The Mirage of an Automobile Policy

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THE automobile industry threatens to supercede the cotton textile industry as the most crisis-ridden and the most inquired-into industry in India. It has already, in a period of eight years, undergone three inquiries; each from a different angle but each groping towards the same objective: the development of a healthy, self-sustaining automobile industry. The latest of these inquiries*, exhaustive and painstaking as it is, leaves the problem much as the Tariff Commission found it when it made its first (1953) Report.

The 1953 Report contained everything that has since been *discovered* by the later reports. It recognised three pre-conditions to the successful development of an automobile industry in this country:

(A) Interdependence of the automobile production industry and of ancillary industries (pp 28-29, 87:1953);

(B) Integration of defence and private demand for the products of the automobile industry (p 57: 1953); and

(C) Development of total demand for automobiles by keeping their prices low (pp 63-64: 1953).

If, despite this, we do not have a viable automobile industry, the fault lies not in the analysis of the 1953 Report but in its failure to draw the right conclusions from that analysis and, in the case of the Government, to comprehend all the policy implications of the decision to develop an indigenous automobile industry.

Role of Ancillary Industries

The 1953 Report defined an ancillary industry as one which is ready to deliver its products to all consumers (who may be rival producers of automobiles)' at a non-diserimi-nating price: the component manufacturers "generally deliver their products to all the automobile manufacturers on the same, terms and this is possible only if they are not directly connected with any particular automobile manufacturer" (p 8: 1953). The manufacture of ancillary products by an automobile producer (for example, radiators by Premier Automobiles, referred to on p 29:1953) precludes such products being obtained from it by rival automobile producers.

Having thus defined an ancillary industry and recognised the interdependence between automobile producers and ancillaries, (pp 28-29: 1953), the next logical step would have been to provide for a diversified large capacity in the ancillary industries to which automobile producers, whose primary function should be the assembling of automobiles, would have had equal access. Instead, the Tariff Commission got shunted off to the wrong line of the argument, namely, its famous, though meaningless, choice between the "one-step" and the "slep-hy-step"" method of developing the automobile industry (pp 45-47: 1953), the Commission itself favouring the one-step method, a necessary consequence of which was the concentration of component manufacture with the automobile producers. In fact, there was never a choice: given the objective of developing an automobile industry in the country and given the fact that an automobile industry could not spring up overnight, the only alternative left for the Tariff Commission was to lay down the course which would lead to the achievement of the objective in the shortest time and with the least cost to the consumer,

DISTRUST OF ANCILLARY INDUSTRIES

The only means to bring about this result would have been to encourage the selling up of a large number of ancillary industries with concentration of assembly operations within a few units. However, all the inquiries appear to show a distrust of ancillary manufacturers. The 1953 Report first argued that the proportion of components manufactured by ancillaries in India should not be the same as, and is likely to be less than, in advanced countries (pp 8.29:1953); this view is endorsed by the Jha Committee (p 33:1960). The Jha Committee elaborates this distrust of ancillary producers (who, by their nature, must be small people) in greater detail over ten pages (pp 26-35: 1960) of its Report. The Committee says that

(a) ancillary producers should not have an assured market for their products (p 31:1960).

(b) their cost of production for a component should not exceed its c i f price by 40 per cent (p 32: 1960) ;

(c) there should be checks on the quality of their production (p 32: 1960); and

(d) in sanctioning schemes, care should be taken to see that "the production is economic and upto the necessary standard" (p 33:1960);

(e) the Committee also argues against earmarking of lines of production for ancillary manufacturers (p 33:1960).

One example of the unfairness of these conditions may be noted. All the inquiries refer to the fact that the deletion allowance from a c.k.d. (complete knocked down condition) pack is less than what the cost of production in the home country of the item deleted would be. Is it proper then to expect an ancillary in India to produce the item at only 40 per cent above the "cost" of the item?

Combined with this is an almost generous, spoon-feeding attitude to the automobile producers. There appears to have arisen an implied assumption that the existing automobile producers have a birth-right to survival, irrespective of efficiency or fulfilment of solemn undertakings given by them to the Government (which is how the manufacturing programmes submitted by them should be interpreted). The 1956 Report set up (on pp 56-60) almost a charter for the automobile producers: they should be assured a guaranteed market for their products; they should be insulated not only from foreign but also internal competition—either from among themselves or from new producers; and they should be allocated foil foreign exchange for capital goods

Report of the Ad Hoc Committee on Automobile Industry. New Delhi. January I960, pp ii (223 (referred to henceforward as the Jha Committee or 1960 Report). The earlier reports are *Report on the Automobile Industry,* 1953 thenceforward referred to as the 1953 Report), and *Report on the Automobile Industry.* 1956 (henceforward referred to as the 1956 Report), both by the Tariff Commission. Government of India.

and s.k.d. (semi-knocked down packs). The solicitude of the Jha Committee for the automobile producers is hardly less (pp 44, 52-53:1960, and, in relation to ancillary industries, on pp 31-34: 1960). The Committee would further strengthen the existing automobile producers by recommending that a consortium (or cartel) of them should be allowed to produce ancillary products (p 35:1960) and an approved small car (p 60:1960).

The Jha Committee thus specifically sets up a double standard, a generous one for the automobile producers, and a strict one, for the ancillary industry. The ancillary industry is to be subject to all restrictions which have been dispensed with in the case of the automobile producers. Would the Committee, in the interest of the automobile-users, put up the same limitations on the automobile, producers as it proposes for the ancillary manufacturers in the interest of the automobile producers, and allow the same freedom to automobile-users to import the products needed by them as it now suggests for the automobile producers?

SELF-MANUFACTURE AND INDIGENOUS CONTENT

It is this step-motherly attitude towards ancillary industries which is responsible for the slow development of the automobile industry as a whole. The existing structure of the industry is marked by an intensive centralisation of manufacture in a handful of producing units, which is hardly justified by the age, stage, or size of the industry in India. The Tariff Commission, in the 1953 Report, noted the manufacture of radiators by Premier Automobiles, which could have been left to the ancillary manufacturers. Premier themselves have come to realise the futility of such concentration as is evident from a reference in its Chairman's speech this year to their decision to hive off the manufacture of some of these components into ancillaries. At the same time, however, Hindustan and Premier are now taking up manufacture of body panels, which, because of economies at only very high scales of output, the Tariff Commission had felt, could not be produced in India (p 96:1956; p 4:1960)—a development also regretted by the Jha Committee (p 15:1960).

The. extent of concentration of manufacturing operations with the automobile producers is shown on pp 19-20 of the Jha Committee Report. The percentages of internal manufacture vary from 5 for Bedford trucks to 32 for Ambassador. 'The low percentages in internal manufacture are correlated with low percentages of total indigenous content (p 11:1960), showing that an automobile producer would prefer to import, or, if forbidden to import, manufacture himself, rather than buy from an ancillary manufacturer.

GOVERNMENT'S FAILURE

The measure of indigenous content itself has led to a lot of ingenuity in calculation. Whether indigenous content is measured by a deduction of c i f value of components imported or by a relation of indigenous manufacture to total value of the vehicle is a minor problem, which is irrelevant to the measurement of the *progress* of manufacture within the country. But to attribute value added by assembly operations to indigenous manufacture (as suggested by the Jha Committee, p 10: 1960) and to relate indigenous content (including assembly) to ex-factory price of vehicle, unduly inflates the percentage of indigenous manufacture (unless, of course, there is cent per cent indigenous manufacture, however defined). Assembly operations existed in India before the present policy of phased manufacture was adopted (p 6:1953; p 11 :1953 shows an assembly capacity of 37,000 units which was forced out by the present policy), and it would be wrong to give credit to the existing producers for assembly operations for measuring progress in automobile manufacture. The only proper measure- would be to relate the value of indigenous components to the total cost of manufacturing within India all the components in a c.k.d. pack; this would reveal a slate which is much less flattering to the industry than that noted on p 11 of the Jha Committee Report (which itself is less than that claimed by the manufacturers, *vide,* for example, the percentage for Fiat-1100 given in the Premier Chairman's speech this year. What the figures do prove is the uneven, and in most cases, slow progress of manufacture as a whole in the country after eight years of complete freedom to the. industry to develop at its own discretion (p 12 :1960).

The Government itself proved no wiser and, in fact, as will be shown later, acted in a way which impeded the development of the industry. In accepting the programmes of progressive manufacture from the producers, the Government accepted post-dated cheques from the industry after it (the Government) had deprived itself of all means of getting compensation in case the cheques were not honoured. The consequence is that under the policy enunciated by the Tariff Commission and accepted by the Government, we have today neither a satisfactory ancillary industry nor a complete automobile industry. We are having the. worst of both worlds: dependence on imports for the automobile industry and an expensive "indigenous"' product.

A POLICY FOR AUTOMOBILE INDUSTRY

The 1953 Report did not lay down a definite course for the development of the automobile industry, leaving it to arise haphazardly according to the discretion left to the automobile manufacturers and the Government. The Tariff Commission's fault lay in the failure to enunciate a self-fulfilling policy for the development of the automobile industry.....a policy which would lead to the required result without requiring governmental interference or inquiries of the present kind.

The policy was assessed in an earlier article*. What is essential is to determine a list of components, amounting to not less than, say 80 per cent of the c.k.d. value of a pack, which are suitable for manufacture, by ancillaries. It should then be possible to reserve the production of such parts by ancillaries and to prohibit their manufacture by an automobile producer, say. for the next ten years. A new producer would have free access to the ancillary capacity, and. in addition, should be required to produce or obtain at least 20 per cent of the other components in the first year and 100 per cent after four years. His import licences for capital goods should In-firmly fixed for the whole four-year period (of the manufacturing programme) and those for the balanc-

*'Automobile Industry in India" la review article of the 1956 Report). *Thv Economic Weekly.* Volume IX. No. 9. March 2. 1957.

ing content value per c.k.d. pack pre-determined (though the number of s.k.d. packs allowed in would be subject to foreign exchange availability}. This would imply that a new *mode]* would have indigenous content of 85 per cent in the first year *(Shaktiman* trucks were reported to have 29 + 9 = 38 per cent indigenous manufacture in the first year) and 100 per cent after four years. A system of bonus s.k.d, packs may be introduced for producers who over-fulfil their deletion programme and of penalty for those who underfulfil it.

FIXED PERCENTAGE OF C K D PACKS

If the automobile producers are to be compelled to -purchase components from ancillaries, it would be necessary to ensure that ancillary industries supply at an equitable price to all automobile producers and that the products meet the standards and delivery dates in a fair way. Free play of competing ancillary manufacturers would also ensure such a result.

The essential feature of such a policy is the laying down of fixed percentages of c.k.d. packs year by year, which would be allowed to an approved new producer. This would enable the. Government to lay down rules for approval (for example, those relating to foreign exchange or participation arrangements, and so on). It would also leave to the Government the discretion to approve a producer and to fix the level of foreign exchange allowed according to general economic exigencies; at the. same time, a producer, once approved, would be able to go ahead with a production programme on the basis of an announced Government policy.

By facilitating entry, such a policy would place existing producers under notice that they would have to face competition in the future. In fact, it would be advisable to declare that after two years, say. the second year of the Third Plan, new producers would be allowed in on terms announced now. In so far as ancillary capacity is created, the entry of new competitors would not cause a drain on foreign exchange for importing s.k.d. packs I though foreign exchange should be allowed for capital goods imports), and one main argument for preventing entry of new models and newcomers would lose force, The present policy has not only prevented the growth of an automobile industry: it has helped the existing producers to create a monopoly situation favouring themselves—as reward for default on their own programmes!

IMPACT OF THE NEW POLICY

The. policy enunciated above would involve organisational changes in the structure of the existing automobile units, compelling them to hive off into independent companies those activities reserved for ancillaries. Such a decision would create a large, dispersed, competing capacity for ancillaries Freely available to new automobile, producers. This breaking up of existing integrated units into independent ancillaries is essential to the healthy development of an automobile industry.

The structure envisaged here would therefore comprise (a) *an* assembling industry consisting of existing automobile producers and of approved new comers, carrying on minimal production under their shed and (b) an independent ancillary industry consisting of the existing and new ancillary manufacturers and the hived-off sections of the existing automobile producers. Such a structure would not only enable the healthy growth of the automobile industry but would avoid the crises at present inevitable in every application for the introduction of a new model or the entry of a new producer; it would provide for tneir easy incorporation without dislocating the industry at any point of time.

The inauguration of such a reorganization may require a change in the Tariff Commission's powers which have so far been confined to deciding on the issue and quantum of protection. The Tariff Commission had (in earlier reports *on* industries like jute baling hoops) recommended changes in location. The Tariff Commission has to have the right to order, if necessary, organisational changes in industry, like the powers the Supreme Court in the USA has, and, which it has exercised in the past under the Sherman and the Clayton anti-trust Acts.

The Jha Committee cannot plead that it lacked powers to recommend the kind of reorganization suggested above, for one of its terms of reference was that it should "suggest the most appropriate pattern of organisation of the future expansion of the industry to ensure low cost production" (p 1:1960). What it lacked was the capacity to get the industry out of the rut into which it has fallen and the will to take drastic steps to put it on its feet.

Integration of Civilian and Defence Demand

. The 1953 Report had argued for the need to integrate the defence and the civilian demand for vehicles. The first dent in this unified development was made with the start of the production of *Shaktiman* trucks by the Defence Ministry, The Jha Committee refers *to* the question of the entry of a third sector, the public sector (as distinguished from the private sector and the defence sector) into automobile production; this position seems to have been accepted by the Government of India as reflected in Shri Manubhai Shah's reply to the debate on his ministry in the Lok Sahha March 30, 1960. This is the most open admission of the failure of the Tariff Commission's recommendations and the Government policy on the automobile industry, and makes nonsense of an integrated policy of developing the industry.

The Government's decision merely sidetracks the issue. The basic issue is not the agency which is to undertake production of automobiles: in fact, the need for flexibility in organisation and for setting up an efficient service mechanism would justify the Government not entering into the automobile production field. What is necessary is to adopt a proper policy for the development of the industry, to diversify the manufacture of ancillaries, and to ensure the emergence of an element of competition into the industry as soon as the state of demand justifies it—none of which the decision for Government production of automobiles ensures.

Pricing Policy

One of the three inquiries (the 1956 inquiry) was devoted specific ally to the problem of price-fixation. The relation of price to demand is important in the automobile industry, particularly as the two are not independent but interdependent—a low price would stimulate demand which, in a condition of economies of scale, would lower costs, setting up a cumulative force for expansion (p 446, 'Automobiles for Asia', *Far Eastern Economic Review,* March 3, 1960). In this context, the publicity campaign launched some time ago to "prove" that the Indian counterparts cost about the same in India as the original cars in home countries was a bit too ingenious. The result was brought about by adding to the ex-factory cost of the car either the high purchase tax in the home country or the notional import duty (at present amounting to higher than 75 per cent or Rs 6,000, p 213: 1960) when cars are not allowed to be imported at all. Any unfavourable comparison for the Indian model could always be met by asking the Government to raise this notional duty. And if there is no unfair fleecing of the Indian consumer, would the Indian producers represent to the Government to free import of cars at the existing rate of duty to those who want them?

The existing policy has been to try to foster the industry by leaving it almost free to charge its price according to cost. Such a policy, particularly in the absence of cost-accounting in the industry noted i" all the inquiries, sets up no internal pressures to reduce cost; the policy enables price to be fixed on a cost-plus basis without examining whether all costs are justified. As cost examination, besides amounting to undue interference in the internal working of an enterprise, would hardly be a feasible proposition for operation from outside, the only proper course would be to fix a price-schedule determined on outside criteria, and to compel manufacturers to adjust cost within the limits so set.

The basis for such price-fixation would be, say, the c.k.d. value of a pack of the foreign collaborator (this is generally a determinate, well-known quantity, as these collaborators send packs to their assemblers in many other countries). A price allowing for a cent per cent increase on the c.k.d. value initially would provide a sufficient margin for the assembling value and the higher cost of indigenous production; there could be provision for reduction in price as volume-production was achieved.

Such a system would result in an immediate reduction of about 10 per cent in the prices of Hindustan Ambassador, Fiat and other cars. The c. k. d. prices of packs for the vears 1955-56, given in the 1956 Report (pp 24-46, also 86-92: 1956), were about Rs 4,600 for Hindustan Ambassador, Rs 3,800 Tor Fial-1100, Rs 5,600 for Standard Vanguard and Rs 3,800 for Standard-10. Allowing for a 15 per cent allowance for assembly, the doubled prices in India would be Rs 10,600 fo Hindustan Ambassador, Rs 8,800 for Fiat-1100, Rs 12,900 for Standard Vanguard and Rs 8,800 for Standard-10, which should be considered fair list prices to cover adequately the import and excise duties, the added cost of indigenous manufacture of components including the higher cost of the low volume of output, and dealers' commission; if necessary, the Government should be willing to forego revenues from excise duties to enable manufacturers to reach the target prices (which should be considered a maximum, to be brought down as output and competition increase).

So long as the pressure to reduce costs and keep the prices low arising from competition is absent, a policy like the one enunciated above, arbitrary as it may seem, is the only means of protecting the consumer. Such a policy would, besides developing demand and thus breaking the vicious circle of price and demand referred to earlier, also set before the industry a target to be achieved by controlling costs and increasing efficiency.

The new excise duties on vehicles must be treated as a regrettable short-term measure on the part of the Government to siphon off "sellers' surplus" arising from scarcity. It would, and should, lose justification once an expansive policy is laid down effectively countering the existing monopoly situation for automobile producers,

The Cheap Car

The demand for a "cheap"" car falls into proper perspective in this set-up. It is essential to note that a cheap car should not mean one sold at a low price — it should rather mean one produced and sold at an economic price. Most of the models being made in India — Hindustan Ambassador, Fiat 1100 and Standard 10 — have their ex-factory cost in the home countries around the price-range (Rs 5,000 to Rs 7,000) set for the cheap car in India. If, therefore, the existing models could be produced at their price in home country (and if Finance Ministers can be persuaded not to treat roads and road-vehicles as modern versions of the *kamadhenu),* the demand for a cheap car would be satisfactorily met.

The demand for a baby car is an urban fad — a fad which vanished in the West in less than five years, as can be seen from the fate of BMW Isetta and other babies in Germany. It is doubtful if such a car would ever stand the road conditions in India outside the cities — or even inside. What has generally been favoured is a slightly larger car than the continental babies. Any such light car, however, would be subject to the same objections. If a new car has to be introduced, it must be suitable for Indian conditions -- that is, rugged, not subject to frequent model changes, and cheap. Perhaps the only car that could satisfy these requirements would be Volkswagen (after it undergoes the projected change in its design, the first in 12 years). The Government policy, under the present situation of import restrictions, should not be to consider offers, if made; it should be to seek out actively producers who can produce a car suitable to Indian conditions.

The Jha Committee evaded the issue by leaving the ultimate decision to the Government on the ground that it could not assess the foreign exchange situation and final sanction would require detailed negotiations between the prospective producers and the Government. This is all the more regrettable as the Committee gave an interim report on the cheap car issue (p 49 : 1960) and refers in the present Report to its having become known as the ('heap Car Committee (p 51 :1960). What was expected of the Committee was not a final choice — an advisory committee cannot claim finality for its decisions. What it could have done was to obtain the minimum terms from prospective producers (and obtained the same for other models which it considered suitable but whose producers were not before it) to set out the relative merits of the schemes, to make its own recommendation (based on suitability, foreign exchange cost, relative standing of the producer), and suggest a machinery for ensuring that, whatever the selection, there would be no default in commitments made by the producer. Instead, it has made a perfunctory examination of the issue and absolved itself of all responsibility of making a definite recommendation. The alternatives considered feasible by it — a consortium of existing producers or a public sector con* cern up 59:1960 are both fraught with danger for the future of the industry. And a Government, eager to hide the mess in which its policy has placed the industry and In obtain credit by dubious accounting methods which, in the case of *Shaktiman* trucks, for example, have never been revealed, has now seized on the opportunity provided and promised to produce a *Janata* Car!

Notes of Dissent

If the Jha Committee's report is disappointing, the notes of dissent from Professor B N Das Gupta (pp 98-106: 1960) are downright confusing. Firstly, he pleads for Baby Hindustan to be adopted as the small car on the ground that it is "not a new scheme" (p 100) — though the output was 21 units in 1954.; 355 in 1955, 263 in 1956, 746 in 1958 and 39 in 1959 (p 202: 1960) and the list price in 1959 was Rs 8,400 (p 206 ; 1960). And what is Hindustan Motors' record in fulfilling the manufacturing programme submitted by them in 1952? The note later argues for continuation of Standard 10 "which I consider to be a small far" *(p* 104: I960). This hardly makes any sense, for, at present. Standard 10 costs only 3 per cent less than Fiat 1100, and in no foreseeable future is it likely to be much cheaper. Granted a policy of concentrating demand and avoiding competition, is it justifiable to have two cars in the same price range? Finally, the Professor distrusts the new schemes which being tailored to the Committee's terms of reference for a cheap car—promises would not be fulfilled ultimately (pp 99-100 : I960). "On the other hand", he argues, "costing of the existing models has been done with meticulous *care up* 99 : 1960). Professor B N Das Gupta was a member of the 1953 Tariff Commission which accepted, without critical examination, the post-dated cheques from the other producers. It hardly lies in Professor Das Gupta's mouth to claim a superior mandate for the existing producers than for the prospective producers unless he has become wiser after the experience of 1953!

Conclusion

One feels more and more that inquiries of the Tariff Commission type and of the present kind are a forum for special lobbying by interested parlies, instead of being a critical examination of the problem in hand. One means to overcome this would be to have a counsel to represent public interest (as there is in enquiries under the Companies Vet), who would critically examine the witnesses, including representatives of industries seeking protection, in the absence of such an arrangement, it should be for the Tariff Commission or the inquiry bodies, backed by their independent research staff, to act as upholders of public interest. Unfortunately these bodies are too restricted by their own past commitments and too identified with the industry to take up an independent attitude. The automobile reports generally contain an air of a scarcely hidden apoligia for failure of past policies and an urisuhtle white-washing of the failure of the industry to deliver the goods.

The Jha Committee Report definitely places the clock back (particularly in its recommendations about ancillaries) by failing to enunciate a self-sustaining policy for the development of the industry, which, stripped of all the side-shows about the cheap car, was its main function. A policy is not a set of improvisions; it is the set of steps which would lead to the given objective. The Jha Committee presents only the mirage *of* such a policy.