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ARYABHUSHAN PRESS, POONA.

INTRODUCTION

TO

THE STUDY OF

INDIAN ECONOMICS

BY

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Indian Administration, Gokhale and Economic Reforms, Indian Industrial and Economic Problems, etc.

POONA :

ARYA-BHUSHAN PRESS.

1917.

Copies can be had at—

THE ARYABHUSHAN PRESS,

POONA CITY.

AND

THE BOMBAY VAIBHAV PRESS,

Sandhurst Road,

BOMBAY 4.

Price Rs. 4-8-0, Exclusive of Postage.

Printed and Published by Anant Vinayak Patwardhan at the Aryabhushan Press, Poona City.

PREFACE.

The following pages have been written with the object of meeting the needs of students who require guidance in the study of economic problems pertaining to India and of general readers who wish to get acquainted with the chief features of the economic organization and development of this country. The book does not presume to deal exhaustively with the subjects discussed—volumes will be required to do so. It only seeks to show briefly how the principles of Economics should be applied to Indian conditions, and to place before the reader the different aspects of Indian economic life. As such, the volume is expected to render material help to College students taking up general Economics, and Indian Economics in particular, as special subjects, and to all others who take any interest in the advancement of this country and especially in the promotion of its economic and social well-being.

The general order of treatment usually found in text-books on Economics, has been followed with a view to conduce to the convenience of the student, but in doing so, care has been taken to bring into prominence chief among the peculiar economic problems which require careful study and demand a solution, in this country. The elementary principles have been briefly indicated in each place, and their application to Indian conditions has been pointed

out. The economic changes which have taken place and which are in progress, have been traced, and the situation in India is compared with the development and position in Western countries. Very few people in India know the nature and working of even the simple laws which govern the production, exchange and distribution of wealth or are acquainted with the modern machinery of trade, currency, credit and finance. This ignorance lands people into curious mistakes when they try to tackle economic problems ; and well-directed attempts at the promotion of progress, are rendered difficult. Equally dangerous is the easy optimism of those who are led away by appearances and draw comforting conclusions both from the contrasts and the analogies presented by Indian conditions when compared with those prevalent elsewhere. This book, it is hoped, will supply a corrective to both these tendencies and will afford a true insight into the economic situation of India.

The author has freely stated his own views on each question—this was inevitable and even necessary—and has also given reasons why he holds them. He has taken every care, however, to place the pros and cons in each case before the reader so as to stimulate thought and rouse a spirit of enquiry, and to help him to form an opinion for himself. The reader is referred, in each chapter, to the literature he must go through if he wishes to prosecute his studies further, and the student will

find the references helpful in acquiring a more intimate acquaintance with the subjects of study. Only very recently has the importance of economic studies come to be appreciated, and the provision made for them is yet most inadequate. The text-books are very few and the information pertaining to different subjects is scattered through a large number of blue books, reports, monographs &c. The purpose of writing this book will be fully served if it satisfies the want which, the author knows, is keenly felt by students and general readers.

FERGUSSON COLLEGE,
POONA.
1st June, 1917.

V. G. KALE.

CONTENTS

Chapter I.

		PAGES.
INTRODUCTORY:—		
1	Economics in India	1—2
2	Peculiar Conditions	3—4
3	Economic Policy	4—7
4	Importance of Economic Studies	7—9
5	Theory and its Application	9—11
6	Economic Problems	11—12
7	The Role of Economics	12—13

Chapter II.

THE INDIAN OUTLOOK:—		
8	Progress	14—15
9	Wealth and Welfare	15—16
10	Ethics and Economics	16—18
11	A Misconception	18—19
12	No Conflict	19—21
13	India no Exception	21—22
14	Evidence of History	22—24
15	Civilization in India	24—25
16	Religion and Material Progress	25—27
17	Spiritual and Material	27—28
18	East and West.	28—29
19	Indian Ideals	29—32
20	Reconciliation..	32—34
21	Spiritualism	35—37
22	Test of Religion	37—38

Chapter III.

GIFTS OF NATURE:—		
23	Importance of Production.	39—40
24	Natural Conditions	40—48

CONTENTS.

		Pages.
25	Land	43—47
26	Pressure on the Land	47—48
27	Fertility of Soil.	48—50
28	Minerals	50—51
29	Conservation of Mineral Wealth	51—53
30	Summary	53—54

Chapter IV.

HUMAN EFFORT:—

31	Value of Labour	55—56
32	The Labour Factor	56—57
33	Cheapness and Efficiency	58—59
34	Different Classes of Labour	59—64
35	Agricultural Labour	65—67
36	Village Economy	67—68
37	Factory Labour	68—69
38	Traditional Training	69—71
39	Present Requirements	71—72
40	Technically Trained Men.	72—74
41	Prospects	74—76
42	Shortage of Labour	76—77
43	Potential Supply	77—79
44	Criminal Tribes	79—80
45	Wastage of Labour Power	80—82
46	Summary	82—84

Chapter V.

THE PART OF CAPITAL—

47	What is Capital?	85—87
48	The Rayat's Means	87—90
49	Improved Implements	91—93
50	Agricultural Capital	93—94
51	Indigenous Capital	94—96
52	The Hoarding Habit	96—97
53	Conditions of Saving	97—98
54	Capital as a Power	98—100
55	Foreign and Indigenous Capital	100-102
56	Summary	102-106

Pages.

Chapter VI

ORGANIZATION OF PRODUCTION :—

57 Industrial Evolution 107-108
58 Situation in India 108-111
59 Large Scale Production 111-113
60 Joint Stock Principle 113-115
61 Industrial Enterprise 115-116
62 Organizing Capacity 116-118
63 Small Industries 119-120
64 Lines of Evolution 120-121
65 Caste 121-123
66 Gilds 123-126
67 Farming 126-127
68 Fragmentation of Land 127-130
69 The Future 130-132
70 Summary 132-135

Chapter VII.

PRODUCTION AND POPULATION :—

71 Increase of Population 136-137
72 Varying Conditions 137-139
73 Malthusian Doctrine 139-140
74 Application to Indian Conditions 141-143
75 Is There Great Pressure?. 143-145
76 Food Supply 145-148
77 Famines 148-150
78 The Outlook 150-152
79 Remedies 152-154
80 Indian Attitude 154-155
81 Changed Conditions 155-157
82 Vicious Circle 157-160
83 Summary 161-163

Chapter VIII.

THE ECONOMIC REVOLUTION—

84 Exchange 164-165
85 Markets and Fairs 165-167

		Pages.
86	Ancient Indian Commerce ...	... 167–169
87	Under Company Government ...	... 169–171
88	Features of Foreign Trade ...	... 171–173
89	Industrial Revolution	... 173–174
90	Theory of Exchange	... 174–176
91	Effects of the Revolution	... 176–177
92	Growth of Trade	... 177–180
93	Chief Features..	... 180–182
94	Absorption of Gold	... 183–184
95	Effect of Railways	... 184–186
96	Means of Communication ...	... 186–187
97	Inland Trade	... 187–189
98	Extinction of Indigenous Shipping...	... 189–190
99	Foreign Shipping and Subsidies ...	... 190–192
100	Summary	... 193–195

Chapter IX.

COMMERCIAL POLICY :—

101	Freedom of Trade	... 196–197
102	Mercantilism...	... 197–198
103	Reaction	... 198–200
104	Colonial Policy	... 201–202
105	The Controversy	... 203–206
106	The Indian View	... 206–208
107	Indian Protectionists	... 208–211
108	Policy for India	... 212–214
109	Drifting is Bad	... 214–219
110	Fiscal Controversies	... 219–221
111	Imperial Preference	... 221–224
112	Indian Government's Attitude ...	... 224–226
113	Fundamental Principles... ...	... 226–227
114	Difficulty of Solution	... 227–231
115	Summary	... 231–233

Chapter X.

THE CURRENCY SYSTEM :—

116	Old System	... 234–236
117	Under British Rule	... 236–237

		Pages
118	Bimetallic System	237–238.
119	Difficulties in India	238–240
120	The Currency Committees ...	240–242
121	Opposition to Change of Standard ...	242–245
122	Change Effected	245–246
123	Gold Exchange Standard,. ...	246–249
124	A Gold Mint for India	249–251
125	Gold Standard Reserve Fund ...	251–253
126	Recommendations of Chamberlain Commission.	253–255
127	Paper Money	255–257
128	Regulation of Issue	257–259
129	Currency Reserve	259–262
130	Note Circulation	262–264
131	Summary	264–267

Chapter XI.

FOREIGN EXCHANGE AND FINANCE:—

132	Mechanism of Exchange.. ...	268–270
133	Rate of Exchange	270–273
134	Indian Exchange	273–275
135	Development of the System ...	275–277
136	India's Balance of Trade ...	277–281
137	Council Bills	282–287
138	Regulation of Council Drawings ...	287–289
139	Rate of Council Drafts	289–292
140	Summary	292–296

Chapter XII.

BANKING AND CREDIT.

141	Indigenous Banking	297–299
142	Rise of Modern Banking.. ...	299–300
143	The Presidency Banks	300–303
144	Their Business	303–306
145	Exchange Banks	306–309
146	Joint Stock Banks	309–311
147	Bank Failures	311–313
148	Proposed Restrictions	314–315

INDIAN ECONOMICS.

Chapter I.

INTRODUCTORY.

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Ranade: *Essays in Indian Economics*, List: *The National System of Political Economy*; Theodore Morison: *Economic Transition in India; and Organization of an Indian Province*:; Moreland: *An Introduction to the Study of Economics*; Lees Smith: *Studies in Indian Economics*, S. V. Ketkar: *An Essay on Indian Economics*, D. E. Wacha: *Four Papers on Commerce and Industry*; H. Stanley Jevons: Lecture on *Economics in India*; N. M. Muzumdar: Lecture on *The Study of Indian Economics*; V. G. Kale *Indian Industrial* and *Economic Problems.*

1. Economics in India:—It is hardly possible to over-estimate the value of a close and careful study of 'Indian Economics', and the importance of the investigation of economic conditions and of the application of remedies suggested by it for the promotion of the well-being of the mass of the people, has been widely acknowledged. The expression 'Indian Economics' has, however, been often misunderstood, and the idea of its constituting a special branch of study has been even ridiculed. Though a few well-known zealous Indians have devoted themselves to a study of Indian economic problems and have evolved a certain distinctive line of thought as well as substantial and definite results from their investigations, it can hardly be said that a 'school' of economic thought, as such, has been yet established in this country.

It is true that a set of earnest students look at the more prominent questions relating to the

economic conditions in India from a particular point of view which does not accord with the angle of vision of the authorities in this country and in England. Nor does it commend itself to an influential section of publicists and thinkers whose diagnosis of and remedies for the economic ills of India are entirely different. The problems of trade, land revenue, currency, fiscal policy, caste, and the attitude of the State towards industrial enterprise, are thus subjects on which opinion is sharply divided, and if a generalization may be allowed on such a subject, it may be observed that the trend of economic thought in India is slowly hardening into an Indian 'school'.

'Indian Economics' does not constitute a separate science or a branch of the science of Economics. But Indian Economics may well lay claim to respectful consideration like English Political Economy, for instance, as it deals with peculiar political, social, intellectual and economic conditions which constitute an important subject of research and study. At any rate, there is a general agreement that the progress of the country and the promotion of the welfare of its people, demand a scientific investigation at the hands of those who devote themselves to an inquiry into the material condition of the various classes of the community in India with a view to finding out remedies for its amelioration. This is and ought to be the sense of the term 'Indian Economics', and it should not be understood, as it is, to signify any fresh contribution to Economic Science or the formulation of new economic theories.

2. Peculiar Conditions:—The social, political and industrial organization in India has its

peculiarities which require careful study and which cannot be made easily to fit in with economic doctrines which prevail in Western countries. These countries themselves have passed through a variety of economic phases and experiences, and India appears to be on the high road to their ideal. The present industrial organization of Europe and America cannot be said to be the final phase of their development which has been brought about by different geographic, climatic, religious, political and intellectual influences. It is neither final nor by any means perfect.

On what lines India should or will advance cannot be definitely stated. But the establishment of British rule in this country, the peace and orderly Government which prevail within its borders, the Western education which its people are receiving and the close contact into which this ancient land has been brought with the other countries of the most distant parts of the world,—all these are factors whose influence on the development of India has been profound. The social institutions, the religious beliefs and the centuries-old traditions of the Indian people, have been and are being deeply affected by these influences, the result of which is a curious mixture of old and new, Eastern and Western. Consequently Indian economic phenomena have become most complex, though highly interesting, and it is difficult to say whither things are going. It is the work of the economist to disentangle this mass of confused facts and tendencies and to apply to them the laws of his science in such a way as to suggest the lines along which progress should beneficially be directed.

The vastness of the Indian continent, the variety of physical and climatic conditions which prevails in its different parts, and the different planes of intellectual and social progress on which the several Indian peoples stand—these constitute the immensely varied though attractive material on which the student has to work, and sweeping generalizations and theories about India as a whole are absolutely out of the question. Yet the influences which British rule has set at work are common and they are shaping the economic as well as the political destiny of the land in a manner the tendencies and results of which are discernible to the careful inquirer. Outside observers who do not know the Indian people intimately, therefore, feel that "there is an urgent need that some one or some group of men should set about trying to create a distinctly Indian political economy. The difference between the problems of England and those of this land must show you that there can be no greater danger than that of blindly following the writings of English economists. They are writing for a country in which the conditions are entirely different to those which obtain here and they have at the back of their minds problems which are everything to them but which are little or nothing to you."*

3. Economic Policy—Since the rise of the Historical School of Political Economy, economic laws have lost their old dogmatic character, and it is now usual with economists, in dealing with the problems that come within their purview, to make allowance for different circumstances which affect the operation of the laws of their science.

* Prof. Lees Smith : 'Studies in Indian Economics.'

The axiomatic assumptions of the older economists are no longer accepted as the starting points of discussion, but the development of every economic phenomenon and institution is carefully traced and the bearing upon it of political, social and intellectual environments is properly taken into account. The inductive method of inquiry, used in conjunction with the deductive, has strengthened the position of the economic science and has rendered the role of the economist more practical and valuable.

In economic, as in political affairs, two different and conflicting veins of thought are seen running along the development of the policy of the State in this country. Imbued with ideas and theories imbibed in England, the Indian rulers have sometimes attempted to foist upon an alien civilization the systems accepted as correct and beneficial in their own country, and it is no wonder if the doctrines of the orthodox economists should have been applied wholesale to the conditions in India. On the other hand, the peculiar features of the political and social organization in this country have been made the ground of a refusal to adopt in India measures which experience has proved beneficial in England and particularly on the Continent and in Ameriea. If *laissez faire* has thus been the keynote of the policy of Government in certain matters, in others it has gone to the other extreme, and some of its measures are national and socialistic to a degree*. We have noticed this fact not to emphasise the inconsistency lurking in the policy of the State in India but rather to show that the lessons of the recent development of economic thought have not

* See Ranade's Essay on Indian Political Economy.

yet been adequately taken to heart by Government. Students of Indian Economics feel that the experience gained by nations similarly circumstanced as India, is very valuable and that the measures taken by their Governments to promote the national prosperity of their people should be adopted in this country though they may militate against pre-conceived notions as to correct economic doctrines which, after all, have a relative applicability. Writers of the Historical or National school of Economics, therefore, insist that "science must not deny the nature of special national circumstances, nor ignore and misrepresent it, in order to promote cosmopolitan objects. These objects can only be attained by paying regard to nature, and by trying to lead the separate nations in accordance with it to a higher aim";*

Apart from the different geographical, climatic, religious and social factors which peculiarly affect the economic condition of a community, there are other currents and cross-currents such as the sense of social and national pride, the struggle for self-preservation, the ambition to attain predominance over other nations and the desire to achieve a higher standard of living, which play an important part in determining the actions of peoples and states. In the construction of 'an independent body of economic doctrines which could be logically deduced from the observed facts of Indian society,'† special national considerations will have their own share. Indian Economics will, in this sense, be as List says, a National Political Economy as distinguished from the cosmopolitical. Economic

* Frederik List. † Theodore Morison.

doctrines must go through the ordeal of applicability to Indian conditions. Mr. Ranade systematically showed how this was necessary and his lead has been followed by several students who have thought and written on the subject. Sir Theodore is right when he observes that the time has not yet come 'when it is possible to attempt a complete statement of the economics of Indian industry', because 'the material at our disposal is at present too scanty'; yet the pains-taking and observant student knows Indian conditions well enough to enable him to discuss and indicate the direction in which things are moving and ought to move.

4. Importance of Economic Studies.—That Indian Economics deserves careful study, is a truth which happily has now been recognized, as we have stated above, on all hands. In spite of its great value, however, for the promotion of the well-being of the people of the country, the subject has hardly received the attention it deserves. "Who will deny that for the future well-being of our national prosperity, the study of economics is of priceless value? Is it not our paramount duty to wake up in this respect, if we are to succeed in the keen competitive race now going forward in the world, in arts and industries, manufactures and commerce, in fact, in all matters which contribute to the larger production of wealth? The universal recognition of economic studies in all the civilized countries of the West is, we need not say, the most gratifying feature of our busy age and the most hopeful sign of the better welfare of the human race in the future. We earnestly put it to our countrymen whether they are to stand aside while

the human race is progressing?"* Earnest men, convinced of the close relation between a correct knowledge of economic laws and conditions on the part of the people and the progress of society that may be achieved by the practical application of that knowledge, have always deplored in India the general apathy of the educated classes towards economic studies. This indifference may be due to our defective system of education or the discouraging conditions that surround the student. Whatever the cause may be, latterly signs of improvement have been visible on all hands. The Universities are taking kindly to the subject, for the teaching of which provision is being made, and the need of a study of economic science and of Indian Economics, has been emphasised by the reform of our Legislative Councils and the economic awakening which seems to have come over the country.

Indian Economics, as we have pointed out above, is not a separate science, because it does not seek to discover new laws which were not known to earlier thinkers. We have indeed to observe things as they are and describe the economic activities of the different classes of the population and the different economic phenomena like high prices, low wages and increasing rents and to point out the relation of cause and effect. But we have also to point out how improvement may be effected by individual or collective action, and how evils may be prevented and remedied. It thus suggests an application of the economic laws to Indian conditions. It partakes more of the nature of the art of Economics or of a normative science. At any rate, the

* Mr. D. E. Wacha: "Four Papers on Commerce and Statistics."

importance of a systematic study of Economics in India can not be disputed at this time of day and has indeed been admitted by all thoughtful people and the Government.

5. Theory and its Application.—The comparative poverty and the general backwardness of the people of this country, are patent to every one who has devoted any thought to the subject. Their standard of living and their earning capacity are extremely low and the scope for improvement is vast. The social structure, the industrial organization and the political status, all require reform, and if a conscious and systematic effort is to be made, it must be based upon accurate knowledge of facts and well thought-out schemes. What part the State should play in bringing about this consummation, what steps it ought to be expected to take and how the creation of larger quantities of wealth in the country should be facilitated by changed action of individuals and groups of individuals—these questions depend for their solution upon economic studies, whose results may be relied upon with a view to action. The growing population of India must be decently housed, fed and clothed and the level of its living must be raised. The national dividend must increase so that a much larger share may fall to the lot of each citizen, enabling him thereby to live a more decent and comfortable life. The present condition in this respect, is, by common consent, most unsatisfactory and the problem can be effectively solved only by a fruitful economic study and an earnest endeavour to apply the remedies suggested by it.

"That spirit of self-sacrifice is wanted amongst increasing numbers in this great Empire; it is wanted particularly in Economics and the kindred social

sciences, for truly the problems of an economic character awaiting solution are gigantic. There are certain ways, too, in which India may be said to be peculiarly dependent upon the science and the art of economics for progress in social legislation."* 'We are all economists now' ; and many people believe that they know the nature of social ailments and their specifics. "It is a popular delusion, that, while economic science itself is a difficult subject, the discussion of practical problems, in which economic forces play an important part, can safely be undertaken without special preparation. There is no warrant for this view. The study of economic theory is, indeed, difficult; but, the application of the knowledge, which that study wins, to the guidance of practical affairs, is an even heaiver task; for, it needs, not only a full understanding of the theory, but also the trained judgment that can balance against one another a large number of qualifying considerations."†

Though the task of students of economics is so very difficult and responsible, its practical usefulness cannot be over-rated. Prof. Pigou goes on to observe :—" The complicated analyses, which they endeavour to carry through, are instruments for the betterment of human life. The misery and squalor that surround us, the injurious luxury of some wealthy families, the terrible uncertainty over-shadowing many families of the poor,—these are evils too plain to be ignored. Whether the life of man ends with his physical death, or is destined to pass unscathed through that gateway,

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*Prof. H. Stanley Jevons: Economics in India–Inaugural Lecture.

† Prof. Pigou: Wealth and Welfare.

the good and the evil that he experiences here are real; and to promote the one and restrain the other is a compelling duty. It is easy, if we will, to make the difficulty of the task an excuse for leaving it unattempted. But, difficulties, which deter the weak, are a spur and stimulus to the strong. To display them, not to conceal them, is the way to win worthy recruits. Neither by the timidity that waits at a distance, nor by the wild rush of undisciplined ardour is the summit of great mountains attained. First we must understand our task and prepare for it; and then, in the glow of sunrise, by united effort, we shall at last, perhaps, achieve."

6. Economic Problems:—The task of the economist is much more responsible in India than in other countries. His conclusions will run counter to the accepted policy of the State in certain respects and in others they will come in conflict with the pre-conceived notions of the people. Not only has the Indian economist to distentangle complex facts and correctly to interpret them, pointing his finger to the right path of progress to the State and to the various classes of the community, but he has also to expose himself to the charge of being an impatient idealist, an arm-chair politician or an unpractical and irreverent, radical reformer. He will have to say things which will prove unpalatable to the Government and the people as they refer to the policy and measures of the State and the beliefs and social customs of the different classes of the population. Neither this difficulty nor the other of analysing complex problems and suggesting their solutions, ought to deter the economic student from his thankless task.

Should Indian industrial development run along Western lines? Can India be a manufacturing country? Is it practicable and desirable to continue the old indigenous industries, and can small industries compete with foreign factories working on a large scale? How do social institutions like caste, affect the economic progress of the people? What change in the political and social institutions of the country is needed to promote that progress? Is the existing educational system of the country calculated to lead to rapid improvement? Is the present land revenue system in need of reform? How can more taxes be raised from the people without prejudicially affecting their standard of living and how may they be spent to their undoubted benefit? What should be India's fiscal policy and what should be her relations with the other parts of the British Empire and foreign nations? What should be the currency system of India and how should banking be developed in the country? What is the condition of agricultural and factory labour and how may it be improved?

7. The Role of Economics:—These and other questions of this character confront the Indian economist and demand a soultion at his hands. And well may he be weighed down with a sense of responsibility that rests upon his shoulders. Economic inquiry ought not to be merely an intellectual pastime to him. The influence of economic investigation and of the conclusions to which it may point, must be brought to bear upon the life of the community and the actions of the State. In this lies the peculiar importance of the work of the economist. "The economic student, if he is worthy of his calling, will proceed without fear or favour; he

will be tabooed as a socialist by some, as a minion of capital by others, as a dreamer by more. But if he preserves his clearness of vision, his openness of mind, his devotion to truth, his sanity of judgment, the deference paid to his views which is even now beginning to be apparent, will become more and more pronounced. The influence of economic conditions on economic theory has been, let us hope, abundantly demonstrated; but the reciprocal influence of economic thought on actual conditions is in danger of being over-looked.....Economics is therefore both the creature and the creator. It is the creature of the past; it is the creator of the future. Correctly conceived, adequately outlined, fearlessly developed, it is the prop of ethical upbuilding, it is the basis of social progress."* It is in this spirit that Indian economics must be conceived and the Indian economist must work. And the value of economic studies in India can not be too much emphasised under the conditions which exist at present in the country.

---

* Seligman.

Chapter II.

The Indian Outlook.

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8. Progress.—The principle of evolution has been applied to the study of phenomena of social change, and striking results have been obtained. It is now the practice to study the stages through which religion, literature, political institutions, morals, social customs and industrial organization have passed before reaching the particular forms we witness in different countries. This knowledge of the past and the present is a useful guide to the determination of the future, and the statesman and the social reformer may derive ample benefit from a study of social evolution. History records examples of peoples who stagnated and decayed, and we see before our eyes nations which are going forward with rapid strides. Progress is a complex phenomenon. It is quite possible that in a community there may be visible a strong intellectual growth and yet physically, materially and morally it may be on a downward grade. Different social and political conditions act and react upon one another, and progress is the sum-total of development taking place in various directions. The well-being of a people is

not determined only by an increase in the wealth it produces and has at its disposal. Nevertheless, it is a valuable criterion of its progress. Steady increase of population, improvement of its physique and health, an augmented production of wealth owing to the application of science to industries, a satisfactory distribution of the nation's income among the various classes of which it is composed, a bettering of the material condition of the masses and the easier accessibility of intellectual and social comforts to a continually growing section of the community—these are indications of progress, and every nation must strive to attain a higher and higher stage of development.*

9. **Wealth and Welfare**—But material wealth is only one factor in the welfare of a community and by no means the most important factor. Man does not live by bread alone. Materialism which subordinates the internal sources of satisfaction to the external, has been condemned by most religions, and the pursuit of wealth by individuals and the peculiar social organization to which it gives rise, are often regarded as inconsistent with high moral ideals. The Christian view of wealth would seem to be that "wealth is less important for welfare than the internal sources of satisfaction ; an increase of wealth is not necessarily an increase of welfare and wealth should not be allowed to stand in the way of other kinds of welfare ; it is not possible for a rich man to enter the kingdom of Heaven, but his riches are as great an obstacle to entering the kingdom as a

* See Principles of Political Economy. Vol. III by Prof. Nicholson.

camel's load is to passing through a postern gate."* Those who take this view do not, of course, contend that an increase of material wealth brings no satisfaction or that it adds nothing to welfare. But they are of opinion that the pleasure contributed by the increase of wealth is evanascent and uncertain and is therefore inferior to spiritual welfare.

In all countries and at all times, individuals have preached and even practised the simple life in which wants are reduced to the smallest dimensions, and contentment is sought which does not depend upon the possession of the goods of this world. Under modern economic organization, and according to modern conceptions of welfare, emphasis is usually laid on external sources of satisfaction though material wealth is not unoften regarded as a potent means to attain a higher end. There is a marked tendency to identify welfare with wealth and the condition of a nation, as of an individual, is guaged by the measure of money income. It was this conception of wealth which brought upon the modern industrial regime and doctrines the pious wrath of thinkers like Ruskin and rendered economic science an object of condemnation because that science was based upon the principle of self-interest.

10. Ethics and Economics.—This antagonism between Ethics and Economics is not real. In the first place, it must be noted that the desire to improve one's material condition, the ambition to rise to a higher status in society and the hankering after the possession of worldly goods, are not the peculiar features only of modern times and of modern civilization. Recent progress of humanity has chiefly lain in

* "Economics for the General Reader" by Henry Clay.

man's increasing conquest over the powers of nature and their utilization for the promotion of man's comfort. As new utilities are being discovered, the range of objects calculated to satisfy human wants is extending. More than a hundred years ago, Malthus was at a loss to know how the growing population of the world would be fed, but his fears have been falsified by the continually increasing stock of the necessaries of life and even of superfluities, thanks to the progress of physical science and improvement in man's power of organization. Some people appear to think that the materialism of their generation, indicated by the increasing number of wants and the waxing struggle of man to satisfy them, betrays the degenerate character of the days on which they have fallen, and they cast 'a longing, lingering look behind' on a golden age which they locate somewhere in the past. But they fail to realise that if their line of reasoning were rigidly followed, the happiest times in the history of mankind would be those when it had not yet emerged from the primitive condition. They will have to set up the savages as the happiest human beings whose lot they may envy, inasmuch as they have very few wants, and have not much trouble in satisfying them.

It may, however, be contended that we are exaggerating the position of those who condemn materialism and advocate the reduction of wants in number and intensity. What they perhaps mean is that material wants should be replaced by wants of a nobler kind. Plain living and high thinking is a motto which we respect and thoroughly approve, and no better ideal can be put before an individual or a community. But it is erroneous to suppose that purely economic wants have absolutely no moral value. "Each new want

is an additional bond between men, since we cannot as a rule, satisfy it without the help of our fellows; in this way the feeling of solidarity becomes stronger. The man who has no wants, the anchorite, is sufficient to himself; this is just what he should not be. As for the working classes, we should be glad, and not concerned, that new wants and desires torment them unceasingly; were it not for this, they would have remained in perpetual bondage."* In fact, no civilization would have been possible if our ancestors, whose attitude on life is sorely misunderstood and misrepresented, had not striven to promote their material welfare and had remained content with things as they found them.

II. A Misconception.—Communities have advanced from one economic stage to another, and at each step they have had their own problems to face and evils to contend with. Conditions in our times are quite different from what they were even in the near past. They have grown more complex and the difficulties involved in them are being overcome. Means of communication have become easier, and no people can now live in isolation and remain unaffected by a contact with other communities and nations. New nations have risen and are expanding, and population is everywhere increasing. Peace and democratic government, the advance of the physical sciences, and the extention of international commerce, are forcing new problems to the front and every community has to adjust itself to these changing conditions. Old institutions have grown out of date and are found unsuited and old solutions have lost their applicability. A community will, under these circumstances, stand still at its peril, and the bogey of

*Charles Gide: Political Economy.

So-called materialism ought not to frighten us while we are engaged in the work of reconstruction and readjustment. "In every age poets and social reformers have tried to stimulate the people of their own time to a nobler life by enchanting stories of the virtues of the heroes of old. But neither the records of history nor the contemporary observations of backward races, when carefully studied, give any support to the doctrine that man is, on the whole, harder and harsher than he was, or that he was ever more willing than he is now to sacrifice his own happiness for the benefit of others in cases where custom and law have left him free to choose his own course. Among races whose intellectual capacity seems not to have developed in any other direction, and who have none of the originating power of modern business men, there will be found many who show an evil sagacity in driving a hard bargain in a market even with their neighbours. No traders are more unscrupulous in taking advantage of the necessities of the unfortunate than the corn-dealers and money-lenders of the East."*

12. No Conflict.—It is a misconception to suppose that man is, on the whole, more dishonest in the midst of modern surroundings than he was in the past and that the modern economic organization has led to demoralization. There is evidence, on the contrary, to believe that ethical considerations are having greater sway over the individual and the national mind and that the social and economic institutions of the present day are making man, on the whole, a better man.† Had this not been so, our international commerce, finance, banking, and concerted

* Marshall—"Economics of Industry."

† See Ely's "Evolution of Industrial Society."

action for material and moral improvement on the part of the nations of the world, would have been impossible. These developments presuppose and foster greater mutual trust and sympathy, and the ethical sense of civilised communities is perceptibly growing stronger every day. There is really no antagonism, as we have said above, between correct economic action and true economic theory. In this connection Prof. Seligman observes :— "Sympathy or altruism pushed to an extreme involves the destruction of self and therefore the death of society ; self-interest or egoism pushed to an extreme means the destruction of others and therefore likewise the death of society. Social life can endure only through a balancing of these two principles, each reinforced by the other. Since economics, like ethics, is primarily a social science, the true economic action must in the long run be an ethical action. An individual may pursue selfish economic ends, and may augment his own wealth at the cost of moral progress ; but he is then subordinating public to private considerations. Broadly speaking, regarded from the point of view of society, as a whole, what is economically advantageous must in the long run be right ; and what is correct in ethics must in the end also be profitable to the business world. The modern economist, therefore, has become just as mindful of the ethical aspects of every economic problem as the modern moralist has been forced to recognize the economic side of his ethical problem."*

Our conclusion, therefore, is that though material wealth is not the only source of wel-

* Principles of Economics.

fare, it is not to be despised, because it too assists largely in elevating man to a higher level. Production upon a more extensive scale is placing within the reach of the lower classes the means of intellectual happiness which are no longer the monopoly of the few favourites of fortune. Apart, again, from what the ideal human being should be, man as he has been and is to-day, wants material comforts and our economic organization must be so designed as to provide these in sufficient quantity. "Wealth gives liberty in this sense: it increases opportunity giving the possessor more choice in the use of his time and fuller means of self-determination or self-expression. The effect of an increase of wealth upon welfare may be neutralized by misuse or waste: the increase must be balanced against any change for the worse in the conditions of production, and allowance made for the indirect effects which an increase in one person's wealth may have upon other people's welfare. But the increase in opportunity remains; there is a potential increase in welfare."†

13. India no Exception.—This discussion of the character and effects of wealth may appear superfluous or irrelevant. But in a treatise on Indian Economics, a reference to this question is essential inasmuch as it has been discussed in this country from very remote times and two rival schools of thought have been fighting over it. There is also an amount of misconception prevalent about it in India and outside. It is usual to contrast the materialism of the West, of the land of 'the mighty dollar,' for instance, and the spiritualism of India, and this contrast is sometimes cherished by Indians

† Henry Clay: "Economics."

as a compliment and not often made by outsiders through a feeling of contempt mingled with pity. This difference between the two attitudes on life strikes the superficial observer as fundamental, and Indian people are not unoften relegated to the category of inferior races. But the same judgment could have been passed upon the peoples of Europe in the Middle Ages and may be passed on some of them even at this date. In the words of the late Mr. Justice Ranade, India has been ruralized and at the present moment, stands upon the threshold of the capitalistic and factory regime. Because India is poor, the wants of her people are limited and agriculture is her main industry, it does not follow that she is more spiritual and dreamy than the West or that she is of a weaker mould. There is abundant evidence to prove that India was rich in the goods of this world as well as in spiritual and cultural wealth; that her people desired and enjoyed material pleasures; and that arts were cultivated and the physical sciences were developed in India. The poverty and backwardness of India are due to other causes—she has not been able to march with the times and her progress was arrested. And this does not prove that Indian people are wanting in the sense of enjoyment or that they are so much taken up with the thoughts of the other world that they have no appreciation for mere material pleasures.

14. Evidence of History.—The history of India, even of the remote past, is full of evidence which proves that the judgment contested above is the result of ignorance, and is based upon a superificial observation of the existing state of things. The splendid empires of Chundragupta and Ashoka, of Samudragupta and Harsha, of the Moguls and of

the Marathas, would have been impossible, if the people of India had scorned the joys of this world and had been incapable of material progress. The extensive commerce this country carried on with the outside world, even in the times of the ancient Greeks and the Romans, bespeaks the enterprise and industrial activities of the Indian people. The cloth, timber, precious stones and spices of India were carried to Persia, Egypt and to the countries situated on the Mediterranean coast.* The large and beautiful buildings, the canals and public roads of the times of Mahomedan rule, the arts and industries which distinguished India and attracted to her coasts the adventurous merchants of the West, do not certainly support the idea that the Indian spiritual ideal is such as to militate against the prospect of her attaining material prosperity.

Far from this idea being accepted as a sort of compliment, certain Indian scholars, have strongly resented the stigma cast upon Indian civilization and Indian character, and they have demonstrated from facts recorded in documents that for several centuries India was in the vanguard of material as well as of spiritual development. "Much of the prevalent notions regarding the alleged inferiority of the Hindu genius in grappling with the problems of this mundane sphere and the extraproneness of the Indian mind to metaphysical and impractical speculations, can vanish and be proved to be the results of mal-observation and non-observation leading to 'half truths which are really whole errors'—only if we apply the historic—comparative method in studying Indian facts and phenomena. For all

* See "Four Papers on Commerce and Statistics" by Mr. D. E. Wacha.

Indologists should remember that the wonderful achievements of the western nations are strictly speaking only a century old. So that if, while instituting a comparison between Hindu and Occidental cultures on the score of physical 'sciences' properly so called, applied arts and industries, care were taken to eliminate from one's consideration the triumphs and discoveries of the last few generations, the Hindu scientific intellect would be found to have been in no way lagging behind."†

15. Civilization in India.—The economic condition of England and the organization of British industries were revolutionised in the beginning of the nineteenth century by the use of steam power and the installation of machinery, and Great Britain entered upon a career of industrial prosperity, which made it pre-eminent among the nations of the world. But before the mechanical inventions of the close of the eighteenth century and the inauguration of the factory system in England, the material condition of that country and its civilization were by no means superior to those of India. For a long time the arts and crafts of this country held their own against British manufactures though the latter were supported by machinery, steam power and a national policy of protection. Observers in the eighteenth and the early part of the nineteenth century, were impressed with the mild disposition, simple habits, polished manners and the religiousness of the Indian masses and Sir Thomas Muro delivered himself with regard to Hindu civilization as follows:—"I do not understand what is meant by the civilization of the Hindus; in the higher branches of science, in the

† Sacred Books of the Hindus: Vol XVI.

knowledge of the theory and practise of good Government, and in education which, by banishing prejudice and superstition, opens the mind to receive instruction of every kind from every quarter, they are much inferior to Europeans. But if a good system of agriculture, unrivalled manufacturing skill, a capacity to produce whatever can contribute to convenience or luxury; schools established in every village for teaching reading, writing and arithmetic; the general practice of hospitality and charity amongst each other; and above all, a treatment of the female sex full of confidence, respect and delicacy, are among the signs which denote a civilized people, then the Hindus are not inferior to the nations of Europe; and if civilization is to become an article of trade between the two countries, I am convinced that this country (England) will gain by the import cargo." *

16. Religion and Material Progress.—It is true that Indian philosophy and Indian religions have taught that this world is an illusion and that the goal of man should be total emancipation from the thraldom of egoism. The teaching of Christianity too may be shown to be essentially of the same kind, and it has not stood in the way of the endeavours of Christian nations to attain material prosperity. Several precepts of Christianity and the conduct of devout Christians before the epoch of the Renaissance and even in later times, bear a striking resemblance to the doctrines of Hinduism and the ascetic tendencies of its followers of which so much is made. The *Nirvana* of Buddhism may be regarded even more depressing and antagonistic to mate-

* Quoted by R. C. Dutt in his 'Economic History of British India.'

rial pleasures, but it did not prevent Buddhistic emperors and their subjects from making remarkable progress in politics, arts, architecture and industries, and Hinduism was able to regain its ascendancy. The fact is that, though asceticism and a subordination of the body to the spirit, have been universally held as high ideals, they have rarely influenced in that direction the life of the mass of people in any country and at any time. The spiritual ideal is highly cherished but is seldom translated into action, though it exercises no small influence upon individual life and social customs. This is a statement of fact and not a justification of tendencies.

We are told that the glaring divergence between the precepts of religion and the conduct of its followers does not prove the futility of the former, but a failure of the latter to understand it and act up to it. Religion has to be properly interpreted and adjusted to the position and requirements of the people. "As a matter of fact, it is not only the question of war that raises a difficulty between the ideals of Jesus and the traditional practice of the churches; the problems of justice and law, of crime and coercion, of marriage and divorce, of industry and thrift, of wealth and commerce in all their forms, are raised in the most uncompromising way by the Sermon on the Mount, which challenges the whole structure and practice of civilized society. .....If by "Christian," we are to understand a literal interpretation and carrying out of all the precepts attributed to Jesus, there never has been and there is not at present, any Christian Church existing on a large scale or influencing national affairs; still less has there ever

been, or is there now, a Christian state."* It is, therefore, misleading to represent the Indian people as formed of a stuff and cast in a mould different from those of other races and communities, and the contrast based upon the divergence between the existing conditions in India and those which prevail elsewhere, reflects characteristics which are not fundamental and permanent but accidental and evanascent.

17. Spiritual and Material.—In India itself, the scope and the character of the spiritual and the material have always been correctly understood and the apparent conflict between the two has been satisfactorily disposed of. The controversies over the teachings of the Bhagvadgita which have recently assumed an acute form in Maharashtra, are significant in this connection and prove that the gulf between the ideals of renunciation and action, has been bridged. The Hindu Shastras have enjoined upon the house-holder the performance of his proper duties which it would be a sin on his part to neglect, and the home and family life are invested with a peculiar sanctity. Explaining the character of wealth, Mr. W. H. Moreland says :—"It is true that in most countries persons will be found who do not wish to have such possessions of their own, and the number of such persons is probably larger in India than in Europe, because of the tendency to adopt an ascetic way of life ; the sincere *Sanyasi* or *Fakir* is distinguished from the rest of us mainly by the fact that he does *not* want to possess things of the kind which we have named. But even in India sincere ascetics form only a very small proportion

* " The War and Religion"—Alfred Loisy.

of the population, and leaving them out of account it is correct to say that ordinary people want to possess the same kinds of things, and among the things they want are those which we are considering."* The Indian people are, therefore, neither better nor worse than other nations and communities, and their peculiar spiritual and metaphysical characteristics are such as are found among other people similarly circumstanced. "The Hindu has no doubt always placed the transcendental in the foreground of his life's scheme, but the Positive Background he has never forgotten or ignored. Rather it is in and through the positive, the secular, and the material that the transcendental, the spiritual, the metaphysical have been allowed to display themselves in Indian culture history. The *Upanishads*, the *Vedanta* and the *Gita* were not the works of imbeciles and weaklings brought up in an asylum of incapables and a hospital of incurables."†

18. East and West.—It is said that the complete absorption of the individual in the universal soul and his emancipation from the fetters of the material world and the need of action, is the ideal of the Hindu religion. But it is in reality the unique merit of the Bhagvad-gita, the Gospel of the Hindus, that it has reconciled the material to the spiritual and has spiritualised the material. This fact is not generally properly understood and hence the prevalent misconceptions and exaggerations. A more faithful exponent of Indian ideals and Indian culture than Sir Rabindranath Tagore, it will be difficult to find, and while in Japan recently he observed to an American interviewer thus:—

* "An Introduction to Economics."

† The sacred Books of the Hindus: Vol. XVI.

"You ask me to characterise the difference between the Eastern and the Western outlook. That is very difficult although the difference is very real. In the East we are conscious through all individual things of the infinity which embraces them. When I was in England I felt there was an incessant rush of just individual things upon me; it was not a question of noise and bustle and haste only, but the whole atmosphere lacked the sense of infinity. Upon me it had the effect of hampering reflection and meditation. No, I should not describe the difference as one between spirituality and materialism, though that is the way it is often put. I have known too many noble and devoted men in England who practise renunciation and self-sacrifice and strive for humanity to deny your Western civilisation spirituality. No country could stand the shock of this war if it lacked spirituality. But it is a different kind from ours. It is not penetrated as is ours, with the abiding sense of the infinite.

"Do I think that Eastern thought, the Eastern outlook can be reconciled with the mechanism of Western civilisation? I think it can and must be. In the East we have striven to disregard matter, to ignore hunger and thirst, and so escape from their tyranny and emancipate ourselves. But that is no longer possible, at least for the whole nation. You in the West have chosen to conquer matter, and the task of science is to enable all men to have enough to satisfy their material wants, and by subduing matter to achieve freedom for the soul. The East will have to follow the same road, and call in science to its aid."

19. Indian Ideals.—The physical features of the country which a community occupies, exercise a considerable influence on the character which the people develope and the civilization which they create. 'Man's character has been moulded by his every day work, and by the material resources which he thereby procures more than by any other influence, unless it be that of his religious ideals; and the great forming agencies of the world's history have been the

religious and the economic.'* And whatever depressing effect climatic conditions and the lavish bounties of nature may appear to have produced upon the Indian races when they are compared with people occupying colder regions, the former do not essentially differ from other communities so as to constitute a type. Indian religions and philosophies are held responsible for the unprogressive character of the people of this country who are supposed to be under the influence of an ideal of pessimism and renunciation. This opinion is largely held by Indians as well as non-Indians and the following typical extracts will illustrate the point we are dealing with :—

"The ascetic ideal, which holds in contempt this world and its interest has exercised for centuries past a dominating influence on the Indian mind. It has not, it is true, sufficient reality and strength in it to permanently wean men away from the world, and it proved of little efficacy in diminishing selfishness and pettiness. But it nevertheless produced a baneful result. It took zest out of life. The fashion which it created of talking disparagingly of mundane affairs, operated in no small degree in bringing about our political degeneration and industrial decay. Money and wealth being objects of incessant attack and ridicule, few high-souled persons or men of genius cared to devote their thought or energy to the consideration of the material interests of the country and the utilization and improvement of its resources. The downfall of our industries, arts and trade, is as much due to this cause as to the heavy disabilities and restrictions imposed upon them by the economic and fiscal policy of England and other countries."†

† Marshal : Economics of Industry.

* The Hon'ble Mr. Mudholker's presidential address : Report of the Industrial Conference, 1908.

"The ethical ideals of the Indians are adverse to industrial development on a large scale in asmuchas they discourage and dissociate industry (except agriculture) from culture. It is true that these ideals are being superceded by western ideals of material development in India but they still influence large sections of our community to a great extent and thus the chief motive impulse which impels people to acquire wealth has much less force in India than in the West."*

"His (the Hindu) virtues as well as his vices are characterised by passivity. He is a model of patience and peacefulness.....He has far more of the gentler qualities developed by a spiritual and quietical disposition but far less of the industrial and militant qualities of the European." *

"A keen consciousness of the myriads of years with countless changes, has been impressed upon a great bulk of Hindu population to an extent of which the Western people cannot have the least idea. How these ideas govern the life of the Indian middle class, is something which cannot possibly be conceived by other races. Under this psychic condition a man may ask as to what his duty is. And he will answer to himself that his duty is nothing. Whatever may happen, the ultimate end of all existing objects whether living or lifeless, is to be reabsorbed in the absolute." §

With regard to this view of the ideals of passivity, pessimism and renunciation of the Hindus and their influence on the Indian character, we may repeat that the evidence of history is entirely against it. As we have observed already, there is abundant evidence to prove that till the use of steam power and machinery revolutionised the processes of industry in England, India could more than hold

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* Pramatha Nath Bose: "A History of Hindu Civilization under British Rule."

§ S. V. Ketkar: Indian Economics.

her own against western nations in the matter of all the means of material prosperity, and Burke speaks of the people of this country towards the close of the 18th century in the following words:—

"This multitude of men does not consist of an abject and barbarous populace, much less of gangs of savages like the guaranies and chiquitoes who wander on the waste borders of the river of Amazon or the Plate; but a people for ages civilized and cultivated by all the arts of polished life while we were yet in the woods. There have been (and still the skeleton remains) princes once of great dignity, authority and opulence. There are to be found the chiefs of tribes and nations. There is to be found an ancient, venerable priesthood, the depository of their laws, learning and history, the guides of the people while living and their consolation in death; a nobility of great antiquity and renown, a multitude of cities, not exceeded in population and trade by those of the first class in Europe; merchants and bankers who have once vied in capital with the Bank of England, whose credit has often supported a tottering state and preserved their governments in the midst of war and desolation; millions of indigenous manufacturers and mechanics, millions of the most industrious and not of the least intelligent tillers of the earth."*

20. Reconciliation.—The so-called ascetic ideal did not stand in the way of the political, industrial and commercial development which went on for centuries under Hindu and Mahomedan emperors and kings. Shivaji, a devout Hindu, a disciple of the Saint Ramadas and an admirer of Saint Tukaram, laid the foundations of the Maratha kingdom, and Brahmin warriors like the first Bajirao under similar influences, built up the Maratha empire. The Hindus had their civil and military administration, their wars and treaties, their palaces and pleasure gardens,

* Speech made in introducing the East India Bill.

their luxuries and superfluities. Pursuit of wealth and glory took the Hindus thousands of miles away in the north and the south, and this does not look like an indication of the influence of the ideal of renunciation. If they did not start large factories and banks and did not carry on industries on a large scale, none of the western nations also did it till the close of the eighteenth century. What is said of Hindu ideals to-day can be said of the ideals of western races during the middle ages and three centuries succeeding them,* and of some European people even to-day. In attributing the present economic condition of the country to depressing Hindu ideals, it must not be forgotten that a large portion of the Indian population is non-Hindu and is not hampered by those ideals, but the latter has not shown greater economic activity. The statement of the view we have been discussing, is therefore, a sweeping generalization and is not warranted by the facts of history and the tendencies of the present day. The economic condition of to-day and the popular attitude on life in India are only a passing phase, a stage of arrested development and there is infinite scope for material progress in the land. The fact is that no religion can be more tolerant, elastic and adaptable than the Hindu religion, and it does not and will not place obstacles in the path of material development. Social institutions like those of caste may impede progress for a time but they can be and have been moulded to suit changing conditions.

The acquisitiveness, the impulse which propels people to acquire and accumulate wealth, competition, restlessness, ambition, and the other indus-

* H. O. Meredith: Economic History of England, pages 28-29.

trial and militant qualities of the people of Europe and America, are a growth of the last two centuries. Westeren countries had to go through different stages of industrial growth before they attained the present phase of economic organization. India must tread the same path to come in a line with other nations and it is wrong to throw the blame of her backwardness upon her religion and her social ideals. Some of the wealthiest Indian manufacturers and merchants are people who are little tinctured with western civilization. Several of the Indian capitalists, mill-owners and traders who have adopted western methods of making money, are even renowned for their staunch orthodoxy in religious and social matters. The Marwaris, the Bhatias, the Memans and the Cutchies who are so remarkable for their enterprise and acquisitiveness have had little benefit of English education, and in fact, it is notorious that the small section of the population who have imbibed western culture and are trying to assimilate it, have practically no share in modern wealth-production. It is thus the unenlightened and uncultured classes, fully under the influence of old religious ideas, social customs and prejudices that are in the front rank of commerce, banking and manufactures carried on on western lines, quite out of harmony with supposed Hindu or Muslim ideals. It is the modern methods of the production, exchange and distribution of wealth that have imposed on the west a peculiar stamp of modern civilization, and the rise of large industries and the growth of crowded cities in our midst proves that India can adopt those methods without doing injury to old Hindu ideals.

21. Spiritualism.—Is Indian spiritualism then a myth? Are the Indian ideals of life, so often spoken of, only imaginary? No! Hindu philosophy does teach the subordination of the flesh and the subjugation of the passions. Wealth and all other affairs pertaining to this world are spoken of in terms of depreciation and people are exhorted to emancipate themselves from the thraldom of the tyrant of desire. Absorption into the infinite is the goal of human existence and it is to be attained by renunciation. This teaching of philosophy has not, however, made the Hindus monks and anchorites because their practical religion, at the same time, enjoins on them certain duties in this world peculiar to their station in life and their age. And Hindu law-givers, poets and philosophers, far from turning their backs upon this world, regard perpetuation of the race, maintenance of the family, and the creation and enjoyment of wealth as essential functions which human beings must perform. Thus 'we find that Manu has preference for *Sanyasa*, but he reconciles it with the claims of life, its duties and responsibilities, by assigning different periods of life for the fulfilment of those claims. His Ashrama-Vyavastha or the systematic regulation of duties during different periods of life, makes room for the life of a zealous, loving, enjoying, struggling, helping, aspiring house-holder when the senses are keen and limbs vigorous and for a life of a retired, calm, balanced, contemplative *Sanyasi*, when senses are benumbed and life shorn of much of its novelty and charm.'* The *Dharma Sutras* assign even a higher place to the life of a house-holder. The *Bhagvad-*

* A Gist of the Gita Rahasya by Mr V. M. Joshi.

gita distinctly prefers a life of work and disinterested service to that of renunciation. The Divine Song 'is meant to lift the aspirant from the lower levels of renunciation, where objects are renounced, to the loftier heights where desires are dead, and where the Yogi dwells in calm and ceaseless contemplation while his body and mind are actively employed in discharging the duties that fall to his lot in life. That the spiritual man need not be a recluse, that union with the divine life may be achieved and maintained in the midst of worldly affairs, that the obstacles to that union be not outside us but within us—such is the central lesson of the Bhagvad-Gita.'† Living in the all-pervading presence of the infinite, man has to do the duty that comes to his hands, dedicating to God every thing he does.

It will thus be clear why the Hindu ideal of renunciation has not turned the Indian people into recluses and has only placed the obligation of duty in this life on a higher plane. This is the Indian spiritualism which has baffled western observers and thinkers and misled them. In the works of poets like *Kalidasa** we see the influence of this gospel of disinterested duty on the every-day life of the people, and that influence has been at work throughout the whole history of India. The problem before India now is how to adapt itself to changing conditions without falling into the errors into which the west has undoubtedly fallen. Can she assimilate whatever is good in western civilization, "its high individual development, its energetic activity, its clean and successful methods and its complete sys-

† Preface to Mrs. Annie Besant's Translation of the Bhagvad Gita.

* Raghuvams'a.

tem of machinery" without sacrificing the essence of her own culture? To many thinkers this is India's mission: "It may be the mission of India, clinging fast to the philosophic simplicity of her ethical code, to solve the problems which have baffled the best minds of the west, to build up a sound economic policy along modern scientific lines, and at the same time preserve the simplicity, the dignity, the ethical and spiritual fervour of her people. I can conceive of no loftier mission for India than this; impart purity of life to Europe and attain to her loftier political ideal; inculcate spirituality to the American mind and imbibe the business ways of its merchants."*

22. Test of Religion.—Ideas about the purpose and function of religion have latterly been undergoing a marked change, and it is being insisted that both morality and religion must stand the test implied in the question, "do they tend to promote the well-being, the good of mankind?" And they will be subjected to this test more and more in the days to come. This good of mankind connotes 'affection, love, family life, motherhood, fatherhood, the happiness of children; rest after fatigue; achievement after effort; these things being bound up with and depending upon mere material things—health which means food and clothing and cleanliness; leisure and serenity which mean an ordered life, efficiency, the capacity to live in society and to do one's work in the world—and you come back to economics, to sociology, to the science of human society.'* The material thing is but the expression

* His Highness the Gaikwar's Presidential Address, Industrial Conference, 1906.

of still profounder realities which cannot be separated therefrom, because with leisure and a wider outlook come, finer affection—the laughter of children, the grace of women, some assurance that maternity shall be a joy instead of a burden—the keener feeling for life. Bread is not merely the pulverized seed of a plant, it is the bloom on a child's cheek, it is life; for it is human food—that is to say, a part of what human life represents.'* Social service, social reform and social legislation which are assuming greater importance every day, are only a vivid expression of the ideas we have emphasised above and it is impossible to overestimate the value of such a movement in a country like India. And there is no reason to suppose that Indian religions will fail to respond to the demands that will be made upon them or that Indian ideas of spiritualism will hamper the material development of the country.



* Norman Angell: The Foundations of International Polity.

Chapter III.

GIFTS OF NATURE.

REFERENCES.

G. V. Joshi:—*Writings and Speeches; Imperial Gazetteer Vol. III; General Report of the Census of India, 1911, Agricultural Statistics of India;* Pramathanath Banerjea : *A Study of Indian Economics; P. K. Wattal : The Population Problem in Indian, Records of the Geological Survey of India; Reports of the Indian Industrial Conference.*

23. Importance of Production.—It being admitted that the promotion of the welfare of the people in India, as in other countries, depends upon the wealth that is available to them, the main problem which demands consideration is, how may the supply of necessaries and comforts be increased and how may the general standard of living be raised. Whether the income per head of the population in India be Rs. 30 or a little more, the poverty of the country is an undisputed fact. We no doubt hear of poverty and distress in all western countries and of the endeavours which are being made to cope with the evil. But the economic problem in India in this respect is quite different from the one that confronts other nations. "Poverty in England, or America or Germany is a question of the distribution of wealth. In India it is a question of its production.....Suffice it to say that if it (the income) has mounted to any considerable degree since the Commissioners in 1880 estimated it at £ 2 per caput, it is still infinitely below that of any of the leading nations in Europe, if not actually the lowest in the world. An inquiry into the causes of this

poverty inevitably involves a discussion concerning the whole economic problem in India, for which this is not the place." *

Distribution of wealth in India is not, of course, ideal and there may be room for improvement in it. Wages of labour must certainly be raised and the working classes in India are, in fact, becoming conscious of what is due to them and of what they are defrauded by their adherence to custom. But in order that the share of the workers of different grades and kinds may be increased, the total national income must, in the first place, be considerably augmented, and it must keep pace with the steady growth of population and the requirements of a higher standard of living. By what means this end shall be attained is, therefore, the important problem which demands solution. "The first consideration is that India is a very poor country. The people as a whole want a large increase in wealth to satisfy their most urgent wants: many of them want more nourishing food, better clothes, better houses, better health, better education, to name only a few of these wants: and any system of production that will give a large increase of wealth is desirable because it will give a chance of satisfying some of these most urgent wants."†

24. Natural conditions.—Land, labour and capital are the three essentials of production, and to make them more efficient, is to provide for a larger production of wealth. India is a vast country and the geographical, geological and climatic conditions

* Loveday.—"The History and Economics of Indian Famines."

† W. H. Moreland: An Introduction to Economics.

vary from province to province and district to district. There are big rivers in northern and southern India whose waters irrigate and fertilise extensive plains and some of them are even navigable. The soil in certain parts of the country is extremely fertile while in others it is very poor. Many big tracts are entirely subject to the vagaries of the rains, the character of the monsoon meaning to them either plenty or famine. All degrees of heat and cold are found in the country and the soil therefore produces a variety of crops. Gold, coal, petroleum, manganese and iron are found in considerable quantities in some provinces and the mineral production of the country has been steadily on the increase. Nature is thus bountiful in India, and the raw materials and food grains the soil produces, are of various kinds. India may not be as rich in her mineral wealth as some other countries, but her possibilities in this respect are not yet definitely known.

The resources of the country lie almost undiscovered and untapped and though minerals have been exported from ancient times, it may be found that after all barely the surface of the earth has been scratched. How the rivers of India may, by means of canals, be utilized for the irrigation of thousands upon thousands of acres has been demonstrated by the successful irrigation schemes carried out in the Punjab and elsewhere. And the Tata hydro-electric works at Lonawla, show how motive power, capable of working a number of factories at a distance, may be created by means of water stored in big lakes formed on the sides of hills and fed with heavy rainfall usual there. The forest produce of India too is varied and rich and its economic possibilities

are steadily being realised. Excellent qualities of timber and fibres, grasses, distillation products, oil seeds, tan and dyes, gums and resins, rubber, bamboos, canes, drugs and spices are found in these forests which are now, in British India, under State control. Many of these products are calculated to supply valuable raw material for industries, and wood pulp, paper, tanning materials, matches, rosin and turpentine may be manufactured out of them on a large scale. Varied climate and soil, hills and rivers, forests and mineral deposits, constitute the abundant wealth of India which has earned for her the name 'land of gold,' and Indian tea, jute, cotton, sugar-cane, oil-seeds and indigo have established their reputation in the whole world.

As to minerals alone India has had a distinguished record. "So richly endowed by the beauty of Nature, India from the earliest times of which there is any record down to within a few years of the British occupation, was one of the foremost mining countries in the world. She was able not only to meet from her resources her own local wants, but also sent to far-off lands some of the finest products of her mines. For centuries and up till 1727 when Brazil entered the market with its cheaper stones obtained from the mines of Minas Geraes, India alone supplied diamonds to the world. The koh-i-noor of the British Crown, the Orloff in the sceptre of the Russian Czar, the Pitts diamond among the state jewels in France, and several others in the possession of the princes and magnates of Europe, are from our mines. China got her silver from us. Our iron was held to be of superior quality and was much sought after by the foreign merchants. Indian steel was highly prized

for its fine temper and found ready sale in the markets of Persia and England."*

25. Land.—As a fruitful source of livelihood for men and cattle, the soil has ever been regarded with reverence in India, and the profession of the cultivator occupies the foremost place in public estimation. In quite a Physiocratic fashion, the mass of Indian people attribute to the soil almost exclusive productive capacity and other industries appear to them as more or less parasitical. This is but natural in a social economy in which agriculture predominates, and the deep attachment of the people to the soil, is thus easily accounted for. About 72 per cent. of the Indian population subsists upon agriculture, and with the disappearance of the indigenous industries, this percentage has been steadily growing. Barely one acre of land is available per head of the agricultural population and it would not be surprising if the soil felt increasing pressure. The following figures† are instructive in this connection:—

Classification of Area.

(1913–14.)

	Acres.
Area by professional survey ...	... 619,594,000
Area under forest	... 82,623,000
Area not available for cultivation	... 147,159,000
Cultivable waste	... 115,587,000
Fallow land	... 52,620,000
Net area cropped	... 219,192,000
Irrigated area	... 46,836,000

* Mr. Joshi's Speeches.

† Agricultural Statistics of India, 1913-14.

The proportion of cropped to total area and the number of population per 100 acres of cropped area in each province are stated below .—

	Proportion of cropped to total area.	Population per 100 acres of cropped area.
Bombay	52 per cent.	60
Delhi	50 „ „	233
Bihar and Orissa	49 „ „	133
United Provinces	49 „ „	142
Bengal	48 „ „	184
Punjab	40 „ „	81
Madras	38 „ „	121
C. P. and Berar	38 „ „	57
North-West Frontier Province	28 „ „	94
Manipur	23 „ „	92
Ajmeer-Merwara	16 „ „	177
Assam	19 „ „	114
Coorg	14 „ „	127
Sind	14 „ „	81
Burma	13 „ „	74

If areas cropped more than once are taken as separate areas for each crop, the gross area cropped

in 1913-14 amounted to 246,989,000 acres and was distributed among different crops as under :—

	Acres.	Per Cent. of total.
Food grains	191,573,000	77·7
Condiments & spices	1,288,000	0·5
Sugar	2,708,000	1·1
Fruits & Vegetables	5,721,000	2·3
Miscellaneous food crops	1,116,000	0·5
Total food crops.	202,406,000	82·1
Oil-seeds	14,658,000	6.0
Fibres	19,895,000	8·0
Drugs	588,000	0·2
Dyes and narcotics	1,949,000	0·8
Fodder crops	5,910,000	2·4
Miscellaneous non-food crops	1,113,000	0·5
Total non-food crops	44,113,000	17·9

To relieve the steadily increasing pressure of the population upon the soil, not much cultivable area is now available, though what is called cultivable waste may, to a certain extent, be brought under the plough. Reliance must, therefore, be mainly placed upon intensive farming. "Subtracting the land thus utilised for supplying foreign markets from the total area under cultivation, we shall find that what is left over does not represent more than two-thirds of an acre per head of the total Indian population. India, therefore, feeds and to some extent clothes its population from what two-thirds of

an acre per head can produce. There is probably no country in the world where the land is required to do so much."*

The fact of the recent increase of the population dependent upon agriculture, is of great economic significance. It is an indication of the decadence of the old handicrafts and the growing dependence of the mass of the people upon agriculture. By some this development is explained as the result of the more remunerative character of farming, particularly the cultivation of the commercial crops which command high prices in the outside markets. "On the whole, though no great reliance can be placed on the classification of the population by occupation in the census returns, there is no doubt that the number of agriculturists has increased more in proportion than either the total population or the total number of labourers. The increase in the number of agriculturists may be taken as indicating that the profits of agriculture were such as to attract workers from other occupations to agriculture."† This does not appear to us a correct explanation, and it can be proved that artisans and craftsmen who formerly could make a living by their traditional callings, have been driven to the soil by the decay of their ancestral industries, caused by the competition of foreign manufactures.

It cannot be denied that the high prices of agricultural produce such as cotton, wheat, jute and oil-seeds mean a larger margin of profit to the cultivator, and in certain parts of the country, the agricultural population has benefited by the foreign

* Peoples and Problems of India by Sir T. W. Holderness.

† K. L. Datta's Report on High Prices.

demand. In the first place, it must be remembered, however, that Indian agriculturists are not like farmers in the West. Lack of knowledge, co-operation, enterprise and means prevents the cultivators from reaping the full benefit of high prices and mobility is conspicuous by its absence among them. Non-agriculturists will not take to land unless they are forced to do so by the grim prospect of starvation. They will stick to their precarious traditional calling rather than enter a more promising field of labour. The idea, therefore, that the agricultural population has increased on account of the superior attractions of the farmer's occupation and the prospect of higher profit, is entirely mistaken. There are indeed a few well-to-do people, professional men, pensioners and others who invest their savings in land on account of the peculiar security it affords. But agriculture is rarely remunerative in their hands and their numbers as well as those of artisans and others who purchase lands, must be extremely small.

26. Pressure on the Land.--The latest census report, in the chapter on occupations, throws much useful light on this subject. We there read :—"On the one hand, the rise in the price of food grains has made agriculture more profitable, while, on the other, the profits of the various artisan classes have been diminished, owing to the growing competition of machine-mades goods, both locally manufactured and imported, with the result that these classes show a growing tendency to abandon their traditional occupations." And further :—"The local cobler on the other hand, having to pay more for his raw material and feeling the increasing competition of machine-made goods, has been tempted to abandon his hereditary craft for some other means

of livelihood, such as agriculture or work in factories of various kinds." Those artisans with whom agriculture was a subsidiary calling, are being compelled to throw up their proper crafts and to take to the overcrowded occupation of farming. The Census Report observes:—"The subsidiary table shows that many village artisans are also partly dependent on agriculture. This supports the statement made elsewhere that there is at present a tendency for these persons to abandon their hereditary occupations in favour of farming." * Though there are certain areas in the country which may be developed, the scope for extensive farming is now extremely limited. The land in most parts of India has now been under cultivation for centuries and constant and peaceful cultivation under British rule is indubitably subject to the law of diminishing returns. The operation of this law can only be arrested by improved methods of farming and the application of more capital to the land.

27. Fertility of soil.—It is a common belief among Indian cultivators that the soil is not as fertile to-day as it was in the past. This notion can not be disposed of as being a mere prejudice and be put down to the natural human inclination to disparage the present and exalt the irrevocable past. Increasing population and unbroken peace have allowed land no rest, and the fertility exhausted by continued cultivation has not been restored to the soil by the use of rich manures. 'With the increase in the acreage of cultivation, especially of less fertile soils, the average outturn is bound to decrease, but

* See the Author's article on this subject in the *Mysore Economic Journal* for February, 1915.

to establish a deterioration it must be shown that the land which was under cultivation in former times now yields less than it did before' and official inquiries on this point would seem to lead to the conclusion that the theory of deterioration 'has been frequently grossly exaggerated though it is not denied that in several areas the cultivation of land must have become less efficient than before.' Most of the officials whose views have been quoted by Mr. Datta in his report, incline to the opinion that "as a general rule the fertility of agricultural land in this part of India (Madras) is greater than formerly and that the tendency is for the fertility to increase rather than diminish". One official, however, states that "in the permanently cultivated parts of the country where the soil is under continuous cultivation from year to year and gets no benefit either from river silt or from long periodical rest, the average outturn of land per acre is less now than it used to be (say) 50 or 100 years ago."*

What are called the natural and original powers of the soil vary from one part of the country to another. The cultivator cannot, however, depend upon them to provide a perennial and uniform source of income even where nature is bountiful as those powers must be steadily exhausted unless they are replenished from time to time. It is difficult to distinguish between what man owes to nature and what he himself contributes in the fertility of the soil by his own exertions, putting in of manures, rotation of crops and so forth. Where land is abundant, as in a newly settled colony, extensive cultivation is the rule, but in old countries,

* Report on High Prices.

the demands of growing population have to be met by resorting to methods of intensive cultivation. Rapid and cheap means of transport have, no doubt, brought the old world into closer touch with the new and the food problem of the former has been, to a large extent, solved. But India cannot afford the means to buy her food from outside and the urgency of intensive cultivation is, in her case, extremely great.

28. Minerals.—We have already stated that the possibilities of the development of mineral production in India are considerable. "The feature that stands out most prominently in a survey of the mineral resources of India is the fact that while striking progress has been made in recent years in opening out deposits from which products are obtained suitable for export or for consumption in the country by what may be called direct processes, very little has hitherto been done to develop those minerals that are associated with the more complicated metallurgical and chemical industries. The explanation is to be found, to a great extent, in the importance of bye-products in modern metallurgical and chemical developments." It is, therefore, maintained that "a country like India must be content to pay the tax of imports until industries arise demanding sufficient number of chemical products to complete an economic cycle, and India does, in fact, import at present large quantities of metals and mineral products while possessing in many cases the mineral resources required to supply the demands in question. There is thus great scope for the development of mineral industries for supplying the internal re-

quirements of the country, quite apart from any markets that might be found abroad."*

What progress has been made in a decade in the growth of mineral production may be seen from the following figures :—

	Quantities.		Value.	
	1901	1911	1901	1911
			£	£
Coal (tons)	6,635,727	12,715,534	1,323,372	2,502,616
Gold (ounces)	532,303	583,567	1,931,030	2,238,143
Petroleum (thousands of gallons)	50,075	2257,92	204,342	884,398
Manganese ore (tons)	157,736	670,290	215,934	648,701
Salt (tons)	1,102,039	1,225,490	374,133	429,29›
Saltpetre(tons)	15,555	14,674	191,904	220,012
Tungsten ore (tons)	.....	1,308	.....	99,989
Iron ore (tons)	49,798	366,180	7,932	54,487

29. Conservation of Mineral Wealth.— With every crop taken out of the soil, we steadily exhaust its productive capacity, and it is by means of

* Decennial Moral and Material Progress Report.

manures that the fertility is restored to it. But in the case of the extraction of minerals, such restoratives are not available. An increased supply can be obtained only by going deeper into the mines, and though the operation of the law of diminishing returns may be checked by improvements, a time comes when the cost becomes prohibitive and the supply of minerals is exhausted. The prospect of the exhaustion of the English Coal Fields, has led some people to advocate the taking of measures to conserve the supply though the comforting assurance is given by some that by the time the prophesy is fulfilled a century or two hence, a cheap substitute for coal will already have been found.

The fate of the stock of subterranean wealth raises similar apprehensions in India and the problem is further complicated here by the fact that the people of this country have little share in the wealth extracted. The minerals once taken out, cannot be restored and as the mines are at present exploited, in the absence of indigenous enterprise, the mineral wealth does not remain in the country; nor does the country get an equivalent for it. "In view of the fact that minerals cannot be replaced or replenished, a special, heavy responsibility lies upon both the people and the Government. The desire to stimulate production cannot justify the complete handing over of mines to persons who have no permanent interest in the land. On the one hand, our people ought to realise that in the interests of the country itself our minerals have to be worked. No serious harm certainly can result from postponing for even a quarter of a century the extraction of precious metals like gold and precious stones like rubies or diamonds. On the other hand, as trustees of the

permanent welfare of the Indian people, the Government should recognise the serious injury that would be caused to those interests from exploitation by outsiders who have no permanent stake in the country."*

30. Summary.—Though not quite lavish, Nature is sufficiently bountiful towards India. We have a variety of soils which produce raw materials of the greatest value to man so that if India were to be cut off from the outside world, the country could be self-supporting. Some of the products of the Indian soil like jute, cotton, tea, coffee, indigo, sugarcane, oil seeds, rice, and so forth are of great economic value and India produces her own food supply. The mineral possibilities of the country are believed to be great and large industries are capable of being built up in connection with them. The Indian forests abound in a variety of timbers and grasses and if they are properly conserved, they may constitute a rich source of wealth. But the soil must continue to be the main stay of the bulk of the population and the limits of extensive cultivation have long been reached. A larger amount of food supply must be got out of the soil if it is decently to support the growing population. Among the conclusions Mr. Wattal† has derived from his elaborate study of census and agricultural statistics, are the following:—That though there are sparsely populated areas they are not so because they are awaiting development but because the character of the soil is inhospitable and there is no further room for

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* Presidential Address by the Hon'ble Mr. Mudholkar at the Madras Industrial Conference, 1908.

† The Population Problem in India.

the development of cultivation; that in all the old Provinces the pressure of population on cultivation is fairly intense; that the average per unit of the agriculturist population hardly exceeds an acre and a quarter and shows a tendency to fall; that a development of the means of subsistence in the circumstances of the country can only mean a development of irrigation, but irrigation has no very bright future before it, and that the agriculturist population is increasing at the expense of the industrial and trading populations. This picture may appear to be overdrawn but some of its strokes are true to nature. The utilization of the water of rivers which goes to waste, the use of rich manures and the adoption of better methods, may, of course, counteract, to a certain extent, the growing pressure on land but there are enormous difficulties in the way, and other remedies must also be devised. The courses of rivers may be regulated and the water supply may be improved. But there are natural forces which appear to be beyond human control and the prospects for the large agricultural population at the mercy of the monsoons and dealing with not a very productive soil, cannot be very reassuring.

Chapter IV.

Human Effort.

REFERENCES-

Marshall :—*Economics of Industry ;* Theodore Morison : *Economic Transition in India ;* W. H Moreland : *An Introduction to Economics ;* Chatterton : *Agricultural and Industrial Problems in India ;* R. C. Dutt : *India in the Victorian Age ; General Report of the Census of India' 1911 ;* Lieut Colonel E. H. de V. Atkinson and Mr. Dawson : *Report on Inquiry regarding the Employment of Technically Trained Indians ; Reports of the Indian Industrial Conference ,* V. G. Kale : *Indian Industrial and Economic Problems.*

31. Value of Labour.—Rivers, lakes, mineral deposits, forests and fertile soil are the spontaneous gifts Nature offers to man, but that kind mother yields her blessings only at labour's call. The water of lakes and rivers must be conveyed to fields thirsting for moisture, the minerals must be extracted from the earth, trees in the forests must be felled and removed and the soil must be ploughed and cultivated. In his migrations man has tried to occupy the fairest parts of the earth, but has not always succeeded, and many economic stages had to intervene before he rose to the present state of industrial organization. If we leave aside the wild tribes of Gonds, Bhills and the like that are still found in India, not far removed from the primitive condition in which man subsists by hunting and pasture, we find that the bulk of the population has, for centuries, been prosecuting agricultural and other industries with patience and perseverance. Nature does not smile on all parts of the country alike. She frowns upon man in several places and there she has been coaxed into yielding her gifts,

In many tracts of the country, the people have had to struggle very hard to eke out a living and with great difficulty the land has been made capable of supporting human life. The intensity of this struggle with nature has moulded the character of the people in different parts of the country in different ways. While, therefore, some have become most enterprising and tough and bold, others have learnt to take life easily. On the whole, however, the value of labour in the production of the necessaries of life has been universally appreciated and the old arts and industries of India testify to this fact. The Indian farmer and craftsman is well-known for his patience and skill, and though labour in this country has been confined to particular grooves, the essential conditions of productivity are indisputably present in it.

32. The Labour Factor.—The second requisite of production is labour which is defined, as it is usually understood, as muscular energy directed by intelligence. In economics the word is applied to every effort made by man in contributing directly or indirectly to the creation of wealth and refers alike to the human energy spent by a common workman in the field and to that of the Viceroy of India. Ordinarily, however, labour means the manual and intellectual energy brought to bear upon the work of production by all those who directly participate in wealth-creation. The value of land as a factor of production may be partly the result of labour bestowed upon it, and implements and machinery required for wealth-production are also the product of human labour. Yet the natural powers of the earth and the atmosphere and the pre-existing wealth which is used by the producer, are both essentials of produc-

tion which can be distinguished with sufficient clearness, from labour.

To satisfy his wants man has always used his physical and intellectual energies and as in the case of land, so in that of labour, the quantity of wealth produced will be conditioned by the efficiency of the factor of production. If more utilities are created in the same amount of time or the same utility is produced in a less amount of time, that is a distinct gain to the individual and the community. The efficiency of workers and their condition therefore play an important part in determining the national dividend and the welfare of the community.

As the essence of wealth-creation lies in the surplus of pleasure over the pain of labour or sacrifice, the smaller the amount of cost, the higher will be the gain. But smallness of the remuneration paid to labour does not often denote large surplus because the contribution of that labour to production may not be sufficiently high. Low wages may some times prove more costly than high wages. "In the Philippines the contractors find it in the end cheaper to hire the Chinamen in preference to the natives, although the former command larger wages; in the southern cotton factories the white labourer is found more advantageous than the negro factory hand, who can be hired at a materially lower wage. Furthermore, in the same industry and with the same workman neither an increase of wages nor curtailment of labour time necessarily augments cost. Where a reduction of hours or an increase of wages succeeds in enhancing energy, care and sobriety, the output may be greater than before."*

* Seligman.

33. Cheapness and Efficiency.—Indian labour is said to be cheap but at the same time comparatively very inefficient. The cheapness is both the effect and the cause of India's poverty and even if the Indian labourer is not getting his due share it cannot be sufficiently large so long as the total product is small. In point of efficiency, the Indian workman is compared with his western brother to his great disadvantage, and it is stated that an English labourer is six times as efficient as the Indian labourer. Apart from climatic and other factors which go to make labour inefficient, the Indian workman suffers from a lack of education and training. When these latter are available, the efficiency of Indian labour will not be lower than that of workers in other countries. Comparisons such as the one stated above, are sure to be unfair to the Indian labourer who is the victim of the conditions that surround him and is not inherently incapable.

Complaints are not unoften heard from employers about inefficiency of labour accompanied by a rise in wages. The causes of recent increased wages have, however, little to do with an improvement in the conditions of work on the field or in the factory. Given proper training, congenial surroundings and healthy conditions of work, the efficiency of Indian labour is bound to be high. We cannot do better than quote here the testimony of Sir Thomas Holland. Speaking at Madras recently he observed :—"One thing that I am quite satisfied with already is that in India we have means of obtaining all the expert labour that is necessary. Any one who has visited the Tata Iron and Steel Works will come away thoroughly convinced with the conclusion

that with Indian labour you can tackle any industry for which the country is suitable. I have seen labourers at Sakchi who only a few years ago, were in the jungles of the Santals without any education. They are handling now red hot steel bars, turning out rails, wheels, angles of iron as efficiently as you can get it done by any English labourer. You cannot have a better test of the quality of labour and you cannot be prepared for more satisfactory results. When your labour is organized and properly educated and properly fed there is not the slightest doubt that you will get results that will suit all raw materials available in the country. The whole question is largely of the methods we should adopt for getting information regarding our own materials and training people to suit the needs of industrial development." The proverb that 'a bad workman quarrels with his tools', may be fitly applied to the employers in India who find labour scarce, dear and inefficient. They do not know how to procure and train labour and how to make it efficient.

34. Different classes of Labour.—Before the advent of machinery and steam power in this country, Indian labour was known to be thoroughly skilled and efficient. The artistic work of India was famous throughout the world, and the efficiency of Indian weavers, metal workers and carvers, was undoubted. Though the fine products of Indian labour are being fast displaced by machine-made goods imported from abroad, we still get them in sufficient quantity and variety to testify to the high level of efficiency reached in India. It is a well-known fact that in the first quarter of the last century, the products of Indian looms competed successfully with

the piece goods turned out in English factories till at last they were driven out of the field by the selfish and short-sighted policy of the East India Company. Owing to the decadence of the old indigenous industries and the inability of the people to start new ones to take their place, agriculture has become the mainstay of the population and the bulk of our workers are connected with that industry. "In England according to the returns for 1901, of every hundred actual workers, 58 are engaged in industrial pursuits, 14 in domestic service, 13 in trade and only 8 in agriculture; whereas in India 71 per cent. are engaged in pasture and agriculture and only 29 per cent. in all other occupations combined. The preparation and supply of material substances afford means of livelihood to 19 per cent. of the population (actual workers) of whom 12 per cent. are employed in industries, 2 in transport and 5 in trade. The extraction of minerals supports only 2 persons per mille; the civil and military services support 14, the professions and liberal arts 15, and domestic service 18, persons per mille." * The following tables will show in detail, how the population is distributed among the different occupations:—

Occupations of the Indian people.

I

A	India	313,470,014
	Production of Raw Materials ...	227,030,092
	I Exploitation of the surface of the earth	226,550,483
	Pasture and agriculture	224,695,900

* Census Report, 1911.

	(*a*) Ordinary cultivation ...	216,787,137
	(*b*) Growing of special products and market gardening	2, 012, 503
	(*c*) Forestry	672, 093
	(*d*) Raising of farm stock ...	5,176,104
	(*e*) Raising of small animals ...	48,063
	Fishing and hunting	1,854,583
II	Extraction of Minerals	529,609
	Mines	375,927
	Quarries of hard rocks	75,424
	Salt etc.	78,258
B	Preparation and supply of Material Substances	58,191,121
III	Industry	35,323,041
	Textiles	8,306,501
	Hides, skins and hard materials from the animal kingdom ...	698,741
	Wood	3,799,892
	Metals	1,861,445
	Ceramics	2,240,210
	Chemical products properly so called and analogous	1,241,587
	Food industries	3,711,675
	Industries of dress and toilet ...	7,750,609
	Furniture industries	39,268
	Building industries	2,062,493
	Construction of means for transport	66,056
	Production and transmission of physical forces (heat, light, electricity, motive power etc.)	14,384

	Industries of luxury and those pertaining to literature and to arts and sciences	2,141,665
	Industries concerned with refuse matter	1,388,515
IV	Transport	5,028,900
	Transport by water	982,766
	Transport by road	2,781,938
	Transport by rail	1,062,493
	Post office, telegraph and telephone services	201,781
V	Trade	17,839,102
	Banks, establishments of credit, exchange and insurance	1,220,187
	Brokerage commission and export ...	240,856
	Trade in textiles	1,277,469
	Trade in skins, leather and furs ...	296,712
	Trade in wood	224,838
	Trade in metals	59,761
	Trade in pottery	101,986
	Trade in chemical products ...	171,927
	Hotels, cafes, restaurants etc. ...	719,052
	Other trades in food stuffs... ...	9,478,868
	Trade in clothing and toilet articles...	306,701
	Trade in furniture	173,413
	Trade in building materials ...	84,613
	Trade in means of transport ...	239,396
	Trade in fuel	524,962

	Trade in articles of luxury and those pertaining to letters and arts and the sciences	522,130
	Trade in refuse matter	3,695
	Trade of otLer sorts	2,192,534
C	Public Administrations and Liberal Arts	10,912,123
VI	Public force	2,398,586
	Army	665,278
	Navy	4,640
	Police	1,728,668
VII	Public Administration	2,648,005
VIII	Professions and liberal arts ...	5,325,357
	Religion	2,769,489
	Law	303,408
	Medicine	626,900
	Instruction	674,393
	Letters and arts and sciences ...	951,1(7
IX	Persons living principally on their income	540,1(·
D	Miscellaneous	17,286,67t·
X	Domestic service...	4,599,080
XI	Insufficiently described occupations...	9,236,210
XII	Unproductive	3,451,381
	Inmates of jails, asylums and hospitals	132,600
	Beggars, vagrants, and prostitutes ...	3,318,771

II

Occupation.	No. per 10,000 of total population.
Landlords and tenants	5,606
Agricultural labourers	1,316
General labourers	287
Stock-owners, milkmen and herdsmen	164
Cotton workers	207
Blacksmiths	44
Brass, copper and bell-metal workers	9
Carpenters and wood-cutters	99
Fishermen, boatmen and pailki bearers	133
Oil-pressers	37
Barbers	68
Washermen	68
Toddy drawers	20
Grain huskers and parchers	68
Leather workers	90
Basket makers, scavengers and drummers	107
Priests	64
Potters	63
Mendicants	128
Cartmen and pack animal drivers	47
Village quacks and midwives	6
Goldsmiths	57
Grocers and confectioners	119
Grain dealers and money-lenders...	109
Village watchmen and other officials	64
Vegetable and fruit sellers	51
Makers and sellers of bangles	18
Total ...	9,029

35. Agricultural Labour.—India is a country of villages. Only 9·5 per cent. of the population of India are found in towns (having not less than 5,000 inhabitants as a general rule) compared with 78·1 per cent. in England and Wales and 45·6 per cent. in Germany. In such a preponderatingly agricultural country as India, out of every 10,000 of the village population, a little more than a half are land-lords and tenants and about one-eighth are agricultural labourers, general labourers being about 3 per cent. of the whole. It has been calculated that 'on the average, in the whole of India, every hundred cultivators employ 25 labourers, but the number varies in the main provinces from 2 in Assam, 10 in the Punjab, 12 in Bengal, 16 in the United Provinces to 27 in Burma, 33 in Bihar and Orissa, 40 in Madras, 41 in Bombay and 59 in the Central Provinces and Berar.' As regards Indian agricultural labour, there is no question about its being most patient, assiduous and skilful. The agricultural labourer often owns a piece of land himself and works both on it and on the farm of a local land-owner. This land-lord-cum-labourer does besides other kinds of work; plies his cart for hire and markets field produce. The women of the house also work in the fields and women labourers are employed for weeding, harvesting and so on. They make cow-dung cakes which are sold in the neighbouring town and milk is also similarly taken for sale every day. Agricultural labour is thus not specialised as in western countries, and spinning and other simple trades are also carried on under the roof of the cottage.

The impression has long prevailed that the Indian cultivator is a very indifferent worker, dull-

headed, unenterprising and inefficient; but it seems to be derived from the fact of his being without capital, without good implements and manures and without those other characteristics which give a farmer the appearance of a progressive and efficient worker. Latterly, however, the Indian cultivator has come to be better appreciated and it is stated that in the art of agriculture he has little to learn, except the new methods which scientific progress has taught. In 1889 Dr. Voelcker, consulting Chemist to the Royal Agricultural Society of England, was deputed to make inquiries and suggest improvements in respect of Indian agriculture. And he wrote :—"On one point there can be no question, viz., that the ideas generally entertained in England, and often given expression to even in India, that Indian agriculture is, as a whole, primitive and backward, and that little has been done to try and remedy it are altogether erroneous.....At his best the Indian Ryot or cultivator, is quite as good as and in some respects the superior of the average British farmer, whilst at his worst, it can only be said that this state is brought about largely by an absence of facilities for improvement which is probably unequalled in any other country, and that the Ryot will struggle on patiently and un-complainingly in the face of difficulties in a way that no one else would. Certain it is that I, at least, have never seen a more perfect picture of careful cultivation, combined with hard labour, perseverance and fertility of resource, than I have seen in many of the halting places in my tour." The position is pithily summed up in the following significant utterance of His Most Gracious Majesty the King-Emperor :—"The cultivator has always been patient, laborious

and skilful, though his methods have been based upon tradition. Latterly the resources of science have been brought to bear upon agriculture and have been demonstrated in a very short time."

36. Village Economy.—The Indian village is generally self-contained unless where it has been brought into close contact with the outside world by the railway. The importation of machine-made goods and their diffusion throughout the country, have disorganized the self-sufficing organization of villages. On a preceding page we have shown the traditional occupations of the inhabitants of villages and that represents the normal rural situation. But the village organization is fast undergoing a change. The traditional skill of several classes of artisans finds a steadily diminishing demand owing to the introduction into villages of manufactured articles, Indian or foreign. They are, therefore, thrown back upon the land which some of them own and thus press upon the soil except where new tastes and wants provide them employment in their old industry adjusted to changing circumstances.

The caste of each worker determines for him the occupation he will follow. Though some people will disdain to touch the plough, 'it may be noted that agriculture, including field labour is the occupation which has drawn away most of those who have deserted their traditional callings.' There are, again, various occupations, which are not specially earmarked such as service under Government, the learned professions &c., which persons of all castes seek to follow; and with the spread of education the competition for employment in these directions will become increasingly severe. The struggle for existence and spread of education are two great solvents; and

they are loosening the rigidity of caste organization. Thus the higher classes among the Hindus, e. g. the Brahmins, are taking to trade, and such occupations as tailoring, carpentry, &c., are no longer barred to them. Owing to a lack of demand for their goods, the hereditary skill of several artisans has deteriorated and it is only to satisfy the simple wants of village people that rural craftsmen ply their industries.

37. Factory Labour.—Even in Western countries where the factory regime is in full swing, we witness in industries what is called a 'regressive evolution,' and manual labour, assisted perhaps with improved tools, is often preferred to work done with the aid of machinery. In India, the machine is the exception and manual labour the rule, in spite of the fact that in large centres like Bombay, Calcutta, Cawnpur and Ahmedabad numerous factories have been started. The labour employed in factories is, of course, of a different character from that engaged in agriculture, the domestic industries and the handicrafts. Much of it is, indeed, highly skilled and its efficiency is considerable. It is not easy to calculate the number of people employed in the two different types of industries. The latest census report, however, gives specially collected statistics of persons engaged in factories which employed twenty or more persons on the date of the census. There were, in the whole of India 7,113 such factories employing 2·1 million persons, or 7 per mille of the population. Of these 21 lakhs workmen, 5,54,778 were returned as skilled and 14,80,815 as unskilled. There were 38 females per 100 males employed in the factories. The plantations alone were responsible for 7 lakhs of workers and more than 5½ lakhs were employed in

textile industries, mines providing employment for about 2¼ lakhs. Railway workshops, 118 in number, gave employment to 98,723 persons, and of these 65,460 were skilled workers. Of the 7,113 factories mentioned above, 4,569 use mechanical power and are responsible for the employment of 18 lakhs of workmen out of a total of 21 lakhs. It may have been observed that the proportion of skilled to unskilled labour in factories is as 1 to 3. What we have said above of agricultural labour applies, to a certain extent, to labour in factories also. Several of the mill-hands in Bombay, for example, have their bits of land, perhaps the common property of a joint family, and they return to their rural homes at the beginning of the rainy season. They lend a helping hand to the folk at home in agricultural operations and on the close of the season return to their urban occupations. These migrations disturb the work of the factory and the employer is annoyed by the absence of so many hands at regular intervals.

38. Traditional Training.—In the case of the old industrial arts, as we have pointed out before, though there is yet much latent skill and efficiency, they have little scope for expansion, and with a steady diminution in the demand for products of indigenous manufacture, they are slowly but surely disappearing. The need of new industries and of a modification of the forms of the old ones, is being keenly felt, and it has become necessary to adjust technical and industrial training to the changed circumstances. The traditional method of industrial training may thus be described :—" The child learns his hereditary craft from his father or is apprenticed to a mistri, or master craftsman, who is often a relative of the pupil. There is no regular fee,

and a small present is often paid to the owner or foreman of the shop, and in some trades a religious ceremony may take place at the time of apprenticeship. The child begins his work at a very early age; at first he is expected to undertake the menial duties of the shop and is put to cleaning the tools; later he begins to perform the simplest operations of the trade. There is little definite instruction, but the boy gradually acquires skill by handling the tools and watching the workmen at their task. As soon as he has made a little progress, the apprentice is granted a small wage which is gradually increased as he becomes more useful; and when his training is finished, he either goes out into the world or secures a place on the permanent roll of his master's shop." *

This system answered well in the past, but it no longer suits the changed and changing economic conditions in India. The workmen are not thereby enabled to keep abreast of the times, the quality of their work has deteriorated and the products of their industry are fast being supplanted by imported articles. Except in a few cases, they can neither adhere to the traditional system nor avail themselves of the advance the world is making in improved methods and mechanical inventions. The bulk of Indian workmen are ignorant. They cannot understand the changes that are taking place all around them, and cannot be expected to adjust their activity and skill to the altered environment. They are also extremely poor and their lack of means is another serious obstacle in their way. The handloom weaver is a typical example of this deplorable condi-

* The Indian Year Book.

tion and it is a serious problem to rehabilitate him. "The weavers are exceedingly poor and in the main rely upon middlemen for the small amount of capital actually employed in their trade—they are ignorant and narrow-minded and averse to enquiries regarding the detail of their trade. Each man works for himself and there is little or no co-operation among them. There is no chance that any weaver may arise with an intimate knowledge of the technique of the trade and with a mind sufficiently wide to grasp the general trend of the economic forces which are gradually driving his fellow castemen to misery and despair. The only hope lies in the conduct of experimental weaving by the State with the object of working out by degrees a better system of production." *

39. Present Requirements.—It is inevitable that in the steady process of economic evolution now going on in this country, the hand workers should have to abandon their old callings and that improved and new industries should take their place. Their displacement naturally excites sympathy but they cannot be simply preserved as the relics of a bygone age in an economic museum. The young generation of the hand workers must be educated and trained in new methods and processes and must be trained to use improved tools and machinery. Only in this way can these classes of workers in India be enabled to keep abreast of the times and be efficient agents in the production of wealth. Even though they may cling to their particular callings allowed by caste prejudices, they may be given scope for improvement in those very callings and

* Chatterton :—"Agricultural and Industrial Problems in India."

thus be enabled to stand outside competition. Or they may be trained to work in factories where their inherited aptitude may be suitably developed into up-to-date efficiency. Workmen of this type do find employment in mills and factories and are able to earn high wages. They also can steadily rise to higher positions and become foremen and even managers and employers.

In textile mills, mines, factories and railway workshops, a training suited to the different trades, is essential to make efficient workers, and in India as in other countries, honest, active and intelligent men are promoted to responsible and remunerative places. But in this country, the higher and the intelligent classes usually take to the learned professions and the too literary character of our education has created a large amount of unemployment among them. A number of technical schools do exist and some of their products secure employment in the factories. An adjustment, however, between industries and technical institutes has not yet taken place, and there are numerous young men who have received technical education but fail to secure suitable employment. While there is a popular demand for the establishment of tachnical institutes, large and small, in all parts of the country, there is a complaint on the other side that the supply of trained men is already larger, and any addition to it must increase the army of the unemployed.

40. Technically Trained Men.—The view is held by many that 'if it is admitted that in every other country technical education has followed the organization of industries, or grown up alongside with them, and may be said to be the necessary complement to industrial efficiency, it is obvious that in a

country where few industries are established, the wholesale education of Indians could only result in an excess of young men trained up for posts which do not exist, and for whom no suitable occupation can be found.' Employers of trained labour likewise complain that the men produced by the technical institutes are not suited to the kind of work they are expected to do in factories. The men, it is said, want high salaries, even from the very start, and are averse to working with the hand. They are, therefore, condemned by the employers as useless people. For the higher kind of work they are not wanted and for the lower grades of labour for which there is a demand, they are not suited. This is the burden of the complaints which employers had to make to Lieut-Colonel Atkinson and Mr. Dawson who were deputed by Government to make an inquiry into the subject.

Opposed to this view is the other according to which employers of labour in India have a strong and by no means an unselfish prejudice against technically trained men and that they want to employ low-paid workers. "Even in existing conditions the field for employment is large if the exclusiveness of some of the employers is overcome. The railways and navigation companies, for instance, provide an increasing number of berths to men trained in the technics. We have now about, 33,000 miles of railway in India and the mileage is expanding. This must have a large room for employment if only as foremen, drivers, fitters, guards, carriage builders and engine makers. There are very few Indians now employed. They have not had their chance in this line. The navigation companies too do not now employ them except in the lowest rungs of the

service. Ship-building is not undertaken in India and yet the time will come when an attempt will have to be made.....The growing mills, the business houses, the banks, the engineering firms and a host of other special institutions that could be named could employ for years to come almost all the material turned out by the technical institutions, either now existing or which may be started in the course of the next few years."*

41. Prospects.—On railways, and in mills and factories, there is undoubtedly a growing demand for trained men and in several of them the relatives of the employes are trained. The inhabitants of certain provinces and the members of particular castes are declared to be peculiarly fit by nature for technical education. Members of the artisan classes are preferred by employers, one of whom stated that "the men required in the textile industry were men recruited from the lower classes and educated up to about the middle standard—men who were accustomed to hard work by tradition and had not been spoilt by too high education." Employers seem to be willing to take up apprentices if young men of the right type are willing to learn under the conditions offered, and suitable provision may also be made for technical education in special schools or institutions attached to factories.

The spread of elementary education is the first need of the country, and the system of elementary education must be linked up with general technical and industrial education. With intelligent and trained labour several of the existing industries may be improved and rendered profitable while the efficiency

* Report on the Inquiry concerning the employment of technically trained Indians.

of new ones may be materially increased. For the higher grades of workers a little more education and actual experience in factories combined with technical training, is needed. And as to the work of supervisers, managers and organizers, technological institutes of a higher type like the Victoria Jubilee Technical Institute in Bombay, and the one proposed to be started in the United Provinces, are obviously necessary. Men so trained must also get scope for the use of their education and ample opportunities for rising to higher positions in industries.

In agriculture too, special training will go a long way to improve the efficiency of the farmer, and provision is being made for this by the starting of vernacular agricultural schools for the sons of cultivators, notably in the Bombay Presidency. The common agriculturist does possess great skill, but his industry cannot be made more remunerative and productive unless he knows how to apply improved methods of farming. "Skill, that is to say, practice and a certain amount of knowledge, is required by the man who drives a plough or a cart or who sows or reaps or irrigates or weeds; and this skill is acquired in a very high degree by the cultivator's children as they help their father and learn from him. But the art of agriculture has to move with the times, just as handicrafts must move: new crops have to be grown and old crops given up: new methods, new tools, and new implements are required in order to secure the greatest possible production from the land; and the cultivator cannot teach his sons about these things, which he does not know himself. And so arises the need for some kind of education which shall teach the cultivators' chil-

dren the new knowledge they require without interfering with the training they receive from their fathers." *

42. Shortage of Labour.—We shall have more to say concerning the condition of labour, urban and rural, in a later part of this book. Here we shall notice one or two points only with respect to the supply of Indian labour. The general complaint about the shortage of labour on the part of employers, has been already noticed. Like the Black Death in England, the Plague has taken a heavy toll of the lives of the working population during the past twenty years. This epidemic, along with malaria and other diseases, has produced big breaches in the ranks of labourers. But the fact that workers are not readily available or available at the old rates of wages, ought not to be taken as an indication of any shortage of labour. And here we are confronted with the paradox that while thousands of coolies emigrate to distant colonies as indentured or free labourers, employers of Indian mills and factories have to complain of a shortage of labourers. But we know under what conditions the emigrants go thousands of miles beyond the seas, and, after all, their number is a drop in the ocean when it is compared with the total labour supply in India. In the first place, the rising prices of food grains and other necessaries, must make labour dearer, and employers have no right to expect workmen to be satisfied with the old rates. Secondly, though it is not easy to induce the ignorant Indian labourer to move out of his village and seek employment at

* An Introduction to Economics —W. H. Moreland.

distant places, the prejudice against migration is seen to disappear. More than ten lakhs of Indian labourers are to be found working on the plantations of the various British Colonies and thousands migrate from one province of India to another.

Leaving aside the kind of migration which has no economic importance, we have to note that 'the large streams of migration from Behar and Orissa, the United Provinces, Rajputana and Madras are specially noteworthy. These provinces supply the requisite labour to the fertile plains of Bengal, and the still undeveloped Assam and Burma. Not only are the fields of Bengal capable of supporting a larger population than is now to be found in them but the insanitary condition of the province aids further immigration by decimating or disabling the existing labourers. Of the 14,00,000 emigrants in Bengal, only a fifth are the natives of the contiguous province of Behar and Orissa or Assam, showing thereby how attractive its factories and lands have been to the residents, of even the distant United Provinces and Rajputana." *

43. Potential Supply.—Though the attractions of such industrial centres as Bombay, Ahmedabad and Calcutta, draw labourers from far and near, there is a very large potential supply to be found among the classes known as 'untouchables.' For centuries they have been relegated to a condition of serfdom, and on account of the religious and social prejudices against them—the result of historical causes—they could not be counted upon to man the labour force which is required to carry on new industries started all

* M. S. Kamath : "The Census of India."

over the country. Standing on the lowest rung of the ladder of Hindu society, the untouchable classes have no religious scruples which hamper the migration of the higher castes to distant provinces and abroad. Large numbers of these, therefore, go as coolies to Ceylon, Burma and Federated Malay States. Among these classes, therefore, we have an unlimited potential source of labour power, and as their number is estimated at no less than six crores, Indian industries need not suffer from a shortage of workmen. Caste prejudices against the employment of these people well die out and ought soon to die out, and economic forces well combine with humanitarian and patriotic considerations to prevent so much human power from going to waste.

The members of the depressed classes who are shunned by high class people, are found to become respectable domestic servants and operatives. Today, they are in an extremely wretched condition, their habits are filthy and their surroundings are forbidding. Several of them, however, have been the traditional servants of the village community and are characterised by honesty, sturdiness and physical endurance. Some of them have lands given to them in lieu of village service and are thus cultivators. Others earn a living by making ropes, baskets and so forth. Tanning and curing hides gives employment to some, while others work as scavengers. The work of uplifting them, which is being carried on by philanthrophic people and social reformers, has an economic significance. Both justice and economic needs require that the depressed classes should be raised from the slough of degradation into which they have been allowed to fall. The old system of specialization under

which the caste of a person determined his profession, is slowly giving way before the advent of the new regime, and the old barriers of caste and prejudice being removed, all people must get opportunities to better their social and economic position by doing work for which they are fitted.

44. Criminal Tribes.—Members of the depressed classes have all along been servants of the village community, performing the duties entrusted to them. Several of them have vatan lands given to them and they are paid by the community for the services they render. Some of these classes also earn their living by making baskets, ropes &c. Owing to the administrative and economic changes which are taking place in the village organization and public life, these classes are fast losing their traditional employment. If they are, therefore, given education, they can be made, as we have said above, to take a share in the new industrial organization by working in mills, factories, workshops &c. Besides these depressed classes, again, there are the criminal tribes scattered all over India. They lead a vagrant life and are a menace to the peaceful population of our villages. The work of reclaiming these people has been recently undertaken by Government, and missionary effort is also in the field. These men can be weaned from their immoral and criminal habits and be made to live useful lives. They can be taught certain trades and thus may become useful members of society instead of parasites and habitual criminals.

Only one illustration of how the criminal tribes may be reclaimed and be trained to contribute to the production of wealth by taking up decent trades will here suffice. An interesting experiment to

control and reform the criminal tribes of the Bijapur district has been recently made under the auspices of Government by Mr. O. H. B. Starte, I. C. S.. With the co-operation of the officials and the gentry of the district, and particularly of certain employers of labour, he has been able to turn Chhaparbands, Haran-shikaris and Ghatichors into mill-hands, masons, and agriculturists. "In addition to the Chhaparbands many members of the criminal tribes of the Sholapur district were recently placed in the mills, so that at the present time there are about 776 members of the criminal tribes working in one or other of the Sholapur mills. In 1912 some Ghantichors were placed in the Southern Mahratta Spinning and Weaving Mill, Gadag. There are now 121 Ghantichors employed in the mill. Another settlement has been started at Gokak Falls, chiefly for the criminal tribes of the Belgaum district. There are at present 386 Korchas, and Guzerathi Bhats working in the mills. The fact that nearly all of the mills employing these criminal tribes are willing to accept more of the same class of labour, is a satisfactory testimony to the results of the attempt. In view of the difficulty in finding sufficient hands which is experienced by most mills throughout India, the experiment would seem to be important as by it a new source for recruiting labour is opened out."*

45. Wastage of Labour Power—There is a large amount of labour power, actual and potential, which may be thus utilized to the immense advantage of the country. Some of the classes who at present contribute little to wealth production, have been re-

* O. H. B. Starte, I. C. S.: An Experiment in the Reformation of Criminal Tribes.

ferred to above. There are several besides them whe live on the profession of begging. With them it is a hereditary profession, and they think they can not do and ought not to do any thing else. Indians are an extremely charitable and hospitable people, and very often it is not a discriminating charity they practise. This piety is exploited by many a mendicant who does not regard begging disrespectable. The mendicancy takes various forms, more or less associated with the religious ideas of the people. Most of the mendicants do not know the dignity of labour and pretend to feel offended if they are asked to earn their bread by the sweat of their brows.

The so-called sadhus who go about from one shrine to another and live upon the industrious, are a great problem. The idle lives led by monks and priests, have provoked a reaction in the public mind in all countries, and the abuses of poor relief in England are well known. The drones who live on the piety and charity of villages and towns, will steadily find their position getting more intolerable in the struggle for existence which is becoming keener every-day, but to-day, they represent so much wastage of labour power.

Caste restrictions which prevent persons from taking to a trade to which they are not born, also involve waste and loss of efficiency. Supply of labour does not readily respond to demand, and the productive power of the country suffers. Certain trades which, in other countries, are, indifferently pursued by all persons, are in India, confined to particular castes, and are looked upon as degrading by others. Mahomedans and other non Hindus are not hampered by such restrictions, and they are

seen easily adapting themselves to the situation. But as we have observed before, caste distinctions are gradually becoming less rigid in the econemic sphere, though socially they are still very effective.

46. Summary.—The scarcity of labour which employers complain of, is only apparent, and the potential supply is almost unlimited. The growing use of labour-saving machinery will, by itself, give considerable relief. If employers provide healthy, congenial and attractive conditions of work, they will get all the labour they require. Population, it seems, is pressing on the soil and though the ordinary man is wedded to his village and to his piece of land, he may be induced to migrate to a distant centre of industry. There are numerous instances of such migrations from one district to another and from the country side to towns.

It is indeed a serious matter to consider whether the creation of a proletariat is desirable. But in the face of the present situation, the development seems to be inevitable. The weaver working at his loom, the potter manipulating clay on his wheel, the oil-maker busied with his primitive press, will be ousted from their traditional trades and will join the ranks of factoty hands. Some of the indigenous industries may be saved and be continued in an improved condition, and the use of power and efficient tools, will help workers to maintain their autonomous condition.

In every trade, however, education and training are badly required. Workers in the old indigenous industries were and are highly efficient. But the changing tastes and wants of the people are creating a demand for commodities they cannot produce. An adjustment must, therefore, take place

between the two. Elementary education must become universal and must be linked up to technical and industrial education. The value of this education is appreciated by employers as it results in increased efficiency, but little provision has yet been made in that behalf. A scheme of general education, which will develop in children the power of observation and assimilation, to be followed by specialised education and actual training in a factory, will have to be devised for the sons of artisans and must be adapted to the needs of agriculture.

Unskilled labour is much in demand at present and commands high wages on railways, docks, canals and elsewhere. There is an equally large demand for skilled labour, and the trained workman has opportunities to rise to higher grades. The requirements of mills and factories will provide a larger scope for men who have received higher technical and scientific education. There is an overcrowding of the professions, and educated young men must be drawn to the fields of industry and commerce. Some of them have received training in foreign countries, and they must occupy the higher posts in the factories. The prejudice which exists against them, perhaps justified in a few cases, will disappear and technically trained men must occupy their proper places in industries. Indian employers are expected to give qualified young men opportunities to earn their salaries by the greater efficiency which they will bring about. And the latter will justify their employment in posts for which imported and highly paid labour is engaged. The young men too must not hesitate to take their coats off and be ready to work their way up and must falsify the complaint of the employers that tech-

nically trained Indians have usually a bone developed in their backs which does not allow them to bend for actual hard work. Educated young men are seen to-day drifting and being ship-wrecked on unremunerative and unsuitable careers. A growing number among them ought to prepare for and be absorbed by industrial and commercial careers. They will thereby help to create more wealth in the country and to earn a decent share of it for themselves.

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Chapter V.

The Part of Capital.

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47. What is Capital?—Besides the intellectual and manual labour of man and the forces of nature, there is a third factor which is essential to the production of wealth, and, that is capital. Man working with his hands on material provided by nature, may produce commodities, but even the most primitive forms of production pre-suppose the use of instruments, weapons, and tools. Though capital itself is produced by human labour, it is a distinct factor of production and occupies a very important place in modern organization of industry. Mere labour and powers of nature are not enough; there must be some pre-existing wealth available to enable the worker to maintain himself while new forms of wealth are being produced and to assist in the processes of production. The creation of wealth is the creation of utilities, and it involves activity intended to secure a surplus by augmenting utilities and diminishing costs. The cultivator, the weaver, the potter, the blacksmith, the tailor, have all of them to use capital without which their trade would be impossible, and the

higher the organization of industry, the larger is the quantity of capital required. "The productivity of capital consists in the aid which it renders in securing the same results with less effort. It is an adjunct to human labour and to that extent lessens labour by interposing something between labour and its result."* The handloom of the weaver, the wheel of the potter and the plough of the cultivator, constitute their capital, besides the raw-material which they use in their respective industries.

Capital, we are told, is the result of saving. The farmer sets aside a part of the grain he produces, for seed, for buying manure and for paying wages to labourers, and these constitute his capital. If he is poor or extravagant, he may have to borrow these from the village money-lender and have to repay the amount and, in addition, pay interest upon it. But the grain which the money-lender has lent for sowing or for maintaining the cultivator while at work in his field, has been saved by the former out of his earnings. He might have consumed every thing that he earned and would thus have laid by nothing. In that case the money-lender would have had no capital to lend. The weaver has a handloom in his house. But the yarn he requires is supplied to him by the money-lender, and for his daily food also he depends upon loans. Thus he carries on his trade on borrowed capital. But it is possible for a weaver or blacksmith to produce more than he consumes himself and spends upon the purchase of raw-material and tools, and this surplus may be utilised in buying better tools and raw materials. This employment of capital increases

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* Seligman.

efficiency and leaves a larger margin of profit to the artisan. The supply of a sufficient quantity of capital is, therefore, a necessary condition of the productivity of industry. And the economic condition of a community is satisfactory or otherwise according as the supply of capital is abundant or scanty and cheap or dear.

48. The Rayat's Means.—A big landlord or farmer in India has considerable capital which consists of farm-houses and wells, ploughs and cattle and of seed and manure. He can use his capital in getting as large a produce as possible out of the soil by procuring a steady and sufficient supply of water, by improving the land and by constructing embankments to retain moisture and silt. But the capital which is available to the ordinary cultivator is scanty and of the simplest kind. He has a plough and other rude implements, a pair of bullocks and a cart which he may, in the off season, ply for hire. The common cultivator, far from being a man of means, is indebted to the village sowkar, and the indebtedness of the Indian rayat has become proverbial, and in certain parts of the country, almost notorious. He has to borrow at exhorbitant rates of interest and is crushed under the weight of his debt. His land and property are generally mortgaged and often pass into the hands of the sowkar. The question of the indebtedness of the rayat has engaged the attention of Government for the past sixty years, and measures have been taken from time to time to supply the rayat with the capital he wants for land improvements, till the co-operative credit movement has at last been regarded as peculiarly efficacious in this con-

nection.* The Deccan Riots Commission observed with reference to the indebtedness of the land-holding classes as follows:—"The estate of an ordinary kunbi ryot, exclusive of his land and its produce, has been estimated by competent authority to be of little more than Rs. 200 in selling value; it will be somewhat as follows:—

	Rs.
Live stock	125
Implements and utensils ...	20
House	50
Miscellaneous	20
Total ...	215

We are not here concerned with the causes of the rayot's indebtedness. The fact of it is patent, and it is bound to affect prejudicially the productivity of his labour. The indebtedness is often a legacy left by the forefathers of the cultivator and he is heavily handicapped. There is practically little surplus left after the expenses of the maintenance of his family are deducted from the gross produce, and it is with the greatest difficulty that he can meet the Government assessment. "It has been estimated that the yearly cost of food necessaries to each member of a kunbi's family is about Rs. 25. Admitting that the food consumed by his family does not cost the ryot the market value, it is nevertheless plain from the figures of estimated yield of land, that in a year of average rainfall his receipts from six acres—two of each kind of soil—will leave

* This subject will be treated at greater length in a later chapter.

a very narrow margin for Government assessment and expenses, amongst which the interest on the sowkar's loans in hard years must count as a current and unavoidable charge."* The Famine Commission of 1880 found from evidence collected from all parts of India that about one-third of the land-owning class were deeply and inextricably in debt, though not beyond the power of recovering themselves. An analysis of the embarrassment of twelve villages revealed to the Deccan Riots Commission the fact that about one-third of the occupants of Government land were embarrassed with debt, that their debt averaged about eighteen times their assessments and that nearly two-thirds of the debt was secured by mortgage of land.†

Agricultural capital takes the form of water supply, seed, manures and implements. As to the first of these, rainfall is precarious and insufficient over large tracts of the country, and the agricultural industry is often at the mercy of nature. Lands irrigated by canals and wells are in a fortunate position, and in them the condition of agriculture is comparatively satisfactory. Of about 225 million acres of cropped area in British India, not more than 47 million acres are irrigated. "The total area irrigated in 1913-14 was 49,836,000 acres, as against 45,539,000 in the preceding year. Of this 18,271,000 acres was irrigated from Government canals, 2,175,000 acres from private canals, 6,384,000 from tanks, 13,867,000 from wells, and 6,219,000 acres

* Report of the Deccan Riots Commission, 1875.

† Very interesting results in this connection have been arrived at by Dr. H. H. Mann in the inquiry he has made into the economics of a Deccan village.

from other sources of irrigation. In India irrigation on an extensive scale is ordinarily resorted to in tracts where the rainfall is most precarious. In Lower Burma, Assam, Eastern Bengal and on the Malabar Coast (including the Konkan) where the rainfall is ordinarily heavy, the crops hardly need the help of irrigation unless there is unusual scarcity of rain. Of the total area irrigated in 1913-14, 24 per cent. was in the Punjab, 21 per cent. in the Madras Presidency, 25 per cent. in the United Provinces, 9 per cent. in Behar and Orissa, 7 per cent. in Sind and the remaining 14 per cent. in the other Provinces."† The following figures will be found interesting in this connection :—

	Proportion of Irrigated to Total Cropped Area.		
Sind	80	per	cent.
Punjab	47	,,	,,
North-West Frontier Province..	37	,,	,,
United Provinces	35	,,	,,
Ajmer-Mewara	29	,,	,,
Madras	29	,,	,,
Bihar and Orissa	16	,,	,,
Bengal	9	,,	,,
Burma	8	,,	,,
Assam	6	,,	,,
Bombay	4	,,	,,
Central Provinces and Berar ...	4	,,	,,
Coorg	3	,,	,,
Manipur	3	,,	,,

† Agricultural Statistics of India, 1913-14.

49. Improved Implements.—Well irrigation means a considerable outlay of capital to which only a few cultivators are equal; and unless there is an assured supply of water, rich manures cannot be employed. The question of inducing the Indian agriculturist to make use of improved implements and machinery is surrounded with difficulty. The iron plough is coming more largely into use, but the same remark cannot be made about agricultural machinery in general. "Much success has, undoubtedly, been obtained in the introduction of grain winnowers, cane-crushing machinery &c. But in recommending the introduction of reaping machines or heavy English ploughs caution is necessary. Reaping machines may be useful on large estates where labour is scarce, but the whole rural economy of a tract where population is dense, may be upset by their use. A large amount of cheap labour which ordinarily does the reaping is thrown out of employment: the gleaners lose their recognized perquisites. In the case of heavy ploughs, the advisability of deep ploughing has first to be proved. In both cases the capacity of the available cattle and the difficulty of replacing broken spare parts and of carrying out repairs are serious obstacles to the introduction of foreign machinery. As in the case of plants, the improvement of the local material which the cultivator can himself make and repair and which his cattle can draw, seems the more hopeful line of improvement."*

It is well-known that agriculture does not provide much scope for the use of machinery. Yet machinery is coming into larger use on the bigger

* "Agriculture in India" by Mr. James Mackenna.

farms and in industries connected with agriculture Ginning and pressing cotton, the crushing of sugar-cane, pressing of oil from seeds, manipulating operations in connection with ground nuts, as well as the lifting of water from wells and rivers—these call for the use of machinery and motive power. This development has given rise to a new industry and iron water lifts and crushers are being turned out in small factories in various parts of the country. The increasing demand for cotton, sugar, oil seeds and the high prices which these command in external markets, have encouraged the use of machinery in the industries connected with these raw materials. The following account of tendencies in Madras will prove interesting :—

"During the past ten years the industrial tendencies in the Madras Presidency have mainly exhibited themselves in the supercession of hand labour by machinery driven by power derived from steam or internal combustion engines. The main factor has been the development of the use of the internal combustion engine, which enables small quantities of power to be generated both cheaply, and by methods which require no great amount of technical skill to supervise. In the deltaic districts of Godavari, Kistna and the Cauvery, which are almost wholly given up to the cultivation of paddy, the primitive methods of husking by hand have to a large extent been superceded by modern machinery. As the result of measures deliberately taken by Government, there has been a similar application of motive power on a small scale to the raising of water for irrigation ; and finally as the result, partly of direct Government assistance, and partly of progressive private effort, a number of what may be termed rural factories have come into existence, which use machine processes usually on the smallest scale that it is practicable to employ them. Such factories employ machinery for ginning cotton, crushing sugar-cane, extracting palmyra fibre, pressing oil seeds,

an dcutting timber. In the towns power is being similarly employed in an even more varied manner."* In towns and cities, machanical power is being employed for pressing oil, making flour and for such other purposes. Flour mills are becoming very popular with the mass of people in towns, and gins have almost entirely superceded the domestic industry in which women were engaged. How the small industries may be improved if capital is made available to the artisans on easy terms, is demonstrated by the way in which the sewing machine has come into extensive use in the tailoring trade during the last generation.

50. Agricultural Capital.—Capital is thus the most urgent need of the cultivators who form the bulk of the population and whose industry is the premier industry of the country. The agriculturist is certainly able to secure loans from the village money lender, but at exorbitant rates of interest; and therefore the capital thus borrowed cannot prove very productive. What is true of the common cultivator is likewise true of the artisan class generally. Money lenders are shrewd business men, and they secure themselves against the risk of the loss of their money by exacting high rates of interest, by a mortgage of property, by the imposition of high prices and in other ways. Speaking of the conditions in a typical dry Deccan village Dr. Mann observes:—"Very little advance in implements and methods seems to have been made though some new crops have been introduced in recent years. As to the implements of cultivation, a complete set such as is used by the people would cost about Rs. 40 and they are all made locally from beginning to

* Census Report, 1911 ; page 427.

end. The wood is grown in the village, the carpenter is a servant of the village, and except for the very small quantity of iron required for the tip of the plough share and the blade of various other cutting implements, the village would be quite independent. All repairs to these implements, are paid for in *baluta*, or a fixed charge on each crop produced,—but the carpenters are paid in cash for new implements made. The use of the modern iron plough is only just beginning, and the hire of these from Poona shows signs of being taken up."

51. Indigenous Capital.—It is impossible to form a correct estimate of the capital employed in the different industries in India and to say what increase there has been in its quantity within recent years. There is no doubt about the fact that more capital is being invested in new industries which are rising on all sides, and the people are coming more and more to appreciate the advantage of lending their savings to industrial and commercial concerns. The very failure of numerous banking, manufacturing and commercial concerns during the past few years, is eloquent enough in this respect as it shows the weakness and strength of modern Indian industrialism. If the small improvements which are being effected here and there are omitted, we may say that there is no appreciable increase in the amount of capital invested by the people in the agricultural industry and in the small handicrafts. It is only in the manufacturing industries that a remarkable development has taken place in this respect. Excepting the cotton industry of Bombay, however, and other industries of extremely moderate dimensions elsewhere, they owe their rise and prosperity to European initiative and capital.

Almost the whole capital of the cotton mills, amounting to no less than twenty five crores of rupees, has been raised in India. The tea plantations which have a little larger amount of capital invested in them, are, most of them, joint stock concerns registered in the United Kingdom. The jute industry with a capital of more than twelve crores, is also financed by European capital. Industries connected with wool, silk, sugar, paper, tiles &c. have also absorbed considerable capital, some of which is Indian and there is much scope for expansion in this field. The value of mineral production in India is steadily increasing, and the bulk of the capital invested in the coal and gold mines has been imported. The fact is that the large quantities of capital which are required for manufacturing and mining industries are not available in India and they are not forthcoming because the enterprise and the expert knowledge and the organizing capacity which are necessary for the establishment of such concerns, are practically absent in India.

A remarkable exception has been recently provided by the Tata Iron and Steel Company which was floated in 1907, with exclusively Indian capital of more than two crores of rupees. This undertaking is being further expanded and there will be no difficulty in getting the necessary capital. The fact is that there is considerable latent capital in the country which may enable enterprising people to start new industries provided they can inspire confidence. The history of manufacturing, commercial and banking concerns which have been floated in recent years, proves that the sources of Indian capital have not been properly tapped and that they are calculated to yield a rich harvest. Sound concerns under the

management of experienced and well-known industrialists, rarely fail to attract the requisite capital, most of which, however, comes from the commercial and the professional classes.

52. The Hoarding Habit.—Much has been made of the hoarded wealth of India, and exaggerated views are held about its size. It has been estimated at anything between 500 and 800 crores of rupees. By hoarding is, of course, meant the habit of allowing wealth to lie idle and of making an unremunerative use of what might have been employed in the further production of wealth. Some wealth of this description in India may certainly be converted into capital, and the saving habit and banking facilities may be calculated to bring about this change. On the whole, the people of this country are thrifty, and certain classes habitually practice thrift and do lending business. Even taking the highest estimate of the so-called hoarded wealth of India, we find that its amount does not exceed Rs. 20 per head of the population, that is, about one year's average per capital income. A large part of the total obviously consists of the jewelry of the princes and landlords, and the share for which the bulk of the population is responsible, must be extremely small. Apart from the fact that every pie of the hoarded wealth is urgently required for use as capital in the country, the total amount is as nothing compared with the hoards of other countries. Fondness for pomp and show is inherent in human nature, and Indians are not different in this respect from other people.

The habit of hoarding is fostered by insecurity and the absence of a strong government and by a love of ostentation and display. The hoard of an average family in India consists of the trinkets on

the persons of women and children and rarely of men. Education will cure the Indian population of this love of ornaments but even in progressive countries fashion dictates the locking up of a large amount of wealth in jewelry. In India jewelry has been the average person's bank which yields no interest and does not always ensure security. But it is the easiest and the most convenient method of saving and keeping wealth, in the absence of a knowledge of the advantages of banking. The trinkets are given as a pledge to the money lender and on their security loans are raised. Even people of the middle class have often to resort to this method of raising capital. As soon as the purpose for which the jewelry was mortgaged is fulfilled, the profits are once more converted into ornaments. With the establishment of peace and orderly government under British rule has come security of life and property, and ornaments need no longer be the deposit bank of any class of people. But it is ignorance and a lack of banking facilities that still stand in the way.

53. Conditions of saving.—There are other conditions besides security of property which make accumulation of capital possible. The income of individuals and communities must be sufficient to enable them to lay by wealth for future use. Foresight and thrift are also equally necessary. There are people who take no thought of the morrow and do not realise the importance of providing against a rainy day. The ambition to live a life of independence and ease and to make provision for the proper bringing up of children, is likewise an important factor. In backward communities and classes these motives are absent or feeble. Instances are not wanting in India of people who will stint them-

selves to provide for the education of their children or to leave to them a decent source of income. The indebtedness of the common rayat shows that this motive is not strong in him, but it is more the result of his poverty than of extravagance.

Under the modern industrial organization, wealth is coming to be concentrated in a few hands, and the margin for saving is so large in their case that they do not know what to do with the surplus. There is no true abstinence in their case because there is no sacrifice involved. People will not also save unless they have the means of securely depositing their savings or can use them remuneratively. There must, therefore, be sufficient scope for investment as well as satisfactory provision for the safe keeping of the savings, large and small. These opportunities are now opening out before all classes in India, and co-operative societies, joint stock companies and commercial undertakings which are rising up in all directions, are an unmistakable proof of this development.

54. Capital as a power.—The conflict between capital and labour, which has become extremely keen in western countries and the socialistic movement which has spread widely in the world, shows what a great power capital has become in modern times. Capital is only one of the factors of wealth production, but it so dominates the economic organization of the present day that the modern industrial *regime* has been characterized as capitalistic. Though the thories of socialists like Karl Marx, according to which labour is the sole cause of value and is therefore entitled to the whole reward of production, are exaggerations, they only indicate how strong is the feeling of resentment that has been aroused in the

minds of workers against the wealth and power of those who command capital and therefore labour. It is the concentration of capital in a few hands and the wage system under which the workers feel that they are defrauded of their due reward by the employer, that have led to the revolt of labour, and it is to fight organization of capital that workmen's associations have been formed.

In India industrial organization is yet mostly of the simple kind. The Jamindar or the big landlord is a capitalist and wields enormous power. The money-lender is also a capitalist whose capital is, however, lucrative capital. He is very often looked upon as a great tyrant because he exacts enormously high rates of interest for the capital he lends. The borrower seeks a loan for purchasing necessaries of life or the raw materials and implements of his industry and by mortgaging his land and trinkets often becomes the slave of the money-lender. As he can command labour, the capitalist, whether urban or rural, must wield considerable power and workmen, ignorant and unorganized, are at his mercy. Like the Jewish usurers of Europe, the Indian money lenders have acquired a bad name, but it will be unfair to tar the whole class with the same brush. If some money-lenders are extortionate and harsh, others are kind and considerate. And the village money-lender is the friend of the rayat and the craftsman. The Famine Commission of 1880 observed:—"However just may be the terms of abhorrence applied to the "Marwari" or foreign usurer, it must be remembered that he is the product of a diseased condition of the community. The like condemnation must not be extended to the village banker of the better class, with whose useful

services the rural communities of India have at no time been able to dispense."† The relations of capitalists and workmen are mostly regulated by custom, and it is only latterly that labourers have become conscious of their rights. They are slowly becoming independent as varied avenues of work are being opened to them. The development, is therefore, from status to contract, and is the result of changing economic conditions.

55. Foreign and Indigenous capital.—We have already pointed out that most of the large industries in India, particularly the manufacturing, mining and planting industries, are financed by foreign capital. For the construction of such public works as railways and canals, the State has adopted the policy of attracting British capital. The country has surely benefited by this policy in as much as those productive works could not have been otherwise carried out. London is the largest source of capital for British colonies and foreign countries and England has, on an average, about Rs. 300 crores to lend every year. Capital has become cosmopolitan and also cheap in western countries. The railways in the colonies and countries like China and Turkey have been constructed with the help of English and French capital. Dissatisfaction is often expressed in England that so much capital goes out of the country every year to fertilise foreign countries and that indigenous industries have to starve.

The benefits which the importation of foreign capital has conferred upon the Indian people is duly recognized, and any opposition to the employment of foreign capital as such will be unreasonable. Capital,

† Report of Famine Commission, 1880.

like labour, must be paid its price, and if a country does not possess capital of its own, it must import it. "The great mistake to be guarded against is that, because certain capital used in India is foreign, it must, therefore, do harm to the country. It has, of course, to be considered that we ought not to pay too high a price for it."* Mr. Dutt characterises the employment by the State of foreign capital for its railways as an instance of 'the right use of foreign capital', and equally right will be its use if only interest had to be paid on it and it were employed by Indians who would derive all the profit out of its employment. He therefore goes on to observe :—"But when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea and the financing of our vast foreign trade by foreign banks, we come upon another and a less favorable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports after omitting Government transactions." Mr. Dutt quotes Mr. (now Sir Thomas) Holland in support of this view. Speaking of our successful exploitation of the petroleum fields of Burma the latter observed in a paper read before the Industrial Conference in 1905 :— "The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry

* R. C. Dutt: Calcutta Industrial Conference, 1906.

as in so many other enterprises of the kind, India will continue to pay such an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes."

56. Summary.—Adopting a classification of capital suggested by certain economists, we may have four different species of it: agricultural, commercial, industrial and financial capital. By agricultural capital is meant not land or landed capital but the tools, manures, cattle &c. with whose assistance the farmer gets a crop out of the soil. As we have observed before, the farmer is not able to get this capital on easy terms and does not know how to use it remuneratively. The comparative inefficiency of Indian farming and the poor yield of the soil in this country, are the result of this scarcity of agricultural capital and the ignorance of the rayat. Commercial capital, so far as internal trade of the country is concerned, is not wanting and if sufficient banking facilities are provided, this form of capital may become available in the required quantities. Crores of rupees have been spent on the construction of docks, railways and roads, and though there are many parts of the country which have yet to be opened, India cannot now complain, on the whole, of the dearth of this form of capital.

Industrial capital is, however, the most important, and its supply in adequate quantities is the great need of India. Small industries are starving for lack of capital. Large manufactures can be started with the share capital supplied by a number of individuals, and they can be carried on on up-to-date lines. But the stream of industrial capital does not reach the small artisan

and he has to trudge through the ruts of primitive organization or be displaced from the economic field. There is an abundance of financial capital in India, mostly supplied by Exchange and Presidency Banks and, to a smaller extent, by Joint Stock Banks. The moving to the ports, for export, of crops like cotton, jute, wheat and oil seeds, is financed on a very large scale by these banks which also assist the importers of foreign goods. Though it is difficult to distinguish clearly between the different forms of capital we have considered and the line of demarkation is, in many cases, very faint, the various forms being only aspects of the same thing, the need of providing capital which directly assists the processes of industry is extremely urgent in India.

During recent years, Indian banking has made great progress, and in spite of the failure of several Indian banks in 1913, that progress remains substantial. The statistics relating to private and unincorporated bankers, who must certainly be numerous, are not available; but we have statistics with regard to Presidency Banks, Exchange Banks and Indian Joint Stock Banks with capital and reserve of Rs 5 lakhs and over. The following statistics* with regard to these will be found instructive :—

Class of Banks.	Capital and Reserve.			Deposits.		
	1905 Rs (lakhs)	1914 Rs. (lakhs)	Increase per cent.	1905 Rs. (lakhs)	1914 Rs. (lakhs)	Increase per cent
Presidency Banks ..	6,23	7,64	23	25,38	45,66	80
Exchange Banks ...	33,63	55,46	65	17,04	30,15	77
Indian Joint Stock Banks with capital and reserve of Rs. 5 lakhs and over	1,62	3,93	142	11,99	17,11	43
Total.....	41,48	67,03	62	54,41	92,92	71

* Statistical Tables Relating to Banks in India, 1916.

In the case of Exchange Banks, whose head offices are located outside India, and which do business in other Asiatic countries, deposits in this country only have been taken into account in the above statement. The deposits of Presidency Banks include 'public' or Government deposits. Excluding these and taking the Indian deposits only of the Exchange Banks, we have the following figures with reference to the increase of deposits in the banks included in the statement given above :

	1905 Rs. (lakhs)	1914 Rs. (lakhs)
Presidency Banks	22.26	40.04
Exchange Banks	17.05	30.15
Joint Stock Banks (above Rs. 5 lakhs)	11.99	17.60

As we have observed above, the greatest need of the hour in India is that of banking facilities in all parts of the country and of industrial as well as financial capital which will be easily available even to classes of small producers. The assistance rendered by the Presidency Banks is absolutely inadequate and more banks must be started and scattered all over the country. These may not, however, be able to give credit for long periods as is required for industries, and special industrial banks will have to be established with State assistance. There is so much state money lying in the Reserves of the Government, and it may be made available for the encouragement of indigenous industries. Crores of rupees belonging to the Paper Currency and the Gold Standard Reserves are lent in England: they may be kept in India and placed at the disposal of enterprising men in this country,

of course, with the necessary safeguards. How this supremely important object should be attained, whether by the institution of a State Bank or otherwise, is a subject worthy of the closest attention. There can be no doubt about the fact that the existing financial machinery under which village and town sowkars and shroffs, joint stock banks, Presidency Banks and Exchange Banks, together with the co-oporative credit societies and the Government which make loans to agriculturists for improvements, supply capital to Indian trade and industry, is unequal to meet the requirements of the economic progress of the country.

Take for instance the agricultural loans and advances made by Government to cultivators under the Land Improvement Loans Act of 1883 and the Agriculturists' Loan Act of 1884. "The former enactment authorises the grant of loans by local officers, subject to rules laid down by the local Governments for the purpose of making any improvement, an improvement being defined as any work that adds to the letting value of the land. Wells take the first place among such works. Loans are repayable by instalments and recoverable generally as if they were arrears of land revenue. The Agriculturists' Loans Act makes similar provisions for advances for other purposes, not specified in the Land Improvement Loans Act but connected with agricultural objects, including the relief of distress, the purchase of seed and cattle. The rate of interest on Government advances is 6¼ per cent. (one anna in the rupee) or less, as compared with 12 to 24 per cent. or more exacted by the village money lender; but advances are made only for specific purposes, they entail

more formalities than the village loan, and the repayment is enforced with greater rigidity, so that in the past Government loans, though large in the aggregate, have not had any great influence on the agricultural credit of the country."*

This illustration shows how deficient is the supply of agricultural capital, and what is true of agriculture is also true of other indigenous industries, large and small, particularly small. The small savings of the people will have to be collected in banks scattered throughout the country and must be supplemented with State money. In France, for instance, the State assists agricultural and other associations with capital in this way. Of course, a soud system will have to be devised under which the object in view will be attained with safety to the tax-payer and consistently with the healthy progress of indigenous industry and banking.

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* Decennial Moral and Material Progress Report 1913.

Chapter VI.

Organization of Production.

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57. Industrial Evolution.—Economists trace the development of the organization of the production of wealth through its different stages from the self-sufficing form to the factory regime of modern times. Production upon a large scale, with the assistance of large quantities of capital for an extensive market, is the characteristic of the present day. The use of machinery, the ease with which capital can be secured, and improvements in the means of communication, have produced remarkable social and economic effects. The cultivator no longer produces for his own family or his own village but supplies, though unconsciously, the most distant markets with the produce of his field. The artisan is no longer an autonomous worker plying his tools at home and the owner of the commodities he turns out. The craftsmen, as independent workers, have been displaced by machinery and they have been reduced to the condition of people working for a wage in a factory owned by a large company or a wealthy individual. The old local and national markets have become extensive and international,

and a minute division of labour and concentration in production, have been the result.

When life is very simple, a family is self-sufficient, producing every thing it needs except perhaps a few articles which can be locally obtained. The use of machinery is both a cause and an effect of a minute division of an industry into different operations. Specialization is to be found not only in connection with separate crafts but also with distinct branches of the same craft. This industrial evolution may be marked in the economic history of every community and India is no exception to the general rule. The 'capitalist' or 'factory' system has not, however, entirely superceded the domestic or craft systems even in western countries, and this phenomenon is more remarkable in India than elsewhere. "Even nowadays, although the factory is the characteristic mode of industry, all the other forms are still to be found. We see traces of domestic industry in the peasants' houses where the wife bakes the bread and spins the flax for the household linen; and in some of the provincial towns where jam-making, ham-curing and washing are done at home and have not yet become industries. In all towns a large number of artisans may still be found plying diverse trades and working for their customers as in the Middle Ages. And there are still manufactories which employ only hand labour." *

58. Situation in India.—"The arts and manufactures of India are more easily separable into sections, corresponding with hand labour and steam power, than are those of most coun-

* Gide—Political Economy.

tries; for handicrafts, in spite of the mechanical developments of the past century, are still very important to the Indian people. The carpenter, the potter, the blacksmith, the stonemason, the weaver, the dyer, the tailor, the shoemaker and the sweetmeat-maker are recognized members of most village communities. The higher crafts—those of artistic workers in wood, clay, stone, metals, and textiles—are carried on in special localities and in direct relations ip to physical and administrative conditions. When, for instance, hand labour industries are practised on a large scale they tend to become centralized in important towns. Steam-power manufactures are not in any way indigenous industries, but have been originated, and are controlled, by the supply of raw material and fuel, by the facilities of transport and by the degree of association with European enterprise." *

Almost all the old indigenous industries are small and are carried on in the homes of the autonomous workers The spinner, the weaver, the potter, the oil-presser, the shoe-maker are all workers of this type. They own the simple tools of their trades, but have very often to depend upon the neighbouring money-lender for the supply of capital in the form of raw materials and food &c. Very rarely the craftsmen may combine and carry on the business on the partnership principle. Partnership has been well-known in India from very old times and is generally practised in trades which cannot be well managed by a single worker, though assisted by the members of his family. Autonomous producers work in their own homes and turn out

* Decennial Report on Moral and Material Progress, 1913.

goods which command ready sale in the local or neighbouring market. They will also work to the order of local customers, but this demand is not sufficient and their goods are generally purchased by the merchants in the locality, who send them to different markets.

Craftsmen working in their own homes may not often be autonomous producers. The merchant, who is also the money lender of the village or town, gives out pieces of work to be done in the homes of the craftsmen. He supplies the raw material but rarely the tools, and takes away the finished product, paying the worker only a small wage. The worker is thereby relieved of all responsibility and escapes the trouble involved in finding capital and disposing of the finished product. But he is, at the same time, reduced to the position of a drudge, and the sense of ownership and independence is entirely absent. The capitalist may also set up a factory in his own house and require the craftsmen to work there. He supplies the tools and the raw material and the workers are mere wage earners. They share neither the responsibility nor the profits of the trade.

An employer who finds that there is a good and steady demand for a certain kind of commodities in a locality, will organize an industry in this way in a town, or artisans may be attracted to such an industrial centre by tempting prospects. Rajas and noblemen used to invite craftsmen to their towns and to give them special facilities to settle and ply their trades. The immigration of artisans led to the prosperity of the town as well as their own, and the localization of certain industries in the cities of old, in the times of Mahomedan and Maratha rule, may be traced to this cause. "The silk and embroi-

dery industry of Poona was entirely due to the encouragement given to the foreign settlers from Burhanpur, Paithan and other towns to come and live under the Peishwa's protection on house sites which were granted free to them. Individual merchants were encouraged in large towns to open shops with the help of Government advances."*

The handloom weaving industry in India is a typical one, and the problem before the country in recent times has been how to enable it to stand the competition of power-looms. It is believed that the production of cloth in the Indian mills has not yet been able to overtake the quantity turned out by hand-looms and that if the weavers are supplied with improved appliances and capital and if the industry is better organized, it has yet a good future before it. Attempts have been made to devise a suitable improved loom that may be used by the weavers with greater advantage, and weaving classes and factories have also been tried. It is, however, difficult to say whether these endeavours have met with any appreciable success.

59. Large scale Production.—Concentration of capital and production of wealth with the help of machinery, render large economies possible and are calculated to yield high returns. A number of producers may thus combine together and the advantages of this kind of co-operation are obvious. Though co-operative production prevails to a certain extent in various countries, owing to peculiar causes, it has not made any notable progress. In India we have numerous associations of credit but there are extremely few societies for production, and in agri-

* Ranade: Introduction to the Peishwas' Diaries.

culture where the co-operative movement is spreading satisfactorily, this form of association finds little favour. The development of the factory system in this country has been synchronous with the growing application of the joint stock principle to industry.

Under the factory system, which is the predominant characteristic of modern times, 'the capitalist employer not only provides the raw material and disposes of the finished product, but also controls the intermediate process. The machinery is so costly as to be beyond the reach of the workman: and since the machines are the property of the employer the building in which production is carried on, must also belong to him and is called the factory. The labourer is not his own master, as in the handicraft system; he no longer owns the tools and the workshop as in the domestic system: all that he does is to provide the human labour force which is applied through machines and in workplaces owned by the capitalist employer. The stupendous increase of production which is thus rendered possible reacts upon the labourer both as producer and as consumer. Population increases enormously, and there is a continual drift from the country to the city. Industrial society receives its modern shape, and the social income is divided into the rent of the landowner, the wages of the labourer, the interest of the capitalist and the profits of the entrepreneur." *

The joint stock principle of association presents certain advantages: under it large enterprises requiring large quantities of capital can be easily undertaken and persons of small means find in it a safe method of investment on account of the

* Seligman.

liability for losses being restricted to the value of the shares held. "The company form makes possible the raising of capital for the very biggest enterprise. It enables the holder of small savings, who does not wish to use them in business himself, and who is not in close enough touch with business to entrust them to any private firm, to invest his savings remuneratively. It is equally useful to the holder of big savings, since it enables him to distribute his capital among many enterprises (and countries), and so avoid the risk of carrying all his eggs in one basket. Since shares in joint stock companies are usually saleable the investor can realize his property in a business without breaking the firm up; if he were a partner in a private firm and wished to withdraw his capital, either he must find some other capitalist to take his place in the business by buying his share, or he must risk breaking up the firm, since it might be unable to continue without his capital. The joint stock company provides another opening for men with organizing ability but with no capital." †

60. Joint stock Principle.—It is these advantages which have led to the rapid development of companies formed on the joint stock principle in western countries and that example is being followed in India. Most of the European industrial and commercial enterprises in this country are joint stock concerns. Railways, mills, factories, mines, tea gardens, banks, commercial firms and other concerns are joint stock companies. And almost all industries started by Indians take this shape. The total number of companies limited by shares

† Henry Clay.

which have been incorporated in India upto 1914-15 under the laws relating to the registration of companies, amounts to 6,999. Of these, 2,545 companies were working at the end of 1914-15, most of the remainder having been either wound up, or otherwise discontinued or never having commenced business, so that about 64 per cent. of the companies registered have ceased working. Some companies have also been taken off the Indian register to be reconstructed as companies under the English law with their head offices in London. All the companies registered in India have a rupee capital with the exception of the Hongkong Shanghai Banking Corporation which was registered in Calcutta in 1869 with a capital in Hongkong dollars of which the rupee equivalent is stated. The number of companies at work and the capital invested in them stood as follows at the end of each of the last three years:—

	1912-13.	1913-14	1914-15.
Number of companies ...	2,552	2,744	2,545
Authorised capital Rs (1,000)	1,73,87,59	2,33,33,91	2,30,19,47
Paid-up capital Rs. (1,000)	72,10,14	76,56,18	80,79,22

The number of companies registered in Bengal is over a third of the entire number registered throughout India, but the average paid-up capital per company is highest in Bombay, and in this respect Burma occupies the second place, while Bengal the third, the figures for the average being respectively Rs. 5,35,000, Rs. 5,07,0 0 and Rs. 3,17,000. About three-eighths (Rs. 30,86,45,000) of the aggregate paid-up capital is invested in mills and presses, chiefly for working and pressing cotton, jute, wool and silk. A great number of mills and presses are registered in Bombay, that presidency representing

50 per cent. of this sum, most of it being invested in cotton mills and presses. Further information on this point may be obtained from the following statement showing the distribution of the aggregate capital in the principal classes of joint stock enterprise at the end of 1914–15.

Class of Companies.	Number.	Paid-up Capital.
		Rs. (1,000)
Banking and loan	475	7,96,75
Insurance	183	50,84
Navigation	24	1,28,78
Railways and tramways	46	8,36,47
Other trading companies	767	11,42,29
Cotton mills	205	16,70,88
Jute mills	34	7,61,10
Mills for wool, silk, &c.	14	1,32,42
Cotton and jute screws and presses.	139	2,70,21
Rice mills	28	81,08
Flour mills	30	80,58
Other mills and presses	45	90,17
Tea planting	208	4,31,90
Other planting companies	30	42,41
Coal mining	140	6,09,49
Gold mining	8	33,32
Other mining and quarrying	59	5,85,45
Land and building	34	2,17,76
Sugar manufacture	22	80,75
Other companies	54	34,57
Total	2,545	80,79,22

61. Industrial Enterprise.—The recent tendency in India, it will have been noticed, is for the cottage and small industries to be replaced by large concerns carried on mostly on the joint stock principle and with large quantities of capital. But the bulk of the concerns owe their origin and success to European enterprise and managing capacity. "The

great majority of the larger concerns are financed by European capital, and in such cases the management or direction is generally European, and the Indians shown under this head are engaged for the most part on supervision and clerical work. . . . In Assam, where 549 tea gardens are owned by Europeans and 60 by Indians, there are 536 European and 73 Indian managers. In the coffee plantations of Madras and Mysore the same principle is apparent. The jute mills of Bengal are financed by European capital and the managers are all Europeans; while in Bombay where Indians own 110 of the cotton spinning and weaving mills and share 25 with Europeans and the latter own exclusively only 12, all but 43 of the managers are Indians. Sometimes the proportion of Europeans employed in supervision &c. varies with the character of the work. In the gold mines, where the planning and control of the deep underground workings require a high degree of skill, Europeans outnumber Indians in the ratio of nearly 4 to 1, whereas in the collieries Indians are twelve times as numerous as Europeans."* There is need in India not only of skilled artisans, trained mechanics and capable foremen, but of enterprising organizers and managers. They will often rise and must be given opportunities to rise from the lower ranks, but general education and special training designed to turn out such persons, will also be necessary.

62. Organizing Capacity.—"The son of a man already established in business starts with so many advantages that we might expect business men even to constitute a sort of caste, dividing out among

* Census Report.

their sons the chief posts of command, and founding hereditary dynasties, which ruled certain branches of trade for many generations together. But it is not so."† In western countries where modern industrialism has an undisputed sway, accumulation of wealth in a few hands has given rise to a class division often as rigid as that of the Indian caste. The working and other classes rarely get opportunities to rise in the economic and social scale and capital, though it is becoming democratised, is still the exclusive possession of the few, because to be employed in industry, it requires certain facilities which are not easily available.

In India trades and industries have thus become almost hereditary in families and are distributed among castes and communities. The Parsees, the Marwaris, the Banias and the Khojas, who occupy a prominent position in the industrial and commercial life of Bombay, illustrate the truth of this remark. The majority of mill-owners, it is said, do not prefer to send their sons or relatives to technical colleges as they do not like to work with ordinary labourers and it is the general impression that nearly all the students in the technical colleges are the sons of people of very moderate means and that very few of them, if any, appear to belong to families of wealthy manufacturers, whose sons should be training themselves to be officers in the industrial army. "How are our Indian capitalists educating their boys? Wealth is a stewardship, and the accumulation of great fortunes in individual hands can only be excused on the ground of important services rendered to the country by those holding them."*

† Marshall: Economics of Industry.

* Report of Eighth Industrial Conference, page 414.

What happens in the case of the sons of wealthy business man is that "at all events if the were born after he became rich, and in any cas his grand children, are perhaps left a good deal t the care of domestic servants who are not of th same strong fibre as the parents by whose influenc he was educated. And while his highest ambitio was probably success in business, they are likely t be at least equally anxious for social distinction" Business capacity and enterprise are not hereditar and the system of caste cannot ensure the transmi sion of these qualities. Economic pressure is, hov ever, bound to loosen the fetters of caste whic impede progress, and classes and castes are alread showing a noteworthy adaptability of which the were supposed to be incapable.

While, therefore, the extended provision technical education for the creation of a class trained operatives is necessary, and it is recogniz that it is by dint of character and of perseverance th men must and do rise to higher rungs of the indu trial ladder, it is believed that the 'most importa factors in the increased production of nation wealth would, in the case of India at least at preser be the leaders, managers, directors and superviso of industries. It is the skill, capacity, and trainir of generals and captains which determine vicitori more than the bravery and steadiness of the rar and file of the army.' In America and other cou tries highly educated University men enter busine and are found to turn out eminently successfu Under a suitable system of education there is r reason why it should not be so in this country alsc

† Marshall.

63. Small Industries.—The displacement of the cottage industries and of autonomous workmen by factories and machinery, is going on apace in India, and the prospect of the patent evils of industrialism coming in the wake of this modern development of large concerns, has caused and rightly caused no small anxiety to certain people. The tendency to large scale production seems to be inevitable; foreign competition and growing needs of the people seem to require it. But the decadence of the old arts and handicrafts, the vitiation of public taste which imports of machine-made cheap goods have caused, the degradation of the workmen to the position of wags earners, and the migration of the rural population to overcrowded and unhealthy cities, are evils associated with the factory system, and the question has been asked, 'Is Europe going to make Asia an East end?'

Advantages of the concentruction of capital and labour and of the use of labour-saving machinery, are undeniable and India cannot refuse to avail herself of them. Apart from the fact that evils of industrialism may be counteracted by timely measures and precautions, the people of this country cannot help trying to produce wealth with the least possible cost on the lines of progressive nations. But the day for the small industry is not entirely gone. On the contrary, certain peculiar conditions of modern times themselves are favourable to their continuance and growth. Popular taste requires certain hand-made goods, and thus varieties of dhoties and saries made by the handloom weavers have not been displaced by the products of factories. Proximity of the market and of the customer also gives the cottage industry an advantage over the factory, and the

former is now-a-days in a position to benefit by mechanical and other improvements which are being made every day. The artisan in the west can now work in his own home with the help of cheap motive power and machine tools. "The carpenter, if he is furnished with a very cheap motive power which is necessary to set his circular saws or other machine tools in motion, will be able to work in his house as well a great manufacturer. In this way he will be able to utilise his small group of machines in a variety of ways, until he will begin to acquire a perfect command over his work which he could not have been able to attain, if he had been a workman in a great factory. In spite of the advantages on the side of the big manufacturers, the small manufacturer will be in a position to compete with them. He will find an energetic support in the collaboration of the members of his family and in the moral element which will be the consequence of the work in his proper home. He will form a number of assistants and apprentices, or in fine, a complete industrial organization quite analogous to that of the ancient professions but differing from it only in the introduction of the machine. The improvements of applied science can now supply him with the motive power at a very small cost. The modern developments of the use of electricity might now transmit motive power cheaply to the cottage of a small producer."*

64. Lines of Evolution.—Cooperation in purchase, production and sale will enable the artisans to overcome difficulties presented by lack of capital and encroachments of large scale industry. The

* Report of the Eighth Industrial Conference, Page 122.

preservation of the ancient handicrafts of India is an urgent problem in which are involved the interests not only of the millions whose subsistence depends upon them and who cannot be left to the tender mercies of the forces of foreign competition and modern industrialism, but also of Indian culture, indigenous arts and the social and economic well-being of the masses of people. What is wanted is capital, organization, education and improved tools. "Do not let us compete", the exhortation is addressed to us, "with Western nations by evolving for ourselves a factory system and a capitalist ownership of the means of production corresponding to theirs. Do not let us toil through all the wearisome stages of the industrial revolution—destruction of the gilds, elimination of small workshops, the factory system, *laissez faire*, physical degradation, hideousness, trusts, the unemployed and unemployable and what may be to follow." * Mr. Coomaraswami even asks if the 'true hope for Indian iudustry does not lie in some development of the caste system itself in the village and home industries of the past aided by such improvements as are needed e. g. the fly shuttle or the distribution of electric power.'

65. Caste.—The caste organization plays a very important part in the social life of the people. The Panchayat of each caste controls the dealings of members with one another in certain matters and discusses and decides various social and domestic questions and inflicts punishments upon offenders. Rules of the caste with regard to personal conduct are made binding upon individual members, and penalties are laid down for breaches of regulations.

* A. K. Coomarswami : Indian Idealism.

The panchayats sometimes also seek to regulate the industrial methods pertaining to the occupations of the castes, and offences against the community tending to lower its corporate character are duly considered. "The Sunars of Hushangabad have a gild panchayat on the night before the Dashara, when they hold a feast, and are said to take an oath that none of them on pain of outcasting will disclose the amount of the alloy, which a fellow craftsman has mixed with the precious metals. The Koshtis of Chanda in 1907 proscribed a certain cloth and yarn seller of the city who had offended some of their number and resolved to outcaste any Koshti who dealt with him."

In his work, 'the Indian Empire', Sir W. W. Hunter has given a brief but interesesting description of caste and pointed out clearly its economic and religious functions. He says:—

"There is, therefore a plasticity as well as rigidity in caste. Its plasticity has enabled caste to adapt itself to widely separated stages of social progress, and to incorporate the various ethnical elements which make the Indian people. Its rigidity has given strength and permanence to the corporate body thus formed. Hinduism is internally loosely coherent but it has great powers of resistance to external pressure. Each caste is to some extent a trade guild, a mutual assurance society and a religious sect. As a trade union, it insists on the proper training of the youth of its craft, regulates the wages of its members, deals with trade delinquents, supplies courts of arbitration, and promotes good fellowship by social gatherings. The fabrics of mediæval India, and the chief local industries of our own day, were developed under the supervision of caste or trade guilds of this sort. Such guilds may still be found in many parts of India but not always with the same complete development.'

The same causes that wrought the disorganization and decay of the craft guilds in England are in operation in India to-day, and a readjustment of economic and social forces is steadily but surely going on. But trade unions and other organizations have not yet taken the place of the old institutions, and things are in a flux. Manufacturers and merchants have their organizations designed to safeguard and promote their common interests, but artisans and workmen are disorganized and helpless where the hold of the caste has loosened, as it is loosening on every hand.

India appears to have had village panchayats as distinguished from caste panchayats, and corresponding to the merchant gilds of medieval Europe. We find a description of such a *parishad* in Manu Sanhita. The function of these bodies consisted in deciding on all social, religious economic and administrative questions affecting the village as a whole. Most of these organizatious have now disappeared and we have survivals of some of them in certain parts of the country. But the vitality of the caste panchayats is greater and the less advanced a community the closer is the hold of that authority on its members. There is but a slight analogy between the Indian caste and the English craft gild.* In the former, social and religious functions predominate and in the latter it is the regulation of industry which characterises the organization.

66. Gilds:—The English craft gild was extremely exclusive and exercised a very rigorous control over membership, apprenticeship and the general practise of its particular craft. But it is not to be supposed that it had no religious and social side of its own, and herein we trace a similarity

* Sir Herbert Risley: The People of India, page 259.

between it and the Indian caste, though the English gild never made its occupation hereditary. That a person must be born in a caste to be entitled to be its member, is a peculiarity of the Indian caste. And even in India we see instances of absorption of castes and the creation of new ones or of subcastes. With regard to the English gilds, a writer remarks:– "The religious side of the gilds has not so far come into much prominence, but most of them had this side to their activities, and indeed with some, religious and social duties had formed the nucleus round which the other powers had gatherd. Pageants and processions on certain saints' days and formal attendance at worship, were part of most medieval associations, and more common still were alms and charities and prayers and masses for the souls of dead brethren." *

The idea of the inherent superiority and inferioity of certain classes and of the inheritable character of the qualities and functions of these classes did not get root in the European soil while in India the distinction of *Varnas* based upon qualities and actions alone, faded from the popular mind, and social divisions steadily multiplied as they became more and more rigid. Some castes do correspond to crafts, but in the case of several there is no such identity. "The same caste may embrace several crafts, and as a rule, Mahammadans and Hindus engage in the same trade, each working for his own community. Some times they take recognizable sections of a craft and work separately. At other times they may be found in the same workshop; and Hindus now often employ Mahammadan craftsmen

* Townsend Warner: 'Landmarks in English Industrial History.'

whereas formerly the Hindus were the labourers and the Mahammadans the employers."* Thus weavers are found among different castes and creeds and in the Punjab, 'in the eastern districts the Julahas constitute a real caste, but further westwards distinctions of race tend to disappear. Khokhars and Pathans, Mirasis and Rajputs, and even needy Sayyads are found flying the weaver's shuttle for their livelihood in Jhang and Multan.' §

Changing popular tastes, competition of foreign and indigenous machine-made goods and the increasing use of improved tools, have disorganized and will tend more and more to dissolve this industrial organization based upon the principle of caste. Before the advent of machinery and the spread of general and technical education as also the changes which rapidly took place as a consequence, in social usages and ideas, had obliterated the distinctions among the different classes of work and of workers, even in a country like England, as Mill observes, the barrier-which separated one industry from another were almost insuperable. "So complete, indeed, has hitherto been the separation, so strongly marked the line of demarcation, between the different grades of labourers, as to be almost equivalent to an hereditary distinction of caste; each employment being chiefly recruited from the children of those already employed in it or in employments of the same rank with it in social estimation, or from the children of persons who, if originally of a lower rank, have succeeded in raising themselves by their exertions."† A similar process is clearly visible in India and

* Imperial Gazetteer of India, Vol. III.

§ Latifi: 'The Industrial Punjab'.

† Principles.

enterprising men are rising to a higher status in economic organization independently of all social distinctions. Not only will Brahmins become mechanics, foremen, contractors and engineers, but people of the lower classes also are being enabled to organize industries and command labour and thus to override the limitations set by caste.

67. Farming.—The organization of production in India has to be studied in different aspects which simultaneously present themselves to the view and range between a poor peasant's simple cultivation of a patch of land or the occssional land tillage combined with other primitive occupations of the backward races that inhabit the jungles, on the one side, and on the other, the manufacture of the finest articles in a factory of the most modern type by uptodate methods. Except in the case of a few big land holdings, agriculture is for for the most part in the hands of small men. Farming on a large scale is quite exceptional in India. "In the rayatwari areas of Madras, for example, the average size of a holding does not exceed eight cultivated acres, while in the more thickly populated areas of Bihar, under the Zamindari system, the tenant's holding averages, less than half an acre." Mr. Mackenna observes :—"In England the farmer is generally a person of some education and substance, farming large acres and capable of applying the results of his reading. The great mass of the agriculturists of India are small holders and the standard of education among them is, as a rule, low. There are no agricultural papers to bring to their notice new manures or new machinery; in most cases they would not have the money to purchase them, nor the experience and knowledge to make

much use of them when they had got them. I am well aware that in every province in India there are not a few highly educated and intelligent landlords and farmers; but as a rule the cultivator of India is a small holder. This, obviously, complicates the problem. Finally, the idea of seedsmen as we know them in England, with our Suttons and Carters, is practically unknown. Till a few years ago, the village Bania added this to his various lines of activity."*

A few intelligent and enterprising landlords are indeed organizing their farming along more systematic and scientific lines; and sugarcane cultivation and fruit gardening, for instance, have proved more remunerative. Agricultural associations and co-operative societies may be expected to do some thing for the small cultivator by teaching, and helping him in other ways to make his farming more remunerative. He may borrow capital or purchase seed from his society and carry out improvements suggested to him by demonstrations given by the officers of the Agricultural Department.

68. Fragmentation of Land.—But the greatest difficulty in the way of improvement is that the bulk of the agricultural holdings are not economic holdings. Mr. Keatinge defines an economic holding as one "which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses. In the Deccan an ideal economic holding would consist of (say) forty or fifty acres of fair land in one block with at least one good irrigation well, and a house situated on the holding.

* Paper read before Royal Society of Arts.

The desirable area would vary greatly in different parts according to circumstances."* The average holding is extremely small, often split up into several plots situated at a distance from each other and consequently it is absolutely uneconomic. The cultivator with such a holding cannot be expected to develop or improve his property and must live in depressing circumstances.

In moving a resolution in the Bombay Legislative Council, recommending the adoption of measures to prevent the extreme subdivision of land which is going on apace, the Hon'ble Dewan Bahadur Godbole described several cases of lands where partition had become absurdly minute. In the Kanara district, there is a compact piece of land measuring 52 acres and 1 gunta in extent. "This land is divided at present into 40 separate survey numbers 14 of which are less than one acre in extent. The survey numbers are subdivided further and the whole of the 52 acres and 1 gunta are at present held by 139 occupants. Three of these holdings are of 1 gunta each. I might tell the Council that the Council chamber in which we have met to-day measures $1\frac{1}{2}$ guntas. This will give the Hon'ble Members some idea of what a holding of one gunta means."

The inquiry made by Dr. H. H. Mann into the condition of a typical dry village in the Deccan, brings out the same fact into prominence. Under such circumstances, remunerative farming is an impossibility, and the cultivators have to supplement their income by doing other kind of work, or to migrate to towns. Laws have been made in certain countries rendering possible the creation of

* Rural Economy in the Bombay Deccan.

impartible holdings of a particular size. Increase of population and growing dependence on the agricultural industry are as much responsible for the evil of the extreme fragmentation of land as Hindu and Mahomedan laws of inheritance and the strong attachment of the people to their ancestral holdings. Spread of education, change of public feeling and a suitable modification of the existing laws of inheritance, are pointed out as remedies. But they are not likely to be efficacious unless new industrial avenues are opened to the people and they find congenial work in other fields. For an enterprising man to take to farming, a sufficiently large plot of land provided with water facilities and a decent amount of capital, will be needed. And fortified with these, there is no reason why a few of our young men, particularly agricultural graduates, should not become successful farmers.

Small industries will be similarly remunerative if the workers have the necessary training, can command capital and can keep themselves in touch with the latest improvements in processes. Young men who receive their training abroad, find it difficult to enlist the support of capitalists and cannot straight off start new industries. They do not also possess business capacity though they may have expert knowledge (which may not suit Indian conditions). Capitalists care more for fat dividends and high rates of interest and are unwilling to risk their money on new ventures. But this happy association of enterprise and training with capital, will be more in evidence as years pass by. In the meanwhile, experienced business men in command of capital, are found to be able to float new industrial concerns. The experience gained in the existing

factories will prove useful in the work of starting new ones. But this organization must be preceeded by experimentation and research work. The possibilities of the raw materials to be found in abundance in the country, must first be proved, and a new industrial scheme must be an undisputed business proposition. The State will have much to do to create congenial surroundings and give direct and indirect assistance to industrial development.

69. The Future.— We cannot close this chapter without adverting to the question which is raised by the oft-repeated statement that India is and must long continue to be a country in which agriculture will be the predominant industry. If this statement simply means that there is infinite scope for the improvement of the agricultural industry in this country and it will be many years before it will have established in it manufactures of the magnitude of those of England, for instance, there is nothing in the observation to which exception may be reasonably taken. But what is resented as unwarranted, is the insinuation that India must be satisfied with agriculture because her sons are incapable of starting and managing large manufactures. Agriculture is a noble industry and remunerative too, and every nation is trying to improve and encourage it. But to reduce India to the condition of a nation of poor cultivators, would be to retard the progress of the people in all directions and to perpetuate its poverty.

It is a mistake to suppose that India has ever been an agricultural country. It had a splendid combination of agriculture and manufactures, and its wealth was the result of the profitable exchange between the country and the town. Replying to a

question before a select committee of the House of Commons, Mr. Montgomery Martin observed:—"I do not agree that India is an agricultural country; India is as much a manufacturing country as an agricultural; and he who would seek to reduce her to the position of an agricultural country seeks to lower her in the scale of civilization. I do not suppose that India is to become the agricultural farm of England; she is a manufacturing country, her manufactures of various descriptions have existed for ages, and have never been able to be competed with by any nation whenever fair play has been given to them. I speak not now of her Dacca muslins and her Cashmeer shawls, but of various articles which she has manufactured in a manner superior to any part of the world. To reduce her now to an agricultural country would be an injustice to India."*

What is therefore wanted is the industrial resurrection of India. The ruralization of the country has gone to such a length, that the industrial achievements of the people, their talent, and their natural and acquired aptitude have been forgotten. The industrial and commercial glory of India appears to have passed into a myth, and an account of the old indigenous industries and arts will read like a fairy tale. Prof. Radhakumud Mukerjee has written an admirable work on the history of Indian shipping, and therein he shows what great progress had been made by Indian people in that industry. He quotes a French writer thus:—"In ancient times the Indians excelled in the art of constructing vessels, and the present Hindus can in this respect

* Quoted in "India in the Victorian Age" by Mr R. C. Dutt.

still offer models to Europe—so much so that the English, attentive to every thing which relates to naval architecture, have borrowed from the Hindus many improvements which they have adapted with success to their own shipping.....The Indian vessels unite elegance and utility, and are models of patience and fine workmanship."§ This example will illustrate the inherent industrial capacity of Indian people and will point to the latent possibilities of the country. With systematic organization and patient encouragement, a varietv of industries will rise in India, making her people progressive and prosperous.

70. Summary—We have referred above to the different methods of industrial organization which prevail in India as in other countries, and drawn attention to the requirements of the economic situation as it is affected by the existing organization of production. It is not desirable to attain uniformity of system in this matter. The object to be aimed at is efficiency of production without detriment to the human factor. Whether it is agriculture or handicrafts or manufacture in big factories, the work has to be so designed and conducted that the highest results will be obtained.

No one should pin his faith to large scale production alone, as in large tracts of the industrial field in India it is impracticable. Extensive sugar factories on the central system, for instance, are possible in Java and Mauritius, but in a densely populated country like India, intensive cultivation is much more practicable and desirable, though farmers may derive immense advantage by co-opera-

§ Radhakumud Mukerjee: *A History of Indian Shipping and Maritime Activity.*

tion. A general spread of education and an easy supply of capital will go a long way in making production more efficient in farming as well as in the domestic industries.

Industries carried on on a large scale enjoy numerous advantages of internal and external economies, and the present tendency is in the direction of production on a large scale Undertakers, who have sufficient enterprise, must receive the co-operation of experts and capitalists, and must be enabled to start new concerns for which there is immense scope in this country. For this purpose, educated young men must be equipped with sufficient scientific knowledge and practical training, and a large class of men must arise who will be capable of taking upon themselves the responsibilities of business management

There is at the present moment much misdirected effort and waste of energy, and the forces of scientific knowledge are not being brought to bear on our indigenous industries and commerce. More of our people must take to bussiness, but they must be thoroughly trained and equipped and ought to get opportunities to learn and rise. The old economic organization is steadily crumbling and it has to be adapted to the changing conditions.

This is a very large problem, full of complexity, and no one remedy can be suggested for its solution. In fact, there are different solutions, according to nature of the industry to be tackled. But this much is common to all of them, viz. that the producer has, in each case, to make the best of the resources at his disposal, and every kind of waste has to be prevented. The producer has also to be supplied with improved means, and it must never be forgotten

that the end of all wealth-creation is, after all, the improvement of man.

We close this summary with an extract from the Presidential address delivered at the 12th Industrial Conference by the Hon. Rai Sitanath Roy Bahadur:—

"Another very important requisite is efficient business organization. Organization is the key to success, and the chief characteristics of modern industry are summed up in this one word. As regards the constitution of large industrial concerns, it is clear that individual ownership is, and must in the very nature of things be, very rare. We must, therefore, look to partnerships, private companies and limited liability companies for the solution of our industrial problem. Hitherto the establishment of companies has not been very successful. This has been due to a want of confidence in the capacity of the company promoters and, in some cases, want of honesty on the part of managers. Efficiency of industrial organization depends in a very large measure on the moral and intellectual qualities of the persons in whom control and responsibility are vested. Unfortunately, we very often find that the Directorate Boards of many of our industrial concerns are composed of men who cannot bring to their work expert knowledge which is so essential for successful management. The duties of organizers of modern industry are so multifarious and so important that they cannot be safely left in the hands of amateurs. As a well-known economist observes, 'the armies of industry can no more be raised, equipped, held together, moved and engaged without their commanders, than can the armies of war.' For the proper training of such captains of industry, commercial education is essential. The would-be captain should, besides acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country regarding the production, distribution, and exchange of commodities. The course of instruction ought to include subjects like commercial law and history, banking methods, import and export problems, exchange rates, transport,

freight, and insurance company management, and the conditions of markets. Commercial instruction is also necessary for those who are to occupy the positions of superintendents, auditors, and accountants, and even for men who are destined for the humbler positions in the commercial line. The best agency for imparting commercial education of the higher type is, of course, the University. Commerce forms a very important Faculty in almost every modern University of the world. In India, Bombay has already shown the way in this respect, and let us hope the other Universities will soon follow suit. In order to prevent a misunderstanding I wish here to make it clear that the mere possession of a commercial degree will not make a man a business expert. It is the school of experience alone which can turn out a successful business-man. But I hold that commercial education will furnish the groundwork on which experience will build."

Chapter VII.

Production and Population.

REFERENCES.

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71. Increase of Population.—Prof. Marshall truly observes:—"The production of wealth is but a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental and moral. But man himself is the chief means of the production of that wealth of which he is the ultimate aim."* We have already laid stress upon the peculiarly urgent importance of increasing the production of wealth of every kind in India, and pointed out that this can be ensured by an increased efficiency of the agents of production. An increase in population is itself taken as an indication of the progress and prosperity of a community. "In the first place," remarks Prof. Nicholson, "defence is still of more importance than opulance, and an increase in numbers means in general an increase in military power—actual or potential. Equally obvious is the increase in man's power over nature. Even simple combination of labour has its advantages, as has been admirably shown by Mr. Gomme. Still greater are the advantages of complex co-operation, as we see in our own days in the rapid de-

* Principles of Economics.

velopment of new countries in which the progress of centuries is forced into a few decades. The growth of population is necessary to the improvement of the means of communication and of trade; trade brings capital and capital and land both give for a time an increasing return, and thus the increase of population means an increase of wealth per unit."*

How important is the problem of the growth of population from the point of view of defence, has been demonstrated by the experience of the world war. The size of the population in the belligerent nations has counted in it as a factor of primary importance, and for several years before the outbreak of the struggle, the stationary condition of the population in France had been a cause of anxiety and alarm. Colonies, where land is abundant and the soil fertile, invite settlers from the old world and immigration tends to augment wealth. An increase in labour power conduces to the efficiency of production and a growth of population will augment the national income. A natural increase of population is welcomed also because it represents an excess of births over deaths and bespeaks peace, health and prosperity in the community.

72. Varying Conditions.—It must be admitted that under certain conditions an increasing population not only denotes growing welfare but assists in the efficiency of the production of wealth and therefore the volume of the national dividend. But only under certain conditions. "The increase of numbers may be accompanied by more or less general adoption of unhealthy and enervating habits of life in overcrowded towns. Or it may have

* Principles of Political Economy.

started badly, outrunning the material resources of the people, causing them with imperfect appliances to make excessive demands on the soil; and so to call forth the stern action of the law of diminishing return as regards raw produce, without having the power of minimizing its effects; having thus begun with poverty, an increase in numbers may go on to its too frequent consequence in that weakness of character which unfits a people for developing a highly organized industry."* Prof. Marshall therefore concludes that it is only when these conditions are satisfied that 'an increase of population accompanied by an equal increase in the material sources of enjoyment and aids to production is likely to lead to a more than proportionate increase in the aggregate income of enjoyment of all kinds.'

All countries are not, however, in the happy condition in which an increasing population leads to increasing welfare. But even granting that the above conclusion of Prof. Marshall applies to the majority of communities in the world, there is another aspect of the problem which demands consideration. Mr. Pierson observes:—"When growth of population is accompanied by various occurrences that operate favourably upon production, and the average *per capita* income then increases, the growth of population will have exercised its harmful effects all the same; there would have been a far greater increase of the average income had there been no increase of population."† As Mill remarks, "all the nations which we are accustomed to call civilised increase gradually in production and popula-

* Economics of Industry.

† Principles of Economics.

tion;" and therefore more importance must be attached to the side of production, inasmuch as the economic ideal must be to secure as large an income to the individual as possible. Malthus, therefore, sounded a note of alarm and pointed to a remedy more than a hundred years ago. His doctrine has been the subject of a continued and animated controversy, but his position has remained substantially unshaken.

73. Malthusian Doctrine.—During the last few years production has made such giant strides as could not have been anticipated by Malthus, and recent developments appear to have falsified his gloomy forebodings that the production of food would not be able to keep pace with the increase of population. He had maintained that unless people voluntarily kept down the growth of population by moral restraint, positive checks like disease would come into operation, making the lot of mankind miserable. And we are told that "everywhere we see wealth increasing at a greater rate than population —in new countries like the United States as well as in old countries like France. So that our first concern is rather in the opposite direction."* This is true enough, and the birth-rate among the higher and well-to-do classes is lower than among the poor people. "There is no question that this general situation—marriage rates virtually stationary and yet declining birth-rates—is due to deliberate abstention from propagation. Married couples have fewer children than before by deliberate intent."§ That is to say, it is the preventive check urged by Malthus, combined with larger production of wealth,

* Charles Gide: Political Economy.

§ Taussig: Principles of Economics.

which has brought about this result which is pointed out as a refutation of his famous doctrine.

Admitting, therefore, that the doctrine of over-population has lost its terrors for modern society and that the stress has been shifted from food to wealth and efficiency, and still further that 'since man is the chief labour force, large numbers, indeed other things being equal, mean greater national strength and power,' it must not be forgotten that 'the reverse may not be true if other things are not equal. A small nation with greater productive efficiency, like England, will outrank a more populous country, like India. Smaller numbers with fairly equable distribution of wealth are preferable to a dense population living in the extremes of misery and opulence. Mere numbers are therefore not the vital point.'* It must also be borne in mind that 'a rate of growth sufficient to enable it to *keep pace with* population is not all that we require of production; it must grow more rapidly than the population, otherwise the average income will never rise.' Subsistence is not always to strive to overtake expanding population, but it must be enough to afford an ever-increasing share of wealth to the population as we advance. A stationery population need not cause alarm. 'For mankind as a whole, declining birth rates and lessening pressure on population mean progress, and not deterioration. The prevalence of habits of prudence among all strata mean a gain in human happiness. Possibly the time will come when this sort of prudence will be carried so far that population in the advanced communities will no longer increase at all.' §

* Seligman : Principles of Economics.

§Pierson : Principles of Economics.

74. Application to Indian conditions.— The principles of population briefly discussed above, have got to be applied to the social and economic conditions of India with a view to an examination of the tendencies in this country. The teeming population of India is spoken of with a sense of pride and satisfaction, but it may as well be an object of anxiety to a close student and ardent reformer. Quality must matter as much as quantity in the case of the population of a country; otherwise a mere increase in numbers is a veritable danger. In India "the total increase in recorded population between 1901 and 1911 was 2,07,95,000 or 7·1 per cent. as compared with 70,46,000 or 2·5 per cent. and 3,34,18,000 or 13·2 per cent. in the two preceding inter-censal periods." Even making allowance for the increase which was due to the inclusion of new areas within the scope of the census operations, viz. 17,54,003, the growth of the population between 1901 and 1911, was considerable. And this increase has taken place in spite of the loss of life caused by famine, plague, malaria and other calamities. 'In the country taken as a whole, there are on the average 175 persons to the square mile or much the same as Europe outside Russia. In British territory the number to the square mile is 223 and in the Native States 100; the former figure exceeds by 34 the density ratio in France and the latter is identical with that in Spain.'

The density of the population varies in the different parts of the country and is dependent upon the climate, quality of the soil, rainfall and

other conditions. The following figures are instructive:—

	Density. Per sqr. mile.	Rainfall. Inches.	Cultivated area. Percentage of total area.	Cultivable area. Percentage.
Madras	291	43	38	25
Bombay	145	46	38	25
Bengal	551	70	50	20
United Provinces ...	427	42	53	19
Central „ ...	122	48	39	26
Burma	53	95	13	29
Punjab	117	31	33	24
Behar and Orissa ...	344	53	52	21

'The predominant density factors in India are by no means those which count for most in Western countries, where the variations in the population depend mainly on the progress made in commercial and industrial development. In England, next to London and its environs, we find the most teeming population in Lancashire with its cotton mills, and Durham with its collieries. The density in these two counties is more than five times that in pastoral and agricultural counties such as Oxfordshire, Lincolnshire, Norfolk and Devonshire. In the latter the number of persons to the square mile no where exceeds 200, and in some it is much less; and it would seem that Trunnier's dictum regarding Germany to the effect that agriculture alone is unable to support more than 250 persons to the square mile is equally true of England and in fact of all parts of Europe. The conditions are quite different in India where two-thirds of the population is directly dependent on agriculture, as compared with less than 7 per cent. in England. In large areas, such as the natural divisions which here form the basis of the

discussion, manufactures and trade affect the density to a comparatively small extent; and even the number of individual districts whose density is greatly affected by the existence of trading and industrial centres is still comparatively small. Moreover, while in Europe, as we have seen, agriculture is unable to support more then 250 persons to the square mile, in India there are some purely agricultural tracts where it already supports three or even four times that number and others where it cannot support a tenth of it."*

75. Is there great pressure ?—The growing pressure of the Indian population on land is admittedly a serious problem, and it has been adverted to before.† If agriculture alone is unable to support more than 250 persons to the square mile in Europe it is difficult to understand how in a country like India where agriculture is the main industry of the people, a larger number can be supported without great hardship. But we are told that 'a fifth of the total population of the country is congregated on less than a twentieth of the area, where there are more than 600 persons to the square mile ; a quarter more on a twelfth of the area carrying from 400 to 600 per square mile and nearly a fifth on an eighth of the area with the density between 200 to 400' ; and it is pointed out that 'nearly two-thirds of the total population of India occupy only a quarter of the whole area, while the remaining one-third is scattered over three-quarters of the area which is still very sparsely inhabited and no where contains as many as 200 persons to the square mile.'

* Census Report.

† See before, pages 43-48.

This and other arguments which are advanced* to lend support to the view that in India population does not and need not press on the means of subsistence, have been carefully examined by Mr. Wattal in his most interesting brohcure† and shown to be erroneous and misleading. Except perhaps in Central Provinces and Berar, no further agricultural development seems to be possible, and certain areas are still sparsely populated because they are poorer, rocky and inhospitable. If 500 or 600 persons are packed in an area of a square mile in some provinces it is because they are resourceless and their standard of living has become extremely low, and not because land can really support such a number. Thus with regard to the Konkan districts of the Bombay Presidency, the latest Census report remarks that in proportion to its cultivable area, the Konkan supports a larger population than any other division. The soil is not especially fertile. "There is a thriving fishery industry, and many natives of Ratnagiri and Kolaba are employed as police sepoys, choukidars and labourers in Bombay and lascars on

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* See W. W. Hunter's *British Empire*, Page 85.
Hunter observes that land is plentiful in the Native States and migration of the population from congested areas to those parts is required. He remarks, however,:—"In some parts of India, this change in the relation of the people to the land has taken place before our own eyes. Thus in Bengal, there was in the last century more cultivable land than there were husbandmen to till it. A hundred years of British rule has reversed the ratio; and there are now in some districts more people than there is land for them to till. This change has produced a silent revolution in the rural economy of the Province."

† The Population Problem in India.

ocean steamers and they remit a large portion of their earnings for the support of their families at home." It is in this way that the population of the Konkan with 227 persons per square mile is supported, and it does not argue any remunerative character of agriculture there. Several other tracts may be found to disclose a similar phenomenon, and one would be hardly warranted in indulging in optimism with respect to the productive possibilities of a majority of provinces.

76. Food Supply.—Mr. K. L. Datta's investigation into the causes of high prices, revealed the fact that during the period under inquiry, the population of the country was growing faster than the food supply. He maintained :—"Considering the growth of the population and the increase in the external demand, the supply has been short during the greater part of the period embraced in the enquiry. The demand for both internal consumption and exports having increased at a quicker rate than the production of food grains, it is only natural that the general level of prices of food grains over a series of years would rise although in a particularly favourable year it might have fallen to some extent. The food supply in India compared with the demand, both internal and external, reached its lowest level in the quinquennium 1905–09, and this shortage of supply has doubtless contributed, in no small measure, to the unusual rise in prices during that quinquennium."*

* Report on High Prices.

A comparison of the growth of population and of the production of food grains, is presented in the following table, in which index numbers representing the increase, are given :—

	Average of the quinquennium 1890-91 to 1894-95	Average of the quinquennium 1895-96 to 1899-1900	Average of the quinquennium 1900-01 to 1904-05	Average of the quinquennium 1905-06 to 1909-10	1910-11	1911-12
Population ..	100	101·6	103·7	105·7	107 8	108 4
Total area under cultivation ...	100	98	103	105	108	106
Area under food-grains ...	100	96	101	102	106	103
Production of food-grains ...	100	98	105	99	113	109

In their Resolution reviewing Mr. Datta's report, the Government of India stated that the statistics on which reliance had been placed and had to be placed, suffered from the fault of inaccuracy and that inferences drawn from such data must be taken with an amount of reservation. They, therefore, presented their own figures which, in their opinion, were more reliable, and concluded that there was "an almost precise parallelism between growth of population and extention of cultivation" and that "the only interpretation which the figures can bear is that the correspondence between the two has been substantially maintained." Government also pointed out the further consideration that extension of irrigation must have resulted in an improvement of

the outturn and that the development of communications must have had the effect of enhancing the "efficiency" of the aggregate of food production.

Even admitting the view here presented as correct, we cannot feel that the situation is satisfactory, because it amounts to this that the increase in food supply is just able to keep pace with the growth of population. But it is argued that 'the real problem as regards a country so situated is obviously to determine whether the purchasing power of the people generally has increased' and that the high prices of Indian exports in foreign markets have enabled the Indian cultivators to purchase larger quantities of the necessaries of life from abroad, which is tantamount to a larger production of wealth in this country. And Mr. Datta observes that "India has now to part with much less of her produce to meet her foreign obligations for the simple reason that her produce has risen in value in European markets". It must be borne in mind, however, that so far as food grains are concerned, with a shortage of supply and prices ruling high in the Indian markets, they have never been imported in appreciable quantities from abroad. Government argue that the internal supply did not require to be supplemented by imports. But the true explanation seems to be that the Indian population must have been underfed and that it did not possess purchasing power sufficient to enable it to supplement its stock of food grains by foreign imports.

Higher prices of food grains cannot compensate the Indian producer for the growing pressure of the population on the soil, because the general level of prices has gone up in India and the share of the cultivator in whatever benefit may accrue is, for

obvious reasons, very slight. If more mouths have to be fed with the same or nearly the same quantity of food, the prices must rise, and this rise cannot be an object of congratulation or of consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to land. To maintain a growing population, the soil must be made to yield more and the production of food grains per acre must increase owing to intensive cultivation. Agricultural improvements effected during the last few years have not augmented the yield to an extent of which account may be taken.* Apart from the commodities obtained in exchange for the raw materials exported from India, the productive power of the people cannot enable them to supply themselves with necessaries of life in a sufficient quantity. Industrial specialization, under normal conditions, has its advantages and there is nothing inherently undesirable in a country exchanging its special products for those which are produced by other countries under peculiarly favourable circumstances. But India's dependence on the sole industry of agriculture amounts to a danger and has contributed to the backwardness and poverty of the people.

77. Famines.--Famines which have harrassed India so frequently are now unknown in other civilized countries though they were common there formerly. "To-day they are found only in the agricultural and mining industries. They are not as a rule very hurtful, except in countries industrially backward. A failure of the wheat crop may cause terrible famines in poor countries like India or Russia, and the insufficiency of certain raw materials

* Mr. Mackenna ; Agriculture in India.

may throw factories idle." * It has been said that Indian famines are not so much famines of food as famines of the means with which to purchase food. But now though the railways facilitate the transport of food-grains from one part of the country where they are available, to that in which the crops have failed, and to that extent the horrors of the calamity are minimised, a famine must always be a serious crisis of under-production. Not to go to earlier famines, we may refer to the failure of the monsoon in the United Provinces in 1907. Besides the other evils it entailed upon the people, the famine was responsible for a deficiency in food production equivalent to an amount of grain sufficient to feed the 48 million inhabitants of the province for five months. The total loss on food crops at both harvests, in terms of money, was put at Rs. 42 crores while the total loss on other crops was about Rs. 15 crores.

Famines and scarcity are, no doubt, caused by a failure of the rains and rarely by floods, and Government have developed an elaborate system of preventive, protective and relief measures. It has minimised the danger of the loss of human life and also of cattle life. But as the Famine Commission of 1880 pointed out, no protective measures can be adequate which did not include some attempt to diversify forms of employment. The problem of production and population cannot, therefore, be solved by these indirect methods, however useful they may be in themselves. A bold frontal attack must be levelled at the evil and the productive capacity of the people must be raised. The growing demand for the raw materials of India and the higher prices

* Gide : Political Economy.

which some of them may often command, should not be regarded as a gratifying indication of the growth of that capacity. That is, after all, a subordinate factor in the situation. Of course, larger exports of cotton, jute, oil seeds and hides at higher prices will mean a larger supply and therefore production of wealth in the country. That is, however, an inadequate and precarious source of wealth creation. If those raw materials were manufactured in India with Indian labour and Indian capital and under Indian management, the addition to the national income will be enormous. And then only will it be possible to support the existing or a growing population with anything like decent means of subsistence. "It may be more cheap," writes Mr. Loveday, "to export raw goods and import manufactured goods. But if India is to win a stronger position as buyer and seller in the markets of the world, she must deepen the channels and regulate the action of her stream of produce.....If the concentration of the agents of production on a great variety of undertakings is to prove advantageous, it must be on industries unaffected by drought. If the national forces of international competition have not accomplished that aim, then deliberate and determined action alone can achieve it." *

78. The Outlook.—The above discussion drives us irresistibly to the conclusion that without an enormous increase in its productive capacity, India can hardly maintain even its present population, much less steadily growing numbers. An increasing population must thrust the country deeper into the mire of poverty and misery. A steady growth of population in a country may be an indi-

* Indian Famines.

cation of progress and prosperity. It may also be as much a cause as an effect of national poverty and decadence. The present standard of living of the mass of people is extremely low and the situation will be intolerable to all those who are anxious to see a substantial rise in it. Whatever progress is being made, will be just sufficient to overtake the normal growth of population. And what is wanted is a rapid improvement in the economic condition of the people, which can be secured only by increased efficiency. "A real increase of wealth and prosperity comes to nations as it does to individuals, not from any recklesss piling up of coined rupees—nor again from any rise of prices—which, as shown before, is in India almost invariably associated with crop-failures and famine conditions, but only from increase in industrial activity, energy and efficiency on the one side, and on the other, from increased productive employment of capital. With us, there is a deplorable deterioration in both respects"*

This gloomy picture would lead one to ask why the problem should not be attacked from the end of population also. A restriction of the growth of population will have the same effect as an increase in the quantity of subsistence as a larger share of national income will be available for distribution. The average increase of population, meaning thereby the excess of births over deaths, is by no means high. Whereas the natural increase per thousand of the population is 10 in the United Kingdom, it is only 8 in this country. This figure is low not because the birthrate is small, as might be thought, but because both the birthrate and death rate are comparatively high. A study of the statis-

* Mr. Joshi's Writings and Speeches.

tics in this connection relating to the principal countries of the world discloses the fact that a high birthrate is accompanied by a high deathrate, and the correspondence of the two rates means the correctness of the Malthusian doctrine. This state of things prevails in Rumania, Russia, Hungary, Saxony and Italy, and India stands in the same category with a birthrate of 30 and a deathrate of 38 per thousand. "Here are countries in which the population is pressing on subsistence. It is trying to increase faster than the means of support make possible, and the positive check is in operation. Not the positive check in its extreme form; the birth-rate is not at its maximum; some limitation of births there is. But more children are born than can survive and become adults and more persons become adults than can survive to peaceful old age. The populations are ill fed, ill clad, ill housed, ill warmed, ill cared for in sickness.....In all these countries, an indispensable condition for a permanent improvement in the condition of the mass of the population is a lowering of the birthrate--a relaxation of the pressure on the means of support."*

79. Remedies —These remarks apply, in a remarkable manner, to the situation in India. If our birth-rate is high, our death-rate also is high. And a death-rate of 30 per thousand means waste of life, cares, anxieties, poverty, disease and distress. It will indeed be an ideal thing to be able to control disease and to conquer poverty. But in the face of the economic situation as it exists and as it promises to exist for years to come, will it not be desirable to check the birth-rate and thus relieve the pressure on

* Taussig: Principles of Economics.

subsistence ? The economic situation and the prospects in India, then appear to call for the application of the Malthusian remedy. Late marriages of both men and women with a view to the controlling of the number of children, is that remedy. The necessity and wholesomeness of marriage are admitted, and therefore Malthusians recommend the adoption of voluntary restraint in married life.

We have not the space to notice, and it is not necessary to do it, the objections which have been raised to the self-restraint suggested by Malthus or to discuss the position of the followers of what is called neo-Malthusianism. And it is safe to agree to the proposition that "it is advisable that people should not bring children into the world, till they can see their way to giving them at least as good an education, both physical and mental, as they themselves had; and that it is best to marry moderately early provided there is sufficient self-control to keep the family within the requisite bounds without transgressing moral laws."* Humanitarian feelings and solicitude for the welfare of children, if not of the whole nation, no less than personal ambition and a desire for independence and national happiness, would justify the adoption of Malthusianism. The pathetic picture of a fairly intelligent and perhaps well-educated man, burdened with the anxieties of a large family, at a loss to know how to keep the wolf from the door and reduced to desperate shifts, to arts of flattery and slavishness, provokes the reflection that these troubles are entirely self-imposed and could have been avoided. And this reflection does not fail to arise in the mind even of

* Marshall : Economics of Industry.

pious and conservative people when they see widowers of forty and fifty going in for their second or third marriage and preparing for misery to themselves, their wives and children.

80. Indian Attitude.—Malthusianism, and neo-malthusianism in particular, is sure to shock the average Indian mind as it did the European mind years ago. Hindu law-givers looked and rightly looked upon marriage as a necessary social institution and a sacrament. Perpetuation of the race is a sacred duty, and every man has to get out of the debt he owes to his father by leaving a son after him. Late marriage is prescribed in the case of men, but the performance of the religious duties of the house-holder makes the married state absolutely essential. The injunctions recorded in the works of Hind law-givers, show that they laid down rules for a society which required for its existence and progress, a growing population of vigorous, healthy men, and to shirk married life would have been regarded as shirking a sacred duty to the community. Prayers were and are offered to God for the grant of a healthy and vigorous progeny, and this attitude on marriage and the house-holder's life, finds a justification in the attempts now being made in western countries to encourage marriages and to reward large families.

The anxiety of the average Hindu to have a son and the shifts to which he is reduced in trying to secure one, have been objects of ridicule with certain authors. "In the adoption of a son the Hindu aimed and still aims at satisfying an exacting group of manes greedy in the other world for recognition and offerings in this. He looks too for appreciable benefits which he is himself to derive from the future

ceremonies the fruit of which will reach him in the realm of shades.....In somehow acquiring a son the Hindu thinks generally that he is making the best of all possible bargains for himself in this world and the one to come." *

We have suggested above the true explanation of this Hindu passion to procure a son; and critical students of Hindu law and usage have not failed to appreciate it. J. D. Mayne observes: "In modern times children are a luxury to the rich, an encumbrance to the poor. In early ages female off-spring stood in the same position but male issue was passionately prized. The very existence of a tribe, surrounded by enemies, would depend upon the continual multiplication of its males. The son-less father would find himself without protection or support in sickness or old age and would see his land passing into other hands when he became unable to cultivate it. The necessity for male off-spring extended in the case of the Aryan even beyond this world." †

81. Changed Conditions.—But times have changed, and with them must change social laws and customs. The struggle for existence, if not education and the efforts of social reformers, is steadily pushing up the marriageable age of girls as well as of boys. In fact, early marriages of the latter are entirely opposed to the rule of *Brahmacharya* strongly insisted on by the ancient lawgivers. And whatever objection may be raised on religious grounds to the postponement of marriage of girls, there is nothing to prevent wholesome restraints in

* West and Buhler: A Digest of the Hindu Law.

† Hindu Law and Usage.

married life being practised. Such moral restraints are clearly implied in some of the old restrictions imposed by wholesome custom on married people. Though it may be a little difficult to establish the fact, there is no doubt that the average life in this country has declined a good deal, and the strain of the modern struggle for existence is responsible for it. The same remark may be safely made with regard to the health of the average Indian. Under these circumstances, it becomes a duty of men and women in India to see that the nation has a healthy and vigorous population which will stand comparison with other races, and will not go under in international competition.

To a Hindu, marriage and the begetting of a son, is a duty which he owes to society. But it is sorely to misunderstand the spirit of the law-givers and of ancient practice to suppose that religion imposes upon the householder the duty of begetting children for whom he can not hope to provide and that a limitation of the family by the exercise of prudence would violate the injunctions of religion and dictates of morality. Manu says:—"By the eldest as soon as born, a man becomes father of male issue and is exonerated from debt to his ancestors; such a son, therefore, is entitled to take heritage. That son alone, on whom he devolves his debt and through whom he tastes immortality was begotten from a sense of duty; others are considered as begotten from love of pleasure." If it was the sense of duty to society which animated ancient laws with regard to marriage and progeny, may not the same sense of social duty be pleaded in favour of a limitation of families? 'Love of pleasure' Manu speaks of, or blindness to the future, brings

on misery to the individual and society, and moral restraint which religion and reason insist upon, is calculated to make for health, wealth and happiness.

A low or declining birth-rate is regarded as a sign of advancing civilization, and it is believed that the lower the birth-rate, the higher is the prosperity of a nation. The present tendency in western countries is towards a steady decline of the birth-rate accompanied by growing material prosperity. "The general decline of the birth-rate in advancing countries ; the accentuation of that decline among the well-to-do ; the probability, almost certainty, that with wider diffusion of prosperity the tendency will spread more and more to all classes—at times is due to social and industrial ambition. Some writers have discussed the change as if it were automatic, as if the lower birth-rate among the well-to do were the natural and necessary consequence of their having a larger income. The connection between income and birth-rate is the other way ; rising prosperity is rather the effect than the cause of declining pressure. The fundamental cause is the wish of each family to promote its own material welfare."*

82. Vicious Circle.—In the matter of this question of a declining birth rate, we seem to move in a vicious circle. The birth rate goes down where economic conditions are satisfactory and the intellectual and educational level is high, and a low birth-rate is required to improve the economic condition of the community, "The causes of the declining birth rate are to be found in the intellectual and material forces which have so wonderfully stirred the people of western Europe during the

* Taussig : Principles of Economics.

last century: the spread of education, newspapers and books; cheap movements by railway and steamship; the stirring of stagnant population by the new modes of employment, by large-scale production and the factory system, by the changes through emigration".* Unless then the stagnant population of India is educated and stirred and unless new modes of employment and methods of production are adopted, how is the birth rate in this country going to be checked? And will it not be much better if national efforts are directed towards the creation of these conditions which hold the propensity to multiplication in check?

These questions are suggested by the existing economic, political and social conditions in India. The aboriginal tribes are the most prolific races in India and the prolificness of Mahomedans seems to be greater than that of the Hindus. It must be greater among the lower and poorer classes than among the higher. The exhortation, therefore, addressed to the people that instead of allowing the hand of death to limit the population to the means of subsistence, they should keep it under control and cultivate the habit of cutting their coat according to the cloth that is available to them, is bound to prove infructuous in India where of the total population of the country, only 59 out of every 1,000 persons are literate in the sense of being able to write a letter to a friend and to read the reply, and the literacy is divided very unequally between the two sexes, only 10 females per thousand being able to write against 106 males per mille. With 94 per cent. of the population not knowing how to

* Taussing: Principles of Economics.

read and write, with an average income of Rs. 30 per head of the population and with about Rs. 12 of per capita foreign trade, it is not possible that the causes which have brought down the birth-rate in western countries should operate in India. The extremely small class of the well-to-do and the educated people, who are a minute section of the population, and who feel the strain of the struggle for existence most, may indeed exercise the moral check to their advantage, but that will not appreciably affect the national birth-rate. The generally high birth-rate in India is attributed to the large proportion of married women and this is not likely to be changed for years. It is futile to raise the marriageable age of boys only, but it is extremely difficult to raise the age in the case of girls. We have shown above that though the birth-rate in India in very high, the excess of births is extremely small, not more than 8 per thousand, While, therefore, the application of the malthusian principle seems to be called for, there is a bitter complaint about race suicide among the Hindus, at any rate, of certain provinces. The increase among Mahomedans and Christians is much higher than among the Hindus, and this fact is causing anxiety to many. The following figures will make the situation clear :—

Actual number in 1911 (in millions.)		Variation per cent. 1901–11	1891–01	1881–1911.
Hindus	217·5	5·0	–·3	15·3
Muslims	66·6	6·7	8 9	33·0
Christians	3·8	32·6	28·0	108 1

The difference in the rate of increase is not satisfactorily accounted for by conversions from one

faith to the others or similar other causes, and it is attributed largely to the peculiar social customs of the Hindus such as child marriage and prohibition against widow marriages. The high rate of infant mortality also keeps down the natural increase. A writer commenting on this feature of the population statistics observes :—"The moral of all these facts is plain. The Hindus are not yet a dying race, but surely they are on that track. Fortunately, its causes are perfectly plain. They have to thank their own social customs, which, as we shall see later on are ruining them in several other ways too. In spite of Muslim rule for over a thousand years, the Hindus formed 80 per cent. of the population of this country in 1870, but now they are not even 70, and the decimation comes this time from within and not from without—surely a harder foe to combat. The momentous question is : Are we to remain indifferent in the face of this crisis ?"*

It is an interesting phenomenon that the fecundity of marriages is not high in India compared with that of England, for instance, in spite of the universality of marriage and early marriages in this country. The births per thousand of females of reproductive ages (15-45) in England and Wales calculated on the figures of the Census of 1911, were 98 against 128 in India. But if births are calculated on the number of married females of those ages and not on the total number of females between 15 and 45, the Indian figure stands at 160 against 196, the figure for England.†

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* M. S. Kamat : The Census of India.

† P. K. Wattal : The Population Problem in India.

83. Summary.—Though the doctrine of population which Malthus formulated under peculiar economic conditions, is not one of universal applicability, as conditions of wealth-production have vastly improved since he wrote, the optimism which some economists display on this question, is not justifiable in view of the miserable condition of the mass of people in certain countries. "Organization and science have, in fact, so immesurably enlarged man's control over the forces of nature that her productivity has increased far more than population even though the latter has grown at a quite unprecedented rate in the industrial countries of the world." There is, however, no guarantee that this excess of subsistence over population will be maintained even in progressive countries.

Improved economic conditions in western nations have raised the general standard of living and the marriage rate has steadily declined, more markedly among the higher than among the lower classes. A desire for comforts and luxuries works as a check on marriage and also upon the size of families. The growing independence and improved social status of women have combined with that desire to restrict the growth of population which has not, however, been kept down owing to the diminution of mortality. The death rate is declining as the result of improved sanitation and health, and the steady increase of population is being maintained. Progress lies in an increasing amount of wealth falling to the share of the individual members of the community, and it is desirable that even

in prosperous communities the population should grow at such a rate that it may bear a larger ratio to subsistence.

In India, though the actual excess of births over deaths is not very large, both the birthrate and the deathrate are extremely high. "Broadly speaking, the actual checks to population in China, India, and many other parts of the world are still those so well described by Malthus. In India it is true, British rule has abolished civil war, and the total population has increased very rapidly during the last century as railways, irrigation works, and other modern innovations have addded to the productive capacity of the country. But famine is still lamentably frequent, and in spite of industrial progress it would seem to be true that the population readily rises up to the limits of the means of subsistence."*

That population in India is pressing on the means of subsistence and that what Malthus called positive checks, are keeping down the natural growth of population, is undoubted. The deathrate may go down with improved sanitation but unless there is a substantial improvement in the economic position of the country, there is no hope of the well-being of the people being appreciably promoted. There is growing pressure on the land and other industrial avenues have been blocked. The problem of population must be attacked from the side of production, and the means which western communities have employed to increase their command over nature and their total stock of wealth, have to be employed also in India. With the application of

* W. T. Layton: Introduction to An Essay on Population by Malthus.

science, the soil may be made to yield more and the expansion of manufacturing industries and commerce, will increase the national income.

The problem is also capable of being attacked, but to an extremely small extent, from the side of the growth of population, and preventive checks consisting in the postponement of marriages and the conscious limitation of the size of families, if applied, will act beneficially on the progress of the country. The birth-rate is generally very high among the lower and less intelligent classes ; and among them the moral check will not come into operation. Educated people, who are a drop in the ocean, may, however, face the struggle for existence better by resorting to moral restraints, which are in no way opposed to religion or morality. Sexual desire is, no doubt, a powerful impulse and acts with great force in low stages of civilization and among the lowest classes of civilized communities. But it is not a fixed impulse that cannot be controlled and modified.

The spirit of Hindu laws and religion does not militate against, but actually enjoins restraint of the passions, even in the matter of the begetting of children. Marriage is a social duty and a man has to make his contribution to the maintenance of society and the perpetuation of the race. But the self-same duty may require the limitation of numbers in certain circumstances. A healthy and vigorous population has been the Indian ideal, and the problem to-day is how it shall be attained in the changed social and economic conditions of the country.

Chapter VIII.

The Economic Revolution.

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84. Exchange.—Except in a state of primitive economic organization, the work of wealth production is not completed till the commodity produced is taken to a place where it will find purchasers. A worker may indeed conceivably produce for his own consumption, and not to speak of old times, in backward communities even at the present day, self-sufficing families are not quite uncommon. But a division of labour is found necessary as a community advances, and specialization and co-operation in the case of individuals and groups of individuals, characterise the progress of civilization. Individuals exchange with one another the goods they have produced and thus satisfy their special wants. When one commodity is exchanged for another without the intervention of a third, which is the measure of value, we have a case of barter, and the use of such a medium of exchange bespeaks the advance of a community to a money economy.

In the village life of India, exchange is very simple and most of it is of the nature of barter. The cultivator will often buy his implements and clothes by exchanging the produce of his fields for

them, and wages are also paid in kind.* Formerly the revenue of Government was paid in grain, but the system of barter is fast giving way before the use of money and is now almost unknown in towns. The medium of exchange having recently come into greater use, a desire for the possession of money as a passport for the purchase of any desired commodity, is becoming universal except in out-of-the-way places to which modern methods of trade and industry have not yet penetrated.

It is impossible to overestimate the advantages of exchange, and a comparison of the ease with which even a person of ordinary means can, now-a-days, obtain a variety of articles, necessaries of life and luxuries, in his own locality, with the extreme difficulty experienced in the matter only a few years ago, will be instructive. When a district is afflicted with scarcity, it can bring grain from neighbouring or even distant districts and provinces. Burma thus supplies large quantities of rice to the rest of India in times of drought.

85. Markets and Fairs.—On market days and fairs, villagers go regularly to the neighbouring town, and all kinds of purchases are made. These provide opportunities both to sellers and purchasers to dispose of surplus produce and to procure the articles required. In very small villages, there is hardly a single shop for such necessaries of the rayat as kerosene, chillies, salt and vegetable or luxuries as sugar, and they have to be regularly procured from the town hard by or from the market held regularly once or twice a week. At these markets articles can be had in sufficient variety

* See page 94 above.

and of the required quantity, and the prices also are reasonable.

Where villagers, whether cultivators or artisans, exchange the produce of their labour directly to satisfy their wants, it is a case of barter. The cultivator will then obtain his cloth, shoes, earthen pots, &c. from the village artisans in exchange for the *baluta* or fixed grain charge paid to them annually. This village system is, however, being steadily displaced, and payment of money is becoming common. In markets and fairs, this is, of course, the usual practice. Every village of decent size, has a shop or two of groceries and this is the only source of the supply of articles of every day use to the villager. Other things must be purchased on market days as pointed out above. The weekly markets in certain places are of great size and attract sellers and purchasers from miles. Families lay in a stock of necessaries to last them for a week. Knick-knacks, sweetmeat and articles of luxury are generally purchased at fairs, most of which are associated with religious or social festivals.

Any extensive division of labour in the sale of commodities, is not possible in small places. It is only in big villages and towns that merchants and shopkeepers specialise in the sale of articles. The shopkeeper plays a very important role in the village community, and in small towns too he discharges a useful function. He keeps a pretty large stock of goods ready to meet the demands of his customers whenever they may choose to buy. He procures his supplies from different commercial and industrial centres and retails the articles as they are wanted.

Railways, which now traverse the whole continent, have revolutionised this old system of exchange.

The net-work of railways covers the whole country and has brought distant provinces in close contact with one another. Before the fifties of the last century, the means of communication in India were difficult, and though commerce was maintained between north and south and east and west, it was precarious and its volume extremely small. Inter-provincial trade has enormously increased since then and the surplus of one province and district goes to supply the deficiencies and needs of other provinces and districts.

86. Ancient Indian Commerce.—This stimulus which the improvement of the means of communication, such as railways, steamships &c. have given, is most markedly seen in the wonderful development of the foreign trade of India. The sea-borne and foreign trade of India has had a brilliant history. The valuable products of Indian workmanship and of the Indian soil, attracted merchants from all parts of the globe and the people of this country carried on a profitable trade with the most distant parts of the world. "From the earliest days, India has been a trading country. The industrial genius of her inhabitants even more than her natural wealth and her extensive sea board, distinguished her from other Asiatic lands. In contrast with the Arabian Peninsula on the West, with the Malayan Peninsula on the East, or with the equally fertile Empire of China, India has always maintained an active intercourse with Europe. Philology proves that the precious cargoes of Soloman's merchant ships came from the ancient coast of Malabar. The brilliant mediaeval republics of Italy drew no small share of their wealth from the Indian trade. It was the hope of participating in this

trade that stimulated Columbus to the discovery of America and De Gama to the circumnavigation of the Cape of Good Hope. Spices, drugs, dyes, and rare woods; fabrics of silk and cotton; jewels and gold and silver—these were the temptations which attracted the first adventurers from Europe." *

The prosperity of ancient Indian commerce is a matter of history, and it will be no exaggeration to say that the political development of the nations of Europe, and therefore of the whole world, has been shaped by the keen competition of European powers for the monopoly of Indian trade. The position of India was simply unique. "We shall have ample evidence to show that for full thirty centuries India stood out as the very heart of the Old World, and maintained her position as one of the foremost maritime countries. She had colonies in Pegu, in Cambodia, in Java, in Sumatra, in Borneo, and even in the countries of the Farther East as far as Japan. She had trading settlements in Southern China, in the Malayan Peninsula, in Arabia, and in all the chief cities of Persia and all over the east coast of Africa. She cultivated trade relations not only with the countries of Asia, but also the with whole of the then known world, including the countries under the dominion of the Roman Empire, and both the East and the West became the theatre of Indian commercial activity and gave scope to her naval energy and throbbing international life."† The history of India's foreign trade during the seventeenth and eighteenth centuries, is a record of the commercial rivalries and of a struggle for trade supremacy

* Sir W. W. Hunter: The British Empire.

† Radhakumud Mukerji: A History of Indian Shipping and Maritime Activity.

among the Portuguese, the Dutch, the French and the English. One after another these rivals dropped out, and the British East India Company remained master of the field. "Just before the first half of the eighteenth century, the English had to face the open hostility of the French; and the history of trade is merged in that of territorial acquisition, till in 1813 the trading functions of the Company in India were brought to a close, except so far as the monopoly of trade with China was concerned and this also ceased in 1833." *

India's foreign trade in the beginning of the nineteenth century, was comparatively very small. The European adventurers had not been able to penetrate the interior of the country and there were no facilities for such impenetration. "It was in fact practically impossible to penetrate inland or to draw thence to the coast any of the products of the interior; and even if facilities had existed for local traffic, it would have been impossible in the conditions of navigation which then existed, to convey to Europe at a profit the bulky articles of low value which now maintain great fleets of ocean steamers and are the staples of Indian trade." * The monopoly of the trade and the disturbed nature of the internal state of the country, were additional causes which limited the dimensions of the foreign trade. The East India Company, however, selected precious cargo which fetched enormously high prices in England, and the dividend in 1862 was 150 per cent.

87. Under Company Government.—The Mahomedan and Hindu rulers did not and could not devote much attention to the development of foreign

* Imperial Gazetteer, Vol. III, page 259.

trade. The country was so rich that it was not felt necessary to exchange indigenous produce for foreign imports to the same extent as it was in European countries which vied with one another to obtain the valuable products of India. As Sir W. W. Hunter remarks, the British rulers were not temple builders like Hindu kings or palace builders like Mahomedan nabobs and emperors, or fort builders like the Maratha warriors, but they were essentially builders of commercial towns, and their talent lay in selecting and developing centres of trade. In the hands of the British East India Company, which had become a territorial and sovereign power by the beginning of the nineteenth century, foreign trade steadily increased in dimensions. At the beginning of the eighteenth century the value of exports hardly amounted to one million £, but by 1834, it exceeded £ 8 million.

The Industrial Revolution in England which meant the introduction of steam power and machinery and consequently the production of cheap articles on a large scale, synchronised with the decline of the industries of India, which was reflected in and assisted by India's foreign trade. Indian trade was opened to private merchants in 1813, and during sixteen years after that date, the Company's trade averaged £ 1,882,718 annually, while private trade averaged £ 5,451,452 annually. "The process of the extinction of Indian manufactures went on, however, under the new arrangements; in 1813 Calcutta exported to London two millions sterling of cotton goods; in 1830 Calcutta imported two millions sterling of British cotton manufactures. The first import of British cotton twist into India was in 1823: in 1824 it was 121,000 lbs.; in 1828 it rose to 4,000,000

lbs. Woollen goods, copper, lead, iron, glass, and earthen ware were also imported. British manufactures were imported into Calcutta on payment of a small duty of 2½ per cent. while the import of Indian manufactures into England was discouraged by many duties ranging up to 400 per cent. on their value."*

This unfortunate revolution in the course of the foreign trade of India was disastrous to her industries. The people were driven from their handicrafts to the plough, and agriculture tended to become the sole support of an increasing population. The unsatisfactory economic condition of India to-day, when our exports consist mainly of raw materials and our imports of manufactured goods, may be traced to this revolution. How the position of India as a producer and exporter of cotton piece goods was reversed, may be seen from the following figures relating to the import of Indian cotton goods into England, and the export of English cotton goods into India.

Cotton Piece Goods Imported into Great Britain from the East Indies:—

1814	...	...	...	1,266,608	pieces.
1821	...	...	...	534,495	,,
1828	...	...	...	422,504	,,
1835	...	...	...	306,086	,,

British Cotton Manufactures Exported to India.

1814	...	...	...	818,208	yards.
1821	...	...	...	19,138,726	,,
1828	...	...	...	42,822,077	,,
1835	...	...	...	51,777,277	,,

88. Features of Foreign Trade.—While this reverse process was in operation, imports of British cotton goods had to pay a duty of only

* R. C. Dutt: "India Under Early British Rule," page 293.

3½ per cent; while the corresponding imports into England were subjected to a duty of 10 per cent. "The progress of the trade continued, however, to be comparatively slow, owing to the natural obstructions which remained after the Company had established its rule over much of the Indian continent. During the first half of the nineteenth century roads were non-existent except where they had been constructed for military purposes; off these great routes all traffic was carried over narrow unmettled tracks impossible during the monsoon."† Owing to the defective character of the means of communication in India and the heavy freights which had to be paid on exports abroad, the development of trade was very slow as may be seen from the following statistics:—

			Imports	Exports
Average	1834- 5 to 1838- 9	crores of Rs	7 72	11.32
„	1839-40 to 1843- 4	„	10.45	14.25
„	1844- 5 to 1848- 9	„	12 21	16.99
„	1849-50 to 1853- 4	„	15 85	20.02
„	1854- 5 to 1858- 9	„	26 85	25 85
„	1859-60 to 1863- 4	„	41 06	43.17
„	1864- 5 to 1868- 9	„	49 31	57.66
„	1869-70 to 1873- 4	„	41 30	57 84
„	1874- 5 to 1878- 9	„	43 22	63 13
„	1879-80 to 1883- 4	„	61 81	80 41
„	1884- 5 to 1888- 9	„	75 13	99 28
„	1889-90 to 1893- 4	„	88 70	108 67
„	1894- 5 to 1898- 9	„	88.56	113 93
„	1899-1900 to 1903- 4	„	110 69	136 59
	1904-05	„	143.92	174.14

The characteristic features of this development of trade which arrest attention, are (1) that the old staples of export and import have entirely been replaced by others. The rare and valuable products of India, manufactures as well as raw materials,

† Imperial Gazetteer Vol. III, page 261.

which were in demand in foreign countries, have now given place to such raw materials and food grains as are required in those countries for purposes of manufacture. The imports consist mainly of manufactured goods which have displaced articles turned out in this country. (2) The annual excess of exports over imports has steadily increased so that the balance of trade is normally in favour of India. Bulk of this excess represents the 'Home Charges' which this country has to pay annually in England, the profits of European merchants and firms and the savings of European officials remitted to England. (3) The balance of the excess is received in India in the form of gold and silver. (4) The net imports of the precious metals, though they appear to be absolutely large, are not considerable in view of the large population of this country. (5) These imports of the precious metals also point unmistakably to the economic backwardness of the people and their low standard of living.

89. Industrial Revolution.—The change in India from a position in which there was a healthy co-ordination of the agricultural and non-agricultural industries to a condition in which the country has become a big market for the sale of Western, (now Japanese also,) manufactures and a field for the production of raw materials to be manipulated in foreign factories and mills, is a case of retrogression which is responsible for the decadence and poverty of the people. The position of dependence and helplessness was accentuated by the extension of railways. "The great Indian Dependency of England had, during this century, come to supply the place of the old colonies. This Dependency has come to be regarded as a Plantation, growing raw

produce to be shipped by British agents in British ships, to be worked into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere. The development of steam power and mechanical skill, joined with increased facilities of communication, have lent strength to this tendency of the times, and as one result of the change, the gradual ruralization of this great dependency, and the rapid decadence of native manufacture and trade, become distinctly marked. Even now the danger is not over."*

From the point of view of pure economic theory, international, like internal exchange, is obviously beneficial. International exchange is only an extension of the principle of exchange between individuals, districts and provinces of the same country. We now know that "the law of comparative costs or of reciprocal demand is the explanation of all exchange, and that non-competing industrial groups are found in internal industry as well. Trade takes place between nations as between individuals, because of relative, not of absolute advantages. One country A, may produce a certain class of commodities at a lower cost than B and nevertheless find it profitable to import them, because A can produce other commodities still more cheaply than B. It will be advantageous for A to export the second class of commodities and to receive pay for them by importing the first." †

90. Theory of Exchange.—The whole theory of international exchange, is based on the reciprocal advantage exchange confers on nations

* Ranade: Essays on Indian Economics.

† Seligman.

trading with each other. A division of labour thus arises among nations which begin to specialise in certain industries. "Each country by specialising in those commoditios for the production of which it has the greatest relative advantages, obtains a bigger return for its expenditure of labour and capital than it would have done if it had not specialised but had devoted part of its efforts to producing the commodities for which it was relatively less well fitted. The total product of the two countries together will be greater than if each had produced all the commodities without specialising." *

This doctrine is, however, subject to important limitations in its application to actual conditions. The question will be dealt with at length in the next chapter. It is sufficient here to point out that free international exchange may, under certain circumstances, lead to economic development that is undesirable from more than one point of view. In the first place, "the so called system of the territorial division of labour by which the orthodox economists assign to the backward torrid zone regions of Asia the duty of producing raw materials and claim for the advanced European temperate zone countries the work of transport and manufactures, as a division of labour in production which is fraught with the highest advantage to all and is almost a providential dispensation, against which it would be foolish to rebel," is not such an inevitable necessity or a beneficent arrangement. Secondly, the economic readjustment which follows such an international division of labour does not stand upon the same footing as the changing and changed tendencies of exchange between individuals, classes and communities within

* Henry Clay.

the same political unit. Thirdly, the ruin of a nation's industries caused by free international exchange may be an exhorbitant price to pay for the advantage of obtaining foreign commodities cheap. The loss in productive power may be much greater than the gain represented by cheapness of foreign goods secured in exchange for home produce.

91. Effects of the Revolution.—If the advantage of exchange lies in the surplus satisfaction which the parties to the transaction obtain, we must make sure that there is such a balance of benefit in a nation's trade with foreign countries. "We are often told that one of the advantages of the expansion of our import trade is that we get our supply of manufactured articles much cheaper and better than we can have ourselves with our present means and appliances. This is true enough and is no doubt our gain as *consumers* but what a price are we paying for this gain, as *producers* and *labourers*? Our home manufactures are almost now gone down and this collapse means to us much more than is commonly supposed. (1stly) It means to us the disruption of our industrial organization and a change from a many-sided system to one resting on the basis of a single industry; (2ndly) it means to us the transfer—enforced, compulsory transfer—of one half our industrial population from fields of *skilled* labour to fileds of *unskilled* labour, involving as its necessary consequences a distinct deterioration in their standard of life and comfort; (3rdly) it means to us a fearful falling off in the condition and resources of the middle classes, who are the backbone of every fairly progressive community; (4thly) it means to us a dangerous contraction of the total national provision for a growing population:—changes all of a

grave and wide reaching character, amounting to a most disastrous economic revolution highly detrimental to the moral, social and intellectual well-being of the entire nation."*

There has been such a strong revulsion in the mind of economic students against the rigidity of the above theory of international exchange that even in England, the strong-hold of orthodox views on this question, many conversions have taken place lately to the other side which emphasises the view of national, racial and imperial considerations so often ignored by abstract reasoners. A writer observes :- "And the practical conclusion of it all is, (and it might be inscribed as a maxim over a nation's ports in letters of gold), that in the game of commerce which is being played between nation and nation :— Never sacrifice an instrument of production to a foreign nation for the sake of a merely cheaper product of the same kind of instrument but better which they possess but which you do not ; but do as you do at home and sacrifice it only to the acquirement of the *superior instrument of production itself*, which cheapened that product—if you can get it."†

92. Growth of Trade.—In the industrial revolution which occurred at the beginning of the last century in India, the indigenous producers lost their instruments. "The extraordinary rapidity with which the construction of railways in India was achieved, produced an economic revolution in that country which like all revolutions, was not un-

* G. V. Joshi's Writings and Speeches, page 651.

† John Beattie Crozier . The Wheel of Wealth.

accompanied by suffering. The obligation to save life in times of drought and the necessity of lines of strategic utility (for it was the mutiny which gave the first real incentive to construction) have been the cause of that rapidily; and it has had for effect the destruction of the native industries and the concentration of labour on that very employment to which droughts are the most dangerous. Had strategic or economic considerations allowed the change to be more gradual, it is conceivable that greater powers of resistance might have been shown by the native industries, that the lessons of the West might have been taught before destruction was inevitable, so that labour might have drifted to other occupations as well as to agriculture." †

The foreign trade of India reached a record figure in 1913-14, and led the Director of Statistics to remark:—"In this connection one is bound to conclude that when the economic history of the period comes to be written, the striking characteristics will be not only the rise of prices and its effect on the various classes of the community and the country as a whole, and the success of the co-operative credit movement, but the great development of trade, and especially in the year under report, which shows India to be as regards trade a land of undefined dimensions." ‡ We give below a few figures relating to trade for the years 1904-05

† Loveday: Indian Famines.

‡ Review of the Trade of India, 1913-14.

and 1913-14, and the comparison will be found most instructive :—

	1904-05 Rs. (lakhs.)	1913-14 Rs. (lakhs.)
Total Foreign Seaborne trade (merchandise)	262,13	440,35
Exports including re-exports	157,72	249,04
Imports	104,41	191,31
Net imports of treasure	22,97	36,36
Net imports of gold	9,70	23,33
Total inland trade (merchandise)	558,36	870 30
,, Coasting trade (merchandise)... ..	76,53	118,72
,, Frontier trade (merchandise) . ..	13,19	19 25
Gross railway earnings	39,67	62,56
Railroad mileage; miles	27,727	34,699
Total area (1 000 acres)	535,974	618,927
Cultivated areas ,, ...	207,721	224,166
Wheat raised (1,000 tons)	7,582	8,427
Rice ,, ,, ...	22,423	28,167
Cotton (1,000 bales)	3,791	5,201
Jute ,, ,, ...	7,400	8,752
Coal (1,000 tons)	8,217	16,208
Shipping ; tonnage	13,881	17,386
Customs revenue (Rs lakhs)	6,20	10,64
Paper Currency (gross circulation) ...	39,18	66,12
Population, last census (1911)		315,083.772
,, preceding census (1901) ...	.	294,292,433

The share of trade per head of population in India is extremely small as compared with that of

other countries, and is Rs. 13-3 as against Rs. 24-10 for Russia, Rs. 39 for Japan, Rs. 232 for France and Rs. 386 for the United Kingdom. The increase in the value of the trade shown in the above table, is largely due to the enhanced prices of many of the staple products exported. The exports of food grains are almost negligible, being 4 per cent. of total production; but the percentage of exports is very high in the case of cotton, jute and indigo, half the quantity produced being exported.

93. Chief Features.—It is a remarkable feature of India's foreign trade that the bulk of the imports consist of manufactured articles and half the exports of raw materials; and this characteristic to which we have referred before, as a disagreeable indication of the ruralisation of India, distinguishes even the latest trade statistics. When after the outbreak of the war, the capture-the-enemy-trade cry was heard on all sides, it was believed that India would be able to fill in the gaps left by the cessation of imports from enemy countries with similar products of home manufacture. But little success could be achieved in this matter; and the reason why India failed when Japan could jump with a bound to occupy our markets, was that this country was ill-equipped with the essentials of industrial progress and had to look on helplessly.

The grouping of articles of export and import in the trade statistics, is not very happy in view of an inquiry into the form and character of the articles exported and imported. Taking the classification as it is, however, we notice the following relative shares of the four different categories of articles:—

		Exports (1913-14) Rs (lakhs)	Relative share of each class.
1	Food, Drink and Tobacco ...	64,77	26·5
2	Raw materials	122,46	50·1
3.	Articles manufactured .	54,59	22·4
4.	Miscellaneous ..	2,41	1
	Total ..	244,23	100

		Imports (1913-14) Rs (lakhs)	Relative share of each class.
1	Food, Drink and Tobacco .	84,66	13·4
2.	Raw materials etc ...	1[illegible],56	5·8
3	Articles manufactured .	145,10	79·2
4.	Miscellaneous	2,87	1·6
	Total ...	1,93,25	100

That about 80 per cent. of the total imports of merchandise should be manufactured articles, is a positive proof that Indian people lack the capital and the skill that are required to turn the raw materials into finished products. This represents so much loss of productive power, and dependence on a single industry which is subject to the operation of the law of diminishing returns. The expanding imports of manufactured goods are taken as a welcome indication of the steadily growing purchasing power of the people and therefore of material prosperity. It is, however, forgotten that they also mean the displacement of the indigeneous industries by foreign manufactures.

Increasing exports are not always a sign of growing prosperity. In the case of India the expanding exports of raw materials represent the payments of various kinds that have to be made abroad. They consist of the Home Charges, payment of interest and remittance of profits by merchants and manufacturers working in this country. Little of the foreign trade of the country

is in the hands of Indians and the gains of European planters, miners, bankers, millowners &c., sent abroad take the form of the exports for which there is no return, unless a portion of these comes back as capital to be invested in industrial and commercial enterprise. India's foreign trade will be decidedly profitable to her people if a large part of the raw materials were worked by them in the country and the profits of industry and trade were retained in their hands.

94. Absorption of Gold.—These are considerations which ought not be ignored in drawing conclusions from export and import statistics of India. The country must certainly import articles which it cannot produce or produce cheaply, and export indigenous products for which there is a demand in foreign markets. Indian staples like cotton, jute, oilseeds and wheat command high prices abroad, and we can buy with these exports a larger variety and quantity of foreign goods, conducive to the progress and comfort of the people. Making allowance for the increased prices of the imported articles which are purchased with the exports of steadily growing value and for the fact that these profits are partly absorbed by merchants, shippers, bankers and other middlemen, it must be admitted that the cultivator who grows the commercial crop has, during the last few years, been able to make some unexpected gain, though his cost of production and of living has gone up all round.

The normal excess of exports over imports is paid to India by the Secretary of State's drawings and the imports of the precious metals, and large quantities of gold have thus been recently absorbed in this country. "The absorption of gold in India

rose from Rs. 7½ crores in 1890-91 to Rs. 12 crores in 1903-04, to Rs. 21 crores in 1907-08, to Rs. 25½ crores in 1911-12, in 1912-13 to Rs. 31½ crores and in 1913-14 to Rs. 34½ crores." Looking to the large population of the country, its illiteracy and economic backwardness, its lack of opportunities for industrial progress and its poverty, this absorption of gold is not to be wondered at. Though it is barely one rupee per head of the population, the country will certainly benefit if the gold could be used as capital for the industrial development of the country.

In this connection Mr. Findlay Shirras observes:—"It would seem that India is hoarding more than formerly, if by hoarding is meant the non-productive use of the yellow metal. It is used chiefly in the form of ornaments, and as is well-known, most of the gold is imported in small bars to meet a demand in the same way as piece goods are imported.....This accumulation of the precious metals is far greater than would be necessary to develop the railways, schools, colleges &c. which are required at the present time. If the gold absorbed in each year had been invested in railways at the ordinary rate of 4 per cent., the interest alone would amount to Rs. 13 crores per annum or in the aggregate to over Rs. 142 crores. Had this been so invested there would have been a great increase in production with a very considerable increase in well-being." *

This is true enough. Some of the gold coming into the country is, even under existing conditions, being probably used for productive purposes. But the producers are so scattered and the amounts falling to their lot are so small that the gold imports

* Review of the Trade of India for 1913-14.

do not make much impression on the industrial situation. If the Indian exports enable the people to bring more of foreign commodities so as to promote their economic development and well-being, foreign trade must be a blessing, and the expansion of this trade is to be welcomed and fostered. This elementary principle is undeniable. The point, however, is that there will be a greater production of wealth and a larger number of people will benefit if some of the raw materials now exported to foreign countries to be received back in the form of manufactured articles from them, could be utilized in India and gave scope for the development of the talent, skill and enterprise of Indians themselves. Were it nor for this feature of the question, there would be no international struggle for the capturing of markets, pushing and dumping of manufactures and a keen struggle for the promotion of national industries.

95. Effect of Railways.—Railways and metalled roads have accentuated the economic revolution described above while they have, at the same time, brought about a better distribution of commodities among the various parts of the country. The motives which animated Lord Dalhousie in his enthusiastic advocacy of the promotion of Public Works, were more political and military than social and economic. "It was Lord Dalhousie's dream to strengthen the domination not only of English rule, but English trade and commerce in India and the permanent interests of this country were subordinated to this all-engrossing ambition. The contemporaneous rise of the school of Free Trade in England, and the great reputation which its apostles enjoyed, furnished the metaphysical ground work for this

essentially selfish and grasping policy. The value of India to the British nation was measured by the quantity of raw material which the resources of Indian agriculture enabled it to export for the feeding and maintenance of the Lancashire manufactories. India was to devote all its energies to raise the raw exports, and canals, railroads and improved communications were to be pushed on at any cost to facilitate the export of raw materials and the import of English manufactures. India's own industrial needs were of comparatively no consequence*."

Anomalies of railway rates which tend to encourage the exports of raw materials and imports of manufactured goods at the cost of indigenous industries and internal commerce, are a standing grievance.† The situation in India in the matter of her railways and trade is peculiar and a comparison of it with the expanding commerce of self-governing Dominions, for instance, where railways have been constructed with borrowed capital, is misleading. Besides the difficulty about railway rates, which hampers the growth of industries, there is another feature of Indian commerce that must be noted in this connection. The total value of India's seaborne foreign trade which reached Rs. 440 crores in 1913–14, has evoked expressions of satisfaction. But "who handled all this ? From loading into the railway trucks to the place of consumption in the case of exports and from the place of manufacture to almost our doors, in the case of imports, we do not deal with it. We buy and sell in our towns and villages and we have nothing practically to do with it beyond our noses."§ If the charges for financing, in-

* Joshi's Writings and Speeches ; pages 674-675.
† Proceedings of the Viceroy's Legislative Council.
§ Report of Eighth Indian Industrial Conference, page liv.

surance and so forth, connected with this large volume of trade, are calculated at 5 per cent., the loss to Indian people will work at Rs. 22 crores a year! This is why the growing foreign trade and the expanding railways of India do not bring in to the people an adequate return, and do not bear comparison with the eminently satisfactory state of things which characterises other countries which are developed by railways.

96. Means of Communication.—During the twenty years 1892-1912, the total mileage of railways has more than doubled. "Railways have now linked up different parts of the country and have constituted India into, as it were, one market. The deficiency in one part of India now makes itself felt all over the country within a very short space of time, and is made good at once, the rise in the price level being comparatively small. Every village and every district which is connected by rail are no longer self-supporting units. The powerful and ubiquitous agency of organized commerce has taken the place of the former system, the isolated and self-sufficing village."† Index numbers showing the growth of railway mileage and traffic are given below:—

Year.	Railway mileage.	Passengers.	Quantity of goods.
1890 ...	93 ...	88 ...	83
1895 ...	109 ...	119 ...	123
1900 ...	138 ...	137 ...	157
1905 ...	156 ...	192 ...	201
1910 ...	178 ...	288 ...	240
1911 ...	182 ...	302 ...	261
1912 ...	186 ...	... ...	...

† K. L. Datta: Report on High Prices.

Taking the average of 1890–94 as 100, we notice that the increase in the number of passengers in 1911 was represented by 302, and in the quantity of goods carried, by 251. This extension of railways has revolutionised the internal trade of the country. The construction and up-keep of metalled roads have assisted in this revolution and owing to the good prices which producers can command, there is a great demand for the construction of feeder lines and of roads to link up the interior with the trunk lines. There were in pre-British times a few fairly good trunk roads, and it was only in the fifties of the last century that a systematic effort was begun for extending these communications. The railways themselves created a demand for metalled roads and the Public Works Department and the Local Boards are now charged with the responsibility of maintaining communications.

This improvement in communications has stimulated trade from the interior to the ports and between different places in the interior itself. Many of the railways have diverted the old course of trade, new centres have been formed and the prosperity of old trade centres has declined. In the interior of the country, bullock carts are still indispensable for the transport of goods, though the railways have considerably displaced the carts and the pack animals. The old caravans are no longer necessary and exchange has been vastly increased by the reduction of the cost of transport. Railway and maritime freights have steadily gone down and India's foreign trade has thereby expanded with great rapidity.

97. Inland trade.—Complete and reliable statistics for internal trade are not available. But from those that are compiled, it is estimated that

the inland trade is more than double the foreign sea-borne trade. "If, to the former, are added the trade by rail and river between the internal divisions of provinces, (which is recorded but not taken into account in the Imperial accounts), as also the coasting trade, the total internal trade comes to about three times the foreign sea-borne trade. The rail-borne trade, however, it should be remembered, between one station, and another within the same internal division of a province, or within a Native State, is not recorded." The port towns of Calcutta, Bombay, Karachi and Madras play an important part in the internal trade and the bulk of the traffic representing about two-thirds of the total trade, flows directly to and from the chief ports.

"The articles of exports are generally indigenous, and the importance of the provincial trade depends on the production of the staple articles in the respective provinces. Bengal's position in the inland trade is high on account of jute, rice and other food-grains, oil-seeds, coal and tea produced in the province. Bihar and Orissa is important for its enormous production of coal. Tea is the staple product of Assam. Cotton, wheat and seeds of the Bombay Presidency and Sind; cotton and ground-nuts in the Madras Presidency, spring and winter crops (e. g., rice, wheat, gram, lin-seed, rape seed, &c.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to Calcutta, Bombay ports, Madras ports and Karachi." The coasting trade from one port to another in British India, Native States and Foreign Possessions is of a similar character, and its net value in 1913–14 was Rs. 68.44 crores. The land frontier trade is much smaller and was valued in that

year at Rs. 21.44 crores. Persia, Afghanistan, Dir Swat and Bajaur, Central Asia, Nepal, Tibet, Sikkim, Bhutan, Western China, Shan States and Siam, participate in this trade. The imports from these places consist mainly of raw materials such as wool, timber, hides &c. and the exports to them of piece goods, metal manufactures &c."

98. Extinction of Indigenous Shipping:— "Thus has passed away one of the great national industries of India after a long and brilliant history, covering, as we have seen, a period of more than twenty centuries. It was undoubtedly one of the triumphs of Indian civilization, the chief means by which that civilization assisted itself and influenced other alien civilizations. India now is without this most important organ of national life. There can hardly be conceived a more serious obstacle in the path of her industrial development than this almost complete extinction of her shipping and ship building." In these words does Prof. Radhakumud Mookerji deplore the disappearance of one of the great indigenous industries of India. The total extinction of Indian shipping and the entire dependence of this country for transport of its exports and imports upon the mercantile marine of other countries, is only a feature of the economic evolution which is the subject of the present chapter.

At one time Indian shipping was extensive and the ship-building carried on in Indian ports was a profitable industry. But the old vessels and sailing ships have been displaced by foreign steamers most of which are of very high carrying capacity. And the total freight on the growing foreign trade of the country means a loss of no less than Rs. 30 crores a year, to which must be added the heavy loss to the

people on account of the disappearance of a valuable industry. An idea of the foreign shipping engaged in the Indian trade may be obtained from the following statistics.

	No. of vessels.	Tons (1,000)	Average.
1910–11	8,561	14,994	1,751
1911–12	8,868	16,616	1,874
1912–13	8,749	17,484	1,998
1913–14	8,617	17,386	2,018

Since the opening of the Suez Canal, foreign trade has been carried mostly in steamers at the expense of sailing vessels. "A few sailing vessels still visit Calcutta, but the sailing ships entering other ports are now almost entirely those classed as native craft which, though numerous, contributed in 1913–14 less than one per cent. of the tonnage, and were engaged in trade chiefly with East Africa, Arabia, Persia and Southern Asia. They are slowly but surely disappearing." The vessels which enter and clear the ports of India for the most part fly the British flag, the tonnage of vessels sailing under that flag representing about 75 per cent. of the whole, of which 2 per cent. is the tonnage of vessels under the British Indian registry.*

99. Foreign Shipping and Subsidies.— Vessels belonging to foreign countries are obtaining an increasing proportion of the carrying trade, and the Governments of those countries pay large subsidies for encouraging navigation, ship-building and the extension of steam-ship routes. The total amount of subsidies of all kinds paid by the Japanese Government to its steam-ship companies in 1911 came to more than Rs. 2 crores. With the

* Review of the Trade of India, 1913-14.

help of the State, Japanese industries and trade have been making rapid progress, and shipping and ship-building have not been neglected by that progressive nation. The following table shows the nationality of vessels entered and cleared in Indian ports. The figures exclude native craft and vessels engaged in the coasting trade :—

Nationality of vessels entered and cleard.

	1911–12	1912–13	1913–14	1914–15	1915–16
British	5,117	5,131	4,827	4,827	5,067
British Indian ...	647	609	503	600	539
Japanese	121	198	191	183	283
Norwegian ...	134	131	80	158	177
Dutch	82	120	131	128	141
Italian	83	80	73	83	91
Russian	45	47	44	33	51
Swedish	6	11	13	22	40
French	58	47	60	35	9
German	472	509	559	172	...
Austro-Hungarian ...	213	245	285	83	...
Other nationalities ...	22	23	30	30	51
Total.....	7,000	7,161	6,920	6,349	6,449

It may be contended that a large mercantile marine is not indispensable to the greatness, or even to the prosperity of a nation, and the contention may be based upon the theory of division of labour among nations and of specialization. It is beyond all dispute, however, that "maritime transport is a lucrative industry, and that a country which, like

Holland in former times and England to-day, transports the goods of all other countries will find profit in doing so; while the country which has to apply to other countries to transport its own products must evidently pay the price of it. Thus France, who transports only a small proportion of her exports, has to pay over £12,000,000 annually to foreign ship-owners; while England who transports two-thirds of the tonnage of the whole world, and who besides builds ships for all nations, gains by this two-fold commerce over £ 80,000,000 per annum."* Gide, who describes what strenuous efforts the French Government has been making to promote the growth of French shipping, anticipates the Free Trade argument 'that it may be much more advantageous for a country to have its goods transported cheaply by other countries better equipped for the purpose than to do it itself' and asks in reply 'whether it would not be good for a country as favourably situated as the others to do it itself.'

With a growing foreign trade India is nowhere in the matter of shipping and ship-building when compared to other countries. Here is an important avenue of wealth creation for the Indian people. If India can transport her imports and exports in her own steamers, she will save Rs. 30 crores a year in freights and will give employment to thousands of workmen of all grades. It is anomalous that India should be entirely dependent on other countries in a matter like this when the traditions of the people ensure the success of indigenous shipping and the requirements of economic progress demand development in that direction.

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* Gide: Political Economy.

100. Summary.—We have attempted to explain the condition of Indian trade, seaborne and inland, in this chapter which we have headed 'Economic Revolution,' and it is hoped the reader has realized how the revolution came about. From the dawn of history down to the eighteenth century, India occupied a pre-eminent position in the world as a great industrial and commercial country, whose wealth attracted to its shores merchants from all quarters of the globe. Indian mariners ventured to distant seas and the products of the Indian soil and of Indian workmanship found a market in far-off lands.

The fame of Indian wealth led European nations to compete with one another for securing a monopoly of trade with this country, and since the establishment of British supremacy in India, her foreign trade has steadily increased. The means of communication in the country were, however, very defective and merchants could not penetrate the interior. But with the advent of railways, the situation underwent an important change. The continent was traversed by trunk lines which connected the ports with the interior, and the market for Indian produce steadily expanded in foreign countries, as India provided a widening market for the manufactures imported from abroad.

The influx of large quantities of cheap fabrics manufactured in factories run with steam-power, steadily displaced from the Indian market the products of indigenous industries, and India tended to become more and more a predominantly agricutural country exporting raw materials and taking in return for them finished goods. Improvement of communications has lowered the cost of transport

and the Indian cultivator has been brought into contact with the western consumer. Foreign demand for India's raw materials has enhanced their value and to that extent the purchasing power of the Indian rayat has increased. This must, however, be regarded as an incidental gain, not sufficiently large to compensate for the loss of productive power which the decline of Indian industries has entailed. The economic revolution has thus proved disastrous to India and a counter-revolution rehabilitating India's industrial position is urgently needed.

The extension of metalled roads and railways has revolutionised the old system of exchange in the country itself as that with foreign countries. But the policy of railway construction was not pursued with a view to the encouragement of indigenous industries, and has only resulted in their decay. The foreign trade of India, which is going up by leaps and bounds, is also not in the hands of the Indian people and the huge profits made on it, do not enrich the country. The shipping employed in the transportation of exports and imports, is not Indian, and the financial organization is not in Indian hands; and thus crores of rupees which would have otherwise remained in India and increased the supply of indigenous capital, are lost to the country.

On the orthodox theory of international exchange, this position is an illustration of an international division of labour and of specialization. But we cannot view the situation with such complaisance. The rustication of India is a great danger and her people cannot be satisfied with a mere theory when other nations have pushed their commerce and industries with the direct and indirect assistance of the State at the expense of India. The doctrine of

international exchange is correct, but conditions in India are abnormal and, as a result, her people are not calculated to benefit by foreign trade under existing circumstances. India must, therefore, manufacture her raw materials more and more, and her people must control her trade, industries, shipping and financing. This is the counterrevolution to which we look forward and the energies of the people and the State must be bent towards the attainment of that goal.

Chapter IX.

COMMERCIAL POLICY.

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101. Freedom of Trade.—The account given in the last chapter of the economic revolution which has taken place in India and has reduced the people to the state of producers of raw materials and consumers of foreign manufactured imports, leads naturally to a discussion of the question whether it is desirable that trade should be left to take is own course or it should be so regulated as to move in certain channels with a view to its conferring upon the nation specific benefits, real or supposed. As we have shown in the last chapter, the theory of international trade extends the idea of the simple and mutually beneficial exchange between individuals to the commerce between communities and countries and on that theory, nothing can be more detrimental to humanity than any restrictions upon free intercourse between nations.

This theory took a long time to develop and to be put in practice. Commerce with strangers was, for centuries, looked upon as a bargain in which one of the two parties derived benefit, and foreign trade was nothing but the exploitation of foreign countries for the advantage of one's own nation. The Physiocrats believed that foreign trade, like domestic, produced no real wealth and if one of the parties to the bargain gained, it was at the expense of the other. They, however, condemned the restriction of foreign trade on the ground that liberty and free competition alone made plenty possible.

102. Mercantilism.—The Physiocratic doctrine represented the reaction which took place in France against Mercantilism which held the European field for nearly three hundred years. Adam Smith, following and improving upon the Physiocrats, led this movement in England, and the policy of commercial restriction became discredited there till in 845 the last shackles on international exchange were thrown off and the flag of free trade was planted on the citadel of British mercantilism. It was at one time the fashion to pass wholesale condemnation upon the thought and policy of Mercantilists but they have recently been better appreciated. Mercantilist tendencies which prevailed in Europe in the sixteenth, seventeenth and eighteenth centuries, are thus summarised :—"(1) Towards overestimating the importance of possessing a large amount of the precious metals; (2) towards an undue exaltation (*a*) of foreign trade over domestic, and (*b*) of the industry which works up materials over that which provides them; (3) towards attaching too high a value to a dense population as an element of national strength; and (4) towards

invoking the action of the state in furthering artificially the attainment of the several ends thus proposed as desirable."*

In spite of the obvious errors and exaggerations of Mercantilism, the circumstances of the time, it is now conceded, necessitated its adoption and even rendered it beneficial. Even Adam Smith justified certain exceptions to his general doctrine of liberty and approved of the Navigation Act on the ground of defence being more important to a nation than opulence. The theory of commercial freedom was perfected by Adam Smith's followers, and in the hands of Ricardo and Mill, it assumed a rigidity which in its turn, provoked a reaction. By the middle of the nineteenth century, the Free Trade theory of the Classical school had won a complete triumph in Europe. "Freedom of international trade was accepted as a sacred doctrine by the economists of every country. In Germany, as in England, in France as in Russia, there was complete unanimity among scientific authorities. The socialists at first neglected this topic, and when they did mention it, it was to express their complete approval of the orthodox view "†

103. Reaction—But the sense of triumph felt by the advocates of free trade was rudely disturbed by the appearance of List's system of National Political Economy. The political and economic condition of Germany favoured the success of his book and of the new doctrines it preached, and the publication of List's work was as great a land-mark in the development of economic thought as the

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* Ingram : History of Political Economy.

† Gide and Rist : A History of Economic Doctrines.

appearance of the Wealth of Nations had been two generations before. List's work was characterised by originality, and he was a pioneer in the field of developing national Political Economy. He introduced two ideas that were new to current theory namely, 'the idea of nationality as contrasted with that of cosmopolitanism, and the idea of productive power as contrasted with that of exchange values.'

High hopes had been entertained about the spread and acceptance of the free trade doctrine, and it was believed that a new era of universal peace and amity had dawned. But this dream was shattered by the awakening of national consciousness in countries which were economically backward and by the growing desire among them for many-sided national development. List maintained that regulation of trade and industry was necessary for the systematic development of a nation's resources and of its latent productive capacity, which may be hampered by foreign competition. "The American economist, Carey, directed his attack, like List, against the industrial pre-eminence of England and substituted for the ideal of international division of labour the ideal of independent nationality, each nation devoting itself to all branches of economic activity, and thus evolving its own individuality." The wave of reaction which was thus ushered in spread all over the world, and there is not a single country in the world to day, excepting England, which has not discarded the absolute doctrines of the classical school of Political Economy. And even in England the movement against an attitude of indifference towards commercial and industrial organization, has gathered force and the experience of the greatest war known to history has neces

sitated a revision of national economic ideas and policy.

European nations, in the grip of Protection, endeavoured to stimulate manufactured exports and to discourage imports from foreign countries, except raw materials and the precious metals. They exercised a rigid control over the trade of their colonies in the West and the East and manipulated it in such a way as to benefit the mother country at the expense of their economic development. Spain monopolised the trade with her colonies in the new world and tried to prohibit other countries from participating in it. The wars of England with Spain, Holland and France during the seventeenth and eighteenth centuries were colonial and commercial wars, and the jealousies which have marred the friendly relations of European powers with one another, during recent years, have been also commercial.

The settlements, protectorates and spheres of influence of European powers in Asia, Africa and America, which are inhabited by backward races are fields of economic exploitation, and attempts are made to keep them as preserves for the trade and industries of the mother country. But colonies where white populations have settled, can no longer be treated as plantations used to be in olden times, and the American war of Independence taught a lesson which has been taken to heart. The tendency now is to draw together countries inhabited by people of the same race and bind them by ties of preferential tariffs. Large aggegates thus form customs unions and they trade freely among themselves, only penalising the trade of foreign countries.

104. Colonial Policy.—While tariff wars are, therefore, waged with foreign and rival countries, concessions are given by friendly nations to one another. The tariff reform movement in England has thus two aspects: it is intended to protect British industries against the encroachments of foreign nations; and by it the Dominions are to be linked closely to the mother country by a scheme of preferential trade within the Empire. Mr. Joseph Chamberlain initiated the movement soon after the Boer war, and though, owing to the continued prosperity of England, in spite of or as a result of her free trade policy, it was discredited for a time, the world war added a tremendous weight to the demand for Protection and Imperial consolidation.

This essence of British Imperialism and Tariff Reform found clear expression in the speeches of Mr. Chamberlain and the writings of the Tariff Reform League. In March 1907, the London Chamber of Commerce passed the following resolutions :—"This meeting of the London Chamber of Commerce is of opinion that the present fiscal system is no longer suited to the needs of the country, and that it should be altered in such a manner as will enable us, first, to promote the commercial union of the Empire on a preferential basis ; and second, to raise a proportion of our revenue from the imports of foreign manufactures, which will tend to safeguard our industries from the unfair competition of foreign countries."*

The case for British Tariff Reform and preferential trade within the Empire, stands or falls with the general theory of Protection and its applicabi-

* See the Author's Indian Industrial and Economic Problems, Chapters I and II.

lity to the peculiar conditions of England and the other parts of the Empire. Round no subject has such bitter controversy raged as round that of the comparative merits of Free Trade and Protection. Let it be noted here that Protection as commonly understood and defined, is a systematic attempt to develop the industries of a nation by the imposition of discriminating duties on manufactured goods imported from other countries. Import and export duties are the usual means employed to protect and promote industries and to retaliate upon foreign countries for their policy of restriction. Those who are opposed to Protection, insist upon the absolute freedom of trade as being essential for the development of a nation's resources and regard every interference of the State with the freedom of competition as detrimental to the best interests of the community. Protection has reference, therefore, not only to restrictive import and export duties but also to other measures taken by the State such as bounties and subsidies, for the protection and encouragement of national industry and trade.

The Protectionist's potent weapon, however, is the import duty with which he fights with the foreign manufacturer and seeks to keep out his commodities in order to give a fair field to the indigenous producer. This policy is a legacy of the times of the Mercantilist regime, and spirit of modern Protectionism is the same though the form of the protection given and the grounds on which it is given, may have slightly changed. Advocates of Protection also seek to reconcile their theory to the general development of economic doctrines and thus to defend themselves from the criticism which is regarded as justified against Mercantilism.

105. The Controversy.—Opinion on this question of choice between the *laissez faire* doctrine and benevolent state intervention for the protection of national industries, ranges over a wide area. Some pin their faith to the natural order and the beneficence of free competition; others, while accepting this doctrine in general, would relax its rigidity under certain exceptional conditions; and several maintain that under a system of natural liberty, a nation's prosperity is endangered and therefore State regulation of industry and trade are absolutely essential. While on the subject of international trade, we have shown that in theory exchange of commodities between nations, as between individuals, is advantageous to the parties concerned, but that in applying this theory, certain peculiar circumstances have to be taken into account. As a practical measure, therefore, protection will not be a panacea for all economic ills as free trade will not prove uniformly beneficial.

Economists have taken pains to expose the common fallacies underlying Protectionism, and some of the absurdities of that position, though not obvious, are not difficult to appreciate. The faith of the free trader in his favourite doctrine is also touching, and it is necessary to find out what truth there is in the contention of the two sides. What commercial policy it is desirable to pursue in India, will best be decided in the light of this discussion. The Protectionist is wrong, it is contended, in thinking that international trade is a necessary evil and that he can restrict imports without hampering the course of exports. It is by a division of labour and specialization among nations that the production of wealth can be conducted under the most

economical conditions to the benefit of humanity. Competition gives stimulus to production and enables the best that is in nations to come out. Protection levies a tribute on the whole community for the benefit of a section of it and the artificial fostering of industries is wasteful. It does not matter which industries flourish in a country so long as it can exchange its products for those of other nations. Protection dulls the edge of industry, creates jealousies among nations and disturbs the peace of the world.

Protection can not certainly work wonders and it must work within certain limits of general economic advantages. "On the other hand, the free-traders fail to make allowance for an important element in the problem. The essence of free-trade is cosmopolitanism; the essence of protection is nationalism. Free trade holds up to our contemplation the ultimate economic ideal, but fails adequately to reckon with actual forces. The universal republic is far in the distance, and the separate nations still have an important function to subserve in developing their own individuallity and thus contributing distinctive elements to the common whole. Legitimate competition presupposes, as we have seen, a relative equality of conditions; as long as the growing nations of the world are in a state of economic inequality, we must expect and not entirely disapprove the effort on the part of each to attain equality by hastening its own development. Ultimately, no doubt, patriotism will be as much of an evil as particularism has now become; but in the present stage of human progress patriotism is a

virtue. Free traders often overlook the sound kernel in what seems to be the apple of discord."*

This is a sound conclusion which, an unbiased and practical consideration of the arguments on the two sides, leads one to accept. If and to what extent a nation should resort to protectionism, must be decided on a review of several factors pertaining to the political, social and economic conditions of the nation. Protection is unsuited to countries the bulk of whose exports are of an industrial character. "But when the economic resources of a country are not yet fully developed, it may none the less be desirable to accelerate the pace in the interests of its own immediate national progress, with the idea that the contributions of fully mature and economically well-rounded nations to the commonwealth of the globe will in the long run exceed the gain from an uneven and one-sided evolution."*

Some of the evils which come in the wake of Protection, are patent, and freedom of exchange and of competition must be ensured as far as practicable. But competition may be unfair and the weak party has to be protected by the intervention of the State. Restriction may also become necessary for national defence, and the larger interests of the nation as a whole may require the imposition of restrictions on freedom, and the regulation of exchange. International harmony is a desirable and noble ideal, but no nation can afford to look on unconcernedly while its neighbours are arming and preparing to attack it. If another nation sets up a rival industry and promotes it by means of bounties and subsidies so as to kill your industry ulti-

*Seligman.

mately, you have to take measures to protect it. Bolstering up of industries in the face of natural disadvantages, is a wasteful proceeding, but stimulus given by the State by means of import duties, financial assistance, scientific advice or otherwise, may create conditions that will prove favourable to the revival of old or establishment of new industries.

106. The Indian View.-We have briefly described in the last chapter the economic revolution which took place in India in the course of the nineteenth century. England was, at the time the revolution commenced, in the grip of the protectionist and colonial policy. Heavy import duties were levied upon Indian manufactures going into England, and instead of conserving and improving the nascent industries of India, the East India Company looked only to its dividends and political power. When England was protectionist, India suffered from protectionism and when free trade became the fiscal creed of that country, India still continued to suffer owing to unfair competition and neglect of the indigenous industries. Indian people had little voice in the governance of the country and the determination of its policy, fiscal or otherwise. Their interests could not, therefore, be safeguarded, when other interests, notably those of British manufacturers and merchants, came in conflict with them To honest freetraders is did not matter if one after another Indian industries decayed and the country came to depend entirely upon agriculture. They rejoiced that the foreign trade of India steadily expanded and they pointed to it as a measure of prosperity. Opponents of free trade wanted protection, but not for Indian industries. Indian markets were to be thrown more widely open to British manu-

factures and closed to foreign goods. India has had no independent fiscal policy consonant with the opinion of the intelligent public.

"Public opinion in India is overwhelmingly protectionist. If she were granted her fiscal freedom there is no doubt that she would use it to erect a high tariff which from the nature of her trade would be directed chiefly against British goods."* This impression formed by Prof. Lees Smith, of Indian feeling, correctly reflects the situation. Being a confirmed believer in the doctrine of free trade, an examination of conditions in India, convinced him of the futility of protection and led him to the conclusion that 'India needs a strong free trade school among her thinkers and administrators.' Among the latter he may find a large number of free traders. But in the peculiar situation in which India stands, he hopes in vain for the establishment of a free-trade school in this country among Indian thinkers. The latter appreciate the good points of the free-trade position and the drawbacks of protectionism. But in their view the balance of advantage lies in protectionism judiciously applied.

Earlier Indian thinkers were strongly impressed with the advantages of free trade for India, but they found that the Indian fiscal policy was not genuine free trade and that the political and economic condition of India provided a clear case for the adoption of protection, or it came under the exceptions admitted by free traders themselves. Since 1882, the Indian tariff has been a revenue tariff and the 3½ per cent. import duty on cotton piece goods is counterbalanced by a countervailing excise duty on cloth produced in Indian mills. No fiscal

* H. B. Lees Smith: India and the Tariff Problem.

measure has evoked a stronger adverse criticism in the press and the Legislative Councils, from Indians and Europeans, than this unjust impost. But the Government of India, even though sympathetic, is helpless and the Secretary of State for India cannot resist the pressure of Lancashire.*

107. Indian Protectionists.—Referring to the comment of the *Times of India* on Lord Salisbury's telegram asking the Indian Government to abolish the import duties on cotton, that 'the real object was to "nip in the bud" the rising factories in India—the ostensible reason assigned is free-trade,' Dadabhai Naoroji observes :—"I give credit to the Secretary of State for honesty of purpose, and take the reason itself that is given on this question, viz., free-trade. I like free-trade, but after what I have said to-night you will easily see that free-trade between England and India in a matter like this is something like a race between a starving, exhausting invalid, and a strong man with a horse to ride on. Free-trade between countries which have equal command over their own resources is one thing, but even then the Colonies snapped their figures at all such talk. But what can India do ? Before powerful English interests, India must and does go to the wall."†

Mr. Ranade exposed the evils of a *laissez faire* policy pursued in India and showed how State assistance was needed for the economic development of the country. His essay on Indian Political Economy, in which he attempted to apply the most recent economic theories to Indian conditions, has become a classical exposition of the attitude of Indian

* Author's Gokhale and Economic Reforms, pages 34-37.

† The Poverty of India.

thinkers on the subject, and his lead has been followed by students in the present generation. Mr. R. C. Dutt's historical studies and his long experience as an administrator led him to similar conclusions.§ Speaking of the Swadeshi movement, he remarked:- "The Swadeshi movement is one which all nations on earth are seeking to adopt in the present day. Mr. Chamberlain is seeking to adopt it by a system of protection. Mr. Balfour seeks to adopt it by a scheme of retaliation. France, Germany and the United States and all the British Colonies adopt it by building up a wall of prohibitive tariffs. We have no control over our fiscal legislation; and we adopt the Swadeshi scheme, therefore, by a laudable resolution to use our home manufactures, as far as practicable, in preference to foreign manufactures."* Studying the question of the comparative merits of Free Trade and Protection in relation to India, the late Mr. K. T. Telang came to the following conclusion:—"The net result of our investigations appears to me to be this. The objections ordinarily urged against a system of Protection to native industry, whatever their applicability in countries more advanced in modern civilization, are void of force in the circumstances of this country. Looking only at the economic aspects of the question, it appears that not merely is Protection to native manufactures unobjectionable, it is even desirable in the circumstances of our country."†

Mr. Wacha believes generally in free trade and is of opinion that "India owes its prosperity today entirely to free-trade and nothing else." He

§ India in the Victorian Age: Chapters on History of Tariffs

* Speech at the Benares Industrial Conference, 1905

† Select Writings and Speeches, Vol. I, page 177.

truthfully remarks that the exports and imports of India would not have assumed the present proportions if there had not been unrestricted trade. His remark, however, that Indian exports are surplus products, that 'India is so self-contained that it can produce all it wants and still export this immense quantity of materials' and that India would not have prospered if there had been no free trade between her and England, is not very convincing. Mr. Wacha probably refers here only to the increase of trade because he proceeds to observe that India's old industries require to be revived and that 'these and other new industries would necessitate protection during their infancy.' 'I am one of the convinced advocates of Free Trade,' he continues, 'but yet I consider that some protection is required for old industries to be revived or for new industries to be started.'*

Mr. G. V. Joshi, whose writings are full of inspiration and information and sound reasoning, agreed with Mr. Ranade, his teacher and guide, that State assistance and Protection were absolutely needed for the revival of the indigenous industries of India. He regarded the dependence of the people on agriculture as the sole means of subsistence, as the weakest point in India's economic position and pleaded for a co-ordination of agricultural and manufacturing industries with the direct help of the State. Mr. G. Subramania Iyer held similar views, and they are clearly reflected in the following quotation from his writings:—"The British nation must be told frankly that the Indian people have no doubt whatever in their own minds, that so long as the present so called Free Trade and unequal com-

* Four Papers on Economics and Statistics.

petition continue, India has no hope of a future which will be distinguished by material prosperity.† The Swadeshi movement, which found enthusiastic advocates among the best thinkers of the country, was based upon the idea of national economic development and of Protection. If the State did not stimulate industrial progress, the people were prepared to promote it by patronising home industries even at a sacrifice as consumers; and Government came to recognize the utility and reasonableness of the movement.

Mr. Gokhale learned his lessons on public questions from Mr. Ranade and imbibed his spirit of inquiry and study. In a speech he made at Lucknow in 1907 on the Swadeshi movement, Mr. Gokhale traced the industrial decay of India and the harm which free-trade had done to the country, and observed :—"It was, therefore, to the advantage of England that there should be no export or import duties, as one result of such duties was to add to the cost of the articles supplied to foreign countries. But forcing this policy of free-trade upon a country circumstanced as India was, was a wholly different thing and was bound to produce results of a most disastrous character." He proceeded :—"The State by a judicious system of protection, should then ensure conditions under which new infant industries can grow up. And until the new industries can stand on their own legs, it becomes the duty of the State to have a protection wall around. This is what America—already one of the richest nations in the world, and one which will yet reach the foremost place—has done, and the case is the same with France and Germany."

† Some Economic Aspects of British Rule in India, page 350.

108. Policy for India.—In their economic and historical studies, Indian thinkers have been strongly impressed with the measures which foreign nations have taken during the last two generations to promote their industrial development, and they have been convinced that the reasoning and conclusions of the National School of Political Economy, are applicable to the conditions of India rather than the theories of natural law of the Orthodox School. It is, therefore, futile for outside critics to hope for the rise of a free-trade school among the economic students of India. The latter appreciate the free-trade doctrine in the abstract and will be influenced by it only to the extent that they will desire that Protection to be adopted in this country should be of the right kind and the evils coming in its wake should, as far as possible, be avoided.

The subject of protection has been often discussed in the Supreme Legislative Council, the question having been raised there by resolutions recommending the imposition of protective duties on articles like sugar and the abolition of the cotton excise duties. The strongest objection to Protection is that it usually fails to produce the results expected of it, and those who propose a specific measure of protection, have to calculate carefully the effects it is likely to have on different classes of the community. Mr. Gokhale faced this question with a judicious frame of mind and weighed all the considerations that could be urged on both sides before pronouncing his opinion. When the question of the excise duties was raised in the Imperial Legislative Council in March 1911, by the Hon'ble Mr. Dadabhoy, he gave expression to his view in

regard to the Free Trade *versus* Protection controversy in very lucid terms. That view reflects and ought to reflect the considered opinion of every careful student of Indian Economics. Mr. Gokhale said :—

"Coming to the larger aspect of Free Trade *versus* Protection, I would like briefly to state my position in this matter. I may say at once that by conviction I am not an upholder of Free Trade in all countries and at all times. Free Trade can no more prevail universally at present than any other noble ideal, for instance, the brotherhood of man. .....In the same way Free Trade for all countries may be all right in theory, but it will be a long day before we shall have it in practice everywhere. And till that time comes, every country must take care of its economic interests in its own way."

Taking the word 'Protection' in its comprehensive sense, Mr. Gokhale proceeded to distinguish between the right and the wrong kind of protection :—"The right kind of Protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require, but under which care is taken that no influential combinations, prejudicial to the interests of the general community, come into existence. The wrong kind of Protection, on the other hand, is that under which powerful influences and combinations and interests receive assistance to the prejudice of the general community, the general tax-payers of the country. And I believe that the right kind of Protection, if available, will do good to India."

The peculiarity of India's position to which we have adverted is that the people have no effective

voice in the government of the country and in the shaping of the national policy, and the large industries and the foreign trade of the country are not in the hands of the people. There is no constitutional machinery by which the wishes of the people can be carried out as the Government is not responsible to them. It has been often pointed out how other than purely Indian interests carry weight with the Government, and the Secretary of State for India who controls the Government of India, being a member of the British Cabinet, is swayed by the pressure of capitalists and manufacturers in England. If Protection is to be granted to industries, there must be a guarantee that the profits that will accrue, will remain in India and not be carried away by those who have no stake in the country. Under these circumstances, Mr. Gokhale held, on the whole, a policy of Free Trade reasonably applied, was the safest policy for this country. He thought that "otherwise influential interests, influential combinations, influential parties in England, who can have ready access to the Secretary of State, to whom we have no such access, will not fail to take the fullest advantage of the situation and this huge engine of protection, which is a vast power, will be employed, not in the interests of the people of India, but in the interests of those parties."

109. Drifting is Bad.—The Indian Tariff has long been on practically a free trade basis and this policy as well as that underlying the imposition of the cotton excise duties, has been dictated by a faith in Free Trade and by the influence of interests whose pressure was irresistible. It is the honest belief of some that free trade was the right

policy for India to adopt in view of the undeveloped character of its natural resources, while others have made no secret of their opposition to Protection in India on the ground that it would be detrimental to the interests of English manufacturers. We hold that in this country, (1) free trade policy would mean only drifting along the changing current of the world's economic development, and to be at the mercy of the so-called laws of nature and the deliberately self interested measures of foreign countries, is to court disaster. This policy of drift, so long pursued, has already proved harmful, and in the international struggle for economic progress, this country must arm itself with the necessary weapons.

When we declare for Protection, we must not be understood to advocate (2) an indiscriminate imposition of import duties on all manner of articles. Other countries like France and the United States of America, have had high tariff walls erected to keep out and restrict the import of foreign manufactures. The Indian tariff must be constructed with a view to the position of the various industries in the country, and its effect on the different classes must be carefully calculated. (3) Import duties do not always tax the pocket of the foreign manufacturers and may only mean an addition to the sacrifice exacted from the consumer. If the State has to make the tax-payers contribute more largely to the public expenditure, import and export duties may prove convenient and productive. They constitute a favourite method of raising revenue, and the free trade conscience ought not to be shocked if such duties are levied for revenue purposes, even if they have a protective tendency.

In view of the extinction of opium revenue, the Finance Member was compelled to impose additional taxation in 1910, and customs duties on certain articles were raised. In that connection, Sir G. Fleetwood Wilson observed in his financial statement :—"I hope I shall not be charged with framing a Swadeshi budget. In the sense which may be seen indicated on Bryant and May's match boxes ('Support Home Industries') I think Swadeshi is good; and if the outcome of the changes I have laid before the Council result in some encouragement to Indian industries, I for one shall not repent it, but I would emphasise the fact that the enhanced customs duties are attributable solely to the imperative necessity of raising additional revenue."* He then went on to point out that even in Free Trade England considerable revenue duties had been imposed for revenue purposes, and that "in countries which depend mainly on agriculture, where the population is poor and there are no large and profitable manufactures, it will be long before you can dispense with customs receipts as a part of the revenue essential for the administration of the country."*

Here we notice (i) the Finance Member's anxiety to disown all idea of imposing duties for protective purposes and the apologetic tone he adopts for appearing to frame a Swadeshi budget; (ii) the necessity he feels to enhance customs duties for providing a larger revenue; and (iii) his conviction that in an agricultural and backward country like India, the Government must depend, to a considerable extent, upon customs receipts as a part of their revenue. There are several directions in which more

* Financial Statement for 1910–11.

liberal expenditure is urgently needed *e. g.* expansion of education and improvement of sanitation; and more reliance will have to be placed upon this form of indirect taxation to provide the funds required. Faith in the free trade doctrine cannot, therefore, be allowed to prevent the Finance Member from imposing import and export duties, though they may have a protectionist tendency.

Protective duties alone will not, however, solve the economic problem. They will assist the indigenous industries to compete with their foreign rivals, provided of course, the latter are discouraged by the duties and retire from the field or restrict their operation in the Indian market. (4) An attempt will have to be simultaneously made to improve the conditions in which the industries work and to bring them up to the level of their rivals. Care must be taken to see that Protection does not entail a sacrifice on the consumers while failing at the same time to make national production more efficient. Protective duties will be one of the ways of ensuring the success of a new undertaking and must not be allowed to dull the edge of enterprise and efficiency. The Indian Protectionist must also ask himself the question if Protection "might not merely mean that the manufacturer who now competes with you from a distance, would transfer his activities to India and compete with you within your own boundaries?"†

That by the spread of education, by a provision for scientific research and by demonstrations, the State can and ought to promote the industries of the nation, has been admitted even by staunch free

† Sir W. Clarke: Speech in the Supreme Legislative Council, March 1916.

traders. Experimental factories have been recommended and were started in the Madras Presidency. Demonstrations are being given in agricultural and manufacturing processes. New models of power looms and handlooms are being introduced. But this work must be done on a larger scale than now, and the problem of the manner in which capital may be provided to industries in the initial stages with sufficient guarantees, must be immediately tackled. Directors of Industries have to undertake this work of economic organization and they must proceed with the same enthusiasm as the Registrars of Co-operative Credit Societies have done.

While the State in India follows the *laissez faire* policy in the matter of trade and industries, it has assumed in this country several functions which, in other countries, are left to private enterprise. (5) As Sir Theodore Morison points out, the State here is, in many respects, more national and socialistic than is usually supposed. "While the problem of unemployment and the question of checking the abuse of competition are engaging public attention in England, the Government of India has long taken upon itself the duty of relieving distress and saving lives in times of scarcity and famine. Railways and canals have always been practically State undertakings. Various tenancy acts and other measures have been passed to safeguard the poor tenants against the exactions of the landlords. An attempt has been made to save the rayats from the exacting clutches of the money lender."* The Indian State regards itself as a universal landlord; it is the biggest banker in the country and Lord Morley once boasted of the immense business done by the India

* See the Author's Indian Industrial and Economic Problems, page 179.

Office. The same principle has to be extended further, and "if the State can legitimately undertake from borrowed funds the construction or subsidization of railroads and canals, if it can afford to sell the fee simple of waste-lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines."†

110. Fiscal Controversies.—But the free trade conscience of the authorities in England who have to settle these matters, and the pressure of interests in that country which they find irresistible, stand in the way of the pursuit of this policy. (6) The demand for fiscal autonomy for India is based upon this anomalous position in which the Secretary of State can override the wishes of the people of this country, strongly backed up by the Government of India and the Provincial Governments, as was done by Lord Morley. Whenever any question relating to fiscal policy or State assistance to industries, comes up before the Indian legislatures, the Government in India cannot take action which it thinks best in the interests of the country, and it has to confess frankly that "their policy is and must be the policy of His Majesty's Government."§

The self-governing Dominions enjoy complete freedom in this respect. Their Governments have raised tariff walls against the manufactures of England and they have been allowed to do so. In this Dependency, however, the Government is not allowed to enjoy this necessary freedom to manage its affairs in accordance with its circumstances and needs, and thus the interests of India are subordinated to other

† Ranade: Essays in Indian Economics.

§ Sir William Clarke in the Viceregal Council.

interests. This is a long-standing grievance, and none has given expression to it more bitterly than the Government of India itself. The Secretary of State, who is a member of the Cabinet, is directly responsible to Parliament and is subject to the influences of British party politics. Parliament itself does not take much direct interest in Indian affairs, and ex-officials who are members of either House, are able to shape Indian policy. The latter can effectively thwart his measures of reform if the Secretary of State is independent-minded and progressive, and will strengthen his hands if he is opposed to progress.

As Mr. Gokhale has said, in the matter of securing this fiscal autonomy which India legitimately claims, 'there is really not much to choose between the two parties in England.' The Liberal party, wedded to free trade, feels that India's salvation lies in the continuance of the existing policy and it says that India would be worse off if Protection were to become the accepted policy of England. India's dependence would be intensified and her industries would become more helpless than now. On the other hand, members of the tariff reform party point to the destruction of the indigenous industries as the evil fruit of free trade, and condemn the cotton excise duties in unsparing language. They, therefore, advise the Indian people to accept their scheme of preferential trade within the Empire, though they cannot favour the idea of allowing India to frame her tariff according to her peculiar conditions and interests. Did India enjoy fiscal autonomy like the self-governing Dominions, her position would have been enviable while she was courted in this way by two parties. As a matter of fact, however, what-

ever policy gets ascendancy in England, has to be the policy of India too, whether it is suited or not to her conditions. But this state of things cannot continue.

The problem of protection and fiscal autonomy for India is mixed up with the Imperial problem of preferential trade and defence. It has invested the latter question with special and immediate interest. Schemes of imperial preference and imperial reconstruction, have been discussed for several years, but their discussion has had only an academic interest. When the late Mr. Joseph Chamberlain started his campaign of tariff reform, the Government of India were sounded as to their views in the matter. The countervailing duties imposed on bounty-fed sugar coming from Germany and Austria-Hungary, in the time of Lord Curzon, had evoked a bitter controversy in England, and that Viceroy had made, what was regarded as a contemptuous reference to 'the mutterings of the priests at the shrine of free trade.' No definite scheme of preferential trade had been placed before the Indian Government; but the latter expressed the view that India wanted a free hand and would not like to be involved in tariff wars.

III. Imperial Preference.—The Government of India were of opinion "that (1) without any such system India already enjoyed a large, probably an exceptionally large, measure of the advantages of the free exchange of imports and exports; (2) that if the matter were regarded exclusively from the economic standpoint, India had something, but not perhaps very much, to offer to the Empire; that she had very little to gain in return; and that she had a great deal to lose or to risk; and (3) in a financial

aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, was so serious, their results would be so disastrous that India would not be justified in embarking on any new policy of preferential trade unless assured of benefits greater and more certain than any which had so for presented themselves to the Government of India."*

Later events, such as the occasional meetings of the Imperial Conference, the discussion of the problems of Imperial defence and trade and particularly the intimate association of the Dominions and of India with England in the war with Germany, put an altogether new complexion on the situation. Not that free traders were convinced that restriction of imports would do good to England or that preferential trade within the Empire would add strength to the economic position of the country. The resolutions passed by the Paris Confereuce did not meet with their hearty approval and the proposed arrangements about preferential trade within the Empire and the Allies were declared to be unsound. But the struggle with an unscrupulous enemy, required an efficient organization and concentraton of resources, and the voice of controversy was naturally silenced. Many difficult post-war problems also presented themselves for solution and a closer unification of the Empire was found to be imperative.

The enemy, who had prepared himself for the war while the world slept in fancied security, and who violated morality and international law, took the Empire by surprise. And the Empire made up its mind that this should not happen again. One of the guarantees of the future peace of the world was to

* Webb: India and the Empire

be the constitutional reconstruction of the Empire and with it the readjustment of the economic and fiscal relations of England and the Dominions. The urgent need of such reconstruction impressed itself so strongly on the minds of people that it became the subject of animated discussion. So long as the struggle continued, attention had to be concentrated, however, on efforts to win the war. But any discussion of the issue of constitutional reconstruction naturally involved the consideration of the fiscal problem also.

The general lines on which the tariff question could be decided, were clear. The integral parts of the British Empire must admit the goods of one another on specially favourable terms, if not absolutely free, and all of them must put more or less prohibitive duties on foreign imports, the Allies coming in for favourable treatment and friendly neutrals being treated more favourably than the enemies. This arrangement, like the tariff reform schemes formulated before the outbreak of the war, was calculated to serve two purposes, first, to unite the Empire more strongly and make it self-supporting and secondly, to promote the industries of Great Britain which suffered from the competition of foreign countries like Germany.

Under such a scheme of Imperial organization, India was, of course, entitled to occupy the same position as the Dominions. The importance of India, arising out of her strategic position, her commerce, her raw materials, her size, her teeming population and her markets, has been recognized by free traders and tariff reformers alike. India's wholehearted participation in the struggle, the sacrifices made by her people for the cause of the Empire and

their readiness to go through thick and thin with their brother citizens of the United Kingdom and the Dominions, gave the Empire a new vision and a new sense of duty towards this country. But among those who thought and wrote about imperial reconstruction, there was hesitation and reluctance to accord to what was only a Dependency, the status and the privileges of the self-governing portions of the Empire. The fiscal organization of the Empire must be based on the principle of mutual concession and reciprocal sacrifices. And India's willingness to bear her responsibility as an equal partner in the Empire could never be doubted. But to treat her as a trusted dependent, must make all the difference.

112. Indian Government's Attitude.—We have never believed that India would benefit by consenting to be included in a scheme of Imperial preference such as those adumbrated by tariff reformers and imperialists in England and in this country. India has claimed fiscal autonomy, because her people want freedom to frame their tariffs and protect their industries against foreign competition. Preferential trade, which will not be in consonance with this object, cannot be acceptable. In their despatch of 1903, the Government of India frankly stated :—" All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration."

Speaking in the House of Commons in 1908, Lord Curzon reiterated these views. He observed :—
" What has been our experience in the past in India

of the manner in which the influence and power of the Secretary of State as the ultimate ruler of India are exercised in the direction of the fiscal policy of India? It is that in fiscal matters the Government of India has to take the views of the Secretary of State whether it agrees with them or not and these views are more likely to be guided and shaped by English than by purely Indian considerations."* The economic development of India is bound up with fiscal autonomy for India and fiscal autonomy is bound up, in its turn, with popular control of the Indian Government. These are fundamental factors in this problem of the trade organization of the Empire and to speak of India's participation in a scheme of Imperial Preference without raising her status in the Empire to an equality with the Dominions and giving the people constitutional control, is utterly to misunderstand the whole problem.

So recently as March, 1913, this question was raised, in the Supreme Legislative Council, by Sir Gangadharrao Chitanavis in a resolution in which he recommended the adoption of a system of preferential tariffs with the United Kingdom and the Colonies. In his speech, the mover of the resolution claimed fiscal autonomy for India, but in his view it was outside the sphere of practical politics and therefore he pleaded for preferential trade within the Empire as the next best arrangement. What should come first he was willing to postpone and stated that 'a customs union with the Colonies would gradually secure for us there a better and more dignified position than we now have. Sir Gangadharrao's plea was unconvincing

* See Lovat Fraser's Lord Curzon and After, page 347.

and fell flat on the Council and on the country.§ It only called forth a dissertation on the merits of free trade and protection from the Finance Member, Sir G. F. Wilson. The financial aspect of the question, —the loss of customs revenue that a scheme of free trade within the Empire would involve,—was emphasised in his speech which was non-committal, though its leanings towards free trade were quite apparent.

113. Fundamental Principles.—Leaving aside the controversial literature which has appeared on this subject,† we may proceed to point out the fundamental principles which are involved in it. (1) In the first place, in whatever fiscal arrangement is proposed, representatives of the people of India must have an effective voice in the discussion and determination. The self-governing Dominions struggled to obtain this fiscal freedom and partnership of the Empire and to day they are acting as the equals of the United Kingdom. In 1859, the Finance Minister of Canada administered a rebuke to the Colonial Secretary when the latter tried to interfere with the fiscal rights of that Colony. He said:—"Self-government would be utterly annihilated if the views of the Imperial Government were to be preferred to those of the people of Canada. It is, therefore, the duty of the present Government distinctly to affirm the right of the Canadian Legislature to adjust the taxation of the people in the way they deem best—even if it should unfortunately

§ It is curious to notice that the debate roused the enthusiasm of Sir Roper Lethbridge who hastened to write a book on what he chose to call "the Indian Offer of Imperial Preference."

† See The Colonial Conference: The Cobden Club's Reply to the Preferential proposals; and The Tariff Reform League's pamphlets.

happen to meet with the disapproval of the Imperial Majesty."* The new partnership concedes to the Colonies a share in the shaping in the destinies of the Empire which was formerly entirely in the hands of the British Government.

India must be treated on terms of equality with the Dominions in this respect, and the concession of justice must be preceded by (2) the grant of fiscal autonomy. The first without the second is futile. The Government of India, which will thus be endowed with fiscal freedom, (3) must also, as a condition precedent to a participation of this country in an arrangement of preferential trade, be made amenable to the control of the people. These three things are inseparably bound with one another. When these conditions are satisfied, it will be perfectly fair to expect from India all the sacrifices which imperial responsibility will throw on her shoulders. The main object of Imperial preference is the consolidation of the Empire and the promotion of its material prosperity. Every measure that enriches the component parts enriches the Empire, and no tariff scheme will be acceptable that is calculated to injure the interests of the Dominions or of India.

114. Difficulty of Solution.—Imperial consolidation to be attained by preferential trade within the Empire, will, of course, entail reciprocal sacrifices, and the scheme must be such that each constituent part of the Empire will be called upon to make a reasonable contribution. It is doubtful, however, if a policy of protection which preferential trade will impose on England, will, on the whole, be beneficial

* Percy Hurd and Archibald Hurd: The New Empire Partnership.

to her industries and trade, and if a tariff scheme can be devised which will satisfy all parties concerned. It is the ideal of many to make the Empire self-contained so as to enable it to snap its fingers at foreign countries trying to retaliate upon it. The risks run and the dangers overcome in the war with Germany, taught the value of Imperial consolidation. The adoption by the Empire of imperial preference will, in a sense, extend the bounds of free trade, and the experiences of the war swept away the doubts entertained by many about the wisdom of tariff reform. It is an undisputed principle that the component parts of the Empire must be brought together more closely than now and must participate in the determination of general Imperial policy.

Sentiment and the sense of political necessity will, of course, play an important part in the achievement of Imperial consolidation. The Empire is so vast and produces such a variety of raw materials and manufactured goods, that it may become self-sufficing more easily than any other political organization in the world. But it is this variety and the differences in the Empire regarding economic conditions and constitutional status that make the solution of the problem extremely difficult. The arguments of those who would leave the Colonies free to evolve their own destinies and instead of trying to tighten the ties by tariffs and formal Imperial councils, would look to the affection of the Dominions for the mother country, seem to have become out of date. Still it cannot be said that they have lost all their force, and a practical consideration of the question immediately shows the difficulty of finding a satisfactory solution.

Prof. Nicholson wrote:—"It is easy to say that free trade within the Empire is desirable, and it is to be hoped that in the course of time this ideal will be realised. But this country (England) would not gain if this ideal must be purchased by sacrificing a trade of threefold magnitude with foreign countries, by creating all kinds of local jealousies throughout the Empire, and by interfering with systems of taxation which the people who bear the taxes regard as beneficial, or, at any rate, satisfactory."* England's manufacturing prosperity depends mainly on her ability to export to all parts of the world the goods her factories and mines turn out, and to import food and raw materials. A free trade policy is, therefore, eminently suited to her condition, and a change in it will require very strong arguments to enforce it.†

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* Principles of Political Economy, Vol. III.

† The difficulty referred to above will be apparent from the manner in which the resolutions of the Paris Conference and the recommendations of the Committee on Commercial and Industrial Policy of which Lord Balfour of Burleigh was chairman, were received. 'The committee recommended in view of the experience gained during the war, that special steps ought to be taken to stimulate the production of foodstuffs, raw materials and manufactures within the Empire wherever the expansion of production is possible and economically desirable for the safety and welfare of the Empire. Therefore the Imperial Government should now declare its adherence to the principle of preference for products and manufactures of the dominions in respect of any customs duties now or hereafter imposed upon imports into the United Kingdom. The committee further considers that it will be necessary soon to consider, as one of the methods of achieving the above objects, the desirability of establishing a wider range of customs duties which would be remitted or reduced on products and manufactures of the Empire and which would form the basis of commercial treaties with the Allies and neutrals.'

While the report was hailed by certain papers as heralding a new era of fiscal policy and the *Daily Mail* thought that the war had ended the preference controversy for ever, the *Daily News* remarked that 'a more surprising document can rarely have been issued' and added that

One peculiar feature of India's foreign trade which makes the expected beneficial effect of preferential tariffs, extremely problematical, is the predominant position which the Empire already occupies in that behalf. Full 70 per cent of the total imports of merchandise in 1913–14 came from the British Empire, 64 per cent being the share of the United Kingdom alone. And of the exports, the Empire took 37·8 per cent, the share of the United Kingdom being 23·7 per cent. It is obvious that India takes from foreign countries only what the United Kingdom cannot supply and exports to them what the Empire does not demand. In these circumstances, preferential trade will only mean an unnecessary sacrifice of customs revenue and enhancement of the prices of articles supplied by foreign countries. Export duties on raw materials will certainly bring in revenue but it is difficult to say how the Indian producers will be affected by a diminution of exports. Even the most zealous advocates of preferential trade, are not able to show any substantial gain that India is likely to make.* As a business proposition, Imperial preference is not attractive to India. It is on other grounds that it will have to be justified and be recommended for acceptance. Writing of the probable effect of a differential export duty on jute, for instance, Mr. Webb observes:—"In the case of jute the resultant benefits would accrue rather to the

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'the war has not changed the hard facts on which 'fair trade' and its *aliases* had hitherto come to grief.' The *Daily Chronicle* characterised the recommendation about change of fiscal policy as 'a direct plunge into the old Chamberlainite policy with additional complications due to the fact that we have now got the Allies.'

* M. De P. Webb: India and the Empire.

United Kingdom than to India. This is no reason, however, why India should not take its due position in demanding a statesmanlike revision of our commercial policy."

115. Summary.—Throughout the last century and a half, the Indian tariff has been purely a revenue tariff. During the regime of the East India Company, when England pursued a policy of trade restriction and protection, the interests of Indian industries could not be safe-guarded and imports and exports were free in India. When the government of the country was transferred from the hands of the Company to the Crown, free trade had been already accepted as the fiscal creed of England and the Indian tariff remained as before and customs duties were steadily reduced. The need of raising a larger revenue necessitated the enhancement of the import duties on cotton piece goods for a time, but the clamour of Lancashire manufacturers forced Government to reduce them and to impose countervailing excise duties.

The free trade policy of England has thus been also the policy of India, partly owing to the conviction of the authorities in England that free imports and exports were beneficial to the people of this country, and partly owing to the pressure of British manufacturers who insisted on having an open door for their goods in the markets out here. The Government and the people of India have disapproved of this policy of open door as detrimental to indigenous industries, but their protests have been a cry in the wilderness. The Secretary of State for India could not resist the pressure brought to bear on him by manufacturing interests, and fiscal autonomy is the crying need of the country.

Indian thinkers are convinced that freedom of exchange between countries, as between different parts of a particular country, is beneficial in theory; but such free exchange between nations on different planes of economic development, reduces the productive capacity of the backward country and weakens it in international competition. If the State in India were to provide technical and scientific education, help the organization of industries by industrial surveys and demonstrations and protect infant industries against competition, the economic advance of India would be very rapid. Other nations have adopted this policy and they have succeeded, but the State in India has no independent policy of its own and is not governed by public opinion.

Fiscal autonomy and popular control of Government are two necessary reforms which are essentially bound up together. Indian opinion is frankly and strongly protectionist and requires that this country must follow a fiscal policy which is suited to its economic conditions. The Indian fiscal problem is, however, intimately connected with the problem of Imperial reorganization. Preferential trade within the Empire has been advocated by British tariff reformers and the war with Germany gave it an extraordinary interest. In any reconstruction of the Empire, India will have to be accorded the same status as the self-governing Dominions, and this country will make any sacrifices which its responsibilities as a partner in the Empire will entail.

The vastness of this country and of its population, its growing commerce and its strategical position, its wealth of raw materials and its expanding

markets make India an important factor in the Imperial situation. But in a scheme of preferential trade, its interests will have to be duly considered and this duty will be best performed by its own representatives. Those who have adumbrated schemes of Imperial preference have not been able to demonstrate the advantage which India's participation will yield to this country, and the view expressed by the Government of India in 1903 that India stands to gain little by her joining in a zollverein, is as correct to-day as it was fourteen years ago.

The problem must be looked at from the business as well as the sentimental point of view and the two will have to be reconciled. India cannot and will not stand aloof from a scheme of constitutional and fiscal reorganization of the Empire. But she wants effective protection for her industries, and her economic interests must be carefully safeguarded in whatever arrangements will be made. The solution of the problem is surrounded with difficulties, but they have got to be faced. Fiscal autonomy for the Government of India, popular control of that Government in India, partnership of this country in the Imperial organization on a footing of equality with the other component parts of the Empire and Imperial consolidation for purposes of defence and peaceful progress, are issues which hang together and they cannot be separated and handled piece-meal. The fact that India has rights as well as responsibilities, has not been sufficiently recognized. But from this recognition must proceed all schemes of Imperial reconstruction and fiscal reorganization.

Chapter X.

THE CURRENCY SYSTEM.

REFERENCES.

Hartley Withers: *The Meaning of Money;* Nicholson: *Money and Monetary Problems; Selection from Papers relating to Gold Currency in India;* Henry Dunning Macleod: *Indian Currency;* J. M. Keynes: *Indian Currency and Finance;* Alakh Dhari: *Currency Organisation in India;* H. F. Howard: *The Gold Standard;* S. K. Sarma: *Indian Monetary Problems; Reports of the Herschell and Fowler Committees on Indian Currency; Report of the Royal Commission on Indian Currency and Finance, 1914.*

116. Old System.—Though barter largely prevailed in India in villages, gold and silver coins have been very commonly used by the people from remote times. It is well known that even in very old times, the exports of India were paid for by foreign countries in gold, and Roman coins have been found in large quantities in the Madras Presidency. There is no wonder if in a large continent like India, divided into numerous kingdoms and principalities, hundreds of different coins should have been issued and been simultaneously in circulation. The varying relative values of these coins must have caused much uncertainty and inconvenience in commercial transactions, but the intrinsic values of the chief coins were probably well known to experts and business men. "The policy of one mint and one coin current all over the realm, with which we have become so familiar in the present century, did not find much practical recognition in this or any other part of India. Mr. Macleod in his work on "Indian Currency" mentions that when British Rule commenced, there were no less than nine hundred and ninety-four (994) different coins of gold and silver current in India. In an official table published for

the guidance of the civil courts in the Bombay Presidency the names of no less than thirty-eight gold coins and over one hundred and twenty-seven silver coins are mentioned as still so far current in different parts of this Presidency as to make it worthwhile to give the relative intrinsic values of these local currencies in exchange for the Queen's coin."*

It appears that the silver rupee coin circulated very largely in Northern India and the gold mohur was only a supplementary coin there. The position was reversed in Southern India where the gold coin enjoyed the widest circulation and the silver coins were only subsidiary to it. The landmarks in the history of Indian currency since the beginning of the last century will be indicated below. From them it will be seen that whereas under the Hindu and Mahomedan rulers, both gold and silver coins circulated freely in the country without an attempt on the part of Government to fix the relative values of the two, the silver rupee is now the main coin of the whole country, supplemented by paper currency and the gold sovereign, which last is not coined in India and whose relation to the silver coin is fixed by law. The confusion caused by the multiplicity and variety of coins led the East India Company to think of making the currency uniform, and though in 1806 the Directors declared that while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," they did not wish "to introduce a silver currency to the exclusion of the gold," only twelve years later, the silver rupee was substituted for the

* Ranade: Currencies and Mints under Mahratta Rule.

gold pagoda as the standard coin of the Madras Presidency, where gold coins had, till that time, been the principal currency and money of account.

117. Under British Rule.—In 1835, the present silver rupee was formally established as the standard coin of the whole of British India, and gold was demonetised. It was enacted that 'no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company.' But by a proclamation of 1841, Government authorised officers in charge of public treasuries freely to receive gold mohurs at fixed rates which represented a ratio of 15 to 1 between silver and gold. By the middle of the last century gold depreciated owing to the discoveries of the yellow metal in Australia and Government in India became embarrassed when the public took advantage of this divergence between the legal and the market ratio of gold to silver by presenting gold at the treasuries and exchanging it for a larger price in silver. A notification was, therefore, issued declaring that on and after 1st January, 1853, "no gold coin will be received on account of payment due or in any way to be made, to the Government in any public treasury within the territories of the East India Company."

The 'battle of the standards' was fought on the Indian soil as on that of Europe, and the difficulty of adjusting the ratio of gold to silver was experienced in India as elsewhere. Both gold and silver had their advocates in India, and there was a division of opinion among officials of Government. Merchants in India, Indian and European, memorialised the Government of India for a gold currency, and the latter were prepared to make sovereigns and

half sovereigns legal tender at the rate of one sovereign for 10 rupees. The Imperial Government did not approve of the proposal and only authorised the receipt of gold coins in public treasuries as used to be done before 1853, at fixed rates.

118. Bimetallic System.—Fluctuations in the relative values of gold and silver in European countries and America which were on a bimetallic basis, caused great embarassment by the influx now of one metal and now of the other. The value of silver relatively to gold began to fall and as some European countries followed England's lead in adopting the gold standard, the other nations of Europe combined in the Latin Union to protect themselves from the danger of being overflooded with the cheap white metal. The value of silver which was $60\frac{5}{16}$ d. per oz. in 1872, came down to $53\frac{1}{8}$ d. in 1876, to $50\frac{9}{16}$ d. in 1883, to $42\frac{7}{8}$ d. in 1888 and to 35^{10} in 1893. The countries of the Latin Union were compelled to abandon the bimetallic system and to give up the free coinage of silver. Thus came to be established the 'limping' standard under which though silver coins are full legal tender, there is no free coinage and they are virtually token money. This meant the triumph of the gold standard, which has now been adopted in all countries of the world except China.

Under bimetallism, both gold and silver are standards of value, and the relation between the values of the two is fixed by law from time to time. Mints are open to the coinage of both the metals and both are full legal tender. The market rates of gold and silver fluctuate while the legal rates remain fixed, and for the time being, the overvalued metal drives the undervalued metal out of the country. If bi-

metallism were adopted by the principal nations of the world, the fluctuations and the embarrassment would be considerably minimised. But no agreement could be arrived at on this question, and nations had to adopt the gold standard, accompanied by a legal tender silver currency, whose parity with gold was maintained by State regulation of the coinage of the white metal.

119. Difficulties in India.—From 1835 to 1899 Indian currency rested on a silver basis, but the circumstances which forced Government to adopt the gold standard were peculiar. India is a debtor country. Its Government has to remit to England every year crores of rupees for meeting the Home Charges, its expenditure in London on account of interest, pensions, salaries and so forth. The revenue of Government is collected in silver rupees and the charges in England must be met in gold. When silver was demonetised by European countries and its supplies were larger than the demand, the value of the white metal expressed in gold steadily fell. The lower the gold value of silver, the larger was the amount of rupees the Government had to find to meet the Home Charges. In fact, the drop of one penny in this exchange value, added more than one crore to the amount of rupees that had to be provided for procuring the necessary amount of gold to meet the home charges in England. "To make this point clearer, it may be mentioned that in 1873–74, before the fall in the exchange value of the rupee commenced, the amount of Home remittance in lieu of payments the Secretary of State makes in England on behalf of the Indian Government, of such charges as interest on debt raised in England, civil and military pensions, salaries, the

price of stores etc., was about £ 13 millions, which at a rate of exchange of 1 s. 10·351 d. was represented by Rs. 14,26,57,000. During 1892–93 the amount remitted was £ 16½ millions which, at the average rate of exchange in that year, viz. 1 s. 2.985 d. required a payment of Rs. 26,47,84,150. If this could have been remitted at the rate of exchange of the year 1873–74, it would have needed only Rs. 17,75,19,200, which means that there was a loss of Rs. 8,72,64,950 entailed upon India by the falling exchange in that year." * Besides Government, merchants and others who had to make remittances to England, sustained a loss and had to suffer from the inconvenience of uncertainty.

The Government of India felt the necessity of adopting the gold standard, and the introduction of a gold currency, and the temporary suspension of the compulsory coinage of silver by Indian mints, had been suggested to them; "but the main object of such attempts as were made by that Government to deal with the subject between 1878 and 1892, was not to effect a change of standard in India but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India." The United States of America had to face the problem of depreciating silver and attempts were made in that country by the Bland and Sherman Acts to maintain the price of the white metal by the purchase and coinage of fixed quantities of that metal. When these attempts failed and there was little prospect of an international agreement, the Government of India proposed

* Gokhale and Economic Reforms, page 28.

at once to close their mits to the free coinage of silver and to make arrangements for the introduction of a gold standard. In a telegram to the Secretary of State, of 22nd January 1893, the Government of India explained their proposal by saying that they would issue a notification declaring that English gold coins shall be legal tender in India at a rate of not less than 18 d. per rupee and that an interval of time should elapse between the mints being closed and any attempt being made to coin gold in India.

120. The Currency Committees.—The Secretary of State for India referred the proposal to a committee presided over by Lord Herschell, which reported in favour of the suggestion. In accordance with the recommendations of the Committee, Act No. VIII of 1893 was passed providing for the closing of the Indian mints to the "free coinage" of both gold and silver, however, reserving power to Government to coin rupees on its own account. By notifications arrangements were made for the receipt of gold at the Indian mints in exchange for rupees at a rate of 16*d*. per rupee. When the question was raised in 1897 whether the Indian Government would join France and the United States of America is following a common policy of free coinage of silver and gold at a ratio of 15½ to 1, the Government recorded the decided opinion that it would be unwise to do so.

In 1898, the Secretary of State for India appointed the Fowler Committee to consider and report upon certain proposals which the Government of India had made with the object of making effective the policy adopted in 1893. At this time the currency position was as follows:—(1) gold is not a legal tender in India though the Government

will receive it in the payment of public dues; (2) that the rupee remains by law the only coin in which other than small payments can be made; (3) but that the Indian Government has declared (until further notice) a rate at which rupees can be purchased for gold coin or bullion—such rate serving to determine the maximum limit to which the sterling exchange can rise under present arrangements.*

Widely divergent views were held as to the wisdom and justice of the policy adopted in 1893, and the several interests involved, looked at the question from different points of view. The British Treasury to whom the question had been referred by the Secretary of State on the receipt of proposals from the Indian Government, consistently set its face in 1879 and in 1886 against tampering with the currency and making it artificial. It pointed out that whatever relief would be secured by Government would be at the expense of the Indian taxpayer. On the one hand, the need of stability of exchange as a condition of prosperous trade and the necessity of preventing the losses which a falling exchange entailed on Government, were urged in favour of the adoption of a gold standard and in justification of the closing of mints to the free coinage of silver. It was pointed out, on the other hand, that silver monometallism was the best policy for India, that the exchange difficulty could be met by retrenchment and economy and the systematic curtailment of India's gold obligations *e. g.* home charges, that a falling exchange had stimulated trade and promoted prosperity and that an artificial currency system was undesirable.

* Report of the Fowler Committee.

All these conflicting views were placed by witnesses before the Fowler Committee which had to decide whether India should revert to the old system or follow up the arrangements initiated in 1893. On a review of the whole position and a careful consideration of the divergent opinions submitted to it, the Committee declared itself in favour of the effective establishment of a gold standard to be accompanied, of course, by a gold currency. The restriction of the supply of rupees imposed by the legislation of 1893 and other causes had pushed up the gold price of the rupee and, therefore, the exchange to 16*d.* at which the Committee stated that it should be fixed. The rupee would now become a token coin, but the Committee could not recommend the imposition of a limit on the amount for which rupees should constitute a legal tender. The profit on the coinage of rupees, which was to be undertaken when the proportion of gold in the currency exceeded the demand, was to be accumulated in a special reserve fund. This profit would represent the difference between the intrinsic metallic value of the rupee and its artificial value. These recommendations were accepted in their entirety by the Indian authorities and steps were immediately taken to carry them out.

121. Opposition to Change of Standard.— It may be generally observed that the currency policy recommended by the Fowler Committee has been admitted, on the whole, to have been a sound policy, though the steps which led to it, were partly the result of panic, partly of helpless drifting and partly of concentration of attention only on one aspect of the problem viz. the financial embarrassment caused by a falling exchange. It is interesting

to notice the strong views expressed by financial experts and high Government officials before 1893 against any tampering with the Indian silver standard. Mr. R. Hardy, Treasurer and Secretary, Bank of Bengal, stated in a memorandum, dated 22nd May 1886:—"In conclusion, I would observe that the whole position of India, as a nation, in regard to the silver question, may be stated broadly as follows:—The foreign trade of India consists of exports of merchandise: the exports pay not only for India's gold obligations abroad, but for her imports of merchandise as well, and a balance always remains in her favour. This balance she takes in silver. If silver is cheap she gets more of the metal than she would get if it were not so cheap, and I hold that it is most to her advantage to get more, than less silver. It, moreover, appears obvious that the pressure of the gold payments upon India as a whole, depends not upon the price of silver, but upon the gold prices realised for the merchandise exported to meet such gold payments. That the Government is in the position of receiving its revenue in silver, it may be asserted, does not affect that, the national aspect of the question, and in my view it is, therefore, clearly the duty of Government to meet any financial necessity arising from a fall in the exchange, either by increasing taxation or by reducing expenditure, or by both. To attempt to meet the difficulty by taking the extreme measure of changing the standard of value is, I think, out of the question, and I express this view, holding the opinion that the value of silver will probably yet fall considerably."*

* See Selection from Papers relating to the Introduction of a Gold Currency in India, pages 433 to 460.

Referring to Lieutenant-General Strachey's proposal to give India a gold standard without a gold coinage, provision being made for the expansion of the currency to meet requirements of trade, Mr. J. Westland, Comptroller and Auditor General, wrote in 1886:—"I am inclined rather to say that greater facility in meeting its home obligations is the *only* interest that India has in a gold standard; and if a silver standard is better with respect to all its other relations and concerns, I cannot concede that the question connected with its home obligation is of such tremendous importance as to overwhelm all others. The fact that our European officials, regarding our connection with India as only temporary look to the gold standard of the country, where we ultimately intend to live, as preferable, for our own purposes, to the silver standard of the country where we earn our living, is somewhat apt to increase in our eyes the importance of remittance from India to England. But if we want to stay in India all our lives, and our children after us, as the infinite majority of people dwelling in India do, I doubt if we would look upon a manifestly appreciating standard as more desirable than one which has been fairly steady in the past, so far as absolute value can be measured....."

Mr. D. Barbour, Secretary to the Government of India, Department of Finance and Commerce, held identical views and maintained:—"The loss or gain therefore to India, as distinguished from the Government of India, in respect of her permanent gold obligations, depends entirely on the gold prices which she can obtain for her exports. No manipulation of the Indian currency can possibly affect the gold prices of Indian exports and therefore General

Strachey's proposal could in no case give any relief to India as a country whatever effect it might have on the financial position of Government. Just as much as Government gained, just so much must the Indian people lose." There was a large body of people in India holding similar views* and they contended that the exchange difficulty could have been and ought to have been met by economy and a reduction in the gold obligations of Government; and that it was not necessary to alter the standard of value as an artificial increase in the value of the rupee only transferred the burden from the State treasury to the shoulders of the people.

122. Change Effected.—The financial embarrassments of Government, however, proved an irresistible argument in favour of the adoption of the suggestion to make the rupees token coins and by restricting their output to raise their exchange value to 16*d*. In 1899 the Government gave up its attitude of hesitancy and boldly embarked upon a policy of a gold standard to be ultimately accompanied by a gold currency. (1) Sovereigns and half sovereigns were made legal tender; (2) active steps were taken to open a mint for the coinage of gold in India, though the scheme was dropped in 1902 to be revived only ten years later; (3) profits on the coinage of rupees were being accumulated in a special gold reserve to be used for the support of exchange; (4) efforts were made to induce people to use sovereigns as a medium of circulation. But very soon Government policy began to drift, the ideal recommended by the Fowler

* See Appendices to the Report of the Fowler Committee, pages 47–65.

Committee was put out of sight and India came to have a gold exchange standard instead of a genuine gold standard.

Government departed in several important particulars from the lines of policy laid down by the Fowler Committee. "The investment of the Gold Standard Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the Currency Reserve, the establishment of the silver branch of the Gold Standard Reserve, the diversion in 1907 of money from that Reserve for capital expenditure and its use in 1908 for meeting drafts sold by Government in India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee.....The system actually in operation has accordingly never been deliberately adopted as a consistent whole, nor do the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent this system is the result of a series of experiments."*

123. Gold Exchange Standard.—In India, as in other countries having a gold exchange standard, "gold actually in circulation whether, it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible in gold and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's gold standard reserve is held in London." Mr. J. M. Keynes, in

* Chamberlain Commission's Report, page 13.

in his book* and the Chamberlain Commission in its report, have favoured the gold exchange standard as peculiarly suited to the condition of India and have dilated on the wastefulness of a gold currency. The latter sums up its view in this connection thus:—"Our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations." †

In his masterly note of dissent appended to the Report, Sir James Begbie, a member of the Chamberlain Commission, has disposed of the objections taken to the adoption in India of a true gold standard, accompanied by gold coins in circulation, as was recommended by the Fowler Committee. Financiers in other countries are alarmed at the large absorbtion of gold in India and would like that this stream of the yellow metal should be diverted into other channels. Imports of gold into this country are only the price paid by foreign nations for a part of Indian exports, and the currency system of India cannot be developed to suit their convenience and interests. The accounts of the hoards of gold in India and of the hoarding habits of the

* Indian Currency and Finance.

† Chamberlain Commission's Report, page 20.

people, are exaggerated and the fact that the masses in western countries also are addicted to that habit has been brought out by the quantities of sovereigns and other gold coins which have emerged from unexpected quarters for investment in war loans. We have ample evidence to prove that gold coins have always been popular and in extensive circulation in this country. One of the lesssons Mr. Ranade drew from his study of Mahratta history was that 'the statement now so generally made that India was too poor a country for the circulation of gold coins is unsupported by the facts of the case, as they can be ascertained from the history of the mints under Mahratta rule' and that there is no reason why 'if the gold coins were in demand a hundred years ago there should not be a similiar natural demand for these coins in our present condition of greatly extended commercial and banking activity.' †

Conditions in India in this respect are different from those prevalent in other countries which have a gold exchange standard. Here the annual gold absorption is large and the production of the yellow metal in Indian mines comes to four or five crores a year. The balance of trade is usually favourable to this country, and occasions when gold may be required for foreign remittance, are rare. The accumulation of token coins turned out of the Indian mints and absorbed by the people, is dangerous, and if facilities are given for the circulation of gold coins by means of a gold mint and otherwise, stability of exchange will be still further secured. The absence of a gold mint in India and the large circulation of silver tokens for which Government

† Currencies and Mints under Mahratta Rule.

does not binnd itself to give gold coins, are calculated to foster the hoarding habit which every one is anxious to discourage. Too much attention is paid in India to the maintenance of exchange, and every thing else is subordinated to it. The rupee, which is the principal coin of the country, is only a note printed on silver and its convertibility is limited.*

124. A Gold Mint for India.—After the Fowler Committee had recommended the adoption of a gold standard and a gold currency, the Government of India took up seriously the question of starting a gold mint in Bombay, and in his financial statement in 1900, Sir Clinton Dawkins announced that every thing was ready. But all possible imaginary difficulties having been raised by the Mint authorities in London and the British Treasury, the project was abandoned. The question was raised again in 1912 by Sir Vithaldas Thackersay by moving a resolution in the Supreme Legislative Council and Mr. Gokhale accorded his support to the suggestion that gold should be coined in the Indian mints. The Government of India sent a despatch to the Secretary of State, dated 16th May, 1912, and strongly urged the necessity of minting a gold coin in India. The plea put forward in the despatch is supported by sound reasoning, and it completely demolishes the case of the opponents of the proposal. The despatch examines and refutes the arguments that an Indian gold coin is unnecessary, that it will not assist the maintenance of exchange, and that it will

* See an article on the subject in *The Economic Journal*, June, 1914 by Prof. J. S. Nicholson.

be too expensive and ends by remarking that the proposal for a gold coinage has behind it the support of Indian public opinion.

Lord Crewe referred the proposal to the Lords Conimissioners of the Treasury. They did not accept it and instead offered two alternatives: (1) "That a branch Mint be established at Bombay solely for coinage of gold under the supervision of the Royal Mint and His Majesty's Treasury; (2) that the control of the whole of the existing Mint at Bombay be taken over by His Majesty's Government, who would accept at the expense of India the responsibility for an establishment, producing not only British gold coins but also coins for circulation in India, that is, silver and nickel." These proposals could not be acceptable; but as Lord Crew pointed out in his reply, it was open to the Government of India 'to produce at one of the Indian Mints a separate Indian gold coin of the denomination of say Rs. 10.' The Secretary of State suggested that this course would be inexpensive and would avoid the intervention of the British authorities in Indla's general coinage operations. There was further this advantage that a gold coin of the denomination suggested would satisfy such currency requirements as are not met by the present facilities for obtaining sovereigns, rupees and notes. The Chamberlain Commission, however, holding as it did that a gold exchange standard with an actual currency consisting of token coins and notes, was quite enough for India, did not see its way to lend its support to the idea of a gold mint or even of the circulation of gold as currency. But if Indian sentiment wanted a mint and if the Government was prepared to incur the expense, it might have a gold mint provided the

coin to be minted was the sovereign (or the half sovereign).

125. Gold Standard Reserve Fund.—One of the chief buttresses of the Indian currency system is the Gold Standard Reserve Fund which was created on the recommendation of the Fowler Committee and was to be formed out of the profits on the coinage of rupees. The gold thus accumulated, was to be made available for foreign remittances whenever the exchange fell below specie point. But the intention of the recommendation and the object of the Reserve were differently interpreted, and the soundness of the policy pursued by Government in connection with the Reserve was seriously called in question. The chief questions for consideration regarding the reserve were :—(1) the purpose for which it should be used; (2) the form in which it should be held; (3) its location, that is, whether it should be held in England or India; and (4), its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation.*

These questions were forced upon public attention by the experiments which were made by successive financiers with the gold reserve. As a correspondent observed in the *London Times* towards the close of 1912, 'Sir Edward Law perpetrated the first blunder by investing the reserve in England instead of keeping it in India. He was obessed by the possibilities of interest, with the result that India has not only lost all the advantages of a liquid gold reserve but has suffered the loss of nearly a million

* See Appendices to the Interim Report of the Chamberlain Commission, page 87.

sterling through the depreciation of securities.' Another point of departure was that in connection with purchases of silver for his coinage operations, Sir Edward Baker decided to hold six crores of rupees of the gold standard reserve in coined rupees. Then came the intervention of Mackay Committee. "The demand for railway construction had outstripped the capacity of the Government of India to furnish the necessary funds. A committee which sat in England under the chairmanship of Sir James Mackay (Lord Inchcape), light-heartedly recommended that half the profits on coining should be diverted to capital expenditure on railways. A million sterling was misappropriated to this purpose before the universal condemnation of such a perversion of sound principle compelled the Secretary of State to withdraw a decision which in no conceivable circumstances should have been taken." Attempts were likewise made to fix a limit to the accumulation of the gold reserve fund so that additions to it beyond the limit might be devoted to capital expenditure.

In the crisis of 1907–08, the balance of trade turned against India. Exports fell off owing to the unfavourable character of the agricultural season and imports continued to pour in. There was a heavy demand for remittance of gold abroad, stimulated by the premium upon the yellow metal caused by the American financial crisis. The Government of India first hesitated and doled out gold in small quantities. But its stock was small and was likely to be soon exhausted. It, therefore, sold sterling drafts on London to the extent of £ 8 millions, which put a severe strain on the gold standard and currency reserves in London. This experience

taught a valuable lesson in the management of Indian currency, and similar measures were resorted to when there was an adverse balance of trade soon after the out-break of the war.

126. Recommendations of Chamberlain Commission.—The Chamberlain Commission discussed all the points in dispute between Government and its critics with reference to the gold reserve, mainly the questions whether the bulk of the Reserve should not be held in gold instead of in securities and in India instead of in London and whether the Reserve should not be used to relieve monetary stringency in this country instead of being locked up in England. The Commission thought that as the chief purpose of the Reserve is the maintenance of exchange and as the gold is wanted for payment in London, that financial centre is the proper place where it should be located. It concluded:—(1) No limit can at present be fixed to the amount upto which the Gold Standard Reserve should be accumulated; (2) the profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve; (3) a much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about 10,000,000 *l* in gold can be at once secured. This total should be raised as opportunity offers to 15,000,000 *l*, and thereafter the authorities should aim at keeping one half of the total reserve in actual gold; (4) the Indian branch of the Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold; (5) the proper place for the location of the whole of the Reserve is London; and (6) the Govern-

ment should definitely undertake to sell bills in India on London at the rate of 1*s.* $3\frac{29}{32}$*d.* per rupee whenever called upon to do so. The consideration that a reserve of gold held in India will inspire confidence in the public mind and may be lent to Indian banks to the benefit of commerce and industries, as also the consideration that in a time of crisis location of Indian gold in London may cause serious inconvenience and loss, did not impress the Commission, and it lent its support to the policy pursued by Government with regard to the location of the Reserve. On the outbreak of the war, the silver branch of the Reserve was abolished and a loan was taken from it temporarily to replenish the cash balances of the Government of India. The following table shows the disposal of the sums paid to the Reserve upto 31st March, 1916:—

	£.	£.
Profits on Coinage—		
Total Profits realised, 1st April, 1900 to 31st March, 1916	23,537,195	
Deduct amount used for Capital Expenditure on Railways	1,123,655	
Profit paid to Gold Standard Reserve ...	... ...	22,413,540
Interest and discount received upto 31st March, 1916	5,453,539	
Profit by exchange	109,439	
		5,562,978
Profit and Interest paid to Reserve from 1st April, 1900, to 31st March, 1916 ..	... ...	27,976,518
Deduct—		
Loss on Sale, Redemption, and Conversion of Securities	1,192,367	
Loss through depreciation	512,361	
Miscellaneous charges	20,407	
		1,725,135
Amount of Reserve on 31st March, 1916		**£ 26,251,383**

	£.
Sterling securities held in England (estimated value)	16,218,692
Cash held in England on account of the Reserve	5,792,631
Gold held in India on account of the Reserve...	238,734
Temporary loan from the Reserve to Treasury Balances in India	4,000,000
Book credit in Treasury Accounts, India ...	1,326
	£ 26,251,383

At the end of the official year, 1916–17, the total of the Reserve stood at £ 30·84 millions, more than £ 4 million being added to it on account of the huge coinage of rupees the Government had to undertake to replenish its dwindling stocks. The loan taken from the Reserve was returned to it in the course of the year, and £ 24·7 millions were invested in London, £ 6 millions having been placed at short notice by the Secretary of State for India.

127. Paper Money.—To economise the use of the precious metals and to supply to the public a more convenient form of currency, Governments and banks issue paper money, and paper occupies a large place in the currencies of the advanced nations. The cheque in England and the bank note on the continent, are extensively used as media of exchange, and metallic money occupies only a very subordinate position. The right of issuing notes is a monopoly enjoyed by banks in certain countries, while in the United States of America banks are allowed to exercise this function freely. As the right to coin money out of paper is likely to be abused to the detriment of the public, the issue of notes is generally regulated by the State in all countries. Where there are

State banks, as in Russia, there is no question of the control of Government. In countries, like England, France and Germany where the connection between the central bank and the State is very in timate, and in America, where there are numerous private banks enjoying the right of note issue, the regulation of the issue of notes is found necessary in the interests of the public.

There has recently been a great expansion of paper currency in India. The use of cheques in ordinary transactions, is, however, extremely limited and though the progress of paper circulation is satisfactory, so far as it goes, there is an unlimited field for the expansion of paper currency. Spread of education, progress of industries and commerce and the policy of Government tending to popularise currency notes, will encourage a larger use of paper substitutes for metallic money. Instruments of credit were in use among bankers and merchants in old times but bank notes and notes issued by the State as a part of general currency, were not known. This is a development of the past seventy years.

"Under Acts of the Governor-General, Nos. VI of 1839, III of 1840 and IX of 1843, the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras. These notes were not legal tender. The issues were limited to maxima of two crores of rupees in the cases of the Banks of Bengal and Bombay, and of one crore in that of the Bank of Madras. These Acts were repealed by Act XIX of 1861, providing for the issue of a paper currency through a Government Department by means of notes of the Government of India payable

to bearer on demand. These notes were made legal tender within the circles of issue. Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India." *

128. Regulation of Issue.—Mr. James Wilson, Finance Member of the Governor-General's Council, initiated the new policy by introducing a Bill relating to the paper currency in India in 1860. He pointed out in his speech the advantage of a Government paper currency to be managed entirely by the State. "The Government of India," he said, "proposed to take the issue department of the Bank of England as their model." "Not only would such an issue department possess a security greater perhaps than that of any bank of issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr. Wilson's bill did not become law without considerable modifications, the principal being that the lowest denomination of note was fixed at 10 rupees instead of five, and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two-thirds of the note circulation as proposed by Mr. Wilson."†

Notes, which are only silver or gold certificates, representing a stock of the precious metals of equal value kept in reserve, do not possess the advantages mentioned above; and fiat money or inconvertible

* Memorandum submitted by Mr. F. W. Newmarch to the Chamberlain Commission.

† Evidence of Mr. F. W. Newmarch before the Currency Commission, 1914.

paper money has its dangers. The Government of India placed before itself as its guide the English Bank Charter Act of 1844 and placed a limit upon the fiduciary issue though that limit has been raised from time to time as the circulation of the currency notes has steadily expanded. The issue of bank notes is regulated by the State in all countries. A reserve of gold and silver is insisted on as a guarantee for the encashment of the notes whenever they are presented, and the amount of the notes which need not be so secured by a reserve, is strictly limited by law, a departure being allowed therefrom only under specific conditions. The portion of the note issue not covered by a reserve of cash, may bear a certain ratio to the total circulation or may be a fixed amount to be automatically raised with the increase of issue.

It was provided by the Act of 1861 that bullion and coin should be retained as a reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor General in Council with the consent of the Secretary of State for India might from time to time fix. This amount was to be invested in "Government securities." In December 1863 the note issue was valued at Rs. 5,11,00,000 and the Reserve was composed thus :—

	Rs.
Silver Coin Reserve	... 1,93,22,868
Silver Bullion Reserve	... 1,17,00,000
Government Securities	... 2 00,77,132
	5,11,00,000

The invested portion of the Reserve was thus about two-fifths of the total circulation.

The maximum fiduciary issue, which was originally limited to 4 crores, was raised to 6 crores in 1872, to 8 crores in 1890, to 12 crores in 1905 and to 14 crores in 1911. Originally the securities in which a portion of the paper currency reserve was to be invested, were to be 'securities of the Government of India'; but when in 1905 the limit of the fiduciary issue was raised to 12 crores, 'securities of the United Kingdom of Great Britain and Ireland' and 'securities issued by the Secretary of State for India in Council under the authority of Act of Parliament, and charged on the revenues of India', were added, the value of the latter classes of securities being limited to 2 crores. By Act VII of 1911 the limit of the invested portion was raised to 14 crores and it was provided that 4 crores out of these might be invested in securities other than those of the Government of India.

129. Currency Reserve :—For several years the Paper Currency Reserve was kept mainly in silver and in India. But since 1898 this policy has been changed, and a portion of the Reserve is now located in London to be used for the purchase of silver for coinage purposes and also for the support of exchange. In 1898 an Act was passed (II of 1898) enabling notes to be issued against gold held by the Secretary of State in London. This Act was a temporary measure intended to meet exceptional conditions. The Secretary of State sold bills beyond his own requirements for the convenience of trade, but the Government of India could not meet them from their balances. The above Act was to enable them to meet the drawings from the Paper Currency Reserve, the Secretary of State setting aside gold to the account of that Reserve in London to the same

amount as the Government of India took out from the Reserve in this country to meet his drawings.

This temporary arrangement was extended for two years and then in 1902 by Act IX of that year, made permanent. The Secretary of State was enabled by this Act, to purchase silver bullion and to transmit it to India for currency purposes. 'Thus the Secretary of State might either (1) hold gold in England as part of the reserve against the note issue in India, or (2) he might transmit the gold to this country to serve the same purpose here or (3) he might expend it on the purchase of silver, also to form part of the reserve. Gold or silver in transit to India, from its location as part of the reserve in England or *vice versa*, remains part of the reserve while in transit. In practice only the first and the third of the above alternative courses are adopted as ordinarily sovereigns are imported on private account in sufficient quantities into India and render it unnecessary for the Secretary of State to ship them.'

If the silver required for coinage purposes cannot be purchased in India, it is but reasonable that a part of the Paper Currency Reserve should be transferred to London by the sale of Council bills to enable the Secretary of State to make the necessary purchases whenever necessary. But the portion of this Reserve located in London, came to be regarded as a first line of defence in a time of exchange crisis, and strong objection was taken to the utilization of the currency reserve which is intended mainly to enable the Government of India to encash its notes, for supporting exchange and to the investment and locking up of large funds in England. It was argued that the English joint stock banks worked with a very small reserve of gold and relied too much on

the Bank of England and that it was dangerous to hold the gold of the currency reserve earmarked at that Bank. The general objection to the transfer of Indian gold to London in the case of the gold standard reserve applied with greater force to the gold in the currency reserve. The Government, however, replied that if the gold on account of the Reserve were not drawn to London, it would, in any case, have to be transferred there for the purchase of silver when the stock of rupees was depleted and gold in India could not serve the purposes of currency.

The Chamberlain Commission thought that "the gold in the Reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India." The Gold Standards Reserve has recently increased very rapidly owing to the enormous amounts of rupees the Government had to coin to meet war expenditure incurred on account of His Majesty's Government. The necessity of earmarking gold belonging to the Currency Reserve at the Bank of England which is said to be 'equivalent to the export of gold from London to India', because that gold so set aside against notes issued in this country, is not available to the London market, was removed by an amendment of the law, and the Secretary of State for India was empowered to invest the Reserve up to a total amount of Rs. 34 crores, this limit of securities in England having been only Rs. 4 crores before the outbreak of the war. The Gold Standard and Paper Currency Reserves have expanded beyond all ex-

pectations in the course of the years of war, and the recommendations of the Chamberlain Commission will not give sufficient guidance to decide how they should be invested and utilised as a permanent policy.

130. Note Circulation.—Indian currency notes 'are in the form of promissory notes of the Government of India, payable in rupees to bearer on demand, and are issued in denominations of 5, 10, 50, 100, 500, 1,000, and 10,000 rupees. They are issued without limit at any paper currency office against rupees or gold. For the purpose of the note system, India is divided into certain circles, and (with the exception of the 5 rupee note which was universalised outside Burma in 1903) the notes were, until 1910, legal tender only within the circle of issue.' Since then all the smaller denominations of notes up to and including those for 100 rupees, have been universalised. An urgent demand for currency which could not be satisfied with the available stock of rupees, led the Government to think of issuing notes of extremely small denominations such as one rupee, in imitation of the one £ and 10 s. notes of England. The above universalisation of notes has assisted to expand and popularise paper currency in India. The average gross circulation of notes was 28·58 crores in 1900–01, 45·14 crores in 1906–07 and 65·62 crores in 1912–13. The active* average circulation in these years was 22·05, 33·93, 41·89 and

* The 'net' circulation is obtained by deducting from the gross amount the quantity of notes held in Reserve Treasuries. We get the 'active' circulation if notes held in other Government Treasuries and in Presidency Bank Head Offices are further deducted. In this latter calculation notes held in Government Treasuries other than Reserve Treasuries, are not often included.

45·39 respectively. The active circulation on the 1st February in the following five years was:—

	Crores.
1913	51·29
1914	51·91
1915	45·09
1916	54·11
1917	67·90

The Government of India and the Secretary of State perform several functions which, in other countries, are performed by private and State banks. The connection between the Indian Government and movements of trade, internal and external, is very intimate and the financial operations of the Currency Department and of the India Office, are on an extensive scale. "Briefly the position is that, in addition to the Treasury, Currency Reserve and Gold Standard Reserve Balances at Head-quarters, Government hold large amounts of money distributed over India in District treasuries and in currency chests, nearly every treasury having such a chest. Money comes in to the Government treasuries and sub-treasuries all over the country in payment of revenue, from which it is necessary to provide funds for expenditure at Head-quarters or in order to meet outgoings in England. Conversely, the trading firms have large remittances to make to the interior in payment for produce. Firms requiring money for this purpose constantly apply to Government for remittance orders from one place to another within the country, and Government meet their requirements, so far as they can do so, by the issue at a small charge of supply bills and telegraphic

transfers through treasury or currency. The amount of remittances annually effected in this way is very large. The arrangement is economical for all parties concerned as enabling these transactions to be largely effected without any actual movement of coin."* We propose to notice in the next chapter, a similarly intimate relation which subsists between the operations of Government and the adjustment of the transactions of India's external trade.

131. Summary.—Gold and silver coins have been used in this country as currency from time immemorial, though no attempt was ever made to lay down by law a ratio between the values of the two coins. Every king and prince had his own coins, and a uniform currency in such a large country was not to be expected. The East India Company found a multiplicity of coins current at the beginning of the nineteenth century and thought it desirable to establish a uniform currency system in its dominions. Without actually demonetising gold, it tried to give prominence to the rupee currency and ultimately silver monometallism became the regular system of the country.

Gold coins still continued for several years to be received at Government treasuries at a fixed ratio of value, but this was found inconvenient and the silver standard was proclaimed in 1853. The Government was asked from time to time to adopt the gold standard but it did not see its way to do so. Silver came to be discarded as standard of value by one country after another in Europe, and the fall in the gold price of silver caused great embarrassment to nations which were on the bimetallic basis. They

* Report upon the Operations of the Currency Department during the year 1913–14.

tried to protect themselves against the influx of the cheap white metal and to maintain the legal ratio between gold and silver. But the efforts proved ineffectual and had to be abandoned. The free coinage of silver was stopped and the silver coins, though unlimited legal tender, became tokens.

India was in a similar case. Here there was no bimetallism and a parity of the two metals had not to be maintained. But the Government of India had to make remittances to England every year in gold and its revenue was collected in silver rupees. As the gold price of silver steadily declined, Government had to find more rupees to meet the demand for home charges. Economy and additional taxation, Government believed, had reached their limits and they proposed to stop the free coinage of rupees in Indian mints and thus to raise its power of purchasing gold. The Herschell Committee, appointed to inquire into this question, approved the suggestion and in 1893 the mints were closed, not without strong opposition from the public.

Stability of exchange was, however, the main object to be secured and on the advice of the Fowler Committee, the gold value of the rupee which had steadily gone up in the mean while, was fixed at 16d. in 1899. A gold standard was thus established and was to be accompanied by a gold currency in active circulation. This aim was, however, soon lost sight of, and Government drifted towards a gold exchange standard under which the yellow metal is to be made available only for remittance purposes abroad while the currency for internal use may consist of silver tokens or paper. The policy recommended by the Fowler Committee and accepted by Government was likewise departed from in

several important particulars. The gold reserve which was intended to be drawn upon in an exchange crisis in India was removed to London and invested there and the profits on rupee coinage were diverted to railway construction. The Chamberlain Commission was appointed to inquire into the soundness or otherwise of the criticism of the currency and financial policy of Government.

That Commission placed the seal of its approval upon the policy which had been developed and only recommended certain changes with respect to the size of the gold reserve and the form in which it should be kept. It was satisfied with the gold exchange standard and regarded a gold currency in active circulation as superfluous. The Commission held that rupees and notes were quite enough and that the use of gold coins would be wasteful. It recommended that the invested portion of the Paper Currency Reserve should be increased from 14 crores to 20 crores of rupees in view of the steady expansion of paper circulation and of the economy which might thus be effected in the use of metallic money. The limit of this uncovered portion of paper currency has been steadily extended since currency notes were first issued in 1862, till under the stress of the war, Government was empowered to invest Rs. 50 crores out of the reserve, the bulk of it being invested in British Treasury Bills.

Like the Gold Standard Reserve, a part of the Paper Currency Reserve is located in London and is used for purchasing silver and was looked upon as a first line of defence in a financial crisis. The Chamberlain Commission, while disapproving of the suggestion that the Currency Reserve, having for its object the redemption of notes in rupees in India,

must be maintained in this country, did not endorse the view that it should be relied upon for maintenance of exchange. Both the Reserves have grown with the currency, and the problem of dealing with them will have to be discussed and finally decided. In the meanwhile, currency notes are becoming more popular and the policy of universalising the notes of denominations upto Rs. 100, seems to have largely contributed to this result. The recommendations of the Chamberlain Commission were being considered by Government when the War broke out and put a stop to all discussion. Extraordinary measures had to be taken in the course of the struggle, and among these was the power taken by Government to increase the invested portion of the Currency Reserve and to invest the major portion of it in British Treasury Bills. Thus Indian gold granted considerable relief to the London money market and Indian investments ran up to a hundred crore.

Chapter XI.

Foreign Exchange and Finance.

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Hartley Withers —*The Meaning of Money*, J. M Keynes: *Indian Currency and Finance*, H F. Howard: *India and the Gold Standard*, *Report of the Herschell Committee*, *Report of the Fowler Committee*. *Report of the Chamberlain Commission*, *Annual Reports on the operations of the Currency Department*, *Annual Reviews of the Trade of India*; *Annual Financial Statements*, and *Proceedings of the Viceregal Council.*

132. Mechanism of Exchange.—If full payment in gold or silver was to be made to foreign countries for commodities imported from them and was to be received from them for articles exported to them, it would be a troblesome and wasteful proceeding. As the paper money of a country will not be accepted for payment of debts in another, the precious metals will have to pass to and fro between nations to settle their indebtedness to one another. But the trouble is avoided and the expense is saved by the mechanism of bills of exchange which enable international indebtedneess to be adjusted very easily. Importers who have to make remittances abroad, purchase the orders issued by exporters of commodities to foreign countries to their customers and send them to their creditors who realise the money from people on whom the bills are drawn and who are themselves saved the trouble of making remittances to their own creditors. If a balance of indebtedness remains after such adjustment has been made, gold or silver may be remitted to make up the amount.

"International like domestic transactions are settled in terms of money: the machinery for effect-

ing payments differs in magnitude, not in principle. A merchant A in France, let us say, has imported coffee from M in Brazil, while B in France has exported the same value of silks to N in Brazil. Instead of A sending money to M, and N sending it back to B, it is far simpler for A and B to settle with each other in Paris and M and N in Rio de Janeiro. B accordingly writes an order, known as a bill of exchange, to N directing him to pay M, or, in technical language, B draws on N; A buys this bill from B and remits (i. e. sends) it to M, who presents it to N and gets it cashed. Thus no money is exported and only one bill is drawn. Inasmuch as it is not always easy for the M's and N's to find each other in Rio de Janeiro, and the A's and B's in Paris, the business of issuing and purchasing such bills has become the function of the banker and the bill broker." *

The reciprocal liabilities of nations, as of individuals, are not equal and the balance may be paid as much by the remittance of a bill of exchange as of gold. Bills can be transferred by indorsement and are always available in all parts of the world for payment abroad. "Owing to the rapid growth of English commerce and the stability of our standard of value, London has become the financial centre of the world and there is no country which has not large and constant dealings with London. As a consequence it has become the custom to draw bills upon London, that is, draw bills which are payable in London, all over the world. These are accepted if they are good, every where, and they have become by degrees a species of international currency. And since the bills are so plentiful and common it is

* Seligman: Principles of Economics.

always easy for any man who is abroad and desires to make a remittance to England to purchase one of these bills from a person whose business it is to deal in them, and then to post the bill to this country." *

"The system by which commercial nations discharge their indebtedness to one another is called "Foreign exchanges." It deals, in fact, with the means of transmitting and settling international debts. At the same time, however, it deals with the international value of money, and with the value of a debt due in one country and payable in another." * The rate of foreign exchange is the rate at which a definite amount of foreign money can be obtained and laid down in another country by the payment of the money of your own country. A merchant who wants to make a remittance to a foreign country, inquires how much he will be able to pay to his creditor abroad with a definite amount of the currency of his own country. If the rate of exchange between London and New York is declared to be 4·866, it means that an English merchant will be able to remit that amount of dollars to America by paying one sovereign in London. Similarly if the exchange on Paris is 25·225, the same merchant will lay down that amount of francs in Paris by paying one sovereign to his banker in England.

133. Rate of Exchange.—The rate of exchange between countries having the standard coin made of the same metal, will be the relation between the weights of the metal of a particular fineness contained in the coins. This is the mint par of exchange, and the actual rate will be above or below it a as country has to receive more or less from

* H. T. Easton : Money, Exchange and Banking.

foreign countries than it owes to them. The fluctuations in the rate of exchange, are, however, limited to the 'gold points,' and of the two methods of remitting money abroad viz. sending gold and sending a draft, that one will be chosen which is less expensive. If the charge of remitting gold is lower than that of posting a bill, the former alternative will, of course, be preferred to the latter. "When the number of people who want to send money from Sydney to London is greater than the number of those who want to send money from London to Sydney, the latter will be in an advantageous position, and able to buy drafts on favourable terms, but the amount in Sydney that their sovereigns or cheques representing sovereigns in London will fetch cannot rise above the exact equivalent plus the cost of remitting coin from one centre to the other. When that point is reached the exchange is at gold point." *

The relative value of the British sovereign and the French franc is 25f. 22c. to the sovereign which is the mint par of exchange. If the cost of remitting one sovereign to Paris is say 7c., it will buy only 25f. 15c. in that city. A London merchant will prefer to buy a bill and send it rather than remit gold if he can obtain say 25f. 18c. in Paris by the former method. This will, however, depend upon the mutual indebtedness of England and France which will determine the rate of exchange lying between the gold points. "It thus becames evident that the foreign exchanges are a mechanism by which international indebtedness is settled between one country and another and that rates of exchange are the prices at which the currencies of the various

* Hartley Withers: The Meaning of Money.

countries are expressed relatively to one another. When the balance of claims between two places does not roughly agree gold has to be shipped to settle the difference, unless it can be met by what is called arbitrage which consists of dealings in bills on other centres. For instance, London may not have enough claims on Paris to set off the claims of Paris on it but may be able to fill the gap with bills on Berlin, or some other centre, which Paris may happen to want." *

There can, of course, be no mint par of exchange between countries having currencies of different metals, but the general principles of foreign exchange given above apply also to the reciprocal relation between those currencies. The fluctuations in the rate of exchange will, in these cases, be great, but at any given moment, there will be a definite rate at which the currency of one country based on gold may be converted into that of another having a silver or paper basis. The market price of silver, and the quantity of the paper money in circulation will determine this rate of exchange. The exchange on India before 1898 and on China even at the present day, are instances in point.

There is one matter which it is necessary to make clear in this place and it relates to the way in which the exchange is expressed. We may state either how much of foreign currency a unit of our national currency will buy or how much of our own currency will be needed to purchase a unit of foreign currency. These are two ways of expressing the same relation, but are likely to create confusion in the minds of the uninitiated. Thus in London the exchange on New York and Paris is stated to be $ 4·86

* Hartley Withers : The Meaning of Money.

and 25f. 20c. respectively, but that on Bombay is said to be 1s. 4$\frac{1}{8}$d. From this, the Indian end, we may say that one rupee will buy 1s. 4$\frac{1}{8}$d. in London, but on the same principle, the exchange on Bombay would be expressed by stating it as Rs. 14–15–0, which is the amount of the Indian currency that the sovereign will buy in this country. But it is the practise to express both the exchange on London and that on Bombay in English currency and it will be, say 1s. 3$\frac{29}{32}$d. and 1s. 4$\frac{1}{8}$d.

134. Indian Exchange.—Having briefly stated the general principles of foreign exchange, we shall now proceed to describe the nature and course of exchange as it affects India. The question of foreign exchange has played a very important part in the development of the currency and financial organization of India owing mainly to two causes. First, the standard of value, as described in the last chapter, has for many years, been in India a silver standard. With the steady fall in the value of silver, the exchange with countries having a gold standard went lower and lower till the fall was arrested by the closure of mints in 1893. Exporters of goods from India benefited by a fall in exchange as they received more silver in India for the same quantity of gold obtained in foreign countries as the price of those goods. But importers of commodities from abroad and others who had to make remittances to foreign countries, had to pay more rupees to get the same quantity of sovereigns in London. With the adoption of a gold standard the problem of exchange became easy and fluctuations in the rate were limited.

The second factor in the situation has been the obligation on the Government of India to remit

a large amount of money every year to the Secretary of State for meeting the Home Charges. Government was, therefore, deeply interested in bringing about a stability of exchange so that it might be sure as to the amount of rupees it must provide from year to year. Though we now have a gold standard in India, it exists for purposes of exchange only, and the responsibility rests upon Government to maintain the value of the rupee at the fixed rate of 16d. to the rupee. The Indian system is not automatic and the relation of the rupee with foreign currencies is not regulated by the course of the prices of silver and gold and the course of trade. The balance of trade does indeed determine in India, as elsewhere, the fluctuations of exchange between the gold points, but if the exchange rises or falls beyond these limits, it is manipulated by Government by the cessation of the sale of Council bills in London or by the offer of drafts on London, as we shall presently show.

The financial transactions of the Government of India in this country and in London, have thus exercised a powerful influence upon the development of the system of exchange in this country. The great Exchange Banks, no doubt, finance the export and import trade of the country, but the Secretary of State for India sells drafts on the Indian Government to place himself in funds in London and also for the convenience of importers of Indian goods into England. The latter want rupees for the payment of the price of Indian exports to be paid down in this country, and they can get the rupees either by purchasing the drafts sold by the Secretary of State for India or by shipping sovereigns to this country and receiving rupees and currency notes in exchange for them. The less expensive of the two methods is, of course, preferred by merchants and bankers. Exchange on India will rise when there is a great demand for remittance to pay for Indian exports in the busy season and will fall in the slack season when exports are reduced

and there are very small payments to be made to India.

So long as the mints were open, people had the right to take silver bullion to them and to have it coined into rupees. This import of silver into India competed with the sale of the Secretary of State's bills in London. But when the mints were closed and the relation between the rupee and the sovereign was fixed by law, Government got a monopoly of the supply of Indian currency, and foreign merchants could obtain that currency here either through the purchase of Council drafts or the shipment of sovereigns. It is only when the exports from India fall off owing to scarcity that the method of Council bills fails and the Government of India has to sell reverse bills, and the Secretary of State meets his requirements by borrowing or otherwise.

135. Development of the System.—The question of devising a convenient method of remitting funds to England has been often discussed since the beginning of the last century. "The manner in which such remittances could be defrayed with the greatest advantage engaged the attention of the Court of Directors as long ago as 1813, when they explained to the Government of India that this might be effected either by advances to the public service which would be repaid by the British Government in England, or by remittances through private merchants who would pay money in England in return for bills on the Indian Government, or would receive advances in India from the Government, to be employed in the purchase of goods consigned to the United kingdom; if these methods failed to give sufficient remittances, bullion might occasionally be consigned to the Court of Directors." * All these different methods have been followed simultaneously or separately as was found necessary and convenient, and the Government of India have also remitted funds to England by buy-

* Report of the Fowler Committee, Index and Appendices, page 24.

ing bills in Calcutta. The method of selling bills of exchange on the Indian Government was found to be the best and since 1862, reliance has been mainly placed upon it for drawing funds to London.

"Sales of the Secretary of States Bills were at first made (1862) monthly, and at a fixed rate of exchange. By a series of changes, fortnightly and then weekly sales were substituted for monthly ones; allotments to the highest bidder took the place of sales at a fixed price; tenders were invited (1876) for telegraphic transfers as well as for bills on India; reductions were made in the minimum fraction of a penny per rupee in the price at which tenders would be received; and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales. Bills and transfers so sold are described as "Intermediates," or "specials." †

"The method of transferring funds from the treasury of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts is rendered possible by the fact that India has ordinarily a very large trade balance in her favour. Except in years of very deficient crops and unfavourable trade, this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts; a considerable portion of the world's debt to India remains to be discharged by other means. Before the closing of the Indian mints to the free coinage of silver in 1893, this supplemental remittance was effected by shipments of silver to India to be coined into rupees; since the closing of the mints it has taken the form of shipments of sovereigns which are received at the Indian mints and treasuries

† Report of the Chamberlain Commission: Appendices: page, 217.

in exchanges for rupees at the rate of 15 rupees to 1 *l.*"

136. India's Balance of Trade.—The balance of trade is said to be favourable to a country when its exports to foreign countries exceed its imports from them. But this is a misleading phrase and the so called favourable balance may mean the drain of a nations's wealth, while an excess of imports over exports may be indicative of growing prosperity. Great Britain imports more than she exports but this excess does not represent her indebtedness to foreign countries, but rather the payments made to her by them for services rendered. The exports of India, which are not paid for by imports, represent the payment this country has to make to the Secretary of State for home charges, the profits of British firms and remittances of Europeans resident here. The true balance of indebtedness is found on a careful synthesis of various visible and invisible items of export and import, and customs statistics leave a big gap which a close scrutiny must fill up. The two sides of the account will stand thus :—

(*a*) Imports of merchandise.

(*b*) „ „ gold and silver.

(*c*) „ „ securities.

(*d*) Remittances to private individuals such as travellers, &c.

(*e*) Imports of capital by firms or individuals for investment &c.

(*f*) Exports of merchandise to pay for imports.

(*g*) Secretary of State's bills and transfers paid in India.

(*h*) Remittances to England for interest on capital invested in India.

(*i*) Payments for commission, premiums of insurance &c.

(*j*) Remittances for investment abroad or for support of families &c.

(*k*) Remittances of profits earned by firms &c.

There are several other items of 'invisible' imports and exports which must be taken into account in striking a balance. The following table will show the chief 'visible' items in the balance sheet;—

	Average of 5 years ending 1905–09.	1909–10.	1910–11.
Impotrs of Merchandise—			
Ex-government stores	74,567	78,040	86,236
Net imports of—			
Gold	8,589	14,446	15,986
Silver	5,465	6,242	5,714
Enfaced rupee paper ...	367	...	1,620
Interest on—			
Enfaced rupee paper	373	347	360
Total Import ...	89,331	99,075	109,916
Exports of Merchandise—			
Ex-government Stores	110,706	125,257	139,921
Net exports of—			
Enfaced rupee paper	7	520	...
Total Export ...	110,213	125,777	139,721
Net Export ...	20,912	26,702	30,005
Council bills paid in India through Treasury	22,207	18,732	23,175
,, Gold standard Reserve...	1,233	8,090	600
,, Currency ,, ,, ...	267	1,000	2,545
Funds supplied by Government to finance wheat purchases ...	...	..	...
Reverse bills paid in India	1,607	156	...
Net	22,100	27,666	26,290
Balance of trade in favour of India...	...	...	3,715
Balance of trade against India ...	1,188	964	...

(In thousands of £ sterling.)

1911–12.	1912–13.	1913–14.	Average of 5 years ending 1913–14.	1914–15.	1915–16.
92,383	107,333	122,166	97,232	91,953	87,560
25,178	25,052	15,550	19,242	5,637	—764
3,528	4,383	4,163	4,806	6,676	3,717
707	353	947	685	238	603
287	253	240	297	228	213
122,083	137,374	142,866	122,262	104,732	91,329
151,897	164,059	165,919	149,411	121,061	(a) 131,587
...	...	..	104	...	...
151,897	164,059	165,919	149,515	121,061	131,587
29,814	26,685	23,053	27,253	16,329	40,258
24,789	25,888	28,915	24,294	6,594	4,980
...	...	2,150	2,168	600	7,533
1,988	...	...	1,107	...	8,190
...	...	...	...	...	2,833
...	...	...	31	8,707	4,893
26,777	25,888	31,065	27,538	—1,513	18,643
3,037	797	...	...	17,842	21,615
...	...	8,102	285	...	...

(a) Includes £ 4,599,300 being the value of wheat exported on account of Government during 1915–16.

The same balance of trade is exhibited in a clearer

Year.	Gross exports of private merchandise.	Gross imports of private merchandise.	Net exports of private merchandise.	Imports of Council Bills.
	(1)	(2)	(3)	(4)
1909–10	1,87,88	1,17,06	70,82	41,73
1910–11	2,09,88	1,29,35	80,53	39,43
1911–12	2,27,84	1,38,57	89,27	40,17
1912–13	2,46,09	1,61,00	85,09	38,83
1913–14	2,48,88	1,83,25	65,63	46,60
Average for 5 years ...	2,24,11	1,45,84	78,27	41,35
1914–15	1,81,60	1,37,93	43,67	—2,27
1915–16	1,97,22 (a)	1,31 34	65,88 (a)	23,71 (b)

(a) These figures include exports of wheat on Government account with a value of 6,90 lakhs.

	1914–15.	1915–16.
(b) Council bills and transfers	10,79	31,05
Reverse Councils	13,06	7,34
	—2,27	23,71

way in the following table* :—

(In lakhs of rupees.)

Funds and Treasure.					Balance. Net export transactions+ Net import transactions—
Gold sovereigns (Net).	Gold bullion (Net).	Silver bullion and coin (Net).	Government securities (Net).	Total 4 to 8.	
(5)	(6)	(7)	(8)	(9)	(10)
13,82	7,86	9,37	—78	**72,00**	—1,18
12,24	11,74	8,61	2,43	**74,45**	+6,08
27,34	10,42	5,28	1,06	**84,28**	+4,99
26,43	11,15	6,57	53	**83,51**	+1,58
11,34	11,89	6,24	1,12	**77,28**	—11,56
18,23	10,63	7,22	87	**78,30**	—3
1,65	6,80	10,01	35	**16,54**	+ 27,13
—2,68	1,54	5,58	90	**29,05**	+36,83

* See Report upon the operations of the Currency Department 1915-16 and Review of the Trade of India, 1915-16.

137. Council Bills.—The above two tables will give a sufficiently clear idea of the way in which the national debts and credits are balanced. During the five years preceding the outbreak of the War, the excess of exports over imports of private merchandise was, on an average, Rs. 78·27 lakhs. This amount was due to India in payment for her exports, and it was paid partly by exports of gold and silver to this country and the balance was diverted by the Secretary of State for India by means of the sale of Council bills. The proceeds of these sales were used to meet the home charges, to buy silver for the coinage of rupees in India, for the repayment of debt and for capital expenditure. "The annual exports from India are generally in excess of her imports, and an adjustment of the value of the net exports is effected partly by remittances through Government, partly by actual shipment of coin and bullion and partly in other ways. The remittances through Government are effected by means of the Council bills and telegraphic transfers sold by the Secretary of State, which are promises by Government to pay on demand, at the treasuries in Calcutta, Madras and Bombay, the amounts specified in the bills. The bills thus serve the double purpose of placing the Secretary of State in funds to meet his outgoings in London, and of enabling trade to make a remittance of funds in the opposite direction from London to India."*

It must be borne in mind that the balance of trade is never settled within any period of twelve months like that of the official year, which is made the basis of our calculations, but if longer periods are

* Report of the Currency Department for 1913–14.

taken, the adjustment is seen to have taken place. In the case of India, besides the 30 crores that are annually remitted to England on account of home charges, a large amount, variously calculated, goes out of the country in payment of profits of companies and earnings of individuals. Taking the British capital invested in this country† in a variety of industrial and commercial enterprises at Rs. 750 crores, we may safely assume that the interest and profit on this amount cannot annually be less than Rs. 40 crores. If the excess of exports over imports is not equivalent to these 40 crores *plus* the 30 crores of the home charges as one would expect, it must be assumed that a part of the above interest and profit is spent in the country and remains to be invested in the expansion of the trade and industry of India.

The Secretary of State for India can conveniently draw funds from this country by selling his drafts, and exchange banks buy those drafts to procure money in India from the public treasuries to finance exports. With funds thus obtained, these banks purchase bills of exchange drawn on foreign importers of Indian produce and recover their money in England, which is once more used to buy Council drafts. The rate for the telegraphic transfers is, of course, a little higher than that for bills and the advantage of the T. T. is that money is immediately available to buyers in India. The rate of exchange depends upon the demand for Council drafts which is regulated by the course of Indian exports. If these last are heavy, the exchange rises, though it must be below the gold point. But when, owing to famine or other causes, Indian exports fall off, there

† See H. F. Howard: India and the Gold Standard, page 95.

is no demand for Councils, and there is a demand for remittance in the opposite direction. Importers of foreign goods into India, can not obtain bills on London and as the Indian currency consists mainly of silver, Government is called upon to supply gold for remittance purposes as they have to discharge the obligation for supporting exchange. Government, therefore, sells drafts on London or 'reverse Councils', as they are called, and the Secretary of State meets them from the funds that are at his disposal.

Experience gained in 1908–09 and in the years of the War showed how an adverse balance of trade could be met by the release of gold in India and more particularly by the sale of sterling drafts. In the course of the year 1916–17, the balances of the Government of India were so depleted by the expenditure they incurred in this country on behalf of His Majesty's Government that the Secretary of State had to restrict his sale of Council bills. Funds could not then be brought out to India and gold from the currency reserve had to be released to meet the demand for currency which was not satisfied with the extraordinarily large issues of rupees and notes which had been made. The history of the exchange transactions of 1908–09 and of the years of War is very instructive.

Towards the close of 1907 owing to a financial crisis in America and a failure of rains in this country, the money market became tight and the Secretary of State could find no buyers for his Council drafts except at abnormally low rates of interest. On the 6th November, tenders dropped to 1 s. 3 $\frac{3}{32}$ d. and the exchange steadily went down to 1 s. 3 d. These quotations were below the point at which it becomes profitable to export

sovereigns from India. Government hesitated as to the course of action to be taken and at first released small quantities of gold in exchange for rupees, but as the stock of gold was small, they had to sell sterling drafts to the extent of £ 8 millions till the crisis was over and exchange again became normal. A similar procedure had to be followed in 1914–15 and in 1915–16 when also reverse councils were sold in India each week. The following figures will be found instructive :—

Sales of bills and transfers.

I

Sales by the Secretary of State.

1906–07 ...	£	33,418,716	at an average rate of	1 s. 4·084 d	the rupee.
1907–08 ...	£	15,307,062	,, ,, ,,	1 s 4·029 d.	,,
1908–09 ...	£	14,144,545	,, ,, ,,	1 s. 3 93o5 d.	,,
1909–10 ...	£	27,444,609	,, ,, ,,	1 s. 4·041 d.	,,
1910–11 ...	£	26,212,866	,, ,, ,,	1 s. 4·061 d.	,,
1911–12 ...	£	27,058,550	,, ,, ,,	1 s. 4·883 d.	,,
1912–13 ...	£	25,743,710	,, ,, ,,	1 s. 4·058 d.	,,
1913–14 ...	£	31,200,827	,, ,, ,,	1 s. 4·070 d	,,
1914–15 ...	£	7,794,002	,, ,, ,,	1 s. 4·004 d.	,,
1915–16 ...	£	20,371,460	,, ,, ,,	1. s. 4·088 d.	,,

II

Sales by Government of India.

1908–09 ...	£	8,058,000	Bills at 1 s $3\frac{29}{32}$ d the rupee.
1909–10 ...	£	156,000	,, ,, ,, ,,
1914–15 ...	£	8,707,000	,, and Transfers { Bills at 1 s. $3\frac{23}{32}$d. Transfers at 1s $3\frac{13}{16}$d and 1 s. $3\frac{27}{32}$ d.
1915–16 ...	£	4,893,000	deferred Transfers at 1 s. $3\frac{29}{32}$ d.

The way in which remittances were made to the Secretary of State in 1916–17, throws an interesting light upon the system of exchange and financial

operations of the Governnent of India. That Government had to spend large sums in this country on behalf of His Majesty's Government who repaid those amounts to the Secretary of State. This was tantamount to the drawing of funds by the latter by means of Council drafts. But the difficulty was that the demands of trade threatened to remain unsatisfied and gold could not be shipped to India as might ordinarily have been done. Council drafts beyond the budget calculations had, therefore, to be sold and met in this country from increased supplies of rupees. It was estimated at the beginning of the year that out of the £ 22½ million required by the Secretary of State, £ 18·6 million would be paid in London by His Majesty's Government and Council bills would be drawn upon the Indian Government to the extent of £ 3·9 million. The recoverable war expenditure, however, rose to £ 38½ million and an acute trade demand was met in London by the sale of Council bills to the extent of £ 33 million! The total amount thus transferred to London went up to £ 71½ million. The two-fold strain of increasing war outlay in India, coinciding with a strong trade demand for remittance to India, was met in three ways: (1) Large Imperial and Provincial surpluses enabled Government to supply £ 33 million from treasury balances; (2) The equivalent of £ 19½ million of new rupee currency was made possible by the purchase of silver in England; and (3) £19 million were withdrawn from the Currency Reserve and were invested in England.

Of the £ 71½ million thus received by him, the Secretary of State was to use £ 21·7 million for his ordinary expenditure, £ 16·2 million were spent on the purchase of silver and £ 19 million were invest-

ed in the Paper Currency Reserve. £ 4·3 million, mainly the profit on rupee coinage, was invested on behalf of the Gold Standard Reserve and the balance left, was devoted to the discharge of debt. These operations may be exhibited in tabular form thus :—

Government of India.	Million £.	*Secretary of State for India.*	Million £.
Treasury Balances ...	33	Ordinary Home Charges ...	21·7
Rupee Coinage	19½	Purchase of Silver ...	16·8
Paper Currrency Reserve...	19	Investment in Paper Currency Reserve ...	19
		Investment in Gold Standard Reserve	4·3
		Repayment of Debt ...	10·3
Total ...	71½	Total ...	71·5

138. Regulation of Council Drawings :— Usually the Secretary of State sells a larger amount of council drafts than are necessary to yield him the funds that are necessary to meet the home charges. He draws up to the utmost limit of the cash balances in this country and also from the Paper Currency and Gold Standard Reserves. It is contended that requirements of trade have got to be met and the demand for Council drafts must be satisfied to the full limit. If this is not done and the sale of Council bills was restricted to the amount of home charges, soveriegns would have to be imported into India only to be shipped back for the purchase of silver. The Secretary of State, therefore, sold freely and accumulated large amounts of Indian gold in London. These funds were partly invested in securities or lent for short periods to banks and were partly used for repayment of debt.

This policy of drawing away Indian gold beyond the requirements of the home charges, was strongly criticised in the press here and in England and "an Indian correspondent" wrote in the *London*

Times in November, 1912 as follows:—"It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State; capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves....There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves and are not averse to protecting them at the expense of the India tax-payer."

The India Office met these charges by pleading certain exceptional circumstances as the cause of the accumulation of large balances in London and by defending its system of the sale of bills on the ground of convenience and economy. The Chamberlain Commission held that though "the India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London balance was in no need of replenishment," it could not recommend any restriction upon "the absolute discretion of the Secretary of State as to the amounts of drafts sold or the rate at which they are sold, provided that it is within the gold points." The Commission, however, distinctly stated that general

public interests ought not to be subordinated to the demands of trade.

It is necessary to point out here that India's monies, its revenues, reserves and treasury balances, which are located partly in this country and partly in London, constitute one national fund, and two distinct accounts viz. the revenue account and the capital account are kept, the first dealing with the current income and expenditure of Government and the second with capital transactions. The opening balances which the Secretary of State and the Government of India must have at the beginning of the year is estimated at 6 crores of rupees in London and 15 crores in India. All monies, from whatever source they come, go into these balances, and payments are made out of them. An estimate is formed early in the year as to the position of the balances, the amount that must be borrowed here and in London for financing the public works programme and the repayment of temporary and permanent debt and the funds that the Secretary of State may draw from India by the sale of Council drafts. This estimate is rarely adhered to and the ways and means programme is modified in the course of the year, larger sums being drawn from India than those estimated. Thus during the five years 1901-02 to 1905-06, about 50 crores of rupees were drawn in excess of the budget provision, and 63 crores was the excess during the four years 1909-10 to 1912-13. (There was a deficit of about 10 crores in 1907-08 and 1908-09 owing to failure of the monsoon and a monetary crisis in America.)

139. Rate of Council Drafts.—The actual distribution of Council drawings over the twelve months of the year, is regulated as follows:—"The

Indian year, as is well known, is divided broadly into two seasons: the busy season, extending roughly from the 1st October to the end of March, and the dull season, extending from about the beginning of April to about the end of September. Thus the financial year begins with the dull season, during which the demand for the Secretary of State's bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter."* Council drafts can, of course, be sold on advantageous terms during the busy season, but monsoon conditions and the course of export trade, can not be anticipated, and the Secretary of State sells his drafts in both the seasons, as he wants funds to meet various obligations during the first as well as the second half of the financial year. The proceeds of the Council bills sold are devoted to (1) current outgoings. (2) transfer to Currency and Gold Standard Reserves, if bills have been met in India out of these reserves, (3) repayment of debt, temporary and permanent, and (4) avoidance of debt.

We are not concerned here with Government balances and borrowing operations. It will be sufficient to remark that for the capital programme of each year, loans are floated in London and in India, and the larger the amount the Secretary of State can draw, the smaller will be his borrowings in the London market. How the drawings by means of Council drafts are distributed over the year in a normal year and may be disturbed in an abnormal year when 'reverse councils' have to be sold in India, will be clear from the following tables :—

* Chamberlain Commission's Report, Appendix VII.

	(In lakhs of rupees) 1912–13	1913–14
April.	2,72	3,92
May.	2,83	83
June.	2,09	1,50
July.	2,82	1,31
August....	2,01	1,70
September.	2,22	4,09
October...	3,53	6,12
November.	3,20	4,11
December.	4,81	5,90
January.	5,37	6,80
February.	4,41	4,91
March.	3,49	3,41
	38,50	46,60

1915–16

Month	Sterling transfer on London (in thousands of pounds)	Council bills and telegraphic transfers (in lakhs of rupees).
April.	.....	1,53
May.	.....	1,03
June.	651	17
July.	3 3[illegible]7	8
August.	815	23
September	50	2,17
October.	.....	2,25
November.	.	2,02
December	.....	3,28
January.	.....	5,26
February.	.....	6,02
March.	.....	6,33
Total...	4,893	30,37

The financial year 1915-16 opened with a weak exchange and small quantities of bills were sold in the first two months. In the next three months the sale practically ceased and sterling transfers had to be sold on London. In April, tenders had been accepted by the Secretary of State at 1s. $3\frac{15}{16}$d. for bills and the rate in May fluctuated between 1s. $3\frac{15}{16}$d. and 1s. $4\frac{1}{32}$d. The exchange steadily rose to 1s. $3\frac{31}{32}$d. towards the close of August and to 1s. $4\frac{1}{8}$d. in December. Sterling drafts were sold by the Government of India at 1s. $3\frac{29}{32}$d. per rupee In the year 1916–17 the exchange ruled high. As we have already explained, the Government of India had to spend a very large amount for His Majesty's Government who repaid the amount in London to the Secretary of State. It was difficult, with the depleted treasury balances in India, to meet Council drafts for which demand was exceptionally heavy. As a result, exchange went up, those desiring to make remittances to this country having to pay more pence than usual while a rupee paid down in India could buy a larger amount of pence in London.

140. Summary.—Imports of a country are paid by the exports and *vice versa* and the balance must be settled by a remittance of gold or silver. The movement of the precious metals for the liquidation of the mutual debts of countries, is avoided by the use of bills of exchange which are orders issued by creditors to debtors for payment to parties mentioned. Like an ordinary commodity, these bills can be sold and purchased in the market and those who have to make remittances abroad may buy the orders and send them to their creditors to be realised from the persons on whom the bills are drawn Bills on London are every where available and in

demand, and they are a favourite means of making payments abroad.

The rate of exchange shows the reciprocal relation of the currencies of different countries and may be expressed in two ways. We may state either the amount of foreign money which a unit of our currency will buy or the amount of our own money which will be required to obtain a unit of foreign currency. London rates of exchange on foreign countries are generally expressed in foreign currencies and foreign exchange rates upon London also are similarly expressed, with a few exceptions. The Indian exchange on London and the London exchange on India are expressed in pence as the New York exchange is expressed in dollars from both sides. We take the following rates for 20th December, 1916 :—

London Course of Exchange.

London on—

New York	4·76
Paris	27 fr. 80½ c.
Petrograd	158 r.
Spain	49 d.
Italy	32 lr. 82½ c.
Norway	17 kr. 06.
Lisbon	31½ d.

Foreign Exchange Rates upon London.
20th December, 1916.

On London—	Rate current	Par as usually quoted.	Prem.+ or dis.—
Amsterdam, sight	97 $\frac{5}{16}$ pl.	97½ piastres per £1	—0·2
Italy, sight	32 lr. 77½ c.	25 22½ lira per £1	+29·9
Lisbon, sight	31 ¼ d	53½ d. per milreis	+41 6
New York, sight	4·75½	$4 8666 per £1	—2·3
Paris, cheques	27 f. 80¾ c	25·22½ francs per £1	+10·2
Petrograd, sight	156⅞ r	94·57 roubles per £10	+65·9
Bombay, Transfers	1 s 4 $\frac{3}{16}$ d	Sterling to rupee 1 s, 4 d.	—1·1

A typical Indian course of exchange will be as follows :—

Bank Telegraphic Transfers	1 s. $4\frac{7}{32}$ d.
Bank Demand Drafts	1 s. $4\frac{9}{32}$ d.
3 Month's sight Credits	1 s. $4\frac{9}{16}$ to $\frac{19}{32}$ d.
Bank Demand on France	188 fr. (for Rs. 100).
3 Months' sights Francs	$194\frac{1}{2}$. ,,
30 Days' sight Hongkong	$165\frac{3}{4}$ Rs.
30 ,, ,, Shanghai	$240\frac{1}{2}$. Rs.
60 ,, ,, Japan	150 to 151. Rs. (for 100 yen)

Bank D. D. on New York, Rs. $310\frac{1}{2}$ (for $ 100).

The rate of exchange fluctuates between the gold points, *viz.* the points at which it is more profitable to import or export gold rather than use bills of exchange for remittance purposes. Fluctuations thus limited, are regulated by demand and supply. If there is a large quantity of bills available, those who want to buy them for making remittances abroad will get them for a lower price and if the demand exceeds the supply a higher price must be paid. Exchange Banks carry on this business of buying and selling bills in India but the exchange problem has a peculiar importance in this country on account of the practise of selling bills on India followed by the Government during the last hundred years.

India has normally a favourable balance of trade, that is, there is an excess of Indian exports over imports. The excess represents the home charges and the remittances of earnings, profits, and commissions of firms and individuals. On both sides of the national account there are several in-

visible items which are not recorded in customs statistics. The excess of the value of exports over that of the imports, is paid to this country either by means of council drafts or the remittance of the precious metals. If the excess is not as large as one would expect it to be in view of the remittances of various kinds which have annually to be made abroad, it shows that a part of the amount is retained in this country as capital for investment in industries and trade. The excess of Indian exports makes foreign countries our debtors, and thus a keen demand arises for remittances to this country. This fact enables the Government of India conveniently to make payment to the Secretary of State for the disbursements he makes in London on its behalf. We have a gold exchange standard and the Government has to take steps to maintain the exchange at the fixed rate of 16 d. the rupee. This feature of our currency system, joined to the gold obligations of Government, imparts a peculiar interest to the problem of Indian exchange.

The Secretary of State has to draw funds to London for his expenditure there on behalf of the Government of India and the bills and telegraphic transfers he sells, are purchased by those who want to make remittances to this country for goods imported or by banks which want rupees and notes for their financial operations. So long as the mints in India were open to the coinage of silver presented by the public, the balance of trade in favour of India was liquidated by the import of silver, and exchange was determined by the gold value of the white metal. Till the year 1893 exchange steadily declined, compelling the Indian Government to raise more rupees by means of taxation for the payment of home

charges in gold in London. Since the exchange was fixed at 16 d. per rupee, only in years of financial stress caused by scarcity or otherwise, has Government been compelled to cease selling drafts on India and to offer sterling drafts on London. It is profitable to banks to import funds into India by purchasing bills in London rather than by shipping sovereigns and then getting rupees for them from the Government, and therefore the Secretary of State has been selling his drafts to a much larger amount than is needed for his current expenses.

The Government of India pay for these bills, when presented, from their balances and thus their remittance for home charges is effected. By means of the Councils, the Gold Standard Reserve and a large portion of the Currency Reserve, have been drawn to London and there invested in British securities. A part of the drawings is used for purchasing silver for the mints in India. There is a heavy demand for drafts on India during the second half of the financial year, which is the busy season when crops are moved to the ports, and the rate of exchange is then higher than in the first half of the year.

Chapter XII.

Banking And Credit.

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141. Indigenous Banking.—Even before the advent of modern joint stock banking in this country, there were numerous banking firms and bankers who carried on business on an extensive scale. Money lending was and is done by numerous persons of every caste and class and in towns and villages, all over the country. As distinguished from these money lenders, the bankers took money on deposit, made loans and issued drafts or 'hundies,' and they have always occupied a high status in society. In old times governments borrowed largely from the bankers who financed military campaigns. The Peshwas, for instance, were heavily indebted to them and several banking houses enjoyed great social reputation for the extent of their transactions and the honesty of their dealings.

English banking, which has now assumed a vast magnitude, also began in this humble way. When the prejudice against usury disappeared, the people first to take advantage of the favourable situation, were the goldsmiths. "As they had valuable property of their own to guard, people were inclined to think that what would be trusted to them was safe.

Accordingly the practice of depositing money or bullion with the goldsmiths became a common one, the more so after 1640, when Charles I, then in great straits for money, had seized the bullion of private merchants left for safe keeping in the Tower..... When the goldsmiths thus obtained deposits, they naturally were ready to lend at interest. Cromwell borrowed from them on the security of the taxes and paid them back when the taxes came in; Charles II continued the plan, paying the goldsmiths 8 per cent. for what they advanced."*

The small bankers took deposits and allowed interest upon them, gave loans on the security of jewelry pledged with them and purchased and sold ornaments. This business is being done to-day extensively in villages and small towns all over India, where modern banking is unknown. The banking houses of a higher status have dealings on a much larger scale. They finance internal trade and remit monies from one place to another for their customers and discount the hundies of small producers and dealers. In spite of the rapid progress joint stock banking has made during the last generation, these indigenous banking houses play an extremely important part in the internal finance of the country. They accommodate small traders and producers whom the big banks cannot reach. Their 'hundi' draft is easily available and through it remittance can be most conveniently effected in the absence of other banking facilities.

Mr. Findly Shirras thus describes† the indigenous bankers:—"Before the British era trade was entirely

* Townsend Warner Land-marks in English Industrial History.

† Report of a lecture delivered in Calcutta in 1914.

financed by *banias*, who combined money lending and finance with trade. Throughout the length and breadth of India these *banias* undertook the financing of agricultural operations. They were chiefly Marwaris from Marwar Chetties from Southern India and Bhattias and Parsees in Bombay and Gujarat. To-day the money lender or money changer was still in a flourishing condition The larger Indian bankers and shroff still continued to do a large part of the internal banking business They were the depositories of much of the money wealth of the villages or districts in which they resided and they were also engaged in exchange operations, as well as trading on their own account. They used *hundis* or bills which were drawn up in *Mahajani* or a written character peculiar to bankers, and these were usually illegible to any one outside their class A dishonoured *hundi* was an event of rare occurrence with them. *Hundis*, despite the increase in joint stock banking, were not decreasing but increasing, and the circulation of *hundis* was the most perfect portion of the purely Indian system. The *bania* class was one to which India was greatly indebted for financing agriculturists, and for moving products from the growing to the consuming districts and distributing goods of all kinds all over India Joint stock banks were not in any way a hindrance to their trade, in fact they relieved them of much trouble and risk

142. Rise of Modern Banking:—Besides these (1) indigenous banking houses and bankers, there are in India to-day, (2) the three Presidency Banks of Bengal, Bombay and Madras, (3) the Exchange Banks doing business in this country as well as in others, and (4) the Indian joint stock banks. "The European system of banking was introduced into India by the Agency Houses of Calcutta. These were not merely merchants and agents but also bankers who did business with the merchant princes of India, planters and the civil and military services. They possessed a note

circulation which was extremely beneficial to them. After the passing of the Act of 1813 which gave greater inducements to Europeans to settle in India, there was a considerable extension of banking in connection with the Agency Houses but the great commercial crisis of 1829-30 put an end to almost all these Houses."*

The Presidency Bank of Bengal was opened in 1806 and received its charter of incorporation from the East India Company in 1809. The first Bank of Bombay (it went into liquidation in 1868 and a new one was formed in the same year) was established under a similar charter in 1840, and the Bank of Madras in 1843. The establishment of these Banks in the other Presidencies put an end to the possibility that the Bank of Bengal might become a Bank for all India. The Presidency Banks had at first, a semi-official character. At the foundation of the Bank of Bengal, the East India Company contributed one-fifth (the proportion became smaller subsequently) of the capital and appointed three of the directors. Upto the time of the Mutiny the office of Secretary and Treasurer was held by a covenanted civilian."†

143. The Presidency Banks:—The relations of the Government of India and the Presidency Banks are regulated by the Presidency Banks Act of 1876 which imposes certain definite restrictions upon their business operations while it concedes to them some material and moral advantages also. Before that date the agreements with the Banks compelled the Government to place all

* Mr. Findlay Shirras. Report of a lecture delivered in Calcutta in 1914.

† J. M. Keynes; Indian Currency and Finance.

the cash balances belonging to them in the hands of the Banks with the result that there was a serious danger of Government's money not being available when it was urgently required. In a despatch to the Secretary of State, dated 30th June, 1874, the Government of India wrote:—"The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances, had so employed them that they were practically locked up; for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government .....We are of opinion that a Government subject to the contingencies to which the Government of India is exposed, ought not to be without a reserve and that this reserve should be in its own hands." The Government was inclined to dissolve its connection with the Banks, but preferably it proposed "to make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances, the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts."

In his reply, the Secretary of State (Lord Salisbury) gave his assent to the proposal of the Government of India about establishing an independent treasury system and leaving with the Presidency Banks certain minimum balances without interest and imposing by law specific restrictions upon their business operations. The Presidency Banks Act of 1876 laid down restrictions as to the qualifications and number of directors, the

kind of business that they could and could not transact, the territorial limits of their jurisdiction and so forth. The Banks have tried to get some of these restrictions removed as needless, and wanted liberty to deal in certain securities which were not allowed by the Act. *e. g.*, securities of State-aided Railways and of District Boards. They also wanted to be empowered to borrow outside India so that they might have access to the great store of banking capital available in London.

This and other matters connected with the powers and resources of the Presidency Banks, were topics of prolonged discussion among the parties concerned. Strong objection was taken to these Banks being allowed to pledge securities and take deposits in England and thus raise funds there. The Exchange Banks vehemently opposed the suggestions that the Presidency Banks should be allowed, when the Bank rate in India was 6 per cent. or higher, to borrow in London, that they should be permitted to deal in foreign bills under certain conditions and that they should be allowed to draw sterling drafts on London for the home remittances of their customers subject to a limit of 200 in each case. One of the Exchange Banks, the Mercantile Bank of India, wrote to the Secretary of State :—"It would be an anomaly in State banking to find the Presidency Banks of India, which depend for their prestige and resources so largely on their State connection, turning their attention and their resources from the object of their existence—the facilitating the internal trade and requirements of India (a sufficiently wide field one would imagine), to embark in operations of foreign exchange. It would, further, be a serious matter for the existing Exchange Banks,

and very unfair to them if these State Banks, backed by their State support and the large amounts of public funds placed at their disposal by the State free of interest, should be authorised to compete keenly, and with all the power that their privileged position gives them, with those institutions which have hitherto conducted that business to the satisfaction of the mercantile community."

The other Exchange Banks wrote in the same strain and there was a lively debate between them and the Presidency Banks. The latter attempted to show that the apprehensions of the Exchange Banks with regard to unfair competition being set up in exchange transactions against them, were baseless. The proposal of the Presidency Banks was favoured by the Government of India, but the Secretary of State was strongly impressed by the contention of the Exchange Banks that their interests would be injured by the proposed changes and declined to sanction even a moderate concession to the Presidency Banks viz. allowing them to draw sterling bills on London 'for the purpose of the remittances of their customers subject to a limit of 200 *l.* in any one month on behalf of any one customer'. The discussion was brought to an end on 26th September, 1906, with a telegram from the Secretary of State in reply to one from the Government of India asking permission for the above amendment of the Act, stating: 'Your telegram dated 15th September. Presidency Banks. I regret that I cannot accept your proposal.'

144. Their Business:—We shall presently deal with the question of monetary stringency and a high bank rate prevailing in India during the busy season, which was involved in the above discussion.

It is to be noted here that the Presidency Banks are three powerful joint stock banks having special relations with Government and carrying on the ordinary banking business under certain well defined limitations. They lead in financing the internal trade of the country, and the ordinary joint stock banks follow them at a distance. They take deposits and lend on security, and discount, buy and sell bills of exchange and other negotiable securities payable in India or Ceylon. They cannot borrow money outside India, nor can they deal in sterling bills. The conditions on which they may give loans are strictly laid down by law. They perform certain services for Government and receive remuneration for it. Government holds no shares in the Banks and is not represented on the directorates. It, however, keeps certain minimum amounts free of interest with the head offices of the Banks and if the public deposits fall below the stipulated limit, interest is paid on the amount by which they fall short. Usually Government keeps larger deposits with the Banks than they are expected, though not bound, to do.

"Where a branch of a Presidency Bank exists, part of the Government balance is deposited in it. Similarly a part of the Government balances held at Calcutta Madras and Bombay, is deposited at the head offices of the three Presidency Banks. The relations between the Government and the Presidency Banks in respect of the holding of balances are partly regulated by agreements with the three banks which were last revised in 1898 The agreements provide that the Banks are to transact general business for the Government at their head offices and certain branches; that they are to receive certain remuneration; that the Government is not bound to retain at the Banks any particular sum; but that if its balance at the Head Office

of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest "at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand." The remuneration of the three Banks and the minimum balances that they are to hold for the Government at their Head Office without charging interest are as follows :—

	Remuneration per annum.	Amount of Balance below which interest becomes payable.
	£.	£.
Bank of Bengal	2,900	233,300
Bank of Madras	800	120,000
Bank of Bombay	806	133,000

"The revision of these agreements is now under the consideration of the Government of India.

"In actual practice the Government of India is much more liberal to the Banks than is provided for in the agreements They usually keep at the head offices of the three Banks the following amounts .—

Bank of Bengal ... .. 467,000 *l.* to 533,000 *l.*
Bank of Madras ... . A little over 133,000 *l.*
Bank of Bombay... ... 267,000 *l.* to 333,000 *l.*

"On the flotation of a loan and in special cases, the amounts are increased."

Presidency Banks.

	1906 Rs. (lakhs).	1914 Rs. (lakhs).	Increase per cent.
Capital and Reserve.	6,23	7,64	23
Deposits . .	25,38	45,66	80
Cash Balances ...	8,23	20,84	153

The comparative position of the three Banks is brought out in the following table :—

		31st December 1905	31st December 1910	31st December 1914
		Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
Capital	Bank of Bengal	2,00	2,00	2,00
	„ Madras	60	60	75
	„ Bombay	1,00	1,00	1,00
Reserve	Bank of Bengal	1,43	1,75	2,00
	„ Madras	23	51	74
	„ Bombay	1,87	1,05	1,10
Government Deposits	Bank of Bengal	1,07	1,98	2,87
	„ Madras	37	72	91
	„ Bombay	93	1,52	1,83
Other Deposits	Bank of Bengal	12,04	16,09	21,61
	„ Madras	3,46	5,67	7,62
	„ Bombay	6 76	10,58	10,82
Cash	Bank of Bengal	3,87	5,14	11,70
	„ Madras	1,07	1,84	2,67
	„ Bombay	2,59	4,76	6,47
Investments	Bank of Bengal	1,51	3,68	6,21
	„ Madras	67	85	1,34
	„ Bombay	1,58	1 49	2,01

The dividend paid by the Banks has been well above 12 per cent. per annum. In addition to the head office, the Bank of Bengal has three branches in Calcutta and 21 offices elsewhere together with an agency in Bombay, the Bank of Bombay 13 branches and the Bank of Madras 17 branches.

145. Exchange Banks.—Now to turn to the Exchange Banks. These are big European banking concerns with enormous resources, and they carry on their operations in India and over eastern Asia. For the sake of convenience they are classified in two groups according to the extent of business done by them in India, viz. (1) Six of them are doing a considerable portion of their business in this country and (2) five others are merely agencies of large

banking corporations doing business all over the East. Their resources are as follows :—

	Group I	Group II
	000 omitted.	
	£	£
Capital and reserves	8,020	28,952
Deposits	16,382	3,716
Cash balances ...	4,626	970

Details are given in the following table :—

	No of Banks	Capital.	Reserve and Rest	Deposits		Cash Balances.	
				Out of India	In India.	Out of India.	In India.
		£ 1,000	£ 1,000	£ 1,000	R 1,000	£ 1,000	R 1,000
(1) Banks doing a considerable portion of their business in India.	6	4,311	3,709	33,139	24,57,28	8,952	6,95,84
(2) Banks which are merely agencies of large banking corporations doing business all over India	5	18,504	10,448	131,831	5,57,48	31,741	1,45,53
Total	11	22,815	14,157	164,970	30,14,76	40,693	8,39,37

These banks take deposits in India and outside and with funds thus borrowed, finance the foreign trade of the country. They are thus complementary to the Presidency Banks and the other Indian banks which confine themselves to internal trade. They purchase bills of exchange drawn by exporters of produce and discount them with London banks or realise them when they mature. With the funds released in this way in London, they buy Council drafts sold by the Secretary of State and bring them

back to India to be invested once more in the purchase of bills. Owing to stringeney in the money market, in the busy season, the bank rate and the discount rate mount up very high. The exchange also rises and the Exchange Banks bring money into the country by buying the Secretary of State's drafts, and Telegraphic Transfers which enable them to receive rupees from the Government Treasuries immediataly without having to wait for more than two weeks for the arrival of the bills. The difference between the rate of interest they have to pay on their own borrowings or deposits, both in England and India, and the rates they charge in discounting sterling bills, constitutes their profit. The Banks will also bring gold into the conntry if it is more profitable to do so.

From the figures given above it will have been noticed that the deposits of the Exchange Banks have considerably increased in recent years and that they carry on their operations with funds borrowed in and out of India. While enjoying a monopoly of the finance of the export trade of the country, they participate actively in the financing of the internal commerce also. The extent to which bank deposits have increased during the past few years in the different classes of banks will be seen from the following figures :—

	1905	1914
	Rs. (lakhs)	Rs. (lakhs)
Presidency Banks	22,26	40,04
Exchange Banks	17,05	30,15
Joint Stock Banks (above Rs. 5 lakhs)	11,99	17,10
Total	51,30	87,29

These figures exclude Government deposits in the Presidency Banks and for the Exchange Banks, are limited to deposits in India only. The total amount has increased by 70 per cent., the deposits of the Presidency Banks by about 80 per cent., and those of Exchange Banks by 76·5 per cent. The Exchange Banks need not lock up their funds in sterling bills for a long time as they can be easily rediscounted in London, being drawn upon well-known firms. The resources of the Banks are, therefore, soon released for employment, as we have pointed out above, for the purchase of Council drafts. The principal means by which they place themselves in funds in India is the purchase of Council drafts and when towards the close of 1916, these could not be sold in sufficient quantities owing to the depletion of the Government of India's balances, there was a very great stringency and exchange rose. The other ways *viz.* importing sovereigns and bar gold also were not open and much difficulty was experienced in financing trade.

146. Joint Stock Banks :—Banks of the third class, *viz.* the Joint Stock Banks, are almost all of them, of recent origin. The growth of this type of bank has taken place during the last twelve years. The total number of banking and loan companies registered under the Companies Act in 1914-15, was 475 and their paid up capital amounted only to Rs. 7,98,75,509. The number had remained steady for several years and declined in 1914-15 on account of the failure of many Swadeshi banks ; and yet the paid up capital almost doubled in ten years. Under the heading, banking and loan companies, are included hundreds of petty banking and lending establish ments, and

institutions carrying on operations on a considerable scale, are very few. The number and the amount of paid up capital of these banking companies, are given below:—

Year.	Number.	Paid up capital (Rupees).
1900-01	430	3,82,84,266
1905-06	595	1,40,34,101
1906-07	567	7,31,57,416
1910-11	492	7,91,31,641
1913-14	552	7,91,51,400
1914-15	475	7,98,75,509

The joint stock banks are classified, for the sake of convenience into four groups according to the amount of their capital; and their position on 31st December, 1914, was as follows:—

	No. of Banks	Paid up Capital.	Reserve and Rest	Deposits	Cash Balances.
		R(1,000)	R(1,000).	R(1,000)	R(1,000).
(1) Banks with Capital and Reserve amounting to R 20,00 000 and above .	5	1 39,14	1,09,56	13,75,66	2,92,00
(2) Banks with Capital and Reserve between R 20 and 10 lakhs ..	9	93 38	27,11	3,72,11	54,1
(3) Banks with Capital and Reserve between R 10 and 5 lakhs	3	19,88	7 21	1,78	7,00
Total of Banks above R 5,00,000	17	2,61,30	1,41,88	17,10,58	3,53,18
Banks with Capital and Reserve between R 5,00,000 and R 1,00,000 ...	27	42,72	13 02	1,26,54	27,99
Total ..	44	2,93,62	1,54,90	18,37,12	3,81,17

Joint stock banking is a plant of recent growth and has yet to drive its roots wide and deep into

the soil. While the sapling was growing up vigorously, it was subjected to a rude shaking in 1913, when a number of banks collapsed. The failure of the banks caused ruin and hardship to numerous middle class and poor families, but it imparted a wholesome and much-needed lesson as it exposed the rotten condition of many of the apparently prosperous concerns. It dealt a rude shock to public confidence and for a time the progress of banking was retarded. But the exposure was calculated to teach the people where the screw of banking management was loose and to ensure a slow but healthy progress of the movement.

These joint stock banks came up on the crest of the enthusiastic industrial movement which began in 1905, and banking came to be regarded as a new path into which the energies of enterprising persons might strike. The public was willing to patronise the new institutions and put their money in them. The middle class which was in the habit of saving and of depositing its savings in the Postal Savings Banks, was attracted by the tempting prospect of getting a higher rate of interest and dividend, and the new concerns had no difficulty in attracting share holders and depositors. From 5 to 6 per cent. interest was offered for deposits fixed for a year or two years, and the banks helped many a shopkeeper and trader in his business by giving him accommodation.

147. Bank Failures:—Several causes combined to make the position of the joint stock banks insecure. (1) The directors of many of the concerns were men who knew little about banking business and could not and did not control the operations of the banks. (2) If some of those whose duty it was

to keep a strict watch over the dealings of the banks, suffered from a lack of experience, others were too clever to deserve the responsibility entrusted to them. (3) Accounts were not properly kept and loans were given without sufficient security. (4) A large amount of the funds of the banks was locked up in such a way that it could not be easily realised. (5) Some of the managers went in for speculation, a species of business which such banks should have avoided, and the monies taken from depositors at a high rate of interest, were used to finance concerns whose profitableness was doubtful. (6) Dividends were often distributed among shareholders out of capital, and this fact could be concealed by a skilful manipulation of the accounts. When, therefore, one of the banks came into trouble owing to a run being made upon it by depositors, public confidence was shaken and other banks also came down. Their assets could not be easily realised and the demand of depositors could not be met.

These facts have been brought out in liquidation and other proceedings in connection with the banks which have taken place in law courts. "Altogether 63 banks have failed since the banking crisis began with the failure of the People's Bank of India in the Punjab, which went into liquidation on the 17th November, 1913." "The authorised capital of all these banks aggregated Rs. 10,13,80,000 the subscribed capital Rs. 4,12,58,000, or 40·7 per cent. of the authorised capital, and the paid up capital Rs. 1,40,15,000 or 14·4 per cent. of the authorised and 35·4 per cent. of the subscribed capital." Many of these banks had high-sounding names but were ricketty from the very beginning. The paid up capital bore a small ratio to the subscribed and the authorised capital, as may be seen from the following table of some typical banks, compiled from the information published by the Department of Statistics :—

Date of Registration.	Name.	Authorised.	Subscribed.	Paid up.	Deposits.	Date of liquidation.
17th April, 1913	Solar Bank, Lahore ...	1,00,00,000	1,55,000	8,51[illegible]	.....	24th March, 1914.
18th May, 1907	Orient Bank of India, Lahore ...	25,00,000	10,00,000	71,351	4,94,968	4th September, 1914.
2nd September, 1912	Bank of Asia, Lahore ...	25,00,000	4,65,450	32,099	76,781	29th November, 1914.
17th January, 1913	Commercial Bank of India, Gazipur, U. P. ...	10,00,000	5,775	4,250	18,655	end July, 1914.
28th May, 1909	Sri Krishna Bank, Madras	5,00,000	5,00,000	2,125	.....	31st March, 1914.

148. Proposed Restrictions:—Banking corporations and bankers have to keep sufficient cash and liquid assets in their hands so as to be able to meet demands as they arise. But the joint stock banks did not follow this wholesome practise. While the proportion per cent. of the cash to the liabilities on deposits of the Presidency Banks has been 33 and of Exchange Banks 20, on an average, that of the joint stock banks has not exceeded 15 or 16. The remarks made by certain shrewd observers in this connection, have proved almost prophetic. Mr. Keynes wrote :—"In the case of the smaller Banks, dealing, as they are, with clients to whom banking is a new thing, and in a country where hoarding is still dominant, the cash balances seem, from the available indications, to be hopelessly inadequate ; and it is hard to doubt in the next bad times, they will go down like nine pins. If such a castastrophe occurs, the damage inflicted on India will be far greater than the direct loss falling on the depositors ".*

The failure of so many banks led the public and Government to consider whether it would not be desirable to impose certain restrictions upon firms and individuals who used the words 'banks,' 'bankers,' or their equivalents, thereby gaining an amount of prestige in the eyes of people and attracting deposits. The Government of India, therefore, issued a circular in August, 1913, asking Provincial Governments to communicate to them the views of the commercial community and others on this point. They suggested restrictions that would be desirable in the following matters:—"(1) The prescription of a minimum amount

* Indian Currency and Finance.

of subscribed capital; (2) a stipulation that an adequate portion of such capital should be duly paid up within a reasonable period from the starting of the business; (3) a restriction on the full allocation of profits to dividends pending the building up of an adequate reserve; (4) a restriction as to taking up by a 'bank' of business outside that of banking in which the banking profits might be lost." Some restrictions of the nature proposed by Government are clearly necessary in the interests of the public as well as of a healthy growth of Indian joint stock banking.

The economic development of India requires an extension of banking facilities in all parts of the country. The people have to be taught to hand over their savings to banks which will use the funds thus collected for the promotion of trade and industry. There is a great scope for the expansion of banking, and concerns, small and large, if they are conducted along right lines, will be successful and helpful. High rates of interest rule in the market and small business men and producers cannot get the necessary accommodation without paying a heavy price. The ordinary money lenders in towns and villages give credit to their clients, but charge exhorbitant rates for their services. If banks were to collect cash from persons of small means and inspire confidence in the public mind, they would assist in the economic development of the country.

149. Agricultural and Industrial Banks:— There are no land banks and agricultural banks in India like those in other countries.* Landholders have, therefore, to raise loans by mortgaging their lands to

* See Gide's Political Economy and the next Chapter of this book.

money-lenders, and cultivators obtain advances from the village sowkar for the current expenses of agriculture. *Takavi* loans are made by Government to cultivators, but they are not popular,* and they do not satisfy the smallest fraction of the needs of the people. The indebtedness of the Indian rayats is colossal, and attempts made to relieve it, like that of the Deccan Agriculturists' Relief Act, have almost failed. There are here two problems to be tackled, first to enable the farmer to shake off the burden of the old debts and second, to advance to him the capital required to carry on his agricultural operations. If there were banks which would supply this two-fold credit, the cultivator's lot would be vastly improved. But he has as yet to rely, where there are no co-operative credit societies,—and these are too few in view of the large population of the country—on the old credit machinary *viz.* the money lender who charges high rates for his money.

We have shown in Chapter V what is the position of the cultivator and the common artisan with regard to credit and supply of capital. In one of his pamphlets, on Agricultural Banks in India, Mr. D. E. Wacha pleads for the establishment of land banks which will emancipate the cultivators. He gives an account of the experiment of such a bank in Poona district which was to have been made about the year 1883, and argues that, after all, co-operative credit societies are not calculated to solve the problem of agrarian indebtedness.* He holds up the Agricultural Bank of Egypt to imitation in this country and wishes enterprising men to start such banks and conduct them with the assistance of Government. There can

* See page 105 above as also the next Chapter.

be no doubt about the fact that the problem of agricultural indebtedness ought to have been boldly faced by the State and long, long ago and the cultivator should have been assisted to throw off the yoke of his debt, by means of agricultural banks. In Ireland and in France, for example, the State is placing large funds at the disposal of cultivators. This is not to minimise the urgent importance of the growth of the co-operative credit societies which are calculated to improve the status and economic position of the rayat as nothing else can, but to point out the colossal dimensions of the rayats' indebtedness and to suggest the radical cure necessary to remove it.

The want of industrial banks is being similarly keenly felt. The Presidency and joint stock banks lend their monies for short periods, and they cannot afford to lock up their funds on the security of a new industrial concern. Like agriculture, industries require a special treatment, and it has been suggested that banks should be started for financing industrial enterprise. State assistance is also invoked in the matter though how precisely it should be rendered is a difficult matter to settle. Government may advance capital on the security of the property of a concern when the loan has been recommended by competent authority; or it may guarantee a certain rate of interest. Financing of industries would certainly be better done by private banks strongly supported and supervised by the State. And if branches of such central banks were opened in small towns, the producers there would derive material benefit from them, and the banks themselves would do good business.

150. The Bank Rate.—The Bank rate is the rate which is charged for loans against Government securities, while the rate of advances

on other securities and of discounts is slightly higher. The rates are not the same in the different Provinces. As we have said above, this business is, at present, done by shroffs and other money lenders who deal in hundies. They grant accommodation for a few months and charge varying rates of interest. The shroffs in big commercial centres are a link between petty traders and shopkeepers and the Presidency and joint stock banks, the latter discounting their bills and thus coming indirectly in contact with the small business men

The official bank or discount rate of the Presidency and other banks is, however, not identical with the rate that prevails in the bazars, and the latter is often not much affected when it rises owing to monetary stringency which occurs periodically. "The shroffs who finance nearly the whole of the internal trade of India, rarely, if ever, discount European paper and never purchase foreign or sterling bills. Neither do they lend money on Government Paper or similar securities, but confine their advances to the discount of *hoondees*, to loans to cultivators and against gold and silver bullion. The *hoondees* they purchase are, for the most part, those of traders, small and large, at rates of discount ranging from 9 to 25 per cent. per annum but the *hoondees* they buy from and sell to each other, which are chiefly the traders' *hoondees* bearing the shroffs' own endorsement, rule the rates in the native bazar and are generally negotiated, during the busy season, at from 5 to 8 per cent. discount. They also discount their endorsements pretty largely with the Presidency Banks when rates are low and discontinue doing so when they rise above 6 per cent. They also speculate largely at times in Government

Paper, especially during the off-season, but rarely or ever hold it or lend on it."*

151. Reserve Treasury System.—While on this question of the bank rate in India, we may refer to the prolonged controversy which has raged round the reserve treasury system of Government and the artificial stringency which is alleged to be created by it. It is contended that by locking up crores of rupees in its treasuries the Government causes, in the busy season, a scarcity of money, and a regular system under which loans may be made to the Presidency Banks during the time of monetary stringency, has been suggested. Government has granted such assistance from time to time, but it is naturally reluctant to develop it into a regular system it will be bound to follow. This is a long-standing grievance of the banks and financiers in India, and it was accentuated by the fact that during the five years 1908–13 Government balances mounted unusually high and the Secretary of State having withdrawn a large portion of them lent them to approved borrowers or deposited them with banks in London. So far as the question of a high bank rate in India and the reserve treasury system of Government is concerned, we do not think that having at their disposal crores of public deposits kept with them by Government, the Presidency Banks can reasonably complain against the reserve treasury system.

In two Notes which he wrote as far back as 1888 and 1899, on this subject, Sir James Westland put up a strong defence in favour of the existing system. He pointed out that there was no analogy between

* Appendices to the Report of the Fowler Committee, page 70.

the position in England and that in India. In England, 'the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place;' and secondly "the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Presidency Banks."* Now that banking is progressing rapidly in this country, the Presidency and other banks must stand on their own legs and not look up to Government for assistance every time. The fluctuations in the Bank rate between season and season are, no doubt, great, but Government have to conserve their resources in view of demands likely to be made upon their balances, and can not be expected to place them at the disposal of banks. The Government of India hold the view they laid down in a letter written to the Secretary of State in 1900, viz.:—"Regarding the general danger involved in the financing of trade by the Government we have before us the words of Lord Salisbury's Despatch of 6th May 1875, 'capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead the trade into dangerous commitments.' The warning conveyed in these words still holds good. The Presidency Banks have excellent reserves, it may readily be admitted. But those reserves could not, in the peculiar circumstances of India, be suddenly converted into cash, and it seems, therefore, undesirable that the account of one depositor, and that one, a Government exposed, as the Government of India

* See Appendix II to Chamberlain Commission's Report.

is, in a most unusual degree, to sudden calls and emergencies, should occupy a position of such dangerous importance."*

152. Savings Banks:—Post Office Savings Banks have always provided people of the middle class with the convenience of a secure means of depositing their small savings, and they have been availed of by all those who did not care to speculate and run after higher rates of interest and dividend at the risk to the safety of their money. "In 1833 with the failure of the commercial houses of Calcutta, a Government Savings Bank was formed to afford to Europeans and Indians alike a means of investing their savings apart from the uncertain influences of commerce. Until 1882-83 the business of the Government Savings Bank was conducted by the Presidency Banks in Calcutta, Bombay and Madras and by Gevernment treasuries elsewhere. The Post Office took over the management of them from that date and in the first year of the existence of a Savings Bank under the control of the Post Office, a great change was manifest and Government had actually to take measures to prevent a too rapid increase in deposits. In 1911 the deposits, inclusive of interest, amounted to 17 crores, of which 15½ crores belonged to Indians."§

The deposits in the Post Office Savings Banks form the unfunded debt of the Government of India and are used by it for capital expenditure. Government is a big banker and it borrows and lends money. Its general balances are the source from which depositors are paid when they want to withdraw their money and on the out-break of the War there

* Appendix I to the Chamberlain Commission's Report.

§ Findlay Shirras.

were heavy withdrawals which were all met from the balances. In 1914, Government offered certain additional facilities to depositors by raising the limit of the amount of their annual and total deposits as well as of their investment in Government securities. These facilities drew large deposits from the public, their total amount reaching 24 crores of rupees in 1914.

The Presidency and joint stock banks have savings departments attached to them, and here there is an unlimited field which must be properly exploited. Small savings of the people must be collected to finance trade and industries and thus to promote the economic development of the country. Co-operative credit societies are now tapping this source, as we shall show in the next chapter, and the general policy which Government has followed since the outbreak of the War in the matter of finance, will go a long way in teaching the people the habit of saving and lending. A special Post Office branch is tacked on to the public loans and contributions are received through the Post Office. The first attempt yielded about half a crore and the cash certificates offered in the War Loan as also the opportunity given to contribute to other securities through the Post Office, is a step in the right direction.

153. State Bank:—We shall close this chapter with a reference to a scheme which has been before the country for some time of a central or State Bank for India on the lines of the Bank of France, or the Reichsbank. In India, note issue is a monopoly of the State while in other countries it is a right conferred upon a central Bank on certain conditions. The Government, therefore, has to perform many functions which ordinarily fall within

the province of a bank. The State has its reserve treasuries and ordinary treasuries, supplies the currency required for the movement of crops at different times and in different provinces, keeps its gold standard and currency reserves, meets Council bills and sells sterling drafts, borrows here and in England, and lends to approved borrowers out of its surplus balances. The relation of all these transactions and the ordinary transactions of the money market, must be very intimate, and it is maintained through the agency of the Presidency Banks. But it is felt that in the interests of trade and of the general public, it would be much better if Government transferred these functions to an independent bank, of course, carrying on its business, more or less, under its supervision and control.

A scheme for the amalgamation of the three Presidency Banks into such a Central Bank, was formulated so far ago as in the year 1867, but nothing further was done and the question formed the subject of discussion again in 1899 and 1900. Both the Secretary of State and the Government of India were favourably inclined to the idea, but it was temporarily abandoned as it was thought that the time was not propitious, and 'provincial and personal jealousies were also a cause of the abandonment of the scheme. It was revived thirteen years later and came up for consideration before the Chamberlain Commission. But the Commission declined to express any definite views on it and to make any recommendation about it. Mr. J. M. Keynes, one of its members, drew up an exhaustive Note dealing with the proposed Central Bank and attempted to show how such a Bank was not only desirable but also perfectly feasible. He has given an outline of the constitution

and functions of an Indian State Bank and discussed arguments in favour of and against it.

Expert opinion on this question seems to be divided. Some do not think that one bank, however large it may be, will be able to satisfy the needs of such a continent as India, and they would like the three Presidency Banks to continue. They feel that what is wanted is only a suitable adjustment of the existing machinery to the growing requirements of the country. They apprehend a danger in this 'placing all the eggs in one basket' and are not sure that the position of Government will be improved with a central bank rather than without one. What is wanted, they urge, is not a concentration of banking but more Indian banks conducted by Indians.* There is much truth in this view, but we do not disfavour the idea of a Central Bank provided the interests of the public are properly safeguarded and the economic development of the country is promoted thereby.

154. Summary.—Banking has always been regarded in this country as an honourable and lucrative profession and bankers have occupied a high status in society. Rulers borrowed from the banking houses funds to carry on wars on the security of their revenues. Banking was often hereditary in certain families. They financed the trade of the country and sold drafts or *hundies*. They took deposits and gave loans, small and large. Besides these big bankers and banking houses, the *Pedhies*, money-lending was and is carried on by *Banias*, *Mahajans* and *Saraphs*. The latter dealt in precious metals and advanced monies on mortgage. They were

* See Mr. M. de P. Webb's 'Advance, India,' page 83-87.

money changers as well as money lenders. Most of the financing of the trade and industries of the country is still in the hands of this class of banker and money lender, and those occupying high status among them are steadily adapting themselves to the modern conditions in the midst of which they live.

The indigenous banking houses and bankers are thus rendering a valuable service to the people, and modern banking is only a growth of the last hundred years, peculiarly marked during the last generation. This banking was initiated by the Agency Houses of Calcutta and the Presidency Banks of Bengal, Madras and Bombay. These enjoyed the right of note issue, which became a monopoly of Government in 1862. At first, the State contributed to the capital of the latter Banks and was represented on their boards of directors. In 1874, Government, which used to keep all its balances with the Presidency Banks till that time, found it necessary to establish the 'independent treasury system' on account of the difficulty it experienced in withdrawing a part of its deposit at the Bank of Bombay when it badly wanted the money. The Presidency Banks Act was passed in 1876 which regulates the relations between these Banks and the Government.

This Act imposes certain restrictions on the operations of the Banks in view of the advantages they are allowed to enjoy. They can use public funds up to a specific limit without having to pay interest on them and also receive stated remuneration for the services they perform for the State. The Banks cannot borrow outside India and cannot deal in sterling bills. The conditions on which they may lend are also laid down. Government

does not interfere with them further than this and in all other respects they are like any other private banks. The Presidency Banks finance the internal trade of the country and their deposits have grown considerably within the past few years.

The Exchange Banks, whose operations cover the further East along with India, receive deposits in India as well as outside and monopolise the financing of the foreign trade of the country. They purchase sterling bills drawn by exporters of raw materials and use the funds realised from them in London to buy the drafts sold by the Secretary of State for India who thus receives the money required to make his annual disbursements. The Exchange Banks also sell drafts on London for those who wish to make remittances and import sovereigns when this is more profitable than bringing funds by means of Council drafts.

Joint stock banks are few and small and are a growth of the last few years. They were able to attract deposits by the prospect they held out of high rates of interest and people of the middle class entrusted them with their savings. This mushroom growth was the result of the industrial boom of 1905–6 but the banks were not properly managed and their funds were locked up so that the assets could not be easily realised. Their position was unsound from the business point of view, and in 1913 and 1914 about fifty of the newly started banking concerns came to grief. The bank failures entailed loss and misery upon thousands, but they taught a lesson in banking management. The habit of saving and banking is steadily growing in the country, and more banks are required for financing the trade and industries of the country and utilizing cash that

otherwise would lie idle. The steady increase in the deposits in the Postal Savings Banks is an indication of the popular tendencies which were also visible in the growth of joint stock banks.

The country has not got land and agricultural banks to help the land owners and cultivators whose credit is small and who have to borrow from the village sowkar at exorbitant rates of interest. Co-operative credit societies are doing good work in this direction but the field to be exploited is vast. The industries of the country also require special banking institutions to finance them. Peculiar facilities have to be given to agriculturists and manufacturers and ordinary banks are not calculated to suit their purpose. With the backing of the State, many such banks may be started with advantage to all concerned.

The bank rate is, of course, determined by the condition of the money market at any given time, but there is a complaint in India that the Government locks up large amounts of money in its reserve treasuries at a time when demand for accommodation is keen and thus the bank rate goes up to the inconvenience of the public. The Government of India has always held that the system complained of is absolutely sound and beneficial and that it must have an independant reserve on which it may be called upon to draw at any time.

The Government of India and the India Office are themselves big banking institutions, borrowing and lending vast sums every year. It is suggested that this banking work should be entrusted to a separate banking concern, a central bank, to be conducted on the lines of the Bank of France or the Reichsbank of Germany. The amalgamation of the Presi-

dency Banks for this purpose was proposed,but after prolonged discussion the idea was given up. It was revived before the appointment of the Chamberlain Commission which did not, however, specifically consider the question and further discussion was stopped by the War. Competent men have taken opposite sides on the question. While some think that it would be advantageous for the Government to hand over its banking business to a Central Bank working under certain restrictions, others hold that this change of policy would be full of risk and would spell disaster. The matter stands there for the moment.

Chapter XIII.

The Co-operative Movement.

REFERENCES.

Henry Wolff: *People's Banks; Mr. Caird's report on the Economic condition of India; Reports of the Famine Commissions; Report of the Deccan Riots Commission; Correspondence Respecting Agricultural Banks in India; F. A. Nicholson · Report regarding the institution of Land and Agricultural Banks in the Madras Presidency, 1895; Report of the Committee on the establishment of Co-operative Credit Societies in India;* J. R. Cahill: *Report on Agricultural Credit and Agricultural Co-operation in Germany, Provincial Reports on Co-operative Societies in India; Government of India's Resolution of 1914 on Co-operation; Maclagan Committee's Report on Co-operation.*

155. Principle of Co-opertion :—Competition, specialization and concentration are three chief features which characterise the modern organisation of industry. They have led to production of wealth upon a vast scale, to increased efficiency, to reduction in cost of production and to the cheapening of products. The advantages of the new system are undeniable. But it has brought in its train a number of evils and it is not an unmixed good. Thus competition entails hardship upon the weak and the backward, specialisation tends to turn the human being into a mechanism, and concentration creates a powerful class of capitalists and employers. The disadvantages of the factory system are patent and an effort is being made to minimise them in various ways. One of the ways of achieving this end is co-operation.

There is co-operation of a sort in all departments of life and even in modern industrial organization, and it is also compatible with competition. Employers and workmen co-operate, and

no wealth can be produced without the co-operation of the agents of production. "Co-operation in its technical sense, however, means the abandonment of competition in distribution and in production. In distributive co-operation, the customers who are members of the co-operative societies select one of themselves as manager of the store and share any resulting profit. As they are expected to make no purchase elsewhere, there is no competition. Such co-operative stores are found principally in Great Britain. They have never flourished in America because they have been unable to supply the commodities as cheaply as the great departmental stores. In productive co-operation the object is to eliminate the capitalist and to remove competition between the workmen. The labourers elect one or more of their number to control the enterprise, and divide among themselves the gains."*

The principal object of co-operation, therefore, is to eliminate the middleman, the employer, and the capitalist. Workmen and consumers form themselves into groups and create a power by means of combination which as individuals they do not possess. The profits which are taken away by the middleman, the capitalist and the employer, can then be divided among the members of the groups and they rejoice in a sense of independence. Some enthusiasts have unbounded faith in the principle of co-operation which, they think, will characterise and ought to characterise the economic organization of the future as it will remove many of the evils associated with the existing regime. They see in co-operatism an economic and even a moral force

* Seligman : Principles of Economics.

of great potentiality which will prove the salvation of modern society.

156. Advantages of Co-operation :—Take co-operation for purchase and sale as an example. The agriculturist or craftsman who wants to buy seed and manure or raw material, is at the mercy of the money lender who is seller and capitalist rolled into one. The agriculturist or craftsman has no choice in the matter of quality and price and has to submit meekly to the terms of the money lender. If a number of agriculturists or craftsmen, however, combine for the purpose of purchase, they can buy on better terms, as regards quality and price. Similarly in the matter of sale. Societies formed for this purpose, can wait till they obtain better prices for the goods to be sold, and the producers need not offer their produce for what it will fetch. When the cultivator is in need of money he is content with any price the merchant, who is often his creditor, will give him, but a co-operative society will make advances to its members and will try to secure for them the best prices obtainable.

An individual who wants capital for the ordinary conduct of his business has not much credit, and the money lender, therefore, charges him a high rate of interest. He has no security to give and the common bank cannot deal with small men like him. A society of such individuals, however, may command, on the joint security of its members, better credit in the market and by organization and self-help, they may capitalise their honesty. When the element of risk is eliminated from the amount charged for loans, the rate of interest naturally goes lower and the debtors benefit to the extent of the margin.

A desire to eliminate the middleman and to be self-reliant, teaches thrift and men learn to lay by and create capital. In co-operation the moral gain is as great as the material, and it elevates the masses by making them respect themselves. The advantages claimed for co-operation may appear to be exaggerated, but where the principle has been properly imbibed, the benefit is real and lasting. We are told that as an effect of co-operation, "the idle man becomes industrious, the spendthrift thrifty, the drunkard reforms his ways and becomes sober, the haunter of taverns forsakes the inn, the illiterate, though, a grandfather, learns to read and write. It sounds like a tale from wonderland, yet it is all sober fact."* "The theory of co-operation is briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action, self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as 'better business, better farming and better living'." †

The progress made by the co-operative movement in India during the short space of a few years, has been characterized as 'phenomenal.' Co-operation in India is mainly directed towards the supply of cheap credit. The number of societies formed for

* Henry W. Wolff: People's Banks.

† Maclagan Committee's Report, page 2.

the purpose of sale, purchase or production, is comparatively very small. The movement is going forward by leaps and bounds and the number of societies in British India had by 1914 increased to 14,881, the number of members to 6,95,998 and the working capital to Rs. 7,45,31,725. Compared with Germany and Italy these figures are extremely low, but the movement in India is yet only at its beginning and the progress made in the first stage has been unequalled in any other country.

157. The Problem in India.—The co-operative movement in India owes its inception to the failure of the attempts made by Government for more than a generation to cope with the serious problem of the deep-seated poverty and growing indebtedness of the cultivators who constituted the bulk of the population.* (1) With peace and orderly Government, the population of the country steadily increased. (2) The new form of revenue, judicial and police administration, as also the slow economic evolution which went on slowly but surely in the country, disorganized the old social and industrial system. (3) The new laws and the systematic execution of the decrees of courts altered the relations between debtors and creditors to the disadvantage of the former and strengthened the position of the latter. (4) The rigidity of the system of land revenue collection and the facility with which lands could be mortgaged to sowkars, drove the rayat deeper and deeper into the mire of indebtedness. (5) The growing dependence of the people on agri-

* "The pressure on the means of subsistence is rendered more severe by the moral disorganization produced by laws affecting property and debt, not adopted to the condition of the people."—James Caird.

culture as the means of subsistence, which arose out of the decay of indigenous industries, intensified this evil. (6) The exhaustion of the soil went on apace, and no capital could be put into it if the land remained in the hands of the rayat, and farming could not be efficient, if it passed into the hands of the money lender. (7) A kind of material and moral depression seemed to brood over the mass of population, and to diagnose and find remedies for the disease became the most urgent problem that confronted the people and the State.

This is the impression which is left on one's mind on a perusal of the reports of committees and commissions which have investigated the problems of Indian famines, the rayat's indebtedness and poverty and the nature and effects of the system of land revenue prevalent in the country. For thirty-five years before the passing of the Co-operative Societies Act of 1904, Government considered the problem from time to time, and tried a number of palliatives, all of which have been pronounced as failures. It granted *takavi* advances to cultivators, passed Agricultural Loans and Land Improvement Acts, moderated the rigour of the law in favour of the agricultural debtor, and sought to restrict the power of the latter of alienating his land. But these remedies did not go to the root of the disease and consequently there was no improvement. Recurrent famine and scarcity focussed attention upon the evil and rules were made for mitigating the rigour of the collection of land revenue. At last co-operation came to be regarded as the sovereign remedy, and in 1904 an Act was passed launching the movement into existence.

158. Failure of Early Efforts.—A system of advances to agriculturists from the treasury of the State had been in vogue from the commencement of British rule in India and the various regulations connected therewith were consolidated by the Act 26 of 1871 amended by Act 21 of 1876. The object of this Act was "to define the purposes for which it was held to be legitimate to place a charge on the land, as security for the repayment of advances made by the State, to enable improvements to be carried out, and to give the Government a preferable claim on the land for such repayment."* After eleven years' experience, it was universally admitted that the Act was a failure. The defects in the Act which were responsible for the failure, were sought to be remedied by Act 19 of 1883, the Land Improvement Loans Act, and an endeavour was also made to encourage the application of private capita to land. This act was followed next year by the Agriculturists' Loan Act (12 of 1884). "Under the former Act, money is advanced for specific purposes of land improvement, and under the latter, for seed, cattle, and other miscellaneous agricultural purposes. But the objects of the two Acts are closely connected, for it will often be the case that in order to make efficient use of his improvement the cultivator will find it necessary to provide himself with cattle and manure, well-gearing and the like, if not with seed."†

It is not necessary to refer in this place to the views expressed by the Deccan Riots Commission in 1876 or to the Deccan Agriculturists Relief Act passed in 1879 which created a special machinery for

* Famine Commission's Report, 1880.

† Report of the Indian Irrigation Commission.

inquiring into and adjusting disputes between money lenders and cultivators and empowered courts to go behind the contract between the two, to cut down interest to reasonable proportions and to allow the debtor to pay off the debt by easy instalments. Experience of nearly 35 years of the operations of the Act is disappointing and there is a wide-spread impression that it must go. While the debtor is seeking to take full advantage of the provisions of the Act, the creditor is too shrewd a person to lend under conditions which will inflict a loss upon him. It is believed that the Act has had a demoralising effect upon creditors and debtors alike, and a Committee of inquiry appointed by the Government of Bombay, has suggested certain important modifications of the Act.

What could not be achieved by the kind of measures described above, it was believed, could be accomplished by the establishment of agricultural banks, and the subject was much discussed in the eighties of the last century. The position is well summed up in a despatch on the subject sent by the Government of India to the Secretary of State, dated 31st May, 1884, thus:—

"The utility of similar institutions in Europe, America and Australia is well known to your Lordship, and we understand that in the British Colonies especially the progress of agriculture and the various enterprises connected therewith, have been much advanced by the monetary assistance thus afforded to the cultivating and land-owning classes. There are indications that India no less than the countries to which we have referred, suffers from want of loanable capital. The rate of interest is extremely high even where the security is of the best description, the agriculturist when in need of money for the most prudent

purposes, has to pay so dearly for a loan that it absorbs the profits of his business. The Deccan Ryots Relief Act, the Jhansi Encumbered Estates Act, and other similar measures of an exceptional character have tended to relieve the peasantry in some localities of a hopeless load of debt ; but they have not enabled the thrifty and industrious cultivator to obtain money for agricultural purposes on easier terms or more equitable conditions. We have endeavoured to meet this need in respect of loans for land improvement by advances of public money under the Land Improvement Act ; but this is not sufficient The cultivator requires money from time to time for other purposes, and it has been found that if he can only borrow for one particular object from the Government, he prefers to deal entirely with the money lender who will lend for all purposes. What is wanted, therefore, is a private bank which will in a measure take the place of the village usurer, but which will at the same time be bound by the articles of its constitution to restrict its dealings to the more solvent cultivators and to supply capital at comparatively easy rates and on equitable conditions."

A number of public spirited men in Poona and Bombay and also Gujarat, were prepared to make an experiment in this direction, and the Purandar Taluka of the Poona district was selected for the purpose. A correspondence ensued on the question of the details of the scheme between the Poona Committee, the Government of Bombay, the Government of India and the Secretary of State. Sir William Wedderburn took a very keen interest in the matter, and on 19th October 1883 read a paper on the question at a meeting of the Manchester Chamber of Commerce. Good fortune seemed to smile on the scheme and the authorities in India, Provincial and Supreme, were propitious. But in his Despatch of 23rd October 1884, the Secretary of State raised a number of

difficulties, making out the bank scheme to be an unsound and impracticable project. Here the discussion practically ended and nothing further was done in the matter.

159. Beginning of Co-operation.—The Famine Commission of 1901 reviewed the efforts which had been made in the direction of granting loans and relief to the agriculturists and suggested that the effective remedy lay in the establishment of agricultural or village banks of the Raiffeisentype which would carry on their operations strictly on the co-operative principle. A similar conclusion had been already reached by Sir Frederick Nicholson of the Indian Civil Service in his comprehensive and instructive report submitted to the Government of Madras in 1895. "In this report he described the systems of co-operation in force in European countries and examined their applicability to Indian conditions. While it was under consideration, a volume entitled 'People's Banks for Northern India, was published by Mr. Dupernex, I. C. S., and a few small experimental societies were instituted by Mr. Dupernex and other officers in different parts of India. So long, however, as the transactions of these societies were governed by the complicated provisions of the companies' Act, it was impossible to expect much progress and a Committee was, therefore, appointed by Lord Curzon in 1901, under the presidency of Sir Edward Law, to report on the action necessary for the establishment of co-operative societies on a proper footing. The Committee had the benefit of the advice of Mr. Henry Wolff, the leading authority in England on the subject, and as a result of its recommendations a Bill was introduced in the Legislative Council by Sir Denzil

Ibbetson and was subsequently passed as Act X of 1904."*

As co-operative credit in India is mainly intended to assist the agriculturist, it is natural that co-operative credit societies in this country should mostly be of Raiffeisen type. The chief features of the Raiffeisen banks are '(1) limitation of area, so as to secure mutual personal knowledge on the part of members; (2) low shares; (3) permanent indivisible reserve fund; (4) unlimited liability of members; (5) loans only for productive or provident purposes; (6) loans only to members; (7) credit for relatively long periods with facilities for repayment by instalments; (8) the determination every year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of saving deposits receivable and of loans that may be taken up by the society; (9) absence of profit-seeking, dividends if paid being usually limited, as a maximum, to the rate of interest paid by borrowers for loans; (10) office-holders, with the exception of the Secretary, not paid for their services; (11) promotion of the moral as well as the material advancement of members, and, in particular, the purchase of agricultural requisites for sale to members and often the procuring of agricultural machines and implements for letting on hire to members.'

These features of the village bank are calculated not only to supply the cultivator with cheap credit but to teach him to combine for common interests, to practice thrift, to make productive use of his resources and to build up his economic prosperity on

* Government of India's Resolution on Co-operation in India, 1914,

the foundation of self-help. "It is not merely cheap and facile credit that is required; it is a credit which must indeed be cheap and facile in that it shall ever be at hand but it mut be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful and productive."†

Credit societies, started and conducted on the principle of another German philanthropist and zealous organizer, Schulze-Delitzsch, are intended for the benefit of urban people—unlike the Raiffeisen banks which serve the rural population—artisans, small traders and professional classes. The founder of these societies also believed in thrift, self-help and solidarity but as he dealt with the urban population, his banks assumed a more business-like and less altruistic form. Schulze-Delitzsch banks raise funds by shares as well as by deposits, and the liability, as in the case of the other kind of bank, is not unlimited. A considerable part of profits is distributed as dividend on the paid up portions of the shares. Loans are granted for short periods and all services are paid.* The area covered by the operations of the banks is larger and the banks have generally an air of commercial and profit-seeking enterprise. Dependence on personal security, formation of character,

† Sir F. Nicholson's Report.

* See A Manual of Co-operative Societies in the Bombay Presidency by R. B. Ewbank.

rendering of mutual help, exercise of vigilant supervision of the use of loans, promotion of moral restraints, of public spirit and of a feeling of solidarity, are of the very essence of the co-operative movement and these are the characteristic features of the rural banks. The two types of popular banks appeal to two different sets of people, living in different environments and having different habits and needs. Hence the difference between the constitution and working of the two kinds of banks.

160. Co-operative Societies Act:—When the co-operative movement was launched with the Act of 1904, it was regarded as an experiment, and Government was anxious to steer clear of two extremes viz. undue interference and control and patronage on the one side and *laissez faire* on the other. A Government officer, called the Registrar, was appointed for each Province to dry-nurse the infant movement and to be its guide, friend and philosopher as it steadily grew. Certain concessions were given to the societies by the State, and their profits and operations were exempted from the income tax, stamp duties and registration fees. The societies were likewise to be assisted with State funds in the initial stages on certain conditions.

The progress of the movement was encouraging, and it was found that the Act of 1904 was inadequate to meet the growing requirements of the development: (1) That Act applied to societies for the purpose of co-operative credit only, and not to co-operative societies of other kinds, such as those established for production or distribution, and (2) to unions of societies in larger bodies so as to secure a large measure of non-official inspection and control and to facilitate the raising of funds. (3) The Act classified societies

according as they were 'urban' or 'rural' and the principle was laid down that as a general rule societies should be with unlimited liability. This distinction was found to be artificial and inconvenient, and it was proposed to recognize the distinction between societies with limited and those with unlimited liability while retaining the principle that agricultural societies must, as a general rule, be with unlimited liability. (4) The Act did not contemplate that societies with unlimited liability should distribute profits. While not encouraging this practice of distributing profits, the amending bill of 1911 proposed to legalise it. A new Act, the Co-operative Societies Act, was passed in 1912 (No. II of 1912) embodying changes found necessary by seven years' experience, as indicated above.

Two years later, Government came to feel that the time had come to inquire if the co-operative movement was proceeding along lines economically and financially sound. A committee was, therefore, appointed with Sir E. D. Maclagan as President, and it was instructed to direct its enquiry to "an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organization, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which reserve funds should be exhibited in the annual accounts." From the report of the Committee one gets a clear idea of the position of the co-operative movement in India, the nature of its organization, its strong and weak points and the directions in which reform is needed.

Co-operative organization has for its foundation primary societies agricultural and non-agricultural, credit and non-credit. A number of these societies may be grouped into guaranteeing unions as an intermediary between the primary bodies and the central bank. If all societies in a district are closely associated with the central bank, there will be a large apex bank at the head of each Province, to balance the excesses and deficiencies in central banks and to supply them with the necessary funds. All the different limbs of this co-operative organism must be strong and healthy and capable of performing efficiently the duties entrusted to them if the movement is to make satisfactory progress.

161. Prospects :—The success which the co-operative movement has achieved so far, must be regarded as quite satisfactory. But it may be asked, to what extent has the problem of the indebtedness of the rayats, which the co-operative movement was started to tackle, been solved? When this test is applied, it will have to be admitted that only the fringe of that problem has been touched. The economic advantage co-operation confers upon the cultivator or the craftsman is patent; and the benefit of cheap credit to agriculture has been acknowledged. But what is a working capital of one or two crores of rupees, for instance, of the societies in the Bombay Presidency, to its population and its needs? It appears that for the solution of the agrarian problem reliance ought not to be placed on co-operation alone. It is not a panacea for all economic and other evils and it has its limitations. In Germany where co-operation has proved such a signal success, besides people's banks, there are several important

agencies through which land-owners, both large and small, obtain long term mortgage credit.* The resources and operations of these Land Mortgage credit Associations, the Mortgage Credit Banks, the Joint Stock Mortgage Banks, the Savings Banks, the Land Improvement Fund and Annuity Banks and so forth are on a colossal scale.‡

In India we have very little done in this direction, and if the co-operative movement were to grow four times as large as it is at present, even then, not much impression will have been produced on the situation. We believe in co-operation and in its educative, elevating value. But even those who appreciate the importance of the movement and are working to help on its progress, feel that more comprehensive and varied efforts must be made to raise the mass of the people to a higher economic and moral status. The Government must directly encourage the establishment of mortgage, land and agricultural banks and must, for this purpose, place funds at the disposal of such banking enterprise. Crores of India's Reserves which are lent in England, may be made available in this country. In France, Ireland, Japan and other countries such State help is given to agriculturists and that example must be followed in India. Government officials and honorary Indian workers are pushing forward the cause of co-operation with commendable zeal and their endeavours are being crowned with encouraging success. But the ignorance of the rayats is the greatest stumbling block in their way, and in spite of everything that is said about the educational and moral value of co-operation, the

* See J. R. Cahill's Report on Agricultural Credit and Agricultural Co-operation in Germany.

‡ See Principles of Rural Credits by James B. Morman.

true spirit of co-operation is seldom conspicuous among members of co-operative societies. "We regret to have to say," observes the Maclagan Committee, "that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation."

Co-operation is a democratic principle. It is the gospel of self-reliance. But the illiteracy of the Indian masses does not allow them to imbibe and profit by that principle. Members of societies feel that the loans granted to them come from Government and they are profuse in expressions of thankfulness to the Registrar, its representative. They are also inclined, in many cases to run the societies on commercial lines. Central banks and non-credit societies tend to become profit-seeking, capitalistic concerns, and it is doubtful how far the principle of guaranteeing and other unions can be understood by the ordinary cultivator. The work of starting, guiding and conducting these institutions has, therefore, to be done by a few public spirited, enthusiastic educated people and they are often found bossing the whole show.

A wider diffusion of education among the masses, a more sympathetic land revenue and general administration, an earnest endeavour to stimulate public spirit and an active and comprehensive attempt to promote the economic development of the country on the part of the State and of social reform on the part of the people, are needed to make the progress of the co-operative movement rapid and healthy. Taken by itself, the movement

has given good results, and within its peculiar limitations, imposed by the existing conditions, it is capable of rendering valuable service. It is not only in the supply of cheap and facile credit that co-operation will benefit the cultivator and the craftsman; it will and ought to help them in the organization of purchase of seed, manure, implements and raw materials and of the sale of agricultural products and manufactured goods.

If local and communal industries are thus organized in different localities, the resultant good will be immense. The principle of co-operation can be applied, as it is being applied in a few cases even to-day, in a variety of ways to put larger profits into the pockets of the producers. Certain areas are eminently suited to particular crops and industries. Without disturbing the old order of things, they can be brought within the pale of the co-operative movement. The cotton, sugarcane, potato, groundnut and other crops can be dealt with in this way as also the weaving, leather making, paper making and oil-pressing industries. The problem of the supply of pure milk to cities and towns is becoming more and more urgent every day and dairies can be conducted on the co-operative principle. It is satisfactory to notice that endeavours are being made in this direction and it hardly admits of doubt that if they succeed the resultant good will be appreciable.

162. Land Banks Controversy.—There has recently been some discussion of the question whether the agrarian problem can really be solved by the spread of the co-operative movement and whether land banks of the Egyptian type are not necessary to free the rayat from the load of indebtedness under which he is crushed. It is contended on one

side that the hopeless condition of the rayat requires a radical cure and co-operative credit is only a palliative.* It is pointed out on the other side that the history of Agricultural Banks does not show either that they can wipe out agricultural indebtedness or make co-operative credit institutions superfluous. 'Non-co-operative agricultural banks may to a certain extent supplement, but they can never supplant co-operative credit institutions.'†

A little consideration will show that there is an amount of truth in both these positions. The serious problem in India at which the Government has been tinkering for more than forty years, is the appalling indebtedness of the rayat. Co-operative credit societies, which came to be regarded as the sovereign remedy, can not frankly solve that problem. They will only supply short term and personal credit and cannot touch the real evil of the existing and long-standing indebtedness. Unless that millstone is removed from the neck of the helpless cultivators and they are enabled to carry on their operations freely and profitably, their condition must remain unsatisfactory. Since 1870, Government has tried several measures to make loans to agriculturists on the security of their lands. These attempts should have been persisted in and should have been developed into large banking organizations. The Government considers itself to be the universal land-lord in India; and as Sir John Strachey observed in 1870, in this capacity duties devolved on it "for the improvement of the land and for the advancement generally of agriculture, beyond the ordinary duties of a

* D. E. Wacha : Agricultural Banks in India.

† See "Wealth of India" for October, 1916, page 515.

Government, and similar in kind to those duties which a good land-lord had everywhere to perform."

If the funds of the State had been liberally expended for the improvement of land and of the agricultural industry generally, the situation would have steadily grown better. The peculiar political and economic conditions in India required such a policy on the part of the State. As it was, the general economic decay and stagnation told on agriculture also, and the position was not adjusted to the rapidly changing circumstances. The system of granting long term loans to cultivators to be recovered in small instalments, was strongly recommended by the Irrigation Commission of 1903, and their principle was generally accepted by the Government of India in its Resolution on the question, dated 30th November, 1905. But the amount of the loans thus granted has always been meagre, rarely exceeding 6 crores of Rs. for the whole country.

Though this is all true, the importance of co-operative credit societies cannot be gainsaid. They supply a badly felt want of the cultivator by providing him with credit where he has none. Agricultural operations are facilitated and higher profits are ensured. Credit societies very largely perform the same function as agricultural banks, and they are eminently useful to cultivators who have only small pieces of land to mortgage. They enable them to capitalise their honesty and, on the principle of self-help and mutual aid, to improve their condition. This is an aspect of the agrarian and the general economic question which should not be lost sight of.

In India, the State has got to undertake several duties which do not fall within the province of Governments in other countries. But in spite of this, if the co-operative movement grows along sound lines, it must raise the cultivating classes both materially and morally. The progress achieved by the people under the influence of that movement, will be more lasting and beneficial though much slower. The conditions in India with respect to indebtedness are in several respects similar to those in continental countries of Europe where the co-operative movement has taken firm root. And if co-operation has helped to elevate the masses there, there is no reason why similar results should not take place in India provided other conditions are favourable.

Reviewing the development of rural credits in European countries, Mr. James B. Morman observes: —"If European experience covering more that half a century of co-operative personal credit and more than a century of co-operative mortgage credit, has any lessons for American farmers, the most important are :—

(1) That organization among farmers, has been the basis of success in the credit system;

(2) That education in the use of credit has proceeded hand in hand with organization; and

(3) That personal supervision by the farmers themselves over their organizations and over the use of loans made only for productive purposes has been a prominent feature in the European system.

In no instance has any Government taken the initiative in establishing a rural credit system. When legislation by any national Government has taken place, it has usually been for the purpose of

facilitating or aiding the organization of farmers' co-operative societies, and when Government aid has been granted, it has generally taken the form of loans at low rates of interest made to local credit societies through central or regional credit banks, for a Government to take the initiative in establishing, for example, a long-time mortgage credit system, would seem to European farmers like trying to make a pyramid stand on its apex."

The State in India may make loans to agriculturists and others through co-operative societies for productive purposes and the Maclagan Committee has drawn the attention of the Government to this question.

163. Maclagan Committee's Report.—A student of co-operation in India cannot find a better source of guidance and information than the report of the Maclagan Committee; and we commend to the reader a careful perusal of that report. From it he will see what the movement has so far achieved and what it is capable of achieving. He will also know what are the weak and strong points of the movement, and the directions in which it should develop will be clear to him. We can only offer here a rough and brief summary of that report :—

INTRODUCTORY.

The report starts with a description of the depressed condition of the lower classes and of remedial measures attempted by the State to improve it, and observes that this action having proved partial and incomplete, Government turned to co-operation as the most hopeful method of dealing with the problem before it. The moral aspect of co-operation is emphasised and it is stated that to true co-operation alone it is that "Government must look for the amelioration of the

masses, and not to a pseudo-co-operative edifice, however imposing, which is built in ignorance of co-operative principles." The development of the co-operative movement is then traced from its inception to the time of the appointment of the Committee. The report then proceeds thus :—

It was inevitable in the beginning that credit societies should be mainly attended to, but that a demand for non-credit forms of co-operation should arise was in itself a healthy sign. But such societies should arise spontaneously and satisfy a real need and a competent staff should be available to supervise them and deal with the complicated economic problems involved. Several non-agricultural and non-credit societies have been started for sale, purchase and other purposes. Societies for the benefit of weavers are welcome, but 'attempts to reorganize village industries on a more profitable basis should not be undertaken sporadically or fortuitously.' Certain type of societies like stores, often exhibit a tendency to ignore the moral basis of co-operation and care should be taken by the Registrar that co-operative principles are followed by such societies, and that they do not become merely commercial and profit-hunting bodies.

Though the primary object of the co-operative movement was to tackle the agrarian problem through it, it is necessary that non-agricultural societies also should grow up along with the agricultural. The wage earning, artisan and middle classes must be brought within the co-operative fold. Middle class urban banks are not strictly co-operative, but in the absence of joint stock banking facilities, they are likely to serve a useful purpose. With regard to banks for the use of large landed proprietors, corresponding to Land Mortgage Credit Associations, the establishment of well-conceived and well-administered banks of this type "would be a measure of great value not only to the proprietors themselves but also to the Government."

PRIMARY SOCIETIES.

In the case of primary societies it is on three main requirements that their soundness is based, viz. (1) they

must be co-operative; (2) they must also be business-like and (3) they must be thoroughly well supervised. The area must be sufficiently restricted to enable members to exercise an effective mutual control, and their number should not be unduly large. Before a society is registered a scrutiny should be made into the kind of men it will deal with and their assets, working capital and so on. Teaching of co-operative principles in various ways must be arranged and proper men must be selected for the post of secretary and as members of the managing committee. Some provision is necessary for ascertaining the previous debts of members and wherever possible, they may be gradually paid off rather than that they should be immediately cleared on admission. As regards the rate of the progress of the movement, there should be no attempt at forcing the pace and "except for special reasons, an increase in the number of societies should radiate from existing centres of co-operation and should be based on a well informed desire to imitate existing good examples."

The capital of primary societies is composed of four items, (1) shares, (2) deposits, (3) loans and (4) surplus assets or reserve fund. The value of shares should not be unduly large so as to create disabilities against poor members and a maximum limit should be fixed to dividends. Value of shares may be deducted from loans granted to members and the principle of unlimited liability or rather "contributory unlimited liability" should be adhered to in the case of agricultural credit societies. The amount of deposits locally obtained has been comparatively small and "unless as the movement progresses there is a substantial increase in this class of deposits it will have to be confessed that co-operation has failed in one of its main objects." Compulsory deposits from members are not desirable; and the term of deposits should not ordinarily be less than one year. Only two exceptions to this rule may be admitted: (1) short term deposits are useful for temporary accommodation to meet demands for loans, and (2) savings deposits when small sums within strictly marked limits are taken

and dealt with on lines similar to those of the Post Office Savings Banks.

The total borrowing powers of a society are fixed by the Central Bank and the Registrar, and the amount the society can lend is determined by this limit. But it is necessary for a society to fix the limit (1) up to which members as a body will pledge their liability and (2) to which members should individually be entitled to receive loans. Loans are given for the ordinary operations of agriculture and much assistance cannot be expected from co-operation for expensive improvements for which recourse must be had to Government. Period for which loans should be given must be carefully worked out in view of the objects for which they have been made. Personal security ought to be the rule and sureties should be made to realise their responsibility. The mortgage of land should only be regarded as collateral security in addition to sureties.

The competition of societies has brought down the rates of outside money lenders. 'So long as the rates of societies are below those of the outside market, they cannot be regarded as excessive and there are many dangers in sudden or large reductions below such rates.' It must be emphasised that 'unless loans are repaid punctually, co-operation is both financially and educationally an illusion; and no exertions are wasted which aim at ensuring promptitude in this respect' Disputes as to arrears should be referred to the Registrar and if he so directs, to arbitration. The Act provides for this arrangement There is, however, a great difficulty in securing execution of the decisions; but it will not be advisable to accord to societies the privilege of summary procedure. An effort should be made to build up a reserve fund so as to make the society ultimately independent of outside help. The surplus assets or reserve fund may properly be employed in the business of the society so long as proper provision is made for the necessary fluid resources. Under the Act one-fourth of the net profits must be carried to a reserve fund and 10 per cent.

of the remainder may be used for any charitable purpose with the sanction of the Registrar.

Periodical audit and constant supervision are necessary and for this purpose the official machinery must be sufficiently powerful. The audit must be comprehensive and thorough and should be carried out under State control at the present stage of the co-operative movement. The time is distant when the work of making the original audit can be taken up by societies themselves. The work of supervision should be carried out by unions, central banks and other bodies maintained by the societies themselves.

CENTRAL BANKS.

Though the operations of a 'central bank' may cover a larger area, it is usually expected to finance primary societies within a single district or part of a district. Between such a bank and the primary societies, there is, in some Provinces, the link of 'guaranteeing unions' and their number in Burma is large. "The union is registered as a society with limited liability and mutual guarantee is effected by a rule that each guaranteeing society shall be liable for any default by a society in the repayment of a loan recommended by the union to the extent of the maximum amount of its borrowings from non-members in the twelve months preceding a call." This kind of union is to be strongly recommended as it will be a great accession of strength to the movement.

Central banks perform the double function of balancing (1) the funds of societies and (2) supplying capital. There are now practically no Central Banks which undertake outside business and comparatively few which lend to individuals, but the time seems to have come when steps should be taken to bring to a close in all cases the practice of granting any loans except to registered societies. A Central Bank should cover as large an area as is compatible with convenience and efficiency. Under existing conditions it is much better to adhere to the system of independent central banks than to have branches of Provincial Banks. No loans should be granted to societies

which are not share-holders. All shares held by individuals should be fully paid up and the use of reserve liability is to be deprecated.

The total liability attaching to shares, whether held by individuals or societies, should be limited to their face value. A maximum rate should be fixed for dividends, but it should be laid down on some logical principle. The deposits of these banks will not seriously compete with those of joint stock banks. Amounts held on current account should be covered by sufficient fluid resources. Savings accounts may also be opened but certain precautions must be observed. The area from which deposits may come, need not be restricted. The central banks may receive advances from Presidency Banks and joint stock banks in the form of cash credits. The system of debentures is not to be much relied upon in this connection. Loans to individuals are to be deprecated and central banks should not undertake any outside banking work. Credit of societies to which loans are to be made, should be carefully assessed, particularly where there are no unions in existence, and the objects of the loans must be similarly scrutinized.

The period of loans must be conditioned by the period for which deposits are held, as the former, unlike the latter, is within the control of the Central Bank. Unfortunately the practice of many banks is not in accord with this sound principle. Cash credits should be given to societies which are thoroughly well managed and co-operative in character. The security required from societies for loans should ordinarily take the form of pro-notes and not the shares held by them in central banks. Every society and bank must have a reserve fund under the Act, but besides the Reserve Fund proper, which in the case of primary societies, is built up out of the indivisible net profits, there are the 'fluid resources' which must be carefully husbanded in order to enable societies and banks to meet the demands of depositors. In the absence of facilities for discounting co-operative paper, this fluid resource should, in central banks, be sufficient to meet half the deposits due

for payment within the next twelve months, a standard of one-third being held sufficient in the case of Provincial Banks.

PROVINCIAL BANKS.

In each of the major provinces there should be one apex bank which will co-ordinate and control the working of central banks which should be prohibited from dealing with each other or with Presidency or joint stock banks except through its medium. The Provincial Bank should itself be obliged to confine its dealings with co operative institutions to Central Banks and leave to them the work of dealing with societies. The present organization throughout India is incomplete in this respect. Although in starting a Provincial Bank individual share-holders may have a preponderating influence, representing the business element, its constitution should be so framed as to give to affiliated co-operative institutions an opportunity at no distant date of securing a majority of votes at the general meeting.

The management of a Provincial Bank requires more expert knowledge and experience than that of a Central Bank, and it is desirable that the management should be mainly in the hands of business men. All central banks should be induced to become affiliated to the Provincial Bank, and the latter should grant no loans to societies capable of being affiliated to a Central Bank. Long-period deposits are necessary to Provincial Banks which should gradually accumulate surplus assets and good liquid securities in order that dependence on outside agencies may be diminished. Their fluid resources should be sufficient in amount to cover one-third of the possible liabilities of the Banks falling due in the course of the ensuing year.

The main business of a Provincial Bank should be to co-ordinate and control the finances of Central Banks, utilizing their surpluses and supplementing their deficiencies, and they should not embark in business outside the co-operative movement except in so far as it may be found necessary to lend or deposit spare funds for short periods in outside institutions.

GENERAL.

It may be generally stated that if provision is made to minimise undue official influence, the movement should not be deprived of the moral and financial support which Government servants give it. None of the powers of the Registrar should be devolved upon the Collectors. In certain Provinces the Collector or subdivisional officer is the chairman of a Central Bank. This practice is found to be beneficial and has its obvious advantages but these officers should not hold positions on the managing committees of central banks *ex-officio* or as an invariable rule. The district officer "would stand as a well-wisher, equipped with the requisite knowledge and sympathy, but need not necessarily have any intimate connection with the management or assume direct responsibility."

It is necessary to co-ordinate economic departments of Agriculture, Industry and Co-operation under a single officer of high standing in each Province, to be called the Development Commissioner. There should also be an advisory agency at the head-quarters of Government to deal with the many technical and complex problems which are arising in connection with co-operation. This officer should be attached to the Government of India and he should make inquiries and tender advice. Agricultural loans made by Government under Act XII of 1884 and Act XIX of 1883 should be granted to co-operative societies themselves. There exists no agency in India "which can be relied on to provide the facilities of rediscount for co-operative banks, and thereby give to their finance that elasticity without which present stability and the same progressive development of the co-operative movement appear to be difficult, if not impossible". Commercial banks will not voluntarily undertake this work, and if some arrangement cannot be made with the Presidency Banks, under which they will undertake the duty of rediscounting agricultural paper for Provincial co-operative banks, the only alternative solution appears to lie in the establishment of a State co-operative apex bank.

164. Summary.—The problem of rural credit is two-fold : (1) to provide long-term credit to the farmer to enable him to pay off his old debts carrying high rates of interest and to undertake more or less costly agricultural improvements ; and (2) to supply the cultivator with short-term credit so that with its help he may carry on his normal agricultural operations with greater ease and profit. The method of achieving this double object is also two-fold : (1) to start mortgage and other land banks with and without State assistance, so that they may advance to the land owner and farmer the cheap capital they require for land improvement and other purposes ; and (2) to teach the cultivators to combine with a view to obtaining credit on joint security and carrying on the operations of their banks and societies on the principle of self-help and co-operation.

The Government in India tried the first method to achieve both the objects stated above, and passed the Land Improvement Loans Act and the Agriculturists' Loan Act in 1883 and 1884 respectively. These efforts were not, however, fruitful and the idea of an experiment of a land bank which was to have been made in the Poona District about that time did not materialise. But the indebtedness of the rayats and their helpless condition attracted greater and greater attention as the years rolled on, and attention was rivetted on the problem by the widespread and disastrous famines which over-took the country in Lord Curzon's time. The question was again examined and it was decided to resort to the second of the two methods stated above. It was believed that by co-operation alone could the cultivator effectively improve his condition and Government decided to

help him by passing a special Act. Thus in 1904 was passed the Co-operative Credit Societies Act; and in the light of seven years' experience it was amended and expanded into the Co-operative Societies Act of 1912.

Co-operation not only strengthens the economic position of those who combine for obtaining cheap credit and for purchasing and selling under favourable conditions, but it also exercises a moral and generally elevating influence upon all those who come within the pale of the movement. It teaches self-help and thrift and fosters public spirit. People learn to manage their own affairs and an atmosphere of solidarity, freedom and enlightenment is created. The co-operative movement is making headway in the country, and since the Act of 1912 was passed, societies and unions of societies have been started for purposes other than the mere supply of cheap credit. Guaranteeing unions and district central banks are rising on the foundation of primary societies, and the movement was growing up so rapidly and widely that Government thought it necessary to appoint the Maclagan Committee to inquire into its position and possibilities.

The essence of co-operation is that the movement should be animated by the true spirit of self-help and sacrifice. Moral and material elevation of the people can be achieved only if they catch the genuine co-operative spirit. It cannot be said that from this point of view the situation in India to-day is quite satisfactory. The ignorance and despondency into which the masses have sunk for generations, impede the progress of the movement. If the State were to patronise and control it too much, the life would go out of it, but it can still help in its pro-

gress in various ways. The attitude of Government in India towards co-operation in unexceptionable; its officials sympathise and help, but do not unnecessarily obtrude themselves on the movement. The State may, however, render more indirect help and in a wholesome way, by bringing about a general improvement in the political, economic and social condition of the people.

Co-operation in credit, purchase and sale, is bound to do economic good to cultivators and other producers. There is so much wastage going on for lack of organization in agricultural production and in the marketing of goods. Middlemen, money lenders and merchants absorb a great deal of what ought to go into the pockets of the rayats, and the economic progress of the nation suffers. Co-operation is, therefore, a powerful lever by which the masses may be raised materially and socially to a higher status and the State and people must do everything they can to promote the development of the movement.

Short-term and personal credit is being provided by co-operative societies, and the gains made must be consolidated before the area of operations is widely extended. Strict audit and inspection by unions and central banks is necessary and the latter, as well as provincial banks, must bring more capital from outside into the movement. The societies, unions and banks must be conducted on sound lines and then only true success of the movement will be ensured. The problem of long-term and mortgage credit still remains unsolved and steps have to be taken to tackle it. Special banks dealing with this kind of credit will have to be started and landowners must be enabled to raise capital by mortgag-

ing with them their properties to be redeemed within a fixed period by stated annual payments. Owners of small landed properties and tenants must also be assisted to wipe off their indebtedness and to improve their properties. This is a very difficult question which the State in India has to take up, and it may encourage private enterprise to tackle it.

Chapter XIV.

STATE, LANDLORD AND TENANT.

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165. National Dividend. We have so far considered questions relating to the production and circulation of wealth, and must now proceed to discuss certain questions concerning the distribution of wealth. Consumption is the object of all wealth-creation, and the wealth produced by a community, must be distributed among its members in order that it may be consumed. The wealth produced by the co-operation of the various agents, who supply the essentials of production, constitutes a reservoir out of which those agents take out their shares. As Dr. Marshall puts it, "the labour and capital of the country, acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds. This is the true, net annual income or revenue of the country, or the national dividend."*

Goods and services produced to satisfy the wants of the community by land, labour and capital,

* Principles of Economics.

are the source from which these agents are remunerated. Each agent has a claim to a share in the common stock, and naturally an increase in the total product means augmentation of these shares. The remuneration which the landlord receives for his contribution to production, is called rent; interest is the remuneration of the capitalist, and wages are the payment made to labourers. The entrepreneur who brings together the agents of production and carries on the enterprise, is rewarded with his share which is called profit. Specialization in production has now proceeded to such a length that different classes in the community have come to control different agents of production, though a combination of these last in the same hands is not uncommon. Shares in the national dividend obtained by these classes, correspond to the contributions made by them to the production of wealth.

166. Profit. Profit is the share of the national income that falls to the lot of the entrepreneur or manager of an industry. It is often times confused with interest and the ordinary remuneration of labour. Profit is, however, like rent, excess of the selling price over cost of production. The marginal producer is just able to meet this cost, but the producer whose cost is less, derives a profit. In profit, as it is generally understood, there is always an element of wages or interest; but pure profits, in a state of competition, depend upon varying prices and costs. The profits of Indian cultivators are thus regulated by the prices of agricultural products and the peculiar circumstances under which they produce. In times of scarcity, for example, the prevalent high prices favour cultivators in certain localities while their neighbours are great

losers. Here luck or chance plays an important part; but permanent profits are the result of permanent advantages and favouring circumstances, which are, however, discounted by competition. The advantage of good soil, cheap credit, irrigational facilities, proximity to markets, utilization of improved manures and implements are these factors. But the profits will diminish or vanish as these advantages are shared by other cultivators. This does not make improvements meaningless because what is lost in falling prices, is gained in a larger output. And here we are speaking only of pure profits.

Agricultural profits were comparatively steady when different parts of the country were isolated from one another and from the outside world, being disturbed only by scarcity or famine. But now India has been linked to foreign countries by railways and steamers, and competition also plays a more important part than before in the determination of profits. The demand for cotton, for example, in foreign markets, acts upon the price of the Indian staple, and the profits immediately go up with rising prices though they may be intercepted by middlemen and not reach the actual producers. While, therefore, the cultivator in India may get out of the soil just enough to maintain himself and his family after meeting the cost of the cultivation, consisting of interest on capital, land revenue or rent and so forth, the profit will be only the wages of labour. In certain circumstances, however, some margin will be left to him, which will be his profit.

These remarks apply to the ordinary artisan or craftsman also. Those engaged is domestic industries, the autonomous workers, will normally be able

to get just enough to maintain themselves, that is, wages, unless the demand for their products increases and enhances prices. As we have shown in a preceding chapter, they may not be able even to get these wages and may have to give up their callings. "Taking India, as a whole, although there has been an increase in industrial prosperity and development in the period between the censuses of 1901 and 1911, competition with imported articles and the products of factories, organized on the latest methods and worked by machinery, have ruined many of the handicrafts, especially the handloom industry and compelled people to leave their ancestral vocations for other means of livelihood, notably agriculture".* Conditions created by the War, have favoured several classes of producers, who, in normal times, could just make a living or led precarious lives, and they have enjoyed a temporary spell of prosperity; but the profits of these industries must disappear with the cessation of the war, unless economies are introduced in the meanwhile or prices remain at a sufficiently high level.

The profits of industries conducted on modern lines have been sufficiently large. Cotton, jute and the mining industries have a margin left to them which has encouraged the expansion of manufactures. "The number of these is, however, very small. The rise of prices has undoubtedly benefited them in as much as the price of articles produced by them, has in most cases far exceeded the cost of production."* There are, of course, ups and downs in the condition of these industries, and the scale

* K. L. Datta: Report on High Prices.

of profit, in the case of the cotton industry, for example, is regulated by the stocks of piece goods in the market, the price of raw cotton, the supply of coal and so forth.

167. Interest:—The remuneration of capital in India is high, and it is notorious that rates of interest are usurious. There is never a uniform rate of interest anywhere, much less in a country like India. In western countries, the rate gradually fell down till at last it has now been raised by the enormous demand the War has made on capital throughout the world. Where competition has free play and there are banking facilities, variations in the rate of interest are rare; but in the absence of these conditions, it rules very high. It is also high where the supply of capital is inadequate, and millions of British capital have thus been attracted to the Colonies and to foreigon countries.

Mr. Datta's inquiry led him to the conclusion that the rate of interest in India was steadily declining. He observes:—"The rate of interest on agricultural loans varies widely in different parts of India and even in the same place, according to the cerdibility of the cultivator or the security offered; thus in Bengal, it is said to be 36 per cent, in Eastern Bengal 37½ to 75 per cent., in the Central Provinces anything from 6 to 100 per cent. and in Madras 6 to 36 per cent. It is, therefore, difficult to collect statistics to show whether the rate has increased or decreased. But the general belief is that the rate of interest has been lowered except in some parts where restrictions have been placed by law on alienation of land, thus reducing the value of security. It seems from the evidence collected that this lowering of the rate has been due to in-

creased wealth and a consequent increase in the number of money lenders who compete with each other in reducing the rate. Co-operative credit societies have also doubtless contributed to these results in places where they have been constituted."†

The rate of interest on Government and other securities steadily declined for many years and only the War loans have now pushed it up. In the busy season, the rate for temporary accommodation is high and this rate is always fluctuating. Money lenders can always command a high return for their capital, and agriculturists, artisans, craftsmen, small traders and other needy people cannot borrow without paying a heavy price. There is an element of risk in these transactions, and the borrowers are very needy. Hence the prevalence of usury over almost all parts of the country.

168. Usury:—As in western countries, so in India, usury has always been condemned and the State has every where endeavoured by means of legislation, to discourage it. In 1914, the Government of India issued a circular letter to local Governments on the subject of the feasibility of preventing the use of civil courts as an agency for the realisation of usurious demands by money lenders. The issues raised in the letter were, (1) whether the courts are as a matter of fact at present compelled to give effect to unconscionable contracts and to enforce the payment of inequitable and extortionate demands; (2) whether, if the answer is in the affirmative, this abuse of the authority of the courts has attained such dimensions that it is expedient to take steps to remedy it; and (3) in what manner it can be pre-

† Report on High Prices.

vented without engendering consequences more prejudicial to the interests of those concerned than exist at present.

The main remedies, the letter went on to state, for the suppression of usury, were perhaps the following: (1) the fixing of a legal maximum rate of interest recoverable; (2) the determination of a legal maximum amount of interest recoverable, commonly known in India as the rate of Damdupat, and (3) the bestowal of authority on the courts to go behind a contract, re-open a transaction, and reduce the rate of interest to what is thought to be equitable. The third line of action has been embodied in the English Money lenders' Act of 1900.

The Government of India has anticipated and stated the various objections that may be raised against the undertaking of any legislation on these lines. For instance, it is contended that it would interfere with private contract, that it would increase litigation and harrass the ordinary operations of trade and it would be ineffective. There is much force in these objections, and the results of the operation of the Deccan Agriculturists' Relief Act, have not proved very satisfactory. The Government of India itself wisely observes in its letter that it would not be right to argue that 'everything is the fault of the money lender and that the debtor is always a blameless and injured innocent.' Usury laws have been condemned by economists as a useless and undesirable interference with liberty, but this condemnation is based on the assumption that the loans rest upon the equality of business opportunity and the free competition of capital. "Under such

conditions," Seligman points out,* "usury laws are futile and worse than futile, because they either tend to evasion or become a drag on industry". Where these conditions do not prevail, and the lender is in a position to take an unfair advantage of the borrower, it is necessary to protect the latter. Laws in France, England, Germany and America, grant such protection to the borrowers, and in a country like India measures of this kind are absolutely necessary. As Gide points out, "it is no more of a contradiction to allow liberty as regards the rate of interest, while punishing those who make a profession of lending at a high rate, than it is to allow consumers the liberty to drink, while punishing publicans who supply drunkenmen." †

169. Rent from Land:—Having so far dealt briefly with the shares in the national dividend taken for the supply of business organization and capital, and reserving for the next chapter the consideration of the remuneration received by labour, we shall proceed to the consideration of the share of the remaining participant in production, *viz.* land. The word 'rent' is used in common parlance to connote the price paid for the use of a thing *e. g.* a house, a machine or a carriage. But more often it is associated in the popular mind with the price paid or obtained for the use of land. This income from land is irrespective of the returns received for the capital invested or the labour expended, and the theory which explains the emergence of land rent is famous in Political Economy. "Rent is due to *natural* variations in soils, or to the varying advantages given to sites, not by the owners of the sites, but

* Principles of Economics. † Political Economy.

by the distribution of population and the means of transport. If the payment of rent were stopped, the fertility of good soils, the convenience of good sites, would not diminish ; for the rent receivers did not create and do not maintain that fertility and that convenience.' †

This character of land rent, the limited supply of land, the national and economic importance of the food and raw materials land produces, the social effects of the possession of land by a certain class in the community,—all these factors have invested the question of rent with a peculiar interest. How land is held and owned, how it is hired out, how its produce is distributed and how the community is affected by land laws and land rent, are questions which have been hotly debated in all countries. Schemes of land nationalization and of a single tax on land, have been discussed and the heavy taxation and absorption by the State of 'unearned increment' have been advocated. It is, therefore, necessary to deal here with the question of the land tenures which prevail in India, particularly because agriculture is the predominant industry of this country and the welfare of the mass of the population depends on the system of land tenure and the share of the rayats in the produce of the lands they cultivate.

170. Hiring out Land : —The proprietor of land may either lease it to farmers and tenants or cultivate it himself. If the land belongs to the community, the Government is the proprietor and leases it to tenants, who pay rent to it. If private individuals are proprietors, they receive the rent from their tenants. Where the first system prevails,

† Henry Clay : Economics.

there is complete nationalization of land which is the ideal of many socialists, who regard landlords as parasites. The second system prevails very largely in England where the bulk of the land is owned by private proprietors. Hence the agitation in that country against unearned increment and the nationalization of land. Thirdly, the proprietor may cultivate the land himself, and France is the classical example of this system which also prevails in America. It is a system which is highly praised by economists and is held up to the imitation of nations where tenants cultivate the lands of proprietors.

Under certain circumstances, farm tenure is economically beneficial and socially unobjectionable. If the landlord takes interest in his land, puts capital into it and improves it, the fact of its being let out to a farmer cannot be urged as a disadvantage of the system But such landlords are few, and generally land is neglected and tenants are oppressed. In the hands of the peasant proprietor, on the other hand, owing to 'the magic of private property, land becomes more productive and from the point of view of society, this is very desirable. Even where land is hired out, the Metayage system,—under which the rent is payable in kind instead of in money and consists in a proportion of the crop instead of being fixed for a term of years,—is preferable.

More has perhaps been written about the systems of land tenure in India than in any other country, and it is after a prolonged and elaborate investigation and discussion that the rights of various parties such as the State, the different grades of landlords and of tenants, have been determined with anything like precision. For more than 125 years, these questions have been debated and even now the con-

troversies are not at an end. Many held and hold to-day that the State in India is the universal landlord, and therefore the land revenue received by Government is not a tax but is a rent which a proprietor may claim from his tenants. They, therefore, feel that land nationalization, which is only a distant and perhaps an unattainable ideal in other countries, is an accomplished fact in India except in those places where the Government has deliberately conferred the proprietorship of lands upon individuals. It is, therefore, usual to exclude land revenue from the amount of the burden of taxation that falls upon the people, as it is supposed to constitute rent which tenants have to pay to the landlord whether he is a private individual or the Government.

171. State Landlordism:—State landlordism is not a mere theory; it underlies the land revenue policy of Government in actual practice. If the State is the landlord, it is entitled to take away the profits of agriculture as rent, leaving to the occupant bare subsistence and little more. It is not officially denied that the portion of the income from the land claimed by the Government was excessive and that the State demand was steadily moderated.* Lord Cornwallis's Permanent Settlement proceeded on the principle that the State was the proprietor of the soil. In that capacity it renounced its rights to a progressive share in the rental of the land. But it was the *rent* which was renounced it was not *revenue*.† Mr. Wilson told the Legislative Council in 1860 that 'land revenue could only be regarded as rent', and Mr. James Mill spoke in 1831 of *rent* of

* See Government of India's Resolution of Land Revenue Policy, 1902.
† Sir Louis Mallet.

land in India having always been considered the *property* of Government. Though few have the hardihood now to reiterate the theory of state landlordism in its nakednesse in the face of its repudiation by authorities like the Court of Directors, the Secretary of State and officials and others who have studied the question closely, the land revenue policy of the State is actually animated by the exploded belief and veiled references are made to it from time to time.*

The assertion is found repeatedly made that land has, in the East, belonged to the sovereign from time immemorial, and that the British Government in this country only accepted the principle and followed the practice of the old rulers. John Briggs‡ has examined the subject at great length and combated the assertion about the State being the universal landlord in the East. He observes :—"The preceding portion of the book has, I trust, proved that the occupant of the land alone was its sole proprietor; that the demand on him for contributing to the support of the State, was a sort of income tax, viz. a limited portion of the produce of his estate and that this portion was fixed in time of peace but liable to increase in time of war and that under all circumstances, it left a certain surplus profit to the owner, equivalent to a rent. Moreover, I hope I have established that the sovereign never claimed to be the proprietor of the soil, but of the land tax he collected through local agents and expended it in such a way as the Government thought fit."

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* See G. V. Joshi's Writings and Speeches, page 573.

‡ The Land tax in India.

In a despatch to the Secretary of State, dated 8th June, 1880, Lord Lytton's Government observed:—The Government undoubtedly is the owner of a first charge the amount of which is fixed by itself on the produce of all revenue-paying land in India; but over the greater part of the Indian Empire it is no more the owner of the cultivated land than the owner of a rent charge in England is the owner of the land upon which it is charged. If the charge is fixed so high as to leave nothing for the cultivator such a maintenance as will keep him from deserting the land, it may of course be said either that property in land does not exist or that it is worthless."

The old rulers never claimed to be the proprietors of the lands of their subjects, and for the expenses of Government took a certain share of the produce of the fields, estimated at from one-tenth to one-sixth. The Mahomedan Kings followed this practice and sometimes may have raised the share to one-third. So long as the tax was taken in kind, the system was most elastic and, in fact, the actual collection was adjusted to the yield. Even when in later years the grain share was commuted into money payment, the same elasticity was maintained and Government rarely worked up to the standard rates laid down.

172. Right of Proprietorship.—The British officers who were confronted with the task of revenue management in Bengal in the last quarter of the 18th century, were totally ignorant of the old system of land tenure and of taxation. They were confounded with the chaotic condition into which the province had been thrown and the conflicting claims which were put forward to proprietorship of land. Old records were searched and scrutinised

and different systems of assessment and collection were tried. But the confusion continued and at last Lord Cornwallis felt that there was only one way out of the difficulty and it was to recognize the hereditary collectors and farmers of revenue viz. the Jamindars as proprietors who were to be held responsible for the payment of the dues of Government.

Baden Powell has given an extremely interesting account of the different ways in which, in the course of history, rights of proprietorship developed in the different parts of India. The old rulers levied a tax on all lands except those which were deliberately exempted from it viz., lands possessed by court favourites or persons who were rewarded for their services to the state or religious institutions. Jahagir and Inam lands were of this class. Lands really belonged to those who or whose ancestors had cleared and reclaimed them. But in the viscicitudes of fortune, in times of foreign invasion and civil wars, these proprietors were dispossessed and were reduced to the condition of tenants. These conquerors were themselves later on made to give up their ownership when another wave of invaders or immigrants came, and they became superior kinds of tenants.

Old princes and chiefs who were thus brought to subjection, were often, as a matter of policy, continued in possession of their lands on condition that they collected and paid into the public treasury the tax levied upon their tenants deducting and reserving a certain share thereof for themselves. Farmers of revenue and revenue officers of Government often made the lands, whose revenue they collected, their private property. Leaders of turbulent and

restless tribes took advantage of the confusion of the times and also became proprietors. Several families of Jamindars and Talukdars thus came to have a share in the produce of the fields cultivated by inferior holders and tenants. They and village leaders were recognized by the British Government who settled with them what they were to pay to the State out of the rents they received.

173. Different Tenures.—The first two generations of British rule in India were spent in experiments in land revenue settlement. In Bengal the State dealt directly with landlords, and the tax levied on them was made permanent. This system was also adopted in north Madras. But in the North-Western Provinces, proprietors of large estates, Mahals or villages, jointly held by them in certain shares were recongnized and a lump assessment was levied on the rents received by them. In the Punjab land was generally held by peasant proprietors living in village communities, each village collectively paying the land tax, which was revised at each new settlement as in the North Western Provinces. Government in Madras was inclined to recognize such village communities they found in existence there though the ties which bound the proprietors of land were not, like those in Northern India, ties of blood and common ancestry, supposed or real, but ties of a long residence in the same locality and of common interests. But the village community was there not recognized and was broken up when the Rayatwari system was introduced in the Madras Presidency.

In the Madras Administration report of 1855-56, rayatwari is thus explained:—"Under the rayatwari system every registered holder of land is recognized

as its proprietor—pays direct to Government. He is at liberty to sublet his property or to transfer it by gift, sale, or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding, or of entirely abandoning it." The system in Bombay is also rayatwari and the so-called occupant is as much a proprietor of his land as his brother the Jamindar of Bengal, the only difference being that in the case of the latter, the land tax is perpetually fixed whereas in the case of the former, it is liable to enhancement. In Madras, the Government itself has stated that "the distinguishing feature of rayatwari is the limitation in perpetuity of the demand of the State on the land. The rayats have thus all the advantages of the Zemindari tenure, while the State has a valuable reserve of waste land, whence as cultivation extends, its resources will be augmented so as to meet the increasing demands on its finances which the progress of the country will entail: and in practice this leading principle of rayatwari has never been infringed." But this principle of rayatwari is not observed in Madras and Bombay, and at each periodical revision the land tax is screwed up on the implied principle that the State is the landlord and is entitled to receive an increasing amount of rent from its tenants.

Three points must here be noted:—(1) The person with whom the State has settled its land revenue is the proprietor of the land, be he a Jamindar, a village community or a brotherhood or a peasant cultivating his own land, and in whatever manner the right of proprietorship may have been acquired. There may be inferior proprietors under

them or proprietors having superior rights over them. The status and the rights of these have been now settled and their shares have been fixed; (2) except in Bengal and a part of Madras, the tax levied upon the Jamindar, the joint village, the brotherhood, the Malguzar, and the Talukdar, is subject to a periodical revision; and (3) in the case of landlords and joint village communities, the tax is a certain proportion of the rental or net assets and in the case where the State deals direct with the actual cultivator, the tax is a share in the net produce of each field.

174. Effects of the System.—The economic significance of these features of the principal systems of land tenure in India lies in their effect upon the condition of the agricultural industry and the cultivating classes. Where a Jamindar, a Talukdar, or a Malguzar has been recognised or created by Government to stand between itself and the tiller of the land, the State takes a certain well-defined share of the rent received by that landlord from his tenants, say 60 per cent. And in cases, as in Madras and Bombay, where it deals direct with the cultivators, the State is supposed to step into the position of the landlord and to take the economic rent from them. If the Government is not the landlord, its revenue is not rent, and this land tax of 50 or 60 per cent and more,—at one time and in certain areas, it was avowedly as high as 70 per cent.—must be a crushing burden upon the agricultural industry and cannot but have acted prejudicially upon the condition of the people. What is more, the burden is liable to increase at every settlement because the State as landlord

claims an increased share in the net produce of the land.

These effects have been felt by the rayats for generations, and the State was itself moved to soften the rigour of its system. But so long as the principle is there, animating the fiscal policy of Government, mere palliatives will be of no use. In the matter of other industries, if a tax tends to fall on capital and to hamper their development, the State is called upon to and does refrain from imposing it. The agricultural industry, however—the premier industry of the country—one which is admittedly in a deplorable condition, is exposed to a heavy tax which may amount to the economic rent. In his minute on Indian land revenue, Sir Louis Mallet remarked :—"On the one hand, we see a system which sweeps into the coffer of the State fifty per cent. or more of the net produce of the soil, thus diverting a fund which, in countries where private property is absolute, would to a great extent, find its way back again into channels of agricultural improvement. But the amount of the produce thus diverted is not only large—it is also uncertain."*

The old rulers did tax the land, but never set themselves up as the proprietors. They took one-sixth or one-eighth of the gross produce and the tax was taken in kind. Metayage prevailed largely in India as it prevails in certain parts to-day, and was very advantageous to the cultivator. The Government took as a tax a share of the grain actually produced, and this tax varied according to the quantity of the yield. The commutation of the payment of corn into money payments and the

* See Dutt's "Open Letters to Lord Curzon" pages 184-185.

rigidity of revenue collection, deprived the system of all elasticity and made the lot of the cultivator harder; and thus was it that sympathetic and careful students of that system, like James Caird, felt inclined to suggest a restoration of the old Matayer system. Taking the system as it was, Mr. Caird also recommended the conversion of the rayat's tenure into a free-hold. He wrote :—" Whilst the majority of the Indian cultivators may indeed find it necessary to adhere to the Native principle of continuous tenancy, a Government such as ours in India, should offer every facility for changing the tenure to free hold, both because it can be done without loss of revenue and when done and in the process of doing, that change would enlist the willing help of the most numerous and most industrious classes in improving the yield of the land and unite their interest with that of the rulers through whom their possessions would be assured."

175. Reform Needed.—A flourishing and contented peasantry is the backbone of a nation, and agriculture may he described, at least in India, as a 'key industry'; and it is necessary for the State to pursue a policy which will promote the economic well-being of the cultivating classes. It is for this reason that a peasant proprietorship is favoured in all countries. That is also the reason why a moderate assessment of revenue, which will not be enhanced for a pretty long period, if not a permant settlement of it, has been recommended to Government.* If there is an outcry in England against landlords and their unearned increment, the conditions there are quite

* Dutt's " Open Letters to Lord Curzon."

different from those in India, and the policy of the British Government in ameliorating the condition of the Irish tenantry is an example in point. "We have but one alternative," writes John Briggs, "and that is to acknowledge, in the first place, the fallacy of that doctrine which assumes a right to take the whole surplus profit from the land-holder, and to recognize the opposite maxim that the more which is left in his hands the greater will be his means to contribute to the national wealth, and consequently to the public revenue."'†

But if the State does not, in its capacity of landlord, take rent from the rayat, some one else will, as rent must be paid for land. No. If the cultivator is the real proprietor, the mirasdar, as in the Deccan, he has no rent to pay, though he may pay a small land tax. The bulk of the agricultural profits will remain to fructify in his pocket. Is not the cultivator, however, extravagant and is it not better that the surplus produce should be taken by the State to be usefully spent on social improvements? We leave this argument to refute itself.* It is also urged that the value of land is steadily going up and that it is an indication that the burden of the land tax is not heavy. There is so much subletting of land in the country, it is contended, and the under-tenants can afford to pay rent to the occupant of land and maintain themselves decently; land revenue is likewise paid without any difficulty; all which goes to show that the rayatwari and other Indian systems of tenure do not press on the agricultural classes. The price of land and the rental value have indeed risen in certain tracts, but compe-

† The Present Land Tax in India. * See next Chapter.

tition of people who have no other means of su tence and who have overcrowded the agricul industry, is probably more responsible for phenomenon than any thing else. The In cultivator is not to be compared with the Engli American farmer, armed with capital and carr on his industry on a large scale.

176. Protection of Tenants.—While, tl fore, it is necessary that the theory of State l lordism should be given up, peasant proprieto should be encouraged and the land tax shoul moderated so as to leave more in the hands of cultivators, it is equally necessary that the inte of tenants and subtenants who pay rent to pr landlords, should be properly safeguarded. State has a duty to perform as much towards tenants of the Jamindars and other landlords w rental it shares as towards the peasant proprie the rayats, whom it directly taxes. When Cornwallis settled with the Bengal Jamindars made the tax they had to pay permanent, he ex ed not only that the payment of State rev would become secure, but also that the land would improve their estates and that the cond of the tenants under them would steadily be better.* But these expectations were not ful and the state of the Bengal tenantry continue be deplorable for two generations.

The land tax in Bengal was pitched suffici high, being nine-tenths of the rental, as it permanently fixed and the tenants could not

* "I should hope that the profits of the Zamindars would i exceed this proportion (nine-tenths of the rental) by a due at to the improvements of their lands and the encouragement o Rayats."—John Shore.

their dues to the landlords. The latter had little protection against exactions and were harshly treated. Security of State revenue required that the Jamindars should be enabled to collect their rents from their tenants with ease; otherwise they would not be in a position to pay the land tax to Government. Regulations passed in 1812 and 1822, gave little relief to the tenants, and one important duty of the State which ought to have been discharged early in the last century and which practically formed a part of the general policy of the Permanent Settlement, was neglected.

Tenants, all the world over, require protection against landlords, and it is extended to them in the form of fixity of tenure and fair rents. While the Government of India dealt with the Jamindars and took as its share a certain portion of the rental, it left them to collect whatever rents they could from their tenants. For a long time the status and rights of different kinds of tenants in the various Provinces had remained in a condition of uncertainty. Inquiries were, however, made, and in the course of the latter part of the last century, the position of the tenants was defined and their rights were secured. This is a piece of work done by the State, the importance of which it is difficult to overestimate.

As we have already pointed out, landlord rights had grown up in a variety of ways, and it was no easy task to determine the landlords' relations to the different kinds of tenants. A wave of immigrants came into a province and reduced the landlords there, the descendants of the first settlers, to the position of tenants. The latter had rights, however, which were superior to those of the other cultivators who came later. Thus there were in

Bengal the Talukdars and Tenure holders who occupied a specially favourable position which had to be recognized ; and the khod-khast rayats or those who cultivated the lands where they resided, were, therefore, given leases without any limitation of period as against the Pykost rayats or those who cultivated the land of villages where they did not reside, and who held their lands upon a more indefinite tenure. Tenants-at-will stood on the lowest rung of the tenure ladder.

177. Tenancy Acts.—It was in the year 1859 that the first modern Indian tenant law was made in Bengal, and in 1885 the Bengal Tenancy Act was passed, removing the defects of the earlier legislation and more elaborately securing the status and privileges of all classes of tenants. "The Act provides that every rayat who has held any land in a village for 12 years, acquires thereby a right of occupancy, and 80 to 90 per cent. of rayats have such rights. A small number of rayats hold at fixed rates of rent and the remainder are without a right of occupancy. Even the latter, however, cannot be ejected except in execution of the decree of a competent court, nor can their rents be enhanced at shorter intervals than five years. The Act was amended by Bengal Act I of 1907, with the object of giving greater facilities to landlords for the collection of rent and at the same time of guarding against enhancement of rent by collusive compromises, and removing the ambiguities, anomalies and defects brought to light by twenty years' experience of the working of the Act."*

* Decennial Report on the Moral and Material Condition of India, 1913.

The Bengal Act of 1859 was extended to the North-Western Provinces and it gave the right of occupancy to all tenants who had occupied their lands continuously for 12 years. The Agra Tenancy Act of 1901 provided that the change of a holding or dispossession for less than a year should not operate as a break in the period of twelve years. It also provided that a lease, unless it was for at least 7 years, could not bar the accrual of occupancy rights, the object being to induce landlords to grant their tenants long term leases even if they did not wish that the tenants should acquire any rights. The rights of non-occupancy tenants also have been secured and if their rents are enhanced, they are entitled to hold lands at those rents for at least five years.

The position of the tenant in the Central Provinces is much stronger than elsewhere. There the Government determines, at each settlement, not only the amount payable to itself by the landlord, but the rent he is to receive from his tenants. The right of the "absolute occupancy" tenant is heritable and transferable, subject to preemption on the part of the landlord, and includes fixity of rent for the term of the settlement. The occupancy tenants have their rents fixed at settlement which are liable to enhancement by a revenue officer at intervals of not less than ten years. The position of 'absolute occupancy' tenants is special and their rights cannot be acquired, but the rights of the other class can be obtained by the payment of a premium of $7\frac{1}{2}$ years' rental. By the act of 1898 the rents of non-occupancy tenants have been fixed at settlement and exhorbitant rents are liable to be reduced, the right of

transfer being withdrawn as in the case of occupancy tenants.

In the Punjab, half of the land is cultivated by peasant proprietors and some ten per cent. is held by tenants, who, on historical grounds, have been recognized as occupancy tenants with special rights and the remaining 40 per cent. is held by tenants-at-will. Occupancy tenants are protected by law from arbitrary ejectment and enhancement of rent. The other tenants may be ejected or have their rents enhanced, but if they are ejected, they can claim compensation for improvements made by them. By the Alienation of Land Act of 1900, the Punjab Government sought to remedy the evil of the passing away of lands into the hands of moneyed classes from the possession of the old agricultural tribes by imposing restrictions on alienation.

In the Jamindari areas of Madras, the rights of tenants have been secured by the Madras Estates Land Act of 1909 which repealed and reenacted the old Madras Rent Recovery Act of 1865. The main principle of the Act is that every cultivator admitted by the landholder to the cultivation of the estate lands has the status of an occupancy rayat who is protected against eviction so long as he continues to pay the prescribed rates of rent. Enhancement of rent is allowed only on certain clearly defined grounds and a non-occupancy tenant also may acquire occupancy rights under certain conditions.

178. Bombay Tenures.—In the rayatwari tracts of Madras and in Bombay, the rayats are, as we have shown above, proprietors of their lands, subject to the regular payment of the land tax to

Government. There are other tenures in the Bombay Presidency besides the rayatwari or survey tenure, but they are confined to small areas and to a small section of the population. There is the Inam tenure, under which Government has alienated a part or whole of its claims to revenue. Grants of full or partial exemption of land revenue were made by former rulers as a reward for services done or to be done and to religions institutions. They have been continued on certain conditions and services have been commuted, in several cases, into money payments. The Talukdars of Gujarat are the descendants of old ruling families, and pay *Jama* to the Government which is either permanently fixed or liable to enhancement. There are also the *Vanta, Mehwasi, Narwadari* and *Bhagdari* tenures in Gujarat, under which the landholders pay to Government either a quit rent or the usual assessment.

The *Khots* of Ratnagiri and Kolaba districts, were settlers of villages and collectors of revenue, on whom proprietory rights were conferred. The class of cultivators called *Dharekaris*, who are the descendants of old settlers, are not their tenants, however, and only pay the survey assessment, thus occupying a privileged position. But other tenants have to pay to the Khots certain additional amounts, and the land-lords are responsible for the collection and payment of the assessment into the Government treasury. In Ratnagiri this tenure is governed by a special Khoti Act of 1880, which has not, however, been extended to Kolaba as it should have been. The question of protecting the tenants of peasant proprietors or survey occupants in the Presidency, is under the consideration of Govern-

ment, as it is felt that the rights of these tenants also require safeguarding.

179. Redemption of Rent—The provisions of the tenancy laws are calculated to make the cultivators feel a sense of security and freedom and to encourage them to pursue their calling with greater interest. These measures are, therefore, economically and socially most beneficial. The landlords complain that their rights have been invaded and that the laws press severely upon them. The ideal system of tenure is that which makes for efficient farming and creates a happy peasantry. The tenancy laws must be so framed and worked that friction between landlord and tenant will be minimised and not intensified.

There is, likewise, an obligation upon the State to impose upon itself the same restrictions in its relations with the rayats and landlords whom it taxes, as are imposed upon landlords by the Tenancy Acts. It has, therefore, been suggested that the rayats should be allowed and assisted to redeem the obligation to pay an annual land tax, and to change the tenure to freehold property,—at least to lighten the burden of the land tax so long as this not done. Similarly with regard to private landlords, it has been proposed that the State should encourage and facilitate the redemption of rent and other charges paid by the rayats to the Jamindars and revenue free and tenure holders. This is the direction which agrarian reform should take if a prosperous and contended peasantry is to be created out of the present thriftless and poverty-stricken mass of cultivators.*

* Read Ranade's "Prussian Land Legislation and the Bengal Tenancy Bill" in his Essays on Indian Economics.

180. Summary.—The total wealth produced by the various agents of production by co-operation with one another, is the national dividend out which they take their shares as remuneration for their contribution. Profits are the exceptional gains obtained by organizers of industries out to peculiar temporary advantages, and usually they are nothing but wages of a kind of labour. Except in the case of certain crops and in certain cirumstances, the agricultural industry does not yield profits to speak of. Ordinary handicrafts and industries are in this respect not very different from agriculture. But many of the manufactures and trades, are a source of profit to the captains of industry and men of enterprise.

The rate of interest is pretty high in the country, and the number of people who earn interest in this way is considerable. Before the outbreak of the War, there was a tendency for the rate of interest to go down ; but now it has shot up to a high level. Those who formerly invested in Government and other securities, were contended with $3\frac{1}{2}$ or 4 per cent ; and now those who have money to lend can get as much as 6 per cent. and more. The professional money lenders are not satisfied even with this high rate, accustomed as they are to 15 and 20 per cent.

There is rent, the remuneration of the landlord, and it rises with the increase of population and the increase of prices. Economic rent is not, therefore, the result of the landlord's labour and the taxation and absorption of it in the interest of the community, is always recommended. Private property in land is defended on the ground of social utility, and the systems of land tenure prevalent in a country, the

share of land produce falling to the lot of the tenant and the rent which is extorted by the landlord, are questions of great importance from the point of view of large classes in society and of the community taken as a whole.

Peasant proprietorship, under which the cultivator of the land is also its owner, is commended as most beneficial, economically and socially; and where landlordism prevails, efforts are made to emancipate the tenantry and to encourage peasant proprietorship. In India, the State acts on the theory that it is universal landlord and is therefore entitled to receive rent from the land of the country. Government must, therefore, either act upon the principle that the land revenue is merely a tax on agricultural profits or so lighten the burden of the revenue demand that cultivators should be encouraged to improve their own economic condition by the larger margin left in their hands.

In all Provinces where the State deals with the landlord, leaving him to receive rent from his tenants, it has taken legislative measures to protect the latter from exactions and ejectment. These measures were overdue, but now the interests of tenants have been properly safeguarded. "Occupancy tenants have been created and enhancements of rents are controlled. The status and the rights of tenants as against landlords, have been made definite and even those who do not occupy a special, privileged position, have been given some protection. In Rayatwari tracts, rising prices of agricultural products, have led to enhancement of rents, but landlords elsewhere can make such enhancements only under certain well-defined con-

ditions. In the Central Provinces rents to be taken by Malguzars are fixed by Government at each settlement.

Landlords do not, of course, approve of such restrictions imposed upon their liberty to deal with their tenants. From the social point of view, the protection of the interests of tenants is absolutely necessary, but landlords would not be wrong if they claim to be as justly and liberally treated as the State wishes that their tenants should be treated. The relations between landlords and tenants become strained and the latter are no longer willing to be governed by custom. This is perhaps inevitable under the circumstances, and the State has always to support the weaker party. Care should, however, be taken to see that the rights of landlords are not unnecessarily sacrificed. Members of non-agricultural classes hire out their lands and there is competition among tenants who pay high rents. The State has been anxious that lands should not pass out of the hands of cultivators, and in the Punjab legislation has been resorted to for the purpose of restricting the cultivator's power of alienation. In Bombay a new non-alienable tenure has been created, but there is no tenancy law.

Chapter XV.

Workmen and Wages.

REFERENCES

Marshall: *Economics of Industry; Prices and Wages in India, Indian Factory Commission's Report, Report of the Assam Labour Inquiry Committee;* S. H. Fremantle *Report on Inquiry into conditions of labour in the United Provinces;* Keatinge *Rural Economy in the Bombay Deccan Provincial Land Revenue,* and *General Administration Reports;* K. L. Datta, *Report on an Inquiry into the Rise of Prices, Decennial Report on the Moral* and *Material Progress of India 1912, Annual Reports of Inspectors of Factories,* V. G. Kale *Indian Industrial and Economic Problems.*

181. Remuneration of Labour.—As rent is the remuneration of the landlord and interest that of the capitalist, wages are the remuneration of the labourer. Wages are a price paid for the use of labour as rent and interest are prices paid for the use of land and capital. In the last Chapter we considered the dependence of the condition of the cultivator on the system of land tenure; in this we have to point out the mutual relation of the system of industrial organization and the condition of workmen. The cultivator or tenant, whether he owns his land or not, is a sort of industrial manager, and his profit is conditioned mainly by the rent he has to pay to Government or another landlord. He works in the field he owns or takes on lease and obtains wages for his labour. From the economic and social points of view, the question of wages is, therefore, extremely important.

In practice, it is often difficult to distinguish the share appropriated to labour from that obtained by other factors of production. In agricultural and non-agricultural industries where the workman com-

bines in himself the characters of organizer, labourer, landlord and also capitalist, the remuneration due to each one of these agents, it is not easy to point out. But such a workman must receive at least the wages of his labour ; otherwise, he will starve or give up his work. Under the modern system of industry, the autonomous workman who manages his own industry, has tended to disappear and a distinct class of labourers or wage earners has arisen. The factory system, under which the employer engages and controls hundreds and thousands of workmen, has created a cleavage between the two, and the class conflict has become very bitter. Those who command capital, command and control labour; and it is felt by workmen that their share in the joint product, is deliberately and selfishly kept low by the employer.

It is contended on the side of the employers that wages must be determined by the supply of and demand for labour and that they cannot be artificially raised. Strikes and labour agitation for higher wages, are, therefore, futile and suicidal. On the other hand, the wage earners plead that employers take a disproportionately large share of the joint product and that they must be forced to give up their ill-gotten gains. Labourers, therefore, organize themselves, and by means of collective bargaining, which is substituted for individual bargains, so disadvantageous to workmen, extort higher remuneration and better conditions of work from the employers. The State has passed laws for their protection, and systematic attempts are made to decide disputes between capital and labour by conciliation and arbitration. In the contract between capital and labour, the latter is certainly at a dis-

advantage and hence the need of protecting and strengthening its position.

182. Chief Features of the Problem:— In considering the problem of wages and of the general condition of workmen, we have to fix our attention upon the (1) wage contract, (2) the rates of wages obtained by different classes of workmen, (3) the factors which govern these rates, (4) the conditions in which labourers have to work, (5) the safeguards the State has provided for the fair treatment of workmen and measures taken for ensuring their safety and health, and (6) organizations of workmen started and conducted to protect and promote the interests of members. Unless all these questions are carefully studied, it is impossible to obtain a correct idea of the condition of workmen and the improvement necessary.

When it is said that the labour or wages question in India is not as urgent or difficult as it is in other countries, it is not to be supposed that the Indian workman is well off and that little need be done to improve his condition. What the statement means or ought to mean is that the factory system has not yet established itself in this country to such an extent as to create a large class of wage-earners crowded in cities and at the mercy of employers. The bulk of our labourers are autonomous workers, cultivators and handicraftsmen, and a very small proportion are mere receivers of a wage. Most of them live in villages and small towns, and their wages are regulated by custom. But this state of things is being steadily modified on account of a general rise of prices, extension of the means of communication, the increase in the number of

factories and a growing tendency towards migration. Labour conditions vary from province to province and industry to industry to such an extent that it is difficult and dangerous to generalise in this matter. An attempt will here be made only to indicate roughly the position of labour in relation to the points noted above.

183. Labour Contract.—First, as regards (1) the labour contract, in rural parts of the country, a kind of serfdom still prevails, and it is a relic of old times. "If a poor man required Rs. 100 to enable him to get married or to clear himself from debt, he would mortgage his service for a period of about five years and receive his Rs. 100 in advance; while the mortgagee was bound to feed him during the period of service. Many of the Deshmukhs, Deshpandes, and rich landholders engaged labour in this way; and the practice continued in some degree to quite recent times. In the days when land was available for all, however, it would have been only the very poorest who would mortgage their labour in this way, or even engage themselves as yearly tenants."* This old system is however, rapidly disappearing and the development of society from status to contract, is very rapid. Village economy has been disorganized and the customary relations of different classes and castes towards one another, are changing. The practice of unpaid customary labour is dying out, and the urban and modern system is taking its place. The Government of Bombay, for example, state in their Resolution on the Land Revenue Administration Report for 1908–09, that "in the Surat District, the

* Keatinge. Rural Economy in the Bombay Deccan, page 67.

Anavala Brahmin is losing the services of his halis or hereditary serfs, and everywhere customary tasks at customary wages are giving way to full contracts."

An attitude of independence on the part of labour is everywhere visible and particularly in cities and in centres of commerce and industry. Labourers have become conscious of their importance and of their place in industrial economy, and the growing demand for their services has largely contributed to this result. Domestic servants and unskilled labourers show this tendency as much as factory workers and artisans. A sort of wage earner's contract is becoming common and the workers insist upon its terms being strictly observed by the employers. Factory Acts have laid down certain conditions of work and imposed obligations on the employers, and workmen have realised that they have rights on which they can stand.

184. Indenture System.—The system of indentured labour under which coolies emigrated to the Colonies in large numbers, has been strongly condemned as degrading and demoralising and is on the way of total abolition. Indentured emigration to Natal was stopped in1911, the Emigration Act of 1908 having been suitably amended in 1910 for the purpose at the instance of the late Mr. Gokhale, who, two years later, moved another resolution recommending that Government should "take the necessary steps to prohibit the recruitment of Indian labourers under contract of indenture, whether for employment at home or in any British Colony."† Objection having been taken to his comparison between the system of indenture and slavery, Mr. Go-

† See Mr. Gokhale's Speeches, pages 604–643.

khale replied:—"It is true that the system is not actual slavery, but it is also true that it is not far from it. The contract is not a free contract. You have here the right of private arrest, just as they had in the case of slavery. Moreover, the labourer is bound to his employer for five years and he cannot withdraw from the contract during that period. And there are those harsh punishments for trivial faults. Therefore, though the system cannot be called actual slavery, it is really not far removed from it." A strong case was made out against indentured emigration to Colonies like Trinidad, British Guiana, Jamaica and Fiji, and as a temporary war measure it was stopped, early in 1917. The interests of the employers in the Colonies have all along stood in the way, and all arguments in favour of the system have been proved to be unsubstantial in a despatch sent by Lord Hardinge's Government on that subject to the Secretary of State.

For several years an indentured labour system prevailed in Assam where the tea planters imported coolies for their gardens from the neighbouring provinces. For more than sixty years, 'questions relating to the supply of labour for the tea industry in Assam, the condition of the labourers on the estates and the enactment and working of special labour laws, have attracted much attention and have formed the subject of several detailed investigations by specially appointed committees.' The law in this matter was amended and consolidated by the

Assam Labour and Emigration Act of 1901. This Act too was amended in 1908 and a steadily increasing proportion of the immigrant labour was engaged under ordinary contract, Government having gradually withdrawn successive districts in Assam from the operations of the Act of 1901 which authorised an indenture system.

The Assam system had two salient features: a penal contract with the labourer enforceable through the criminal courts and provisions for the protection of the labourer. Coolies were recruited through (1) contractors and (2) garden *Sardars*, persons employed by the planters. Indentured labour has now ceased altogether and recruitment by contractors, which led to many abuses, has been abolished. Labour in Assam is now free, though recruitment is regulated by law and is now controlled by a special Board consisting of representatives of the planters and an officer of Government.

185. Rise in wages.—During the last few years, (2) Wages of all kinds of labour have risen. The statistics available on this point, are not very acurate and cannot, therefore, be relied on. We have also to take note of various circumstances which accompany the money wage in order to find out 'real' wages. From every Province comes the report that there is a general rise in wages. In Madras, for instance, "the wages of unskilled labour have everywhere shown a marked tendency to rise.

...Domestic wages have certainly risen, and Government servants on low pay have for several years past, been granted grain compensation allowances. ...The monthly rates of wages for farm servants, however, followed the general rise. Wages of artisans also rose." In Burma, "during the ten years (1901-10) the translation from a natural to a money economy has made further progress. Most agricultural labour, however, is still paid in kind, and the field labourer's wages as measured in money have therefore risen in Lower Burma. In Upper Burma also agricultural wages tend to rise, owing to the increased annual exodus of field labourers to Lower Burma." In the Punjab, "cash wages are steadily displacing old customary wages in kind, the process being in many parts already complete. At the same time wages of unskilled labourers and of skilled artisans have doubled in the past twenty years, the greater portion of the advance having taken place in the last ten years, and in particular since 1905. This increase represents an increase in real wages though not of the same extent as in the rupee equivalent, and marks the operation of the law of supply and demand emancipated from the dead hand of custom."* These instances are typical of what is happening all over the country.

Mr. K. L. Datta has compiled the following table showing nominal and real wages:—

* Decennial Moral and Material Progress Report, 1913.

	Nominal wages.					Real wages.				
	1895	1900	1905	1910	1912	1895 to 1899	1900 to 1904	1905 to 1909	1910	1912
Rural.										
Agricultural labourers... ...	105	125	147	170	189	103	120	123	134	138
Village artisans	107	127	149	173	191	105	122	124	135	138
Average ...	106	126	148	171	190	104	121	123	135	138
Urban.										
Skilled labourers	106	122	143	167	183	104	119	120	132	134
Unskilled „	108	127	151	177	198	106	122	125	135	145
Domestic servants	104	117	131	147	159	100	116	108	117	116
Average ...	106	123	142	165	181	108	118	119	131	133
Cities.										
Skilled labourers	105	122	142	167	177	105	118	120	131	130
Unskilled „	104	123	140	167	179	104	117	120	131	132
Domestic servants	102	118	134	149	159	102	113	111	118	116
Average ...	104	122	139	163	174	105	117	118	129	128

If different industries are taken, it will be found that the rise in wages has not been uniform. It is curious to notice that 'the coolies in tea gardens appear to be in the worst position, as their *real* wages have fallen 5 per cent, below those in the basic period,' though it is pointed out that these labourers get rice at a fixed rate, generally lower than the market rate. The comparative lowness of the wage on the tea gardens struck the committee which inquired into the question of Assam labour in 1906. "It is interesting to note," remarks the Director of Statistics, "that the rise in the wages of industrial labour has not been so great as in the case of agricultural labourers and village artisans. Money wages have over long periods increased in all industries, and the rise has generally been greater than or equal to the rise in retail prices except in the tea, sugar and brewing industries. An examination of Indian wage statistics during the last decade shows that this is certainly the labourer's day."*

The rise in wages can be beneficial to labourers only when the prices of their necessaries of life have not gone up in proportion, or the general purchasing power of the wages has increased. If the field labourer is paid in kind, and food grains become dearer, he obviously benefits; but if he has to purchase food with his money wages, the increase in wages must be greater than the rise in prices. The factory labourer may have to pay more for rent, food and clothing and he may be none the better for enhanced wages. 'In Bengal,' we are told 'the labouring classes were not much affected by high level of prices. The great majority are field labourers, who are mostly paid in kind. Their wages remain the same, but the

* Review of the Trade of India in 1913-14.

value of grain has risen. When they are paid in cash, their wages have increased, notably in Bengal, where the supply of labour is frequently short of the demand.' Many factors have to be taken into calculation, therefore, in estimating the effect of higher money wages upon the condition of the labourer.

186. Causes of the Rise:—(3) The law of demand and supply is, of course, a great regulator of prices and among them of the prices of labour. Workmen of a particular class may be in greater demand at a time and naturally their wages must go up. That is certainly one of the causes of the recent rise in wages in India, and it is intensified by the immobility of labour and, therefore, by a lack of competition. The available supply has also diminished owing to deaths due to plague, which alone has carried off nearly a crore of people since its advent into this country. High mortality among labourers has thinned their ranks and it seems to be an important factor in the situation. A general rise in prices is another cause of the increase in the scale of wages. Economists have discussed various theories concerning wages, such as the cost-of-production theory, the wages-fund theory, the standard-of-life theory and the productivity theory of wages. None of these theories is satisfactory by itself, though each one of them contains some truth, and they are complementary to one another. Wages will rise if the wealth produced by a community increases owing to greater efficiency or the application of more capital. Similarly workmen come to have a certain standard of life which steadily improves.

Higher prices and increasing wants regulate the remuneration workmen must receive. General-

ly wages lag behind prices and gradually overtake them. Take, for instance, the case of an unskilled labourer in a city like Poona. The normal daily wage of such a labourer twenty years ago was four annas. But at that time, Bajri used to sell at 16 seers and rice 10 seers a rupee; house rent was low, vegetable oil sold at 4 seers per rupee and, on the whole, necessaries of life were cheap. Now he seldom gets 10 seers of Bajri, 6 seers of rice and 2½ seers of oil per rupee, and it is no wonder if he demands, 7 annas a day as his wage.

187. Factory Life :—As to (4) conditions of work they depend upon the kind of industry in which the labourer is engaged. Work in the field is, of course, the best from the point of view of the labourer's health, and though village sanitation in India is far from satisfactory, life in the open air and in cottages or small houses is preferable to residence in over-crowded tenements in cities. There is doubtless much sweating in some of the home industries, but on the whole, there is greater freedom enjoyed by operatives engaged in indigenous industries of the old type.

It is machinery, working in stuffy rooms in the midst of noise and constant bustle, and the continuous strain which labour in factories and workshops imposes that tell upon the health of the operatives. The autonomous worker is his own master and he and the members of his family, who may have to work long hours, have still the consciousness of independence and enjoy an amount of liberty which is denied to the operatives working for a master. The latter have to toil at their wearisome task and their lot is often hard.

The jobber supplies labour in several Indian mills and acts as a middleman. Wages are not paid weekly as in England and operatives have to borrow to satisfy their daily requirements. Wages are usually kept in arrear and are paid weeks after they are due. Children are made to work in factories when they should live a life of freedom in the open air, and this leads to the physical deterioration of the young generation of workingmen. There is no 'home' for workmen when their wives have also to work in factories. The health of children must suffer under these conditions. The position of artisans, like the carpenter and the mason, is far better: they enjoy great liberty and their work is not so taxing.

188. Factory Acts:— It was, therefore, (5) to the factory operatives that attention was early directed, and experience of western countries led the State to legislate for their protection. As textile and other factories on modern lines arose in the country, conditions of work in them had to be controlled in the interest of the operatives. The latest piece of factory legislation is the Indian Factories Act of 1911 which repealed the earlier Act of 1881, amended by the Act of 1891. This last Act provided for the fencing of machinery, and for the promulgation of rules as to water supply, ventilation &c. The hours of employment for women and children were prescribed and the appointment of inspectors of factories was provided for.

The increasing use of electricity in the Bombay mills made it possible for the operatives to work for 14 or 15 hours a day, and the industrial boom of 1904-05 made such excessive hours of work notori-

ous. On hearing complaints of such abuses, Government ordered an inquiry to be made into the question by a committee in 1906 and by a commission which reported two years later. The majority of the commission deprecated any limitation of the working hours of male adults. But they recommended the creation of a class of "young persons" between 14 and 17 years of age who were not to work for more than 12 hours a day, thus indirectly limiting the hours of work for adults to 12. The Act of 1911 shortened the hours of children's and women's work, and as the evil of excessive hours of work was found prevalent in textile factories, it restricted the hours of the employment of adult males to 12 hours a day.

This provision about the limitation of the hours of work was regarded as extraordinary, and as an unnecessary encroachment upon individual liberty. Some mill-owners indeed welcomed the restriction as calculated to prove beneficial to the operatives and to enhance their efficiency. But others strenuously opposed the innovation as injurious to the interests of workmen as well as those of employers. It was said that the evil complained of was not widespread; that the operative did not want the limitation of hours: that they worked willingly for a longer time as they obtained higher wages for the additional work; that the work did not put an excessive tax on the health or the energy of the workers; and that the agitation in the press for restriction was misleading and not entirely unselfish.

In the course of his remarks on the Factories Bill in the Viceregal Council* the Hon'ble Mr. Dadabhoy presented the following portrait of the Indian

* 3rd, January, 1911.

factory worker:—"The Indian operative is not capable of concentrated or continuous labour or of prolonged and sustained effort. He is by nature not disposed to take his work seriously; he has an incurable habit of spreading the work he has to perform over a long period of time; he invariably works in an easy, careless, perfunctory manner; he must needs loiter in the midst of work, and he, as though intuitively, makes up for prolonged hours of work by being slack during no inconsiderable portion of his routine work. His work is done neither with strenuousness nor alacrity and compares most unfavourably with the standard enforced in European countries."

The Indian factory labourer has produced the same impression upon visitors from foreign countries. But his laziness and lack of concentration did not justify excessive hours of work at noisy, nerve-racking machines in the midst of surroundings that were bound to tell upon his health. And the accounts which were published, of the conditions in which the mill hands lived and worked and earned their wages, could not but excite the sympathy of the public; and in the long run, it was felt, the employers themselves were bound to suffer owing to a loss of efficiency in their workpeople. Factory owners are not, however, inclined to look ahead or feel for their labourers as they feel for their profits; and though there are honourable exceptions, this is the usual conflict of interest between capital and labour.

189. Labour Organizations.—Labourers in India are almost (6) absolutely unorganized, ignorant and unenterprising. "For the present the condition of the Indian working man is wonderfully like that of the English working woman. He does not under-

stand his own position well enough to enable him to act effectively. Only the faintest glimmer of Trade Unionism is streaking his horizon with light."† The Indian factory worker does not usually settle in or near the industrial centre; he has his ancestral home and patch of land, perhaps the property of a joint family, to which he returns during certain seasons of the year. He supplements the family income by his wages as a factory operative.

A proletariat is being steadily formed in this country; but it does not yet consist, as in the West, of landless men who have made crowded cities their homes and who have little to draw them away to the village. This is, from one point of view, a satisfactory feature of the workman's life; but from the point of view of the work in the factory, it leads to disorganization, and waste. "The employer of labour in this country," it is said, therefore, "is wholly at the mercy of his operatives."

We hear, now and again, of small strikes among factory hands but the use of this weapon is neither systematic nor sustained. It is only a mild way of ventilating grievances and there are no labour organizations behind the workmen. Neither employers nor workmen, as corporate bodies, have made satisfactory arrangements for the performance of functions which trade unions in the West have taken upon themselves. "The Jobber is still the master of the situation and finds it to his interest that there should be frequent changes among the hands."* "One finds this in-

† J. Ramsay Macdonald: The Awakening of India.

* Collector of Bombay, reviewing Report of the Chief Inspector of Factories in 1912.

dustrial class swarming in overcrowded coolie lines, sometimes regimented by an over-seer to whom the workers owe their job and who in consequence demands commissions from them, sometimes living in ordinary working class parts of the town under exceptionally hard conditions."*

A few conscientious employers are trying to provide good houses and other amenities of life to their workmen and education to their children; and the arrangements made in this connection are satisfactory. The example must, however, spread and employers must realise that action in this direction is as much in their own interest as in that of the working men. No one would like to have here the labour troubles that have now become a common chronic feature of industrial life in the West. But the remedy for this does not lie in keeping workmen ignorant and unorganized; it lies rather in timely measures taken to avoid the mistakes and prevent the evils of the West. The time is not yet when the Indian workmen may appreciate the remark of a leader of Western labour that "one with an experience of the West must look upon this commercial philanthropy with grave misgiving, whatever immediate benefit it may be to the workers." †

In the face of the illiteracy that prevails in the country and of the apathy on the part of workmen as well as employers, the solution of the problem is very difficult. The operatives are at the mercy of jobbers and money lenders to whom they are driven by extravagance and vice. "It should always be remembered that the Indian labourer must be led and

* Ramsay Macdonald.

† *Ibid.*

not driven. He is not as is the inhabitant of western lands consumed by the desire to rise in the world. The caste and joint family system hold him back and he is content with the same simple fare and surroundings as his father had before him. If disastisfied with conditions of work in the town, he will make no complaint– but go back to his village life."*

Disorganization of social and economic life and illiteracy are the two principal obstacles in the way of the promotion of the well-being of the working classes. The problem must be tackled from the two ends, the employer and the workpeople. The employers in their own interest, have to organize the supply of labour and promote its efficiency. The labour population in towns is a floating population and employers are not sure if their money would be usefully spent on its improvement. But it is pointed out that if life in the centres of industry is made more attractive than it now is, the workmen may be induced to live there, more or less permanently, in spite of their attachment to the village home and lands. The proper housing of factory hands, the education of their children and a general improvement in the conditions of work in factories, are directions in which reform is required. There has already been much talk about these questions, but there are only a few isolated instances of employers who have taken them up seriously. On the whole, there is apathy and lack of concerted action in these matters.

In other countries there are splendid organizations of workmen, and they have now won for them-

* Fremantle : Report on the Condition of Labour in the United Provinces.

selves an important place in public life. Their action is both beneficent and militant. The trade unions help their members in a variety of ways and try generally to improve the position of the working classes. On the militant side also they have won success, particularly in lessening hours of work and increasing wages, and the State itself has come to the assistance of the labourers by making arrangements for old age pensions, insurance against sickness and disablement. There is unfortunately a tendency among workmen to go to extremes in the matter of strikes and here they have lost public sympathy which is their great asset.

Unskilled labourers and women are, as a rule, at a disadvantage and have to be content with low wages and unsatisfactory conditions of work. In India, labourers are scattered, except in large industrial centres, and concerted action is impossible in their case. The old caste organizations are unsuited to factory life as in factories there is a promiscuous mixing up of people of different castes. The lives of operatives have to be adapted to their environments so that they may try to improve them. Even where workmen are in numbers, they are helpless, without leaders and without organization. Spread of education among them will alone enable them to understand their rights and to make efforts to improve their condition.

190. Summary.—The labour problem in western countries is mainly concerned with trade unions, strikes, agitation for a minimum wage, syndicalism, and class conflict. In this country, custom still rules in the relations subsisting between capital and labour, which are not sharply marked off. The factory system

is in its infancy, and the use of machinery is the exception and domestic industry the rule. A working class is beginning to be formed in large centres of industry and a labour problem in the western sense is just arising. So long as wages are governed by custom and conditions of work in the field and elsewhere are dictated by tradition, labourers are contented with their lot. But the old village economy has now been disturbed, and questions relating to labour are demanding attention.

One of the most striking economic phenomena of recent times is the general rise that has taken place in the wages of labour. Demand for labour, skilled and unskilled, has increased and workmen are slowly becoming conscious of their importance and worth. Agricultural labour is still paid in kind partially, if not wholly, but money payments are fast being substituted in the place of payments of grain. Scarcity of labour is due, to some extent, to the havoc made by plague and other diseases among the ranks of workmen, but the demand may be easily met if people will leave their ancestral lands and go out where higher wages are to be obtained. Such emigration is slowly becoming a common feature of the life of labourers in certain parts of the country.

The relations of employers and workmen are being more and more regulated by contract, and the latter know how to drive a hard bargain. But in agriculture and other industries, a species of serfdom, a relic of the past times, still prevails in certain rural parts of the country and the needy labourers have little freedom in making a favourable contract with the employer. The system of indentured labour under which thousands of Indian

labourers emigrated to British and other Colonies, has now practically come to an end, the popular agitation carried on against that demoralizing and degrading system, having produced a strong impression upon the Government. For generations, labourers in Assam were recruited by the tea planters on the same system. Several laws have been made for regulating that system and inquiries instituted; and now indentured labour has disappeared on the tea plantations. Recruiting by means of licensed contractors also has been abolished and a special board has recently been appointed to supervise recruiting which is allowed.

The rise of wages has been general and is partly due to enhanced prices of food grains and other necessaries of life. It is believed that on account of a growing demand for labour and high prices, the 'real' wages also have increased in most industries, and the position of the working classes has materially improved. In the absence of education and organization, labourers cannot stand out for better conditions of work, and even in certain indigenous industries, much sweating prevails. But it is particularly in factories of the modern type where complicated machinery is used and hundreds of labourers have to work together at their machines in crowded rooms, that the evil is great. Factory laws have, therefore, been passed in India as in all other countries for protecting the labourers and ensuring their safety and health. Special regulation was necessary in the case of women and children.

With the rise of mills and factories in this country, the State had to enact such laws. The use of electricity in mills, led the employers to make the labourers work for 14 and more hours a day. The

operatives made more money by working longer but it was found that the strain was detrimental to their health. The Factory Act of 1911 prohibited the employment of workmen for more than twelve hours a day in textile factories, where the evil was particularly serious. The other provisions of the Act introduced greater safeguards than the earlier Act of 1891 for the health and safety of operatives, special restrictions being imposed on the employment of women and children.

Working class legislation has done much for the benefit of factory hands and other labourers in western countries, but the organizations of the labourers themselves are doing even more. The factory system in India has not yet established itself on as wide a basis as in the West. The workmen here are ignorant, scattered, unorganized. They must learn the lesson of self-help and efforts must be made to teach them that lesson. It will be years before we have, in this country, powerful labour organizations on the western model.

Chapter XVI.

TAXATION.

REFERENCES.

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191. What is a Tax ? :—It now remains to consider the claims of the last sharer in the national dividend, viz. the State. The part taken by the State in wealth-creation is indirect and, in cerain exceptional cases, also direct. The State is not a parasite which receives an income that it does not earn. It represents the community whose members contribute to its expenses and the State may also receive rents and profits. The methods of raising revenue have varied from time to time and country to country ; and popular control over it and over the expenditure of national revenue, depends upon political liberty and constitutional rights enjoyed by the people.

The right of the ruler to take a share of the income of the subject and to levy imposts of various kinds on different forms of wealth produced, has always been recognized in India. A good ruler was expected to levy moderate taxes so that they might not press heavily upon the people ; but their range was usually very wide. The ancient law-givers lay down

what shares the king may take and the duty the people owe to him to pay the taxes. In pre-British times, cesses and fees as well as direct and indirect taxes were well-known ; and they were all levied on a well-defined and regulated system. The science of finance is a recent growth and the principles of taxation have been steadily evolved. Principles of equity, faculty or ability and equality of sacrifice, have been developed; and the statesman is expected to weigh carefully the social, economic and political effects of the taxes he imposes.

Some of the so-called taxes are merely fees or prices paid for specific services rendered by the State or other public powers. In reality there is no idea of a *quid pro quo*, or of a direct exchange of services involved in taxation, and their membership of society imposes upon people the duty of contributing towards the expenses of the State. A tax has been defined as "a compulsory contribution of the wealth of a person or body of persons for services rendered by the public powers."* An attempt is, of course, made to make the individual's contribution proportional to his ability to pay, measured by his income, and to make the sacrifice equal. Taxation is also used as an indirect means to promote certain ends which apparently lie out of the province of the taxing authority. The State determines how much it will require for its annual expenditure, and distributes the amount among various forms of taxation.

192. The Land Tax in India:—The revenue of the Government is made up of different elements: (1) income from its own property, lands, forests,

* Bastable : Public Finance.

railways (2) income from its commercial undertakings like railways in the first category above, the Post Office, monopolies of sale, canals, &c. and (3) taxation proper, viz. contribution levied upon the people (i) directly, like the income tax and (ii) indirectly, like taxes upon commodities *e. g.* customs and excise duties. In India, there are two taxing authorities, the Government of India and the local bodies. The revenues of the latter are extremely small and the bulk of the taxation is imposed by the former, the Provincial Governments being denied the power of independent taxation.

One striking feature of the Indian tax system is the comparatively large proportion the land tax bears to the total State revenue. In the last Chapter we have dealt at some length with this subject and shown that the Indian land revenue is a tax on agricultural incomes, that land in India is not, as is often times supposed, the property of the State and, therefore, income derived from it cannot be regarded as rent taken from tenants. India is said to be one of the most lightly taxed countries in the world, and this statement is mainly based on the assumption that land revenue is a rent. Sir John Strachey* for instance, says:—"The State in India has, at all times, reserved to itself resources which, in other countries, belong to individuals and which render heavy taxation unnecessary. There is certainly no country in the world, possessing a civilized Government in which the public burdens are so light." And further:—"In Enland taxation supplies five-sixths and in India not much more than one-fourth of the public income."

* India, its Administration and Progress.

Landlords and cultivators must certainly contribute, according to their ability, to the revenues of the State; but not to count the revenue they pay as a tax is hardly correct or fair. Enhancement of the land tax has been made from time to time, and on the theory of State landlordism, it does not require legislative sanction.* The land tax is a property tax, if it is not rent, as it is not, and is calculated to act as a tax upon agricultural incomes. As such, it must be regulated by the principles which apply to income and other taxes. If the land tax is avowedly a share of the net produce of the land, that is, of income, there is no reason why exemption should not be allowed to a minimum as in the case of the income tax. If a salaried man or a shop-keeper with an income of say Rs. 600 a year, earns exemption from the payment of the income tax, the small cultivator may claim similar concession in the matter of the land tax.

193. Burden of Taxation.—Looking to the needs of reform involving additional expenditure, one will easily realize that the people cannot grudge their Government larger contributions in the form of taxes. But two conditions must here be satisfied: (1) that the existing scale of expenditure should be so scrutinised as to result in all possible economy; and (2) that expenditure and taxation should be subject to the rigid control of the representatives of the tax-payers. Neither condition is satisfied in India to-day, and the statement that the people are most lightly taxed, is unwarranted. There is no absolute standard by which to judge of the lightness of the burden of taxation, and the relation between it and the per capita income of the population, must be taken into consideration in judging in this matter. That the administration in India is more costly than it need be, that the country is one of the poorest on the face of the earth and that the

* See Decentralization Commission's Report and Government of India's despatch on the subject. The popular demand now is that the land-tax, like other taxes, should be subject to the control of the legislature.

people have little voice in levying and spending the taxes, are facts acknowledged by all.

We give below a statement of the revenue and expenditure charged to revenue, of the Government of India, in India and in England :—

Revenue

	1915–16	*1917–18* (budget)
Principal Heads :—	£.	£.
Land Revenue ...	22,031,161	22,261,500
Opium	1,913,514	3,389,300
Salt	3,647,587	3,972,900
Stamps	5,432,632	5,965,400
Excise	8,632,209	9,291,700
Customs	5,873,886	9,394,800
Other Heads. ...	5,331,386	8,554,900
Total Principle Heads .	52,866,375	62,830,500
Interest	1,096,417	2,095,700
Posts and Telegraphs ..	3,787,478	4,345,700
Mint	101,918	139,100
Receipts by Civil Depts..	1,579,904	1,706,300
Miscellaneous ...	679,458	743,000
Railways : Net Receipts	17,977,103	20,253,000
Irrigation... ...	4,779,079	5,125,300
Other Public Works ...	304,035	285,200
Military Receipts ...	1,241,740	1,327,100
Total Revenue ...	84,413,537	98,850,900

Expenditure.

	1915-16	*1917-18* (budget)
	£.	£.
Direct Demands on Revenue	9,467,370	10,026,100
Interest	1,190,364	6,832,800
Posts and Telegraphs ..	3,149,680	3,601,900
Mint	89,373	115,800
Salaries and Expenses of Civil Departments ..	18,868,215	20,920,400
Miscellaneous Civil Charges... ...	5,128,675	5,577,200
Famine Relief and Insurance	1,000,000	1,000,000
Railways : Interest and Miscellaneous Charges.	13,901,665	14,147,400
Irrigation	3,721,096	3,834,100
Other Public Works ..	5,451,727	5,536,500
Military Services ..	23,503,093	27,277,100
Total Expenditure, Imperial and Provincial.	85,471,258	98,819,300
Add—Provincial Surpluses.	335,711	230,400
Deduct—Provincial Deficits	*204,771*	*328,600*
Total Expenditure Charged to Revenue...	85,602,198	98,721,100
Surplus	.. .	129,800
Total ...	85,602,198	98,850,900

If the incidence of taxation in India is compared with that of the United Kingdom, after deducting all the non-tax revenue, except revenue from land, and after making every other allowance, it can be shown that people in this country are not lightly taxed. Such comparisons must, of course, be made with great caution as various complex factors have to be taken into account in making the calculations. In the United Kingdom, a population of 45 millions, earning say £ 2,250,000,000 a year, contributed, before the War, in taxes £ 170 million, which means $7\frac{1}{2}$ per cent. of the per capita income. In British India, a population of 250 millions, earning £ 600,000,000 a year (on the basis of a per capita income of Rs. 35 a year), pays in taxes, say £ 45 millions and the per capita contribution is certainly not less than the above percentage. Two countries so differently circumstanced cannot be usefully compared; but the above result is obtained if a comparison may be made at all.

Sufficient funds must he raised by taxation or otherwise to enable the State to perform its duties to the people. India is a poor country with agriculture as its predominant industry. The number of rich people or people who stand much within the margin of subsistence, is very small; and, therefore, a direct tax like the income tax or a succession duty is not likely to be productive. This is the reason why the land tax occupies such an important place in the tax system of this country. It has also the advantage of being an ancient tax which the people have been paying from time immemorial. A Government, like the British Government in India, has, for this reason, tenaciously clung

to it and done its utmost to improve this source of revenue.

194. Permanent Settlement.—The permanent settlement of the land tax in Bengal, has been the subject of much controversy. Objection has been taken to it on the ground that it has entailed on the State considerable loss of revenue. While the land tax in the other Provinces has been increased and the State has shared in the prosperity of the rayats, it is urged, the Jamindars in Bengal have not made their proper contribution. This is, in the opinion of the critics of the permanent settlement, grave injustice to other Provinces whose lands have to bear an increasing burden of taxation. The rent received by the Bengal Jamindars from their tenants, has enormously increased, but the amount of the land tax they pay to Government remains what it was in 1793. It is, therefore, suggested that the landlords "must either be bought out altogether, or such compensation as they may be entitled to be offered to them before any additional contribution can be demanded."*

The Jamindars are naturally very tenacious of their rights and resent as an unwarranted invasion

* "If, therefore, the finances of the country are to be maintained in a state of solvency, either we must impose heavier burdens on the people in new and unfamiliar shapes, raise the cost of living to the poor, exact the highest contribution which can be levied from the other Provinces with each revision of their land assessment—in fine, cripple the country's resources, arrest its prosperity and disturb its peace—either we must do this or Bengal must pay her fair share of revenue along with the other interests and other Provinces constituting the Empire. As a measure of justice as much as of necessity, the Bengal settlement must be remodelled, and the fact that the conditions—the purposes or intentions—with which or upon which the settlement was made, have not been fulfilled adds increased force to the demand."—Hector: Indian Fiscal Administration.

of them the mere suggestion of a further taxation of land in Bengal. Apart from all political and social considerations, the argument that 'many of the present holders are *bona fide* purchasers for value given; that they bought on the faith of the settlement being what it professed to be, a settlement in perpetuity; that any obligations which it is sought to throw upon them, having been allowed to lie dormant and inoperative, must be regarded as non-existent,' is too weighty to be lightly brushed aside, however desirable it may be that unearned increment should be taxed and the Bengal Jamindars, like other people, should be made to contribute their fair share towards the expenses of the State. And it is not easy for the State to devise a workable scheme of buying up or compensating the landlords.

Other sources of what is called non-tax revenue, are Forests and Opium, as also commercial undertakings like Railways, Irrigation works, Post Office and Telegraphs &c. Forests are State property and the income from them has steadily increased and will increase as their valuable products come to be utilized for industrial purposes. Opium revenue was, at one time, considerable; but owing to an agreement with China, it has steadily declined and will, in time, almost vanish altogether. This is a heavy sacrifice of income, and is likely to be regarded as quixotic, but it is calculated, at any rate, to yield satisfaction that India has helped a neighbouring nation to put down a degrading vice so rampant in China.

195. Railways.—Indian railways have now become remunerative and constitute a valuable asset of the country. For years, they were not paying concerns to the State and have involved a total loss

of about Rs. 60 crores. Since 1904, they have, however, been contributing a fairly large and increasing quota to the national revenue. The total mileage of railways open in 1915-16 was 3 ,833, and the total capital outlay on all lines, was 537·07 crores. The total gross earnings were 64·66 crores and the working expenses, 32·92 crores. About 72 per cent. of the mileage belongs to the State, the remaining to companies and Native States. The financial results of the working of the State railways are given below :—

	1915–16	1917–18
	£	£
Capital at charge at end of year...	364,858,000	367,398,000
Net working profit, excluding interest charges	17,797,000	20,102,000
Percentage of net working profit to capital outlay	4·88	5·47
Net working profit after meeting interest charges	4,075,000	6,106,000
Percentage to capital outlay of net profit after meeting interest charges	1·12	1·66

The importance of railways for the economic development of the country, is undoubted. But railways having long been a burden upon the State treasury, which could ill bear it, a rapid extension at the cost of the tax-payer, has been most unpopular. Certain commercial interests press for a large annual railway programme, and a standard of Rs. 18 crores a year was laid down only a few years ago. The necessary extensions and improvements of railways must, of course, be effected, but the liabilities must not be increased in such a way that they would lead to a deterioration of the financial position. The Finance Member in 1913 had to

administer a warning in this connection to his critics who wanted to hasten the pace. He said that the railways must never be allowed to become, even temporarily, a net burden on the general tax-payer. "As matters stand, we have in our railways a splendid asset. Let us safeguard that asset. Any admission of doubtful schemes or failure to count in each case the full cost, any disregard of financial considerations, will surely lead to deterioration of a most serious character."*

In some countries like Prussia, the railways, as in India, are State property and they are a large source of revenue. The Indian tax-payer having paid for the railways and suffered losses, it is but due to him that they should be made a permanent asset on which reliance may be placed for yielding a substantial amount of revenue. The prosperity of the railways depends upon the character of the monsoon, and their profits have no doubt introduced an element of uncertainty in Indian Finance.‡ Indian Finance used to be called a "gamble in rain"; now it is characterised as a "gamble in railways." But if they are properly looked after, as Sir G. F. Wilson suggested, they must prove a splendid financial asset.

The bulk of the Indian railways have become State property but only a few of them are directly managed by the State, the others being under the management of companies who give the State a share of their profits. Whether all the State railways may not be profitably managed by the State, has recently been a subject of keen controversy.

* Sir Guy Fleetwood Wilson in the Financial Statement for 1913-14.

‡ See D. E. Wacha's "Railway Finance" and "Recent Indian Finance."

From the point of view of economy and efficient management, it is believed, company management is more desirable and a vast railway undertaking in the hands of the State, is deprecated.* In England America and France, railways are private property but in Prussia and other countries they are the property of the State, being managed also by the State. We hold that from the financial as well as the economic point of view, State management of Indian railways is preferable.

We need not here enter into the history of railway construction in India nor enter into the details of the controversy regarding the system of their management. This question having been raised in the Viceregal council, by Sir Ibrahim Rahimtoola in 1915, an inquiry has been instituted into it by the Railway Board, and diverse views have been expressed on it. During the War, capital expenditure on railways had to be reduced and they had to be worked at a high pressure. The whole question of railway management and finance must be threshed out again. The fundamental principles that have to be followed are that the railways which are and which will soon be State property, must be under State management and, therefore, under the indirect control of the people ; that their remunerative character must be scrupulously maintained and that they should

* This view will be found vigorously maintained in a "Note on State *vs.* Company Management of Railways" written by Mr. S. C. Ghose. The case for State management may be summed up in the following two sentences taken from Sir Ibrahim's speech in the Council "No one disputes the fact that the railways should be worked on a commercial basis ; what we object to is that they should be worked 'purely' on a commercial basis irrespective of every other consideration. All we ask is that in working on a commercial basis care should be had to the economic and industrial interests of this country."

be worked in such a way that they will encourage national industries and minister to the convenience of the public. Irrigation works are, of course, a splendid financial success; the only complaint about them being that they are not promoted with sufficient vigour like the railways.

196. Customs.—In other countries a large amount of revenue is raised from customs. In India, the tariff has all along been on a free trade basis, and a small 5 per cent. *ad valorem* import duty, varied according to the nature of articles, is imposed, the duty on cotton piece goods being only 3½ per cent, counterbalanced by a corresponding excise duty. It was believed that in a poor country like India, with unlimited undeveloped resources and with abundant raw materials, freedom of exchange with foreign countries was a primary need. Sir John Strachey observed *:—"Here then is a country which, both from its poverty, the primitive and monotonous condition of its industrial life and the peculiar character of its political condition, requires from its Government before all things the most economical treatment of its resources and, therefore, the greatest possible freedom in its foreign exchanges."

We have treated the subject of tariffs at some length already † and need not go over the ground again. It is sufficient to observe that India must depend more in the future on the indirect source of revenue provided by customs duties, import and export, if the country is to make rapid progress. The necessity of meeting the situation created by the War, forced the hands of Government and

* Financial Statement, 1878.

† See Chapter IX, pages 206–230.

new import and export duties had to be imposed and the old ones increased. Sugar, jute and cotton piece goods were the chief articles selected for an increase of duty and it was an eminently wise selection. Customs yielded £ 5,873,886 in 1915–16; in 1917–18, they were estimated to give £ 9,391,800. The obstinate opposition of the representatives of Lancashire in Parliament to an increase in import duties on cotton piece goods from 3½ to 7½ per cent, unaccompanied by a corresponding increase in the excise duty, the Secretary of State's defence of the policy of Government and the attitude of the Liberal and Conservative parties in the matter, proved eminently instructive.

In the absence of suitable direct sources of revenue, customs duties have to be levied on a considerable scale. In imposing these duties, care has to be taken that they will not press hard upon the consumer and give an undue advantage to particular interests. Import duties, it is said, make articles dear to the consumer ; but if he is to be taxed, as he has to be, it is better to make him pay in this indirect manner. Lancashire and other freetraders sympathise with the Indian consumer ; but it is only the consumer of fine English fabrics that will benefit by a policy of free imports. If other taxes are levied or increased, the ordinary consumer will be hit much harder and even his food will become dearer. Promotion of indigenous industries, is comparatively a secondary consideration when we are dealing with finance, but it is one which cannot be ignored. As Mr. Austen Chamberlain pointed out to Lancashire manufactures, they want a free market in India as a protective measure, and similar protection may be claimed by other interests. Pre-

fenential duties are advocated on the above ground and the Indian tariff must be framed on the same principle.

197. Excise and Salt.—Another indirect tax is the excise, and this revenue is derived from the manufacture and sale of intoxicating liquors, opium and hemp drugs. There has been an alarming increase in this revenue during recent years. This growth is naturally regarded with grave anxiety as the habit of drink is one of the deadliest of evils from which society may suffer. It is, however, stated that 'the considerable growth of the excise revenue in recent years is due mainly to higher rates of duty and stricter excise control, and does not indicate a corresponding increase in consumption, although some increase has occurred through the expansion of population and the greater prosperity of certain classes'. It is unfortunate that the prosperity of the people should be associated with the consumption of liquor. Excise duties are imposed upon intoxicating liquors and drugs for controlling their consumption as well as for raising a revenue. But the latter object must be subordinated to the promotion of the physical and moral well-being of the people.

The salt duty is another indirect tax which falls upon and is felt mainly by the poorer classes. It has ever been a favourite source of revenue with Government. The duty is levied on all salt imported into and manufactured in India. It is the only tax, it is said, which reaches the masses and is a minute contribution made by them to the public treasury. In 1882 the rate of the duty was made uniform throughout the country at Rs. 2 per maund and was raised six years later to 2½ rupees. Salt is

a necessary of life in India, and a duty on such an article ought to be light if it cannot be dispensed with altogether. Only in cases of extreme necessity should the article be subjected to a duty. Since 1903 the tax has been steadily reduced and it stood at Re. 1 per maund ; but it was recently increased on account of the pressure of war conditions. The facility with which the tax can be increased without trouble and change in machinery of collection, is a temptation, which has, however, to be resisted. As the late Rao Saheb V. N. Mandlik said in the Viceroy's Council, "Salt, like grain, ought to be practically free or if that cannot be, that it ought at least to be taxed as lightly as possible." The fact that even a small reduction in the salt tax, has immediately led to an increase in consumption, shows the importance of this necessary of life to the poorer classes. The salt tax is regarded as a reserve of financial power to be drawn upon in times of need and resembles, in this respect, the English income tax or the land tax in England before it was allowed to be redeemed.

198. Income Tax.—The Indian income tax has not been very productive and yielded about Rs. 3 crores a year, until the rate was enhanced in 1916 on a graduated scale on incomes of above Rs. 5,000. This is due to the fact that the people are poor and the number of those who can be assessed is extremely small. Besides, income from land is exempted from this tax, as it has already to bear the burden of the land tax. Then, again, those who would be subjected to a well-designed income tax bringing into its net the upper middle, trading and the professional classes and making them pay their due share, are influential people and can resist the im-

position of such a tax on one ground or another. Sir John Stachey says—"There is no country where a tax upon incomes is more just than in India, but there has been difficulty in imposing and maintaining it because it has been opposed by the richest and most powerful classes, who alone can make their voices heard. It has long been a reproach to our administration that they have borne no fair proportion of the public burden."*

Before the present income tax was first imposed in 1886, there had been in existence the license tax on professions and industries. The financial difficulties† of that year compelled Government to devise new schemes of taxation. Import duties and a tax upon salt were not to be thought of, and Government turned to the income tax as the only resource left to it. How strong was the opposition of powerful classes to an income tax, may be judged from the speech Sir A. Colvin made in the Viceregal Council on 4th January, 1886, in introducing the License Tax Amendment Bill. He said:—"The financial history of the last 25 years is strewn with the skeletons of discussions on direct taxation and more than one of my predecessors is gibetted on that dismal golgotha for the part which he took in connection with it...the classes in this country who derive the greatest security and benefit from the British Government are those who contribute the least towards it....I know that what I have said as to the immunity of the middle and upper classes from their due share of the public burdens is as a twice told tale vexing the dull ears of a drowsy man; but it is nevertheless a grievous blot on our Indian

* India, its Administration and Progress.

† Gokhale and Economic Reforms, pages 14–15.

administration which urgently calls for removal and which I believe, with patience, prudence and exercise of a little fortitude must and will be removed."*

When the Hon'ble Mr. Dadabhoy moved a resolution in the Viceroy's Council in 1912, recommending that the minimum of income assessable to the income tax be raised from Rs. 1,000 to Rs. 1,500 a year (the original limit of Rs. 500 had been raised to Rs. 1,000 in 1903 in Lord Corzon's time when the treasury was overflowing with surpluses), Mr. Gokhale laid down the following sound maxim. "The State has to look at the whole scheme of taxation, first, from the standpoint of its own necessities, and secondly, from the standpoint of the comparative ability of the different classes to pay their particular share of the total revenue raised from the community. Now, judged by this standard, I really do not think that the class for which my Hon'ble friend seeks a remission, has any substantial grievance."

Under the stress of war conditions, Government not only introduced the principle of progressive taxation into its income tax, but also imposed a supertax in addition on all incomes in excess of Rs. 50,000 per annum, on a graduated scale. This is, of course, regarded as a special war measure, but the new principle ought to be made to stay. With increasing demands upon the Exchequer, those who are in a position to pay, ought to be made to make a proper contribution to the expenditure of the State. If relief is to be granted, it must be granted to petty land-holders whose agricultural incomes are taxed through land revenue. Larger incomes,

* Proceedings of the Supreme Legislative Council, 1886.

from whatever source they come, agriculture, industry or trade, have to make their contribution.

199. Direction of Reform:—We cannot dissociate the problem of taxation from questions relating to expenditure, the machinery of finance and control of finance. It has to be first (1) noted that the administration in India is too costly for the country and, wherever possible, expenditure must be reduced, especially by substituting Indian agency in the place of the European. (2) Even when this economy is introduced, the country will have to face a steadily growing expenditure urgently required to promote social and economic reforms. (3) This will necessitate additional taxation. (4) The fresh sources of revenue will be customs,—import and export duties,—heavier taxes upon larger incomes and inheritance taxes. Increased revenue may also be expected from the existing taxes which will steadily become more productive and also from the commercial undertakings of the State. (5) Imposition of taxes and expenditure of revenue must be brought more under popular control. (6) Audit will have to be independent and more strict. (7) There must be further decentralization* of finance and Provincial legislatures must be given the power of independent taxation, again, under popular control. And (8) the resources of local bodies must be increased so that more may be spent on the promotion of sanitation, village public works, medical relief and education.

At present Provincial legislatures do not possess powers of taxation and are controlled by the Supreme Government. Greater decentralization of finance

* See Author's Indian Administration, Chapter VIII; and Gokhale and Economic Reforms.

will make Provincial Governments more responsible and the freedom allowed to them will enable them to raise larger funds by taxation and to spend them to the benefit of the people. The Government of India is wedded to the system of centralization though it has been steadily relaxed in favour of local Governments; but in time, contributions from the latter to the Central Government must become the cardinal feature of Indian finance and must take the place of the principle of assignments of Imperial revenue to Provincial Governments. The expansion and reform of the Legislative Councils makes this change imperative.

The financial position of municipalities and local bodies also needs strengthening. They must be given growing sources of revenue and greater control over their own affairs. They will also have to increase their revenues by additional rates and otherwise if they are to discharge their functions efficiently. A portion of land revenue may be beneficially assigned to local bodies and they may be encouraged to strengthen their resources by rates. This local finance is very important in other countries and the position in India in that connection is unsatisfactory. Mr. Gokhale most successfully brought out this contrast in a speech he made in the Viceregal Council* in moving his resolution on the resources of Local Bodies. While in England, out of the total revenue, national and local, the share of local bodies is two-fifths, in India it is only one-fifth, and more

* 13th March, 1912.

than one-half of that one-fifth is administered by the State itself.

200. Public Debt:—We shall close this chapter with a brief account of the Public Debt of India. At the outset, we have to emphasise one peculiarity of the Indian debt viz. that its burden is extremely slight. While the public debts of European countries have run into hundreds of millions of pounds, chiefly owing to wars, the bulk of the Indian debt has been contracted for productive purposes. It must not, however, be forgotten that in the past we have paid off our unproductive debt out of revenue at great sacrifice. India has had her dead-weight debt incurred for wars, expeditions beyond the frontier, war-like preparations and for meeting famine expenditure and deficits. But whenever there were surpluses, they were systematically used for reducing the public debt, which means that the Indian tax-payers have had their burden of debt paid off out of tax-money.

In the time of the East India Company, political and commercial functions of the State were mixed up together. The continued wars which the Company had to undertake, went on adding debt to debt steadily from year to year, though a part of the deficit was supplied from the commercial profits of the Company. The total 'territorial' debt of India in 1792 was £ 9 millions and increased to £ 30 millions in 1829, to more than £ 51 millions by the middle of the 19th century, and to £ 69½ millions in

1858. The Mutiny made additions to the public debt. It went up to about £139 millions in 1876. The debt stood as follows during the subsequent years :—

31st March.	In Sterling. Mill.	In Rs. 15 Rs.=£1. Mill.	Total £.	Interest £.
1888	84·1	65·4	149·5	6·2
1893	106·7	68·6	175·3	6·7
1898	123·8	74·4	197·7	6·7
1903	133·8	78·2	212·0	7·1
1908	156·5	88 5	245·0	8 1

The 'ordinary' or unproductive debt was gradually reduced, and the productive and unproductive debts are distinguished in the following table :—

Ordinary and Productive Debt.

	Ordinary.	Productive.			Total.
31st March.	Mill. £.	Railway.	Irrigation.	Total.	Mill. £.
1888	73·0	59·2	17·3	57·65	149·5
1893	65·0	91·0	19·3	110·3	175·3
1898	70·0	106·0	21·7	127·7	197·7
1903	59·1	128·1	24·8	152·9	212·0
1908	37·4	177·7	29·9	207·6	245·0

Unremunerative debt shrunk in 20 years from being ⅓ to ⅐ of the total volume of outstanding loans. The reduction reflects approximately the extent to which current revenues have been devoted to capital expenditure. There is a sort of sinking fund arrangement by which to reduce the unproductive debt, while for the redemption of the productive debt provision is made for annuities &c. in the railway expenditure. Interest charges debited to railways, contain items of this description, so that the true profits from the railways are higher than shown in the accounts. "In any year in which, owing to the use of surplus revenue or deposits for the construction of public works the capital expenditure of the year exceeds the amount of debt incurred in the year, the effect of this system of classification (Ordinary and Productive Debt) is to cause a decrease to be shown in the amount of the ordinary debt." The Debt stood as follows on 31st March 1913:—

	£.
(*a*) Permanent Debt.	
Debt for Railways	211,832,819
„ „ Irrigation works ...	37,552,030
For initial expenditure on Delhi	119,886
Total of Public Works Debt..	249,504,735
Balance, being Ordinary Debt.	24,898,777
Total Permanent Debt ...	274,403,512
(*b*) Temporary Debt incurred on security of India bills ...	Nil.
Total debt (permanent and temporary) £	274,403,512

"On the 31st of March, 1916 the Indian Public Debt amounted to £ 286,145,008 (viz :—rupee debt converted into sterling at 1 s. 4 d. the rupee, £ 103,973,179, and sterling debt, £ 182,172,829)." There were also other obligations of the Government of India, including Savings Bank balances, Judicial and Departmental deposits, balances of service funds &c. amounting to £ 29,485,613, and the various railway annuities, representing in the present year a charge of £ 961,160. A loan of £ 4,000,000 from the gold standard Reserve in India was also outstanding."

Government raises, for its capital programme, rupee loans in India and sterling loans in England, and for purposes of railways, the latter are necessary as sufficient amounts cannot be raised in this country. While exchange was unstable, sterling borrowings entailed a heavy charge ; that difficulty has now been removed. It is still desirable to raise as much capital in India as possible. Construction and maintenance of railways require, according to the high standard laid down, larger amounts which cannot be secured in this country, and the amount of interest that has to be paid to England increases year after year. The War Loan is, of course, an extraordinary loan, and though its success is gratifying so far as it goes, the total obtained by Government out of the Rs. 150 crores, shows the poverty of the country compared with the abundant wealth of other nations.

While our Finance Ministers used surpluses to reduce the unproductive debt, small though it was, the late Mr. Gokhale contended, year after year, that they should have been mainly devoted to the financing of schemes of social reform. Persistent

surplues, he urged, were funds taken out of the pockets of the tax-payers and must either be returned to them through remission of taxation or, much better, be devoted to the spread of education, improvement of sanitation and so on. The following long extract from one of his speeches in the Viceroy's Council, gives a lucid exposition of the Public Debt position in India and of his views in that connection :—

"Sir, what is the amount of our debt? Our total debt is made up of various component factors. There is the permanent or funded debt. There is the temporary or unfunded debt. And there are various funds with the Government, such as savings banks deposits, service funds, special loans, judicial deposits in courts and so forth. Against this the Government have their Railways and Irrigation works, their loans and advances to local bodies, Native States and cultivators, and their cash balances. Deducting these latter from the total debt, what remains is the true ordinary or unproductive debt. Now taking the figures for 1907-8 and bringing them up to date, we find that in 1907-8 the permanent debt in India was 88·55 millions; the permanent debt in England was 156·48 millions, or, in the two countries together 245 millions. That was the funded, permanent debt, in that year. The unfunded debt in that year was only 1 million. Then about 20 millions represented special loans, service funds, savings banks deposits, departmental and judicial deposits and miscellaneous obligations of the Government, or total liabilities of 266·28 millions or 400 crores of the liabilities of the Government. As against this the Government of India had in that year 177·7 millions invested in Railways and 29·87 in Irrigation works or a total of 207·57 millions under the two heads together. The Railway debt was earning about 5 per cent. the Irrigation debt about 7 per cent. Therefore it was really no debt at all in the sense in which the term debt is used. That accounted for 207 out of 266 millions. Then the loans and advances by Government to various

Local Bodies, Native States and cultivators amounted in that year to 13 millions, and the cash balances were 18·6 millions. Thus 239 millions out of 267·28 millions represented the investment and cash balances of the Government, leaving only about 27 millions of real unproductive debt for the country. This was in 1907-08. Since then the position has undergone some deterioration. Of course, there has been additional borrowing for Railways and Irrigation, but we need not take that into account since Railways and Irrigation investments are earning 5 and 7 per cent. interest respectively. But there was a deficit in 1908-09 of 3·74 millions. In 1909-10 there was a surplus of ·61 millions and this year excluding the opium surplus of 3 millions, there is still a surplus of ·49 or half a million. The position therefore during the last 3 years has undergone a deterioration by about 2·64 millions and we must add that to the figure for 1907-08 to find the total unproductive debt at the present moment. This comes to 29·7 millions, say 30 millions. Or if the Finance Minister will prefer it, I am prepared to take the funded unproductive debt, as it appears in our accounts, which is 37 millions. That means making a present of about 7 millions to the Hon'ble Member; but I will do so and will take 37 millions for the purposes of my argument. Now, Sir, what is a total unproductive debt of 37 millions for a vast country like India? What is such a debt compared with the huge debts of other countries? And is the reduction of this trifling debt a matter of such paramount importance that everything the Finance Department can lay hands on should be devoted to this reduction to the practical exclusion of all other useful objects, as has been done, during the last 10 or 12 years? Sir, my protest against this policy of the Government has been a long-standing one. Year after year, for the last 10 years, I have been raising my voice in the Council against this policy, but so far without much effect. How does our unproductive debt compare with that of other countries? In England at the present moment, you have a national debt of over 700 millions, corresponding to our

unproductive debt. In France it is over a thousand millions. In several other countries it is four to five hundred millions. Even in an Eastern country like China it is about 110 millions, though the annual revenue is much smaller than ours. The Hon'ble Member speaks of the necessity of strengthening our credit. If we look at the rates of interests at which different countries borrow, it will be found that our credit is exceedingly good."*

201. Summary.—The land tax is the most important source of revenue in India, yielding nearly one fourth of the total income of the Government of India. It is the oldest tax and has ever been the main stay of the rulers of the country. The duty of the subjects to contribute to the expenditure of the king and of the king to spend the taxes so contributed for the good of the people, was recognized in olden times. Various other taxes and cesses were also levied. The British Government tried to abolish the numerous small taxes which proved vexatious and made the assessment and collection of the land tax more systematic and strict. The land tax is a property tax because it falls upon all land, and it operates in practice as an income tax, being a certain proportion of the net produce or net rental.

In Bengal the land tax was permanently fixed, and even under the rayatwary system, the original idea of the authors of the system was to make the settlement permanent. But the rent theory and the theory of unearned increment, swayed the policy of the State and the land tax has been steadily increased at each periodical settlement. The modern tendency is not to tax property but to tax income; and as the Indian land tax is, to all intents and pur-

* See Gokhale and Economic Reforms, pages 221-222.

poses, a tax upon agricultural incomes, it is necessary that it should be assessed like the income tax, smaller incomes being exempted from payment or being taxed very lightly.

The Government of India derives income also from State property such as forests and monopolies like opium, and its railway property has now become very remunerative. Government has spent crores on the railways which, for years, were a losing concern. Interest upon the capital sunk in them had to be paid out of current revenue. But under contracts with the companies, the railways have been purchased by the State which now owns a major portion of them, though only a few are directly managed by the State. Whether State management would be more economical and desirable, is a question which is being debated at present, and popular opinion inclines to the view that, on the whole, State management would be preferable.

In accordance with the free trade policy of the Government in England, the Indian tariff has been a purely revenue tariff. But owing to the poverty of the people of India and in view of pressing reforms which have to be undertaken, more reliance will have to be placed upon customs. It was with the greatest difficulty that the import duties on cotton piece goods could be increased in the budget for 1917–18 from 3½ to 7½ per cent. without a corresponding increase in the excise. To secure larger revenue Government will, however, have to impose high import and export duties like those levied to meet the exceptional situation created by the war. The salt duty falls upon a necessary of life and must be lowered instead of being increased. The excise is mainly a tax upon a luxury, and a debasing luxury, and must be so regulated as to discourage drinking.

These are the principal indirect taxes, and stamp duties and registration fees are of the nature of charges made by the State for direct services rendered. The income tax in India is comparatively unproductive, and until, owing to the urgent necessities of war, the rate of the tax was increased and a supertax was levied as an extraordinary impost, the wealthy classes, it was believed, were let off lightly. If these classes are made to contribute their proper share, the yield of the income tax will be considerable.

The Government of India has assigned certain revenues to the Provincial Governments, which have no powers of independent taxation, and though there has been a steady decentralization of Provincial finance, complete financial autonomy is being demanded for the Provinces. The local bodies are financially weak. They raise revenue by levying rates and cesses, but their income is inadequate to the needs of progress. A portion of land revenue and a cess upon the excise revenue may be assigned to them with advantage. In any case, the resources of local bodies require to be expanded.

Before India assumed responsibility for a war loan of 150 crores of rupees, the bulk of her public debt was productive and represented capital invested in railways and canals. The unproductive debt has been comparatively small, and was steadily reduced, surpluses being used for the purpose whenever that was possible. Payment of interest and a gradual redemption of the public works debt, is provided for in the current expenditure of railways. The tax-payers have contributed to make the railways such a fine national asset, that railway revenue must

provide an increasing share of the total income of Government.

With rigid economy and retrenchment, the existing revenue, growing with a slow but steady pace, will suffice to meet the normal demands of the administration. The additional revenues required to carry out the many pressing reforms, will have to be obtained from customs and the income tax, suitably reorganized. All classes must contribute their proper share, but the principle of progressive taxation must be introduced. Indirect taxation is preferable from the point of view of the mass of the people and luxuries ought to be more heavily taxed.

Chapter XVII.

Prices and Consumption.

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206. Price Levels:—When we estimate the comparative utility of an object, there emerges the idea of its value. The value of one object may be expressed in terms of other objects when the comparative estimates of their desirableness are stated. There are several theories in Economics in connection with the causes of value with which we are not concerned. What is to be noted is that when value is expressed in terms of money, it is called price, and as barter has disappeared in all civilized countries the question of prices has assumed considerable importance. What is the cause of price, whether, it is cost of production or the state of demand and supply, need not be here considered. But it is necessary to understand that money is itself a commodity and as values are expressed in money, its own value is an important economic factor.

The rise or fall of the prices of different commodities may be due to different causes. When the supply of a commodity exceeds the demand for it, sellers have to be content with a smaller price the purchaser may be willing to give. The reverse will

happen if the demand exceeds the supply. What will be the degree of the rise or fall, will be determined by the keenness of the demand and the ability of the supply to wait for a turn of the market. Much depends upon the conditions under which the supply is produced, the time required to increase it and the substitutes with which the consumer is likely to be satisfied, and so forth.

Price is, therefore, an illustration of the law of demand and supply. There cannot be a general rise or fall of values, but this phenomenon can take place in the case of price. Money is a measure of value, and if owing to a change in demand for or supply of it, its own value changes, the change must be reflected in a general alteration in the prices of all commodities. Prices of different commodities are always rising or falling in different degrees, and the changes may be accounted for on the ground of deficiency of supply or excess of demand. But a more or less uniform rise or fall cannot be so explained and we must look for an explanation of the phenomenon in the change of supply of the common measure of value viz. money.

A rise of prices means depreciation of money. When prices go up the purchasing power of money goes down. In fact, the rise of prices and depreciation of money are two aspects of the same phenomenon. The fact that prices go low, means that a smaller quantity of money is sufficient to buy a stated commodity and there is appreciation of money. It is on this relation between prices and the quantity of money in circulation that the "quantity theory of money" is based. The quantity of money includes paper as well as metallic money, because credit very largely expands that quantity

and the velocity with which money moves from hand to hand in transactions, practically adds to the quantity. If the increase in quantity is accompanied by an increase in the volume of exchange transactions, the price relation will remain unaltered.

207. Quantity Theory of Money —Taken with its limitations, the quantity theory of money is perfectly sound and satisfactorily explains the fluctuations in prices. "In short, the quantity theory asserts that (provided velocity of circulation and volume of trade are unchanged), if we increase the *number* of dollars, whether by renaming the coins, or by debasing coins, or by increasing coinage or by any other means, prices will be increased in the same proportion. It is the number and not the weight that is essential. It is a fact which differentiates money from all other goods and explains the peculiar manner in which its purchasing power is related to other goods."*

We shall not here deal with the elementary considerations relating to factors which govern the fluctuation of prices in India and with customary and monopoly prices. The question of prices in India, as elsewhere, is mainly a question of the operation of the law of demand and supply, and evidence for this is to be found in the rise of the level of prices of food grains in times of famine and scarcity. The defective character of communications and absence of keen competition as also the predominance of custom in the economic relation of people, long governed Indian prices. But the railways which have brought the various parts of the country into closer contact with one another and India itself into intimate touch with foreign

* Irving Fisher: The Purchasing Power of Money.

countries, have changed the nature of the problem of prices, which are more susceptible than before to changes in the markets of the world.

The general level of Indian prices began to rise in 1904, and went higher and higher every year, until the rise assumed almost alarming proportions. The index number went up from 100 in a normal year before the rise commenced, to 140 and even to 200 and more in certain cases. The rise was attributed to different causes by different people, and while it was welcomed by some as an indication of growing prosperity, others traced it to the currency policy of Government, which had, since 1899, artificially enhanced the value of the rupee. The question was discussed in the press and in the Viceregal Council, and the appointment of a commission of inquiry was suggested. Government thought that the new currency system inaugurated in 1893 and completed in 1899, had not had a sufficiently long trial and that commissions had always an unsettling effect upon things ; they therefore deputed Mr. K. L. Datta to collect statistics on the question of high prices and asked him to submit a report thereon to Government.

204. High Prices in India :—The causes of the high prices, Mr. Datta concluded, were mainly of two kinds:—(1) causes peculiar to India, and (2) causes whose effects were world-wide. Among the former were (i) a decreased production of food stuffs, (ii) an increased demand for Indian raw materials and food products, (iii) development of communications, and (iv) decrease in the cost of transport ; and among the latter, the chief were (i) an increased supply of gold, (ii) development of credit, (iii) destruction of wealth in wars and (iv) expenditure on

the armaments. Mr. Datta thought that all these causes combined to raise the prices in India and that the rise was not due to any one cause. He was, however, convinced that the prices of food stuffs in this country had risen on account of the fact that the food supply of India, compared with the demand, reached its lowest level in the quinquennium 1905-09 and thus shortage of supply undoubtedly contributed, in no small measure, to the unusual rise in price during that quinquennium.

Broadly speaking, two theories about the rise of prices, held the field: (1) that the large volume of the rupee currency which, under the gold exchange standard system, ceased to be automatic, led to the depreciation of the token rupee; and (2) that Indian currency had nothing to do with high prices which could be explained by economic changes of considerable magnitude going on in India and the outside world. Finance Members like the Hon'ble Mr. Baker and Sir G. Fleetwood Wilson, held this view, and it was endorsed by Mr. K. L. Datta. Mr. Gokhale and others were inclined to accept the first theory, and both the views found expression in the Viceregal Council, when the question was referred to year after year.*

That the quantity theory of money applied to the problem, seems to have been admitted by every one; and the difference lay in the emphasis laid upon the different terms in the price equation, $M \times V = T \times P$, (M = money, V = velocity of circulation, T = trade or volume of exchange transactions and P = price) and on the part played by the quantity of the token rupees in circulation. Thus

* See Gokhale and Economic Reforms; pages 183-187.

Mr. Datta thought that the quantity of money increasing with the expansion of credit and increase in its velocity, prices of food stuffs were bound to increase while the volume of their production remained steady. The Government of India did not, of course, admit this explanation of Mr. Datta about the insufficient supply of food grains.† This theory is only an application of the law of demand and supply and must hold good if proper attention is paid to 'other things remaining the same.'

205 Currency and Prices :—Making full allowance for the fact that "India, by its adoption of a gold standard, has been switched on to the currency gauge of the rest of the world and is undoubtedly bearing its share in the price fluctuations to which the rest of the world has been subject,"‡ and for the increased demand for certain of India's products, which has overtaken the supply, one is led to believe that the general rise of the price level is, to a considerable extent, due to the disproportionately large supply of currency. The spell of high prices ruling in Europe and America has been attributed to the increased output of gold and the consequent expansion of currency and credit all the world over. The same phenomenon is to be witnessed in this country, and the relation between high prices and the Indian currency system seems to be intimate.

The official view is that the Indian currency system is automatic, that no more rupees are issued from the mints than are absolutely necessary for the purposes of trade and it is the rise of prices which

† See pages 145-148 above.

‡ Sir Guy Fleetwood Wilson.

has necessitated the increased coinage of rupees. Government certainly issue rupees in response to the demand of trade, but the output of these token coins has been exceptionally heavy. Mr. Keynes says:—"The effects of heavy coinage are cumulative. The Indian authorities do not seem to have understood this. They were, to all appearances, influenced by the crude inductive argument that, because there was a heavy demand in 1905-06, it was likely that there would be an equally heavy demand in 1906-07; and when there was an actually heavy demand in 1906-07, that this made it yet more likely that there would be a heavy demand in 1907-08. They framed their policy, that is to say, as though a community consumed currency with the same steady appetite with which some communities consume beer."

The gross outturn of rupees at the Indian mints was as follows:—

	Crores.
1902–03	11·27
1903–04	16·17
1904–05	10·88
1905–06	19·60
1906–07	15·37
1907–08 (Estimate) ...	17·30

There was, during these years, a close parallelism between the growing output of rupees and the steadily rising prices. The rupees are not now melted as they used to be before the closing of the mints, as this procedure entails a loss. There is a steadily increasing absorption* of the currency among the people and this inflation has had a material effect in pushing up the price level. Ex-

* See annual Reports of the Currency Department.

perience has taught that rupees distributed over the interior of the country in payment for the staple products, do not quickly return to centres of commerce and industry and efforts have to be made to get this currency back.* If additions continue to be made to the existing stock of rupees, the inflation must raise prices though not in the same proportion, because a part of the currency is required to meet the increasing volume of trade. This is the way in which the unautomatic character of the currency system acts upon prices.

The problem of prices is complex and various factors exert their influence in determining the price levels. Insufficient supply of Indian products, high gold prices ruling in outside markets, a large external and internal demand for Indian products, the expansion of credit—all these factors must be given their due weight. But the peculiar character of the rupee currency, and the manner in which it is issued and is absorbed, cannot be ignored as an important cause of the rise of prices. A rise thus brought about, cannot be complacently regarded as natural and beneficial, and an effort must be made to minimise the influence of that cause by improving the existing currency system. The idea of prosperity induced by high prices, is misleading if all the factors causing the rise are not taken into account.

In our chapter on Production and Population† we have shown how "if more mouths have to be fed with the same or nearly the same quantity of food, the prices must rise and this object cannot

* Experience of currency difficulties during the war, confirmed the truth of this statement and Government issued gold to attract rupees back into circulation.

† Chapter VII.

be an of congratulation or of consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to the land." * It is superfluous to repeat that the producers of raw materials which command high prices in the foreign markets, must benefit to the extent of the larger margin afforded (i) if the profits are not interrupted by middlemen and (ii) the cost of production is not increased. But raw materials required for indigenous industries must be sufficiently cheap as also the necessaries of life of the mass of the population. Then only will high prices prove beneficial. Cultivators supplying their own labour and producing their own food, receive larger incomes on account of high prices. But those who have to employ dear labour and buy dear food and other necessaries of life, cannot be any the better for a higher level of prices.

The country as a whole, must benefit by a rise in the prices of exports if there has been no corresponding increase in the prices of imported goods. "India's exports have thus grown considerably" observes, Mr. Datta, "in value in consequence of the rise of prices and only a part of this increase goes towards meeting the increased cost of her imports. There has also been a considerable increase in the volume of the imports of many classes of goods required for consumption and the increase in the imports of many classes of goods which were formerly considered as luxuries but are now recognized as necessaries, bear eloquent testimony to a standard of living which is rising higher and higher with the rise of prices and the material prosperity of the country." ‡ The true benefit will be measured

* Page 148. ‡ Report on High Prices.

by the difference between the prices of the exported and imported commodities.

206. Standard of Living.—With the expansion of currency and the more general use of money, the habits and tastes of people of all classes are changing. In England, wages rose to a high pitch owing to the war and as more money circulated in the country, the working classes spent more and devoted their earnings to the consumption of luxuries which were formerly beyond their reach. Improvement of communications and imports of cheap articles of everyday use from foreign countries into India, combined with rising prices and higher wages, have induced people to consume such articles, and this consumption is producing interesting social effects. Restrictions imposed by caste, religion and custom are becoming slack and new ways are being adopted in eating, dressing, furnishing houses and in other matters.

The growing imports of certain articles of luxury and convenience are taken as an indication of the above change in the objects and methods of consumption and as an unmistakable indication of material prosperity of the bulk of the population. An increasing use of clothing and of clothes of a better quality, the construction of better houses, the consumption of wholesome food in sufficient quantity, improved water supply and sanitation, a growing habit of reading and a more liberal supply of the sources of innocent amusement and of the general amenities of life,—these will certainly bespeak a higher standard of life. A mere substitution of one article for another, or a mere change of social customs, is by no means, a sure sign of true prosperity.

The middle and the lower classes of population are doubtless now able to command certain comforts and luxuries which formerly they could not dream of enjoying, and to that extent there are signs of the standard of life rising higher. More money circulates among them than before; but the rayats have no stocks of grain, as they used to have, there is scarcity of milch cattle, and they do not seem to feel better off in spite of the changes noted above. The following statistics of imports of certain articles of luxury and convenience, are given as a proof of growing prosperity :—

Imports of certain Articles of Luxury and Convenience.

	Lakhs of Rs					
	1908-09	1909-10	1910-11	1911-12	1912-13	1913-14
Sugar and Molasses ...	10,62	11,13	12,62	9,96	13,78	14,47
Kerosine Oil ..	2,38	2,51	2,37	3,25	2,56	2,85
Cotton piece goods ...	32,20	31,82	37,54	41,20	51,80	60,54
Silk ,, ..	1,85	1,85	2,30	2,15	2,55	2,52
Woollen piece goods...	2,28	1,58	2,43	2,79	3,40	3,06
Apparel and haberdashery ..	1,85	1,92	2,84	2,85	2,75	3,06
Boots and Shoes ..	39	47	46	56	65	74
Copper and Yellow metal .	1,69	1,69	2,22	1,60	1,76	2,51
Matches ...	75	82	84	88	98	90
Soap .	41	42	55	62	70	74
Betel nuts ...	87	85	1,08	1,05	1,18	1,23
Galvanised Iron sheets	1,97	2,42	2,85	2,98	3,63	5,38
	58,23	58,46	69,36	69,91	84,74	97,57
Index No. (taking quinquennium 1908-13 as 100) ...	86	87	99	1,03	1,25	1,44

207. Consumption and Prosperity.—The increased consumption of such articles may be an indication of material progress, so far as it goes. But there is the other side of the shield. Mr. Ramsay Macdonald says of the use of articles of luxury by the working classes in India as follows:—"Better clothes are being worn, cigarettes are beginning to take the place of the hookah, alcohol is being more widely consumed, shoes are more general, umbrellas are becoming more common. The people's wants—too many of them debased—are becoming more costly to meet. As evidences of increased prosperity, I place little reliance upon such facts. These things no more show prosperity than expensive weddings or extravagant funerals." *

An increase in the number of wants is welcome and a larger supply of necessaries and comforts is indispensable for material progress. But the additional articles consumed must not lead to physical deterioration and moral debasement; and changes in the manner of living, dressing and so forth, must be conducive to healthy physical and moral development. Tea drinking has already spread into the interior of the country and among all classes of people. In the Bombay Presidency "the rapid multiplication of places of refreshment where tea is sold is remarkable and the beverage is becoming popular with the masses." Workmen, employee and others, find tea to be a beverage which braces the nerves and gives temporary energy. It can be easily prepared and can be had without difficulty at times when it is required.

The substitution of tea for the more wholesome milk as food, cannot, however, be recommended and

* The Awakening of India, pages 177-78.

the prevalence of the tea habit is to be deprecated on this ground. The place of an adequate quantity of cheap, wholesome food of the old kind, can not be taken by drinks and foods of the modern fashion without detriment to the consumer. And many are the martyrs to tea and coffee and, therefore, to dyspepsia and other diseases. The consumption of liquor is, again, on the increase and unfortunately it is shown as a sign of material prosperity. The introduction of money economy is placing money in the hands of workmen who are tempted to spend a large portion of their earnings on liquors and other intoxicants. In the Punjab, for instance, we are told that "among all classes the increased means have not been accompanied by a proportionate development of the rational enjoyment of leisure. The Jat, if his religion does not forbid him, spends more time with the bottle and too many find in the excitement of the law courts their only relaxation." This is an illustration of the spread of the evil of drink throughout the whole country and the efforts of temperance reformers have not produced any appreciable effect.

In the second chapter of this book, an attempt has been made to give an idea of the Indian outlook on life and on the material world. There we have referred to the effect of the contact of modern Western civilization with the culture and social organization of India. The economic, social and political evolution which began 150 years ago, is rapidly proceeding and the pace of the progress has been recently quickened. There is a steady approximation to European ideals, in dress, manners and institutions, and the goal of progress is believed to lie in the clothing of Indian spirit in the garb of

modern civilization. The mass of the population in India has not yet experienced the full effects of the impact of the two civilizations, though the reaction of the new forces on the people in the economic, political and social spheres is clearly visible. Changes in production and distribution have been described in the earlier chapters and those in consumption are noticed in the present chapter.

Indian cultivators and handicraftsmen have struck observers as people of simple habits, sober, contended and God-fearing. But their thriftlessness and extravagance in marriage ceremonies and funerals have attracted a good deal of attention as also their fondness for ornaments; and these are often exaggerated.* There is extravagance of a sort in these matters among all classes of the community, and debts contracted for these purposes are not regarded as something undesirable. And factory labourers are no less free from indebtedness than cultivators, as may be seen from the account given below. But there are a few thrifty people in all the strata of society and the saving habit has to be inculcated and strengthened. Wages earned and saved in towns are remitted to villages to support families on the land. The social reform movement has not yet touched the lower classes, and it is they among whom it must spread. We have already referred to the indebtedness and poverty of the rayats; and every thing which will make their lives brighter, give them sufficient food, shelter and clothing and

* See Report of the Deccan Riots Commission Mr Datta says in his Report on High Prices.—"The Indian cultivator is, as a rule, thriftless and extravagant and much addicted to litigation. He lacks that business education which leads the rayat to restrain his tendency to borrow and which enables him to calculate the result of expenditure whether on improvements or otherwise."

raise them physically, morally and intellectually, must be attempted by those who are interested in the uplift of the nation.

The life of the villager is of the simplest kind. Bread of Bajri and Jvari, or of Wheat in Northern India, and rice in Western and Southern India, accompanied by a small quantity of vegetable, forms the common dietary. Clothing is rough and cheap in the case both of men and women, and according to Western ideas, insufficient. The houses have mud walls and thatched roofs and are kept clean, though ideas of personal hygeine and general cleanliness are not conspicuous among the lowest classes. A few trinkets and holiday clothes constitute their luxuries. The standard of life of people of the highest castes among Hindus and among townspeople generally is higher. They are better housed, clothed and fed. The labouring population in towns is fast changing its habits and customs, and this change is very slowly permeating the country side where kerosene, corrugated iron sheets, glass and china ware, cheap lamp ware, matches, and toys are being introduced into common use.

The following summary of the information* collected in Bombay for the purpose of initiating a movement for redeeming the debts and generally improving the condition of the factory operatives, will prove instructive :—

"A large number of people among mill hands in Bombay who are mostly Marathas hail from the Konkan Districts and a small percentage varying from 20 to 30 come from the Deccan Districts. There are some from Northern India also. The average age of a millhand varies

* Debt Redemption Among the Urban Labouring classes—A Paper by Mr. G. K. Devadhar.

between 29 and 32. Though all classes of people such as middle class Marathas, Kolis, Gaulis, Mahomedans, Mochis, Dheds, and Mahars are working in mills in Bombay, yet the number of Marathas preponderates. In Gujarat a large majority of the millhands consists of Hindoos who mostly come from Gujarat, Kathiawar, and Rajputana About 25 per cent are Mahomedans; and a small percentage varying from 5 to 10 of the people of the Depressed Classes is seen there. In Sholapur Mills a number of weavers are seen employed. The average period of stay of those who are now working in Bombay varies between 12 and 19 years and in Gujarat from 11 to 16. As most of the mill-hands do not entirely depend upon the mill-labour owing to their having some lands in their villages, all of them do not bring their families and thus a large number live single and several such people occupy one room. Besides, "bound by strong ties to the land and to the village" they generally go to their native places for one month in a year; but some go once in two years and a few in five years; and now there are nearly 10 per cent of people who do not go at all; and thus, a small proportion of mill labour may represent what the Indian Factory Labour Commission of 1908 terms the "factory population," "trained from their youth to one particular class of work and dependant upon employment at that work for their livelihood." Though nearly two-thirds change their service owing to low pay and failure to obtain leave on account of sickness, the remaining one-third stick to one mill. The percentage of literacy among the mill hands in Bombay has a very wide range. The average in mills where there is a small proportion of mill-hands practically settled in Bombay works at 15; but others show a higher average. In Gujarat, the Broach mill has the percentage of 26; while in Ahmedabad the percentage is 15 only; whereas in the Sholapur Mills it is as low as 10. Thus it seems that considering the proportion of literacy in rural areas, continued urban life gives a better impetus to literacy. The average number of persons in a mill-hand's family in Bombay is nearly 4 and

the same in Gujarat. The monthly income of the principal wage-earner in a Bombay mill in the spinning department varies from Rs. 10 to Rs. 20; the weavers earn between Rs. 11 and Rs. 25; while the jobbers earn from Rs. 30 to Rs. 75; and in other departments they earn from Rs. 15 to Rs. 25. These incomes are supplemented in many a case by the incomes of other members of his family in Bombay. Thus, roughly speaking the average income of a mill-hand family in Bombay works out Rs 22 and per head Rs. 5½. In Gujarat the average per family is about Rs. 20 and per member Rs. 5. From the mass of information about wages it is clear that the unskilled labourer gets generally from Rs. 8 to Rs. 12 per month, while the skilled workman earns very easily a much higher wage. The average monthly expenditure of a family of four persons works roughly at Rs. 18. As a rule these people live within their means but do not save more than an average of Re. one per head when their earnings are poor; but when the salary is pretty high there is noticed a tendency to make comparatively large savings; and these as a rule go into the pockets of the money-lenders in part payment of interest on loans borrowed from them. The habit of drink among these classes is not as wide spread as it is generally supposed. Nearly 50 per cent of them seem to be total abstainers; 35 per cent drink occasionally and the rest are hard drunkards; so much so that in a few instances, women, who in almost all cases are total abstainers, have to support their husbands by their earnings. As regards indebtedness it may roughly be stated that nearly 80 per cent of the labourers are indebted. The average of debt per family is about Rs 125 which is made up of debts incurred in their native places and those that are incurred in Bombay; and the rates of interest generally vary from 25 per cent to 37½ per cent on loans taken from the village sowcars to 75 per cent which is paid to the marwaries in Bombay. The mill-hands in Bombay invariably have to borrow from Marwaries at a rate of interest which is scarcely less than 75 per cent or one anna per rupee per month. In Gujarat

where the average of indebtedness is slightly low the ordinary rate of interest in villages is 18 to 25 per cent whereas the Bania's rate of interest in urban areas is nearly the same as the usurious rate charged by the Marwaries in Bombay. The causes that lead the mill-hands to borrow are nearly common all over, such as, maintenance of the family, marriage, sickness, social ceremonies, funeral rites, payment of ancestral or old debts, agricultural needs, litigation, &c. &c.; but they have not so much to pay for securing service as others have to do. Among Bombay mill-hands, slightly over two-thirds possess lands and homes of a small value in their villages. In Gujarat a smaller number owns lands as the agriculturists do not largely go in for mill-labour. In Sholapur Mills about 40 per cent possess lands and houses. As would be expected nearly all possess silver ornaments of a small value and even a few have some cash. A small percentage of people have their lands mortgaged to their money-lenders; almost all of them are willing to join co-operative associations, if formed, for the purposes of credit store, and life assurance.

Chronic Indebtedness as the result of usury.

The above generalizations apply mainly to factory workers both in Bombay and outside. The conditions of other labourers differ from those of the mill-operatives in some important respects. The sweepers mostly come from Gujarat and Kathiawar and a few from the Punjab. Their incomes are much higher than those of the unskilled labourers in mills, because they make money by private employment and at night some of them even work in the docks. Comparatively they have a high standard of literacy and their habits are extremely temperate. They are generally very frugal, yet their average indebtedness is much higher, *i. e.* Rs. 250 which in some cases goes upto Rs. 500 because of the conditions of service. They are indebted mostly to Marwadis and to their caste men and sometimes to Bhaiyas and Banias and have to pay interest at various excessive rates such as 60 per cent, 75 per cent and 120

per cent per year. Whereas the Mahars, whose average indebtedness ranges between Rs. 150 and Rs. 200 and is higher than that of the mill-hands and lower than that of the sweepers, have to pay interest sometimes at 150 per cent, *i. e.*, annas two per rupee per month, the most common rate being 75 per cent. In other respects their condition is much the same as that of the others. From the above analysis one thing stands out boldly and it is this. When an average labourer comes to Bombay, instead of being able to shake off the burden of his previous debts, he is dragged deeper into the mire of indebtedness by several unavoidable causes and the result is that he is nearly killed under the pressure of the very exhorbitant rates which he has to pay to the sowcars to whom he pawns nearly all the jewels and ornaments he possesses. The money-lender is anxious that his prey should not slip out of his hands and so he cleverly manages to keep him under his clutches as long as he can. There may be some justification for charging a slightly higher rate than the market rate but not certainly so high as 75 to 120 per cent especially when the people enjoy a fairly good reputation of regularly paying their monthly instalments to the Marwadis who have given them good certificate in this respect and it is in very few cases that he has to go to Court. Some Banias and grain-dealers charge on credit accounts of grain &c. 150 per cent to the Mahars and there are a few extremely needy people who even pay 300 per cent *i. e.* annas four per rupee per month, to the Kabuli money-lender whose methods of realization are too well-known to need their description here. These things make it absolutely impossible for the poor man to extricate himself from this dreadful position and he is completely at the mercy of the sowcars. I have known instances of people who for the fear of the sowcars do not even go to their homes for nearly eight days after they have received their pay. The usual practice of these people is to bring the pay to the money-lender who credits it to his account which the borrower can scarcely understand Then he receives on the same account a fresh loan for the

expenses of the month. Thus, a new fetter is forged on his legs. It is commonly known that clever sowcars who deal with these needy classes generally take from them a bond for twice the value of the amount actually paid, the interest for the period being first deducted. In investigating a case it was brought to my knowledge that the usual practice of a money lending firm that gave financial accommodation to the poor tram-conductors and such other servants was to take a bond of Rs. 50 for a loan of Rs. 25 to be returned in three months; and deducting interest at 75 per cent. stamps, and writing charges the borrower would actually receive Rs 20 for which a bond for Rs. 50 had to be passed. It is here that the special aid of co-operation is sought and the details of some of the existing Debt Redemption Societies given below will show that co-operation can really bring them partial though not perfect relief.

208. Summary.—When value is expressed in terms of money, it is called price. Prices of commodities will rise or fall if people are prepared to pay more or may pay less for them. The law of demand and supply operates here and prices are determined by the quantity of supply on the one side and the intensity of demand, on the other. Values being expressed in money, the supply of the media of exchange, exerts very great influence on the course of prices. A rise of prices is the same thing as depreciation of money and a fall means the enhancement of the purchasing power of money. The fluctuations of prices are shown by index numbers.

Prices may rise under a monopoly and will be lowered under the influence of competition. When the supply of certain kinds of commodities runs short, e. g. the supply of food grains in times of famine, prices go up, that is a certain unit of money purchases smaller quantities or a larger amount of money must be paid to buy the same quantity of goods. Different

causes, operating either on the demand or the supply, will raise and lower prices. But when the general level of prices is affected in either direction, we have to turn to the quantity of money in circulation for an explanation.

This quantity theory of money satisfactorily accounts for changes in price levels. Prices were low in old times, because the quantity of money in circulation was small and the commodities commonly consumed were plentiful. Only those articles were dear, of which the supply was limited. During the last few years, prices have gone up all the world over, and this depreciation of money is set down to the increased production of gold and the consequent expansion of currency and credit. India has now been brought into intimate contact with the markets of the outside world and the general rise of prices has extended to this country.

The rise of prices in India, which began about the year 1904, could have been caused either by an inadequate supply of commodities or by an increase in the quantity of the money in circulation. Mr. K. L. Datta who made an inquiry into this question for Government, concluded that the supply of food grains in India having failed to keep pace with the growth of population, their prices rose; and in the case of the other commodities he attributed the rise to a variety of causes some peculiar to India and the others operating throughout the world. Those who expressed the view of Government, declined to believe that the quantity of rupees issued from Indian mints had anything to do with the rise of prices which they attributed to other causes, such as the expansion of credit, extension of communications and so on, while the critics of the Indian currency

system held that the general rise of the level of prices was brought about by the enormous circulation of the token coins which exceeded the demand.

The social and economic evolution which is going on in the country, has resulted in a steady change in the methods of consumption. Food stuffs have become dearer within the last few years, and though the railways enable the transport of food grains from one part of the country to another in times of scarcity and even in normal times, the total quantity of the stuffs has not increased in proportion to the population. Tea has indeed become a common thing, and among the higher classes, other articles of food are being used as substitutes or additions. Among them, there is a tendency to adopt western methods in the matter of dress, housing and furniture and a demand for these articles has led to an increase of the imports of the commodities calculated to satisfy the new wants. The imports of cheap foreign articles has stimulated their consumption on an increasing scale.

In towns enjoying facilities of railway communication changes in this direction are well marked and they are slowly penetrating even the countryside. Operatives working in factories require more clothing and a larger variety of it and they spend their earnings on other things which were luxuries before or which they could not have thought of using on account of their outlandish character. Consumption of liquor is unfortunately spreading fast among the lower classes, and on the whole, it appears that higher wages have not led to any physical and moral improvement in these people.

The westernising tendency is proceeding rapidly in the country though the bulk of the population

living in villages, is yet unaffected by it. The standard of living is rising among classes of workers whose wages have increased ; but the rude plenty which characterised agricultural and urban life in the past is no longer to be seen. Spread of education, the adoption of western ways of life, and the establishment of the modern system of administration and law are tending to improved sanitation and an increasing enjoyment of material comforts. Certain evils which western civilization and modern industrial organization have, however, brought in their train, have to be combated as they arise. Indebtedness is a chronic complaint from which the working classes suffer most, and though on the whole, they are simple and sober, there are certain directions in which much avoidable waste is going on ; and this waste has got to be prevented. The Indian working man does not compare unfavourably with the operative in other countries except that his earnings and standard of living are much lower.

INDEX.

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(N. B.—The figures refer to pages.)

Agricultural Labour,—65 , Dr Voelcker on Indian—66.

Agricultural Capital, the Form it takes and the Amount possessed by a Rayat, 87.

Agricultural Banks, 317 ; Banks controversy, 346.

Agricultural Loans Act, 185, 335.

Assam, system of indentured labour, 397.

Banking, statistics concerning Indian—103-104 ;—facilities inadequate to meet the requirements of economic progress, 105; Indigenous, 297 ; Presidency Banks, 300-306 ; Exchange Banks, 306-309 Joint-stock Banks, 309-311 , Bank failures. 311-315, Agricultural and Industrial Banks, 315-17 ; Savings Banks, 321; State Bank, 322 , Bank Rate, 317; co-operative—, 338, Land Banks, 346.

Bhagwadgita, 36.

Birthrate, High—going hand in hand with a high death rate, 160.

Bose Pramathanath, On the constitution of the Indian mind, 31.

Briggs John, quoted, 373.

Capital, Indigenous—not scanty but shy, 96 ; foreign—its amount and advantages and disadvantages, incident to its employment, 100-101; India's position as regards the four classes of, 102-103 ; remuneration of, 363.

Caste, Economic aspect of, 122; Caste and crafts, 124 ; castes and labour organizations, 409.

Chamberlain, Austen, 427 ; Joseph, 221, Commission, 253.

Civilization in India, 24-25, impact with western, 456.

Commercial policy, Evolution of—197-200 ; Mercantilism, 197, *Laissez Faire*, 198 ; Protectionist Reaction, 199; representative Indian opinion on the proper, for India, 208-14.

Communication means of, 186 ; —development of, as a cause of high prices, 447.

Consumption, changes in methods of, 453, and prosperity, 455.

Coomarswami, Plea for the preservation of home industry, 121.

Co-operation, Principle of 329 ; Problem in India, 333 ; History of, in India, 335-343 ; Maclagan Committee's Report on, 350-357.

Council bills, 282 , drawings of 287 , rate of drafts, 289.

Criminal tribes, 89.

Currency, old system, 234-235 ; bimetallism, 237, Committees, 240; Chamberlain Commission, 253 ; Paper, 253 ; Issue of paper money 257 ; Reserve, 259; Circulation of Paper currency, 262.

Customs Duties, the place of—in revenue arrangements, 217 ; 426.
Dadabhai Naoroji, on free trade, —,208.
Datta K. L., Explanation of the increased number of agriculturists, 46 , on causes of rise of prices, 447-48; on condition of agriculturists, 152 , on wages, 400
Depressed classes, 78
Dutt R. C., on foreign capital 101;—on Indian imports, 170
Economic Condition, Factors affecting India's—, 3.
Economics and Ethics, 17.
Exchange, theory of, 174 ;—, mechanism of, 268 , Rate of, 270 ; Indian, 273.
Excise, 428.
Factory, Acts, 406 ; Life, 403.
Factory system, Economic and Social changes brought about by—, 112.
Famines, Character of Indian—149 ; remedy suggested by the Commission of 1880, to prevent them, 149.
Finance, local—, 433 ; Provincial—, 432; railway, 423.
Fiscal autonony, Necessity of—for India, 219–220.
Food grains, supply of, 145 , prices of, 450.
Foreign Trade, Returns for 1913–14, 179 ; not the most beneficial to India, 195.
Fragmentation of Land, Evil of—, 128.
Gilds, English, 124 ; and castes, 125.
Gokhale, on the right commercial policy for India, 213-214; On indentured labour, 396; on India's public debt, 438.
Gold, absorption of—, 182 ; Findlay Shirras on the unproductive use of—, 183 ; standard, and gold exchange standard, 246 ; mint, 149 ; standard Reserve, 251 ; Chamberlain Commission on gold mint, 253.
Hoarding, 96
Imperial Preference, Government of India's opinion regarding—221 ; aims and objects and the system of—, 223 ; Conditions precedent to the adoption of—, 226-227 ; Prof. Nicholson on—,229 ; —not attractive to India as a business proposition, 230.
Imports, Increased—of manufactured articles, 181 , of articles of luxury, 454.
Income tax, 429.
Indebtedness of the Rayat 89; of mill hands, 461
Indians, outlook of—on life, 29–31.
Indian Economics, Connotation of the term, 2.
Industrial Enterprise, Tendency to become hereditary. 117.
Industrial Evolution, Course of —described, 107–08.
Industrial Organization, of the old type in India, 109–111.
Industrial Future of India, 132–135.
Industrial Revolution, Effects of—on India, 176.
Industries, Small *vs.* Large, 120.
Interest, 366 ; usurious, 367.
Jobber, 404, 407.

Joint Stock Concerns, Place of —in modern Industry, 112-13, Banks, 309-311.

Joint Stock Enterprise, in India, 115.

Ketkar, on the passivity of Indian character, 31.

Joshi G. V., on mineral wealth of India, 42 ; on expansion of India's import trade, 176.

Labour, Role of—in Economics, 56-57 Inefficiency of Indian —, 58, potentialities of Indian—, 58-59 ; distribution among various occupations, 61-64 ; lack of technical training, 69, untapped sources of—, 77-80 , wastage of—, 81 ; Shortage of—only apparent 82-83 ; Problem, 392-94; Contract, 375; Indentured 396-98, Organizations,406-10.

Land, Importance of—as a factor of production, 43 ; Classification of—43 , Area under important crops, 45 . Causes of pressure on—, 47 . Conflicting views regarding the deterioration in fertility of—, 49 ; fragmentation of—,108 , Banks, 346 ; Proprietorship of, 374 ; Tenures, 373 , Bombay, 386; Revenue Settlement, permanent, 421.

Luxury, imports of articles of, 454 ; use of articles of, 453.

Macdonald, J. Ramsay, on Indian labourers, 406 ; on jobbers, 407 ; on the workman's standard of living, 455.

Maclagan Committee's report, 350.

Malthusian Doctrine, 139 ; not operative in India, 154.

Manufactures, Gradual extention of Indian—171.

Maritime Activity, India's—in ancient time, 168.

Minerals, Progress in the Production of—, 51 ; necessity of conserving—, 52.

Money, economy,164-65; Quantity theory of, 466.

Permanent settlement, 421.

Population, Rate of the increase of—in India, 141 ; Density of—, 142 ; pressure of—on the means of subsistence, 144 , food-supply being outstripped by the increase of—, 145 ; distribution of, among occupations, 61-64.

Poverty, Problem of—in India, 39-40.

Preference, Imperial, 221.

Prices, causes of rise, 447;—and prosperity, 452 ,—and currency, 449.

Profit, 363 , agricultural, 364, industrial, 365.

Protection *vs.*, Free trade, 203-225 ; Indian view about, 208; Protection by itself cannot renovate industries, 217.

Public Debt of India,—435.

Railways, The Economic effects of the construction of—, 185 and 194 ; Finance, 423; State management of, 424.

Ranade, on Indian Economics, 5 ; on evils of a laissez faire policy,—208 ; on functions of the State, 219 ; on old cur-

rency sytem—, 234; on redemption of rent, 388 ; on ruralization of India, 220.
Rayat, condition of, 77-78 , rayatwari system, 376.
Religion and progress, 25,—test of,—37.
Reserve, paper currency, 259 ; gold standard, 251 ; treasury system, 319.
Rent, 369; Redemption of, 388.
Salt duty, 428.
Shipping, Gradual extinction of indigenous 189 ;—statistics of carrying trade done by foreign—, 191 ; toll levied by foreign—, 192.
Spiritualism,—35 ; spiritual and material—, 27.
Standard, gold--246 : of living, 453.
State, Landlordism, 372 . duties of, 219 , railways, 424 , not a parasite, 414
Tagore, Sir Rabindranath, on East and West, 28-29.
Taxation, what is a tax? 414 , land tax in India, 416 ; burden of taxation in India, 407; Reform of 432 ; Provincial, 433 ; local, 433 ,--control of, 432.
Tenancy, Acts—, 383-86.
Trade, Figures for Seaborne—, 179 ; inland—, its character and value, 188 ; balance of India's, 277.
Training, traditional, 69 ; technical, 71.
Usury, 361 and 461; suppression of, 365.
Village Organization, 67-68 ; village and labourers, 457-58.
Wealth, Natural—of India, 40-42 ; production of—39 ; distribution of,--362 ; and welfare, 15.
Wacha D. E. on free trade and protection, 209 ;--on railway finance, 423 , on land banks, 346.
Wattal, Conclusions based by, on the Census Report,--53.
Wages, Rise in and causes of rise of, 400-403.
Wilson, Sir G. F. on Railway finance, 424 ; on currency and prices, 448, on protection, 226.

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