The Fiscal Blueprint

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UDOUBTEDLY the Fiscal Commission's Report now published sixteen months since it was appointed makes a starred news item. Newspaper headlines have covered it well; the reported summaries more so. For one thing, the last Fiscal Commission sat eighteen years ago and its Report, though of pioneer value, is certainly dated now. A fresh commission was long since need. And then the problems which the Commission was asked to investigate have centred in public discussion mainly on the wisdom and the need for continuing to feed our 'infant' industries in the way they have been since 1922. We were anxious to make sure that the real cost to the nation of pursuing protectionist policy was amply met.

Are our expectations satisfied by the 483-page Report {Vol. One) now released by the Government of India Press? Has it laid down a comprehensive as well as a detailed ground plan for our tariff policy of the near and remote future?

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Let us see. We need not trouble to scrutinise the historical survey of our past tariff policy. This is not of direct relevance for the present and future policy, save for the purpose of learning lessons from the past. Out of 25 chapters, only four are historical in scope. Books Three, Four and Five covering 12 chapters deal with the principles and policies concerning economic and industrial development. Ours are the economic problems of an undeveloped and under-employed economy wherein agriculture is the primary source of living for the bulk of the population. The Commission, therefore, lays down that the pattern of our economic development requires us (i) to push up as far as possible the efficiency of our agriculture and (ii) to canalise surplus masses in our villages from disguised unemployment in agriculture to positive employment in cottage and small-scale industries. Rightly so. But the Report does not give us much clue *how far* the claims of large-scale industry should be allowed to prevail over those of the cottage and small-scale. Para 100 enumerates five factors on which the competing claims of these three types should be settled. These are only general considerations which cannot serve as a guide to administrative policy. There, is, however, a basic difficulty. We may talk of rationalising our village industries but it is to be wondered if we can at all succeed in doing so unless electricity and small power machinery can come to the help of our village artisans and cultivators. There is little prospect of getting this sort of machinery to come soon within their reach. For a few years to come we must be satisfied with letting our village industries keep running on their age-old course. Capital development has mainly to flow into the channel of large-scale industry. So long as the village industries remain deprived of powered machinery, they will not clash with the large-scale industries and the conflicting claims between them cannot, indeed, come up for decision.

That is not to say the State must not finance small-scale industries on a limited scale. But there may be feeder industries depending upon the already protected ones and as such financial assistance to them is indirectly part of large-scale industrial development. This can be granted by an industrial Finance Corporation for small-scale industries in such a manner that the ancillary trades are helped along with the protected industries which they seek to grow. While granting protection to the latter, the case of the former may be kept in view and the Finance Corporation and Tariff Commission should therefore work hand in hand.

Tariff policy is basically concerned with large-scale industry. The Commission is, therefore, rightly concerned with these in Chapter 9. It suggests the order of importance in which protection should be granted. First, defence and other strategic industries; second and third, basic and secondary key industries; next, public utility industries, Now most of these arc indeed state-owned and/or state operated industries, and do not come within the proper scope of tariff protection. Once the State has decided to bring them under its wings, there is no further question of granting it protection. Only in respect of the private industries does this question come up. In what order should these be arranged for the purpose or development?

Five such arc laid down, briefly brought under these captions: (i) maximising production in existing industries; (ii) expanding it to full capacity in export industries; (iii) setting up and developing industries complementary to the existing ones; (iv) those likely to result in external economies; (v) those that have a larger effective demand in preference to a smaller one. This order of grouping does not tell us anything as to the considerations on which protection should be granted to private industries, ft cannot provide us with a graduated scale from which we can read off their relative importance. If (i) should come prior to (ii), should sugar get a grade above jute in our development programme, or woollen textiles above leather? The complementary industries of (iii) are often of greater importance than those of (ii) and as much as (i) ; for instance, machine tools, rolled steel are as essential as iron and steel, certainly more so than our export industries concerned with raw-material processing (hides and skins, ground-nut, mica). The priorities are, therefore, open to doubt. Moreover, what is the precise administrative meaning of the 'external economies' ? Its text-book content is clear enough, but how are the Tariff Commissioners to interpret it? One wishes the Report were more explicit on this important point.

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The main question is, however, altogether different. For one may arrange and re-arrange private-sector industries for development programme according to one's own scale of importance. There is no need to cavil at this or that scale. From the fiscal standpoint the *essential* thing is the way in which tariffs are to be clamped on one commodity or another for the benefit of home industries. The issue is, on what principles should 'infants' be chosen once the infant industries are decided to be nursed to their full stature?

Answering this question the Commission revert to the three-fold classification of industries. Rightly enough, they point out that in regard to defence and other strategic industries as well as basic and other key industries, the cost and quantum of protection ought to be assessed in the light of a national plan. As to 'other' industries, the first criterion of protection is that the natural and economic advantages enjoyed by the industry should be such as to meet the actual and real cost of protection within a 'reasonable time' ; second, that in national interest it is desirable to grant protection whose social cost is 'not excessive'. These criteria are the same as those laid down by the Government of India Resolution of 1945, as general directives they may be alright, but over again they are vague and possess little administrative utility.

What is the span of time one can call 'reasonable' and the social cost 'not excessive' ? Perhaps twenty or thirty years may in some cases be allowed as the period of growth, but in some others it may be shortened to ten years too. In any case it is essential to limit the maximum period of growth to less than, say, 25 years or 30 years, unless there are special reasons to override this time-limit. Secondly, the cost of protection should be measured by an index of the rise in protected commodity price during the period of protection. Sometimes it would be necessary to credit against this cost the gain from the saving in foreign exchange due to fall in imports. At any rate there should be some precision as to what should be the maximum period of growth and how should the real burden of protection to the community be assessed.

In this respect the first Fiscal Commission was perhaps more explicit. They laid down the abundance of raw-material, potential home market and capacity of the protected industry to meet home demand to be the criteria of protection. The present Report has properly commented upon the inadequacy of these criteria *per se.* An industry may lack raw-materials at home and yet richly deserve protection. It may not possess a potential export market or not be able to meet fully domestic demand; yet it may be entitled to receive protection. Those criteria as to raw-material, export and home market are to be considered together, and an infant industry that gets higher marks on all the hcabs should get a higher grade than its rival claimants.

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Let us now turn to see what the Commission has to say about the technique of protection, that is, physical and financial controls. It believes that in regard to form and method of protection each industry should be judgyd separately by the Tariff Commission according to the nature of the commodity and the Customs problem involved. Perfectly so. Yet what about the general considerations? As will be pointed out below, there is a strong case for giving protection to different firms in an infant industry not indiscriminately, but on a basis of their efficiency: low-cost firms getting preferential treatment over the high-cost ones. Whether one were to vote for a customs duty or an import quota as a method of protection, one cannot escape the necessity to decide whether all firms in the protected industry should be equally or unequally helped to grow to their full stature. The form of protection will be partly influenced by the decision to discriminate between firms or the reverse of it. When an effective form of protection is given for a short period import quotas are bound to be found more suitable than duties. Whenever firms are to be differentially treated, bounties would be more effective than mere duties. It appears that the Commission has dismissed the case for physical controls, *i.e.,* import quotas without adequate discussion. True, in matter of assigning quotas one might unduly discriminate as between one exporting country and another and thus invite retaliation. Yet then is no reason why *due* discrimination should be considered so difficult or improbable than undue one. One suspects the free traders' point of view has prevailed with the Commissioners. There is in United States a deep-seated dread of import quotas. Economists such as Professor Haberler are apt to look upon the quotas as a snare and a curse engineered by a few powerful importers. This is, however, not quite the case always. As the French experience of quotas shows, this method of home industry protection can be quite a telling one.

And the same holds about the bounties. The Commission, indeed, deserves praise for its recommendation for setting up a Development Fund from which bounties could be freely given. This would be a useful source to build up. In course of time its allocations would influence not only the size but the location of firms as well. Their optimum size and location dovetail into each other and must be tackled jointly.

In Book Four the Commission suggests an ' after-care ' organisation to see that the obligations of protected industries are duly fulfilled. This is, indeed, a particularly useful and timely recommendation. We have by experience found that the periodical Tariff review of protected industries is not quite an effective way of making sure that they are growing up properly. For this purpose the best way is to set up a permanent special branch of the Tariff Commission or of the Hoard of Trade about whose establishment the Commissioners are hesitant.

Only when such a permanent supervisory body is set up that the scheme for deferential assistance to high, medium and lowcost firms can be properly administered. This body may size up the record of different firms, say, every six months or a year and then grade the payment of bounties according to results. It would be necessary- for such a body to work in collaboration with the Ministry of Industry and Supply. For this purpose it is best to set up a Board of Trade a wing of which would be the Tariff Commission.

The voluminous Report written all through with lucidity and often with insight makes one sit up and ask if the Government which set it up have apparently got more than it had asked for. In places it reads more like the Report of an Industrial Commission, occasionally that of an Economic Commission. No doubt economic problems arc closely interwoven and it is difficult to cut them into tidy shapes without damaging their basic unity. Yet is this not more or less true about all departments of thought? The scope of the Tariff Question is limited. Though one is tempted to jump over its ring fence, sustained thinking must respect the fence and overcome the temptation. Perhaps one may appreciate the puzzled mood of the Fiscal Commissioner if one keeps in mind that its ' frame of reference' was not clear. The Planning Commission is sitting. It has yet to size the issues and decide upon the future course of our economic policy. Until the framework of our national economy becomes clear, the specific fiscal issues are bound to be out of focus. The air of diffuseness that spreads over the Report is perhaps due to this trouble. That is not to say the Commission has not done its job well. If anything it has done it too well! For quite a time to come it will provide a good deal of food for discussion in official and non-official quarters. If such were done, that by itself would be a great service rendered to the country.

Co-operation Still Primarily Agricultural

PROGRESS IN 1947-48

THE co-operative movement in India once again given a fresh lease of life during the last war, is undergoing a change both in its composition and in the pace of its growth. The largest number of societies is still agricultural. Non-credit co-operatives have tended to grow in number.

The available figures show that as compared with 1946-47 the number of societies, their membership and working capital in 1947-48 increased about 3.9 per cent., 19.6 per cent, and 7.4 per cent, respectively. The total population benefiting by the movement in 1947-48 rose to about 16 per cent, as against"'6.2 per cent, in 1938-39 and 10.6 per cent, in 1945-46. The movement seems to have greater public support in South India, which accounts for three-fifths of the entire membership. Coorg tops the list. There every village has a co-operative society and the movement covers almost every phase of economic life. But Cutch, Bilaspur and Tripura have so far no co-operative movement.

Credit societies constitute about 74 per cent, of the total number with a working capital of 60 crores. Co-operative finance was organised in most states. In 1947-48, 14 provincial co-operative banks were functioning with a total capital of Rs. 25 crores. There were 5 central land mortgage banks and 271 primary mortgage banks and societies. The membership of the primary banks has risen considerably from 76,196 in 1938-39 to 146,664 in 1947-48.

There has been considerable progress in a number of co-operative spheres including marketing and various forms of consumers' co-operatives. Many multi-purpose societies have come into existence. Marketing co-operatives have increased largely in UP and Bombay. The number in UP rose from 1,094 in 1938-39 to 2,705 in 1947-48. Consumers' co-operatives increased enormously mostly in Madras, Madhya Pradesh, Bombay and Assam. Agricultural production societies also have progressed, though still at the initial stage. Their objects include consolidation of holdings, irrigation, land improvements and land colonisation and better farming. At the end of 1947-48 there were in the Indian Union about 2,032 societies for consolidation of holdings with a membership of 233,000.

Many co-operative farming societies also have come into existence. At the end of 1947-48 there were 200 such societies existing in India. They are being encouraged by subsidies and grants, provision of technical staff and preferential treatment in the supply of agricultural requisites and in taxes and assessments. During 1948-49 there were 40,000 acres under co-operative farming.

Multi-purpose societies have been started in various parts. In Uttar Pradesh such societies increased from 6,692 in 1945-46 to 18,000 in 1947-48.

The State has begun to associate in an increasing extent co-operative societies with the work of economic development. It is widely realised that co-operatives offer the best means for passing on to the common man the benefits from experiments and research in improvements in production.