

**THE CONSUMER AND THE
INDIAN ECONOMIC ENVIRONMENT**

PROF. GANGADHAR GADGIL

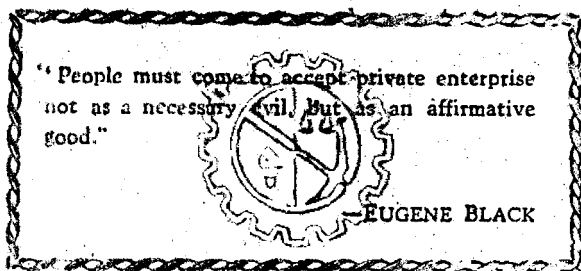


FORUM OF FREE ENTERPRISE

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Prof. Gangadhar Gadgil*

The Indian economic environment has been unfavourable and even hostile to the consumer since the attainment of Independence in 1947.

This has been the consequence partly of the basic features of the Indian economy, as they existed in 1947. These have not basically changed since then. One feature is the large population which has continued to grow at the rate of about 2.5 per cent annually. The economy with its resources and the level of development it has attained was not in a position to sustain this population at a reasonable standard of life. Not only was the level of per capita income low but also a large proportion of the population lived below the subsistence level. This situation has not noticeably changed since 1947. Under such appalling conditions most of the consumers inevitably had a poor deal.

Another feature of the Indian economy was that it had a large food deficit. Moreover, its basic capacity to import food was limited because it had very little to export in those years, when its exports consisted mainly of agricultural products. This situation persisted for many years and even today India does not produce enough food to feed all its population reasonably well. It may appear unrealistic to say that India produces inadequate food, when we have large food resources. However, if we take into account the Indian population's basic nutritional requirements our food production is still inadequate. We have built up large food resources because the poor cannot afford to buy the food they need.

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In a poor country a large percentage of the consumers' income is spent on food. The Indian consumer on the average spends 60 per cent of his income on food and over 40 per cent of the population, which lives below the poverty line, spends 80 per cent or more of its income on food. If therefore food is scarce, the consumer suffers very greatly. In fact a large percentage of them have to live under conditions of semi-starvation. Not only did India produce and continues to produce inadequate food, but there is also an imbalance in its food production. As a result the diet of the average Indian was and continues to be deficient in proteins. Incidentally, India's production of other necessities of life like textiles was and continues to be low in relation to its population.

A consumer requires an adequate and continuous water supply, adequate housing and fuel if he is to live in minimum comfort. These were not available to most of the Indian consumers in 1947. Nor did India have the large amount of capital required for providing these essential supplies and services. The situation has not changed materially since then, except perhaps in case of water supply.

India also had an inadequate commercial and financial infra-structure which is required for proper and efficient distribution of available supplies of goods and services. Transport was poorly developed in 1947 and large parts of the country were inaccessible by modern means of transport. Many areas were cut off from the rest of the country during the monsoon. There was a fairly efficient and low cost network of distribution reaching into the far off nooks and corners of the country. But it was so organized that it could exploit the consumer particularly under conditions of scarcity and rising prices. This situation has no doubt improved since 1947, but still the consumer particularly in rural areas continues to be at the mercy of the distributors in respect of supply of many commodities.

The consumer himself was illiterate and ignorant and had hardly any bargaining power. He was of course not organized and was not in the least conscious of his rights. He was therefore exploited in numerous ways. The goods

sold to him were often short in weight, poor in quality and adulterated. The distributors' margins were in many cases unreasonably high and wherever opportunity offered there was cornering of supplies with a view to profiteering. While this situation has now altered for the better to some degree, by and large the consumer continues to be exploited in the ways mentioned above.

Since 1947, the Government have taken a number of measures to protect the consumer. The system of control of prices and distribution of essential commodities that existed even before 1947 was continued, strengthened and extended. Food was imported to make up the deficit year after year. Efforts were made to increase agricultural production, although they met with very limited success for nearly twenty years. Public organizations like the Food Corporation of India were established to handle distribution of food grains. Similarly, Government established its own retail stores and also encouraged the growth of consumer co-operatives. Essential commodities were subsidized to make them available to consumers at a reasonable price. A similar result was sought to be achieved through dual pricing system of sugar and through the scheme of production of controlled cloth. Foodgrains were not taxed to keep their prices low. Weights and measures were standardized. Standards were introduced through the instrumentality of the Indian Standards Institute. The Food and Drugs Administration was developed to prevent adulteration and maintain quality of supplies. Regulated markets were established and the system of market intelligence was improved. There was considerable expenditure on the development of railways, roads and communications. The Monopolies and Restrictive Trade Practices Act was passed to prevent the exploitation of the consumer through monopolistic and restrictive trade practices. The Government has also in recent years encouraged the growth of the consumer movement.

These measures were well intentioned and have certainly been of help to the consumer. However, the fact remains that the consumer continues to suffer from many disadvantages and disabilities and in some respects he is worse

off today than what he was before. To a certain extent this is the fault of the consumer himself, who unlike other interest groups has failed to organize himself or even develop a consciousness of his problems and rights. The consumer cooperative movement has been especially weak and ineffective. But to a large extent it is the result of Governments' policies, lack of policies or faulty implementation of policies.

In the first place, the nature of Indian planning and its implementation have had an adverse impact on the consumer. In other words, the nature and direction of our entire developmental effort, the manner of its execution and the way in which it has been financed have all proved in certain ways detrimental to the interests of the consumers.

Our entire growth strategy was until recently directed towards development of heavy industry and large irrigation and power projects. Agriculture and consumer goods industries were not ignored, but they were given a lower priority. Moreover, the efforts made for their development did not yield adequate results.

The big capital intensive projects had long gestation period which were further prolonged by bureaucratic inefficiency and political manouvering. Inefficiency and corruption also led to an overrun of costs ranging upto 30 per cent of original estimates. This heavy expenditure generated money incomes but did not increase the supply of consumer goods on which incomes are primarily spent. As a consequence, consumers experienced scarcity of consumer goods, which led to an inflationary rise in prices. This adversely affected the consumption standards of a majority of the consumers whose incomes did not rise in proportion to the rise in prices. This undesirable consequence could have been avoided by following an alternative growth strategy giving priority to production of consumer goods.

A part of this heavy developmental expenditure was and continues to be financed through budgetary deficits covered by additions to money supply. Moreover, irresponsible spending on revenue account has, year after year, added to the deficits. These deficits have further added to the money supply. As a result the Indian economy has operated under continuous inflationary pressures since 1947.

The inflation has been not only a demand pull inflation but also a cost-push inflation. Costs have shown a continuous and alarming tendency to rise in the Indian economy. They have been pushed up by a variety of factors. Firstly, they have been pushed up as a secondary effect of an inflationary rise in prices. Secondly, overrun of costs in public sector projects have pushed up cost of production of basic inputs like coal, power etc. Thirdly, even costs of private sector projects were pushed up through delays in construction caused by dilatory Government procedures. Corruption and inefficiency have also added to costs both in public sector and the private sector. There has been considerable underutilization of capacities both in the public and private sectors due to various factors such as scarcities of inputs, labour unrest, technological failures and absence of demand. This has also tended to push costs significantly.

We have in this country followed rather indiscriminately a policy of import substitution. As a consequence we have established industries, which even in the long run produce at a high cost as compared with industries abroad. Further, we have established some industries, which cannot operate on the optimum scale due to limited demand at home e.g. automobile industry. Thirdly, in many cases our new industries are based on inferior or outdated technologies, which have substantially added to the cost of production.

Fourthly, we have followed a policy of decentralization of industries. As a consequence industries have been established in backward areas away from both markets and sources of raw materials. Very often these backward areas lacked and continue to lack the necessary infrastructure. This policy of decentralization has been followed with the laudable objective of evenly distributing the fruits of development over the entire country. The trouble is that this policy has been followed without proper study of costs involved in and benefits resulting from it. As a consequence we have pushed up costs without getting adequate benefits in the form of decentralized development. In fact, the entire policy is based on a myth that the establishment of big

The inflation has been not only a demand pull inflation industries in a backward area leads to its development. This has proved to be untrue in many parts of the country.

Similarly, we have followed a policy of giving preference to small units in the production of numerous commodities. This has been done, again with the laudable objectives of preventing concentration of economic power, decentralizing economic development and encouraging growth of employment. However, this policy too has been followed indiscriminately without proper consideration of costs and benefits. As a consequence we have created many inefficient high cost units. They have contributed substantially to the increase in costs.

There are different ways of financing economic development. We have used them all. But we have depended far too heavily on deficit financing and indirect taxation for this purpose. The impact of deficit financing on the consumer has already been noted earlier in this paper; indirect taxation is almost an equally undesirable means of financing development. In the first place, indirect taxation is basically regressive in character. It falls equally on the rich and the poor irrespective of their ability to bear it. The Government have no doubt made efforts to make it less regressive by exempting or taxing at a lower rate the necessities of life and by taxing heavily the luxuries of life. In spite of these efforts, our indirect taxes continue to be regressive in character. Secondly, indirect taxes increase costs and therefore bring about a rise in prices. This impact has been made more severe by the irrationalities in our structure of indirect taxes. Indirect taxes are imposed independently by numerous authorities such as the Union Government, State Governments and local bodies. As a consequence commodities and services are often subjected to a burden of taxation which is unfair to the consumer, and at the same time leads to underutilization of productive capacities and misdirection of investible resources. Further, indirect taxes are imposed at a number of points in the course of production and distribution of a commodity. This has a cascading effect which enormously raises costs. The result of these taxes imposed at numerous points is that a commodity is subjected to a tax burden which has no rational basis. This leads to

underutilization of capacities, production at less than the optimum, scale and misdirection of investible resources. Moreover, the cost of collection of these taxes to the Government is heavy and they impose a still heavier indirect burden on the taxpayers, which ultimately is passed on to the consumers. In some cases, high taxes were imposed on scarce commodities to absorb the high profits made by their producers and distributors. These taxes have continued to be high even when production capacities have been expanded and conditions of scarcity have ceased to exist. As a consequence the consumer has continued to pay high prices for these commodities.

Another irrationality of the tax structure is that it discourages the decentralization of production which is a major objective of state policy. This is because products of industries located in backward areas have to pay heavy octroi duties. Moreover, their cost of transport is also high due to unreasonably high level of taxation on transport. This contradiction between economic policies and tax policies of the Government not only adversely affects economic development but also increases costs and prices for the consumer.

Incidentally, it is not quite true that essential commodities are not taxed in this country. Foodgrains are not taxed but other necessities such as sugar, textiles, drugs, cooking utensils, building materials, electric bulbs, are heavily taxed. Even in case of foodgrains, although they are not taxed directly, they bear a heavy tax burden indirectly. This is because various inputs that go into their production are taxed. Incidentally, transport, which is heavily taxed, is one of the important inputs so far as foodgrains production and distribution are concerned.

Our industrial licencing policy has also contributed to the rise in costs. Very often licences are given to units of less than optimum size with a view to prevent concentration of economic power. Further elaborate licencing procedures cause delays and thereby raise costs. Overlicencing, underlicencing and imbalances in the grant of licences for inter-related productive activities also lead to losses, underutilization of capacities etc. which ultimately add to costs.

The Government seem to consider it their duty to prevent the closure of even inefficient, obsolete and loss making units. This is done with the laudable objective of preventing unemployment. But here again cost benefit considerations are totally ignored. As a consequence the units are sustained at enormous cost to the public exchequer. This cost in the ultimate analysis has to be borne by the consumer in the form of higher taxes and prices.

The policy relating to industrial relations and various labour laws have no doubt given protection to and raised the standard of life of the employees in the organized sector of the economy. However, these benefits have been unrelated to productivity. As a consequence they have increased labour costs and therefore prices. This has been to the disadvantage of the overwhelming majority of Indian consumers who are not employed in the organized sector and are unlikely to be so employed for many years to come.

The public sector has been expanded and plays a dominant role in the economy as a result of the socialistic policies of the Government. While the consumer as a consumer can have no quarrel with the socialistic policies, he certainly has suffered as a consequence of the manner in which the public sector units have operated and continue to operate in this country. Bureaucratic procedures and delays and corruption on the part of both bureaucracy and politicians have enormously added to the costs of these public sector projects. These projects due to the same reasons have not always employed the latest or the most suitable technologies. Moreover, they have been by and large very inefficiently managed. They employ an excessive number of workers and have large overheads. The quality of the products and services they supply are often unsatisfactory and the arrangements for their distribution cause a great deal of inconvenience to the consumer. The Government have not succeeded in evolving systems of management and control which would remove these shortcomings and the consumer has no means of registering his dissatisfaction because these public sector units are generally monopolies. The poor consumer has no option but to buy from them. Sometimes he is compelled to buy them by legislation or fiscal measures.

The Monopolies and Restrictive Trade Practices Act has been passed to protect the consumer. But the emphasis in the administration of the Act has been on prevention of concentration of economic power. Nothing very effective has been done to check the restrictive trade practices even in the private sector. As regards the public sector, it is not covered by the Act. As a consequence the consumer has no legal remedy against the most blatant and unfair trade practices of public sector organizations like the Life Insurance Corporation or the State Electricity Boards. The Sachar Committee has now recommended that the MRTP Act should also apply to public sector organizations. This is welcome, but not enough. What is necessary is to lay down performance norms and to give the consumer the right to legal remedy and compensation if these norms are not observed.

Various controls on production and distribution were imposed from time to time by the Government in the interest of the consumer. These no doubt protected the consumer from profiteering. However, in the long run they have had the effect of perpetuating scarcities and deterioration in the quality of goods and services supplied to the consumer. The Government have by and large failed in evolving policies that would give both immediate protection and long term benefits to the consumer.

A large number of amenities and services are today supplied to the consumer by the Government or its agencies and the consumer pays for them in the form of taxes. While the payment of taxes is legally obligatory, there seemed to be no legal obligation on the Government or its agencies to supply services or amenities of a certain quality or standard, till the recent Supreme Court judgment in the Ratlam Municipality Case.

Various measures like standardization of weights, measures, control of quality of food and drugs etc. have been introduced for the protection of the consumer. But the machinery for enforcing these regulations is inadequate, weak, inefficient and corrupt. As a result the consumer does not derive the full benefits of these measures. It is necessary that this situation should be remedied.

Incidentally, one of the reasons why the consumer is supplied with goods that are short in weight, poor in quality and even adulterated is because he buys most of the goods in an unpackaged condition. He would like to buy packaged goods but cannot afford to do so because of the high cost of packaged goods. This cost is high because packaging materials are very expensive and one of the reasons for that is the high taxation of packaging materials. The Government ought to immediately reduce this tax burden and take all other measures to ensure that the consumer can buy packaged goods at a reasonable price.

Not only do the consumers have no legal remedies in many cases, but also such remedies are very difficult to resort to because our legal procedures are dilatory and expensive. It is necessary that this situation should be remedied by passing more laws for consumer protection, consolidation of these laws into a single act and establishment of courts and procedures which would grant relief to consumer at a reasonable cost and in a reasonable period of time.

Thus, the Indian economic environment is today hostile to the consumer. To some extent this is the result of our poverty and also certain basic features of the economy which can be changed only gradually over a period of time. At the same time, it has to be emphasized that more could have been done and has not been done in the last 30 years to improve our economy and reduce our poverty. Further, even under the prevailing conditions of poverty, the consumer could have been better off. If that is not the case, it is the result of faulty policies followed by the Government and continued neglect on its part of the legitimate interests of the consumers.

It is necessary that the following measures should be taken to remedy this state of affairs :

(i) Efforts should be made to attain a higher rate of economic growth and secure a more equitable distribution of its benefits particularly between those employed in the organized sector and those employed in the unorganized sector of the economy.

(ii) The growth strategy should give legitimate importance to increase in the production of consumers' requirements.

(iii) Inflationary financing of growth should be eschewed and a reasonable stability of prices should be maintained.

(iv) Policies that have resulted in the creation of a high cost economy should be reviewed and suitably modified. This would involve a review of industrial policies, labour policies, trade policies, fiscal policies etc.

(v) Measures that increase costs for socially desirable objectives should be taken only after proper study of costs and benefits. The consumer should not be made to bear an unreasonable burden for the benefit of a section of producers.

(vi) While the consumer is in favour of raising wages and standard of life of the workers, this should not be done at his cost. If labour expects higher wages it must compensate the consumer through higher productivity.

(vii) The consumer needs greater protection from monopolies not only in the private sector but also in the public sector. For this purpose performance norms should be laid down for such monopolies and the consumer should be entitled to legal remedy and compensation if these norms are not followed.

(viii) Competition in the market proves generally beneficial to the consumer. For this purpose domestic producers should be exposed to foreign competition through liberal imports and public sector monopolies should be broken up into competing units.

(ix) It is in the interest of the consumer that he should be supplied packaged goods at a reasonable price. Steps should be taken to achieve this result particularly by reducing the cost of packaging.

(x) The existing laws for consumer protection should be reviewed and consolidated and the machinery for their enforcement should be strengthened.

(xi) The consumer should be provided with additional legal and administrative protection against Government departments and agencies which provide him with amenities and services in return for the taxes he is compelled to pay. This protection should ensure that he gets a reasonable return for the taxes he pays.

(xii) Suitable legal procedures and courts should be established to give legal protection to the consumer at a reasonable cost and in a reasonable period of time.

These reforms will not fall from the heavens. Nor would the Government bring them about unless it is subjected to a strong and steady pressure. Only a strong consumer movement would be able to exercise such pressure and get for the consumer the protection and consideration which is rightfully due to him.

*The views expressed in this booklet are not necessarily the views of
the Forum of Free Enterprise.*

"Free Enterprise was born with man and shall
survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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