

The Socialist Pattern of Society and Foreign Trade

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The title of this paper may seem odd.

However there is a good reason for it.

I propose to argue that the pseudo-socialist policies of the present Government combine with muddled views about foreign trade to produce serious errors in governmental policy concerning industrial licensing.

HPHE phrase "Socialist Pattern of Society", to which the present Government glibly subscribes, is naturally no more than a hypocritical slogan. It was adopted by the Congress party partly because it sounded good (which is much the same reason why the Communist countries insist on misusing and appropriating to themselves words like "democracy" and "most favoured nation clause") but largely to steal the thunder from the then more powerful left-wing opposition. In practice, no serious effort at any kind of socialism has been made. Equality has been neglected in practically all matters. The middle class income taxation is notoriously low. The duties on all of the luxury items are criminally low (Table 1), even when compared with rates in foreign countries.

The more doctrinaire form of socialism such as that supporting nationalisation is regarded as unacceptable. The only aspect of policy that may sound "socialist" is the reservation, under the Industrial Policy Resolution, of investment in certain sectors to the public sector and the associated increase in the ratio of public to private sector investment from Plan to Plan. And yet, one has only to look closer into the economic rationale of the Industrial Policy Resolution (the private sector was either unwilling, through disbelief in profitability, or unable, through lack of financial institutions to move into practically all the Schedule A industries ruled out from private investment) and of the rising ratio of public to private investment (the weight of steel and social overheads) in the decade 1951-61, to realise that this form of socialism was neither economically expensive nor politically uncomfortable.

Towards the end of the Second Plan, however, the economic and political forces began to pull the Government away even from this bastard variety of socialism. The private sector began to find investment in many activities profitable and started to clamour for inroads into Schedule A. Socialism thus became difficult to subscribe to. The right-wing parties also had grown in strength by this time. The response of the government to this test of its professed convictions has been quite predictable. Schedule A has become "flexible" and socialism even in this weak sense has been thrown overboard. The right sort of noises are still being made concerning the share of the public sector in total investment. But who does not know that the Second Plan itself ended up with a significantly higher ratio of private to total investment than planned for and that the same will happen again?

Import Substitution: Luxury Industries at Home

The same political hypocrisy that has characterised the economic policy of the Government in these fields has prevailed also in the field of foreign trade. A pretence at hitting luxury consumption has been made by ruling out gradually the import of luxury goods, such as cars, refrigerators, radios, gramophones, portable air conditioners, watches etc. At the same time, however, domestic industries in all of these commodities have been deliberately encouraged and supported under the comfortable but dishonest slogan of "industrial progress". The recent revival of the small, people's (!) car idea, at a time of heavy foreign exchange shortage, is symbolic of the type of socialism that the present

government subscribes to. We have thus witnessed willing investment of foreign resources in setting up luxury industries at home¹.

Some muddled thinking concerning the factors which affect the choice between imports and domestic production of a commodity has also helped to eliminate consumption goods imports while permitting their domestic production².

¹ This, plus the investment in other consumer industries, also makes nonsense of the claim that India's rate of investment is limited by the shortage of foreign exchange. The exchange which was used to set up consumer industries could easily have been used instead to establish investment industries and thereby to raise the rate of investment. It is also necessary to advertise the fact that we have not used the PL 480 aid to the fullest although we still have vast unemployment which could be alleviated, to some degree, by supplying consumer goods and by putting people to work on purely labour-using projects at a wage. The only thing that prevents the government from creating more employment and investment along these lines is the unwillingness to tax and thereby redistribute consumption from the employed to the unemployed (who are therewith put to work). Is this socialism?

² I have analysed the sources of such confusion and presented a correct analysis in "The Theory of Comparative Advantage in the Context of Under-development, Growth and Planning", Paper presented at a Seminar on Asian Trade, Institute of Development Economics, Karachi.

Enormously Wasteful

Aside from exposing the Government's hypocrisy concerning socialism, this policy of domestic production of the luxury goods has been enormously wasteful. I would adduce four main arguments against this policy as compared with a policy of importing the number of these luxury goods that the government wishes, in its bourgeois indulgence and negligence, to permit the people to consume.

(1) To begin with, the scale of output of most of these items is too low to permit efficient import substitution. The car production in 1960-61 was under 40,000 (and there were three firms). Refrigerators (produced by 4 firms) were under 12,000 in 1960-61. Air conditioners (produced by 10 firms) were under 11,000 in the same year. (Table 2), These scales of output (and also those projected for 1965-66) are at much too low a level to achieve cost levels even remotely comparable to the prices of Imported substitutes even if the number of firms in each Industry were to be reduced' It is just the tariff-plus-QR policy of the government which prevents foreign competition and supports these wasteful Industries. There is no justification at all for incurring such waste i.

(2) Still further loss is involved to the nation because these industries rarely manufacture all components at home. Often several components are sent by the collaborating firms This results in twofold waste. The first waste is that the

i Considerations, such as defence, for the car industry are quite out of date in the context of current politics and war strategies.

2 From this, some economists in India have sometimes argued that these industries are not really "import-saving". This is quite a silly argument, of course, since there is import-saving to the amount of the value added domestically. The fact that the import-saving is small has to be balanced against the fact that fewer resources are correspondingly necessary for such import-saving.

foreign firm often picks up lucrative prices for the components. The domestic market for cars, for instance, is protected; the successful collaborator, therefore, can push the component price up to higher than competitive levels. It has often happened, therefore, that the price of the imported components has come pretty close to the delivered, c.i.f. price of the finished product itself!

(3) The other loss associated with imported components has been that, whenever foreign exchange has fallen short, the Ministry of Commerce and Industry has decided to restrict the allocation of exchange to these industries. This results in idle capacity and wasted investment. However, if the government, instead of having capacity to produce 10,000 refrigerators per annum, had been importing 10,000 refrigerators, for instance, it could have just eliminated the imports of the refrigerators in case of shortage of foreign exchange. Importing the required amount of luxury items, and reducing their imports when necessary is clearly a superior policy.

Wrong Psychological Impact

(4) Finally, there is an important psychopolitical point involved. By building up domestic production, the bureaucrats effectively plead against higher excises on these luxuries on the ostensible ground that this will hit the (vociferous) producers hard but really because they do not wish to pay the higher excises themselves. The bureaucracy belongs to the very same middle class that it is most concerned to protect. If, however, the luxuries were entirely imported, it would be awfully tough to perpetrate such a selfish policy; and import-duty measures such as that adopted by Shri Morarji Desai in his recent budget (raising the import duty on cars to 150 per cent) would cease to be the hypocritical gestures that they currently are and become both inevitable and truly effective.

There is really no argument in favour of the policy that the Government has been adopting for the past several years. All arguments point in the contrary direction.

Table 1: Excise Taxes on Cars, Refrigerators, Air Conditioners, Watches and Radios

1) Cars:	i) $\nless 16$ H.P. : Rs. 1,000 each or 10 per cent ad valorem, whichever is high r.
	ii) $\nless 16$ H.P. : Rs. 3,000 or 15 per cent ad valorem, whichever is higher.
2) Refrigerators:	20 per cent ad valorem
3) Air Conditioners:	20 per cent ad valorem
4) Watches:	Nil
5) Radios:	i) Rs. 150 : nil
	ii) Rs. 150 -- Rs. 300 : 10 per cent ad valorem
	iii) Others: 20 per cent ad valorem.

Table 2: Production and Capacity in Cars, Refrigerators and Air Conditioners

		1958	1959	1960
Domestic Refrigerators	Production	2946	3960	11388
	Capacity	7596	7596	13596
Portable Room Air Conditioners	Production	10776	8868	10860
	Capacity	19956	19956	20472
Cars	Production	31932	26796	36468
	Capacity	49800	49800	54696