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AN

HISTORICAL SUMMARY AND CRITICAL EXAMINATION

OF THE

Indian Point of View in Economics

BEING

The Manockjee Limjee Gold Medal Essay of the University of Bombay, for the year 1916.

BY

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FOREWORD.

The following pages have practically been reprinted from the Journal of the Indian Economic Society, Vol. I, No. 4 and Vol. II, Nos. 1–4. Though every attempt was made to bring the matter uptodate when it was published in the Journal, some portions must, at this date appear old and even stale. That, however, is a fault of all such reprints which it has not been possible to avoid, and which has been intensified by the rapid changes through which some of the Indian economic questions such as the currency have of late been passing. This defect will, it is hoped, not come in the way of the fulfilment of the main object of this reprint which is to invite criticism and suggestions.

I cannot close without recording my gratitude to Prof. B. K. Thakore, Deccan College, Poona, who kindly went through my essay more than once, made valuable suggestions, and advised immediate publication.

Vallabh Bag,
GHATKOPAR,
23rd July, 1920.

D. A. SHAH.

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AN
HISTORICAL SUMMARY AND CRITICAL EXAMINATION
OF
THE INDIAN POINT OF VIEW
IN
ECONOMICS.

Preliminary—Scope and Method.

That Economics is a universal science applicable to all countries alike is now an exploded belief. Economic conditions widely differ in different countries, and abstract theories which are generally based on the experience of one or a few countries have often to be modified and sometimes altogether abandoned while considering the cases of particular countries or peoples. This fact in itself is a sufficient *raison d' etre* of the Indian point of view in Economics. It has also been doubted whether Economics can be strictly called a science at all. However that may be, the Indian point of view in Economics at any rate has, hitherto, been more of an art than of a science.*

But it does not follow, therefore, that we can rest content with a mere mass of economic facts relating to India, Economic facts, however valuable they may be, are not the same as Economics whether it be an art or science. Moreover, though economic facts are the basis on which the structure of Economics rests, a work on Economics has necessarily to leave out a vast amount of economic facts.

The persons first to feel that the general economic theories as they knew them, were not as a whole applicable to India, were some of the officials of the Indian Government carrying on the administration of this country. Taught by that stern teacher—experience, they began to realise, though not fully, the meaning of the peculiar conditions with which they were confronted. This can be seen from the official literature—from the minutes of the highest officials like the Governors-General or Provincial Governors as well as from the reports of humble district officers. Whatever may be the intrinsic

* S. V. Ketkar's "An Essay on Indian Economics", p. 8.

merits of such litetature, no economic doctrines can be said to have sprung out of it directly, nor can the formation of, or alterations in, the opinions held by Indians be directly traced to it. We shall, therefore, exclude from our purview the early official literature, except when incidental references have to be made to it for the purpose of explaining matters falling within the range of this essay.

Later, we come across a few persons—some among them Anglo-Indians and others, Indians who had, through English education, become conscious of the political life of their country—persons who dissatisfied with the economic conditions around them, made enquiries and published the results thereof. Although these results may, in the light of the knowledge that we possess now, seem to us imperfect and unreliable, it is a fact that opinions based upon them exercised a powerful influence at least on two generations of educated Indians. Some of these opinions acquired very nearly the status and celebrity of doctrines, and have not spent all their force even now. In these enquiries and opinions, then, we perceive the birth and beginning of the Indian point of view in Economics which has gone on developing, but has, probably, not outgrown its infancy still.

In the course of this brief survey, we shall not be able to take special notice of men like Rao Bahadur G. V. Joshi*, or G. Subramania Iyer†, because their reputations were Provincial rather than All-Indian; nor shall we be able to take much notice even of men like G. K. Gokhale‡ who, on account of their position or free will, were concerned more with criticism on policies and methods of the administration than with the formation or advancement of the economic thought in the country.

The method that we shall follow, is a compromise between the two courses often followed viz. the statement and discussion of doctrines in their chronological order or the consideration, one by one, of persons who have wielded great influence in the sphere of Economics, ascertaining the extent of their influence and the amount of truth in the views propounded or supported by them. We cannot follow the

* "whose knowledge of administrative and economic problems was almost unsurpassed by any Indian." Kale—"Gokhale & Economic Reforms", p. 54.

† who wrote a book "Some Economic Aspects of British Rule in India".

‡ who was undoubtedly, one of the greatest, if not the greatest student of Indian economic problems.

first course, because, if we confine ourselves to doctrines, much that deserves careful notice, would be left unnarrated. For, though we had some doctrines in the beginning, we have scarcely any now. There are at present no such settled opinions held by a very large section of the people, as may properly be termed doctrines; but even if we have any such opinions, they are in the melting pot, and we are not sure whether they will come out of it in their original form. The other course is not the proper one for us, because, though there were, in the earlier period, some persons who held the field of Indian economic questions, we cannot point out any such persons now.

The compromise will enable us to deal with a few doctrines, and a few persons separately as also to undertake the work of showing how the Indian point of view affected some of the most important questions of Economics. In short, it will enable us to see things in their true perspective, and to have a connected general idea. One consideration viz. that of enabling the reader to understand every chapter without waiting for the chapters to follow, has been deemed to be of paramount importance, and if, for the sake of this consideration, symmetry is found sometimes to have been sacrificed, and some statments repeated, the reader will, it is hoped, be a little indulgent.

CHAPTER I.

THE EARLY PERIOD.

§ 1. *The beginning: The Era of the three D's. The old school.*

It is not at all possible to determine a particular point of time when the Indian point of view in Economics arose. In India, however, Economics has, from the beginning, allied itself with politics, and for practical purposes, therefore, we may roughly associate the birth of the Indian point of view in Economics with the commencement of Dadabhai's political work, i. e. about the year 1866 when, so far as we know, Dadabhai's first speech was delivered.

Dadabhai is the father of the political movement in this country. He handled economic subjects also, and tried to present to Government, what he thought to be the Indian point of view in those subjects.

No book dealing with economic subjects as such has been written by Dadabhai. We have to pick out his views on different economic subjects from the two books* that are available to us and which are collections of his speeches and writings, the latter mainly consisting of his correspondence with officials, statements submitted to commissions and committees, and a few articles in magazines. A number of economic topics have been discussed in these books e. g. the Poverty of India, the Drain, High Prices, and Currency. But what is prominent throughout the books, is Dadabhai's strenuous efforts to prove the object poverty of India, and to show that it was the result of the politico-economic drain from the country. Even if it were not a fact that his writings at one time consitituted the main portion of our economic literature, Dadabhai would have been specially referred to for another reason. Though he was not the first person to use the word "Drain" for the payments that India had to make abroad, it was he who made the word familiar to Indians and to those Englishmen who cared to know anything about India—so much so that the "Drain" has been aptly considered to have attained the status of a theory.

Another pioneer in the Economics of India is Digby. He had worked in India for a number of years as a Government official. He had opportunities of coming in direct contact with rural India. His

* "Poverty and Un-British Rule in India", and "Speeches and writings".

chief work* "Prosperous British India" was published as a reply to one of the speeches of Lord George Hamilton, then, the Secretary of State for India. It was meant to prove beyond doubt that India had retrograded in material prosperity under British rule. Here also as in Dadabhai's books, very strenuous efforts are made to prove the poverty of India and also to prove that the "Drain" which was the result of British rule in India, was the main cause of that poverty.

Dutt Romesh Chunder is the third D. He also had worked as a district officer for a number of years, and had opportunities of acquiring first-hand knowledge about the condition of the village-population of this country. He was a profuse and all-round writer. His contribution to the Economics of India consists mainly of three books. † He was a believer in the "Drain" theory, but we know him, not as a supporter of that theory only, but as the person who made another view familiar to those taking interest in Indian economic questions. He asserted that there was extreme poverty in the land, that the poverty was visible in the increasing number and intensity of famines, and that it was due to the over-assessment of land revenue by the Government and the uncertainty engendered through tenures other than the Permanent Settlement. He also pointed out how Indian industries and manufactures declined in the last decades of the eighteenth and and the first decades of the nineteenth century leaving agriculture as virtually the only source of national wealth in India. "Manufactures crippled, agriculture overtaxed, a third of the revenue remitted out of the country"—poverty and famines follow necessarily—was Dutt's final summing up. These books—especially the economic Histories—being almost the only works of their kind in our economic literature, were widely read, and his opinions readily received. As a consequence, his opinions wielded, at one time, an influence in the economic sphere, which was hardly inferior to that wielded by the opinions of Dadabhai.

Dadabhai—the "Grand Old Man of India"—is revered by the whole of India on account of the great energy and single-minded enthusiasm with which he devoted himself to his country's cause. He had to do much up-hill work. His was the tongue which spoke when few others' could speak; his was the hand that worked when few others' did.

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* The minor works being "India for the Indians and for England", "The condition of the Indian people in 1901" &c.

† "Open Letters to Lord Curzon on Famines and Land Assessment in India", "India in the Victorian Age", and "India under the Early British Rule."

William Digby was one of those few Anglo-Indians whose hearts burned for the welfare and progress of India. He pleaded the cause of India on the grounds of the true interests of England as well as of justice to this Dependency of the British Empire. In an age when the distance in all spheres, between the rulers and the ruled, was much greater than what it is now, Digby justly attracted the attention and commanded the respect of the Indian educated world. Dutt was well-known in the literary as well as in the political world. He combined high scholarship with the ripe and varied experience of a district officer. He lived laborious days even in the evening of his life when most men think of rest and ease. He was one of the most prominent men of his generation, and was universally respected in India for his ceaseless and selfless work in the cause of his country.

But we have to judge Dadabhai, Digby, and Dutt solely from their views on Indian economic questions, and from that standpoint, it seems clear that students of later generations will look upon their contemporary reputations as unjustifiably high. The merit in Economics, as in most other matters, consists in seeing things exactly as they are, and though there may be circumstances tending to distort one's sight, that test does, all the same, remain the supreme test. At the most, we may make some allowance for the circumstances if they were unavoidable. They tried to trace the misery of the Indian people mainly to a single cause, and like all those who try to do so in the case of a large community, Dadabhai, Digby, and Dutt have failed. They have done service to the country, but their views will not be acceptable to future generations.

Dababhai, Digby, and Dutt have been grouped together for two reasons. The first reason is their tendency to pitch upon one single thing as the cause of most evils. The second reason is that they represent very well, the old school whose existence extended over a pretty long period—about forty years. Within these there is included the earliest exponent of the old school as also its latest and strongest exponent; and Digby might be taken to represent the few Anglo-Indians who belonged to the old school.

Most of the criticism of the old school was negative, and to a certain extent irresponsible. This may partly be due to the entire impotence of Indian opinion on account of the absence of representation or any other arrangement assigning to Indians a share in the

governance of their country as also to the fact that their knowledge was one-sided, and otherwise limited and superficial.

A part of Ingram's description of the nature of the literature of the Mercantile School, exactly applies to the literature of our old school: "We must not expect from the writers of this stage any exposition of political economy as a whole; the publications which appeared were for the most part evoked by special exigencies, and related to particular questions.....They were in fact of the nature of counsels to the Governments of States"*

Lastly, it may be noted that most of the books of the old school mentioned by us, appeared about the end of the nineteenth century. But these books represent the views held and expressed by the writers of the old school during many years preceding their publication. Like lamps which burn brightest before they go out, the old school showed the greatest activity before its final fall.

§ 2. *The "Drain" and "Poverty" (In the old light).*

We have already remarked that Dadabhai was not the first person to make use of the word "Drain" in the sense in which it has for so long been familiar to us. The word had been used in that sense, in the past, by some Englishmen the majority of whom were Government officials. We find that in the year 1834, Mr. Montgomery Martin employed the word to convey the same sense.† The word had no definite meaning, nor was any attempt made till recently, to give it such a meaning. Though writers sometimes took care to deduct some items e. g. profits of commerce by foreigners, and even the interest on loans for railways,‡ from the total amount of payments that India had to make to foreign countries, the general idea in the country was that all foreign payments were a drain.

The drain was looked upon with the greatest alarm. It was pointed out that India which was once rich, had grown poor because a large amount of wealth left the country every year, and that if the drain of wealth, continuous as it was, continued for long in the future,

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* "A History of Political Economy", p. 42.

† "Poverty and Un-British Rule in India", p. 266.

‡ "Ibid, p. 38, where Dadabhai hesitatingly deducts the interest on railway loans.

the country would be reduced to unimaginable poverty. The calculation was simple. If India lost twenty crores of rupees a year, to what a large sum would the loss amount within thirty or forty years? The principal would be equivalent to six or eight hundred crores. But what of interest? Adding interest to the principal, we arrive at a huge figure. Why! even England would be exhausted if she were deprived of such an amount of wealth. With calculations such as these, the prospects appeared–as they were bound to do–very gloomy. So the supreme duty of an Indian, it would naturally be concluded, was to save his country from such a drain. Almost all Indians of light and leading believed in the pernicious effects of the drain. Everywhere–in books and magazines, in weeklies and dailies–whenever occasions arose, the drain was dwelt upon. The idea filtered down even to the vernaculars* the literatures whereof were, in those days, evry limited.

Remedies were proposed, but hardly any of them were feasible. As for instance, proposals were made that army expenditure should be reduced, or that a reduction should be made in the expenditure incurred for the "India Office" in England, or that England should share the burden of expenditure necessary for the maintenance of the "India Office" and the army, or that a larger number of Indians should be employed in the public service here. It is evident that the last only of the remedies proposed, could have, to any appreciable extent, been carried into effect in those days. But by how much would it curtail the drain? Of course, only by a comparatively very small amount. "For a disease so dangerous, so grave, so alarming, a remedy so poor, so inadeqnate, so nugatory?" one may well ask. The old school would answer the query either by silence or by repeating the same remedies. This is the principal drawback of the old school. It failed to perceive real practicable remedies for the diseases which, it thought, it had diagnosed. Another defect was that it was prone to exaggerarion. The old school was right in considering the drain as an evil. For an admittedly poor country like India, it was a serious affair if twenty or twenty-five crores of rupees annually left its shores, never to return. But what the old school failed to realise was the distinction between an individval and a country. The considerations that might be appropriate for the former, may not be so in the case of the latter.

* As an instance may be mentioned "Hind and Britânia" written in the Gujarati language, published by the "Gujarati" office.

Though there was a dispute* as to the effects of what was called the drain, there was no dispute at all about its existence. This, however, was not the case with the question of the poverty of India. The Government used to declare emphatically that India had advanced in material prosperity, while the old school used as emphatically to declare the exact reverse of it. Various estimates† were made on each side, and each side was also convinced of the correctness of its estimates. But here also what we have to note, is the insufficiency or the impracticability of the remedies suggested by the old school. The remedies were, as we have seen, reduction in the land-assessment or the stoppage of the drain. Granting that the land was over-assessed, and that a reduction in the assessment was possible, the remedy was very insufficient, and the stoppage of most of the drain was, as mentioned heretofore, impracticable. The poverty was, moreover, exaggerated. In the abstract, no sane person who knows India doubts that she is very poor. But to demonstrate the poverty by instituting comparisons‡ with England, the United States of America, France, Germany or Australia, is really absurd. They are countries that widely differ from India. Moreover, the comparative opulence of those countries is more an indication of the vast strides that they have taken in their industrial and even agricultural development than that of the retrogression in the material condition of India.

Some of the faults of the old school, were the result of circumstances e. g. its tendency to exaggerate was partly due to a similar tendency on the part of Government officials§ The fact, however, remains that the old school did not perceive things sufficiently, and that what it actually perceived, it perceived in false colurs. In other words

* Practically between the Government and our old school.

† Dadabhai's estimate about 1870, was about 40s. or Rs. 20 per head. See "Poverty and Un-British Rule in India", p. 25. Digby's estimate in 1901 was about 20s. or Rs. 15 per head. See his "Prosperous British India", p. 615.

Lord Curzon's estimate in 1900 was 40s. or about Rs. 30 per head.

Atkinson's estimate later than Lord Curzon's and more elaborate, gives Rs. 39.

‡ e. g. See G. V. Joshi's "Speeches and Writings", p. 758.

§ Government apologists had generally before their minds the period of transition from Native Rule to the East India Company's Rule—the chaos, the absence of roads and communications and security, the high assessments on paper and lack of trade. With this period they compared the period of English Rule, and came to the inevitable conclusion that the lot of the average Indian had improved a good deal.

the old light was dim, and through causes difficult to avoid, it was also coloured. What new light has revealed to us, will be determined in another chapter later on.

§ 3. *The Herald of the New Light.*

Light was still dim and coloured and the vision of most persons continued to be distorted. To an onlooker, things did not promise to improve fast, though a little change for the better was, sometimes, visible* here and there. The new light may properly be said to have been heralded by the late Mr. Justice Ranade, the *Guru* of the first set of young patriots of Western India who devoted themselves, according to their opportunities, to a serious study of Indian economic problems.

Mahadev Govind Ranade is entitled to our special attention mainly for two reasons: firstly, because he discarded the old line of thought and emphasised the fact that our plans ought always to be constructive, and secondly—this is a more important reason for our purposes—because he insisted upon the necessity of a Political Economy which took notice of Indian economic conditions instead of the conditions of the West. It is unfortunate that his views on Economics are not available to us in the form of any systematic and fairly comprehensive book. But the little that he has left to us in his stray speeches and writings † on economic subjects, is of a high value.

It is a pleasing coincidence that Ranade's first speech ‡ dealing with Economics was delivered as an address inaugurating the Industrial Conference, Poona, which was a beginning, though small, of constructive work, and an indirect recognition of the special sphere which Economics was entitled to occupy, apart from politics. Pleasing indeed it must always be to see the first economic engineer, working at and introducing to the public, the first piece of constructive work intended to serve as an instrument for further construction. The

* *e. g.* see Raja Sir T. Madhav Rao's speech as Chairman of the Reception Committee of the Third Indian National Congress.

† A collection of these speeches and writings has been published under the title of "Essays on Indian Economics".

‡ Delivered in 1890, "Essays on Indian Economics", p. 189. All the quotations in this chapter are from that speech.

speech is marked by deep insight, frankness, and a bold departure from the line of thought that prevailed in those days. He first touches upon the poverty of Indians and their helplessness in times of scarcity. "Many millions among us scarcely earn a couple of annas a day, and many millions more are underfed, and live on the borderland of Famine and slow death, into which the failure of a single monsoon precipitates them". This was a matter of common knowledge. But what was not a matter of common knowledge just follows. A notion prevailed then (and even now it prevails to a certain extent) that the condition described above, was brought about solely by foreign conquest and foreign competition. Ranade admits the evil effects of both of them, but with considerable limitations. "Of course", he says, "this condition of things is not of yesterday, and is not the result solely of Foreign Conquest and Competition. It is an old, a very old Inheritance." But a question might arise as to why we do not find the matter emphasised in our previous history. To this he replies "If we feel it more keenly now, we feel it because we are being roused from the sleep of Ages, and our eyes have learnt to see, and our ears have learnt to hear."

Next, he proceeds to another subject viz. the condition of industry and commerce. Much of the industry had already passed out of the hands of Indians, and he said "The Industry and Commerce of our country, such as it was, is passing out of our hands, and except in the large Presidency Towns, the country is fed, clothed, warmed, washed, lighted, helped and comforted generally, by a thousand Arts and Industries in the manipulation of which its sons have every day, a decreasing share." Here also there was not much that was new to his hearers. But when he comes to the causes of the destruction of Indian industry and commerce, he has to say something which must have been a revelation to most of those who heard him. The old school of thought was never tired of repeating that India was once famous in the whole world for her industries and that her manufactures were once exported to European countries. But the East India Company came here, and purposely and ruthlessly destroyed these thriving industries by using the hand of "political injustice."* Ranade realised that although this may have been true at one time, the Company was not the real cause of the permanent destruction or depression of Indian industries. Even if the East India Company had not done what it did, our industries were bound to give way before

* From W. W. Hunter's oft-quoted passage.

the stress of the change brought about by the Industrial Revolution in the West. Ranade lays his finger on the right point when he declares that "Foreign competition—not because it is Foreign, but because it is the competition of Nature's powers against Man's Labour, it is the competition of organized skill and science against Ignorance and Idleness—is transferring the monopoly not only of wealth, but what is more important, of skill, talent and activity to others."

Referring to the "Drain," Ranade admits its existence, and the undesirability of a portion of it. But he looks at it from a standpoint which was altogether different from that of his contemporaries, but which has been recognised as reasonable by thinking persons now. He considers the pursuit of the question of tribute as fruitless.

As to the methods of bringing about the economic regeneration, Ranade admits that the Government of India does not, and could not, from the nature of the doctrine which England professed, do for Indian industries what France and Germany had done for theirs. But he considered the factor of such Government help as subordinate to many others. He preached—and it was rare preaching in those days—the necessity of earnest and persevering efforts on the part of the people themselves. "We have", he asserted, "to work with a will, to pull long, pull all, and to pull till we succeed". He ended his address by a piece of advice to his audience. "What we have chiefly to avoid," he affirmed, "is the pursuit of impracticable objects".

So far as his opportunities allowed of it, he disavowed, and often in clear terms, the teachings of his predecessors and contemporaries. Indeed, the new era was to take long to come, but, at last the voice was heard of a man who had seen the economic position of India in a truer light. Their minds having for long fed on old economic thought, most persons failed to realise fully the significance of what Ranade told them. As a consequence, the views of Ranade were not truly appreciated until very recently i. e. until the new light had dawned on many more persons who could, therefore, see things as Ranade saw them.

§ 4. *A case for the Indian Point of View in Economics made out.*

Though the idea seems to have been long in the air that conditions in India differed very much from those in the West, and that what was good for a nation or nations of the West, was not necessarily so in the case of India, it was Ranade who imparted a shape to that floating

mass* He read his paper on Indian Political Economy (which we, for our present purposes, take to be the same as the Indian point of view in Economics) in 1892, before the students of the Deccan College.

He sets out by reviewing shortly the history of economic thought in Europe. He deprecates the absoluteness attributed to Political Economy by the Orthodox School, and adds that there can be no such Political Economy as would be universal in its application. He refers to those who seek to get over the difficulty of absoluteness by differentiating the Science from what they are disposed to call the Art of Political Economy. "This Divorce of Theory and Practice is, however," says he, "a mischievous error, which relegates the Science to the sterility of an ideal dream or a puzzle and condemns the Art to the position of a rule of thumb." Then he proceeds to explain that the whole of the Political Economy as it was taught in Indian Colleges, was the result of the experience of the West only, and was not based, and could not have been based, upon a comprehensive view of the conditions of all the countries of the world. The Indian economic conditions were vastly different from, and in some cases exactly the opposite of, Western economic conditions. The Political Economy ought, therefore, to be reconstructed before it could be properly applied to India. The reconstruction should proceed with due regard to the conditions prevailing in India, and on these conditions he dwells at great length :—

"The characteristics of our Social Life are the prevalence of Status over Contract, of Combination over Competetion. Our habits of mind are conservative to a fault. The aptitudes of climate and soil facilitate the production of raw materials. Labour is cheap and plentiful, but unsteady, unthrifty, and unskilled. Capital is scarce, immobile and unenterprizing. Co-operation on a large scale of either Capital or Labour is unknown. Agriculture is the chief support of nearly the whole population, and this agriculture is carried on under conditions of uncertain rainfall. Commerce and Manufactures on a large scale are but recent importations, and all industry is carried on, on the system of petty farming, retail dealing, and job working by poor people on borrowed capital. There is an almost complete absence of a landed gentry or a wealthy middle class. The land is a monopoly of the State. The desire for accumulation is

* This will be evident from that portion of the writings or speeches of Dadabhai which deals with the standard of living, high prices in India, free trade &c. See also G. V. Joshi's "Writings and Speeches", p. 688 where Railway policy in India is discussed.

very weak, peace and security having been unknown over large areas for any length of time till within the last century. Our Laws and Institutions favour a low standard of life, and encourage sub-division and not concentration of wealth. The religious ideals of life condemn the ardent pursuit of wealth as a mistake to be avoided as far as possible.....Stagnation and dependence, depression and poverty, these are written in broad characters on the face of the land and its people."

The quotation is sufficiently long—perhaps too long; but necessity is its justification.

The statement, so far as it went, was a faithful representation of the various aspects of Indian economic life. It may be observed that there have been considerable changes* in those aspects, since the statement was made. But the changes do not diminish the need of a Political Economy dealing specially with India i. e. those changes do not diminish the need of "The Indian Point of View in Economics".

The paper was mainly based, as all such writings may be expected to be based, on the German economist List and the American statesman Hamilton. It is of unique importance in the early economic literature of India, and although more than 25 years have passed by, they have only confirmed the force of Ranade's main contention. A few more writings† of the kind have since been added, but the paper—the address to the students of the Deccan College–remains unsurpassed from the point of view of clearness and force of expression. A few new arguments have indeed been evinced in favour of the case which Ranade supported, but the additional arguments are not absolutely essential for the making out of such a case.

§ 5. *Land–Assessment. Permanent Settlement.*

In India, assessment of land revenue has been recognised on all hands, as of paramount importance, because it materially affects agriculture, the premier industry of India, as also because, land is the source of about one-fifth of the total gross revenue of the Indian

* e. g. Labour can no longer be considered to be either quite cheap or plentiful, nor can capital be said to be altogether scarce, immobile or unenterprizing, now.

† *e. g.* Radha Kumud Mukerji's "Introduction to Indian Economics", and Kale's "National Economics and India" in his "Indian Industrial and Economic Problems".

Government. Appointments of special officers, committees, and Commissions, and reports and minutes of a long line of administrators beginning from before the time of Lord Cornwallis upto the present day, indicate that the utmost attention was paid by the Government to this question. But the question had not attracted any general notice from the public until Dutt took it into his hand. If Dadabhai may be said to have brought the question of the "Drain" into prominence, it was Dutt who brought his characteristic diligence and force to bear upon the question of land-assessment, and brought it into prominence.

Very divergent views have been held as to the excessiveness or otherwise of the incidence of land revenue. One side which may be roughly identified with Dutt alleged that except in the permanently settled districts, the revenue exacted by the Government was too high, and was the principal cause of the indebtedness and poverty of the agricultural classes; and that the Government demand was not only high according to modern notions, but it was high even when compared with the demand under the early Hindu or Mahomedan rule. The argument used in this connection was that under the early Hindu or Mahomedan rule though the Government demand was, in theory, much larger, the theory was never realised in practice, and what Government actually took or could take from the agriculturists was, on an average of years, far less than what was taken from them by the British Government; that the cause of the frequency and intensity of famines was the resourcelessness of the ryots which in its turn was due to excessive Government demand.*

On the other side which may roughly be indentified with the Government, it was said that the revenue demand under the British rule was much lower than the revenue demand during any period in India's past history. That famines were not a novel feature of the British rule only; they occured—and not less frequently—in pre-British days also; and that the intensity of the famines under British rule had been mitigated, by the care and energy of the British Government, to an extent unparallelled in the history of India.

Another complaint against the Government was the uncertainty of the revenue demand. It was said that the cultivators feared that every fresh settlement would increase their burden of taxation and

* "Open Letters to Lord Curzon &c." by R. C. Dutt, p. 17, where a direct charge to that effect has been made.

that improvements on land were sure ro be followed up by a large increase in the State-demand at the next settlement. It was pointed out that the lack of initiative on the part of the Indian peasant which was attributed to his conservatism was the result of the uncertain revenue demand.

Dutt was most active about the years 1900, and 1901. He obtained an interview with Lord Curzon, the then Viceroy of India, and had a long conference with him on the question of land revenue assessment. Then he ventilated the question in England and published his "Open Letters to Lord Curzon on Famines and Land Assessment in India." Dutt was a very staunch advocate of Permanent Settlements. He urged upon the British public that the final abandonment of the idea of extending the benefit of Permanent Settlements to Provinces other than Bengal, was a serious blunder, and that the blunder ought to be mended in view of the growing intensity of famines in temporarily settled areas. Dutt's contention was that the permanently settled districts were almost immune from the effects of famines, and the same would be the case with other Provinces if the boon of Permanent Settlement were conferred upon them. Dutt's activity culminated in a petition signed by himself and ten other retired Government officials, and submitted to the Secretary of State for India, in December, 1900. This petition, however, did not ask for Permanent Settlement at all. It contained a few moderate demands, some of them being the lengthening of the period between two settlements, and the fixing of a limit for the maximum revenue demand and a standard which would govern any increase in it. This petition together with the criticism of Dutt brought forth in January, 1902, the famous "Resolution on the Land Revenue Policy of the Indian Government" which ably and exhaustively dealt with the points raised by the "critics of Government", and which is a very valuable summary on the subject.

The resolution set at rest the question of Permanent Settlement, by giving a final and decisive verdict against it, on the grounds that the advantages supposed by Dutt's school to flow from the Permanent Settlement, did not in fact flow from it and that that "System of agrarian tenure" was "not supported by the experience of any civilized country."* The Government would, therefore, be unwise if they gave up their legitimate right of sharing in

* "Resolution on the Land Revenue Policy", paragraph 6.

the unearned increment. The general necessity of long settlements was admitted, but short settlements in certain districts were justified on the ground of circumstances. As to fixing any limit to the maximum revenue demand, and the introduction of some standard which would govern the increase in Government demand for the purpose of imparting the element of certainty to it, the Resolution refused to admit the necessity of any hard and fast rules in those directions. On the other hand, it promised to do all that was possible to make the assessment equitable and just, e. g. it promised the extension of the policy of remissions of revenue in bad seasons, and also promised a decrease in the amount of revenue assessed, if at the settlements there were found any cases which demanded such a decrease on account of deterioration of land or any other adequate cause.

In respect of the question of land revenue assessment, the difference between the two sides is a difference, not of principle but of fact. The Government Resolution declares:—"It cannot but be their desire that assessments should be equitable in character and moderate in incidence, and there should be left to the proprietor or to the cultivator of the soil—as the case may be—that margin of profit that will enable him to save in ordinary seasons, and to meet the strain of exceptional misfortune"*. Dutt himself refers to the passage and states:—"I gratefully acknowledge that there is no difference, in principle, between the views I have urged and the views so authoritatively laid down in this Government resolution. And if I still press for land reforms in India, it is because the prevailing practice in India is not in conformity with this principle; the incidence of revenue is not moderate and equitable; and a sufficient margin is not left to landlords and cultivators to meet the strain of occasional bad harvests".†

As to the Permanent Settlement, the view taken by the Government in the matter is more correct than that of Dutt. There is one certain effect of the Permanent settlement, as to which there is no dispute—that it has created a wealthy upper class in Bengal. But this upper class of landlords has not been able to fulfil the expectations that were formed of it. The creation of such a class, therefore, at the permanent sacrifice of considerable Public Revenue which Permanent Settlements entail, would be too costly for the

* "Resolution", paragraph. 2.

† The Pioneer, 12th March, 1902. Reprinted in "Land Problems in India",

country.* The question has now mere academic importance, as it has been recognised by the people as well as the Government, that Permanent Settlement is beyond the pale of practical politics.

As to whether the Government demand of revenue was excessive, we have, with regard to Oudh, Budelkhand, the unprotected parts of Central Provinces, certain Madras districts, and particularly the Bombay Deccan and Gujarat, the adverse testimony of those who have seen the actual working of the land revenue, and have been in the closest touch with the people.† They assert "The land revenue represents more than the economic rent and trenches on the cost of cultivation". It must be remembered, however, that these opinions were formed "before the partial relaxation of the stringency of assessment rules and the more considerate treatment of the ryot in the temporarily settled areas that have been ordered by the Government in the last few years. Moreover, during the unexpired period of the running term of settlement, the cultivators reap the full benefit of the present high prices of agricultural produce."‡

As to whether the revenue demanded by the British Government is heavier than that under the early Hindu or Mahomedan rule, no positive assertions can be made for want of sufficient information. Moreover, conditions in different Provinces—even Districts—differ, and even if information were available, it would be difficult to make a statement applicable to India as a whole. On the other hand, while instituting comparisons between figures relating to revenue-demand under early Hindu or Mahomedan rule and those relating to the revenue-demand under British rule, some very important points must

* *Cf.* the article of E. Gilbert on "Indian Taxation" in the "Commonweal" of 9th June, 1916. He suggests that for properly understanding the question, the word "State" should be substituted for "Government". He refers to the movement for the nationalisation of land, going on in other countries.

In the course of a speech delivered at a meeting of the Royal Society of Arts, Mr. Bhupendra Nath Basu is reported to have said "The Permanent Settlement gave the whole wealth of those rich provinces to men most of whom were formerly nothing more than collectors of rent".

† *e. g.* See Ranade's "Essays", p. 32., G. V. Joshi's "speeches and Writings"—portions dealing with famines, Agriculture in Bombay. Also Dewan Bahadur Ragoonath Rao, Mr. Ganjam Vencataratnam, Mr. G. K. Parekh, and Rai Bahadoor B. K. Bose on land revenue in "Land Problems in India". Gokhale also referred to the matter in a number of his speeches.

‡ Jadu Nath Sarkar—"Economics of British India", pp. 321, 322.

be considered, and allowed for, before arriving at a conclusion. Thus those who try to prove† that the present revenue-demand is smaller than the revenue-demand in pre-British days must remember :—

(1) That the maximum laid down in former days was hardly ever realised,

(2) That in most parts of the country, a less amount of total area was under cultivation formerly than now, and therefore the land under cultivation must have been, as a rule, more fertile then than it is now. On account of this fact, the cultivators must have been in a position to spare more for the State,

(3) That the cultivators derived, in former days, many direct or indirect advantanges from forests, wastes &c. Their cattle could graze without any expense, and fuel cost them nothing, and

(4)—This point is very important and hardly ever noticed—that the expenses of cultivation were formerly much less than they are now, and so a demand of a certain portion of gross produce, would leave to the cultivators much more than what a demand of a similar portion of the gross produce would do now.

Those who urge that the present Government demand is really much higher than that of the earlier Governments must not forget

(1) That the share fixed by the Governments of Hindu and Mahomedan periods, was certainly meant to be taken. If it was not taken, the reason generally was the inability of the cultivator to pay the full share, rather than anything else*, and

(2) That the value of the share of produce left to the cultivator (even if the share were larger in quantity) was much less than the value of the share left to him now.

The prayer of the petitioners with regard to certainty deserved a better treatment at the hands of Lord Curzon than what it actually received. One can understand, how, having before their eyes the measure of Lord Cornwallis which bound the Government for ever, and which has subsequently come to be regarded as a mistake†, Lord

† e. g. See Keatinge's "Rural Economy in the Bombay Deccan", p. 33.

* *Cf.* Strachey—"India, its administration and progress", p. 138.

† Pramath Nath Bannerji's "A study of Indian Economics", Chap. XIII. Indian statesmen seem to be included when the author says that the modern trend of opinion seems to look upon the measure (Permanent Settlement) as a mistake.

Curzon and his Government felt shy of pledging themselves to anything which would tie up their hands and hinder their freedom of action. One can also understand Lord Curzon's appreciation of the Executive and the good work done by them. But it is difficult to understand how Lord Curzon and his Government failed to realise that men are men after all, that settlement officers are not always sympathetic, and that it is dangerous to leave the ryots entirely at the mercy of those officers.

The proposal‡ of the petitioners that only the rise in prices, or agricultural improvements at the expense of Government, should permit an enhancement may not be perfect; but the imperfection is not its condemnation. What laws are not imperfect? All the same, laws have to be passed, they being the lesser evil. It is well-known that a lower but uncertain tax weighs more heavily over the tax-payer than a little higher but certain tax. Moreover, the acceptance of the test would not have had the same effect as that of the Permanent Settlement. Government could, at any time, have substituted a better test if any such were discovered subsequently. It is to be regretted that the Government did not see their way to accede to the proposal of the petitioners in this respect. We might only wish that the day would soon arrive when Government are ready to give up their shyness and boldly accept what does not, in fact, fetter them any more than laws passed by a Legislature fetter the Legislature.

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† It may be noted that emphasising the necessity of a system which would "enable the proprietors of land to forecast with tolerable precision and without official aid the enhancement of revenue" to which they would in future be subject, the Government of India themselves say, in their Resolution dated the 9th May, 1883, "that such a system of settlement cannot be satisfactorily established, if any increase of assessment is permitted on other than the three following grounds :—

(1) Increase of area under cultivation ; (2) Rise in prices ; (3) Increase in produce due to improvements effected at Government expense".

Vide Ramji Laxman Ghatat's "The Alibag Revision Settlement", introductory note, pp. 4, 5.

CHAPTER II.

The Transition.

§ 1. *The Awakening. Boycott and Swadeshi.*

Fifteen years had passed since the paper indicating the right lines of constructive economic work in India was read by Ranade before the Industrial Conference, Poona. No fewer than thirteen years had gone by since Ranade proved, before the students of the Deccan College, the necessity of a Political Economy which was based upon Indian economic facts. Ranade was, of course, listened to with great respect, but the light which helped his observations was available hardly to a few persons in the country, and therefore none but those few could realise the true import of what was said by him. As has been mentioned already, the old school still continued to sway the Indian mind. The country may still be said to be half-asleep, when an event happened which roused it from its drowsiness. In the year 1905, the Partition of Bengal was suddenly declared by the Government of Lord Curzon as an accomplished fact. The measure came upon the Bengalees like a shock—a shock which rudely awakened them. Once awakened they woke up other Indians also by dinning into their ears the nature of the event that had happened, and the critical time that had arrived. They called aloud for immediate united action. A wave of enthusiasm passed over the whole country not excepting the villages. As in the lives of individuals, so also in the lives of peoples, communities and nations, comparatively unimportant events achieve what more important events have failed to achieve. People were wide awake and somewhat hysterical. They were under the influence of a fever brought on by the great activity which suddenly followed years of sleep and torpor. But the fever was only temporary. When it subsided, it became evident that it had purged the organism of some of its injurious matter, and left it sounder and fitter for work. Though the awakening was due to a political cause, it was an awakening after all, and was bound to affect the economic sphere too. Confining ourselves, then, only to the economic results of the awakening, we perceive that more and more attention began to be devoted to economics, and a tendency towards constructive and systematic work was created. But this improvement in the economic sphere was the indirect and somewhat remote result of the awakening. For the present, we attend to its direct and immediate result.

This result was the birth of two very notable forces, *viz.* Boycott and Swadeshi,* which were economic in their effects in spite of their political parentage. They were created primarily to serve as political weapons for the purpose of bringing England to her senses by chastising her manufactures. Boycott was a weapon for attack, and Swadeshi, a weapon for defence.

"Boycott" and "Swadeshi" were words known long before the Partition of Bengal. But their meanings were vague, and having never been defined, have continued to be vague till the present day. It was taken for granted that people knew what the words meant and so if we wish to know the real meanings of the words we should go rather to the general public than to a few stray writers who attached different meanings to them.

Boycott was first chiefly directed against England, and meant complete abstention from all that was English. But experience made it clear that certain things, though they were English, were essential to the well-being of India; for instance, we could not, to our advantage, boycott English books, nor could we, similarly, boycott English industrial skill, or English machinery. So, in course of time the meaning of Boycott was narrowed down to abstention from unessential English goods. On the other hand, its meaning widened, because with the lapse of time, Boycott, having lost much of its political significance was extended to unessential things produced by other foreign countries also. Thus the meaning narrowed down in one direction and widened in another.

Swadeshi,* if strictly construed, would mean the limiting of one's purchases to things made in his own country. In this sense, Swadeshi would amount to the same thing as Boycott if we judge by the result, although the conceptions of the mind are not the same, in the case of Swadeshi the conception being that of inclusion, and in the case of Boycott, the conception being that of exclusion. As in the case of

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The first meeting inaugurating the Boycott and Swadeshi movements was held in Calcutta on 7th August, 1905. See Ambica Charan Mazumdar's "Indian National Evolution": the chapter on the Partition of Bengal.

* Swadeshi originated about forty years ago in this Presidency. Ranade, Telang and Mandalik were its originators. V. N. Mandlik when asked in Calcutta as to why he wore rough clothes, replied "I must wear these thick clothes, as my country's mills cannot yet produce any finer fabric." See J. N. Sarkar's "Economics of British India", p. 294.

Boycott, it was realised through experience that India could not be entirely self-sufficient, and therefore Swadeshi came to mean a preference for goods made in this country.

Boycott has been denounced and Swadeshi extolled, to an extent out of proportion to their real merits or demerits. As is well known, hot controversy raged round the question of the adoption of Boycott in the programme of the Indian National Congress, one section insisting on its inclusion, the other being bent on its exclusion. This was one of the causes which led to the Congress split of 1907. The result of this political controversy was that passion began to rule supreme, and attempts were made by the contesting parties to prove either that Boycott was wholly beneficial or that it was wholly pernicious. Impartial judgment, so far as can be seen from the writings about that time, appears to have been suspended. Now that the controversy has abated, we can have an impartial view of the whole affair.

Boycott was rightly abandoned on political grounds, for, Boycott tended to endanger the mutual good feelings between the rulers and the ruled which are essential for the welfare of both. One may, perhaps, question even the ethics of Boycott, because it originated from an idea of hatred and retaliation. But attemptst to run it down on economic grounds must prove complete failures. If Boycott be not allowed to extend to foreign things absolutely essential to indigenous production, there is no reason whatever why it should affect our economic situation adversely. On the other hand, nobody can gainsay the plain fact that if some persons refrained from buying some unessential foreign commodities, so much money is saved to the country. The money thus saved might go to make purchases of Swadeshi goods, or might go to increase the industrial capital of the country, or it might go to advance some beneficent object, or it would, at least, become available for some such purpose. If Boycott did not cause industries to flourish, it only proves that we had not the capacity to create and carry on industries. If it could not diminish the imports of foreign goods, at least, it checked the continuous rise in the amount of those imports. The essence of Boycott, according to the popular notion, is not hatred or retaliation, but abstention from certain foreign goods. Viewed purely from the economic

† *e. g.* V. G. Kale's articles on "The Breakdown of Boycott", and "Swadeshi and Boycott", reprinted in "Indian Industrial and Economic Problems".

standpoint, it makes no difference whether Boycott is or is not accompanied by the idea of hatred or retaliation, and from such a standpoint, therefore, the protectionists, at any rate, cannot, deprecate Boycott. But politics and ethics often count for more than economics, and on those grounds, the use of the word Boycott, because it smacked of of hatred and retaliation, was rightly disapproved of. It may, however, be mentioned that Boycott, as it is popularly understood, is bound to exist by the side of Swadeshi, so long as Swadeshi in its popular sense lasts.

Swadeshi as it is generally understood is a preference for goods made in our own country even when they are inferior in quality to, and higher in price than, foreign goods. Swadeshi in this sense is quite different from the so-called Swadeshi said to have been accepted and directed to be enforced in an official circular, before the Partition of Bengal. The Circular does direct Government servants to prefer indigenous articles to foreign ones, but only when the former are as good in quality as, and do not cost more than, the latter. This is not what the people understand by Swadeshi. The confusion of thought arises from the uncertainty of meanings to be attached to words freely used such as Boycott and Swadeshi. Swadeshi incurred the displeasure of many of the official class, on account of its association with politics. But subsequently it has earned free encomiums from officials as well as non-officials, Anglo-Indians as well as Indians,* because its meaning was never definite and everybody took it to mean very nearly what he liked. It is questionable whether Swadeshi deserves these encomiums as contrasted with Boycott. An ordinary man with a Swadeshi vow will tell us if questioned, that when he buys a Swadeshi commodity both Swadeshi and Boycott are present before his mind, because to him now Boycott is nothing but abstention from the purchase of foreign goods. It will, perhaps, provoke his smile if we tell him that Swadeshi is good, but Boycott is bad, for, to him the two are inseparable.

It has been repeatedly asserted that "Swadeshi" is perfectly legitimate, and that the strength that the scheme of Imperial Preference gathered since the commencent of the Great War and the discussions between the Allies at the various economic conferences are but additional proofs of its legitimacy. It has been suggested that preferential treatment among the members of the

* *Vide* various utterances in "The Swadeshi movement", Natesan & Co., Madras.

British Empire, or among the Allies, is nothing but Swadeshi applied to a wider sphere. It must be remembered, however, that the preference urged amongst the Allies is not pure Swadeshi even as we understand it, but contains something of the Boycott that we thought it proper to deprecate on special grounds of our own.

There is one important fact to be borne in mind. Swadeshi * as we understand it, is, and is meant to be, a sort of protection for industries, and therefore it must have the limits that protection has. Swadeshi ought to exist only so long as there is the necessity of protection for a country's industries. Swadeshi is a national effort to encourage national production, and must cease when the necessity for such encouragement ceases.

Boycott and Swadeshi form a land-mark in the economic as well as in the political history of this country. From the day on which Boycott and Swadeshi movements were inaugurated, a change began to appear in the economic thought of the country. Foundation of the policy of construction was laid by Boycott and Swadeshi. Boycott did the digging work and Swadeshi did the work of filling the gap with concrete and stones.‡ Boycott and Swadeshi necessitated action on the part of the people, instead of mere talk on economic subjects. Though asking others to help them, now they also began to help themselves.

The growth of Boycott and Swadeshi in India and the direction they eventually took, must always be extremely interesting and important to a student of Economics, as also to a student of Politics. They are huge experiments tried by a considerable portion of a large community. Boycott was an attempt by a country to lead a partially isolated existence under modern conditions. Swadeshi was an attempt on the part of a people to revive and create industries in their country by means of protection voluntarily given by themselves as distinguished from that given by the state.

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* Here it does not seem necessary to take notice of that "Swadeshi" which would call upon people to buy hand-made goods only as distinguished from machine-made goods.

‡ This will probably help Jadu Nath Sarkar for whom "it is difficult to see how something can be created out of nothing" (Eco. of Br. Ind., p. 294). 'Nothing' can never be the material cause (in the Aristotelian sense) of "something", but it can be a "condition precedent" for the creation of a new thing as the absence of weeds for the proper growth of crops.

§ 2. *Wider Outlook. The Day breaks.*

We saw how Boycott and Swadeshi may be considered to have laid the foundation of the general constructive policy in Economics, and how the people began to put their own shoulders to the wheel. So also, we find after some time, that Indian economic literature began to be enriched by books characterised by an outlook which was wider than that of any that had preceded them. At the end of the year 1909, *i.e.*, after about four years from what we have termed a landmark in the Indian economic history, the statement of Ingram quoted heretofore could no longer apply to Indian economic literature. During that year we got from the pen of Jadu Nath Sarkar, the historian of the Mogul—the Aurungzeb-period, an exposition of the "Economics of British India" as a whole. Though "British India" is not the same as India, most of the general statements that are true of British India are true of the remaining India too. Two years later, *i.e.*, in 1911, Pramath Nath Bannerjee added one more book of the same kind—"A study of Indian Economics".

Bannerjee truly says "Although many capable men have dealt with the details of Indian economic facts, yet very few have attempted to grasp the principles or to explain facts by the aid of theories"†. He alludes to another important factor also that "Unfortunately the position in India is such that those who take part in economic discussions identify themselves with this or that party and thus find it difficult to recognise and appreciate the whole truth".† Bannerjee's book would cure both the defects; for, Bannerjee endeavours to write the book as a scientific enquirer free from political bias.‡

Sarkar's preface to the second edition of "Economics of British India" in the form of an address to his country-men, is an indication of the signs of health begun to be shown by the economic thought of this country. Sarkar deprecates the negative criticism and emphatically urges the necessity of a constructive programme. "We can" he says with reference to the past, "repine at that past, we may apportion the blame to the parties; but we cannot draw from it an inspiration for fresh enterprise." He warns his countrymen against the belief that "the economic problems will be solved only

* It may be remembered that in India "awakening" generally precedes day-break.

† Bannerjee's "A study of Indian Economics", Chapter I.

‡ "A Study of Indian Economics", Preface.

by political means and the acquisition of political power, neglecting voluntary effort, co-operation and character-building on the part of the Nation". He points out that the supreme need of the country was "that of managers and foremen, of pioneers and entrepreneurs", and for this purpose, "the highest intellect of the nation should be educated for the industries". Sarkar did the most proper thing in laying stress upon this point which was generally ignored by speakers and writers.

The year 1911 was marked also by a brochure "An Introduction to Indian Economics" written by Radhakumud Mukerji. Two features about this brochure deserve notice at our hands in so far as they indicate some advance in the economic thought of the country, and a wider outlook. The first feature is that it adds one more argument to those with which Ranade made out a case for Indian Political Economy years ago. The additional argument is that the study of Indian Economics is "necessary as a contribution to comparative or universal economics and also for the light it may throw on some of the most pressing economic problems of the age, and the course of economic evolution generally.* Ranade had pointed out the necessity of a reconstruction of the Political Economy as it was taught in our colleges. But there he had stopped. Mukerji goes a step further and suggests the lines on which the reconstruction ought to proceed. Certainly there is nothing very extraordinary about the lines suggested by him; yet what he says was not so clearly said before, and that is the second feature of the brochure. "The healthy logical principle"* which "is also a very sound principle of pedagogy"* is to proceed from the known to the unknown. This principle "is completely reversed in the economic studies of the Indian Student,"* who hardly finds in actual life around him any of the economic facts or problems presented to his mind by books on economics. He cannot, therefore, realise the full significance of those facts and problems, and his studies "fail to stimulate any living interest in the subject or suggest independent lines of thought and investigation".† The pressing economic problems of India are not properly understood–much less solved–because hardly any word is said about them in the books that the student reads. Hence the Indian student is asked to found his economic studies on a "complete

* "An Introduction to Indian Economics", pp. 51, 52.

† "An Introduction to Indian Economics", p. 53.

knowledge of," and "a thorough familiarity with, all the known facts and features, conditions, and institutions of Indian industry which are within the range of his observation and experience".*

The day had already broken, and the light which was formerly available to persons like Ranade only had, by the year 1911, become available to many more, and in fuller measure.

Now we have reached a stage when economics has begun to be considered as a whole, and individuals seem rather to slip into the back-ground. So, henceforth, we shall try to trace the history of the Indian point of view in Economics by taking up, one by one, some of the most important of those economic questions which have been affected by the Indian point of view.

* "An Introduction to Indian Economics", p. 53

CHAPTER III.

PRODUCTION.

§ 1. *Land or Nature.*

India is, as one of its names (Bharata Khanda) implies, a continent. It is no wonder, therefore, that variations of climate and soil in different parts of the country are common. These variations are the chief reason of India's richness in natural resources which countries with practically one climate or soil can, perhaps, never aspire to.

After her industrial downfall, India has been mostly feeding only foreign industries with her raw materials. With the development and expansion of foreign industries, the demand for Indian raw materials grew. This demand combined with statements made in some books* as to the abundance of the natural resources of India, gave rise to the belief that India's natural resources were not only inexhaustible, but that with the variety of her resources, she could produce anything that the civilised world might require. If this meant that India could, by proper development and utilization of her own resources, produce everything that a civilised man cannot do without, there was much truth in it. But if it also meant that every such commodity produced by India could compete in quality and price with the commodities produced in any other part of the world, the belief was erroneous, and was contradicted: "Exaggerated impressions are fostered regarding the natural resources of the country and it is eminently desirable that as soon as possible it should be realised that they are mainly of an Agricultural character."†

For want of adequate information based on scientific investigation, the statements, one way or the other, were more or less surmises. The pressure of the war necessitated the closest possible examination of the economic potentialities of India. The results of enquiries so far made, are hopeful. "Agricultural products of the country are important and valuable, though much still requires to be done for their development."‡ "The mineral deposits of the country are sufficient to maintain most of the so-called "key" industries, except those that require vanadium, nickel, and possibly molybdenum."§ Further

e. g. Ball's "Geology of India."

† Alfred Chatterton's "Industrial Evolution in India," p. 82.

‡ Report of the Indian Industrial Commission 1916–18, paragraph 49.

§ Ibid, paragraph 55.

investigation and experimentation is necessary not only for discovering products of value,* but also for discovering values in products already known. The state can hardly do better than cause this investigation and experimentation to be made through an efficient agency, as early as possible.

§ 2. *Labour.*

It has been recognised on all hands that Indian labour is, on the whole, "unskilled and inefficient, unambitious and unenterprizing," and that organization of labour is almost unknown. The absence of ambition and enterprise in the labouring classes may be attributed to the nature and habits of the masses. But the fact that the bulk of Indian labour is unskilled and inefficient is largely due to want of proper education. Though efficiency implies a number of qualities that collectively go to increase the economic usefulness of workers, there can be no doubt that education, if judiciously given, would cure many of the defects of Indian labour. Proper education would work a healthy change even in the nature and habits of the people.

"Labour is cheap and plentiful" said Ranade in 1892. Formerly Indian labour was cheap, and although wages have kept on going up, it has not lost its apparent cheapness. Now, however, Indian labour is economically† dearer than European or American labour. Real cheapness seems, in most cases, to be passing away from us. It may be noted, however, that there are cases in which properly trained Indian labour has proved itself the equal of English or any other labour, the lowness of wages notwithstanding.‡

Various causes have been assigned for the growing dearness of labour in India—scarcity of labour, high prices &c. Whatever may be the cause of the dearness, one very important and equally regrettable feature of the situation is that better remuneration has not increased the efficiency—or rather lessened the inefficiency—of Indian labour. Nay, complaints are even heard that the quality of the work of certain labourers and artizans has deteriorated.¶

* Report of the Indian Industrial Commission 1916–18, paragraphs 67, 114.

† It has been calculated that one Lancashire operative turns out as much work as that turned out by five or six Indian operatives.

‡ *e. g.* some time back Prof. Gilbert Slater wrote to the Press to the effect that he saw Indian operatives receiving certain annas per day doing, in the Tata Iron & Steel Works, as good work as their English confreres receiving several times their wages did in Steel Works in England.

¶ Wage census of the Bombay Presidency.

Plentifulness of labour has been for the last decade, a matter of the past. A general shortage of labour is being felt, and though all Provinces do not suffer from this shortage equally, and in some Provinces labour is said to be sufficient or even abundant,* the former easy position as to labour-supply can hardly be said to exist anywhere. Increased demand and diminution of the supply on account of the devastations of plague, influenza &c, and absence of organized recruitment are generally supposed to be at the root of the scarcity of labour. But the double immobility of Indian labour—from place to place, and from occupation to occupation—must be held partly responsible. The general disinclination of the Indian to migrate to distant parts of the country, and the diversity of language prevent the surplus of one Province or even District from supplying the deficiency in another Province or District. So also the caste system prevents, though not absolutely, the members of one caste from practising the calling of other castes. There is little doubt that there is a considerable surplus among the untouchable classes which, but for caste restrictions, would partly do away with the deficiency of labour-supply. Other lower castes are, to a certain extent, betaking themselves to the vocations of higher castes, but the field for recruitment of labour which thus narrows down, receives practically no accretions from the higher castes the members whereof generally refuse to earn their living by manual labour.

It may be noted that enlargement and consolidation of small agricultural holdings would, by preventing waste, largely reinforce India's labour force. Widespread use even of simple mechanical devices would also have a similar effect.

§ 3. *Capital.*

Owing to want of security during a long period of unsettled rule, and want of banking facilities and opportunities for safe investments, capital was very shy in India. This shyness has been gradually diminishing in spite of temporary set-backs caused by crises in Indian financial circles. Available Indian capital has been and still is unequal to the wants of India. It is no wonder, therefore, that the growth of most of the industries of India is not a compliment to Indian capital.† The desirability of the use of foreign capital by India has,

* *Cf.* statements regarding labour on pp. 1, 7, 25 and 33 of the "Moral and Material Progress and Condition of India, 1916–17".

† Kale's "Indian Industrial and Economic Problems", p. 58.

however, been a matter of discussion in the past. Formerly, foreign capital was looked upon with a very suspicious eye in India. The reason seems to be that extensive use of foreign capital was first made in connection with railways which were considered by many to be an evil*. The Indian attitude towards foreign capital underwent a change with lapse of time, and now it is generally recognised that foreign capital is a necessity so long as India cannot herself finance her industries. In order, however, that India may be able to reap full benefit, the capital should be handled by Indians. When this is not possible, foreign capital even if it is handled by foreigners may be beneficial to the country in some cases *e. g.* railways. "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.....a less favourable aspect of the question of the investment of foreign capital"..... "In such cases" we "cannot but think that it would be to the permanent good of the country to allow petroleum to remain underground, and gold to rest in the bowels of the earth, until the gradual regeneration of the country, which must come under the British Rule, enables her own industrialists to raise them and get the profits of the industries..... The price paid is much too great for the advantages accruing from them to the country"†. One good aspect *viz.* the educative influence‡ of foreign capital is generally overlooked.

§ 4. *The Industrial Brain.*

"The Three Factors of Production"—Land, Labour and Capital—which satisfied the orthodox school of economists have been found to be inadequate for production. Organization, technical skill, science &c., are most important in modern production, and cannot be said to have been included in the "Three Factors". These, however, are not so many separate factors, but only different aspects of the most important factor—the brain.

The brain has always been the root-cause (the formal cause in the Aristotelian sense) of production. Brain is absolutely necessary even

* *e. g.* see G. V. Joshi's "Speeches and Writings", p. 688.

† Sir Vithaldas Damodar Thackersey's presidential address at the Indian Industrial Conference, 1906.

‡ Sarkar's "Economics of British India", p. 165.

in the case of a primitive man operating on land with a spade. But the part played by it in archaic production may be said to be negligible when compared with the part that it plays in the modern system of production. In former days, surprises in the form of inventions were comparatively very rare. The small manufacturer was himself the master, the labourer, the entrepreneur, perhaps the capitalist, the businessman, and the agent of his industry. Even in those days a man with a superior brain was at an advantage, but others did not stand in great fear of being entirely swept away from the field. Modern production, however, requires trained brain at every stage. It is the brain that makes inventions; it is the brain that selects raw materials; it is the brain that organizes labour; it is the brain that commands capital; it is the brain that detects demand; and it is the brain that brings raw materials, labour, capital and market together. Nay in a sense, it may be said that the brain even creates raw materials, labour, capital, and demand, because it finds out suitable substitutes for raw materials, replaces much of labour by machinery, induces people, by various means, to invest their money, and by means of banking institutions and various devices, makes the same amount of money do far greater amount of work, and creates demand by arranging shows &c., and induces people to make purchases when, otherwise, they would have made none.

This fact of the immensely widened and ever-widening sphere for the play of the brain had not been sufficiently appreciated by writers on Indian economic questions. Loud and insistent demands were made for tariff walls for the purpose of protecting and fostering nascent Indian industries. It does not seem to have been perceived that the most pressing want of India was that of the industrial brain. The Swadeshi movement could not accomplish the regeneration of Indian industries because this want remained unsatisfied. Partial realisation of this fact by Indians resulted in the demand which has been growing with years for technical and commercial education. Later, we find the fact stated in clear and emphatic terms. The supreme need of the country is "that of Managers and foremen, of pioneers and enterpreneurs," and for this purpose "the highest intellect of the nation should be educated for industries". *

"The failure of many an industrial enterprise in India may be set down.....to the fact that the man who contracts it had an insufficient

* Sarkar's "Economics of British India", Preface.

knowledge of his own industry and lacked intelligence, the shrewdness, and the spirit of enterprise that are necessary for a successful business."* The failures due to insufficient knowledge, or lack of intelligence &c. are an indication of the regrettable fact that the Indian father, as a rule, reserves the "fool of the family" for industries and commerce, and not of any inherent inferiority of the Indian brain.

It must sadly be admitted that Indians occupy a very low place in the industrial world. Indian Industries (as distinguished from the industries of India which would include industries in the hands of non-Indians), with some exceptions, have not passed the stage of crude imitation. Even in the case of small promising industries, the businessman who brings together the producers and buyers from distant parts of the world is wanting.

It becomes clear, therefore, that our energies should be directed towards the creation and fostering of the industrial brain. Once we have sufficient Indian industrial brain in the country, organization which is at the root of the industrial greatness of most contries, will cease to be "our weak point".† Then crude imitation will give place to invention or ingenious adaptation, and industrial enterprise and business tact will pervade our industrial activities. Then and then alone, can we expect Indian industries to stand and even defy foreign competition.

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* Glyn Barlow's "Industrial India", p. 32.

† Vide Sir Dorab Tata's Presidential address at the Indian Industrial conference, 1915, p. 19.

CHAPTER IV.

EXCHANGE.

§ 1. *Currency.*

When we come to "Exchange", the currency policy of the Indian Government stands out in bold relief from all other questions. Currency difficulties are as old as the acquisition of power by the East India Company. About a thousand coins of different weight and fineness were current in India. As this was obviously unsuited to their trade, the East India Company after having made certain attempts to have a stable bi-metallic currency, coined in the year 1835, the rupee whose size, weight and fineness have continued to the present day. Though this rupee was declared sole legal tender, gold was not demonetised in actual practice till 1853 when the discoveries of gold in Australia diminished its value in silver, and the holders of gold coins could obtain at Government Treasuries larger price in silver than they could obtain in the market. Government Treasuries were again permitted in 1864 to receive sovereigns as the equivalent of ten rupees. The rate was raised to ten rupees and four annas in 1868. The gold value of silver, however, continued to fall which made the fixed ratio between the sovereign and the rupee unmeaning, and alarmed English bankers, merchants and capitalists. English civil and military officers also were hit hard. English financial interests, organized in Chambers of Commerce submitted representations to the Government of India on the subject. On the other hand, as the Government of India had themselves to make payments in gold for Home charges, every fall in the gold value of silver necessitated a proportionate increase of taxation. For every penny that silver fell in value, about one crore of rupees had to be added to the Indian taxation. This caused great embarrassment to Government who, supported by English financial interests in India, made to the Secretary of State, certain proposals which were rejected by the Lord Commissioners of the Treasury. Attempts on the part of the Government of India to persuade the Home Government to make a determined effort to "settle the silver question by international agreement" bore no fruit. The meeting of an International Monetary Conference at Brussels in 1892 to consider measures for the increased use of silver for currency purposes did not ease the situation. By 1892 the Government of India had begun to think that limits of taxation had been reached. And yet the declaration by the United States of America of their intention

to repeal the Sherman Act under which they annually purchased about 54 million ounces of silver, made a further fall in the gold value of the metal certain. The Government of India, therefore, urged upon the Secretary of State the necessity of losing no time in closing their mints to the free coinage of silver, and making arrangements for the introduction of a gold standard. The Herschell Committee to whom the proposals of the Government of India were referred advised the Secretary of State to accept them with certain modifications "in view of the serious evils with which the Government of India may at any time be confronted" if matters were left as they were. Thereupon, in 1893, the Government of India closed the Indian mints to the free coinage of silver, and fixed an artificial ratio of 15 to 1 between rupees and sovereigns.

Now did the currency question assume great importance from the point of view of the Indian people. Scathing criticisms were levelled against the change by persons like Dadabhai and Sir Dinsha Wacha who understood its vast significance. They pointed out with amazement the loss that the change caused to the people by diminishing the value of their silver possessions most of which were in the form of ornaments and constituted a large part of the savings of the poor population. The measure of the Government had also the effect of altering every contract and fixed payment, and thus, amongst other things, increasing taxation. The number of rupees to be paid by the tax-payer in India remained the same, but the value of the rupee having been artificially raised, the tax-payer had, in reality, to pay more. It was complained, moreover, that the currency had ceased to be automatic on account of the change, and had to be managed. It was apprehended that exports would contract, great loss—nearly 42 p. c.—would be caused to the Cotton Mills of Bombay whose chief customer was China, and that the ratio between rupees and sovereigns would never be adjusted in practice. Time falsified these last apprehensions, and by wearing out the sense of injury, soothed the minds of those adversely affected by the change. The ratio between rupees and sovereigns had been adjusted by 1898, and remained fairly steady till 1916 in spite of famines, commercial crises and other vicissitudes.

As Government coined comparatively very few rupees during the years 1893–1897 in order to cause the value of the rupee to rise, great stringency was felt in the Indian money market. The monetary system

of India was, therefore, again the subject of the deliberations of a Committee appointed for that purpose by the Secretary of State in 1898. This Committee—the Fowler Committee—reported in 1899 that they looked forward to the effective establishment of a gold standard and a gold currency, and to that end, recommended that the British sovereign should be made legal tender and a current coin in India, and that the Indian mints should be thrown open to the unrestricted coinage of British sovereigns. Accordingly, the British sovereign was during the same year declared legal tender at the rate of one sovereign for fifteen rupees. As to the minting of gold in India, the Secretary of State, with the full concurrence of the Government of India opened negotiations with the British Treasury to constitute a branch of the Royal Mint at Bombay. But the project had to be postponed in 1903 on account of the opposition of the Treasury, which first raised technical difficulties, and when these were removed, began to argue about the wisdom of the project itself. The matter rested there. But the intention of the Government of India was reaffirmed in 1910 by Sir James Meston who said in the Imperial Legislative Council that the final step—true gold currency—was delayed by "the backwardness of our banking arrangements, the habits and suspicions of the people, the infancy of co-operation." In 1912, the Government of India again urged upon the Secretary of State the necessity of coining sovereigns at the Bombay Mint, and again did the Treasury raise objections. The coinage of Indian gold coins of a suitable denomination was being considered, when in 1913 the Royal Commission on Indian Currency and Finance was appointed and the question of gold coinage and currency was left for the Commission to decide.

With a view to following up the recommendations of the Fowler Committee as to gold currency, the Government of India attempted to get gold into active circulation by paying out sovereigns to the public. But the attempt did not achieve sufficient success, and was therefore abandoned. The profits of the rupee coinage were, according to the Fowler Committee, not to be credited to the revenue account of the Government of India, but were to accumulate as Gold Reserve. Though there was nothing in the Report of the Fowler Committee indicating that the Gold Reserve should be located elsewhere than in India, or that it should be held otherwise than in actual gold, the designation of the "Gold Reserve" was changed to "Gold Standard Reserve" in 1906, and it was decided that the bulk of the Reserve

should be held in London and mostly invested in sterling securities. Part of the Reserve was to be held in India in rupees. The reason given for the location of a large part of the Gold Standard Reserve in London was that in times of crisis gold would be required for payment in England and not in India. Thus it came to pass that the maintenance of the exchange ratio of gold and silver was not the principal but the only purpose that the Gold Exchange Standard was serving in 1913.

"What is is right" was practically the conclusion at which the Royal Commission arrived regarding the two most important questions —currency and the location of the Gold Standard Reserve. In the opinion of the Commission, the maintenance of the exchange value of the rupee was the point round which the currency administration of India ought to revolve, increased use of gold for internal circulation was not to India's advantage, and the proper place for holding the Gold Standard Reserve was London.

After the publication of the Report of the Royal Commission, a formidable difficulty with regard to the maintenance of the exchange value of the rupee arose in an unexpected quarter. Formerly it was the falling rupee that had been the cause of anxiety. This time it was the rising gold value of silver—consequently, of the rupee—that caused trouble. During the period of the War, there was an unabating demand for India's raw materials, but owing to various reasons—the diminished production of merchandise in countries at war, the shrinking of mercantile marine, &c.—imports contracted. The balance of trade was unusually favourable to India. As there was scarcity of gold all the world over, and England did not allow gold to be exported freely, there was naturally an enormous demand for silver in India both on private and Government account. In spite of the expedients like the free gift of a hundred millions sterling to England, adopted by the Government of India, the excess of exports over imports necessitated the coinage of no less than 120 crores of new rupees. In other countries also, more silver was required for local currencies during the period of the War. As a consequence the price of silver rose, and it was with difficulty that the Indian Government could secure a very large quantity of silver from the Government of the United States, even at a high price. Silver rose by degrees to 58*d* an ounce. The rupee had ceased to be a token coin. Silver contents of the rupee had a greater market value than the face value of the rupee.

On the one hand, it became profitable to melt rupees, and on the other, Government incurred some loss for every new rupee that they coined. Immediate action was necessary, and Government raised the exchange value of the rupee first to 1*s*–5*d*, then to 1*s*–6*d*, then again to 1*s*–8*d*, and in August, 1919, to 1*s*–10*d*. It is feared that the rate of exchange may be raised still further. In view of the importance of the question and the state of feeling in informed circles, the Secretary of State has appointed a Committee to suggest, among other things, the measures that would "ensure the stability of the gold exchange standard".

There is comparatively considerable literature on the questions of currency and finance of this country. The reason seems to be that any change in the currency policy of the Indian Government affects English and Indian financial interests of this country, and to some extent, those of England also. These interests, therefore, naturally watch Government's policy as regards currency and finance.

The whole policy of the Indian Government has been dissected, and every detail strongly criticised. We, however, mean to confine ourselves to the question as to which currency would serve the best interests of India, and the consideration of the measures necessary to combat the present instability of the rate of exchange.

Between 1893 and 1899, Indian currency was subjected to much criticism, but the currency that was demanded most by Indian opinion was the silver currency with a free open mint, such as had existed before 1893. Since 1899, the demand on the part of the Indian public for a gold standard and a gold currency has been steadily growing. This demand combined with the demand on the part of the English financial interests in this country, made great noise before, during, and for some time after, the sittings, of the Royal commission, 1913-14.

The position of the Government of India in respect of this question is unhappy. They had all along maintained that the ideal of the Indian currency system was the establishment of a gold standard and a gold currency. But the Royal commission decreed otherwise. It declared that the position to which the Government of India had drifted, was the best for India, and that no gold standard or gold currency was necessary. It is true that there were—and to some extent there still are—amongst the critics of Government policy, two camps strongly opposed to each other. Both these camps, however,

were, and perhaps are, equally strongly opposed to Government which forms a camp practically by itself. Thus the Government of India had not only to abandon an ideal that they cherished for long, but to carry out a currency policy which had been regarded only as a temporary shift, and which was almost universally criticised in India.

On the side of free coinage of silver *i. e.*, the old currency, are ranged Sir Dinsha Wacha, and S. K. Sarma. Gold currency claims amongst its votaries Sir James Begbie, Sir Vithaldas D. Thackersey, M. De P. Webb, Sarkar, Kale, Doraiswami and Alakhdhari.*

The controversy has been passionate. Each side considers his own case to be perfectly sound, and thinks that the other side is hopelessly in the wrong. This can be seen from the manner in which both sides reviewed the Report of the Royal Commission, as also from the evidence collected by the Fowler Committee.† Wacha approved of the decision of the Commission, and confidently asserted: "Every intelligent unit of the Indian population will agree with the leaving aside of gold curreecy.‡ On the other hand, Webb was mad with rage, and denounced the decision in very strong terms.§

Various arguments have been advanced on each side. The supporters of free silver coinage have been asserting that India is too poor for a gold currency, that there is little demand in India for a gold currency and that a gold currency would be very expensive. There is no doubt that ordinary transactions in rural India are of much too small amounts to suit the use of gold coins. The position in this respect has undergone much change since 1898. Prices and wages of labour have gone up, and the servant whose pay was Rs. 4 per month in 1898, and could not, therefore, be paid in a currency note, would hardly serve now for a pay falling far short of a sovereign. The increased circulation of currency notes of ten rupees and higher denominations is a sure indication of the extent to which India may suitably use gold coins for internal circulation.

* Gokhale in his Budget speech of 1909, in the Imperial Legislative Council, expressed his opinion "with great diffidence" that gold pieces might be coined.

† See particularly the evidence of Sir Robert Giffen and R. C. Dutt for silver, and of Lord Farrer and Lord Northbrook for gold currency.

‡ Indian Review, April, 1914.

§ See also Alakhdhari's "The Growth of Currency Organizations in India", Introduction, pp. XXX to XL.

The argument that there is little demand in India for a gold currency has lost much of its force. Educated opinion in India is now overwhelmingly in favour of a gold currency though the demand, if any, from rural India would be mostly for hoarding and not for currency purposes. The force of the third argument must increase in proportion as that of the first is lost. With greater demand for a gold currency, Government would have to supply a larger number of gold coins, and, therefore, cannot solely rely upon gold brought to the Mint by private individuals to be cut into coins. So in addition to the cost of coinage, Government would have to incur some expenditure to secure adequate supplies of gold. There is one more argument developed by Sarma in his book,* which deserves particular attention. According to Sarma, the gold supply of the world, even if we take into account the increased annual production of the metal, is not sufficient for the countries that have gold currencies already. The adoption of a gold currency by such a large country as India, would mean a great drain on the gold supply of the world, and coupled with demonetisation of silver, would enormously raise the value of gold not only in silver, but in other commodities as well. India has to make payments in gold to defray Home Charges. For making those payments she sells her commodities to other countries. But if gold rose in value, she would have to part with more commodities for paying the Home charges *i.e.* the adoption of a gold currency by India would, in reality, mean an addition to the burden of her Home charges. Against this it may be argued that with the increasing use of credit instruments, less amount of actual gold would be required for business transactions, and there would, as a consequence, be proportionately less annual wastage of gold. It may also be pointed out that the Home Charges would progressively shrink as India has more and more capital of her own, as her industries develop, and as her civil and military administration gradually drops its foreign feathers. Yet the fact remains that immense quantity of gold would be required for India if she were to have a gold currency. Judging from our experience with regard to silver, India's demand for gold would surely raise the value of gold in other commodities. Unless, therefore, there be a corresponding advantage, there is no reason why the burden of Home charges should be made heavier by the adoption of a gold currency, though it may be likely that the burden would diminish with the lapse of time.

* "Indian Monetary Problems".

The chief argument of the advocates of gold is that all commercially great countries have gold currencies, and that India also should, in the interest of her trade and commerce, adopt a gold currency. It has also been argued that gold is the best metal, and silver is depreciating,* and that the excess of exports over imports would be paid in the noble metal if India had a gold currency. The fact that gold coins were current in Southern India and certain other parts of the country is generally adduced as historical evidence in support of the case of gold currency for India. It is not, however, generally remembered that, as a rule, gold and silver coins had formerly circulated on a bi-metallic basis, which sort of bi-metallic currency has become well nigh impossible under modern conditions.

As for the Gold Exchange Standard, Keynes asserts that the system which has been evolved in India is superior to other currency systems of the world, not excluding the so-called "sound" British system. He says "Gold is an international, but not a local currency. The currency problem of each country is to ensure that they shall run no risk of being unable to put their hands on international currency when they need it, and to waste as small a proportion of their resources on holdings of actual gold as is compatible with this."† This problem is admirably solved in the case of India by the Gold Exchange Standard which supplies India with an international gold currency at the same time keeping silver tokens for local currency. He considers the process of issuing rupees to the public, perfectly automatic, and explains that rupees are coined in response to the demands of trade, and that Government cannot force rupees into circulation except to a small extent. He adds that the system has been introduced in the Philippines by the United States of America, in Mexico and Panama through the influence of the United States, that the Colonial Office has introduced the same system in the Straits Settlements, and that the Japanese system is virtually the same. It is rather unfortunate that scarcely any other writer of note on Indian currency questions has openly supported the present currency system in India.

In the abstract, silver currency with a free open mint would seem to suit India's needs most. But in practice, it presents great difficulties. One difficulty arises out of India's political relations with

* This was said before silver began to appreciate lately.

† G. M. Keynes' "Indian Currency and Finance", pp. 29, 30.

England.* The depreciation of silver would not have, by itself, embarrassed the Government of India if they had no payments to make in London. The depreciation combined with the factor of the Home charges, and not alone, was the cause of the difficulties experienced by Government before 1893. No Government can tolerate a state of things in which their calculations as to expenditure are liable to be upset at any time through the operation of external causes. For this reason alone, if for no other, the idea of a free silver currency would have to be abandoned. But there is another reason also why such a currency would not do for India. India is, day by day, coming in closer and closer commercial and industrial contact with the countries of the West which use gold for international purposes. India cannot afford to have a currency which would isolate her from those countries, and which would tend to restrict the legitimate activities of her businessmen. A gold currency would obviate both these difficulties. But there are, as has been observed already, objections to the gold currency itself. In spite of the strong demand on the part of the Indian public for a gold currency, and the rise of wages and prices, gold coins can hardly serve as a medium of exchange in every-day transactions in most parts of India—especially rural. Undoubtedly, they would be very convenient for hoarding purposes on account of their small bulk, intrinsic value and the natural attractiveness of gold. If freely issued they would replace silver rupees in most rural households which have something to hoard. Gold coins may circulate in urban areas where currency notes of the denomination of ten rupees and upwards do now, and would reduce the circulation of the latter. But internal circulation of gold would involve considerable annual wastage of the metal through loss and wear and tear. Thus gold as a local meduim of exchange is unsuitable for a large part of India, and if used as such, would be expensive. If gold were to be hoarded, the currency would prove expensive in another way as Government would have to secure immense quantities of gold to satisfy the hoarding propensity of rural India which becomes effective in direct proportion to its capacity to make savings. Again, by the adoption of a gold currency, India would make the Home charges heavier.

Gold Exchange standard with a token silver or paper currency is not open to any of the objections that have been urged against a free silver or gold currency. The most serious charge against the system

* In a speech delivered at the Indian National Congress, 1898 Madras Wacha said "The disease is not currency at all, but the Home charges"

is that its currency is not automatic, has to be managed and is artificial, and that its cumulative effects on prices would be disastrous. A currency is not automatic which can or actually does expand or contract irrespective of the requirements of trade. It is alleged that Government can and does force rupees in circulation. Keynes* has explained how the allegation is not correct. His statement that the process of expansion is automatic is, under ordinary circumstances, true. But Keynes seems to have nothing to say to the critics who emphasise the absence of the safety-valve viz. melting, which enables currencies with full-value coins to contract of their own accord. If, however, we examine the nature and the working of the safety-valve closely, we find that the present Indian currency also can, if necessary, contract in a similar though somewhat round about way. In the case of the so-called automatic currencies, coins whenever they are found to be superfluous, are melted by private individnals, and the metal whether it be silver or gold is treated like other marketable commodities. In the case of the present rupees, of course, it is not possible to melt them. Yet if any body wishes to dispose of his rupees and get silver or gold as he would do by melting in the case of full-value coins, he can buy that metal with the help of the rupees in his possession. If during a particular year, people find fifty crores of rupees to be superfluous, they can exchange them for silver or gold in the open market, and for them then, the rupees are as good as melted. A demand for either of the precious metals would necessitate its importation. This would either reduce the net excess of exports over imports, and prevent fresh issues of rupees to that extent, or would cause imports to exceed exports, and to that extent would the rupees return to Government who would have to sell reverse-bills in order to maintain the rate of exchange, if for nothing else. In the first case the superfluous rupees would remain in circulation to satisfy the demands of trade *i. e.* they would cease to be superfluous, and in the other case, they get out of circulation by returning to the Government Treasury. These rupees may either be issued to the public when there is a demand for them, or may be melted by Government if they expect no demand for them in the future. This contraction is slow to take effect, and would hardly be useful for the seasonal fluctuations in the demand for currency. It would, however, effectively check any such permanent inflation of currency as would cause

* See his "Indian Currency and Finance", pp. 109 to 113.

prices appreciably to rise.* It must be noted that in all that is said about the processes of expansion or contraction of the present Indian currency, it has been taken for granted that there are no restrictions on the importation of gold or silver. If there be an embargo on the importation of either of the metals, the currency may expand when it ought to have contracted, and *vice versa*. For this reason, it is absolutely essential that imports of gold and silver should be freely allowed.

For the present currency crisis, the system of the Gold Exchange standard is not to blame. In fact, no such crisis is possible in the case of a perfect Gold Exchange standard. Our rupee contained too much silver to remain a token for all times. A perfect Gold Exchange Standard would have paper notes or cheap metal coins or rupees containing a small amount of silver instead of the present rupees. But even our imperfect Gold Exchange Standard would not have broken down but for "the refusal of the Gold standard purchasers of India's produce to pay for this produce in gold".† It is necessary, therefore, that this cause should be removed by "the reccognition of the right of India to free importation of both gold and silver."‡

Mainly three alternative proposals have been made for the pupose of tiding over the present difficulty viz. the raising of the rate of exchange, reduction of the silver contents of the rupee or the issue of a new silver coin with a small per centage of silver,§ and permanent or temporary inconvertibility of currency notes. The first proposal has already been put into effect in so far as the rate of exchange has been raised from 1*s*–4*d*. to 1*s*–10*d*. Exchange would, it seems, be fairly safe at 2*s*., though even then we cannot be sure that it would not fail us in the end. There are, however, other and much more serious objections to this course. Indian exports—especially those of cotton, tea, hides, skins &c. which have foreign competitors—would seriously suffer and the producers of those commodities would be hit hard. Raising

* Whether currency has anything to do with the rise of prices that we have been experiencing in India during the last twenty years, will be discussed when we consider the question of prices.

† Memorandum submitted to the Currency Committee, 1919, by the Bengal Chamber of Commerce.

‡ *Ibid*, recommendation No. 2.

§ Memorandum submitted to the Currency Committee, 1919, by the Indian Merchants' Chamber and Bureau, Bombay.

of the rate of exchange would mean a corresponding indirect bounty on imported articles, and would serve as a handicap on Indian industries. When the urgent need of increased production—industrial as well as agricultural—is keenly felt, and hopes have been kindled, a step in the wrong direction should be avoided by all possible means. Undoubtedly, high exchange would, to some extent, solve the complex and serious problem of high prices. But surely, the complexity and the seriousness of the problem ought to serve as one strong reason why it should be dealt with in a better and more rational manner.

Of the other two proposals, permanent inconvertibility of notes is fraught with much more danger than can be imagined in the case of the reduction in the silver contents of the rupee. Rupees being in circulation, currecy notes would at once be at a great discount in the market as soon as they are declared inconvertible. People have more faith in metal coins than in paper notes, and they would more readily accept rupees containing less silver than paper notes. Temporary inconvertibility of notes would be safer to try, than the so-called debasement of the rupee, but it is questionable whether it can ensure the stability of the rate of exchange. It seems, therefore, that there is no other alternative than to give effect to the second proposal. The silver contents of the rupee should be reduced, say to 100 grains. The new rupee should be made unlimited legal tender. Import duty on silver should be abolished, so that, at the present market price, 100 tolas of silver may be sold for Rs. 105 or 106. As the present rupee contains 165 grains of silver, it would be unprofitable to melt the rupees and sell the metal as bullion even though the rate of exchange were 1*s*–10*d*. Moreover the determination of the Government of India to stop or reduce their purchase of silver, would have an effect on the silver market causing silver to fall. There would, then, remain no ground for the fear entertained in some quarters that the coining of new rupees would drive the old ones out of circulation; Gresham's Law cannot come into operation when it is unprofitable to melt the old rupee. Even if we take it for granted that old rupees would be melted, the metal must come to the market and may, if necessary, be bought by Government and coined into new rupees which it would be profitable to them to coin even if a high price were paid for silver. In such a case, however, the capacity of mints would have to be multiplied many-fold. It is possible that the old rupee would command a premium in the market. But this can

be only temporary and cannot last for long. If there is considerable disparity between the values of the old and the new rupee, a period may be specified at the expiration of which the old rupee would lose its character of legal tender. In this case, the old rupees must, by the end of the specified period, either return to the Government Treasury or be unprofitably melted. The period may be fixed having regard to the capacity of the Mints to turn out new rupees which may replace the old ones. No efforts should be spared to increase the capacity of Indian mints which are the veritable ammunition factories in this war with the exchange crisis. The rate of exchange should, for the present, be brought down to 1s–8d. After the new rupee has established itself, it may, after due notice, be lowered to 1s.–4d. There does not seem to be any advantage in issuing a coin of a denomination higher than the rupee. If it is not made legal tender, it would not have sufficient effect. If it is to be made legal tender, it is better that the new coin should be a rupee rather than anything else. Minor remedies also such as increased issue of nickel change, greater facilities for encashing currency notes, permission to certain Banking institutions to issue notes, and change in the method of purchasing silver for currency purposes deserve attention.

Raising of the rate of exchange would be very attractive to any Government in the position of the Government India. It is easy of accomplishment in so far as the change would pass unnoticed by the vast majority of the people. Home charges would be reduced, and revenues would, for practical purposes, increase. Men with fixed incomes including Government servants would be satisfied. Even those producers who receive less money for their produce, would welcome a fall of the prices of other commodities, all the while ignorant of the fact that it was the raising of the rate of exchange that reduced the price of their own produce. Regard for the true interests of the country, however, should lead Government to coin a new rupee though the course may be difficult. In order to soften the political as well as the economic effects of the change it is essential that Government should secure full co-operation of public bodies and men by taking them into confidence.

§ 2. *Prices.*

Another question which vitally affects the people, and which deserves to be specially considered from the Indian point of view, is

the problem of high prices. Prices have been rising in India during the last fifty years. They were rising here even when they were falling in Europe.* Long before the year 1905, high prices had been a subject of discussion, and it was generally thought that the rise of prices was not healthy but abnormal.† Since the year 1905, however, the problem assumed a more serious aspect on account of the fact that prices took a sudden leap during that year, and rose enormously afterwards. The prices that had settled down as ordinary prices before the outbreak of the War were above the level of famine prices before 1905. A good deal was written and spoken upon the subject. The attention of Government was invited, and they responded by appointing a committee headed by Mr. K. L. Datta, to enquire into the matter. The results of the committee's labours were available to the public in the year 1914. Since the commencement of the World-War, prices have risen to such an extent that the former enormous rise has faded almost into insignificance. People fed themselves with the hope that prices would fall after the conclusion of peace. The War has ceased, peace has been concluded, the year has yielded bumper harvest, and yet the prices have not gone down so low as to fulfil the expectations of the people. It has been doubted whether prices in India would ever revert to the pre-war level in spite of the rise of the rate of exchange. The demand for a fresh enquiry, made by Sir Dinsha Wacha at the September Sessions of the Imperial Legislative Council in 1919, indicates the dread with which the recent rise of prices has been looked upon in India.

The causes that must have brought about the rise of prices are bound to be many and various. But we mean to confine ourselves only to the question whether inflation of the rupee currency was one of such causes because that was, of all causes, the subject of most discussion in the country, as also because, if inflation of currency were the principal cause, it is such as can possibly be removed.

There was a considerable volume of opinion in the country backed by men like Gokhale‡ that unnecessarily large numbers of rupees were issued by the Government since 1905. Their artificial value prevented the rupees that were not required for circulation,

* During the four decades preceding the year 1896 prices fell about 40 per cent. in Europe.

† *Vide* Dadabhai's "Poverty and Un-British Rule in India", pp. 62—82.

‡ Gokhale's "Speeches", p. 218.

from being melted, and it was alleged that the automatic safety-valve for the contraction of currency being non-existent, the imprudent addition by the Government to the currency of the country resulted in a great inflation. It was urged that this inflation was chiefly responsible for the abnormal rise of prices. This view was supported by figures showing the rise to be approximately proportionate to the increase in the rupee currency since 1905.* Mr. Datta, however, differs from this view on the ground that the coining of the rupees by Government was in response to the demands of trade. Government, as may be expected, fully endorsed Mr. Datta's opinion in this respect. It may be mentioned that Sarkar† also rejects the increase in currency as a cause of the rise of prices.

Everybody who knows the nature of the question must admit, as Mr. Datta himself does, that it is extremely difficult to determine even approximately the causes that lie at the root of such a rapid rise of prices as that experienced in India since 1905. Yet Mr. Datta's view that Indian currency had nothing to do with the rise of prices (before the war) seems to be correct not only because of the one reason mentioned by Mr. Datta, but because of other reasons also to which hardly any reference has been made during the whole discussion. In the first place, as has been explained already,‡ the safety-valve does exist though in another form, and no permanent inflation of currency is possible so long as there are no restrictions on the importation of precious metals. In the second place, the adjustment of relative prices to relative values which is the basis of the Quantity Theory of money, does not take place in any one country only, but in all countries which have commercial and financial connections with one another.§ India has important commercial and financial relations with foreign countries, and the prices in India would, therefore, be regulated by prices in those countries. Allowance, however, being made for the cost of carriage, and minor differences due to the state of foreign exchanges, currency laws, etc., prices must remain the same in all countries. Consequently, inflation of currency cannot be said to have contributed to the rise of

* Kale's "Indian Industrial and Economic Problems", pp. 186—187.

† "Economics of British India", p. 234. See also Howard's "India and the Gold Standard", Chapter IX.

‡ On pp. 44, 45.

§ Vide Nicholson's "Principles of Political Economy", Vol. II, pp. 136, 137.

prices unless it is proved that prices in India were higher than those in countries with whom she is commercially and financially connected.

"But why were our prices not regulated by world-prices formerly?" one may well ask. The answer to the query is that the operation of world-prices on the Indian market was formerly hindered by certain factors the effectiveness whereof has been gradually diminishing with the lapse of time. The exporting firms in India could formerly manage to buy the produce of this country at comparatively cheap rates, and pocket the difference. So the local prices did not rise sufficiently high. But for some years past, the producers have been slowly realising more and more the facts of the matter, and as far as possible, they do not sell their produce at low prices.* Moreover, with the passage of years, some parts of the country which were not, for want of sufficient communications, accessible to exporters, have now become accessible to them on account of further extension of railways. In this way, local prices have become more responsive to the prices abroad. This responsiveness coupled with the rise of prices in other countries may be taken to be the principal cause of the rise of prices here. As to the recent extraordinary rise of prices, it cannot equally confidently be said that inflation of currency had nothing to do with it. There was an embargo on the importation of gold and silver. In almost all countries with which India has important commercial and financial relations, there was inflation of currency. Economic forces could not operate freely on account of various measures taken by various Governments for bringing the war to a successful issue. It is, therefore, not unlikely that the additions to the currency of this country helped the recent rise of prices.

But the people are naturally more concerned with the effects than the causes of the rise of prices. General opinion in India looks upon the rise of prices as an evil. Mr. Datta, Sir Theodore Morison and a few others, however, declare that high prices are, on the whole, beneficial to India. With regard to the high prices prevailing in India, the general opinion in the country seems to be much more correct than the opinion of Mr. Datta, or Sir Theodore or economists like Gide, Jevons and Macculloch who hail high prices as an inestimable boon.

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* Vide Sarkar's "Economics of British India", p. 65.

Recent experience of the enormous rise of prices in the Western countries must have led many persons to revise their opinions. Even those who still favour a rise of prices must admit that it should be gradual and spread over a long period. The fact, however, that high prices in Europe and America did not stand in the way of their general progress, at any rate till the outbreak of the War, seems to have misled those persons who maintain that high prices are beneficial to India. The chief characteristic of the rise of prices here was that the rise was largely confined to food-stuffs which are the first necessaries of life. In Europe and America, exactly the reverse was the case.*

It is arguable that the producers of food-stuffs viz. cultivators and owners of milch cattle form a majority of the population of India, and stand to gain by high prices of their produce, and that therefore high prices of food-stuffs must be considered beneficial to the country as a whole. But here it must be remembered that not only does the class of people with fixed incomes suffer heavily by such a rise, but that at present the benefit is, to a certain extent, snatched away from the producers, by the exporting firms and others who are middlemen. If, however, the position in this respect improves–and it is bound to improve,—and all or most of the benefit is reaped by the producers themselves, even then it must be maintained that the high prices that have prevailed in India for the last fifteen years and which were largely confined to food-stuffs till the commencement of the War, are very undersirable.

It is well-known that the average income of an Indian family hardly suffices even for the bare necessaries of life. When food-stuffs —grain, ghee, milk &c.–were comparatively very cheap, people used them rather freely because they did not cost much. Theoretically one may be led to suppose that, at any rate, the producers of food-stuffs would continue to consume the former amount of substantial food, and for the surplus, would get increased return in money. In practice, however, it happens otherwise. On account of ignorance or want of strong will to follow the dictates of reason, the average human being cannot properly apportion his income to the various items of expenditure.† He rushes in for

* Vide G. V Joshi's "Speeches and Writings", p. 603. Figures given there show a continuous fall of wheat prices upto 1903, in England, Wales, Prussia, Sweden and France.

† *Cf.* "To spend money well is a harder task than to earn money well; in earning the task is generally prescribed, but in spending the spender takes the initiative; it is no longer passive obedience, but a good will that is required". J. S. Nicholson's "Principles of Political Economy", Vol. III., p. 436.

superfluities even at the expense of necessaries especially when the former are comparatively cheap and attractive and the latter costly. That is the the explanation of the phenomena often witnessed in large cities that many families which can afford to pay for well-ventilated quarters in healthy localities to ensure the supply of the first necessary of life, *viz.* free air, choose to live in small dark rooms, and spend money on fashionable clothes, shoes, furniture, etc. On the other hand, poor families in villages enjoy free air simply because it costs them nothing. Let us suppose that free air began to cost a village family Rs. 8 per month, and that at the same time the income of each village family increased by Rs. 10 per month. We would expect a wise family to pay Rs. 8 monthly for free air out of the increase in its income, and spend the rest for some other purpose. But in practice, the average village family will stint itself in respect of free air by paying much less than Rs. 8, and will spend the rest of the increase in its income on things which are less essential but more attractive. Similarly the producers of food-stuffs practise unnecessary economy in the case of substantial articles of food—especially those for which they have to pay. In order, however, that the people might not stint themselves in the necessaries of life though they be dear, their incomes should rise much more than they have done till now, so that the prices of food-stuffs may practically cease to appear dear to them. Otherwise, the inevitable result will be that though on record, and from statistics, and from their larger incomes the people will appear to be more prosperous and happier, their physique will deteriorate and their lives grow miserable. Rise of prices must be considered to be one of the chief causes—if not the chief cause—of the physical deterioration of the Indian population that is generally noticed not only in the cities, but even in villages. It is felt all over the country that now the food of the people has become less substantial than before. That "everywhere around us we see tea-drinking increasing and the consumption of ghee disappearing" is only an instance in point.*

Economists are generally thinking of production when they extol high prices. We cannot forget, however, that there are things far more important than production, and that production is only a means to an end which is good life. But even from the stand-point of production, Indian industries may lose on account of high prices.

* Sarkar's "Economics of British India", p. 134.

High prices make labour dear without increasing its efficiency, and thus deprive the Indian manufactures of one of the advantages which they enjoyed over the manufactures of the West.*

Macculloch, Jevons, and Gide were making general statements, and considering the effects of high prices on the world as a whole. The world which they had seen and in which they had moved, was Europe and America, and not India. They may, therefore, be excused on that ground. They can also escape by saying that they were speaking of the effects on the world as a whole, and that even if high prices did not benefit India, their statement might still hold good for the rest of the world. But no such excuse or escape exists for those who speak from the Indian point of view. Indians do not want Sir Theodore's "dear bread",† and refuse to rejoice with Macculloch, Jevons or Gide, or even with their countryman Mr. Datta,‡ at the high prices that are ruling in India. On the contrary they wish to find out, if they can, some remedy which may counteract the accumulating evil effects of the high prices with which they are confronted.

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* Kale's "Indian Industrial and Economic Problems", p. 74.

† Sarkar also thinks that the benefits of dear bread to India are most illusive in the long run.

On p. 74 of his "Indian Industrial and Economic problems", Kale comes to the conclusion that "High prices would spell disaster to our industries and finance".

‡ Mr. Datta concludes his remarks on the effects of high prices by quoting Jevons, and agreeing with him:—

"I cannot but agree with Macculloch that, putting out of sight cases of hardship, if such exist, a fall in the value of gold must have, and as I should say, has already a most powerfully beneficial effect. It loosens the country, as nothing else could, from its old bonds of debt and habit. It throws increased rewards before all who are making and acquiring wealth. It excites the active and skilful classes of the community to new exertions and is, to some extent, like what a discharge from his debts is to a bankrupt long struggling against his burdens. All this is effected without a breach of national faith which nothing could compensate."

It will be seen that the quotation does not touch the particular points that have been discussed with special reference to India.

Chapter V.

DISTRIBUTION.

§ 1. *Inequalities of Wealth.*

The joint-family system and the prevalence of small-scale organization in many industries have, to a large extent, prevented great inequalities of wealth in India. "At present the economic problems of India are mainly those of production rather than those of distribution".* India is very poor, and the thoughts of the people are naturally turned towards production which would, on the whole, increase the wealth of India. Now, as the choice is to be made between Indians and foreigners, we are not only welcoming but thanking industrialists like the Tatas. Through an unconscious process of resoning, Indians realise that if under the modern organization of industry, some individuals are to be millionaires, it is better that they should be Indians rather than the Japanese, Americans, Germans or Englishmen. Yet it is obvious that the Tatas are, in all probability, our problem of the future. We are already having our mansions and our slums, our strikes and our lock-outs. All this is merely a beginning. We must remember that "with the growth of large-scale industries, the problems of distribution are likely to assume great importance in future".*

§ 2. *The Lower Middle Class.*

One notable feature of the present distribution of wealth in India is the misery of the lower middle class. This class consists mostly of the members of the higher castes whose professions have been swelled by foreigners or by people belonging to lower castes. Persons of this class cannot betake themselves to the trades of the lower castes which are not considered honourable *e. g.*, smithery, carpentry, shoe-making, hair-cutting etc., and have, therefore, to be pinned down to their ancestral professions or seek for some petty service. This is the reason why an ordinary clerk is cheaper than an ordinary coolie. Moreover, their incomes, which are often fixed, do not keep pace with the rise of prices, and their pecuniary condition is, therefore, growing worse day by day. On the other hand, everywhere is heard the cry for ousting the middlemen, but hardly any writer has

* Bannerjee's "A Study of Indian Economics", Chapter VIII.

ever referred to the straits to which the lower middle class will be reduced when these middlemen released from their occupations will join the already swollen ranks of the middle class. Co-operation may be encouraged in all possible ways; it is but meet, however, that some thought should be given to the direct or indirect victims of changed economic organizations. Apart from the question whether the middle class deserves any sympathy or whether they ought not to change their ideas soon, the fact remains that they are in a miserable plight. It seems that a majority of the class might profitably be turned to industries like improved hand-loom weaving, and toy-making. They are generally persons who have received some education, and by means of co-operative credit, purchase, and sale, are likely to succeed in carrying on their small industries independently. This might bring some relief to a class that has suffered most during recent years, a class which is generally left out of consideration.

Chapter VI.

STATE AND INDUSTRY.

§ 1. *Free Trade, Protection, and Imperial preference.*

Owing to various reasons, not only has Indian opinion as a whole never resented the interference of the State in industrial or similar matters, but it has, from the beginning invited it, by calling upon the Government to help Indian industries. We find that a powerful appeal for the protection of Indian industries was made by K. T. Telang, as early as 1879. The protectionist opinion of the country underwent little change since then, and it was expressed in the Swadeshi movement in 1905. In 1909 also, the same fact was discovered by Lees Smith* who remarked that Indian opinion was overwhelmingly protectionist. The remark was true in 1909, and is equally true now.

The idea of protection has had a firm grip on the Indian mind, and the reasons are not far to seek. Unlike England, India saw the destruction of her industries in the regime of what was called free trade. Indians doubted the merits of free trade which, even if it was not the direct cause of the destruction of their industries, was, at any rate, unable to preserve them, or mitigate the distress resulting from the destruction. The doubt was strengthened by a universal feeling that prevailed in the country that free trade had been imposed upon India, not for the benefit of India, but for the benefit of English manufacturers.

Out of a number of causes supplied by Goverment, for the rise of this feeling, mention may be made only of those that had served to provoke the feeling in the years 1878 and 1879, 1894 and 1895. In 1878 and 1879, certain duties on cotton imports which had been levied for revenue purposes, and had been a constant feature of our fiscal system from before the mutiny, were abolished in response to the demand of Lancashire, even though the financial position of the Government of India was not sound. The ground for the abolition was that the duties were protective in their nature and contrary to sound commercial policy. This action on the part of the Government was dictated by English manufacturers, and it was considered to be pre-

* "Studies in Indian Economics", p. 63.

judicial to Indian revenues as well as to Indian industries. Again in 1894, the Government of Lord Elgin, when they were confronted with a large deficit, had to levy 5 p.c. duty on all imported articles with a few exceptions. But then also Manchester had to be propitiated by the imposition of a countervailing excise duty of 5. p. c. on yarns produced by Indian Mills. An early opportunity was, however, taken by the Government, in 1895, to reduce the import duty on cotton goods to 3½ p. c. and to exempt yarns from import duty altogether. The cotton goods produced in India, were, at the same time, to continue to pay an excise duty of 3½ p. c. The policy of the Government was denounced by Indians in the council,* in the press, and on the platform. The excise duty was stigmatised as a piece of the grossest injustice done by any civilised Government to the people under their care.

Moreover, there were, before the eyes of Indian leaders, the examples of Germany, France and British colonies all of which countries had abandoned free trade, and were prospering under protection. They, therefore, turned away from free trade and took to the advocacy of protection. It was not, however, as a doctrine,† but as a policy most conducive to the welfare of India, that protection was approved of and asked for. As usual, the public accepted the decision of their leaders, and the acceptance was rendered readier and more wide-spread on account of the resentment caused by the policy of Government. On account of want of sufficient information and training in economic matters, even the educated class did not pause to examine the matter. The sense in which the general public understood protection, was the levying of import duties on foreign manufactured articles, and export duties on some of our raw-materials.

On the side of free trade, stood Sir Dinshá Wacha almost alone. Though like most free traders, he did concede that under certain circumstances, protection if applied with discrimination would do much good, he believed that India owed its prosperity entirely to free trade, and that free trade was the best policy for India. Thus there was

* Rao Saheb Balwant Rao and Mr. Anand Charlu raised their voice against excise on cotton in the Imperial Legislative Council in 1896. Vide Dutt's "India in the Victorian Age", Introduction.

† *Cf.* the passage of R. C. Dutt beginning with "I do not pin my faith to Free Trade, and I do not pin my faith to Protection."

an extraordinary disproportion in numbers between protectionists and free traders in India which led Lees Smith to make the remark already mentioned, and to wish for the rise of a strong free trade school. But, since Lees Smith's remark was made, two of the very few persons whose opinions are entitled to weight, and some others of lesser note declared themselves for free trade. Of the two, one was the late Mr. G. K. Gokhale of revered memory, and the other was Jadu Nath Sarkar, the eminent historian and the author of "Economics of British India". But both these free traders were not free traders in the abstract. Gokhale believed in protection of the right kind 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 community, come into existence." But he was a free trader because he believed that situated as India was there was no likelihood of her securing that kind of protection and therefore he declared that "in our present cirumstances, a policy of free trade reasonably applied is, after all, the safest policy for us".* Jadu Nath Sarkar also does not object to protection as such, but believes that "no case has been made out in favour of protection in India at present."

The Scheme of Imperial Preference or Inter-Imperial free trade as it was sometimes called, was inaugurated in England by Joseph Chamberlain soon after the Boer war. The Government of India was consulted on the question and in October, 1903, it submitted its opinion that India had little to gain, and a great deal to lose or to risk, by being involved in any fiscal scheme of that kind. The matter had been occasionally discussed in India since then but had failed to draw the attention of the general public till 1913 when Sir (then Mr.) Gangadharrao Chitnavis, (in absence of Gokhale) senior member of the Imperial Legislative Council, moved a resolution for the adoption of Imperial Preference if the adoption of protection were not possible. As was usual† in such matters, all the

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* Speech in the Imperial Legislative Council, March 1911.

† It will be remembered that when Mr. Dadabhai moved a resolution for the repeal of excise in the Imperial Legislative Council in 1911, and Pandit Madan Mohan Malaviya moved a resolution for the levying of duty on sugar imported from foreign countries, in the same Council, it was Gokhale alone who, of all the Indian members present there, opposed the resolutions.

Indian members of the council supported the resolution. It seems as if the votaries of protection, when they found it almost impossible to get it, ran to something which looked like it, without sufficiently examining its merits, if by so doing, they could avoid free trade. This motion was soon afterwards taken up by Sir Roper Lethbridge and developed into a book. It had the effect also of stimulating discussion on the question.

What now remains to be determined, is "which of the three policies is the most beneficial to India?" It may be noted that free trade or protection has hardly been accepted as a doctrine in India—much less the Imperial Preference Scheme. So there is no practical difference in India between a free trader, a protectionist, and a supporter of the Imperial Preference Scheme. Each one of the three is prepared to change his opinion with a change in circumstances.

As we said, protection generally meant, and still means, even to an average educated man, the imposition of duties on the import of manufactured articles from, and the export of raw materials to, other countries. This sort of protection was, and is still, considered by a very large number of educated Indians as a panacea for India's industrial backwardness. A close examination of the matter, however, reveals that it is not so in many cases, and that the parrot-cry of protection rested on an altogether unsound basis.* Better-informed opinion now seems to be that protection in the form of import and export duties is necessary, but it has many limitations, and requires to be made use of in the case of certain commodities only, and then too, with extreme caution and after making detailed inquiries.

The undue importance that has been, till now, attached to protective duties, was certainly out of place; still, there was some truth–partial though it may be–on the side of the advocates of such

* Kale (Indian Industrial and Economic Problems, XIII), and Bannerjee (A Study of Indian Economics, Chapter XIII, 6, State and Industry) assert that Indian protectionism is not blind. They, however, appear to speak for themselves and a small number besides; for, what does the conduct of the members of the Imperial Legislative Council at the time of Mr. Dadabhai's motion for the repeal of the excise duty, Pandit Madan Mohan Malaviya's motion for the levying of import duties on foreign sugar and lastly Sir Gangadharrao's motion for the adoption of Imperial Preference, show?

protective duties. But in respect of Imperial Preference, it does not seem possible even to find such a partial justification for the support given to it in India. If we deduct their zeal and sentiment, hardly anything remains in the case presented by Indian Members in the Imperial Legislative Council, or by Sir Roper Lethbridge in his book. Even M. de P. Webb, the forceful advocate of Imperial Preference, has to admit that "on the whole, the probable benefits to India would be extremely small", though of course, he denies that there is any suspicion of disadvantage to India.† The despatch of the Government of India, Lees Smith's "India and the Tariff Reform", and Kale's articles‡ reprinted in his "Indian Industrial and Economic Problems" make it clear that India has little to gain by Imperial Preference; on the contrary, India stands in the danger of suffering a loss of revenue. If Indian industries specially need protection, they need it against England as well as against foreign countries. But we cannot hope that England would give the Indian Government a free hand in this matter by granting fiscal autonomy to India in the near future. In the case of our exports to England, Lees Smith enumerates ten articles which form 90 per cent. of the total, and says that no preference in respect of them is possible unless Englishmen are willing to raise the prices of raw materials essential to their industries, or of their food-stuffs. Nor can we rely, as Tariff reformers ask us to do, on our supposed monopoly of certain raw materials, and tax their export heavily, lest some substitutes be found for them and we lose foreign markets altogether. The fact that countries which could not, for one reason or another, obtain certain raw materials during the War, were able to invent suitable and sometimes excellent substitutes for a number of commodities including jute and leather ought to make us less sanguine about the monopoly that we are said to have with regard to certain raw materials. On the other hand, countries out of the Preference Scheme would, in all probability, take retaliatory measures, and our consumers would, in that case, have to pay more for things that the Empire cannot produce as cheaply as those other countries. Duties levied for revenue purposes would have to be lowered in favour of the Empire, and raised against other countries. This would mean a loss of revenue to India. Tariff reformers propose a preference for Indian wheat. Now, it is doubtful whether the best

† "India and the Empire", p. 49.

‡ "Preferential Duties," and "India and the Imperial Preference".

interests of India can be served by her exporting any wheat at all. If new land were brought under cultivation, or the yield of wheat per acre increased, then perhaps there would not be much objection. Otherwise, India would either have to contract the volume of other crops or to sell out of the wheat that she wants herself. Even if there were no objection to export more wheat, she has no great chance of getting any real preference over Crown Colonies which are also producers of wheat. Thus the case of Imperial Preference falls to the ground and it becomes plain not only that India has little to gain, but that "as matters stand no feasible scheme of preference can be devised which does not entail heavy and disproportionate loss" to her.*

What India wants is neither Imperial Preference, nor protection as it is described above. Duties on the import of manufactured articles would benefit our industries in extremely few cases, because the "business instincts of foreigners would compel them to send capital here and start works."† This might provide employment for a larger number of Indian clerks, coolies, and artisans, but there would be little demand for Indian intelligence, and hardly any scope for the development of Indian industrial brain. It might also result in a "serious drain like that of an absentee landlordism."† Moreover, in certain industries *e. g.* sugar, necessary skill is not available in the country, and so the protective duties would throw a burden on the consumers without really benefiting the country. We, therefore, agree with Sir Alfred Chatterton when he says "that a little paternal assistance of a direct character, the cost of which can be accurately determined and the operations, which are carried on, difinitely limited, is a more logical and businesslike method of dealing with the industrial question than subjecting the whole country to a system of tariffs which will increase the cost of living and divert energy from the natural channels into artificial courses most probably not leading to the best utilization of the resources at our disposal."‡ As to export duties, there are certain raw

* Kale's "Indian Industrial and Economic problems", XIII.

† Chatterton's "Industrial Evolution in India", Chap. III, p. 65.

‡ Ibid, p. 60.

Cf. Keatinge's "Rural Economy in the Bombay Deccan", p. 192, where, after having reviewed in the preceding ten pages, the position of sugar industry in the Bombay Deccan, and having described the course of sugar industry in Java and Formosa, he comes to the conclusion that direct help in the form of subsidies or bounties would be the best remedy for some of the evils of the agriculture of the Bombay Deccan.

materials* on which such duties might be levied to the advantage of India, but the selection of particular articles ought to be made with great care and caution. As will be seen from the next paragraph, protection as a national policy for India should have many other features besides discriminating duties on the import of manufactured goods, and the export of raw materials. A protective system encourages in addition to manufactures, agriculture, forestry, mining, shipping &c.

Since 1911 when Gokhale said that the right kind of protection was not available, and a policy of free trade was the safest policy for us, the situation has vastly changed. The War has accelerated the political progress of Indians towards Responsible Government, and the new constitutional Reforms conferring important powers on Indian representatives have been passed into an Act. The Report of the Indian Industrial Commission contains very valuable recommendations, and the fundamental principles underlying these recommendations have been accepted by the Secretary of State. As a result, the restrictive policy† laid down by Lord Morley in 1910, as modified by Lord Crew

* *e. g.* oilseeds. Export duty might be imposed on oilseeds, but not on oil. That would enable us to keep the oilcakes which are of high manurial value, and would give employment to our labour and capital. Comparatively cheap oil would encourage several other industries also such as candle-making, soap-making &c. Oilcakes would provide a large quantity of cheap manure. Vide Sayani's "Agricultural Industries in India", p. 56.

† It will be remembered that about ten years back Sir (then Mr.) Alfred Chatterton took great pains to create two industries—one of aluminium, and the other, of chrome leather, in both of which he succeeded. Sir Alfred was able to secure direct Government help for these industries which, when they began to pay splendidly, were handed over by the Madras Government to private management. A protest having been made from certain quarters on the score that the action of the Madras Government hindered free competition, Lord Morley, the then Secretary of State, asked the Government of India to confine themselves to imparting technical education, and forbade them to start any industries in the way the Madras Government did. Naturally a strong appeal was made by Indians, but with no result. It is actions like Lord Morley's which provoke even a sober man. One can hardly restrain his anger when he sees one of the best ways of the industrial regeneration of his country blocked by shibboleths and exploded doctrines. Lord Morley's was an unfortunate decision. It has caused a heavy national loss. England has now abandoned her policy of laissez faire. What an immense benefit would India have reaped if state-interference had been recognised earlier ? Some industries could have been started by 1914 when the War broke out. Even during the War Government could have started, or at least directly helped some industries. Japan could not, perhaps, have flooded our markets with her goods, and our industries once having had a start, could have stood upon their own legs after the War. It is mistakes like Lord Morley's that lie at the root of much of the discontent and disaffection in the country. Nor does the fact that some of the mistakes were honest make much difference, for, the public at large can hardly be expected to make such distinctions

in 1912 has been abandoned, and the declaration of a new policy has been made. After considering political expediency, economic advantage, military security, and the interests of the Empire as a whole, the Secretary of State for India has definitely accepted the principle "that in future Government should play an active part in the Industrial development of the country."* "State assistance will take various forms such as research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, financial help, the purchase of Government stores in India, whether in the usual way of business or under a guarantee of purchase over a fixed period, and probably also fiscal measures."† Indian protectionists can hardly improve upon the policy and lines of action thus authoritatively laid down, except that, perhaps, they would delete the word "probably" that precedes "also fiscal measures".

The fiscal question, however, was deliberately excluded from the scope of the Industrial Commission's enquiry. England has abandoned the free trade doctrine to which it was formerly pledged, and has declared herself for Imperial Preference. From the action of the Government of India in relation to the import of dyes and the export duty on hides, it was suspected that India might be made to fall in with England. The Secretary of State, however, says that he is "not prepared to make any pronouncement" on the fiscal issue "until the representatives of the people have been given the opportunity to express their views", and expresses confidence "that in the discussions that will take place in India the interest of the Empire as a whole will receive due consideration."† The interests of the Empire undoubtedly deserve to be considered, but that does not detract from—on the contrary it adds to—the value of discussions from the Indian point of view. Indians should unerstand their own case. It would be graceful for them first to prove that India has little to gain and a great deal to lose or to risk by being involved in a scheme of Imperial Preference, and yet to show willingness to lose or to risk that great deal for the sake of the Empire.

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* Revenue No. 86 dated the 25th September, 1919, addressed to the Governor General of India in Council, paragraphs 2 and 3.

† Ibid, paragraph 4.

It may be mentioned here that a few persons advocate what is called protection of the standard.* The phrase means that articles of inferior quality should not be allowed to compete with those of superior quality. The former oust the latter from the market on account of their immediate cheapness and vulgar ornamentation. As a result, the latter cease to be produced, and the country suffers a great artistic loss. As instances are mentioned the shawls of Cashmere and the shoes of Lucknow which have now lost their former excellence. Such matters, even if practicable, must, however, wait till India obtains control over her economic policy.

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* Vide Anand K. Coomaraswami's "The Indian Craftsman".

Chapter VII.

THE "DRAIN" AND POVERTY (in the New Light).

§ 1. *The "Drain".*

Sir Theodore Morison has done great service to the students of Indian Economic questions by his methodical exposition* of the "Drain" theory. He defines the "Drain" in any given year as "that portion of India's debits for which in that year she receives no material equivalent in goods or money". "In order to ascertain the extent of the "drain" from India", he says, "we have.....to find out what in any given year is the amount of her exports in goods or money for which in that year she receives no material equivalent". This is not entirely satisfactory in so far as it does not take into account the fact that during a given year loans raised by India in England may have reduced the volume of exports for which she received no material equivalent. By raising loans during a given year, India merely postpones the date of payment in exports which otherwise ought to have been made during that year. The liabilities incurred during a given year must appear in the Balance Sheet of that year; then only can the Balance Sheet have any pretence to accuracy. In spite of the difficulty of determining its exact amount, the "potential drain" as Sir Theodore calls it for shortness, has to be considered. Moreover, when the question of the "drain" as a whole is being considered, the part of the "drain" which we have transferred to future years cannot be ignored at all. In spite of this difference of opinion with regard to the definition of the "drain", we have substantially to agree with Sir Theodore in the conclusions he arrives at. He explains how "Home Charges" are not "drain", how countries like the United States of America and Japan also have to pay interest on the foreign capital they borrow, and how what India does on a small scale they are doing on a large scale. He gives a table† showing the excess of exports from the United States of America, the Russian Empire and other countries and adds that it suggests that the political status of a nation has obviously nothing to do with the so-called "drain". He thinks that the word "drain" is misleading, and would, therefore, employ the colourless expression "foreign payments", or "net foreign payments".

* "Economic Transition in India", chapters VIII and IX.

† p. 206.

In answering the question "what economic equivalent does India receive for her foreign payments?" he emphasises the necessity of foreign loans for countries that have land and labour, but cannot raise capital locally for the development of their industries. He mentions the special efforts of Japan to raise loans in England for her railways and other industrial undertakings. He refers to the net profit that the Indian Government are making from their railways and canals which were built by foreign capital. He would impress upon the minds of the readers that apart from such profit, undertakings made possible by foreign capital increase the national dividend, "the fund from which wages and rent as well as profits, are paid." The advantages of irrigation works can be seen by everybody, and railways, in his opinion, are the harbingers of industrial prosperity. The economic equivalent which India receives for the interest she pays, is the equipment of modern industry. Therefore, that part of foreign payments which represents interest on foreign capital is not "drain". Discussing the "Home Charges", he takes, as an instance, the Budget figures for the year 1910-11 which show the "Home Charges" to be £19,054,500, and examines them carefully. He eliminates £11,107,400 which went towards the payment of interest on debt, cost of management &c. He further deducts £ 1,046,800 which appeared in the account as payment for stores because stores are simply imports brought into the country by one large buyer—the Government of India. The remaining sum, a little less than £ 7,000,000, Sir Theodore admits, India has to pay on account of her political connection with England. After saying that the whole of this amount is paid for services rendered, he proceeds to consider the saving that India effects by her connection with England. Leaving out of account small savings effected in Diplomatic and Consular Service he believes that the British Navy saves the Indian tax-payer about £4,000,000 or £ 5,000,000 sterling annually. Comparing the rates of interest that India and Japan have to pay on English capital, he shows that the Indian rate is lower by about 2 p. c. resulting in a saving of £5,340,000 a year in respect of the existing debt alone. Though the calculations and arguments of Sir Theodore may require some alterations and remarks here and there, it must be said that "the drain" is almost counter-balanced by the pecuniary advantage that India derives from her political connection with England.

Was then the old idea of the "drain" wholly unfounded? We cannot, in justice to the propounders of the drain theory, say so. It

must be noted that most of the capital for which we pay interest was borrowed for building railways. The main objects of the Railway policy of the Government were, in the beginning, strategic and administrative*. Railways had accompanied the destruction of our industries, and were considered, at the most, a doubtful boon†, and they are likely to be so considered until our industries have fully developed‡. Moreover, when we talk of the income annually brought to the state by railways, we must bear in mind that they were being worked at a loss till a few years ago, and that about fifty crores of rupees had to be taken out of the pocket of the Indian taxpayer for the payment of interest guaranteed by the Indian Government. When the loans themselves were thought to be unnecessary it is but natural that the fact of cheap credit should be ignored. As to the Army and the Navy, it may be remarked that the hugeness of the military and naval equipment preceding the war was the result of the "race in armaments", which hardly existed in the eighties and nineties of the last century. So our Army expenditure was considered to be disproportionately heavy, and the advantage of the British Navy to India not being, in those days, very marked was almost ignored. Thus the old idea about the drain was not altogether unfounded, but it exaggerated the drain and its evil effects. It does not seem necessary to discuss here what was called the "moral drain" *i. e.* the drain of administrative and similar capacity of India.

Turning to the present, we may say that well-informed Indian opinion has ceased to look upon the drain as a great economic evil. Kale says—and his view may be taken to represent the well-informed opinion of India—"These payments" for the Home Charges, "are not gratuitous and are made for benefits received. If we want railways for the development of the resources of the country and cannot raise the necessary capital, we must borrow it in London where it is obtainable at cheap rates. We want an army and navy

* Bannerjee's "A study of Indian Economics", Chap. IX.

† In this connection, a quotation from G. V. Joshi's "Speeches and Writings", p. 688 will not, it is hoped, be out of place: "India is thus asked to make room for the foreign trader by paying him or his countrymen a bounty to facilitate his competition with the native producer, and to give him land free of cost, and to arrange that the interest-payments shall be punctually made in gold from year to year at any sacrifice and finally to see with patience the native manufacturer and trader pushed out of his sphere of domestic activity".

‡ e. g. see S. V. Doraiswami's article reviewing the Railway Administration Report 1914-15, in the Hindustan Review, January 1916.

for the defence of the country and must pay for it. Foreign and Self-governing Colonies borrow very largely in the London market and cheerfully bear the charge of interest.....and payments for services received cannot be characterised as a tribute".* So far there is nothing more than what Sir Theodore Morison has said on the subject. But the Indian view draws a distinction which Sir Theodore does not, between the capital borrowed by India, and that borrowed by other countries. Like India, other countries do pay interest on the borrowed capital, but unlike India they themselves manage the industrial concerns started by means of that capital, and retain all the profits accruing from the utilization thereof. Moreover, even if our foreign payments are not without a material equivalent, Indians believe, and rightly, that it is possible to improve the present position and yet to retain the advantages of India's connection with Great Britain. Stores necessary for use in India may be made or purchased in India, and Indian agency substituted, so far as possible, for the foreign one in trade and manufacture as also in Civil and Military departments of Government.

§ 2. *Poverty.*

It is not proposed here to examine the various estimates of the average income of an Indian cultivator made by different persons at different times.† It must, however, be remarked that the methods followed in their preparation are not uniform, nor do they in most cases conform to the method followed in estimating the national incomes of other countries, and also that none of the estimates is based on a sufficiently reliable data. In absence of satisfactory statistics, all the estimates contain more or less an element of guess-work. The estimates put down the average annual income of the Indian cultivator at Rs. 15 and upwards, but according to the most liberal of them, the average did

* "Gokhale and Economic Reforms", Introductory Chapter. Here it may be useful to quote Ranade who, unlike his contemporaries, saw the drain almost as the well-informed opinion sees it now: "A portion of the burden represents interest on moneys advanced to, or invested in our country, and so, far from complaining we have reason to be thankful that we have a creditor who supplies our needs at such a low rate of interest. Another portion represents the value of stores supplied to us, the like of which we cannot produce here. The remainder is alleged to be more or less necessary for the purposes of Administration, Defence, and payment of Pensions &c. &c. ... ...". "Essays on Indian Economics", p. 191.

† The latest attempt at such an estimate is that made by Bal Krishna in his "Industrial Decline in India".

not exceed Rs. 40 per year. The average income per head in Great Britain would, therefore, be ten, twenty or thirty times the Indian average. Simple arithmetic would lead us to conclude that the material condition of the average Britisher is ten, twenty or thirty times better than that of the average Indian. Such a conclusion, however, would not be warranted by facts. In a patriarchal joint family or a community which produces everything it wants, and where services rendered by members are not counted in terms of money, the average income in terms of money is bound to be low as compared with the average money income in a community where money economy prevails, and where, therefore, every commodity or service needed by a person has to be paid for in money. If only we compare the incomes and the material condition of the people living in Indian cities like Bombay with the incomes and the material condition of the people living in Indian villages, it will be obvious that the material condition does not vary in exact proportion to the average money income. The Village peasant's food is cooked by his own wife, he spends little after his house, he gets his fuel free, he often burns his own oil for lighting, and he secures very cheaply the services of artisans, barbers &c. The Bombay man, on the other hand, has often to go to hotels either for refreshments or for meals, and has to incur considerable-sometimes heavy-expediture for his housing, fuel, lighting, and the services of barbers &c ; nay, he has some additional items of expenditure also, like Doctor's bills and railway or tram fares. The man earning rupees twenty or twenty-five per mensem in Bombay, is therefore, often worse off than the man earning, monthly, rupees eight or ten in the villages. For the purposes of the cost of living, the conditions of life in English towns and cities where the majority of the population lives, may be taken to be those of Bombay intensified. But it is not suggested that the material position of the average Indian cultivator is anything like that of the average Englishman. Only it is intended to lay emphasis on the fact that mere comparisons of average incomes as computed in terms of money cannot always convey a correct idea as to the relative material condition of the objects of such comparisons.

The statement that the material condition of a person does not vary in exact proportion to his money income, cuts both ways. It would serve as a check on those who draw the gloomiest picture of India, and think that the utterly crushing poverty of the Indian ryot can be proved only by the one fact that his average income is not

even a twentieth part of that of an Englishman. On the other hand, it would check those who prove, or try to prove a small rise of the average money income of the Indian ryot, and think that they have conclusively proved that the material condition of the cultivator has steadily improved. Before any such conclusion can be drawn from an increased money income, allowance must be made not only for the diminution of the purchasing power of money, but also for the larger expenditure due to the extension of money economy in the village life.

It cannot be disputed that, at present, the Indian cultivator gets much greater money return for his surplus crops than what he used to get ten, twenty, or thirty years ago. But it is equally indisputable that Government assessment or Zamindari rent has almost invariably risen, that the secondary industries like ginning, spinning or weaving of cotton which gave him and his family some work during spare months of the year, and which either brought him some money or saved him some expenditure, have been mostly destroyed, and that even carting which provided work for his bullocks during the off-season, and which rendered the bullocks not only self-supporting but even helpful to the cultivator during that period, is being partially destroyed by the extension of railways. Moreover, the cultivator–not to speak of others–has to, or has learnt to, spend a little money on articles like lanterns and toys, on railway travelling, postage &c. He is prepared to sacrifice part of his income for increasing the fineness or reducing the coarseness of his clothes. In other words, the cultivator's standard of living has risen, if only to a small extent. The question, therefore, of the progress or retrogression of the material condition of the cultivator is reduced to this: "whether the increased money return for his surplus crops does or does not balance the cultivator's losses, and leave sufficient or more than sufficient to meet his new wants". It is not possible to say anything definitely one way or the other. If, however, a conjecture were to be hazarded, it may be said that the money income of the average cultivator has undoubtedly risen, that the rise is on the whole sufficient, to balance the cultivator's losses, but that means for the satisfaction of new wants that have been, and are being created, are wanting. Production has not kept pace with the increase of population or wants. The notion that poverty is increasing arises—as can be clearly seen in the case of the middle class—from the fact that the old or even a slightly larger income cannot be so adjusted as to satisfy all the present

wants. It is, no doubt, possible to point out particular areas or classes of people that have positively deteriorated in material condition during the last fifty years or more. But it is equally possible to pitch upon particular areas or classes of people the condition whereof has materially improved. Though it is extremely difficult to say definitely whether the material condition of India has, on the whole, improved or deteriorated, it is certain that the wretchedness of our poverty as it appears to us, is due rather to the enormous material progress that the Western countries have made since the industrial revolution of the eighteenth century than to positive retrogression on our part. India—no country in the world—even in her most prosperous period could have been, before the industrial revolution, even tenth as rich as England or the United States of America of the present century. The new organization of industry increased production to an extent undreamt of before, and brought unheard of wealth to the countries that successfully adopted it. India practically remained stationary, and therefore, relatively went backward. She lagged behind. It is rather this lagging behind than positive going back that is responsible for her relative poverty.

One fact, however, stands out clearly–that India is poor, very very poor, both relatively and absolutely. Whether the poverty is the result of systematic and ruthless exploitation of the country by foreign rulers, or whether it is the result of the indifference of those rulers, or whether India has to thank her own conservatism, want of indigenous enterprise and capital, her indifferent labour, her social institutions and religious teachings, and the increase of her population, is a matter of secondary importance at present. What cries for immediate and earnest attention, and strenuous efforts is the staggering poverty of the country. Our attention and energy should be concentrated on the search for the means of alleviating or removing that poverty which makes the lives of millions a burden rather than a joy. As Ranade said years ago, "The question of our comparative improvement or decline under Foreign rule is.....a question of Antiquarian History. The practical question for us to lay to heart is not the relative but absolute poverty and the present helplessness of the country generally."

Chapter VIII.

RETROSPECT AND PROSPECT,

§ 1. *The Last Decade—A Cursory Review.*

We have already seen that the last decade has been characterised by a wider outlook. Judging from its influence on the formation of economic thought in the country, it has been a vast improvement on the past. But this does not mean that all that was wanted has been achieved. Only a start has been made, and a long distance still remains to be covered. The start, however, may, without fear of contradiction, be said to be a good one.

After the publication of the two books which marked the beginning of the last decade, there have been two notable contributions of a general character, to the Indian economic literature. V. G. Kale's "Introduction to the study of Indian Economics" deals with most of the general economic questions including that of population, and examines them in the light of Indian conditions. In spite of some features which detract from its value as a scientific production, the book would be very useful to the students of the Economics of India. Radha Kamal Mukerjee's "Foundations of Indian Economics" supplies a real want. Dazzled by the material prosperity of the West, we might be led to believe that the only course open to us is reconstruction on Western lines. Nothing could be more suicidal to us than such a belief. Mukerjee vigorouly advocates a reconstruction which, while profiting by the experience of the West, is essentially based on our own institutions and traditions. The value of his book does not lie so much in the presentation of a perfect scheme of reconstruction which certainly the book does not give us, as in its powerful pleading for progress on Indian lines.

It has been felt that the production of comprehensive, and at the same time, flawless books on the Economics of India is almost an impossibility until there grows up sufficient economic literature of impartial, scientific, and critical nature embodying the results of intensive study of particular provinces or areas in India or of particular branches of the subject. With books like Keatinge's "Rural Economy in the Bombay Deccan", and Dr. Mann's "Life and Labour in a Deccan Village", we must be said to have made an admirable

beginning, in this direction. Of the various branches, currency and finance has to its credit the greatest number of books.

As to periodial literature we have had, during the period, about half a dozen journals wholly devoted to Economics. But with the exception of one or two, they are turning out very poor work. Leading English and Vernacular magazines and newspapers are now publishing articles and information pertaining to Economics, much oftener than they did formerly.

Official publications have increased in quantity and improved in quality. Improvement is most noticeable in the arrangement and presentation of facts in the reports of some departments. Valuable reports of some committees and commissions have been made available to the public not only in the form of blue-books of foolscap size, but of readable and tolerably well-bound octavo volumes. The Report of the Indian Industrial commission is the most remarkable example of such reports, containing as it does, information and practical suggestions of a most valuable character.

Turning to another direction we find that under the auspices of the Indian Economic Association, the Indian Economic conference assumed definite shape in 1918, and that the Indian Industrial Conference and the Indian Commercial Congress which held its first sessions in 1915 have been amalgamated into one body called the "Indian Industrial and Commercial Congress". As the crowded programme of the National Congress week leaves little time for the careful consideration of important economic problems, the Indian Industrial and Commercial Congress has decided not to follow the usual practice of conferences to hold their sessions during the National Congress week at the place where that Congress holds its sessions. This decision of Industrial and Commercial Congress as well as the inauguration of the Indian Economic Conference is an indication of two important facts—one, that the necessity for bodies which are not mere appendages of the National Congress, is felt for the consideration of economic, industrial, and commercial problems, and the other, that the organizers of the Industrial Congress and the Economic Conference hope to be able to attract to their institutions, able business men, and students of Economics who would be competent to deal with the questions brought before them.

Economic societies have been started in certain cities and towns. They arrange lectures on economic subjects, and occasionally publish some pamphlets. Sometimes economic libraries are maintained, and economic classes in English or vernaculars or both are conducted. In one case a journal is being published quarterly. Such societies might in future, serve the very useful purpose of the collection as well as the dissemination of information regarding various matters of economic interest.

To crown all, the subject of the Economics of India has been introduced into the curricula of most of the Indian Universities and we have now a special college of Commerce and Economics in Bombay which is flooded with applications for admission from all parts of India. The Indian Universities are sending out every year an increasing number of graduates who have studied Economics from the Indian point of view. We have had, of late, some persons who have specialized themselves in Economics in foreign institutions like the London School of Economics, and the number of such persons promises to increase. We are thus being slowly supplied with men who are likely to be much fitter than merely clever men with all-round general knowledge, to think, write and speak on economic matters. Without such men, the activities in the economic sphere are often barren of result, and sometimes productive of evil.

This review might create an impression that uniform all-round progress has been the characteristic of the last decade. To be accurate, however, it must be noted that there has also been some partially retrograde movement. Political activity appears—especially in this country—to awaken public interest in economic matters, and to favour the growth of economic knowledge and even informed opinion. But it is a gross force, and always commits mistakes of emphasis* and builds and knocks down indiscriminately. Our latest political activity was no exception, and produced some economic literature which shows either that the authors had not sound economic training, or that they wished to make use of facts only to prove their own contentions.

Though the level of economic thought in the country has risen a good deal, it is very low still. The number of economists in India can still be counted on one's fingers' ends. The working of

* As an illustration, see Mrs. Annie Besant's "India: A Nation", Chapter II.

our economic institutions, journals &c. leave much to be desired. Our economic literature though much better than what it was formerly, is still very poor. The tendency on the part of clever college students to prefer "Literature" to "History and Economics" has not yet completely disappeared. Here, as in material production, our chief want is that of proper persons. This want, as we saw, is being slowly satisfied. It means time.

§ 2. *The Great Problem.*

The economic position of India has for long been admittedly unsatisfactory, and all agree, therefore, that her economic regeneration is to be earnestly wished and worked for. But how is this regeneration to be effected? The majority, with or without sufficient thought, believes, that the regeneration must, of course, come through the adoption of the industrial organization of the West. To them it appears that the old domestic organization has now become effete, and that the factory organization has come to stay. In their opinion, the attempts to revive old methods and improve upon them are "bound to have the same success as an army equipped with bows and arrows when opposed to troops armed with magazine rifles and machine guns."* But there are others whose number is slowly growing with the spread of economic information and knowledge, who hold a different view. They are unwilling to welcome the Western Industrialism in its present form with its attendant evils. They would not allow millions of independent artisans to "degenerate into mill "hands", packed together in over-crowded cities as the brainless drudges of automatic machinery".† They believe that the village has been in the past, and ought to be in the future, the centre of culture, life, and activity, in India. They would discourage "the drain of all skill, enterprise, knowledge and wealth, from the village to the city",‡ and the disintegration of the family which must directly follow the migration of the cream of the population from the village to the city. They cannot contemplate with equanimity the prospect of the degeneration of the physique and morals of millions of workmen caused by detestable conditions of life and work, of the rise of the most luxurious villas side by side with the most execrable slums, and of the

* Sarkar's "Economics of British India", p. 174.

† E. B. Havell's "Essays on Indian Art, Industry and Education", p. 45.

‡ Radha Kamal Mukerjee's "Foundations of Indian Economics", p. 415.

furious strife between Capital and Labour shaking the body politic to its very foundations. They also consider that the large-scale organization does not leave much scope for secondary industries which the Indian cultivator needs, at least, for about three months in the year.

Amongst those, again, who are against the adoption of the Western Industrialism in its present form, there is a difference of opinion. Some would have nothing to do with machinery for reasons that again differ. M. K. Gandhi* would discard machinery because, in his opinion, it can never accord with the essentials of Indian civilization which deserves to be preserved at all costs. E. B. Havell would deprecate machinery because machinery kills art. Men of his school believe that "the problem of the industrial regeneration of India is as much an artistic as an economic one"† and according to them, the true regeneration of India is possible only by means of the revivification of her arts, and through the awakening of the artistic sense of the nation.‡ The rest who view the Western Industrialism with disfavour are not so stiff. They would, in the first instance, have industries carried on by artisans in their own homes with improved methods and implements or machinery—industries able to hold their own with the large-scale ones in the open market. In some cases, however, they would accept workshops situated in villages or small towns where workmen may not be their own masters. In a few cases, they would concede the necessity of factories, though of course, with many more amenities of life for the workmen than are to be found at present.

Till a few years ago, it was taken to be a matter of course that India can hope to rise industrially only through the adoption of the large-scale organization. That this should be so is natural; for, the opulence of Western countries and the comparative poverty of India would lead us to think that India's salvation lies only in the large-scale production which made the Western countries rich. But as the Western industrial organization was studied closer and closer, as we had some large-scale industries in our country, it began to dawn upon us that the Western Industrialism brings many serious evils in its train. This made some to pause and consider whether India, in

* See his "Indian Home Rule".

† "Essays on Indian Art, Industry and Education", p. 67.

‡ See Anand K. Coomarswami's "Essays in National Idealism"

trying to avoid the frying pan, was not really falling into the fire, and whether it was not possible for her to avoid both. The assertions often made that the attempts to revive old handicrafts or to prop up the old domestic as opposed to factory organization are doomed to failure, is only an instance of the human tendency to consider all things impossible which have not been actually achieved. There is no natural law that large-scale production as such must supersede small-scale production. If systematic and persistent efforts are made, there are reasons to hope that many of the industries can be successfully run on a small-scale. The chief defects of the small-scale organization are want of information and suitable training on the part of the artisan, lack of capital and absence of business-like methods. Now as the Indian Government has undertaken actively to participate in the industrial development of the country, they can, and on account of the national importance of the small-scale industries, ought to remove the first defect by keeping the artisans informed of the latest methods and implements, and wherever necessary, by providing facilities for their training. The other defects can be cured by organizing the industries on co-operative lines. It is very probable that small-scale industries if they are co-operatively organized and properly guided and helped by Government can stand the competition of large-scale industries even with human motive power. But we have reasons for a further hope. If we can give to the artisans, fairly cheap motors not involving much waste, as a substitute for the large steam-engine of the capitalist, we can not only strengthen the existing domestic industries, but we can also convert some of the present large-scale industries into small-scale ones. Certain types of gas or oil or water-pressure engines have been evolved in the West and found suitable for domestic industries. Above all, electricity is the great hope of the small artisan. A small electric installation is proportionately not much dearer than a large installation. There is little waste; the motive power transmitted to the artisan's cottage can be used at his convenience, if necessary, even intermittently. Yet it must be admitted that we cannot do without large-scale industries altogether. We cannot have Iron and Steel Works on a small scale, nor can an artisan build steamships or aeroplanes at his home.

This much is certain that we cannot remain where we are, and what we are. We must either move and adapt ourselves to the new conditions, or go to the wall. Not to move does not mean now, as it meant

formerly, conservation of energy and continuation of quiet life. Not to move now is to court destruction. So we have only to see whether there is a choice between the Western Industrialism and any other better organization suitable to the traditions and the genius of our race. It appears that there is a choice so far as a very large part of the industrial regeneration of India is concerned. For the rest, we must try to profit by the experience of the West, and avoid as many evils of the large-scale organization as possible.

Patrick Geddes does not "wonder that Indians, as the smoke cloud and ash-heap and muck-rake come from overseas to them, think of these as "Western Civilization"", but adds that "from the Paleotechnic City, of coal, steam, and iron, of overcrowding, dirt, and squalor, there is emerging" in the West "the Neotechnic City, of electricity and hygiene, of architecture and art" *. Let us beware that we do not build the "Paleotechnic City" when even the West hopes to have the "Neotechnic City". In the enthusiasm for the industrial development of the country, let neither the Government nor the people ignore the necessity of scrutinizing the lines of that development. Let not India surrender, for a tempting material prize, her priceless individuality which in spite of ups and downs she has been successfully preserving from the dawn of History.

* Radhakamal Mukerjee's "Foundations of Indian Economics", Introduction, XIV.