A dangerous proposal

The proposal to set up a plant in the public sector for manufacturing 100,000 cars, reported in the press on June 13, is not merely unsound business planning, but also unfair to the pioneers of the industry in India who have struggled all these years against heavy odds to establish the industry.

To see this, we may first ask: who is responsible for the present miserable plight of the industry?

The answer is clear: Government policy based on an erroneous view of the place of the car in the modern economy. Proceeding from the mistaken hypothesis that the car is an item of luxury for the affluent classes, the Government placed all manner of obstacles in the industry's performance, stopping short of only giving a fatal blow.

In the first place, all along car prices were rigidly controlled much

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below the economic cost. This is strange. If the Government thought that the car was a luxury, the buyers could surely be left to pay the high price needed to make manufacture worthwhile.

Secondly, there was a control on the volume of production so that the demand being high the gains accrued solely to the dealers in secondhand cars, the manufacturer being denied any advantage of the booming demand.

Thirdly, a number of direct and indirect taxes were merrily placed at successive stages in the production of vehicles. All these taxes raised the price by more than 50 per cent

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to the final buyer. Indeed, it can be said that without this tax burden Indian cars would be no dearer than cars sold in foreign countries.

Luxury?

The next question is: has the Government seen the basic error of its past policies? The fact that the Government is now thinking of a big expansion *may hopefully be interpreted* to mean that the car is no longer being treated as a luxury item. If so, *this is something to build upon.*

What is the real solution? A big expansion, as indeed the industry itself has been demanding for some years. 100,000 cars is a good enough number to start with.

What are the hurdles to expansion? The first of these is finance. This will be needed irrespective of *who is going to make the expansion.* The private sector today is short of funds for the simple reason that it was *never* allowed to earn a margin from which it could save.

The second hurdle is the existing inadequate size of the market. This *will again be faced by the public* sector no less than by the private sector. The way to expand the market *is to reduce the tax burden on* the vehicle and also to reduce the price of petrol. In today's favourable foreign exchange position, a new initiative in the field of petroleum planning is certainly feasible and is called for.

Who then is to carry out the expansion? Here the advantage is clearly on the side of the existing firms. *One of the important reasons* is cost. Raising the capacity in the existing firms to 100,000 cars will call for *fresh investment* which may be in the neighbourhood of Rs. 75 crores. On the other hand, a new plant in the public sector will need not less than Rs. 200 crores.

Unhelpful policies

Apart from finance, there is the question of technology. The unhelpful official policies have certainly made inroads into both the quality of the vehicle and the production equipment available. There is need for the induction of new technology and the introduction of *new models.* A new engine designed to give fuel economies would call for substantial *investment. All this will be much* cheaper if the existing plants were to be upgraded rather than a whole *new plant set up.*

The other basic technological input is the quality of the bought out components and steel. Here the public sector *will be as helpless as the* private firms today are, unless radical improvements are brought about in the *ancillary industries* as well as in the quality of the steel supplied to the car industry.

All these *arguments go to show* that there is no logical case at all for thinking of setting up a 100,000 car plant in the public sector. It is a hopeful sign that the Government is now at last taking a proper view of the importance of the car in national economic development.

A logical extension of the idea would be to give to the present manufacturers the *facilities they need* for the big expansion they are surely *capable of and for which* preparations may even be under way. After twenty years of maltreating the industry, *it would be rational to think* of a bold new plan based on making full use of the expertise, technical skills, productive facilities and entrepreneurship developed already in the private sector.