business analysts that an enterprise not generating profit is sick while an enterprise not generating value is an evil to the society. A sick unit may be viewed as a useful unit as long as it generates value adequate to pay wages to its employees. It's usefulness to the society lies in the fact that closure of sick unit may create unemployment which may further result in social crisis.

The value added serves as a moral booster for employees and develops a feeling of team-spirit. In this way, it may create a valuable human asset for the company. The value added may be used as a measure of labour productivity and as a basis for incentive schemes. Labour productivity and incentive schemes may play vital role in wage- settlement agreements.

Profit and loss account is a shareholders' statement as it gives the figure of earnings available to shareholders. Where as value added statement is a stakeholder's statement as it shows the rewards assigned to each interested party viz. employees, government, providers of capital or the business itself. Profit and loss account is used to evaluate the economic performance of a company where as value added is used to evaluate social performance of the company. Due to emergence of the concept of social responsibility of business to the society, the concept of value added has started gaining importance.

Though, revenue from each component as well as total sales of services was showing an increasing trend throughout the study, cost of bought in goods and services was showing a fluctuating trend.

Conclusions & Suggestions

- The railways have to provide high reliability, more flexibility and lesser documentation for their freight services if they are serious about winning back the share that they have lost to other sectors of transport.
- The railways should stop viewing itself as a government department and start operating like a commercial organization which would be financially self-sufficient.
- Indian Railway should start focusing on its core competencies and start empowering employees to take quick decisions.
- Indian railways should follow recommendation immediately. The committee was set up in 1998 to find ways of making private investment in the cash strapped railways more lucrative and profitable. The committee submitted the interim executive summary to the Railways Minister Ms. Mamta Banerjee.
- A strict criteria for selection should be set up and all projects should be screened and a select group of project should compete
- for the limited corpus of investments. All investments should require analysis on the basis of Social Cost Benefit Analysis as well as a fully endorsed business plan.
- The ensure proper selection of new rail project the most important requirement is to identify the sources of funds for each selected project. This would result in the minimization of operational costs. Also, this would allow complementary projects to reach their full potential.
- The current method of fund allocation should be reviewed as it pumps too much funds into ongoing projects which are remunerative and shuts out newer projects.

- Most of the Railways projects that are taken up are done so with a political motive in mind. So the entire exercise is not in the interest of Indian Railways. Such practices should be stopped.
- An arms length relationship Memorandum of understanding (MOU) between the railways and the government should be created to avoid any conflict.
- Most of the railways project are generating less financial and social benefits compared to its financial and social cost due to time over run. Therefore, creation of a road-map and adhering to it religiously is absolutely necessary if success is desired in the restructuring process. The actual details might differ e.g. Britain completed its exercise in 2 years while it took Germany 10 years to do the same. However, the important thing is that once fixed the road-map was strictly followed.

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