Basic Issues Before The Fiscal Commission

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EVEN THOUGH, as this Journal pointed out sometime ago, there was substantial ground against the appointment of Fiscal Commission at this juncture, it has, nonetheless, comt into being. Realism beckons us to stop and consider how best the Commission's labours may be directed to the task of prescribing a balanced recipe of nurture for an underdeveloped economy striving to attain the full measure of its industrial potentialities.

As an indication of the way in which the mind of the Commission is working, there is before us its questionnaire issued not so long ago. Indeed a formidable document, though modest in size, with its quickfire of 104 questions ranged in two Parts, the first one consisting of eight sections. Here is material to exercise the wits of the experienced, work-a-day industrialist no less than that of the acute economic analyst with all his theoretic as well as applied lore to assist him. No doubt some questions do savour of the examination hall generality and freedom from specific detail, *e.g.* 'What do you think of the ability and practicability of tariff quotas?' But most of them are particular, realistic and capable of being treated with documented material, private or public. Between the 104 questions, the ground is well covered with scarcely any overlapping and repetitiousness.

In Part I the first three Sections, A, *B*, *C* are historical in character. The first deals with changes in economic background since the last Commission reported; the second takes up the policy of discriminating protection developed since then; the third goes on to the review of the policy. The ensuing three sections are all directed to specific fiscal matters. Of them, *D* and E are most interesting, concerned as they are to the traditional and new fiscal techniques of industrial protection, while F seeks to enquire into the relation of these with Imperial Preference. The last two sections *G* and *H* are confined to the treatment of industries protected hitherto and to the questions of organisation and procedure of fiscal administration. Part I thus travelling over most of the field, Part II is left with the international obligations under the Havana Trade and Employment Charter and the problem of reconciling these with the protectionist policy which is the subject-matter of the preceding parts.

All this may be well and good. Yet asking a series of questions is not quite the same as going to the roots of the matter. One is not sure if the Commission has gone down to these. Now what are these roots?

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In the early period of protection there were two weapons, which sought to build up a ring-fence around the growing 'infants': protective and preferential duties. Germany and United States, the classic homes of protectionism, made use of these in varying degrees. Carey and Hamilton, Mill and List advocated the use of these weapons in circumstances which could assure a reasonable chance that sooner or later—sooner than later — the infants nurtured behind the fence would come of age. insured against the depredations of foreign competition the protected industrialists were to be given moderated doses of financial bounties and assigned physical quotas such that their overhead costs would be more easily met and current costs progressively reduced. The time-table as well as the measure of dosage was to be presented by Tariff Commission or Board and administered through regular administrative channels. As experience accumulated tariffs came to be linked with commercial treaties and the Most Favoured Nation Clause became a weapon of tariff bargaining. Thus if you wanted to favour a particular country with (preferential) reduction of duties, you saw to it that it also gave you countervailing tariff advantages. In course of time the field became wider. Not only could duties be imposed on imports but physical restrictions as well. The import quotas were an additional weapon in the armour of the protectionist government.

This was the beginning of quantitative trade controls which, though born before World War I, reached their prime only in the inter-war period. Whatever may have been the reasons of their growth, their tactical strength has come to be realised in all countries. However, we had none of these restrictions during the inter-war period. Yet soon after World War II broke out, we imposed import control (May, 1940) and by the middle of 1941 brought in practically all the imported articles within its ambit. The Import and Export (Control) Act was passed in 1947 and we have at the present a five-part import licensing organisation working at Bombay, Calcutta and Delhi under the Ministry of Commerce and of Industry and Supply. These controls are working along the side of import duties preferential and non-preferential. There is no prospect, nor is there any need, for abolishing either one or the other within the foreseeable future, with which alone the Commission is concerned.

What may be reasonably called the New Fiscal Policy consists in formulating a balanced pattern of financial and physical controls, of protective duties and import quotas. There is indeed no question of one versus the other. Both are useful weapons and must be employed judiciously so as to work out a policy of deliberate fostering of potential resources in under-developed economies. True, each has its set of relative advantages and disadvantages. That is why a balanced policy has to aim at combining the two so as to maximise the aggregate of advantages and minimise the contrary.

On what principles do we need to combine the financial and physical weapons, once we are agreed that the objective behind them has to be pursued? Let us begin with the licensing of imports. In the first place, quotas can help us to influence the *locale* of our new industries. If we have to grant licenses as between competing importers, we can ask for an undertaking that the capital imports would be diverted to those centres which are already planned for development. Second, the licenses of consumer imports may, wherever possible, rather be auctioned than be assigned on the basis of pre-war or war-time import record. Third, the quotas may be distributed widely between[1] different provinces and places so as to minimise the risk of monopolistic or oligopolic control. Next to import licensing, we may take tariff duties. Here the primary need is to grant preferences to those countries which can supply us capital imports quickly (earlier delivery dates) and cheaply. The Commonwealth preferences may be revised in the light of these necessities. Then again, the proceeds of the duties ought to be spent on graduated bounties to the growing firms on the basis of their efficiency record, that is net output per man and per man-hour as shown every six months or year.

One of the aims of quota restriction is to distribute evenly and justly imported commodities which are scarce or likely to become scarce. Is it not desirable as much as practicable to ration quota-licensed capital imports among the firms of a protected industry on the basis of their efficiency record? Thus a low-cost, high productivity firm may be put higher on the priority list than a high-cost, low productivity one. Such an order of priorities was followed during the war as between firms producing essential or semi-essential munitions. By devising and enforcing such a schedule it would certainly be possible to supplement a scheme of bounties and help really promising firms grow up to their full competitive stature.

Next, there is the question of hard and soft currency areas in relation to our fiscal policy. We have got to evolve a trade pattern such that our dollar spendings are minimised and dollar earnings maximised. Hence it is necessary to arrange our duties and quoted in such a way that the objective above can be reached as nearly as possible. For this purpose it is best to bargain with the dollar countries for tariff and quotas as part of comercial treaties. No doubt we shall need much fuller knowledge of our balance of payments on current and capital ac-. counts with *each* country in the dollar zone as well as the sterling zone with which we are in trade relationship. But the essential thing is, once this knowledge comes into the possession of our fiscal administrators, they must develop the art of relating it to our protectionist policy at home. This art will become the more necessary as we come to weave a closely-knit pattern of commercial treaties. Must not the Fiscal Commission get down to deliniate the principles of this act?

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The drift of analysis above should be evident. Fiscal policy in the old sense meant only the grant of protective and preferential duties. Newer developments during the inter-war period windened the scope of this policy. Quotas, protective and preferential, came to be added to the armoury of the protectionist. In the light of all this the principal issues facing an underdeveloped economy like ours are these. Now can tariffs and quotas be interwoven into a balanced, yet workable, pattern of trade policy? What are the methods of regulating the duties and quotas in a flexible and speedy way from one period to another? By what means are we going to integrate our fiscal regulations with the challenging problems of the balance of payments? Such issues have got to be kept into the forefront when the Commission is through the preliminaries and begins its task. Then it must indeed think less of the past. than of the future. For its concern is basically to evaluate, compare and advise on the new inter-relationships, new techniques, new strategy by which self-conscious, though under-developed, economics can forge ahead briskly to their economic destily-