Swabhimaan

A LIBERTARIAN PERSPECTIVE ON INDIA

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ONE BATCH OF NOTIFICATIONS SHIELDED INDIA'S STEEL TUBE MAKERS AND TAXED THE COKE THEY BURN.

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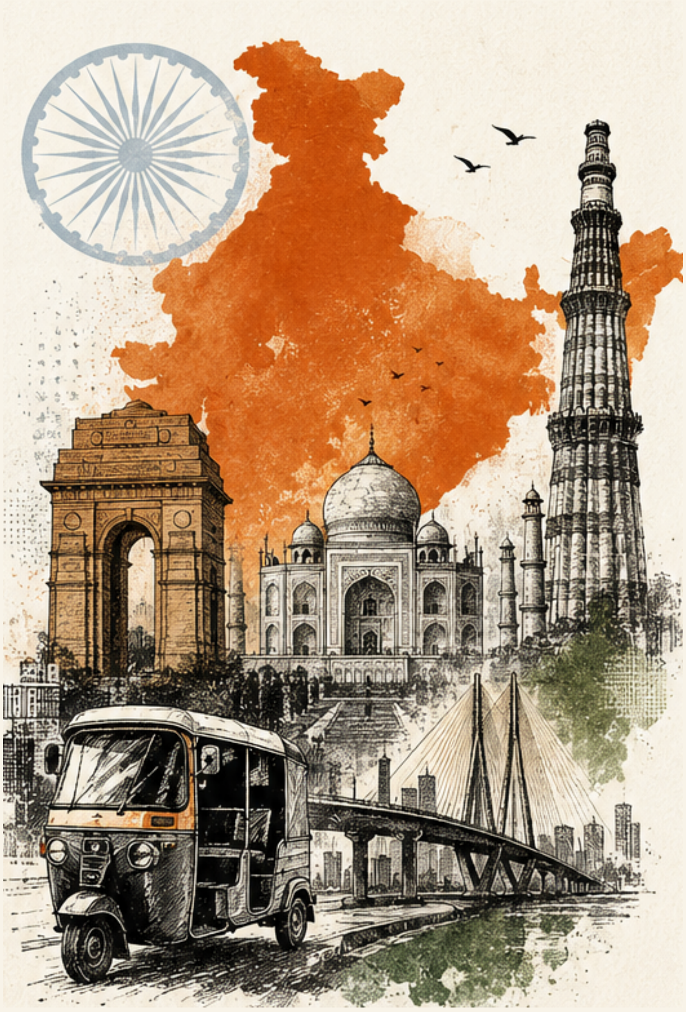

> *It is Swaraj when we learn to rule ourselves. It is, therefore, in the palm of our hands. But such Swaraj has to be experienced, by each one for himself. One drowning man will never save another.*
>
> — M. K. GANDHI, HIND SWARAJ, 1909

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Protected Here, Taxed There

BY AMOL ASTHANA

In one batch of notifications the Finance Ministry shielded India's seamless tube makers from cheap imports, then taxed the metallurgical coke that Indian steelmakers burn to make steel. Both duties are called protection. Somebody further down the supply chain pays for each of them.

A coke oven battery at an Indian steel plant.

In late July, the Finance Ministry protected an industry and taxed it in the same batch of notifications. It extended the anti-dumping duty on seamless steel tubes and pipes, shielding Indian tube makers from cheap imports. Days later, it imposed a fresh five-year duty on metallurgical coke, the fuel those same steelmakers use to make steel. The same government, in the same industry, was protecting one set of producers while raising the costs of another.

Defining an anti-dumping duty is fairly straightforward. A foreign company sells a product in India at a price below what it charges in its home market. Indian producers complain, the Directorate General of Trade Remedies investigates, and the Finance Ministry can then choose to make those imports more expensive. The stated goal is fair competition. No domestic producer should have to compete against a foreign company deliberately selling below cost to drive it out of business. That is a reasonable argument, and there are cases where predatory pricing is a genuine concern.

A company that can afford to lose money on every unit sold in India, wait for its competitors to disappear, and then raise prices has a strategy that can hurt consumers as well as producers. Calling that unfair is not unreasonable.

But India's anti-dumping rules go beyond that. An import can attract a duty simply because it is being sold in India for less than the price charged by the foreign producer at home. The foreign company does not necessarily have to be trying to bankrupt an Indian competitor.

That distinction matters.

A foreign producer may have lower costs. It may have a currency advantage. It may be operating in a market where prices happen to be lower. Or, in some cases, its own government may be subsidising production.

Milton Friedman had a deliberately blunt response to that last case: if another country's taxpayers want to subsidise what Indians buy, the sensible response is gratitude, not a tariff.

THE SEEN AND THE UNSEEN

The metallurgical coke duty shows why the protection argument becomes complicated once you follow the supply chain.

The duty protects Indian coke producers from cheaper imports from countries including Australia, China, Colombia, Indonesia, Japan and Russia. That sounds like a straightforward case of protecting a domestic industry. But steelmakers buy coke. They need it to produce steel. So when the government makes coke more expensive, it raises the costs of the very steelmakers that another anti-dumping duty is trying to protect.

This is the kind of second-order effect that Frédéric Bastiat wrote about and Friedman repeatedly brought into economic policy debates. The visible effect of the coke duty is a protected Indian coke industry. The less visible effect is higher costs for Indian steel producers further down the supply chain.

A duty on untreated fumed silica protects domestic chemical producers while raising costs for paint, cosmetic, and pharmaceutical companies that use it. A duty on arylides protects dye manufacturers while increasing costs for printing and textile firms. A duty on normal butanol protects a domestic producer while raising costs for companies that use it in products such as flavours and cosmetics.

None of these cases require us to assume that the industries asking for protection are acting in bad faith. They are responding to their own interests. If cheaper imports threaten their business, they have every reason to ask the government for protection.

CONCENTRATED BENEFITS, DIFFUSE COSTS

The problem is that the costs are spread across everyone else in the supply chain. The paint manufacturer buying fumed silica does not necessarily have the same incentive to appear before the government and argue against the duty. Neither does the textile producer buying arylides or the steelmaker buying coke.

That creates a built-in political asymmetry. The benefits of a duty are concentrated among a relatively small group of producers. They have a strong incentive to organise, hire lawyers, file complaints, and lobby for protection. The costs are spread across thousands of firms and millions of consumers, each paying a little more.

This is one reason protection can keep expanding even when the economy as a whole may be worse off. Friedman's argument went further than simply proposing a better anti-dumping law with a stricter test for genuine predatory pricing. He questioned the usefulness of the entire instrument.

His concern was that once governments create a legal mechanism for producers to complain about "dumping," ordinary differences in costs and prices can become grounds for protection. And if the rules were made narrow enough to catch only genuine predatory pricing, the instrument would probably become too difficult for producers to use in practice.

The steel example captures the problem rather neatly.

The tube industry gets protection from cheap imports. The steelmakers using metallurgical coke then face a new tax on one of their main inputs. The government may be protecting the finished product while making it more expensive to produce. Somewhere further down the supply chain, another Indian manufacturer pays the bill.

Scrapping anti-dumping duties would not mean ignoring unfair competition. It would mean accepting that Indian producers should compete with foreign producers on price, quality, and productivity rather than asking the government to raise the price of imports.

The Indian state should remember that when foreign taxpayers and governments are willing to subsidise something that an Indian factory wants to buy, the best response should be to say thank you and let firms engage in voluntary exchange.

The Delimitation Problem Is Not Really About Population

BY ATTHARV BANAITKAR

Parliamentary seats still follow population patterns from decades ago, and every proposal to correct that runs into money. The trouble is that one instrument — the allocation of seats in the Lok Sabha — is being asked to settle four separate questions at once.

India has an unusual version of one person, one vote. Everyone receives one vote, but some voters receive considerably more representation for it than others.

Parliamentary seats among states remain substantially tied to population patterns from decades ago. Since populations have grown at different rates, an MP in one state may now represent far more people than an MP elsewhere.

The obvious solution is to redistribute seats according to current population.

The fact that India has repeatedly avoided doing so suggests that delimitation is not fundamentally a population problem. It is three problems entangled together: representation, fiscal redistribution, and incentives for state governments.

Trying to solve all three through parliamentary seat allocation is what creates the mess.

EQUAL VOTES, UNEQUAL REPRESENTATION

Imagine one constituency containing one million people and another containing three million. Each elects one MP.

The probability that any individual casts the decisive vote is tiny in both places, but that misses the relevant point. Each MP has one parliamentary vote, one office, finite attention, and one constituency to represent. Three million people sharing those things receive less representation per citizen than one million people do.

The inequality is particularly hard to justify because poorer states generally experienced later fertility declines and consequently greater population growth. A citizen born in Bihar therefore receives less representation partly because Bihar happened to remain poor for longer.

Southern states often answer that they should not be "punished" for controlling population growth. But states do not have children; people do. Fertility normally falls with development, education, urbanisation and declining child mortality. Much of the demographic difference is an outcome of earlier prosperity, not simply superior population policy.

Even if it were, punishing a badly governed state by reducing the representation of its citizens is peculiar. If my government behaves badly, throw it out. Giving my vote less weight is harder to defend.

So the case for roughly equal Lok Sabha representation is strong.

The southern objection nevertheless contains something important.

FOLLOW THE MONEY

Imagine a richer state contributing disproportionately to national revenues while a poorer, faster-growing state gains additional MPs.

The richer state may describe the bargain this way: **we provide more of the money while somebody else increasingly decides how it is spent.**

That is not really an objection to equal citizenship. It is an objection to combining population-based democracy with fiscal centralisation.

The more resources and decisions concentrated in Delhi, the more valuable control of Delhi becomes. Put an enormous common pot in the centre and demographic change naturally becomes a struggle over who controls the pot.

This reveals a genuine trilemma. India would like:

1. equal population representation;
2. substantial transfers from richer to poorer regions;
3. protection for contributing states against having those transfers determined entirely by more populous states.

You cannot maximise all three simultaneously.

Reducing redistribution weakens national equalisation. Protecting contributing states introduces unequal influence somewhere. Giving population complete control over both chambers leaves richer states exposed.

There is no formula that makes the conflict disappear. Constitutional design can only decide where the conflict should live.

THE REVENUE SABHA TEMPTATION

Shruti Rajagopalan proposes an ingenious answer: restore population-based representation in the Lok Sabha and make Rajya Sabha representation depend partly on states' own-source revenue per capita.

The attraction is obvious. If prosperity increases revenue and revenue increases political power, politicians have a personal incentive to make their states richer.

The problem is that revenue is not prosperity. Revenue is what government succeeds in extracting from prosperity.

Suppose two identical states each produce ₹1 trillion. State A reforms and grows to ₹1.2 trillion while collecting 10 per cent: ₹120 billion. State B does not grow but raises its effective tax take from 10 to 12 per cent. It also collects ₹120 billion.

A revenue formula treats them equally. Economically they plainly are not.

Tax competition, elections and the Laffer curve constrain extraction, but they do not make every revenue increase socially desirable. And once revenue determines constitutional power, governments acquire an additional reason to optimise the measured number itself.

There is a deeper problem. If Bihar is poorly governed, why should Bihar's citizens lose upper-house influence because their government cannot generate revenue? We began by rejecting the idea that citizens should receive less representation because their state remained poor and fertile longer. Revenue weighting risks reintroducing the same principle in another form.

Rajagopalan has correctly identified an incentive problem. Political representation is simply the wrong reward. There is a more natural reward for producing wealth: **the wealth itself.**

FIX THE MARGINAL INCENTIVE

Suppose a state improves regulation, infrastructure and institutions. Investment increases, workers become more productive, consumption expands and its tax base grows.

The critical question is: how much of the next rupee produced by better policy does the state get to keep?

If additional state revenue is largely offset by reduced transfers from Delhi, successful reform faces an implicit tax. If the state retains a substantial share of the gain, its politicians have stronger incentives to pursue growth.

That does not require abolishing transfers. Poor states may genuinely require equalisation. Radical decentralisation could otherwise create a poverty trap: low income produces low revenue, weak services and therefore continued low productivity.

The solution is not zero redistribution but separating equalisation from marginal incentives. Transfers can remain, but they should phase out gradually enough that a state becoming richer retains much of the fiscal benefit. The exact formula is difficult; the principle is not.

Economic performance should primarily produce economic rewards, not additional constitutional votes.

GIVE THE TWO HOUSES DIFFERENT JOBS

That leaves representation.

The Lok Sabha should primarily represent citizens. Constituencies should therefore contain roughly equal populations, subject to limited protections for very small states. India probably also needs substantially more MPs simply because present constituencies are enormous.

The Rajya Sabha should perform a different function: protecting the federal bargain.

Exactly how is a separate design question. Equal representation for every state, as in the US Senate, would make tiny states equivalent to Uttar Pradesh. Pure population representation merely duplicates the Lok Sabha. Some intermediate system — degressive representation, weighted state voting, or special state consent for genuinely federal matters — may therefore be preferable.

The crucial principle is functional separation: people are represented as people in one chamber; states receive protection as states in the other.

And if the upper house is supposed to protect states, it must have meaningful authority over legislation materially altering federal finances and powers.

PUT EACH CONFLICT WHERE IT BELONGS

Delimitation is usually portrayed as a choice between two injustices: preserve southern political weight and violate equal representation, or restore equal representation and allow the more populous north to dominate the south.

That framing asks parliamentary seats to do too much. A better constitutional division is this.

The Lok Sabha bears the cost of democratic equality.

The transfer system bears the cost of national solidarity.

Fiscal rules bear the cost of preserving incentives for growth.

The Rajya Sabha bears the cost of protecting the federal bargain.

None eliminates conflict. That is not what institutions are for. The objective is to stop one instrument — parliamentary representation — from simultaneously deciding who counts, who pays, who receives and who has an incentive to grow.

India cannot design away the conflict created by its demographic and economic diversity. It can decide where that conflict should live.

And the best solution to a bitter struggle over who controls Delhi may be to make fewer things depend on controlling Delhi.