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A STUDY OF INDIAN ECONOMICS

A STUDY OF INDIAN ECONOMICS

BY
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पितृदेवेर श्रीचरणे

P. N. BENERGEA.

PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different sides to every question in the fairest possible manner. The author has deliberately refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes, M.A., of Cambridge, for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

PREFACE TO THE THIRD EDITION

THE book has been revised and brought up to date. In the preparation of the third edition of the book the author has received invaluable assistance from Mr. Hirendralal Dey, M.A., Lecturer, Lucknow University, and Mr. Rohini Mohan Chaudhuri, M.A., Lecturer, Calcutta University. He desires to express his sincere thankfulness to these two gentlemen, without whose help it would have been exceedingly difficult for him to prepare this edition. He is also thankful to Mr. Prafulla Chandra Ghosh, M.A., Lecturer, Calcutta University, and Mr. Binay Kumar Chaudhuri, M.A., Professor, Bethune College, for suggestions, and to Mr. Sudhir Kumar Lahiri for reading the proofs.

CALCUTTA, *June*, 1927.

PREFACE TO THE FIFTH EDITION

THE book has been thoroughly revised and largely re-written for this edition, and a considerable amount of additional matter has been incorporated. Though Burma has recently been separated from India, references to India, unless otherwise specified, include Burma; this is particularly the case with the statistical information included in the book. The best thanks of the author are due to Dr. Saroj Kumar Bose, M.A., Ph.D., Mr. Panchanan Chakravarti, M.A., Mr. Binayendranath Banerjea, M.A., and Bhavatosh Datta, M.A., for the assistance rendered by them in preparing this edition, and to Mr. Sudhir Kumar Lahiri for kindly reading the proofs.

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PART I

ANALYTICAL AND DESCRIPTIVE

CHAPTER I

INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles
to the
study of
the
subject :

The first and the most serious difficulty is to be found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of the science. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."¹

Applica-
bility of
economic
principles.

Economics, as it is taught in the west, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a very limited extent.² This being so, it would be wrong to

¹ Bagehot, *Postulates of English Political Economy*, p. 7.

² M. G. Ranade, in his *Essays in Indian Economics*, summed up the position in India in regard to the ordinary economic assumptions in the following words : " With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain pre-determined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons.

import wholesale into India the economic conceptions of the west, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere in all essential particulars, the same sets of causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions are gradually approaching nearer and nearer the conditions of the west, western economic theories are becoming increasingly applicable to Indian affairs. Besides, economic facts of the modern world are so closely inter-related, that it is not possible to study the problems of one country in complete isolation from those of others. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian conditions with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

Complexity of Indian economic phenomena.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the west is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional complexity into the economic problems which present themselves for solution in India.

In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the sun to get cold, as reasons for our practical conduct within a reasonable distance of time." Ranade wrote more than half a century ago, and since then the situation has undergone considerable change ; but his description of the state of things remains true to some extent even at the present moment.

Another obstacle with which the student is often faced is the absence of reliable data. There being few independent agencies for the collection and investigation of economic facts, the Blue-books and Papers published by the various departments of the Government form almost his only source of information. But he cannot always depend upon such information, for the agency by which the statistics are collected is hardly trustworthy, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the understanding and use of these statistics ; and unless this is done, the student runs the risk of being led away into wrong generalisations and conclusions.

Want of
reliable
data.

It is a matter of satisfaction that attempts are being made to improve the collection and presentation of statistics in India. The Department of Commercial Intelligence and Statistics of the Government of India is rendering valuable service in this respect. Publications like the *Review of the Trade of India*, the *Statistical Abstract of British India* and the *Indian Trade Journal* provide periodically a large mass of material for the study of the economic problems of the country. Some quasi-official bodies, like the Punjab Board of Economic Enquiry, are making serious efforts for the collection of useful data, while the Indian Statistical Institute of Calcutta, with its branches in other parts of the country, is trying to devise methods of better use of the available material.¹

Personal sentiment is yet another obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena, and personal likes and dislikes, as well as considerations of individual or class interests, must be wholly set aside. Unfortunately, the position in India is such that those who take part in economic discussions are often led by passion and prejudice to identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth.

Personal
sentiment.

These are some of the reasons which account for the fact that the study of economics in India has not been pursued with the

¹ In 1933, the Government of India appointed Dr. A. L. Bowley and Mr. D. H. Robertson to report upon the possible improvements in the collection of statistics in India. The report, published in 1934, gave some practical suggestions regarding the proposed Census of Production and the reorganisation of the methods of collection and presentation of statistics.

Bowley-
Robertson
Report.

amount of earnestness which it deserves. M. G. Ranade was the first Indian to take up the study of Indian Economics in a scientific spirit. R. C. Dutt opened up a new line by his scholarly studies in economic history and in some of the major economic problems of his times. Dadabhai Naoroji and G. K. Gokhale also made very valuable contributions to the study of Indian Economics. The road pointed out by these great men has been traversed during the last quarter of a century by a large number of scholars and practical businessmen, whose studies now cover a wide field.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement of economic science will be followed, with such modifications as the differences in the social and economic organisation suggest and the theories of General Economics will be examined in the light of Indian facts.¹ No one, the author hopes, will expect a full and exhaustive treatment of the various questions of Indian Economics within the limits of a small volume like this. The object of the author is merely to equip the reader with such knowledge of the economic facts and problems of India as will help him in pursuing a fuller and more detailed study of the different branches of the subject later.

¹ Western economists are gradually coming to attach importance to what they describe as 'imperfect competition.' In India, imperfect competition is the most important characteristic of the economic order; it may not be therefore unreasonable to hope that a study of the economic conditions of India will help to elucidate problems of the pure theory of economics.

CHAPTER II

THE NATURAL ENVIRONMENT ✓

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with an investigation of the physical factor. This subject may be considered, for our purpose, under the five heads of the geographical situation, the geological structure, the climate, the flora and fauna, and the facilities of communication.

1. GEOGRAPHICAL SITUATION

India (including Burma) extends south and north from latitude 8° to latitude 38°, and the extreme points on the west and the east are situated respectively at longitude 61° and longitude 101°. It comprises an area of 1,808,679 square miles. The provinces under British administration comprise 1,096,171 square miles, or about 61 per cent. of the total. The remainder is included in the Indian States. The Indian Empire is equal to the whole of Europe, except Russia. Extent. 

The range of the Himalayas, with its snow-clad peaks penetrating far into the sky, forms the northern boundary of this vast country. On the north-west and the north-east also, it is bounded by lofty mountains which prevent ingress or egress except through a few narrow passes and defiles. On every other side the boundary is the sea. Boundaries. 

Thus situated, India forms a unit by itself, separated as it is by nature from the rest of the world. And within its own borders the country presents so many marked differences in physical features that it is often described as a continent rather than a country. Natural divisions: 

Northern
India,

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a length of more than 1,250 miles, are the most striking feature in the geography of India. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of the people. Below this great range lies the sub-montane region with its dense forests and an inhospitable climate. Next comes the great plain of Northern India, from about 150 to 300 miles in width, and watered by three great systems of Himalayan rivers,—the Indus, the Ganges, and the Brahmaputra. Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and water-logged, these features reaching their extreme points in Sind and the Great Desert on the west, and in Assam and East Bengal on the east.¹ To the southward lies the peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1,500 feet, and is cut into a few deep valleys through which seven great rivers carry their waters to the Arabian Sea and the Bay of Bengal.

Peninsular
India.

2. GEOLOGICAL STRUCTURE ✓

Geology
of India :

In ancient
ages,

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented by the southern peninsula and was connected with Africa by land ; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and

¹ It is curious to note how physical conditions change along with other circumstances. Three or four thousand years before Christ, cities like Mohenjo-Daro and Harappa flourished on the banks of rivers, which at present form uninhabited areas. At the time of Alexander's invasion a good part of the now arid desert consisted of populous towns and prosperous villages. So also, the jungle now known as the Sunderbuns, and inhabited by tigers and other wild beasts, was, a few centuries ago, the seat of a flourishing kingdom.

shallow sea ebbcd and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads : (a) Achæan, (b) Vindhyan, (c) Gondwana, (d) Basaltic, (e) Tertiary and Cretaceous, and (f) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general description of the various kinds of soils and minerals which owe their existence to them.

in the
modern
age.

The most extensive, and agriculturally the most important, ^{Soils :} tracts are the alluvial. They comprise the greater portions of ^{Alluvial} Sind, Gujrat, Rajputana, the Punjab, the United Provinces, Bengal, extensive tracts in Assam and Burma, the Godavari, the Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.¹

Alluvial soils differ in different parts of the country in respect of their physical as well as their chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour. The chief advantages of porous and light soils are that they are easily worked by the plough and easily permeated by water. They lead to great fertility of the land in places where the atmosphere is moist. But their great defect is that they allow the water to sink into the lower strata, and are unsuitable for the growth of those kinds of plants which require the retention of a great deal of moisture about their roots ; and thus they cause infertility of the land in those parts in which showers are not frequent. The alluvial soils are, on the whole, rich in chemical properties. Phosphoric acid, potash, lime, and magnesia are found in sufficient amounts, but nitrates are often in defect. In some places, however, barrenness results from an excessive accumulation of magnesia and soda

¹ Vide *Imperial Gazetteer of India*, vol. iii, p. 8.

salts on the surface. A large variety of *rabi* and *kharif* crops is grown on alluvial soils.

Trap soils.

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad, and Kathiawar. On the uplands and the slopes of hills the soils are porous and light, and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker and darker-coloured and more fertile. They are suited to the growth of cotton, wheat, millets, and pulses.

Black cotton soils.

In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. It is of a dark colour and is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *kharif* crops are also grown in many cases. Cotton, wheat, linseed, and millets are the chief crops. Soils akin to the black cotton soil of the Deccan are found in the river-valleys of a few other districts in Bombay, and also in parts of Madras.

Crystalline soils.

So much about the special varieties of soils. The rest of India may be described as the “crystalline soils tract.” But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them all in one class. They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the most important being rice. The reddish-coloured laterite soils of certain districts in Bombay are rather infertile, being highly porous and dry. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

In the midst of these varying features one characteristic is found to be common to almost all soils, viz., their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.¹

¹ In this respect, Indian conditions differ widely from those of England, where, on account of the presence of an excessive amount of moisture in the land, drainage is the most essential thing in cultivation.

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

The mineral wealth of India has not yet been fully ascertained ; but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources. V. Ball, in his introduction to the *Economic Geology of India*, quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals", and regards it as absolutely true. He goes on to say, "Were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there cannot be the least doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world is concerned, of a highly civilised community."¹ The mineral resources are widely distributed over almost the whole of her area, and it will perhaps be useful if we briefly describe the chief kinds.

Mineral
resources :

Coal is the most important of the mineral products of India.² Coal. Its quantity is large and the quality is good. It is found chiefly in Bengal, Bihar, Chota Nagpur, Assam, and the Central Provinces, and in smaller quantities in Burma, Orissa, Central India, the Punjab, Kashmir, and Baluchistan. Iron ² ores of a superior Iron. quality are to be found in abundance in various parts of India. The chief iron-ore areas are Barakar in Bengal ; Singhbhum in Chota Nagpur ; Mayurbhunj and Keonjhar States in Orissa ; certain districts of the Central Provinces ; the eastern half of Central India ; several parts of Bombay ; and Mysore. It is also found in smaller quantities in the Punjab, the United Provinces, Kashmir and Rajputana. In recent years, iron-ore bodies of great size and richness have been recognised in a belt running through

¹ V. Ball, *Economic Geology*, p. xv.

² The importance of iron and coal in the economy of a country is immense. The dominant industrial position of England is due, in a large measure, to her possession of an abundance of these minerals. Coal is important not only as ordinary fuel, but as the indispensable requisite in all productive industries.

Chota Nagpur and North Orissa and constituting what is one of the most important groups of iron-ore deposits in the world.¹

Petro-
leum.

Petroleum is found chiefly in Burma, Assam, certain districts of the N.W. Frontier Province, the Punjab and Baluchistan. The petroleum resources of India are confined to the two systems of folded rocks on the eastern and western Himalayas.

Rock-salt.

Rock-salt is obtained chiefly from the famous Salt Range of the Punjab. Tin is found only in Lower Burma and in the Hazaribagh district of Chota Nagpur. Ores of tungsten (or wolfram) occur in close association with tin ores in Burma.

Tin.

Materials
for in-
dustries.

Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Bihar are ideal, but the production is now diminishing. India is very deficient in her supply of phosphates, the only deposit worthy of note being in the Trichinopoly district of Madras. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir and Tibet. Soda salts are obtained from the soil in various parts of the country.

Gold.

India was, in ancient times, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is gold, which is found in large quantities in Mysore. Some amount is also found in the mines of Hyderabad and a few other places. Besides occurring in the free state in quartz veins, gold is sometimes found in the sulphide minerals. Thus, it occurs in Sikkim in mixed sulphide lodes and in the copper-bearing lodes in the Jubbulpur district of the Central Provinces. Besides, in all the Provinces of India, particularly in Bihar, Chota Nagpur, Assam and Burma, small quantities of gold are obtained from river gravels by the indigenous process of washing.

Copper.

Copper is widely distributed over the whole of India. It is found chiefly in Chota Nagpur, the Central Provinces, Rajputana, Southern India, the Northern Shan States, and at various places along the Himalayas. Lead occurs in the Shan States and certain districts in Bombay. Zinc occurs as an intimate associate of lead.

Lead.

Silver and
zinc.

No silver mines as such have yet been discovered in India, but the metal is obtained as a by-product in the mining of gold and

¹ *Quinquennial Report on Mineral Production of India, 1924-28.*

lead. Antimony deposits are found in the Punjab, the Shan States of Burma, and Mysore.

Manganese occurs in such abundance in the Central Provinces that India now alternates with Russia as the first manganese-producing country in the world. Other important deposits occur in Madras, Central India, Mysore and Chota Nagpur.

Mica is one of the most important mineral products. The main source of production is in the Hazaribagh and Gaya districts of Bihar. It also occurs in the Nellore district of Madras, in Mysore, and in some parts of Rajputana. Nickel is obtained from the Bawdwin mine in Upper Burma. Cobalt is sometimes found associated with nickel.

Various kinds of precious stones are to be found in different parts of India,¹ important among them being diamonds, rubies, and sapphires. Diamonds occur chiefly in Madras, the Central Provinces, and in Central India. Ruby-mining is a very profitable and flourishing industry in Upper Burma. The chief seat of the sapphire is Kashmir, but the mines are said to be exhausted.

Besides these, there are various kinds of miscellaneous minerals. Common stone and marble also are important, being the chief material used for building and ornamental purposes.

Numerous hot and mineral springs are found in different parts of India, but their neglect is a curious feature in the situation. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of the Bombay Presidency, and other springs along the foot-hills of the Himalayas.

3. CLIMATE ✓

The climate of any place is determined by various factors, chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

¹ Kautilya in his *Arthashastra* and the author of the *Periplus* mention a large variety of gems and pearls.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon, the country may be divided, for meteorological purposes, into two parts : Peninsular India and Northern India.

The Pen-
insula,—
variations
slight.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

Northern
India,—

severe
heat and
extreme
cold.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and during different seasons. In the Punjab and the North-Western Frontier Province we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In Bengal and Assam, the winter is mild and the summer is moderately hot. Again, Sind, the Punjab, and Rajputana are exceedingly dry, while the atmosphere of Assam and of East Bengal is always saturated with moisture.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent disturbed by the periodical or monsoon winds, of which we shall speak presently.

The
seasons :
Winter,
Dry sum-
mer and
rainy
summer.

The Indian year is divided into six seasons ; but, for economic purposes, it may be divided into two—winter and summer,—the latter being subdivided into dry summer (April, May, and June) and wet summer (July, August, and September). The seasons are of the greatest importance in the economy of Indian life, as they are accompanied by an alternation of the meteorological conditions which produces the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is

due to a difference in temperature and atmospheric pressure in different regions.

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator; and, consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the cooler air from near the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the Equator, the wind blows as a south-east trade-wind. As this wind reaches the Equator, it finds the barometric pressure higher there than in Northern India. It then swirls round and blows as a south-west wind, accelerating the air-movement which has already begun from the Equator towards India. This is the south-west monsoon. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The south-west monsoon usually establishes itself in Bombay and Bengal about the middle of June, and before the end of the month it extends over practically the whole of Northern India.

The
monsoons.

South-
west
monsoon.

The south-west monsoon reaches India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, the Punjab, and a part of the Central Provinces, and the latter to the rest of India and to Burma. India gets nearly 90 per cent. of her annual rainfall from the south-west monsoon. This monsoon usually continues till September.

Two
currents :
Arabian
Sea cur-
rent, Bay
of Bengal
current.

In October and November, the temperature over the land in India becomes lower than that over the sea near the Equator; consequently, the barometric pressure is higher, and winds now

North-
east
monsoon.

begin to blow towards the Equator. This is often alluded to as the north-east monsoon; but it is, in reality, the normal north-east trade-wind. Being of land origin, it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the south-west monsoon which is wet. The little moisture which it contains is really the residue left by the south-west monsoon, which has been prevented by the Himalayas from passing out of India. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is small. Some amount of rain also falls in the Punjab during the winter months, which is probably due to local storms.¹

Amount
of rain de-
termined
by—

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the south-west monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The south-east coast of Madras does not receive much rain from the south-west monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Thus, the normal rainfall in the Cherapunji hills is 460", while it is as low as 6·7" in Sind and 9·6" in south-west Punjab.

Situation,

Height,

Moisture.

¹ The Northern Punjab is outside the belt of regular winds, and, consequently, we should expect more local storms here than in other parts of India.

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons ; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has been described by several Finance Members as a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons ; and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Import-
ance of
rainfall.

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A hot and moist climate tends to cause much fatigue after even moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the span of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

Influence
of climate
on
physique
and char-
acter.

4. FLORA AND FAUNA

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are : rice, coffee, millet, sugar-cane, cinchona, jute, spices, india-rubber and gutta-percha ; pineapple, bananas, and other

Vegetable
life.

Tropical,
sub-
tropical,
and tem-
perate-
zone
products.

kinds of tropical fruits. The chief sub-tropical products grown are : cotton, tobacco, opium, and tea. Of the products of the temperate zone, the following may be mentioned as the more important : wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber, and indigo.

Animal
life.

Animals are of great use for purposes of cultivation as well as of transport. At one time India possessed a fairly adequate supply of good and serviceable cattle. But of late there has been a great deterioration in the quality, and diminution in the quantity, of live stock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases of various sorts ; and the question of breeding does not receive the attention from the people which it should.¹ This paucity of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a good size, nor are they strong. For this reason, horses are rare in Lower Bengal, the Carnatic and Coromandel coasts, and Lower Burma. In the drier parts, on the other hand, such as Baluchistan, the Punjab, Rajputana, and Kathiawar, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every province. The donkey is a very useful beast of burden, especially in Northern India. The camel is plentiful in the sandier parts of the country, and is a very useful animal for transport. The region in which good cattle is reared includes the Punjab, Kashmir, Rajputana, Sind and Kathiawar, where rainfall is not excessive.

¹ "Cattle disease," wrote the Agricultural Adviser to the Government of India, "is so serious an affliction that it ranks in many parts of India as a scourge, and is a direct obstacle to the amelioration of the condition of the cultivator" (*Report on the Progress of Agriculture in India*, 1911-12, p. 4).

Products obtained from animals, besides milk, are hides and skins, bones, wool, wax, and ivory, all of which are articles of utility and in demand. Animal products.

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint. Aquatic products

5. FACILITIES OF COMMUNICATION

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tributaries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. The Indus and its tributaries are navigable by small boats, and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. The rivers also are not quite so useful as waterways, all of them being too impetuous in times of flood and too scantily supplied with water at other times. Communica-
tion
easy in
Northern
India,

but diffi-
cult in the
peninsula.

The long sea-board of India offers facilities of communication between the coast districts of the country. The number of natural harbours, however, is few, and during the monsoons the Indian Ocean becomes exceedingly rough. But, in spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world. The sea,
the great
highway.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of her people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature ; but it would be a mistake to suppose that this dependence is absolute. Man can, in some measure, modify his environment. And the people of India can, by their intelligence and Natural
advan-
tages
many ;
disadvan-
tages few.
Depend-
ence on
nature not
absolute.

Natural
obstacles
surmount-
able.

knowledge, control the forces of nature to a considerable extent. Let us try to understand this point more clearly.

The productiveness of the land depends on the fertility of the soil. But natural fertility is increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest ; while the worst land can be converted into the most fertile by the application of proper manures and the adoption of a well-regulated method of agriculture. In mining, the extension of knowledge may lead to the discovery of new minerals or the artificial manufacture of useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable ; but even here modifications may be secured in various ways. Afforestation may lead to an increase of rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes, and the re-excavation of silted rivers may also affect for the better the climate of the country, the health of the people, and the moisture conditions of the land. The effects of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined partly by the physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new varieties may be made to grow. So also, the breed of cattle may be improved and certain new kinds may be introduced.

Means of
communi-
cation.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Railways have penetrated into places which would otherwise have remained inaccessible. Motor vehicles have now become a valuable means of transport in every part of India. The formidable ocean now affords the easiest and cheapest means of transport, while recent developments in air services bid fair to abolish distance altogether. The post-office, the telegraph, and the wireless are the most important among the unifying factors of the whole country.

CHAPTER III

THE SOCIAL STRUCTURE

THE PEOPLE

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human factor.

The total population of India is about 352·84 millions, of which British territory contains $271\frac{1}{2}$ millions, or 77 per cent., and the Indian States 81 millions or 23 per cent.¹

Popula-
tion.

Taking India as a whole, there are on the average 195 persons to the square mile, as compared to a mean density of 685 persons per square mile for England and Wales, 127 persons for Europe as a whole, and 41 persons for the United States of America. In British territory the number to the square mile is 248, and in the Indian States, 114.² But the distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rain-

Density.

Local dis-
tribution
unequal.

¹ India, with an area about half that of the United States, has a population almost three times as large. Burma, in area rather larger than France, has a population about one-third as numerous. The United Provinces, about the same size as Italy, has a population larger by about 14 per cent.; while Assam has an area rather larger than that of England and Wales, and a population only one-fifth as numerous. (Vide *Census Report*, 1931.)

These figures relate to the Census of 1931, and it is expected that, if unforeseen checks do not appear, the population would rise to about 400 millions in the Census of 1941.

² Sir A. J. Baines pointed out (in an article in the *Journal of the Royal Statistical Society*, December, 1904), that, in the case of India, "the mean density figure is in itself peculiarly devoid of significance." The population per square mile in England and Wales is 685, Ireland 155, Germany 361, France 197, the United States 41, the U.S.S.R. 20, Belgium 727, Holland 674, Europe 127, Europe excluding U.S.S.R. 184, Canada 2·9, Australia 2·2, New Zealand 14·7, China 80·5, Egypt 40, and Japan (including Korea and Formosa) 372.

fall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions. The greatest density is to be found in Cochin State, which has an average population of 814 per square mile, and Travancore claims the second place with 668 to the square mile. In British India, leaving aside the urban province of Delhi which has a mean density of 1,110 per square mile, the greatest density is to be found in Bengal where the average population is 646 to the square mile, and the next densest tract is the Gangetic plain of the United Provinces, with 456 per square mile. The density is the lowest in Burma and Baluchistan. The Chagai district in Baluchistan has only one person to the square mile, while the Munshiganj subdivision in Bengal has a mean density of 2,413 per square mile.¹

Popula-
tion main-
ly rural.

The people for the most part live in villages. Only 11·05 per cent. of the population is found in towns with over 5,000 persons each, compared with 49 per cent. in France, 53·7 per cent. in Canada, 56·2 per cent. in the U.S.A., and 80 per cent. in England and Wales. The proportion of the urban to the total population ranges from 22·4 per cent. in Bombay to only 2·66 per cent. in Assam.² There are only 38 towns with a population of over 100,000. The number of towns containing each a population varying from 5,000 to 100,000 is 1853.³ But the number of vil-

Towns
compara-
tively few.

¹ In Assam the density is 157 to the square mile, in Baluchistan 9, Bengal 646, Bihar and Orissa 454, Bombay 177, Burma 63, Central Provinces and Berar 155, Madras 328, North-West Frontier Province 179, Punjab 238, and the United Provinces 456.

² The percentages of the urban population to the total are as follows : Assam 2·66, Bengal 7·35, Bihar and Orissa 4·39, the U.P. 11·2, the C.P. and Berar 10·89, the Punjab 13·01, Bombay (including Sind) 22·4, Madras 13·56, Burma 10·36, the N.W.F.P. 15·92, Baroda 21·41, Cochin 17·12, Hyderabad 11·2, Rajputana States 13·86, Kashmir 9·39, Travancore 10·83, Mysore 15·94, Baluchistan 19·85, and Delhi 70·33.

³ During the period between 1911 and 1921, while the towns with populations above 50,000 increased by over 16 per cent., the increase was considerably less in those between 5,000 and 50,000. The population of towns between 10,000 and 20,000 did not keep pace with the progress of the general population of the country. The significance of these comparisons lies in the strong indication which they give of the gradual decadence of the medium-sized country towns

lages is nearly 700,000. The reason for this is to be found in the fact that the people are, in the main, agricultural. The rural people are generally less progressive in their thoughts, ideas, and habits than the town people, but there is no antagonism between life in towns and that in villages. There was a time when the urban population was much larger, and the social importance of the towns greater. With the decay of the industries, the towns sank in importance, and for a time there was a tendency towards a larger proportion of the people becoming rural.¹ In recent years, however, there has become discernible a tendency working in the opposite direction; and towns are once again beginning to take their proper place as centres of thought, culture, and economic enterprise in the life of the nation.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of the female sex in India can hardly be regarded as producers of wealth at all. The social customs prevent females, of the higher and middle classes in particular, from participating in the production of wealth, at least in a direct way. A disproportionate sex-ratio is, again, undesirable on social and eugenic considerations. Taking the country as a whole, there is a slight excess of males over females. On an average, there are 940 females for every 1,000 males. In Bengal, the number of females per 1,000 males is 924; and in Calcutta the statistics show a grave disproportion between the two sexes, the number being 468 females to every 1,000 males.

Division
into sexes.

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limits for active work in India may be put at the ages of 15 and 50.² The

Distribu-
tion by
age.

and the growth of larger cities and towns under the influence of industrial and commercial development. The *Census Report* of 1931 shows, however, a fairly uniform increase in the population in each class of towns.

¹ It was more than half a century ago that M. G. Ranade mournfully complained in his *Essays and Speeches* of this progressive ruralisation of the people. The tendency has now been checked.

² The theory of Sundbärg, the Swedish statistician, that the age group "15-50" contains about half the total population, holds good in India, but the local variations are somewhat greater than in Europe, and the proportions are apt to be disturbed by famine. But his other theory, namely, that the numbers in the two age groups "0-15" and "50 and over" approach equality is not

number of persons between these limits is 505 per 1,000, or slightly in excess of 50 per cent. of the population. If we deduct from this the infirm and sick persons, as well as a large proportion of females who, owing to the *purda* system and other social customs, do not contribute to the economic life of the people in a direct way, we get the total number of able-bodied persons who are fit to participate in the production of wealth, or, in other words, who form the labour-force of the country.

Health.

The most important factor to be considered when dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of the people in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation. Finally, the influence of heredity helps to perpetuate the evil effects, so that the physical deterioration of the people goes on increasing from generation to generation.

Distribution by occupation.

The economic condition of the people depends largely on how they earn their living; hence the great importance of the question of distribution by occupation. The most noteworthy fact in this connection is that 67·1 per cent. of the population is supported by agriculture and animal husbandry. Industries maintain 9·7 per cent., and trade and transport, 5·4 and 1·5 respectively. The rest of the people depend for their livelihood on the following occupations: professions and liberal arts 1·7, public administration 0·8, public force 0·5, exploitation of minerals 0·1, miscellaneous (insufficiently described and unproductive occupations,

true in India, because, owing to the shorter lives of the people, the rate of mortality amongst persons aged 50 and over is considerably greater than that amongst those under 15. He also holds that the number in the age group "0-15" must be double the number in the group "50 and over," if the population is to grow. In India, the number in the youngest age group is 39·9 per cent. of the total population, while the number of persons above 50 constitutes only 9·6 per cent. of the total. There are therefore indications of a progressive population in Indian Census statistics. (Vide *Census Report*, 1931, vol. I, part i, p. 87.)

persons living chiefly on their incomes, and domestic service) 13·3. It ought to be noted that there has recently been a slight decrease in the percentage of population dependent on agriculture.¹

So much about what may be called the status of the population. But the dynamics of the population are also very important. Changes are effected by three factors : birth, death, and migration. We shall briefly notice each of them.

Dynamics
of popu-
lation.

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Religion and social custom used, until recently, to favour the marriage of persons, particularly of girls, at an early age.² Consequently, the hypothesis that marriages increase with prosperity and decrease with adversity does not hold good in India. As a matter of fact, improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates is much lower in India than in Europe and America. On the other hand, custom discourages the marriage of widows among the Hindus ; moreover, as there is a considerable disparity in the ages of the husband and the wife, we find a higher proportion of widows here than in European and American countries. The proportion of widowers also is a little higher. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes, and also among the Mahomedans than among the Hindus. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average crude birth-rate in India during 1921-31 ranged from 27·8 (in Burma) to 43·7 (in the Central Provinces) per thousand of the population.³ No reliable figures can be obtained of the refined birth-rate, that is to say, of the births compared with the number of women of child-bearing age. But it may be said in a

Marriage.

Birth-
rate.

¹ In 1921, the percentage was 72·17. A correct comparative estimate is difficult because many changes were made in the definitions and in the allotment of sub-classes during the last Census operations, and it has been pointed out that " the returns of this Census do not provide any direct figure for the distribution of the total population according to its dependence on various occupations ". (*Census of India, 1931.*)

² Public opinion, however, is now gradually asserting itself against early marriages. The provisions of the Sarda (Child Marriage Restraint) Act of 1929 were made more stringent by an amending Act passed in 1938.

³ Vide *Census Report, 1931*. The vital statistics of India are admittedly defective, containing as they do a substantial percentage of errors.

general way that women begin to bear children at a comparatively early age and also cease rather early.

Death-
rate.

The increase or decrease of population depends not only upon the birth-rate, but upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rate in other civilised countries. About one-fifth of the children born die within the first twelve months.¹ The high rate of mortality in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage.² In bad seasons the population usually decreases; while in good seasons there is an increase of population, this being due not so much to increased birth-rate as to the diminution in mortality. The mortality in towns is a little higher than in the country.

Actuarial
calcula-
tions of
duration
of life.

According to actuarial calculations, the estimated expectations for male, and also for female lives, for all India are materially below those deduced from English lives at all ages. The Indian expectation at birth is 26.91 years for males and 26.56 years for females, while the expectation in England, according to the 1921 figures is 55.62 for males and 59.58 for females, the differences being quite marked throughout life. Up till 1911, the estimated expectations showed a gradually declining tendency; the esti-

¹ The infant mortality rate was 197.9 per thousand of live births in 1921. The rate fell to 166.93 in 1927, but rose again to 180.83 in 1930. During the years 1921–30, the average death rate varied from 20.3 per mille in Burma to 31.7 in the Central Provinces and Berar. The quinquennial average of the birth-rate in British India during 1926–30 was 35.7, and the average death-rate during the same period was 26.0, leaving a survival rate of 9.7 per thousand of population. In modern civilised communities, the death-rate varies generally from 8.6 per thousand (New Zealand) to 19.5 per thousand (Japan).

The quinquennial averages of the birth-rate and of the death-rate during 1926–30 in England and Wales were 16.7 and 12.1 respectively; in France 18.2 and 16.7; in Germany 18.4 and 11.8; in the U.S.A. 19.7 and 12.0; in Sweden 16.7 and 12.1; in Italy 26.8 and 16.0; and in Japan 33.4 and 19.5. (*Vide* D. G. Karve, *Poverty and Population in India*, p. 41.)

² The Famine Commissioners of 1898 said in their Report: "Epidemics may sweep them off by tens of thousands without attracting attention, because these agencies are incessantly at work. Famine, which intensifies their activity, is more conspicuous from its less regular occurrence, but it is really only one, and perhaps not the most deadly, of numerous influences by which at present human life is cut short, and which can be effectually counteracted by the general advance of society in wealth, knowledge, and material resources." (p. 29).

mate made in 1931, however, indicates a moderate increase. But even now the figures are very low and this serious state of things demands the immediate attention of the state as well as of the educated community.¹

Migration is another factor which affects the size of the population. Migration is of two kinds : internal and external. Internal migration, again, may be casual, temporary, periodic, semi-permanent, or permanent. Casual or temporary movement of the people from one province or district to another goes on continually. For instance, the factory hands in the Calcutta mills are mostly drawn from up-country. Periodic movements are due to the seasonal demand for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration, or colonisation, takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of labour conditions in other parts, all tend to keep them tied to their native villages. One important instance of a permanent movement, during recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab. Assam gains most on the whole from inter-provincial migration. Bengal, Burma, and Bombay also show substantial figures of net gain. Among the provinces that lose population on account of internal migration, Bihar ranks first. Orissa, the United Provinces and Madras also send away large numbers of inhabitants to other parts of India.

Migra-
tion—
internal,

External migration may take the form either of immigration or of emigration. As for the former, there are in India altogether 730,546 persons of foreign birth, of whom 118,089 are of European descent. Emigration serves as an outlet for the surplus population of the country ; but the actual total number of emigrants from India is so small that, for practical purposes, it is not of much importance. In 1921, the total number of Indians in other parts of the British Empire was 1,662,000. In 1931, the

external,

emigra-
tion,

immigra-
tion,

¹ The estimated values for male lives and female lives were in 1881 respectively 23.67 and 25.58 ; in 1891—24.59 and 25.54 ; in 1901—23.63 and 23.96 ; in 1911—22.59 and 23.31. Actuarial estimates are not available for the year 1921. In Sweden the estimates for males and females are 60.72 and 62.95 respectively (1921-25) ; in Germany—55.97 and 58.82 (1924-26) ; and in Japan—42.06 and 43.20 (1921-25). (*Vide* the Actuarial Report of Mr. L. S. Vaidyanathan, included in the *Census of India*, 1931.)

number rose to 2,300,000. In the world as a whole, it is estimated, there are nearly 2·5 million Indians outside India, and the actual number of Indians who have emigrated during 1921–1931 has been estimated at 1 million. The emigrants used formerly to go to the British Colonies (Mauritius, Natal, British Guiana, British West Indies, Fiji, etc.). But the conditions of existence of the Indian settlers in the Colonies are very far from satisfactory. Since the passing of the Emigration Act of 1922, emigration has been controlled by the Governor-General in Council. At present, Malaya and Ceylon are the two most important countries for Indian emigration. Recruiting of Indian labour to Malaya was, however, stopped in 1930. Further restrictions are being imposed by the Government of India on emigration to foreign countries; for instance, in 1938 a bill was passed with the object of making the conditions of emigration to Malaya almost prohibitive. The question of emigration as a measure for relieving the pressure of population deserves careful consideration.

from occu-
pation to
occupa-
tion.

The caste-system and social custom used in olden days to prevent absolutely the movement of labour from occupation to occupation. These influences are, however, growing less every day, and restrictions are gradually passing away. But even now the movement is very far from being completely free.

Increase
of popula-
tion.

In the course of the decade 1921 to 1931 the population of India increased from 319 millions to 353 millions. The rate of increase was a little over 10 per cent. Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who assert that the pressure of population on the means of subsistence is one of the chief causes of the extreme poverty of the people, and who predict that this pressure, if allowed to grow unchecked, will in the near future greatly intensify misery in the country. There is another aspect of the question. As Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food, but between population and wealth.¹

¹ For a fuller discussion see Part II.

CHAPTER IV

THE SOCIAL STRUCTURE—(*Continued*) SPECIAL FEATURES OF INDIAN SOCIETY

1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

We find it vaguely alluded to in a few passages of the Vedas, and recognised in Manu's code, in the great Epics, and in the Puranas. The original distinction was perhaps based on colour, the Aryans being white and the non-Aryans brown or black. Subsequent distinctions must have arisen from differences in respect of qualities and occupations.¹

Origin.

¹ In the Bhagavat Gita, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." M. Senart is perhaps right in saying: "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile aborigines, the Aryans found it necessary to set apart the hardiest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste. Then, as engagement in warfare was found incompatible with the performance of religious ceremonies and the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry, and trade was realised more and more with the growth of civilisation, a third class began to devote their energies exclusively to those occupations; and lastly, the less cultured among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principles underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

Senart's
views.

Essential
feature.

The essential feature of the system¹ is that "birth determines irrevocably the whole course of a man's social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."² Mahomedanism, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to the Mahomedans, among whom caste tendencies are visible. In some places, the social distinctions have become quite marked and well-defined.

Caste ten-
dencies
among
Mahome-
dans.

Economic
signific-
ance.
Limita-
tion of
competi-
tion.

The chief economic significance of the caste-system is that it fixes absolutely the supply of any kind of labour. The scope given for the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When there takes place any change in the economic world, labour is unable to adjust itself to the altered circumstances and suffers in consequence, sometimes very heavily. Wages and prices have very often to be regulated by

Definition
and
nature.

¹ A caste is defined in the *Imperial Gazetteer of India* as "a collection of families or groups of families, bearing a common name which usually denotes, or is associated with, a specific occupation; claiming common descent from a mythical ancestor, human or divine; preferring to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community." Dr. J. H. Hutton in the *Census Report* for 1931 discusses the origin and nature of the caste-system. Taking up one by one the traditional view of which the Code of Manu is the best exponent, the occupational explanation of Nesfield, the tribal and religious explanation of Ibbetson, the family or gentile explanation offered by Senart, and the racial or hypergamous explanation of Risley, he shows that none of these theories explains fully all the incidents of the caste-system. A correct explanation of the system must explain the gradations of the castes and the taboo on commensality. According to Dr. Hutton, the caste-system originated long before the Aryan settlers came to India, and the main factor that led to the formation of commensal groups was the primitive belief in "the magical effects of food on the consumer." These taboos on food, together with the local taboos against certain crafts and persons tended gradually to create rigid walls between groups. "It must have remained," he concludes, "for the Indo-European invader, with that pride of race which has ever and everywhere characterised him, to have the effect of crystallising, on the basis of a fixed social scale, the pre-existing taboos arising from magical ideas, ultimately resulting in an attempt to describe in terms of an intrusive Indo-Aryan society a social system really based on the taboos of pre-existing conditions." (*Census Report*, 1931, vol. I, part i, chap. 12.) How far this is correct it is not necessary for us to discuss here.

² *Imperial Gazetteer of India*.

custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute subdivision of labour is essential, and which requires the supply of any kind of labour to immediately respond to the demand for it. Under the caste-system the people lose their adaptability to changed circumstances.) The system, moreover, has its influence on the character of the individual. Where birth determines the whole course of man's occupation in life, there is little chance of his capacities being always put to the best use, and each profession may have to tolerate many persons who are incompetent or useless in that particular profession but who may perhaps do better in some other. Denying, as it does, equal opportunities to all, it often becomes the source of grave injustice to large classes of the community.

Unsuited to large-scale production.

Capacities not put to the best use.

Inherited skill.

Caste the protector of the weak.

Balance of merits and defects.

Caste-system modified.

The result is a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another great merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. Everyone finds a place in the economic organisation—no one is absolutely helpless. Whether the merits of the system are greater than its defects or *vice versa* is not a question for the economist alone to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages. Some would regard the caste-system as the chief cause of the economic stagnation of the country and the political enslavement of her people.¹

As a matter of fact, changed conditions have led to a modification of the system. The last *Census Report* has directed attention to the tendency towards the consolidation of groups at

¹ Mr. C. B. Phipson, in his excellent book, *The Science of Civilisation*, says : " No system could be more opposed to economic freedom than this [the caste-system], or any devised more restrictive of economic development. . . . Caste presents a solid barrier to mental development generally, or, to that enquiry into, or mastery over, the powers of nature without which there can be no rising to the higher levels of civilisation. It leaves, therefore, every people subservient to it at the mercy of whatever more advanced nation is interested in subduing them. . . . [In India] a fairly high level of economic development had been reached before the institution of caste arrested further progress."

present separated by caste rules. "On the whole," says the *Report*, "it is fair to conclude that there is a tendency for the limitations of caste to be loosened and for rigid caste distinctions to be broken down." Occupation is not now necessarily the indication of a man's caste. Members of different castes are nowadays to be found in almost every occupation. Education, better communication, and the economic struggle have combined to take away caste differences in many instances. The anti-untouchability movement is also playing an important part in removing the social disabilities of the so-called depressed castes. The caste-system is not likely to disappear very soon, but (those features of the system that have been found unsuited to the economic and social conditions of the present day are in the process of gradually being eliminated.)

The caste-guild.	An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages, to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes. Its chief objects were to regulate competition among its own members and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards, and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society ; and by finding employment for the unemployed and helping the poor and needy, the guild-system avoided the necessity of a poor-law.)
Its functions.	
Its objects.	

Caste-guilds compared with mediaeval guilds of Europe.	The caste-guilds of India were, in many respects, similar to the guilds of mediaeval Europe ; but there were many points of difference. These latter were not endogamous, and there was no bar to the admission into the circle of outsiders who had learnt the business. The common occupation was a real tie and a source of strength, not a symbol of disunion in the different parts of society as in the case of the Hindu guilds. Lastly, the European guilds might—as they did—expand and develop, while the Indian system was rigid and stereotyped.
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Their importance.	There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they
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largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India,¹ and even where they exist they do not exercise anything like their old influence. But there are trade- or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not very strong, and they lack the unity of sentiment and efficiency of organisation which ensure the success of the trade-unions of modern Europe and America.

Modern
trade-
guilds.

The Mahomedans of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. But the democratic organisation of Mahomedan society prevents these guilds from being stereotyped into castes. In some trades the guilds are well organised, and are strong enough to wield considerable influence over the members.

Mahome-
dan
guilds.

2. THE JOINT-FAMILY

In India, the unit of society is not the individual, but the family. Among the Hindus, this family includes not only the husband, the wife, and the children, but many more members in addition. The essential feature of the system is that (the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.)

Family
the unit of
society.

Consump-
tion in
common.

The Hindu law of property is essentially different from the laws which regulate property in the west. In Europe and America ownership, as a rule, is single, independent, and unrestricted. In India corporate property is the rule, and absolute unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.²

Joint
property.

Originally, every Hindu family, and all its property, was not

¹ The mention of guilds in Kautilya's *Arthashastra* proves that they existed long before the commencement of the Christian era. Remnants of the guild-system still exist in some parts of the country.

² Mayne, *Hindu Law*, p. 293.

only joint but indivisible.¹ Now it has ceased to be so ; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or equality.

Schools
of law :
Mitak-
shara.

Daya-
bhaga.

There is a great deal of divergence in the doctrines of the various schools of Hindu law. The Mitakshara school, which governs the greater part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school which governs Bengal proper. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager, and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it.

Merits of
the joint-
family
system.

The joint-family system has existed in India for ages, but is now in a state of decay. This is regarded as a blessing by some thinkers and as a curse by others. Looked at from an economic standpoint, the system appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. Children are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great advantage to them in their race of life. The aged, the weak, and the infirm are also taken care of, and are made useful members of society.

Defects.

But, on the other hand, it should be noted that when the means of subsistence are secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others. Self-reliance—the great virtue without which no economic progress is possible—is thus discouraged. Economic freedom, which is such an important matter in the

¹ Mayne, *Hindu Law*, p. 332.

production of wealth, is also curtailed. Moreover, the burden of a large family makes a man afraid to undertake risks and unwilling to launch on new ventures. He is thus in a manner prevented from making the best use of his capacities.¹

Sometimes, not only consumption but also production is found to be in common. Every member contributes by his labour to the production of the family wealth. In such cases, the members of the joint-family are like the members of a communistic or co-operative society, and the advantages of the joint system are secured without some of its usually attendant evils. The situation is reversed in instances in which only a few persons work and the rest depend on them for subsistence.

Sometimes, production in common.

As for the balance, the economic gain is in some cases greater, and in others less, than the loss. Whatever may have been its merits in the past, the system is now steadily losing ground.

The Mahomedans also generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union, in fact, is not so complete as among the Hindus, and, consequently, the system is far less rigid. The Mahomedan law gives the owner of the property for the time being absolute dominion over it, whether such property be self-acquired or ancestral. He can dispose of it in any way he likes, provided that operation is given to the transaction during his lifetime. It is only in respect of dispositions by will that the donor's power is limited by the rights of his heirs.

Mahomedan family system.

Like the caste-system, the joint-family system is also gradually decaying. Here also the economic struggle has come in as a disruptive factor. The village artisans are no longer able to get a living from their traditional occupations. The railways and other means of communication have also been effective in breaking up the joint families by making internal migration easier. The spread of European ideas and the gradual introduction of English legal principles in our system of laws have also been partly responsible for the dissolution of many joint families.

Gradual disruption of joint-family system.

¹ Sir Sankaran Nair, comparing the English with the Indian law, said: "The one law is individualistic, and based on the inviolability of contract, with the result that success attended energy and labour. The other was rooted in communistic and family bondage, and was one of status, fostered indolence and stifled all energy" (Article headed "Indian Law and English Legislation" in the *Contemporary Review*, August, 1911).

This, however, is not an unmixed good. In a country where neither the Government nor any other institution makes arrangement for social insurance, *i.e.*, for the protection and maintenance of the aged, the poor, the orphans, and the widows, the disruption of the joint families may lead to many practical difficulties.

3. THE LAWS OF SUCCESSION

Succession :
among
Hindus ;

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children, it passes to the next of kin.

among
Mahomedans.

Under the Mahomedan law, the property is divided, on the demise of its owner, among a larger number of heirs, many of the near relations obtaining shares even when there is male issue.

No primogeniture.

The law of primogeniture does not exist in India, except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. It minimises the distance between the high and the low, and fosters a large middle class. Such a system is admirably suited in one respect to the industrial progress of a country, for it gives to a considerable part of the people something to start life with ; and this amount not being large enough to live upon, most people are driven to work in order to be able to live in the standard of comfort proper to their social status. It fosters the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it hinders large-scale production for want of a concentration of capital ; and in a country where the Joint-Stock and Limited

Division
of property : its
advantages ;

disadvantages.

Liability systems are not yet fully developed, it tends to arrest industrial progress.

There are perceptible indications that the laws of succession will soon undergo important changes. Legislation has already been undertaken with the object of allocating in some cases shares of the father's property to his daughters and for the grant of definite property-rights to widows.

Recent changes.

4. THE VILLAGE SYSTEM

As we have already seen, the great body of the people of India is rural. It is so, not because the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

From the very earliest times, the village has always been the unit of administration in India. Here, as in all other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities was developed in many parts of the country, which lasted many hundreds of years. Sir Charles Metcalfe gave an excellent description of these organisations, from which the following lines are worth quoting : " The village communities are little republics,¹ having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down ; revolution succeeds to revolution ; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same." ²

Village communities.

Sir Charles Metcalfe's view.

¹ In Bombay, it was reported in 1819 that " these communities contain in miniature all the materials of a state within themselves, and are almost sufficient to protect their members if all other governments were withdrawn " (Elphinstone's *Report on the Territories acquired from the Peshwa*, 1819).

² Sir Charles Metcalfe continues : " This union of the village communities, each one forming a separate little state in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India, through all the revolutions and changes which they have suffered, and is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence." So also, in regard to Madras, the Fifth Report, 1812, says : " Under this simple form of Municipal Government the inhabitants of the country have lived from time immemorial. The inhabitants give themselves no trouble about the breaking up and divisions of Kingdoms."

The
village.

Although the system of village communities is now in a state of decay, it has not yet been entirely overthrown. It still exists in a state of greater or less completeness in many parts of India, especially in the Punjab and Madras. In Northern India, these villages are usually walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same.

Origin.

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which hold together the village landholders are not merely physical, but also social and economic.

The bond.

Two
kinds :
Raiyat-
wari,

There are two types of villages—the Raiyatwari and the Landlord- or Joint-village.¹ In the first, the village contains a number of cultivating holders, who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar ; it also originally existed in the Central Provinces and parts of Bengal.

Landlord-
village.

In the Landlord-village, the holdings of the cultivating landholders are not separate units ; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body² is of common descent and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself ; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords).

¹ Vide Baden-Powell, *Land Systems of British India*.

² Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution ; but Baden-Powell, a great authority on the subject, contests this view (*Vide* Baden-Powell, *Indian Village-Community*).

There are three principles according to which land is divided among the co-sharers : (a) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fraction of the whole which his place in the family " tree " or genealogical table points out ; (b) special customary system of sharing, *e.g.* sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with reference to shares in water, or shares in wells ; and (c) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The Landlord-village system prevails in the United Provinces of Agra and Oudh, the Punjab, and the North-Western Frontier Province.

Principles
of sharing.

Landlord-villages owe their origin to one of three principal sources. First, they may have been founded by single persons or grantees or revenue farmers ; or they may have been founded by the dismemberment of the houses of ruling chiefs ; or thirdly, they may have been created by tribal groups or colonist associations, as for instance, the Jats and the Rajputs.

Sources.

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). His office has always been regarded as of great importance. He often exercises petty magisterial powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the Landlord-villages the business of the village is entrusted to a *punchayet* or council of village heads, the leading man among them being selected as the representative of the body and the headman. He is called the *lumbardar*, and is directly responsible for the revenue of the village.¹

Village
officers.
The
Headman:
his func-
tions in
Raiyat-
wari,

and
Landlord-
village.

Another officer of the village is the *patwari* or accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payments by the proprietors or co-sharers, and outstanding balances ; of rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to produce and keep the village maps, field-registers, and other records of landed rights, shares, and interests. He fills up

The
Patwari :
his duties.

¹ There may be more than one *lumbardar* in a village.

the statistical returns of the crops sown and harvested, the number of cattle, and such other things. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the *tahsil* any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two other petty officers.¹

Village
economy

Until recently, each village constituted an economic unit, of which the chief feature was its self-sufficiency.² It used to be, to a large extent, independent of relations with the outside world, so far as its internal economy was concerned, for within its own boundaries the village possessed all the factors which were requisite for the supply of its few wants. Even now the great bulk of the people is agricultural. The cultivators take lease of small plots of the village land either directly from government or from a landlord (or a body of joint-landlords), to whom they pay rent. They work the land themselves with the aid of their family members and sometimes also of hired servants. They supply the small capital from their own savings or borrow from the village landlord or the moneylender. They are also themselves the managers, organisers, and experts of their petty farms; and they carry their produce to the market—which is held once or twice in the week—to exchange it for other commodities.

Classes
in the
village.

Besides the two classes of landlords and cultivators, there is a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supply the needs of the small society. The petty shopkeeper performs the important function of exchanging the different products. The

¹ In a deed of gift by the minister of Bukka Raya, King of Vijayanagar, dated A.D. 1187, the following list of village officers is given: (1) Reddi, (2) Karnam (accountant), (3) Purohit, (4) Blacksmith, (5) Carpenter, (6) Money-changer, (7) Policeman, (8) Potmaker, (9) Washerman, (10) Barber, (11) Messenger, (12) Worker in skins.

² Vide Baden-Powell, *Land Revenue Systems of India*, and Sir T. Morison, *Industrial Organisation of an Indian Province*. In regard to the South Indian village, Mr. T. Ramakishna says: "It will be seen that this village is a little world in itself, having a government of its own and preserving intact the traditions of the past in spite of the influences of a foreign government and a foreign civilisation. Every member of the little state of Kalemбакam regularly performs the duties allotted to him, and everything works like a machine. Those that render service for the upkeep of the village constitution are paid in grain or have some lands allotted to them to be cultivated and enjoyed free of rent" (*Life in an Indian Village*, p. 83).

moneylender—who also usually combines other functions, especially those of a wholesale grain merchant or a middleman—is, by virtue of his position, a very important person in the village.

The services of the artisans, etc., used to be, and to a small extent still are, paid for in kind. In the pure form of village economy there was very little competition¹ with the outside world, though within the village the motive of self-interest naturally prompted everybody to find the best advantage for himself. Wages and profits were, to a considerable extent, governed by custom and were comparatively fixed and inelastic. Division of labour did exist, but as division depended on the extent of the market it could not be carried very far. Labour was immobile; and what little capital there was in the village was locked up in the land. The different classes in the village were conscious of the fact that each was dependent on the others, and that the interests of each class were bound up with those of the rest. Thus there grew up a strong sense of unity and solidarity which helped to preserve the integrity of the village. The villager lived a simple, and in years of good harvest, a contented life. There was very little wealth in the village, but the evils of capitalism were also absent. The cultivator or artisan knew little of the comforts and luxuries of urban life, and did not miss them. He thought that there were things higher than those of this world, and strove to attain them in the way which his religion and traditions pointed out to him.

The place of competition in village economy.

Division of labour.

Immobility of labour.
Want of capital.
Sense of unity.

Life in the village,

Such was the village system until recent years. But to-day it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simplicity of life.

changing.

The rapid development of the means of communication and economic competition with the outside world have produced far-reaching effects on village life. Almost all the industries of the

Effects of transition.

¹ Sir Henry Maine says, "Competition, that prodigious social force, of which the action is measured by political economy, is of relatively modern origin." (Maine, *Village Communities*)

village are now in a decadent condition ; and the loss of income due to economic dislocation has, in its turn, reacted adversely on the health and general well-being of the villagers. Efforts are now being made to reconstruct the village, but so far without any appreciable success. The gulf between urban and rural India continues to be still very wide.

5. STATUS AND CUSTOM

Influence
of custom

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, in the ancient days, the supreme regulator of his actions and relations in life. The influence of custom is, however, growing less every day. In India, as in every other progressive country, the movement has been and is from status ¹ to contract. Yet even now it may be asserted of a majority of the Indian people that their actions are governed more often by custom than by free competition. Ranade rightly observed : “ There is neither the desire nor the aptitude for free and unlimited competition, except within certain predetermined groups or grooves. Custom and state regulations are far more powerful than competition, and status more decisive in its influence than contract.” ² The influence of custom, however, is not necessarily harmful. In many cases it is highly beneficial, for custom often stands forth as the protector of the weak against the strong. It furnishes an alternative principle to that of unlimited competition, which, while it makes the strong stronger, has often a tendency to extinguish the weak. On the other hand, competition helps in bringing out the best in man and nature, while custom not unoften hinders such development.

on rents,

Under the Hindu as well as the Mahomedan administration, and, to a large extent, during the early days of the British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The government then realised that the effect of unlimited competition would be to

¹ Status may be defined as the position or standing of a man as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.

² *Essays in Indian Economics.*

affect injuriously the interests of the masses of the people and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits ; and the main object of their rent legislation has been to secure to the tenants the rights conferred by custom. Custom thus is still, to a large extent, the foundation of rents in India. The Ricardian doctrine of rent has, practically speaking, little application here ; consequently, the conclusion drawn from that doctrine, namely, that rent forms no part of the price of agricultural produce, is hardly applicable to the case of India.

Custom was the chief regulator of wages in India till the middle of the last century. Nowadays, however, wages are governed more by competition than by custom ; but still they are not so elastic and responsive to changes of circumstances as in Europe or America. The fluctuations in the rates of wages are slight,—the deviations from the usual wage levels of any particular locality are always confined within narrow limits. In the towns, owing to the ever-increasing demand for labour, competition has now established itself as the determining factor in wages, but in the countryside, especially in the remote villages, custom continues to govern the earnings of labour to a large extent. The economic theory that wages depend on demand and supply of labour is as true in India as elsewhere, but the law finds here a limited scope for its operation. on wages,

Prices also used at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely upon the relations between demand and supply. It is only in parts of the country which are not easily accessible that custom is now found to exercise any considerable influence on prices. on prices.

CHAPTER V

PRODUCTION ✓

1. GENERAL OBSERVATIONS

Special conditions of land, OF the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty farmers. Practically all land utilised for purposes of production is subject to the payment of rent.¹

labour, Labour is, except in industrial centres, plentiful. Wages are low ; but as the workmen are ignorant and mostly unskilled, the out-turn is comparatively small. Therefore, labour can hardly be said to be cheap. Movement of labour from place to place is very inconstant, and that from occupation to occupation is irregular. Competition, when it acts, affects the labourer injuriously. The village labourer is diligent and sober, but poor, unenterprising, and unambitious. He possesses a natural quickness of intelligence,² but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and business manager, which he is unfit to fulfil properly. The dignity of labour is not yet fully appreciated by the higher classes

¹ The no-rent margin is in most countries invisible and indefinite ; and the hypothesis of no-rent land is true, in practice as distinguished from theory, only in countries where there exists an active competition among the landowners and where the demand for land has not yet outstripped the supply of it. In India, although there is plenty of land lying waste in unpopulated tracts, yet in the populated parts there is hardly any productive land left unutilised.

² Sir John Strachey says, "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe." (*India, its Administration and Progress*, p. 394.)

of society. Division and differentiation of labour are practised only to a limited extent.

Indigenous capital is not only small in the country, but was, until recently, shy.¹ Even where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully recognise the necessity of taking risks, and has not yet acquired in an adequate measure the habit of forecasting the future.

Business organisation, which is perhaps the most important factor in the success of modern industry, has not yet been developed in India to the extent that is desirable and necessary. Practical experience—the best school for learning business—has so far taught only a small number of persons how to manage big concerns and to discharge properly the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge were, until recent years, most lamentably neglected. The value of co-operation and combination is not yet fully appreciated. The number of entrepreneurs of real ability, character and enterprise is extremely limited, and the result is that many of the persons who actually engage in business fail to inspire faith and confidence which are the corner-stones of modern industrial activity.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production of India is not at all comparable to that of any other civilised nation. The country generally is not in a prosperous condition. There are some who would go so far as to assert that the condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end.

The average farm production per head was calculated at Rs. 40 per year four decades ago.² In the early eighties of the last century Sir Evelyn Baring (afterwards Lord Cromer)

✓ This is believed to be the result of the misrule from which the country suffered in the eighteenth century, and which prevented the accumulation of wealth and dulled the desire of the people to improve their economic condition.

² Mulhall, *Dictionary of Statistics*. This is the figure also accepted by Sir Robert Giffen (Vide *Economic Journal*, 1904).

Average
income.

estimated the average *per capita* income at Rs. 27 per head ; the Famine Commissioners of 1880 put it at £2. In 1903 Sir Robert Giffen calculated it at about £2 or Rs. 30, and this figure was accepted by the Government of Lord Curzon. But William Digby and Dadabhai Naoroji put it even at a lower figure. The data for the calculation of the national income of India are not reliable. Recent investigations into the question of national income have given widely divergent results. The Department of Agriculture in Madras calculated average income in the Presidency to be Rs. 100 in 1921. In Bombay the net *per capita* annual income was estimated at Rs. 100 for urban localities and Rs. 75 for rural areas. Mr. Findlay Shirras in 1922 put the income per head as high as Rs. 116. There are other authorities who at that time were inclined to bring the figure down to Rs. 60. Whatever might be the value of these figures, the average income fell heavily during the last economic depression. According to Mr. Shirras, the *per capita* income came down from Rs. 126 in 1924 to Rs. 58 in 1932. Sir M. Visvesvaraya calculated the average income in 1934 to be Rs. 55 only. Thus it does not appear that there has been a substantial improvement in the income of the people since the days of Lord Curzon.

Inter-
national
com-
parisons.

In calculating the income of the ordinary cultivator or labourer, the incomes of the rich and well-to-do classes must be deducted from the total national dividend. This would give us a still lower figure as the income per head of the bulk of the people. The income in India compares very unfavourably with the incomes of the other civilised countries. The average income of the people of the United Kingdom just before the war was, according to Sir Josiah Stamp, £50, or 25 times as large as that of India. The average in the United States was £72 ; in France, £38 ; and in Germany, £30.¹ Since then, the average income in every country has considerably increased. The average in the United Kingdom is now about £75, while in the U.S.A. the figure stands at £90.

Wealth.

Reliable statistics of the wealth of India ² are not available.

¹ Vide Sir Josiah Stamp, *Current Problems in Finance and Government*.

² India was celebrated in the earliest ages for her immense wealth. She was at one time the richest country in the world. It was the wealth of India which was the cause of the foreign invasions from the time of Alexander down to the

The average wealth per head of the population was variously computed, before the last European War, at from £10 to £20.¹ The average wealth of the United Kingdom before the War was £334 per head ; of France, £252 ; of the United States, £270 ; and of Germany, £246. Since the war, there have been large additions to the wealth of U.S.A., many European countries, and Japan. But India's progress in this respect has not been at all satisfactory.²

This is certainly a very gloomy picture. But it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to an immense improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which they are now endeavouring to control and modify. We already find that a wave of enthusiasm for industry is passing over the land. A new spirit of enterprise is abroad. Labour is trying to shake off its lethargy and ignorance ; capital is overcoming its shyness ; and the people are preparing themselves for a new and vigorous industrial life.

Better things hoped for in future.

The economic position, so far as production is concerned, may be summed up as follows : The productive capabilities of India are great. She possesses an abundance of natural resources and a plentiful supply of cheap labour ; but she lacks capital, enter-

Summary.

eighteenth century. When Sultan Mahmud of Ghazni sacked the temple of Somanath, the booty was so large that it was impossible to calculate its value. At Kanauj, Mahmud was so much struck by the splendour and magnificence of the city that he declared that it was " only rivalled by the high heavens." The spoil of Nadir Shah was valued at £625,000,000 (*vide* J. S. Cotton, *Colonies and Dependencies*, and Lethbridge, *History of India*).

¹ £10 was the estimate of Sir Robert Giffen in 1903. The aggregate wealth of the different countries was at that date : England, £15,000 millions ; the United States, £18,000 millions ; Germany, £16,000 millions ; France (exclusive of public wealth), £9,000 millions ; India, £3,000 millions. According to the estimate of Herr Steinman-Bucher, the national wealth of Germany increased annually by from £550 millions to £600 millions, and now amounts to nearly £20,000 millions.

² Sir M. Visvesvaraya gives the following figures of national wealth per head of population : British India, Rs. 441 (1930) ; United Kingdom, Rs. 6,371 (1925) ; U.S.A., Rs. 9,365 (1928) ; France, Rs. 4,581 (1928) ; Japan, Rs. 2,308 (1924) ; and Canada, Rs. 8,023 (1929). (*Planned Economy for India*, 1934, Table III.)

prise, and organisation. The defects are, however, remediable, and, as a matter of fact, attempts are being made to remove them.

2. AGRICULTURE AND MANUFACTURE COMPARED

Before passing on to a somewhat detailed description of the agricultural and manufacturing industries of the country, it would be well to note the chief characteristics of a mainly agricultural country as compared with those of a chiefly manufacturing country. They are :

Chief
features of
the two.

(a) In a mainly agricultural country competition, or rather freedom of enterprise—which is the chief feature of modern industry,—cannot have its full application. The agriculturist has to go to the land for his work ; but raw material can be brought to the manufacturer to be worked on by him.

(b) The agriculturist has to depend very largely on nature ; he has to adapt his work to the seasons. But the manufacturer is more free in this respect.

(c) Agriculture does not submit to the large-scale system to the extent that manufacture does, and much less specialisation is possible in the former than in the latter.

(d) As the produce of agriculture depends largely on factors which are beyond human control, *e.g.*, rainfall and other weather conditions, it is uncertain. In manufactures the produce is certain.

(e) In agriculture, the law of Diminishing Returns applies with full effect. In manufactures, the influence of that law is often more than counterbalanced by the law of Increasing Returns.

(f) In agriculture, there is less scope for the use of machinery than in manufacture. Hence, the most recent advances in scientific knowledge may be utilised with greater advantage in the latter than in the former. Chemical science and electricity may, however, conduce largely to the improvement of agriculture.

(g) In an agricultural country labour is generally immobile, because it is inconvenient and wasteful to the labourer to move from one plot of land to another ; and where there is peasant proprietorship there can hardly be any movement at all. In a manufacturing country there are no obstacles to mobility of labour

beyond the ordinary obstacles of the ignorance, poverty, and conservative habits of the labourers.

(*h*) As the operations of agriculture are few and simple, there is much less scope for the division of labour in agriculture than in manufactures.

(*i*) The profits of manufactures are higher than those of agriculture. As a result, when exchange transactions take place between the raw materials of one country and the manufactures of another, although both countries benefit by the exchange, the gain of the latter is greater than that of the former.

(*j*) The production of wealth being larger in a manufacturing country, it is capable of supporting a more numerous population than an agricultural country.

(*k*) While agriculture enables a large number of people to live independently, and fosters in them self-reliance and other moral virtues, manufactures under the large-scale system tend to the destruction of the freedom of the workmen and to the loss of some of their higher qualities.

(*l*) Lastly, it is often said that agriculture is the primary industry, while manufacture is secondary. This distinction does not indicate the comparative importance of the one pursuit as against the other. From the world point of view, the two are equally important, although some of the most advanced nations lay greater stress on the growth of manufactures than on the improvement of agriculture.

CHAPTER VI

PRODUCTION—(Continued)

1. AGRICULTURE ✓

People mainly engaged in agriculture. AGRICULTURE is, of course, the most important industry of India. It gives employment to more than two-thirds of the total population of the country, and of the rural population nearly 90 per cent. is connected with it, either directly or indirectly.

Productivity of land. In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that the land is fertile in India.

Land classified. Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli*, or in other words, land which yields one crop in the year and that which gives two.

Produce depends on rainfall. The actual produce of any year depends on the amount and distribution of the rainfall. The periodicity of the seasons often allows of two, and in a few cases, *e.g.*, the irrigated parts of the Madras deltas, of three, harvests in the year. Double-cropping is possible in about one-seventh of the total cultivated area of India.

Harvests : *rabi* and *kharif*. The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the south-west monsoon commences, and they are reaped between September and November.

The *rabi* crops, as the name implies, are less dependent on rain-

fall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their growth being different, the character of the two kinds of crops also differs. This difference in character, however, is specially marked in Northern India ; it is less marked in Bengal, and still less in Madras. During the period of their growth they are subject to a considerable degree of cold, which limits the choice of staples. In Bengal and Madras, very much the same kinds of crops may be grown in summer and winter.

The *rabi* less dependent on rainfall than *kharif*.

In the Bombay presidency, which gets almost the whole of its rainfall from the S.W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.E. monsoon brings rain to the province. In Northern India the south-west monsoon rain gives the condition necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs, (10) miscellaneous crops, (11) fruits, (12) fodder crops, and (13) root-crops. This division, however, is not strictly logical, as some of the crops fall into more than one of the classes. A brief account of the chief crops is given below, which will perhaps be found useful.

Classification of crops.

About 77·4 per cent. of the cultivated area is under food-crops.¹ Rice is grown in areas of heavy rainfall, as, for instance, Bengal, Assam, Burma, and the coast districts of Bombay. Not only is it far the most important crop of Bengal, but over 36 per cent. of the cultivated area of India was under rice in 1936-37. The varieties of rice are innumerable. In Bengal there are two main harvests : the *aus*, or early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, and is eaten by the poorer classes ; but it serves as a provision against famine when there is a failure of the rains. Out of about 24 million acres cultivated in Bengal, about 21 million acres are under rice. The total yield in India was about 33 million tons in 1936-37, the area under rice being 84½ million

The chief crops :
Rice.

¹ This is the percentage based on figures for 1936-37. It should be noted that the area under food-grains varies from year to year, e.g., while it was as high as 206·2 million acres in 1933-34, it was only 196·7 million acres in 1927-28.

acres. The average yield per acre was 881 lbs. in India, the figures for Bengal and Coorg being 1,087 lbs. and 1,449 lbs. respectively. Rice is also an important crop in Madras, Bombay, and Burma.¹ In the United Provinces and Oudh, it is grown either in damp localities or with the help of irrigation. It is practically the sole crop in the Deltaic swamps.

Wheat.

Wheat is grown in greater or smaller quantities in every province. The great wheat-producing tracts, however, are the United Provinces, the Punjab, Bihar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop, and wherever possible, it is irrigated. The area under wheat has greatly expanded with the extension of canal irrigation. Towards the end of the last century, the area under wheat was 22½ million acres, but the acreage rose to 33¼ million in 1936-37. The total yield in 1936-37 was estimated at 9·8 million tons. India occupies the third place in the list of wheat-producing countries of the world. As regards exports, India generally comes fifth, being preceded by U.S.A., U.S.S.R., Canada, and the Argentine Republic. As a result of a succession of years of short crops in U.S.A., in 1936-37 prices were mainly governed by Australia and Argentine. Indian wheat was formerly regarded as inferior in quality, but improvements in threshing and handling methods and the investigations of the Agriculture Department into the possibility of cultivating

¹ Although Bengal is the principal producer of rice, Burma is the largest exporter. Burma contributed 84 per cent., while Bengal contributed 8 per cent., and Madras 2 per cent., of the export of rice in 1936-37. Rice accounted for 78 per cent. of the total quantity of food-grains exported from India during 1936-37, while it was as high as 91 per cent. in 1935-36. Small quantities of rice are imported from certain Asiatic countries. The imports of rice and paddy from Siam and Indo-China have been somewhat restricted by the imposition of a protective duty of 12 as. per maund.

India (including Burma) normally exports more than 1·5 million tons of rice valued at about 10 crores of rupees. The preference granted to Indian rice under the Ottawa Agreement helped to increase the exports of Indian rice to the United Kingdom. As Burma contributed more than four-fifths of the total exports of Indian rice, it may be anticipated that the separation of Burma will result in a great diminution of the importance of India's export trade in rice. (Vide *Estimates of Area and Yield of Principal Crops in India, 1936-37*, and *Review of the Trade of India, 1936-37*.)

superior varieties have resulted in a considerable improvement in the quality of the Indian output.¹

Barley is grown to a small extent all over India, and chiefly in the United Provinces. It serves as food for men as well as animals. Oats are a very minor crop in India. Barley and oats.

Maize is grown in most parts of India, but in the United Provinces it forms an important food-crop. Maize.

Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being *juar*, *bagra*, and *ragijuar*, which is the staple grain-crop of Southern India. Millets are also cultivated as a fodder-crop. Millets.

Among cereals is also classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in the Central Provinces and Bihar. Buck-wheat.

Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *araha*, *chana*, *musuri*, *urd*, *mug*, and *kalai*. Pulse-crops thrive best in the United Provinces and Bihar. Pulses also grow well in west Bengal; but in the Deltaic portion of the province the quality of these crops is not very good, an excess of ordinary salt being injurious to them. Some of the varieties of pulses are used as fodder for cattle. Pulses of various kinds.

Oil-seeds form very important crops in every part of India. Of the total cultivated area in British India, oil-seeds account for more than 5 per cent., and the total yield is about 4 million tons. There are several kinds of these, the more important among them being mustard (*rye*, *sorson*, and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and ground-nut. Oil is also obtained from fruits, such as cocoa-nut and mahua, from various flowers, and from cotton-seeds. Of late years, cocoa-nuts² and ground-nuts have Oil-seeds.

Cocoa-nut.
Ground-nut.

¹ The total acreage under wheat in the different countries in 1936 was (in million acres): United States, 49; India, 33; France, 12½; Argentine, 17; Canada, 25; Germany, 5; United Kingdom, 1·8; Australia, 12½; Italy, 12½. The yield per acre in lbs. in these countries was in 1936 as follows: 770, 662, 1,271, 854, 520, 1,892, 1,280, 720, 1,060 respectively.

² "While little attention has been given to the growth of cocoa-nut by the Agricultural Department, it seems probable that more will be given in future in the provinces where the crop is of importance, as it is one which requires the investment of capital, and is, therefore, suited to the circumstances of land-owners whose sons may profit by education at Agricultural Colleges." (*Report on the Progress of Agriculture, 1912-13.*)

become important articles of export. Castor-seed is also important because the *eri* silk-worms are reared on its leaf.

The total exports of oil-seeds in 1936-37 amounted to 1,155,000 tons valued at Rs. 18.4 crores. Linseed and linseed oil constitute important items of India's export trade in oil-seeds. The preference granted by the Ottawa Agreement in 1933 caused a marked increase in India's exports of linseed to the United Kingdom. The export of ground-nuts amounts generally to nearly 500,000 tons. The enormous exports of oil-seed involves a considerable loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food or manure in the country. Even oil-cakes are exported in good quantities, while the Indian cultivators suffer from the lack of cheap fertilisers. In 1935-36 the total value of oil-cakes exported from India was nearly 190 lakhs of rupees, the chief customers being the United Kingdom, Ceylon, and Japan.¹ Moreover, recent circumstances have shown that the European market is not a very sure one, and it will be unwise to continue depending on it.

Jute.

Among the fibre-crops, jute and cotton, of course, are the most important. Bengal holds the virtual monopoly of jute in the world. Jute is also grown in Bihar, Assam, Orissa, and Madras. The average area under jute during the quinquennium ending in 1930 was nearly 3.4 million acres. The decline in the price of raw jute and the restriction propaganda started by the Bengal Government in 1934 have brought down the area under jute to some extent. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are, generally speaking, also suitable for jute. As a matter of fact, jute is now grown in many places where rice used to be grown before. This is a matter deserving of consideration. It had been for a long time a very paying crop to the Bengal cultivators. The prices, however, went down to a very low level during the recent slump and the cultivators were hit hard. The situation has since slightly improved, but it is doubtful whether jute will ever regain its position as the most important cash crop in Bengal.

The first mention of jute as an article of export was made in

¹ *Handbook of Commercial Information for India*, Third Edition, 1937.

1828. The average out-turn of jute during the quinquennium ending in 1930 was 10·3 million bales (of 400 lbs. each) ; it came down in 1935 to 7·2 million bales but rose in 1936 to 9·6 million bales. Nearly half of the total amount of raw jute produced is exported ; jute manufactures are also exported in large quantities, constituting together more than 25 per cent. of the total value of Indian exports. The total value of jute exports stands at about Rs. 35 crores. Exports go to all parts of the world, the largest purchaser of raw jute being the United Kingdom.¹

Out-turn.

Attempts have been made, and are being made in several consuming countries, to find out workable substitutes for jute as a packing material. Experiments have been made with multi-wall paper-bags, sisal, manilla hemp, *sunm*-hemp, aloe-fibre, *mesta-pat*, rosella fibre, etc. Efforts to grow jute in Central American countries and some other places are also going on. The real danger to our jute export trade is likely to come from the wide adoption of the system of bulk-handling, which seeks to do away with the use of any packing material. Up till the present these various attempts have not affected the jute trade to any considerable extent. It is, however, desirable to guard against a possible danger, and serious efforts should be made to find out alternative uses of jute.²

Substitutes for jute.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as even superior to jute,

Mesta-pat.

¹ Exports of raw and manufactured jute amounted in 1936-37 to 1·8 million tons, of which raw jute accounted for 0·82 lakh tons. Concurrently with an increased demand in the overseas market, there has taken place an increase in the internal consumption of jute. The Indian Jute Mills Association removed the restrictions on mill-production in 1936-37, and there was some rise in the internal consumption of raw jute. In September 1938 the Bengal Government issued an Ordinance restricting the working hours in Bengal jute mills.

² The Bengal Jute Enquiry Committee, which reported in 1934, recommended the appointment of a Central Jute Committee. The Central Jute Committee came into existence in 1936 and one of its principal duties is research (agricultural, industrial, and commercial) relating to finding of either new uses or new markets for jute. The Jute Mills Association also set up a Research Laboratory in 1937.

Research in jute.

Scientific research on jute and its uses have been carried on at the Universities and under the Imperial Council of Agricultural Research, with the object, among others, of improving the tensile strength of jute and to produce jute nitrocellulose, which, owing to its low viscosity and higher solubility, is more useful for the lacquer industry. (Vide *Progress of Science in India*, published by the Indian Science Congress Association, 1938, p. 75.)

Sunn-
hemp.
Rhea.
Aloe-fibre.

and *sunn-hemp*. Rhea is another important fibre-crop. Great hopes are entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries.

Cotton.

Cotton holds a very important place among the agricultural products of India. The total area under cotton in 1936-37 was more than 25 million acres, and the yield was 6.2 million bales. It is grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the plains of Gujrat and Kathiawar, the Tinnevely, Madura, Coimbatore, and Ceded Districts of Madras, the highlands of the Deccan, the valley of the Central Provinces, and Bihar. They fall into two classes: cotton-crop and tree-cotton; but there are numerous forms of the cotton-crop, and tree-cotton also is of several kinds. In the Deccan the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less. In Sind, Egyptian cotton has been grown for several years, but as it requires more water than other kinds of cotton, American cotton has been substituted for it. In the Punjab, experiments with American cotton have evolved an acclimatised type, which is at present confined to the Canal Colonies. "Cambodia" or "Tinnevely" cotton, which was imported a few years ago, grows well in the red soil of the Madras Presidency. It is superior to the American variety in quality and ginning out-turn. Experts believe that cotton cultivation is capable of being greatly improved, and that "the cotton crop of India can be doubled without interfering with the growing of food supplies."¹

Although the cultivation of indigenous cottons is more remunerative to the farmer in non-irrigated tracts, the prospects of the production of long staple cottons are decidedly favourable in

¹ Report by Arno Schmidt, Secretary to the International Federation of Master Cotton Spinners' and Manufacturers' Association. In reply to Lord Morley's statement in 1910 that more cotton-growing may mean less wheat and other food-crops, Mr. Schmidt urged the following points: (1) there is a need for specialisation in Indian agriculture, and cotton, being a very remunerative crop, ought to be given the first place in suitable districts; (2) cotton may be grown in rotation with some other crop, and the most suitable rotation crops are jowar and wheat; (3) the increased production of cotton will increase the income of the people, and if the cultivator has the money he can buy food from other parts of the country.

the following parts : Sind, Punjab, Gujrat, Southern Madras, and the Central Provinces. In Sind an area of 300,000 acres has been reserved in one block in the Sukkur Barrage area for growing good staple cotton, to be used for spinning finer counts of yarn.¹

It is noteworthy that while India imports large quantities of cotton from abroad, she also exports nearly two-thirds of the total amount of raw cotton produced within the country. The trade agreement between India and Japan, the Ottawa Agreement, and the private agreement commonly known as the Mody-Lees Pact have all helped to increase the foreign demand for Indian short staple cotton. It is expected by the Government of India and their supporters that the new Indo-British trade agreement will secure for Indian cotton further openings in the British market.²

The *simul* (silk-cotton) trees (as also the common *ak* which grows wild in sandy places) yield a silky fibre which can be converted into a valuable vegetable silk of fine quality. *Simul*
and *ak*.

Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in small quantities in Bihar and the United Provinces. The chemical dyes are inferior in quality to indigo and other vegetable dyes, and a revival of this crop is not altogether impossible. Indigo.

Poppy cultivation is mainly restricted to Bihar and districts of the United Provinces north of the Ganges. In British India it is conducted on behalf of the government, and, in pursuance of an agreement with China, the area of cultivation has now been greatly reduced. Poppy is also cultivated in some of the Native States of Rajputana and Central India. It is a *rabi* crop. Poppy.

The total quantity of tobacco grown in India is large. It is grown in many districts ; but the chief places of production are the Tirhut districts of Bihar, Rangpur in Bengal, and certain districts of Madras. Tobacco.

¹ *Report of the Indian Central Cotton Committee, 1933-34.*

² *Review of the Trade of India, 1934-35, 1935-36, 1936-37.* The first Indo-Japanese Trade Agreement (1934) has been replaced by a fresh Agreement in April 1937, which will be in force till the end of March 1940. The Agreement provides for a quota of import of Japanese piece-goods in lieu of specified quantities of export of raw cotton to Japan.

Tea.

The chief tea-growing tracts are Assam, the Darjeeling and Jalpaiguri districts in Bengal, the Nilgiris in Madras, Dehra-Dun in the United Provinces, and the Kangra valley in the Punjab. The amount of total production is about 400 million lbs., of which nearly 60 per cent. comes from the gardens of Assam. Of a total area of $8\frac{1}{2}$ lakh acres under cultivation, nearly half lies in Assam.¹ Of the total production of tea in India more than 80 per cent. is exported, and there is room for further expansion. The exports from Calcutta and Chittagong in 1936-37 came up to 256 million lbs., while the other Indian ports contributed 46 million lbs.² The United Kingdom is the largest of the customers of Indian tea, taking more than 80 per cent. of our total exports.

Restriction
scheme.

A new step undertaken in recent years is the restriction scheme under the International Tea Agreement. During the war a control scheme was launched by the Food Controller, but these restrictions were removed in 1919. Since 1927, however, the tea industry had been experiencing the evil effects of over-production. The average price of tea in the Calcutta Auctions came down from 12.75d. per lb. in 1928-29 to 5.81d per lb. in 1932-33. At this stage (on April 1, 1933) the representatives of the tea industry in India, Ceylon, and Java entered into an International Tea Agreement for a period of five years with a view to restricting extension of cultivation and export by a quota system. Accordingly, in India a Tea Control Act was passed in 1933 establishing a Tea Licensing Committee for the allotment of export quota to the different gardens and the issue of export licences. This Act was renewed in 1938. The result of this control scheme will be realised from the fact that there took place a 58 per cent. rise in the price of tea during 1933-37.³

Tea
Market
Expansion
Board.

Attempts are being made by the Tea Market Expansion Board to popularise the consumption of Indian tea. The recent prohibition measures, *e.g.*, in the Salem district in Madras, have given opportunities to the Board to push the sale of tea in the Indian market. The Board is financed by a small cess levied on the exports of tea from India.

¹ Figures relate to 1936-37.

² *Review of the Trade of India*, 1936-37, pp. 98-102.

³ *Handbook of Commercial Information for India*, 1937, pp. 249-289; *India in 1933-34*, pp. 140-141.

The cultivation of coffee is confined wholly to Southern India. It has to face acute competition from Brazil and Ceylon. The amount produced in 1935-36 was 41.2 million lbs. as compared with 33 million lbs. during the previous season. Exports in 1935-36 amounted to 211,000 cwts. valued at Rs. 84 lakhs. The Coffee Cess Act of 1935 provides for the constitution of a Committee on the lines of the Tea Market Expansion Board for expanding the market for Indian Coffee.

Coffee.

The two main centres of the cultivation of cinchona are Darjeeling and the Nilgiri hills. It is a government monopoly.

Cinchona.

Of table vegetables a large variety is found in India. The most common and important is potato. It is usually grown after *aus* paddy or jute ; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, *brinjals*, cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava, called *simulalu* or *sarkarkanda*. This vegetable sometimes serves as the chief food during a famine. It resists drought and yields a nourishing and palatable food. A more extended cultivation of this and other drought-resisting articles is desirable as a protection against famine.

Table vegetables.

Nowhere, perhaps, in the world can a larger variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If that is done, the quality of the fruits is sure to be improved and the yield greatly increased. New fruits suited to the conditions of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries.

Fruits.

The Government of India have recently launched a fruit research scheme at the Experimental Station at Sabour in Bihar. The future of the export trade in Bombay mangoes seems to be promising and, if resort can be had to better methods of preservation, we may expect an enormous trade in Indian fruits.

Sugar-cane is indigenous in India. It had at one time a pre-eminent position in respect of acreage and yield. Sugar was a flourishing industry in India. The first check to the growth of

Sugar.

the cane sugar industry came from the development of beet-root sugar on the European continent. The immense development of the sugar industry in Java on up-to-date lines caused a further decline in the Indian sugar industry. In the years following the European War, India became increasingly dependent on Java for the refined sugar required for domestic consumption. The Indian Sugar Committee of 1919-21 examined the problem carefully and recommended the adoption in India of the system of organisation prevailing in the Java sugar industry. An active step was taken by the government when a research station for investigating sugar-cane genetics was started at Coimbatore.

Recent
expansion.

The real impetus to the sugar industry and consequently to the cultivation of sugar-cane was, however, given by the fairly heavy protection granted to sugar in 1932 on the recommendation of the Tariff Board. There has been a phenomenal expansion in the sugar industry, so much so that India at the present moment is almost self-sufficient with regard to her requirements of sugar.¹

This development of sugar-manufacturing industry has markedly influenced the cultivation of sugar-cane. The average annual production of sugar-cane during 1925-30 was 2,983,000 tons; it has since become nearly double in quantity. The area under sugar-cane increased from 2,728,000 acres during 1925-30 to 4,435,000 acres in 1936-37.

More than 2 million acres have been brought under the improved varieties of cane.² The Governments of the United Provinces and

¹ The total production of sugar in India from cane and *gur* has increased from 110,918 tons in 1929-30 to 1,104,800 tons in 1936-37; and the total imports have come down from 939,600 tons in 1929-30 to 201,200 tons in 1935-36, and then very sharply down to only 23,100 tons in 1936-37 (*Review of the Trade of India*, 1936-37).

On a comparison of the sucrose content of cane in India with that of cane in Natal, Mauritius, Java, and Hawaii, it is found to be 1.5-1 and the purity of the juice 6-5 points lower, while the fibre content is about equal to Natal and 2-3 points higher than elsewhere. "These disparities are significant, as they clearly show the handicap India is suffering in respect to cane, which, after all, is the basic factor in the economic production of sugar." (*Capital*, Jubilee Number, November, 1938.)

² "Yields of cane, of course, differ widely, starting from the north-west in the dry tracts of the Punjab, where frost is not rare, proceeding south-east to Bihar, we may take the average yield of ryot cane to range from 300 to 400 maunds per acre. Where cane is grown by factories under expert supervision

Bihar have taken steps to control the production and sale of sugar and to fix minimum prices for sugar-cane from time to time. The whole position relating to the sugar industry has recently been the subject of investigation by the Tariff Board. The best cane is grown in Bengal, the United Provinces, and in some districts of Bihar. Palm-sugar is manufactured either from the juice of the ordinary palm or of that of the date-palm. The date-sugar industry of Bengal, which is now languishing, is capable of being made profitable, as the yield is certain and very little expense has to be incurred for cultivation.

Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the demand; and a great extension of their cultivation is needed. Spices.

Among the miscellaneous crops the more important are lac and india-rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, Burma, and the forest tracts of the Central Provinces, Bihar and Chota Nagpur are the chief sources of its supply. The importance of lac as an export-commodity is increasing steadily. Besides India the only other important lac-producing countries in the world are Siam and Indo-China. The production of these two latter countries is insignificant, and India enjoys a practical monopoly in the trade. The normal annual production of stick-lac in India is estimated by the Indian Lac Cess Committee to be nearly 1 million cwts. (*i.e.*, $1\frac{1}{2}$ million maunds). The exports in 1936-37 amounted to 834,000 cwts. The U.S.A. and Japan are the best customers for Indian lac, which is used in making gramophone records, varnishes, inks and paints, and also for insulating purposes in the electrical industry. The Indian Lac Cess Committee constituted in 1930 controls the industry and encourages research on the ways of refining and utilising lac. Lac.

The importance of india-rubber as an economic product is being recognised more and more widely every day, owing to the numerous technical purposes for which it is utilised. In India its principal sources of supply are Burma and the Malabar coast. The India-rubber.

the yield is about doubled. In Bengal and Southern India heavier yields are obtained by intensive cultivation under climatic advantages." The average yield for South Africa was about 500 maunds and for Java 1,520 maunds. (*Capital*, Jubilee Number, November, 1938.)

area for all types of rubber in India (including Burma) increased from 192,365 acres in 1930 to 228,200 acres in 1936-37 and the yield from 24 million lbs. to 60 million lbs. during the same period. In 1936-37 the exports of raw rubber amounted to 28.9 million lbs. valued at 104 lakhs of rupees. India's share in the total production of the world is very small (3%). India imports every year a large amount of rubber goods, particularly tubes and tyres for motor vehicles, and there seems to exist a good possibility for the development of rubber manufacturing in India.

Seri-
culture.

Sericulture was once a profitable industry, but towards the middle of the last century it declined. The decay of sericulture in India is attributed to the following causes: (a) low price obtained for the product due to foreign competition, (b) high rent of mulberry land, (c) degeneration of the silk-worm, and (d) disease. The Silk Committee of 1908 were of opinion that pebrine was the main cause of the decline in the production of mulberry silk in Bengal. They observed: "Twenty years ago several firms were engaged in silk-reeling, and the silk-producing districts were dotted with filatures in which silk was reeled for export. At the present time a single European firm is engaged in this business."¹

Sources of
supply.

The main sources of mulberry silk in India are Mysore, Coimbatore, Kashmir, certain districts (Malda, Murshidabad, Rajshahi, and Birbhum) of Bengal and a few scattered areas in Assam, Burma, and the Punjab. Besides mulberry silk, which constitutes the larger part of the total production, *tasar* is produced in Bihar, the Central Provinces, some districts of Bengal, and the United Provinces; *muga* is produced in Assam, and *eri* in Bengal, Assam, Bihar, Orissa, and Madras. In Bengal and in the Mysore State valuable experimental work has been done recently under the supervision of experts, as a result of which the area of land under mulberry cultivation has substantially increased. In Kashmir the silk industry is a state monopoly.

Silk
industry.

In the whole of India more than a million persons depend on silk-worm rearing. The Tariff Board estimated that in 1931-32 the production of mulberry silk cocoons amounted to 28 million

¹ Quoted in the *Report on an Enquiry into the Silk Industry of India*, 1916, vol. i, p. 11.

lbs., reeled silk to 2 million lbs., and silk waste to 1 million lbs. The average annual exports of raw silk during the decennium 1924-25—1933-34 amounted to 1,006,366 lbs. There has taken place an unwelcome decline in the exports of reeled silk. This is explained by a number of causes—viz., a fall in the world demand for silk, increased competition from China and Japan, increased Indian consumption, and, most important of all, the increased use of rayon or artificial silk.¹

The manufacturing industry in silk is mainly confined to handloom weavers, and the chief centres are Amritsar, Jullundhar and Multan in the Punjab, Benares and Shahjahanpur in the United Provinces, Murshidabad, Malda, Bankura and Bishnupur in Bengal, Nagpur in the Central Provinces, Bhagalpur in Bihar, and many other scattered areas in Burma, Bombay, Mysore, Madras, and Kashmir. "Most elaborate patterns are worked out with the aid of dobbies and jacquard harness, and the beautiful silk brocades known as Kincobs liberally interspersed with metallic threads for which Benares and Madura are famous, command appreciation even in the west." In Burma the consumption of silk goods is fairly high, but there the local market has been almost captured by silk and rayon manufactures from Japan and China.

The Indian Tariff Board enquired into the conditions of the industry in 1933, and on the basis of their recommendations protective duties were imposed in May 1934 on imported silk and silk manufactures. These duties are due to expire in 1939. A new Tariff Board has recently investigated the position and prospects of the silk industry, and its Report is now engaging the attention of the Government.

The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In the Punjab and in Bihar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Sugar cane, as a fodder-crop, is used principally by the European planters in Bihar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of

Fodder-crops.

¹ The imports of artificial silk into India are steadily increasing, the total being 17·6 million lbs. in 1936-37 of which Japan alone supplied 15 million lbs. (*Review of the Trade of India*, 1936-37.)

trees are frequently very valuable as supplying fodder for cattle. Very little, however, is known of the comparative feeding values of Indian fodders. It is needless to say that the cultivation of fodder-crops is very necessary for the improvement of cattle.

Agricultural
statistics.

Accurate and reliable statistics regarding the agricultural produce of India are not available. But the following figures¹ will give the reader approximate ideas :

	Million acres
Net area of land by professional survey	- 679.6
Area under forest - - - -	- 89.2
Not available for cultivation - - -	- 155
Cultivable waste other than fallow - -	- 154.3
Fallow land - - - - -	- 48.6
Area irrigated - - - - -	- 51.7
Net area sown with crops - - - -	- 231.9
Total area under food-grains - - -	- 204
„ „ other food crops - - -	- 12.6
„ „ sugar cane - - -	- 4.47
„ „ tea - - -	- .79
„ „ oil-seeds - - -	- 17.8
„ „ cotton - - -	- 15.36
„ „ jute - - -	- 2.54
„ „ tobacco - - -	- 1.15
„ „ fodder-crops - - -	- 10.8

Area
under
food-
crops.

Of the total area under food-grains about 40 per cent. is under rice, slightly more than one-eighth under wheat, and about one-sixth under *juar* and *bajra*.²

Dairy-
farming.

Dairy-farming is more akin to agriculture than to manufacture, and can be profitably practised in association with the former. It ought to be a flourishing industry in India, but unfortunately is now in a languid state. The reason is to be found in the uneconomical method of work, the neglect of hygiene and breed of cattle, and the want of pasture lands. The supply of milk and its products, such as butter, *ghee*, *matha*, etc., has greatly con-

¹ The figures are for the year 1935-36. [Vide *Agricultural Statistics of British India*, 1936-37 (Provisional), and *Statistical Abstract for British India*.] Figures are not available for the Indian States.

² In 1935-36 there were in India the following live-stock : Bulls and bullocks, 51,314,000 ; cows, 38,362,000 ; calves, 34,803,000 ; buffaloes—male 5,795,000, cows 15,355,000, young stock 12,797,000.

tracted. The best efforts of the people should be directed towards an industry which would supply them with the best and most nutritious kind of food. For this purpose, the improvement of cattle and an increase of grazing fields are absolutely essential. The extension of dairy-farming on co-operative lines should be carefully considered. The problem of milk supply in cities has assumed an acute form, and it is high time that the municipalities of India should move in this direction.

Apart from the efforts of the Imperial Council of Agricultural Research, great impetus has been given to problems of breeding and improvement of cattle by the present Viceroy, Lord Linlithgow, who was the Chairman of the Royal Commission of Agriculture in India.

Arboriculture is a science akin to agriculture, though trees can hardly be classed as agricultural crops. The forests in British India are mostly under State control. They are classified, for departmental purposes, into (i) reserved, (ii) protected, and (iii) unclassified or public forest land.¹

Arbori-
culture.

India is capable of growing various kinds of trees. They grow naturally in places where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, the matter was badly neglected, and many parts of the country were denuded of forests. The serious effects of disforestation were realised in the latter half of the nineteenth century. It would certainly have been disastrous to the national interests of India if the future development of her natural resources had been sacrificed to the immediate interests of the present generation. A policy of systematic conservation of forests has now been adopted. The propagation of trees which yield starch, oil, sugar, vegetables, and fibres is of vast importance to a country where a

Afforesta-
tion.

Beneficial
influence
of forests.

¹ The forests in India are divided into six classes. The *evergreen* forests are found in the West Coast of India, in Burma, in the Andamans, and in the sub-Himalayan tracts to the east. They contain various kinds of large trees. The *deciduous* forests occur in parts where there is a sufficient rainfall; teak and sal are the most important kinds of timber. The *dry* forests are found chiefly in the Punjab and Central India. The *Alpine* forests are in the Himalayas, where deodar, cedar, pine, oak, and other trees grow. The best example of *tidal* forests is the Sunderban in Bengal. The *riparian* forests occur in the Punjab and in Burma.

failure of agricultural crops through drought or inundation is of frequent occurrence. The Forest Research Institute at Dehra-Dun is engaged in exploring the possibilities of development of India's forest products. Lac, tanning materials, essential oils, turpentine, and resin have established themselves firmly in the markets of the world. But apart from their invaluable uses for food, fodder, and timber, trees are highly useful for their influence on the climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature ; and by keeping the atmosphere moist they induce the fall of rain.¹ Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves which afterwards fall and get mixed up with the soils. Lastly, they serve as break-winds in localities where high winds are an objection. It is essential, therefore, that by improvements in the method of culture, by the adoption of better methods of administration, by the development of new uses and markets, and by greater attention to minor forest products, the forests of India should be made a very important source of her national income.²

Pisci-
culture.

Pisciculture is analogous to agriculture. Fish is valuable as

¹ This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests (*vide* N. G. Mukherji, *Handbook of Indian Agriculture*).

² The main purpose for which forest administration has been instituted is to secure a conservation of our natural resources for future generations. At the present moment, however, state control is exercised without any definite or clear-cut object in view. It will be a wise policy for our provincial governments to adopt the recommendations of the Royal Agricultural Commission, namely, that a forest utilisation officer should be appointed in every province for the development and expansion of industries based on forest products, and that there should be a reclassification of the forests into those important for commercial purposes and those important on physical and climatic grounds.

human food and also as manure for agricultural purposes. Fisheries afford employment to a considerable number of men ; but the industry is carried on in a very inefficient manner, and can hardly be said to be a prosperous one. If proper methods be adopted, India, with her innumerable rivers, streams, and tanks, as well as her extensive sea-board, ought to have a plentiful supply of fish.

The Madras Government was the first to evince an interest in pisciculture. Recently, other provincial governments seem to have become alive to the need for developing fishery resources. The Bombay Government are framing a scheme for increasing supplies throughout the province and the Government of Bengal have appointed an expert to investigate the question.

In India, as we have seen, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. As has been rightly observed, " the average size of the holding in Assam and Bengal, and specially Eastern Bengal, is so small that the cultivation of it is hardly ever too much for the owner himself to accomplish." ¹ The same conditions are found in other tracts. Cultivation is almost always extensive ; it is only in exceptional instances intensive. It is practised in the different provinces with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of Bengal and Burma, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of the Punjab, and the deserts of Sind and Rajputana require separate modes of cultivation. The Indian peasant is ignorant, and consequently the method of cultivation is unscientific ; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land,² or selecting good seeds, or leaving his land fallow for a

Method of
agricul-
ture,
small-
scale,

extensive,

unscien-
tific but
not in-
efficient.
Agricul-
turist
assiduous,
possesses
inherited
experi-
ence, but
is poor.

¹ *Census Report of India, 1931*, vol. i, p. 246.

² Social prejudices also sometimes stand in the way of the utilisation of certain kinds of cheap manure, which are thrown away to the great detriment of the soil.

season. The implements used are of the simplest kind, but improved varieties are needed.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on manures, he would purchase better cattle and feed them properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education is necessary.

Chief
want—
capital.

Improve-
ment of
agri-
culture.
Sugges-
tions must
be prac-
tical.

As agriculture is the chief industry of the country, and as the success of other industries depends on the supply of raw materials, the improvement of agriculture ought to engage the serious attention of every thinker in India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring, and proper rotation of crops ; and thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator. There is a good deal of truth in the remark made long ago by an Indian daily newspaper, which said, "The cultivators have nothing to learn so far as unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means."

Much
room for
improve-
ment
under pre-
sent con-
ditions.

There is, however, much room for improvement even under the present conditions ; and it is believed that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by 15 or 20 per cent.¹ Co-operation among farmers may go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for

¹ F. Smith, formerly Director of Agriculture, Bengal, believed that the average yields per acre of all crops except jute could be doubled, while that of jute could be increased 70 per cent. He thought that by education and the application of science to agriculture, the annual national income could easily be doubled.

their common use, or they may join together in constructing wells for supplying water to their fields, or they may leave common pasture-land for the grazing of cattle. The Co-operative Societies, if properly worked, are likely to be of immense help to the agriculturists.

Scientific experiments, carried out with a full regard to the circumstances of the country, will undoubtedly prove useful in many ways. Agricultural fairs and shows may be of much use to cultivators by demonstrating the advantages of improved implements and of good seeds and suitable manure.

Some agricultural experts despair of the improvement of agriculture because they have taken the Indian peasant to be "a living emblem of inertia." But, in reality, the peasant is not so conservative as he is often supposed to be.¹ He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives.² As D. L. Roy observes, "The neatness of the costly and heavy Sibpur plough, the scientific value of artificial manure, the sleek appearance of well-fed cattle have attractions of their own for the amateur; but to the practical agriculturist, the balance of profit is of more importance and far more tempting."³ "The introduction of Cambodia cotton into the Madras Presidency," says the Director of Agriculture, Madras, "is perhaps one of the

The peasant not hopelessly conservative.

¹ Vide Voelcker, *Improvement of Indian Agriculture*.

² The scientific system of agriculture is feasible only if undertaken by capitalist-farmers who can afford to commence farming on a large scale. For the scientific method of cultivation, at least a hundred acres (300 bighas) of land is necessary. The advantages of scientific agriculture are:—the provision of sufficient water, good manure, selection of good seeds, greater division of labour, the opportunity of raising particular crops according to the suitability of each plot of land, greater rotation of crops, and larger scope for experiments. With these advantages may be compared those possessed by the farmer who works on his own account, viz., the intense interest taken by the cultivator in his work, the spirit of independence and of self-reliance and other moral qualities which the system fosters, as also the social influence which it confers on the possessor of land. It should, further, be considered in this connection, whether or not small-scale cultivation is well-adapted to the land-tenure system and the social environment of the country.

³ D. L. Roy, *Crops of Bengal*, p. 8.

most striking instances in India of how readily the ryot will take up a new cultivation, if once he is satisfied that it pays him to do so." ¹

Dr.
Voelcker's
sug-
ges-
tions.

In 1889, the Government appointed Dr. Voelcker to make enquiries into the condition of Indian agriculture, and to suggest possible improvements. He submitted his excellent report in 1893. In his report he recommended the adoption of certain measures, which may be summarised as follows: (1) the spread of general and agricultural education, and the preparation of suitable text-books in the vernaculars for the purpose; (2) the extension of canals and other means of irrigation to tracts where they are required; (3) the more energetic working and popularising of the system of *taccavi* advances for well-digging and similar purposes; (4) the institution by Agricultural Departments of organised enquiry to ascertain the irrigation requirements of each district; (5) the creation of reserves of wood and fodder (called "Fuel and Fodder Reserves"), the planting of trees along canal banks and railway lines, and the further encouragement of arboriculture; (6) the continuation and extension of experimental research aided by chemical science in reference to new crops, methods of cultivation, manures, etc.; (7) the trial of new implements at Government experimental farms and the distribution of approved implements among the cultivators; (8) the distribution of seed from agricultural farms; (9) the location of stud bulls at Government farms, and the encouragement of improved breeding of cattle.²

Irrigation
and dry-
farming.

The extension of the different modes of irrigation and the adoption of such dry-farming methods as may be found successful by experiment, are likely to increase the area under cultivation, and thus add to the agricultural wealth of the country. A recent bulletin of the United States Department of Agriculture says that dry-farming consists not only in raising crops in regions of moderate but uncertain rainfall by collecting and preserving all the moisture obtainable, but also in raising certain kinds of crops in districts where the rainfall is altogether deficient.

¹ *Agricultural Journal of India*, vol. iv, pt. 4.

² *Vide* Dr. Voelcker, *Improvement of Indian Agriculture*.

Agricultural education.

Undoubtedly, agricultural education¹ is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in the science and practice of agriculture in a number of well-equipped agricultural colleges and schools which have been started in some of the provinces. The Pusa Institute, now removed to New Delhi, is the principal seat of agricultural research in India. But the kind of education which is at present imparted in the Government schools hardly leads to much practical result. An eminent lecturer in an agricultural college once remarked: "Neither the farm-labourer, nor the farmer, nor the landed proprietor cares, as a rule, for agricultural education." These institutions are meant for educated men, but it is a pity that the passed students, instead of starting the business of farming on their own account, generally try to secure service under the Government. To be really useful, agricultural training should consist of two parts, a higher and a lower: the first for turning out experts and organisers, and the second for assisting actual cultivators in their work. There has lately been a change in the policy of agricultural education in India in some of the provinces, where school education in agriculture is making some progress. Ordinary vernacular middle schools are also, in some cases, being utilised for imparting practical training in agriculture in rural areas.

Agriculture Commission.

In 1926, a Royal Commission was appointed under the chairmanship of Lord Linlithgow to make an exhaustive enquiry into the problems of Indian agriculture. The Commission published a valuable report in 1928, containing a comprehensive study of almost all problems connected with Indian agriculture. Their recommendations cover a very wide range, including problems relating to animal husbandry, irrigation, forests, education, communications, financing of agriculture, rural industries, and horticulture.

Two of their other important recommendations have considerably influenced the subsequent activities of the Government and public bodies. First, the Commission strongly emphasised the

¹ Germany has established agricultural colleges and schools all over the country, and, as the result of agricultural education, has achieved marvellous results in improving agriculture.

Imperial
Council of
Agricultural
Research.

need for a co-ordination of agricultural research under a central organisation. The Government of India called a conference in October, 1928, and adopted a scheme for the establishment of the Imperial Council of Agricultural Research. This Council has now been in existence for nearly ten years and during this period it has helped and organised research and has also acted as a bureau of information relating to all agricultural investigation. A further step in the direction of organising research has been the recent establishment of the Central Jute Committee.¹

Marketing
organisa-
tion.

The second important contribution of the Royal Agricultural Commission was the emphasis laid on a better organisation of the marketing of agricultural produce. In view of the well-known fact that our cultivators do not get a proper price for their output, partly on account of their ignorance and poverty, and partly on account of the existence of a long chain of middlemen between the cultivators and the wholesale markets, and also in view of the limited success attained in the experiments in establishing co-operative sale societies, the Commission recommended, first, the development of means of communication, secondly, the establishment of regulated markets under the control of local market committees and subject to the supervision of the Government and local bodies, and thirdly, the standardisation of weights and measures.

In Berar and Bombay regulated markets had been established before the Royal Commission published their Report. In Bengal, the Jute Enquiry Committee of 1933 endorsed the recommendation of the Royal Commission on Agriculture for the establishment of properly regulated markets for jute. Together with these, suitable measures for the grading of agricultural produce, for affording warehousing facilities, and for granting financial

¹ Broadly speaking, almost every branch of agriculture has been the subject of investigation. In plant-breeding, valuable work has been done in respect of wheat, cotton, rice, and sugar cane. Mycological investigations have resulted in numerous findings about the fungal and virus diseases of plants. Enquiries have also been extended to the nature and method of eradication of insect pests, by the Locust Research Entomologist and his staff at Karachi. The other lines of research include soil fertility, soil micro-biology, plant physiology and biochemistry, fruit culture and fodder-crops. In agricultural engineering, considerable work has been done in devising new types of tools and implements. See *Progress of Science in India*, published by the Indian Science Congress Association, May 1938, chap. vi (by Dr. W. Burns).

accommodation to cultivators on the lines of the British Agricultural Marketing Act of 1931, should be undertaken in order to introduce a satisfactory system of marketing.

An elaborate marketing survey has already been conducted by a Special Marketing Officer, with the collaboration of officers in the provinces and some of the states, in regard to certain selected crops.

In concluding their report the Royal Commission observed :
 “ The aim of the suggestions and recommendations we have made in the preceding chapters has been to bring about greater efficiency throughout the whole field of agricultural production and to render the business of farming more profitable to the cultivator. Throughout our report, we have endeavoured to make plain our conviction that no substantial improvement in agriculture can be effected unless the cultivator has the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws, and good administration may place at his disposal. Of all the factors making for prosperous agriculture, by far the most important is the outlook of the peasant himself. . . .

Concluding remarks.

“ If the inertia of centuries is to be overcome, it is essential that all the resources at the disposal of the state should be brought to bear on the problem of rural uplift. What is required is an organised and sustained effort by all those departments whose activities touch the lives and the surroundings of the rural population.” ¹

2. MINING

Akin to agriculture is the mining industry, for both of these are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of every kind ; ² and there is hardly anything which she cannot

Mining.

¹ *Royal Commission on Agriculture in India, Abridged Report*, p. 89.

² This is the view held by Sir Thomas Holland, lately Director of the Geological Survey of India. *Vide* his paper read before the Industrial Conference, 1905.

produce if only capital, enterprise, and technical knowledge are forthcoming.

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India ; it resulted in the almost exclusive development of those minerals which could be consumed by direct processes on the spot, or which, on account of their abundance and cheapness, were suitable for export in a raw state. Nevertheless, during the past few decades conditions have been rapidly ripening in India for the successful revival along European lines of industries dependent on the ores and minerals.

Revival of
mining.

There has been a revival in recent years in the output of minerals in India after a fairly long period of depression. The average annual value of mineral production in India during the quinquennium 1919-23 was £24,616,601 (= Rs. 32·8 crores), but this average came down to £17,848,306 (= Rs. 23·8 crores) during 1929-32.¹

Total
mineral
produc-
tion.

Coal.

Coal is the most important of these products, the output in 1935 being 23,016,695 tons and the value of the output nearly 7 crores. Imports of foreign coal in 1936-37 amounted to 74,900 tons valued at Rs. 11 lakhs. Nearly half of these imports came from the Union of South Africa, of which the major portion was taken by the Bombay Presidency. The coal workings in India are still very shallow, only one shaft having been sunk to a greater depth than 800 feet. Coal is very unevenly distributed over India. Its production is concentrated in what is known as the "Bengal Coal Fields," though by far the largest portion of the total output is now contributed by the mines in Chota Nagpur. The whole of the coal raised in the province of Bengal comes from the Ranigunj coal-field situated in the Burdwan district. The first working of this field dates from 1820. The Jharia coal-field is situated in the districts of Manbhum and Hazaribagh in Chota Nagpur. There are important fields in Assam, but the distance of the Assamese coal-fields from the leading industrial centres and the seaports of India prohibits greater use of these high-class coals, of which large reserves exist. The other coal-fields are to be found in the Central Provinces, the Punjab and the Rajputana Agency, but they are small both in size and output. In the beginning of the present century the average production of coal was $7\frac{1}{2}$

¹ J. Coggin Brown, *India's Mineral Wealth*, Oxford, 1936.

million tons, of which the share of the Bengal coal-fields was 84·9 per cent. During the year 1935 the production was a little over 23 million tons, of which about 80 per cent. was contributed by the coal-fields of Bengal and Chota Nagpur. The coal-fields of India are found in deposits much younger than those of Europe, and, generally speaking, it may be said that they belong to the Gondwana Age. They almost invariably follow the river valleys, and to a great extent are basin-shaped.

The Indian coal industry has been passing through a period of depression for the last twelve years. The institution of coal control in 1919, the restriction of transportation facilities, high freights, and the dumping policy of South Africa, have deprived India of her command over the foreign market and to a certain extent over the Bombay market. There has, further, taken place an increase in the cost of production, and the greater part of this increase is attributed to increased wages. As for the other causes, "the requirements of the new Mines Act, the new Boiler Act, together with the higher standard demanded in such matters as housing, sanitation, and water supply, have undoubtedly contributed their quota to the enhanced cost of raising coal."¹

Present position.

But the most important drawback of the Indian coal industry is its low output. "In no country in the world," it is observed in the *Report of the Indian Coal Committee*, "which has a coal industry of any size, is the output per head per annum so low as it is in India."² The output per head per annum is 193 tons in Natal, 316 tons in the Orange Free State, 328 tons in Transvaal, but in India it is less than 100 tons. This is attributed to the inefficiency of the Indian labourer who is primarily an agriculturist and casually a coal-miner. He is thus an unskilled worker. His standard of comfort is low, and the only effect of an increase in his wages is a decrease in output, as he can obtain the amount he needs by working fewer days in a week.

Low output.

For a long time the Indian coal industry has been crying for protection, particularly against the cheap South African imports. The Legislative Assembly recommended a countervailing duty on South African coal in 1924. The Indian Coal Committee of 1924 made valuable recommendations of which that for establish-

¹ *Report of the Indian Coal Committee*, p. 34.

² *Ibid.*, p. 35.

Coal
Grading
Board.

ing a Coal Grading Board has been adopted and given effect to by the Government. The question of protection was referred to the Tariff Board in 1926. The Tariff Board pointed out that protection would not result in any marked increase in prices and consumption, and that the displacement of coal in Bombay was due not only to the imports from South Africa, but also to the development of oil and hydro-electric resources. Protection was not therefore recommended. The demand was repeated by the Associated Chambers of Commerce in 1935. But the Government of India refused to grant any protection. The Coal Industry has remained discontented and the decision of the Railway Board, since 1935, to exploit more fully the railway mines and to buy less coal from the private mines has made the coal mine-owners a little dubious about the prospects of a rapid recovery.

Protec-
tion re-
fused.

Coal output is the dominating factor in competitive industry, and its importance will be more and more realised as the country advances as a manufacturing producer.¹ "The possession of native coal," says Sir L. G. Chiozza Money, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented—which can be expressed at will either as light or as heat or as electricity."

Gold.

The value of the Indian gold output is about 3.04 crores and the quantity a little above 327,653 oz. The Kolar gold fields of Mysore produce almost the whole of the total output. Of the total amount raised in India in 1935, Mysore contributed more than 99 per cent. The United Provinces, Punjab, Bihar, Orissa, and Burma contributed small amounts each.

The attention of European prospectors was directed to this field by the numerous old indigenous workings. During the early eighties a large number of companies was floated with extravagant hopes, but by 1885 they became moribund. By 1887, operations were resumed, and up till 1905 the industry showed uninterrupted

¹ The problem of the conservation of coal resources of the country and also the safety of mining areas and workers in mines engaged the attention of an expert Committee (1936), which was appointed after several colliery disasters. Authorities like Sir Lewis Fermor have also warned the country that India's important coal-fields will have only a short span of life to lead if the present state of affairs continues. (*Indian Industries and Labour*, Bulletin No. 54, 1935.)

progress. The production of gold has in recent years fallen owing to zones of lower grade having been reached. The deepest mines are Champion Reef and Oorgaum, which have reached a depth of over 6000 feet. Dividends paid by the gold-mining companies reached their maximum in 1905, when they amounted to £1,006,615 on a capital of £1,600,000. The Kolar gold fields paid during the period between 1871 and 1932 a total dividend of £23 millions, and the Mysore Government during 1882–1928 secured a total royalty of £3,626,286, *i.e.*, nearly 5 crores of rupees. After a period of decline in the dividends the gold-mining industry has again got a push forward on account of the recent rise in the market value of gold. Complete returns of alluvial gold-washing, which is practised in many places, are not available.

India requires a large quantity of kerosene for domestic illumination. Her demand for petroleum is also increasing. The major part of the supply of these mineral oils comes from Burma, Assam, and the Punjab. In 1936–37, the production of kerosene in India and Burma amounted to 173·8 million gallons and that of petrol to 91·1 million gallons. The production of petroleum has been showing a steady increase since 1919. Though India contributes only a small part of the world's supply of mineral oil, yet her total production is considerable. It is estimated that during 1887–1932 the Yenang-yaung fields alone yielded 4,800 million gallons. The output of the Indian fields is not sufficient to meet fully the heavy domestic demand, and so India has to import oil from Soviet Russia, Iran, Netherlands Indies, and the U.S.A. Refined petrol comes to India also from Roumania and Germany.

Petrol-
eum.

Burma contributes nearly 80 per cent. of the total Indian output. Thus the recent separation of Burma has affected India's position as an oil-producing country. The Tariff Board, while rejecting in 1928 the claim of the oil-industry for protection, noted that the yield from the Assam and the Attock oil-fields could be increased. It is encouraging to learn that the Digboi fields in Assam are now yielding more than 50 million gallons every year.

India had been for some time the foremost among the countries producing first-class manganese ore, but at present strong competition has to be faced from the Russian and South African mines. The total production of manganese ore in 1935 amounted to

Man-
ganese.

641,483 tons. Manganese is mainly required for manufacturing steel, and hence the exports go chiefly to the steel-producing countries. In 1936-37 the exports amounted to 677,000 tons valued at 1.31 crores of rupees. Formerly, only the high-grade ores were worked, but during the post-war boom, with the phenomenal activity in the steel industry, many deposits of lower grades were worked at a profit. There being no smelting plant in the producing centres, the ore is exported in bulk exactly as mined.

Mica. India has for many years been the leading producer of mica, turning out more than 60 per cent. of the world's supply. The value of annual production is about 90 lakhs. Practically all the Indian mica is exported to Europe and America. The mica industry suffered considerably in 1921, when a general slump affected all industries. But since 1923 there has again been a brisk demand for Indian mica. In 1936-37, 180,000 cwts. of mica were exported, the value of the quantity being nearly 94 lakhs of rupees. The United Kingdom and the U.S.A., the chief importers of Indian mica, have recently increased considerably their annual purchases. The chief mica-mining areas in India are those of Hazaribagh in Bihar and of Nellore in Madras. More than 80 per cent. of the total Indian production comes from the Hazaribagh-Gaya-Monghyr belt.

Iron. Iron ore has now become an important mineral product of India. The larger part of the supply of iron ore in India comes from Singbhum (40 per cent.) and from the Mayurbhanj (50 per cent.) and Keonjhar States. It is estimated that in the Orissa States alone the total deposits of iron exceed 3,000 million tons. The production of iron ore has largely increased since the establishment of the Tata Iron and Steel Company in 1911. In 1910 the production of iron ore amounted to 42,653 tons only, but in 1923 it rose to a little over 800,000 tons. During the quinquennium 1929-32 the production of iron ore amounted to 1,915,891 tons annually, and in 1935 the yield was 2,364,297 tons.

Other mineral products. Certain other mineral products deserve notice. *Saltpetre*, or potassium nitrate, was at one time an important article of export, and in the last century there were times when the average annual value of the exports amounted to £900,000. At present

the amount exported does not exceed 200,000 cwts., valued at not more than 15 lakhs of rupees.

Mineral salt is also produced in India, particularly in the Salt Range and in the Kohat mines. *Bauxite*, or hydrated oxide of aluminium, is obtained mainly in the Central Provinces and it forms the basic material for the manufacture of aluminium goods. The importance of *cement* is gradually increasing, particularly on account of the popularity of the use of reinforced cement-concrete in building construction. Cement is produced at Porbandar in Kathiawar, at Katni in the Central Provinces, at Bundi in Rajputana, at Japla in Bihar, and also in Assam. Among other minerals mention may be made of chromite, copper, diamonds, jade-stone, lead, magnesite, monazite, rubies, silver, tin, tungsten, and zinc.

The mines gave employment to an average daily number of 371,565 persons in 1935 (as against 146,336 in 1911). Labour is uneducated, possesses little skill, and requires constant supervision.

Most of the mining industries are in the hands of Europeans. But it is no use complaining against foreigners. What is needed is to find out the cause and to apply the remedy. The real reason for the deplorable state of affairs is to be found in the want of indigenous capital and enterprise. The available technical and scientific knowledge in the country is also inadequate. It is to be hoped that in future capitalists will invest more of their money in mining industries, and that the state will offer greater facilities for the training of young men in mining.

Mining
mainly in
European
hands.

CHAPTER VII

PRODUCTION—(*Concluded*)

MANUFACTURES

Manufac-
tures in
ancient
and medi-
aeval
India.

At the present moment India is backward in the matter of manufacturing industries. But there was a time when she was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Their ex-
cellence.

The metal industries and the silk and cotton fabrics attained to considerable magnitude in many parts of the country. An eminent writer says : “ In manufacture the Hindus attained to a marvellous perfection at a very early period, and the courts of Imperial Rome glittered with the gold and silver brocades of Delhi. The muslins of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India.”¹ In the words of Sir

¹ So also M. Martin in his *Indian Empire* says : “ The gossamer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood ; brilliant dyed chintzes, diamonds, uniquely

William Hunter, "the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns. Different varieties of manufactures were produced in different parts of the country. But Bengal was specially famous for the vast quantity and excellent quality of her manufactured products.¹

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By the adoption of methods which saved labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change. The Indian artisans continued to work as their forefathers had worked—without capital, without the assistance of machinery, without organisation. Each man went on working by and for himself as before; the appliances he used were the same as had been in common use before the manufacturing era began; there was no co-operation among the artisans; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. To these

Causes of
their
decay.

set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture—were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

¹ Bernier, who visited India during the reign of Aurungzeb, wrote: "... Bengal abounds also in sugar with which it supplies the kingdoms of Golkonda and Karnatic, where very little is grown, and Arabia and Mesopotamia, through the towns of Moka and Bassora, and even Persia." He further observed, "There is in Bengal such a quantity of cotton and silk, that the kingdom may be said to be the common storehouse for those two kinds of merchandise, not of Hindusthan or the Empire of the first Mogul only, but of all the neighbouring kingdoms, and even of Europe." He added, "The rich exuberance of this country ... has given rise to a proverb in common use among the Portuguese, English and Dutch that the kingdom of Bengal has a hundred gates open for entrance, but not one for departure."

defects were added the efforts of the East India Company and of the British Government to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by state action. Other contributory factors combined to bring about the same result. The ruling chiefs and princes were great patrons of India's indigenous arts and crafts, and their gradual decline deprived the artisans of a good volume of support and patronage. There took place at the same time a great change in the habits and the tastes of the Indian people due to the impact of western ideas as well as the desire to imitate their new rulers, and this also meant a diminution in the demand for indigenous goods. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.¹

¹ Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics not by fiscal duties but by absolute prohibition. A change of fashion in the West Indies on the abolition of slavery took away the best customer left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American war, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts. . . . And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstance has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

That eminent historian, H. H. Wilson, says: "It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from 50 to 60 per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 or 80 per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she would have retaliated; would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger; British goods were forced upon her without paying any duty; and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms." (*History of India*, vol. i, pp. 538, 539, note.)

All industrial activity and enterprise remained paralysed for a long time. In the second half of the last century, however, a distinct tendency to a better state of affairs was discernible. But the situation was full of difficulties. Modern industry, to be successful, must be undertaken by the educated Indian. But the educated Indian until the beginning of the present century lacked the practical commonsense of the businessman, and his education had not fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital was wholly inadequate for the starting of business on a proper scale, and there were few banks, if any, which would be ready to lend him money. He could not command the services of men who possessed the requisite knowledge and technical skill. The conditions were so discouraging that he often gave up his idea in despair, or, if he was of a sanguine temperament, went lightly heartedly into ambitious schemes which could only end in failure.

Tendency towards improvement.

Difficulties still great,

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last three or four decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a new energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam has very largely superseded hand-power, and in more recent years a substantial advance has been made in the utilisation of hydro-electrical energy.¹ Attempts are being made to revive old industries and new ones are cropping up in every direction.

but are being overcome in part.

A brief review of the more important of the industries will give an idea of the present industrial position of the country. The

The chief industries:

¹ The Tata Hydro-Electric Works, opened in February 1915, has been of the highest economic importance to the cotton and other industries in Bombay. Power generated by the enormous volume of water running down the Western Ghats is transmitted at a cheap cost to the city of Bombay. One noteworthy feature of the scheme is that it has been financed entirely by Indian capital and executed under an Indian board of directors. The electricity supplied by the Cauvery Falls power station has been a considerable factor in the success of the Kolar gold field. Many enterprises of this nature have recently been undertaken. Schemes are on hand for electrifying Bihar and the Punjab by the grid system of power transmission.

industries are usually classified under the following heads : (1) textile fabrics and dress ; (2) food, drink, and stimulants ; (3) metals, metallic manufactures, precious stones, and minerals ; (4) glass-, earthen-, and stone-ware ; (5) building requisites ; (6) light, fuel, and forage ; (7) vehicles and vessels ; (8) wood, cane, leaves, etc. ; (9) drugs, dyes, gums, and chemicals ; (10) leather, horns, etc. ; and (11) articles of supplementary requirements.

Weaving. Weaving is the most important industry of the country next to agriculture. There was a time when handloom weaving reached a perfection in the production of fine cloths. Indian muslins were once regarded as fabrics of unrivalled delicacy and beauty, and these used to be exported to European markets. Handloom weaving, however, suffered greatly in competition with Manchester, and hundreds of thousands of workers were thrown out of employment. The weavers of Bengal, whose fame had at one time extended all over Europe, suffered most from foreign competition. The development of a large number of cotton mills within India has also been a contributory factor causing the decline of handloom weaving. But the industry is not altogether dead. The Industrial Commission estimated in 1918 that there were nearly 3 million hand-looms at work in India producing cloth worth about 50 crores of rupees. The number of hand-looms working in India was estimated by the Cotton Textile Board in 1931 to be 1,984,950, and the census tables of 1931 show the number of workers engaged in silk weaving and spinning to be 2,575,000. A great impetus to this industry was given by the *Swadeshi* movement in 1905-06 and, in recent years, Mahatma Gandhi's political movement has given a push to the production of *Khaddar* or coarse home-spun and home-woven cloth. The Congress ministries in many of the Indian provinces are trying to encourage hand-loom weaving by using the hand-loom products for policemen's uniforms and other similar purposes.

Ginning, Cleaning, Pressing, and Spinning. The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded to some extent by power-gins. Cleaning and pressing are very often combined with ginning in

the same factory. Spinning of cotton yarn was a domestic industry, being in many cases the chief occupation of women. Of late a movement has been initiated, mainly under the direction of Mahatma Gandhi, to popularise the spinning industry, and various arguments have been advanced in support of this industry. But expert opinion regards hand-spinning as an economically unsound proposition, however great may be the other merits it possesses. The indigenous method is slow and tardy. It is doubtful if this method can be materially improved, and the future development of spinning in India must depend on the increase in the number of power-spindles operating in mills.

Hand-loom weaving is more expensive than power-loom weaving. Experts, however, think that there are several factors in favour of the hand-loom which may be summed up as follows : the amount of fixed capital needed and the overhead expenses are small ; the coarser hand-loom articles are stronger and more durable than those produced by the power-loom ; artistic and richly ornamented articles can be produced chiefly by the hand-loom ; the handweaver possesses considerable advantage in his inherited skill ; he has a low standard of living, and combines the industry with other occupations, notably agriculture ; women who, on account of social customs and the system of seclusion, are generally debarred from working in the factories can find a place in the industry ; the hand worker who works on his own account works harder and takes greater interest in his work than the factory labourer ; the adaptability of the hand-loom industry is much greater than that of the power-loom in times of industrial fluctuations.

Advantages of the hand-loom.

The fact that hand-loom weaving has not entirely died out has led many people to hope that the industry may yet be saved. Some eminent persons think that, by the adoption of improved methods, the hand-loom may successfully compete with the power-loom. This belief, however, is not shared by other experts, who find in the establishment of weaving mills the only means of meeting European competition.

Views of experts differ.

The Industrial Commission, on a review of the position of the hand-loom industry of India, remarked : " The workers are usually uneducated and without a knowledge of anything regarding their trade, except what can be acquired locally. Their lack

Views of the Industrial Commission.

of education denies them access even to the most elementary technical literature, and they can be influenced only by ocular demonstrations in their neighbourhood. Owing to their lack of contact with the outside world, new ideas do not readily occur to these small workers, and they can receive material help from the supply of new patterns and designs. Much useful work can be done by bringing to the notice of artisans labour-saving devices, or even such complex pieces of mechanism as the Jacquard machines for weaving intricate patterns on hand-loom^s.¹ The hand-loom industry has a distinct sphere of activity. If it specialises in the production of artistic products and products which can meet the particular demands of a locality, there seems to be no reason why it should not flourish, provided certain improvements are adopted in its technique, organisation, and finance.

Sug-
gestions
for
Improve-
ment.

Among the means of improving the hand-loom industry which have been suggested from time to time the following are worthy of mention : (a) the spread of elementary education so as to raise the intellectual standard of the community ; (b) the use of efficient hand-loom^s ; (c) improvements in preliminary processes ; (d) co-operation among weavers ; (e) demonstration to the weavers of successful experiments ; (f) cheap credit ; (g) advances for improved appliances ; (h) greater touch of the weavers with the customers so that they may know the demand of the market ; better marketing facilities ; (i) the establishment of small hand-loom factories and weaving schools.

Weaving
mills.

During the last half-century there has been a great development of the mill-weaving industry in most of the provinces. The first power-loom was worked in India by Mr. Davar of Bombay in 1854, and by 1881 India had come to possess 55 cotton mills. In 1923, following the post-war boom, the number rose to 333, giving employment to 350,000 persons. In 1935-36 the number of mills registered in India (including the States) was 366, the number of looms being 190,475, and the number of spindles, 9,309,356. The average daily number of hands employed during 1935 was 437,065. The produce of these mills is now able to hold its own against foreign produce in quality. But the quantity locally produced still falls short of what is

¹ *Report of the Indian Industrial Commission*, p. 161.

needed to clothe the entire population of the country. The proportion between the Indian mill-production and the imported foreign cotton goods is gradually changing in favour of the former. Even in 1924-25 the imports supplied only half of the total needs of the Indian people. But during recent years the imports have contributed only about 20 per cent. to the total volume of cotton goods consumed in India,¹ while the Indian mills have produced the remaining 80 per cent. This steady decline in the importance of imports can be attributed to the expansion of the cotton-mill industry in India, due chiefly to the grant of protection.

The last European war interfered with the supply of cotton goods from abroad, and brought in its train very high prices. It thus gave a great stimulus to the development of the cotton-mill industry in India. The Government also had to place orders with the Indian mills for khaki cloth required for soldiers in the Eastern theatre of the war. The result was that while the paid-up capital of all the cotton mills of India taken together was 43·57 crores in 1914-15, it nearly doubled itself in course of a decade. At the present moment India's position as a country producing cotton goods is firmly established, and it is no longer true to say that India can produce only the coarser varieties of yarn and cloth.

Effects of
the war.

It should be noticed that the change that has taken place in the state-policy in respect of industries in the post-war years has had much to do in bringing about the development of the cotton-mill industry. The excise duty on cotton piece-goods imposed in 1894 was a real handicap upon the growth of this industry. The abolition of this unpopular duty by an Ordinance in November 1925 was a wise step. But the most important step taken in this direction was the grant of protection. Immediately after the post-war boom had subsided, the cotton mill-owners found themselves in various difficulties. There were undoubtedly many defects in the internal organisation of the cotton mills: over-capitalisation, wasteful methods, and corrupt practices of the managing agents were some of the causes leading to the stagnation of the cotton-mill industry. But, at the same time, there was much strength in the mill-owners' contention that the cheap Japanese imports formed the greatest obstacle to the growth of

¹ 4,341 million yards in 1934-35.

Grant of
protec-
tion.

the industry in India. After the Tariff Board had reported in favour of protection some measure of protection was granted by the Government, after considerable hesitation, against cheap imports of cotton goods in 1927. A more important step was taken in April 1930, when the Cotton Textile Industry Protection Act was passed raising the duty on all varieties of cotton piece-goods. This Act was passed on the basis of the recommendations of Mr. G. S. Hardy, who had been appointed by the Government in 1929 to ascertain the requirements of the Indian cotton mills in respect of protective duties.¹

Once the policy of protection was adopted, it continued with great vigour. The duties were raised in March 1931, and again in November of the same year. During 1932-33 the Government raised further the duties on Japanese piece-goods in order to counteract the effects of the depreciation of the *yen* and the consequent increase in the import of Japanese goods. The main Act was amended in 1934 to give effect to the recommendations of the Tariff Board made in 1932. This amendment fixed the rates of duties upon cotton goods in the light of the official Indo-Japanese Trade Agreement and the unofficial agreement, known as the Mody-Lees Pact between the Indian and British mill-owners. The duties imposed by this amendment will remain operative till 1939. Another Tariff Board enquiry was instituted in 1935 for investigating the appropriateness of the import duties on British piece-goods. As the result of this enquiry the duties on the imported cotton piece-goods from Great Britain were reduced on the ground that higher duties were not required for protection. The Indo-British Trade Agreement of 1935 also committed the Government to a reduction of the duties on British piece-goods.

It is apprehended in some quarters that the Indo-British Trade Agreement of 1939, coupled with the reduction made in the duty on long-staple cotton for the purpose of finding money for balancing the budget for 1939-40 will adversely affect the India cotton industry.

Silk-
weaving.

The process of weaving silk is the same as that of cotton, but it requires greater care, and hence the use of a specialised kind of machinery. The greater part of the silk production is done by the hand-looms. During the early years of the administration of the

¹ H. L. Dey, *Indian Tariff Problem*.

East India Company, the silk industry in India was in a thriving condition. The import of Bengal silk into England averaged 560,285 lbs. during 1776-85. Even as late as in the eighties of the last century the value of the silk manufactures exported from India amounted to more than 30 lakhs of rupees a year ; but at present the value per year is hardly more than 2 lakhs of rupees. The reasons which have caused the decline of the export of Indian silk goods are mainly two : first, there has been an immense development of the silk-manufacturing industry in Europe, the U.S.A., Japan, and China; and secondly, the introduction of rayon or artificial silk has caused a great decline in the demand for genuine silk products.¹ Even within India these two factors are making their effects increasingly felt. Every year India imports a good volume of silk goods from abroad, and the imports of artificial silk from Japan, Italy, and the U.S.A. are threatening the Indian artisans. The provincial agricultural departments and the Imperial Sericultural Committee have tried to improve the production of silk in India, but in the presence of low-priced rayon it is difficult for Indian silk to find a very large market. It is worth noting that in 1936-37 the imports of rayon amounted to 17.6 million lbs., worth nearly 99 lakhs of rupees. The Textile Protection Act of 1934, however, rendered some help to the silk manufacturers of India by imposing protective duties on raw silk, silk yarn, silk piece-goods, and on rayon and rayon products. The question of granting further protection to the silk industry was referred to a Tariff Board in 1937. Their Report is now under the consideration of the Government of India.

The industry is mostly carried on as a domestic business. The main advantage is that it can offer employment to women of the middle class. Expert authorities are inclined to think that there is a considerable scope for the development of silk-weaving as a cottage industry, provided it is organised on sound lines. Silk goods are consumed mainly by the rich and the upper middle-class, and hence a small quantity produced with personal care and artistic skill is likely to be more profitable than a large quantity of plain goods produced by mills. We do not suggest that mills are not necessary ; we only point out that there

¹ Rayon cloth is not only a competitor to silk, but is also becoming a keen competitor to cotton cloth.

is no reason for the artisans to disappear. Mr. Maxwell Lefroy's suggestions for the improvement of the silk industry are worth noting in this connection. They are : improvement in design, development of commercial organisation, cheapening of raw materials and methods of production, wherever possible, production of suitable fabrics and their spread by demonstration, help to local schools with expert advice, and assistance to local efforts with orders and financial facilities.¹ We may note, further, that the possibilities in India for factories manufacturing rayon and rayon products are immense. But it is surprising that Indian capital has not yet turned its attention in this profitable direction.

Knitting. Allied to weaving is knitting. This industry has received a great impetus from the new spirit. It can give employment to a large number of women who may be engaged to work with small machines in their own homes for piece-wages. Recently there has been a considerable increase in the number of hosiery mills operating in India. Japanese competition in the market for hosiery products has been very keen, but the Indian mills have been aided here by the protection granted to them by the Textile Protection Amendment Act of 1934. Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *daris* form the subject of an important industry in the United Provinces. Artistic work on dress was at one time very much in demand, but is now in a declining state.

Woollen industry. The indigenous woollen industry of Northern India suffered much in competition with cheap German goods. Attempts have been made during the last quarter of a century to develop the industry on modern lines. In the Punjab, the United Provinces, and Bombay, a number of woollen mills have been started. Woollen carpets of good quality are made in the United Provinces and in the Punjab. The scarcity of raw material of a good quality is an obstacle to the growth of the industry.

Jute. Jute supplies the raw material for the manufacture of gunny bags and other articles used for packing purposes. In Bengal there has been an immense development of the industry during the last three-quarters of a century. The first jute-spinning mill was erected at Rishra near Serampur in 1855. It was followed

¹ *Report of an Enquiry into the Silk Industry of India*, vol. iii, p. 142.

four years later by the first power-loom factory at Barnagore. Since then, both the banks of the Bhagirathi have been dotted with the smoking chimneys of jute mills.

The record of the industry since its establishment up till the beginning of the recent depression had been one of almost uninterrupted progress. From the establishment of the industry up to 1873, it saw very prosperous days, and this prosperity continued unabated after a temporary crisis during 1873-77. Every decade showed an increase in the paid-up capital invested in the industry. In 1901-02 there were 36 mills with a capital of 435 lakhs plus £1,741,000. These possessed 16,119 looms and 331,382 spindles, and gave employment to 114,795 persons. The European War of 1914-18 gave a great stimulus to this industry as jute-gunnies were largely required for war purposes and the industry paid fabulous dividends. The number of mills increased to 89 in 1923-24 and the capital invested rose to about 18 crores and £2.13 millions. In addition to this, the Americans had invested \$17 millions in this industry. The number of looms and spindles rose to 49,038 and 1,043,417 respectively, and the number of persons employed went up to 329,700. In 1931-32, there were 103 mills with a total capital of 2,361 lakhs of rupees, operating 61,400 looms and 1,220,500 spindles, and employing 276,800 persons. In 1935-36 the number of jute mills was 104; their paid-up capital amounted to 20 crores of rupees plus £2.5 millions. There were 63,724 looms and 1,279,416 spindles in operation and the average daily number of hands employed during 1935 was 277,986. The consumption of raw jute by these mills came up to 6,022,927 bales in 1935-36.

The world-wide trade depression exercised an adverse influence over the jute industry. The decline in the demand for jute goods abroad affected the profits of the jute industry, and the mills were further affected by the existence of accumulated stocks and by labour troubles. Restriction of output seemed to be the only way open, and the members of the Indian Jute Mills Association agreed in 1931 to work 40 hours a week and to seal down 15 per cent. of their looms. Full benefit, however, was not realised from this arrangement because there were mills outside the Association. Competition compelled the Association mills to reduce the percentage of looms sealed, and the restriction scheme

ultimately broke down. In September 1938 an Ordinance was promulgated by the Bengal Government restricting the hours of work in all the jute mills of the province. But this restriction injuriously affected the interests of the growers of jute as well as of the workers in the mills, and has been withdrawn.

It is not possible to ignore the fact that the jute industry is to a large extent responsible for the economic life of Bengal, and an intelligent handling of the situation is essential. The inability of the jute mills to pay dividends means a great decline in the demand for raw jute, as the Calcutta mills to-day consume the greater part of the raw jute produced in Bengal. The development and popularity of the system of bulk-handling in the U.S.A., the probability of substitutes for jute being found out, and the possibility of the Dundee mill-owners securing protective duties against the products of the Bengal mills, all point out the necessity of strongly organising the jute industry for retaining its position in the world market.

Among the organised industries of the country it ranks second as regards employment of labour, but the bulk of this labour is imported from the neighbouring provinces. Of late, however, there has been an increase in the percentage of Bengali labourers employed in the jute mills. The industry is mainly controlled by the Europeans, although Indians now hold considerably more than half of its share capital. The predominating control exercised by Europeans over this industry has been responsible for the constant misunderstandings between the industry on the one side and the public on the other. This circumstance has also made it difficult for Indian workmen to secure adequate training in any work other than unskilled labour.

Paper.

The manufacture of paper was at one time an extensive hand industry, but now it has almost died out. The paper produced in India is now almost wholly machine-made. The production of machine-made paper in India dates from the establishment in 1870 of the Bally Mills on the Bhagirathi. The development of the paper industry was slow at first, and even to-day we have no more than ten mills worth noting.¹ Of these the Titagarh Paper Mills, established in 1882, the Indian Paper Pulp Company,

¹ In 1938 a well-equipped paper mill was started at Saharanpur in the United Provinces.

established at Naihati in 1922, and the Carnatic Paper Mills established in 1927 at Rajmahendri deserve notice. In 1934-35, the total production of paper in India amounted to 892,000 cwts., while the amount imported was as much as 2,938,000 cwts., valued at 2.73 crores of rupees

The staple material for the manufacture of paper in India had formerly been *sabai* grass, which grows abundantly in Northern India. No attempt has as yet been made to make paper from Indian wood. The Forest Research Institute at Dehra Dun made extensive investigations into the possibility of utilising Indian grasses other than *sabai*, and the prospects of some of them, *e.g.* of *bhabbar*, were found to be reasonably good. The possibilities of making paper from bamboo have been successfully explored. Some of the Indian paper mills are now producing paper out of bamboo pulp.

The Indian paper industry has had to face many difficulties in the post-war years. The cost of chemicals and the transport charges for coal were high, and the foreign competition was acute. Protection was applied for, and the Tariff Board in 1924 expressed the opinion that those mills that used *sabai* grass did not deserve protection; but "the manufacture of pulp and paper from bamboo might in time become a very important industry for India, and the prospects are good enough to justify the grant of state assistance to the firms who are endeavouring to promote its development". On the basis of this recommendation, protective duties were imposed on certain varieties of foreign paper for a period of seven years. In 1931 there was another Tariff Board enquiry, and the duties were renewed next year for another period of seven years. As India does not produce newsprint made from wood-pulp and the finer varieties of paper, protection has been granted only to the varieties in ordinary use. The Act of 1932, however, imposed a duty on wood-pulp to encourage the extension of the production and use of bamboo pulp in India. In 1939, the protection granted to the paper and paper-pulp industry was renewed, but the rates were, in some cases, slightly reduced. The paper industry, has justified many of the anticipations of the Tariff Board.

Dyeing was at one time a very thriving industry, but the Indian dyes, though better and more lasting, have to a large

Dyeing.

extent been replaced by cheap aniline dyes.¹ The indigenous dye industry has probably felt—more than any other—the effects of modern technical progress, and many dyers have had perforce to seek other means of livelihood.² Dyes are manufactured from various stuffs, such as indigo, catechu, al, safflower, lac, and turmeric, but nowhere on a considerable scale. Indigo industry has greatly declined since the production of synthetic indigo by Germany.

Rice-
hulling,
Wheat-
milling,
etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries, and biscuit manufactures. Flour mills have of late been started in many towns, but in Northern India milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In Bengal and the Punjab, several biscuit factories have been started.

Sugar

Sugar used at one time to be one of the important cottage industries of India, and it is once again coming to occupy a prominent place in the industrial sphere of the country. This new development of the sugar manufacturing industry is a story of less than a decade. In 1918, the Indian Industrial Commission remarked: “Although India possesses a larger acreage under sugar cane than any other country in the world, the imports of sugar have grown in recent years very rapidly, and before the war was exceeded only by those of cotton manufacturers.” Germany’s bounty-fed sugar gave the first shock to the old sugar industry of India. The Indian Sugar Committee of 1920 very exhaustively dealt with the question of the production of sugar in India. They pointed out that the production of sugar per acre in India was extraordinarily low in comparison with the other cane-growing countries. The Committee found the average out-turn of sugar in India to be 1·07 tons per acre as against 1·96 tons in Cuba, 4·12 tons in Java, and 4·61 tons in Hawaii. The problem of de-

¹ As regards the British dye industry, the Government has given financial assistance in the form of an advance up to a maximum of £1,700,000 secured by debentures, but paying only a low rate of interest (4 per cent.) to a producing association of consumers. It has also given a grant of £1,000,000 for scientific research in respect of the production of synthetic dye stuffs. Vide *Report of the Committee on Commercial and Industrial Policy after the War*, p. 2. It is urged that the Indian Government should follow this example.

² *Report of the Indian Industrial Commission*, p. 195

velopment of the sugar industry hinges consequently on the increase of the yield per acre. The yield of sugar depends on agricultural as well as industrial factors.

As regards agricultural factors, the selection of the right variety of cane is perhaps the most important. Experiments are being conducted not only with the indigenous varieties, but also with exotic ones. At Shahjahanpur, Mr. Clarke, by deep tillage, heavy manuring, and an ample supply of water for irrigation, was successful in growing exotic varieties of cane, and the yield obtained there was 3·7 tons of *gur* per acre.¹ In this respect invaluable service is being rendered by the Experimental Research Station at Coimbatore, where successful experiments have been made with the introduction of Java sugar-cane in India. The question of manure is another important factor. In this connection, the Indian Sugar Committee observed: "If the urgent demand for increased food production is to be met and the full benefit of extensions of irrigation is to be realised, it is essential that a supply of fertilisers should be available at reasonable prices."² The possibilities of the introduction of motor tractors should be thoroughly explored. The average cost of cane cultivation with labour-saving machines is 4·7 annas per maund as against 5 to 6 annas with hand labour in Northern India.

When the Indian Sugar Committee undertook their investigation, they found that the actual manufacture was carried on under very wasteful methods. The indigenous cane-crushing mills, which are mainly driven by bullocks, are mostly antiquated. The Industrial Commission estimated that of the sugar grown in India roughly one-third was wasted owing to inefficient and primitive methods of extraction. The Indian Sugar Committee calculated that the inefficient methods involved an annual loss of 1,068,960 tons of sucrose in the manufacture of *gur* alone. They made important suggestions regarding the construction of furnaces, the boiling of the juice, and the refining of sugar, some of which have been adopted by the manufacturers with great benefit to themselves and the industry.

During the last two decades sugar production on a factory scale has been undertaken in India. In 1925-26, there were 23

¹ *Report of the Indian Sugar Committee*, p. 39.

² *Ibid.*, p. 216.

factories in India which produced sugar direct from cane. In 1935-36 there were 152 factories. At first these factories were small in size, and their total out-turn, even as late as in 1925-26, did not exceed that of a single factory of Java; the machines were of old design and the manufacturing losses were considerable. There was also the difficulty in regard to the supply of the raw material, for the production of cane was mostly dispersed. Over and above all these was the strong competition from Java, where sugar was produced at a cost nearly one-third of the average cost of production in India.

Protec-
tion.

The case for protection of the Indian sugar industry with a view to making India ultimately self-sufficient in respect of this commodity of everyday necessity was naturally a strong one, and the Tariff Board reported in 1931 in favour of a policy of rigid protection. The Board found that the industry possessed the advantages of a cheap supply of raw materials, labour, and fuel and of a guaranteed market, that the development of the industry was handicapped by the strong competition of the Javanese growers, and that in about fifteen years' time the industry would be able to reduce costs and face foreign competition. The Sugar Industry Protection Act, passed in 1932, imposed almost prohibitive duties on imported sugar, and the real history of the large-scale sugar-manufacturing industry of India begins from that year.

Great
develop-
ment.

Under the shelter of protection, quite a good number of factories were started, mainly in the United Provinces and in Bihar, for manufacturing refined sugar on a large scale. The total production of sugar increased from 158,581 tons in 1931-32 to 1,111,400 tons in 1936-37, and the imports came down from 939,600 tons in 1929-30 to 23,000 tons only in 1936-37. At present India has practically become self-sufficient in respect of the sugar required for domestic consumption. The problem to-day is to secure export markets for the locally produced sugar.

Difficul-
ties.

In connection with the recent development of the sugar industry, various difficulties have manifested themselves. These difficulties have arisen chiefly from ill-planned distribution of the factories, from inefficient marketing, and from erratic competition which has been very keen in some places and almost absent in others. As regards the general efficiency of Indian sugar factories,

it may be pointed out that the average 'recovery' or yield of sugar from the cane is about 9 for the whole country, which is 1.5-1 lower than Natal and Mauritius and nearly 3 points lower than Hawaii and Java. This low recovery is partly due to the poor quality of the cane cut. As Dr. Maxwell observes, the root cause of these low recoveries in India consists in the original size and lay-out of the plant, as well as the design and quality of the machinery, and not least in the operation of the factory. At the same time, there are some factories in India which can stand comparison with the best in Java and elsewhere in respect to machinery lay-out and operation of the plant. It is due to the inferior quality of the cane that these factories are prevented from attaining the same high recoveries of Java.¹ It may be hoped that the increasing experience of the factory-owners and the guidance of scientific experts will enable the industry to make the best of the advantage offered to it by the very encouraging policy of protection adopted by the Government.

India produces enormous quantities of hides and skins, but exports a large portion of them in a raw or half-manufactured state to foreign countries. The progress of the leather industry has not been on a scale which one would have wished. The indigenous leather industry was in an extremely primitive condition, and only very inferior kinds of leather were produced. The establishment of the Government Harness and Saddlery Factory at Cawnpore in 1860 marked the beginning of the adoption of European methods of tanning. Private enterprise led to the starting of factories for making finished leather goods at Cawnpore and in Bombay and Madras, but these were also mainly dependent upon contracts from the military department.

The leather industry has received a stimulus from the introduction of chrome tanning. A Government factory was started at Madras in 1903 to manufacture leather by chrome tanning as an experimental measure. The success of this experimental factory led to the adoption of chrome tanning in tanneries which used bark only. There were in 1935 twenty-seven factories engaged in processes connected with hides and skins, of which 23 were tanneries and 11 manufactured leather and shoes. The leather industry is progressing in India at the present moment, but it is likely

¹ Vide *Capital*, Jubilee Number, 1938.

to have to face serious competition from foreign firms established in India.

Effects of
the war.

During the last war no less than 60 per cent. of the total number of army boots manufactured in England was made of Indian leather.¹ The control of this industry by the now defunct Indian Munitions Board resulted in the production being fully doubled. The Indian Industrial Commission expressed the opinion that the leather industry could be stimulated by the institution of technical training and by experimental work on a considerable scale. The educational aspect of the problem has for some time past been receiving the attention of the Government, but not much has yet been done in that direction. Three research institutes were started—the Leather Trades Institute at Madras, Government Leather Working School at Cawnpore, and the Calcutta Research Tannery—with the object of helping the development of the local tanning industry by technical research.

Export
duty on
hides.

With a view to making the raw material available at low price, the Government in 1919 imposed an export duty of 15 per cent. on hides and skins, with the proviso that a drawback of 10 per cent. should be given in the case of exports to any part of the British Empire. This duty was opposed by the Indian public, and the Fiscal Commission and the Indian Taxation Enquiry Committee both recommended its early abolition on the ground that protection to the tanning industry should be granted, if considered desirable, by the direct method of import duties on foreign tanned leather, rather than by injuring the raw material producers who were deprived of a large foreign market. In 1923, the export duty was reduced to 5 per cent. only. In 1927, the Assembly rather strangely sided with the owners of tanning factories and opposed the abolition of the export duty. By 1933, however, the export of hides and skins had very considerably declined, and consequently the export duty on raw hides was abolished in 1934. The export duty on raw skins was abolished a year later.

Oils and
oil in-
dustry.

Oils and oil-seeds form the subject of useful industries throughout the country, but there is ample room yet for their further expansion. The cotton-seed industry has materially helped to

¹ *Journal of Indian Industries and Labour*, Ledgard, "Leather Trades and Shoe Manufacture in India," p. 170.

make the United States one of the foremost among the industrial nations of the world. The export of cotton-seeds involves an immense loss to the country ; and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way.

The exports of non-essential oil-seeds from British India for the five pre-war years averaged 1,432,607 tons annually, valued at nearly 24 crores of rupees ; and for five years ending 1918-19 averaged 699,255 tons, valued at nearly 12 crores. In 1936-37, the exports of oil-seeds amounted to 1,155,000 tons, valued at 18.44 crores of rupees. These oil-seeds produce many useful articles that are required for making soap and glycerine, for serving as lubricating agents and as cooking ingredients. In recent years a few power-presses have been established to extract oil out of seeds, but even now the export of unutilised oil-seeds continues unabated. The above figures are sufficient to show both the extent of the loss which India suffers by the export of a valuable by-product which should be returned to the land, and the possibilities of an extension of the oil industry which would enable the oil-cake to be retained in this country.

In the metal industries many of the local handicrafts attain to considerable magnitude. "The high quality of native-made iron," says Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world."¹ The art of smelting iron, of welding it, and of making steel has been known to the Hindu "from time immemorial".

Metal industries.

Iron-smelting was at one time a widespread industry in India. In ancient times the people of India seem to have acquired a fame for metallurgical skill, and the reputation of wootz steel, which was certainly made in India long before the Christian era, spread far and wide.² The wasteful indigenous process of smelting iron in small furnaces with wood fuel was a great drawback on the

In ancient times.

¹ Sir Thomas Holland rightly says : "In ancient times the people of India seem to have merited their fame for metallurgical skill." (*Vide his Sketch of the Mineral Resources of India.*) Steel was in extensive use in India several centuries before the Christian era.

² *Vide Quinquennial Review of the Mineral Production of India, 1919-23.*

growth of the iron industry. The manufacture of pig-iron and steel in India by European processes was marked by conspicuous failures during the nineteenth century. The first scheme that proved a financial success was the Barakar Iron Works, started in 1874 and acquired by the Bengal Steel and Iron Company in 1889. Even here profits ensued only after the lapse of 25 years since the starting of the works.

Modern
develop-
ments.

The growth of the iron and steel industry of India has been mainly due to the activities of the Tata Iron and Steel Company, which was established at Sakchi (later known as Jamshedpur) in 1907. The Company was planned on bold lines and from 1911, when it first commenced operations, it has been producing large and steadily increasing amounts of iron and steel goods. As in the case of the cotton and jute textile industries, the war gave an effective stimulus to the iron and steel industry. Large quantities of railway materials required for the Eastern theatre of the war were purchased in India, and, encouraged by this considerably increased demand, the Tata Iron and Steel Company launched upon a scheme of expansion which was finally completed in 1924. There have arisen in recent times other companies manufacturing iron and steel. Of these the Indian Iron and Steel Company, the Bhadravati Iron Works and the Indian Steel Corporation deserve mention.

In the earlier years of the present century the average annual production of pig-iron ranged near about 35,000 tons. In 1919, the production was 232,268 tons. In 1929-30, the yield of the Indian factories had increased nearly six-fold to 1,376,000 tons. In 1936-37, the total production was 1,557,000 tons. In the same year (1936-37) the production of steel ingots amounted to 861,000 tons while that of finished steel was 677,000 tons.¹ It is also noteworthy that the imports of foreign iron and steel into India have come down from 608,000 tons in 1930-31, to 360,000 tons in 1936-37.

Protec-
tion.

In this development of the Indian iron and steel industry, perhaps the most important part has been played by the protection extended to it in 1924 and continued ever since. The Tariff Board in 1924 observed : " The market is large, and with the expansion of demand, provided there is an adequate extension

¹ *Review of the Trade of India, 1936-37.*

of transport facilities, there would be room for two or three steel-works each with an output comparable to that of the works at Jamshedpur.”¹ In recommending the case of this industry for protection, the Tariff Board pointed out that

1. India possessed great natural advantages for the manufacture of steel owing to the richness and abundance of iron-ore deposits and the comparatively short distance which separated them from coal-fields ;

2. the continued existence of steel manufacture in India was in grave jeopardy, and unless protection was given there was no prospect of future development ;

3. the natural advantages were so great that eventually steel manufacture in India should be possible at as low a cost as in any other country.

The Tariff Board also pointed out the importance of the industry as a key industry and as a pre-requisite of safety and defence, and the Government, accepting these recommendations, imposed in 1924 duties on foreign imports of certain varieties of steel products and granted bounties on the manufacture of certain others. In 1925, on account of a marked fall in the prices of foreign imports additional bounties were temporarily granted. In 1927, protection was renewed, and for the first time different rates of duties were imposed upon British and non-British steel, on the ground that British steel was mainly of the standard specification, and that a rise in the price of standard specification steel would cause difficulties to industries depending on it. In 1932 the duties had to be revised to give effect to the terms of agreement reached at the Ottawa Conference. In 1933 there came another Tariff Board enquiry, and as the result of the recommendations of the Board the protective policy has been continued to operate till 1941.

While on this subject, we may note that the development of the Government policy with regard to the industries depending on the iron and steel industry have proceeded on lines similar to those relating to the main industry itself. Among these subsidiary industries, we may mention the manufacture of tin-plate, enamel ware, wire and wire nails, iron and steel castings,

Subsidiary industries.

¹ *Report of the Tariff Board regarding the Grant of Protection to the Steel Industry*, 1924, p. 15.

fabricated steel, tools and implements, railway wagons, etc. When protection was granted to steel in 1924, it was anticipated that the rise in the price of steel would injuriously affect the industries using steel as raw material. To protect the interests of the engineering industry, duties had to be imposed on the imports of fabricated steel from abroad. Bounties were granted to the wagon industry and heavy import duties were levied on imports of foreign tinplate. Similar protection was granted to the manufacture of wire and wire nails.

After the second report of the statutory enquiry into the steel industry was issued by the Tariff Board in 1927, the Government stopped the grant of bounties to the wagon industry and decided to help the industry by purchasing all wagons in India. In the case of wire and wire nails the Tariff Board recommended the withdrawal of protection, but the Government was prevailed upon to reimpose the protective duties. The subsidiary industries have thus received stimulus from the Government, and these form to-day an important part of the iron and steel industry of India.

Engineer-
ing
industry.

In India, industries based on technical science have been disregarded. The imports of machinery are due to the absence of a complete system of engineering industries based on the large-scale manufacture of iron and steel. There is a fairly large number of engineering workshops and railway workshops to meet the rapid expansion of modern industrial ends. But engineering shops in India are devoted mainly to repair work or to the manufacture, mainly from imported materials, of comparatively simple structures. This is undoubtedly one of the greatest industrial deficiencies of India. If a forward policy of industrial development is to materialise in the future, the development of engineering industries is urgently called for.

Copper,
brass,
aluminum,
etc.

Copper and brass vessels which are necessary articles in every household are even now manufactured in every district. The chief centres of manufacture are, however, Murshidabad, Srinagar, Benares, Mirzapur, Moradabad, and Mysore. The artistic and jewellery works of Multan, Cuttack, Madura, Poona, and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more are found in every town and village. Cutleries

have been in existence for some years in different parts of the country. The lock-works of Calcutta, Aligarh, and Hathras have been doing very good business. The manufacture of steel trunks is becoming a very useful industry. The aluminium industry of Madras has become important during the last thirty years. In Bengal large-scale manufacture of aluminium ware has been carried on successfully during the last decade.

The manufacture of glass by the indigenous method has Glass. existed from very early times. Bangles are made of crude glass obtained from *reh* or saline deposits on barren land. The bangle industry of Ferozabad represents about 50 to 60 factories, with an out-turn of *churies* valued at £13,333. But these factories are mostly worked on antiquated methods. Flasks, ink-pots, and such other small things are blown from crude glass. Glass factories were a few years ago started in several places, some of which have had, however, to be closed. The factories in Upper and Western India have to work under one great disadvantage, namely, that coal for the furnace has to be brought from a great distance. The history of this industry is a record mainly of failure, and such success as has been attained by a certain number of factories has been due to the abnormal conditions created by the war.¹ The other difficulties which the glass industry has to contend with are : want of skilled labour, inexperience of the requirements of the Indian climate regarding furnaces, and difficulty of glass-blowing in hot weather.

The Glass industry requires high-grade technical knowledge, but the acquisition of such knowledge by the Indian operatives is extremely difficult. It has been remarked : " European glass-works where Indian workmen could be trained are not open to receive apprentices who mean to use the skill they acquire for competitive purposes." ² Mr. Fox thinks that glass factories for the manufacture of glass bangles, bottles, scientific glassware and tableware, if established in the Bengal coal-fields or in Calcutta, have the greatest advantages against imported goods. The reasons are mainly that fuel is cheap, and that a large market for glass is in close proximity. An organisation is wanted to take up the whole problem.

¹ Appendix to the *Report of the Indian Industrial Commission*, p. 66.

² C. S. Fox, *Notes on Glass Manufacture*, p. 48.

In recent years the factory industry in making glassware has made some progress. Factories have been started almost all over India and they turn out mainly plain articles for domestic use, such as tumblers, bowls and dishes, lampware, inkpots, bottles, phials, and flower-vases. The Tariff Board enquiring into the conditions of the glass industry found 59 factories working in 1932. Some measure of protection was recommended by the Tariff Board, but the Government did not accept the proposal on the ground that the main raw material, namely, soda ash, had to be imported from abroad. An indirect help was rendered by the grant of a rebate of the import duty on soda ash. It is noteworthy that, as regards glassware, India is very largely dependent on other countries. In 1936-37, the total value of the glass goods imported into India was Rs. 128 lakhs ; Japan contributed nearly half of this total (49 per cent.), while the remaining half mainly came from England (8 per cent.), Belgium (12 per cent.), Czechoslovakia (15 per cent.), and Germany (12 per cent.).

Car-
penry.

Woodwork and carpentry are still, in the main, hand industries. Saw mills have, however, been established in many parts of the country.

Chemical
industries.

The once flourishing chemical industries of India have been almost stamped out by the foreign manufacturer. The foreign chemical product has obtained a supremacy in India, however, not merely because it is cheaper, but mainly because it can be depended on for uniformity of quality. India imports chemicals to the value of more than a crore of rupees a year. Simple drugs and extracts are manufactured by some factories on a small scale, but for the greater portion of her requirements she is dependent upon foreign countries. The industrial development of India has been greatly handicapped by the lack of chemical industries in the country. The Indian Industrial Commission observed : " In the absence of any means for producing from purely Indian sources, sulphuric, nitric, hydrochloric acids and alkalis, our manufactures, actual or prospective, of many things such as paper, drugs, matches are dependent upon imports which under war conditions might be cut off." ¹

It is recognised that the manufacture of heavy chemicals is a key-industry, and their development is urgently called for. The

¹ *Report of the Indian Industrial Commission*, p. 53.

Chemical Services Committee have expressed the opinion that there is an enormous field for the production of carbon compounds in India. Dr. Watson has suggested the desirability of establishing the coal tar industry in this country, for it is from coal tar that all countries obtain their high explosives, their synthetic drugs and their synthetic dyes.¹ Several factories—the most notable among them being the Bengal Chemical Works of Calcutta—have during the last few years been doing very good work in the way of reviving the chemical industries of India.

Some progress has been made in recent years in the manufacture of the acids ordinarily required for different purposes, particularly of sulphuric acid. India has the advantage of raw materials and of the fact that foreign supplies have to bear a heavy transport charge. But in spite of these advantages the progress has not been rapid, first, on account of the lack of power, plant, and technicians and, secondly, on account of the strong competitive position of German and British syndicates. The Tariff Board in 1928 recommended the grant of protection to manufacture of certain chemicals on account of the importance of the industry for national development. These recommendations were made effective by the Government by the Heavy Chemical Industry (Protection) Act of 1931. In 1937, the Imperial Chemicals (India) Ltd., formed a project for large-scale manufacture of alkalis in India.

Acids and
alkalis.

Perfumes and essential oils are important industries in the United Provinces. Ghazipur, Jaunpur, and Kanauj are famous for the produce of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on western models have been established in Calcutta, Bombay, and some other cities. Soap is manufactured by the indigenous process, and also in factories on modern lines. The soap factories of Calcutta and Bombay do business on a fairly large scale.

Perfumes,
etc.

The tobacco industry is very extensive. But it is suffering acutely from competition with foreign products, specially American. The technique of cigar- and cigarette-making has not been fully studied. The tobacco industry is vigorous in Burma, where women mostly participate in this industry and also in

Tobacco.

¹ Vide Watson, *Chemical Research in India*, p. 187. *Journal of Indian Industries and Labour*.

some parts of the Madras Presidency. Though the competition of the foreign product is increasing largely, adequate steps have not yet been taken to develop this industry on a large scale. The Indian enterprises in cigarette-making generally turn out articles of inferior quality. Recently some British cigarette-manufacturing companies have started branch factories in India.

Cement.

Cement is one of those industries which have been encouraged by the changed conditions of post-war times. Before the war, the amount of cement produced in India was small, and the needs of the country were mainly satisfied by imports. The industry has received a great encouragement since the war on account of the wide use of cement and concrete for all sorts of structural works. The demand for cement has increased manifold and, consequently, capital has come forward in large quantities to be invested in the large-scale manufacture of cement. In 1930-31, the imports of cement amounted to 112,000 tons, and the figure came down to 51,000 tons in 1936-37. On the other side the production of cement in India increased from 945 tons in 1914-15, to 997,000 tons in 1936-37. The manufacture is carried on mainly in Kathiawar (at Porbandar), Rajputana (at Bundi), and the Central Provinces (at Katni). The Tariff Board took up the enquiry into the conditions of the cement industry in 1924. They found that the industry satisfied to a considerable extent the first condition laid down by the Fiscal Commission, namely, that the industry demanding protection should possess the advantages of cheap raw materials, labour, fuel, and a wide market. Protection was not, however, recommended on the ground that there was a good deal of overproduction of cement in India, leading to competitive price-cutting. Consequently, the price of cement in India depended on internal competition alone, and the price of foreign cement had no effect on the Indian industry. Bounties were recommended in certain cases but the Government declined to take any steps. Recently, however, the internal competition has been regulated by the formation, first, of the Cement Marketing Company of India, and later, of the Associated Cement Companies of India.

Matches.

Another industry that has seen its development in the post-war years is the match industry. The earlier attempts were all failures, and a successful match industry could be started in

India only after 1922, when a revenue import duty of more than 100 per cent. was imposed on foreign matches. This served the purpose of protection, and, encouraged by this stimulus and by the existence of a very large and inelastic home market, factories came into existence to supply the entire needs of the people. The revenue duty was converted into a protective duty in 1928 on the recommendation of the Tariff Board. At present there are some 30 factories manufacturing matches on a large scale. The prohibitive duty enables the Indian firms to meet almost the whole demand, and the imports of matches have come down from 13,667,000 gross of boxes in 1921-22 to 55,000 gross of boxes in 1936-37. The factories encouraged by the import duty are however mainly financed, owned, and managed by a large Swedish combine. There has been a strong opposition to the policy of protecting the match industry, on the ground that the Indian consumers have been made to bear a heavy burden for the benefit of Swedish capitalists. Complaints of monopolistic devices and of rate-war have sometimes been made against the Swedish combine. The Swedish firm has certainly done much to develop the supply of raw materials in India and to improve the technique of production. But it is at the same time the duty of the Government to see that the Indian interests may not be injuriously affected by a foreign concern thriving under an encouragement given to it by placing a burden on the Indian consumers.

The total number of factories in India in 1935 was 9,261. A Mills and classified list of the more important among these is given below : factories.

Kind of Establishment					Number
Cotton-spinning and weaving	-	-	-	-	398
Jute mills	-	-	-	-	104
Silk mills	-	-	-	-	49
Woollen mills	-	-	-	-	15
Cotton-ginning and baling	-	-	-	-	2,547
Jute presses	-	-	-	-	104
Engineering	-	-	-	-	888
Foundries	-	-	-	-	70
Iron and steel mills	-	-	-	-	8
Petroleum refineries	-	-	-	-	12
Flour mills	-	-	-	-	72
Rice mills	-	-	-	-	1,380

Kind of Establishment						Number
Sugar factories -	-	-	-	-	-	174
Tea factories -	-	-	-	-	-	994
Tobacco factories -	-	-	-	-	-	30
Dyeing and bleaching -	-	-	-	-	-	53
Chemicals -	-	-	-	-	-	23
Matches -	-	-	-	-	-	61
Oil mills -	-	-	-	-	-	245
Paper mills -	-	-	-	-	-	8
Printing, book-binding, etc. -	-	-	-	-	-	397
Paper-pulp -	-	-	-	-	-	1
Saw mills -	-	-	-	-	-	142
Glass factories -	-	-	-	-	-	55
Leather and shoes -	-	-	-	-	-	11
Tanneries -	-	-	-	-	-	30
Cement -	-	-	-	-	-	39
Coffee -	-	-	-	-	-	21
Lac -	-	-	-	-	-	20
Rubber -	-	-	-	-	-	26

Of the cotton mills, the largest number is to be found in Bombay. The cotton mill industry has also been developed in most of the other provinces and in several Indian States. Cotton-ginning factories largely preponderate in Bombay and Berar. The various branches of the cotton industry give employment to nearly seven lakhs of persons. Bengal has a virtual monopoly of the jute industry with over 90 per cent. of the total number of mills in India. Silk mills and filatures are found chiefly in Bombay, Mysore, Kashmir, the Punjab and Bengal, and the woollen mills in the United Provinces, Bombay, Mysore, and the Punjab. Flour mills mostly occur in the Punjab and Bombay, and sugar factories in the United Provinces and Bihar. Rice mills are most numerous in Burma, where these are mainly in European hands, and in Madras and Bengal. Iron and brass foundries now exist in most of the provinces.

The space at our command does not permit us to give a full account of all the industries of India, and we have to content ourselves with a brief and rapid survey of the most important of these. It shows that some advance has been made in the direction of an industrial regeneration.

Doubts have been expressed in certain quarters in regard to the

possible success of the industrial movement. It is held by some that nature has destined India to be an agricultural, and not a manufacturing, country.¹ We find it difficult to understand what such critics really mean. It is true that she possesses certain exceptional facilities for agriculture, which must always continue to be one of her most important industries. But that does not prove that she is naturally unfitted for the development of manufacturing industries. On the contrary, it shows that the natural advantages which she possesses as an agricultural country may be made to serve as aids to the growth of manufactures. And this is what has actually happened in the United States of America, whose agriculture has greatly helped the growth of manufacturing industries. The raw materials of every industry must come ultimately from the land. India has thus a start over other nations in so far as she can produce these raw materials at a comparatively cheap cost. Agriculture and manufactures, instead of being opposed in interest, may, in a large country like India, be really helpful and supplementary to each other.² The growth of manufactures will not necessarily mean the neglect of agriculture, but may, on the other hand, give a stimulus to its further development. Manufactures will flourish, not by withdrawing from agriculture the factors at present employed in its production, but by bringing into use uncultivated land, unemployed labour, and fresh capital. If the combination of agriculture and manufactures has been found possible in America, there is no reason why it will not succeed in India.

Agriculture vs. Manufactures.

The two supplementary to each other.

There are others who think that the circumstances which have favoured the growth of industries in European and American countries are not present in India. Let us examine the statement. As for the physical and moral characteristics of the people, they are not the natural monopoly of any nation or race. The superi-

Can manufactures succeed in India?

¹ Sir Patrick Playfair, on the occasion of the Annual Dinner of the London Chamber of Commerce, 1912, said : " India must be in the main an agricultural country raising crops in great quantities and of great value." But Sir Theodore Morison replied : " The people of India were not content to be hewers of wood and drawers of water. They wished to take their part in manufacture."

² Mr. Latifi writes thus in *The Industrial Punjab* (published for the Punjab Government) : " In the Punjab, the two [*i.e.* agriculture and manufactures] are so intimately allied that permanent improvement in either is impossible unless they grow in close interdependence."

ority, in some particulars, lies with India ; in others, the deficiencies may be overcome with the aid of science. Most of the qualities which make for success in industry are possessed by the people, but they are in a state of quiescence, and a little effort only is needed to make them active. India possesses a great advantage in the extremely low cost of living which prevails here. Three centuries ago, England industrially was very backward as compared with Holland and other enterprising nations of Europe, but to-day she is in the front rank of industrial nations. Germany has worked her way up to her present position in the course of less than half a century. There is thus hope for India yet. The present backwardness of India is due in part to the causes we have mentioned before and partly to its political environment. The Indian Industrial Commission observed : " The course of industrial development in India has followed very different lines. The political and economic conditions of India in the past have created a large export and import trade, and this trade has brought about the present industrial position." ¹ But it would not be quite unreasonable to expect a gradual modification of the political situation in the near future.

The possibilities of industrial development are indeed immense, and India, with her command of the raw materials, ought not only to supply her own needs but to furnish other countries with manufactured products. But to attain this end, an enormous increase of capital, the proper training of labour, and the adoption of improved methods of work will be necessary.

Large-scale vs. small-scale production.

From our review of the industrial situation it has become clear that the system of small-scale production still largely prevails in India, but in some of the industries production on a large scale has begun. The question whether the people of India should stick to their old system of handicrafts, or adopt, to the full extent, the new system of production by machinery and large capital, involves so many knotty points that it is not possible, or even desirable, to answer it in an off-hand way. It is undeniable that the efficiency of the productive agents is greater in many ways in large enterprises than in small ones. ² But there

¹ *Report of the Indian Industrial Commission*, p. 49.

² The advantages of large-scale production may be summarised as follows :

(1) Better classification of labour according to its capacity ; (2) the use of

also are some disadvantages even from the economic standpoint. It is, however, chiefly on moral and social grounds that objection is made to the system of large-scale production. Under that system men tend to become mere machines,—drudgery is destructive of all initiative and individuality. Again, the massing together of large numbers of people leads to physical and moral ill-health. Further, while the system of small-scale production enables a large number of people to live independently, the large-scale system raises a few, often at the expense of the many. Already we find a revulsion of feeling in the west among some of the thinkers. In countries where the capitalistic system has been pushed to an extreme, wide-spread destitution is found in the midst of the greatest abundance. “The tramp”, says Henry George, “comes with the locomotive, and almshouses and prisons are as surely the marks of ‘material progress’ as are costly dwellings, rich warehouses, and magnificent churches.”¹ He goes on to observe: “The association of poverty with progress is the great enigma of our times.”² It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy grapple in vain.”³

This is undoubtedly a very complex problem. It is obvious

up-to-date and specialised machinery ; (3) applied machinery can be so adjusted as to give full employment to the motive powers ; (4) improvements can be more readily adopted ; (5) inventions can be encouraged ; (6) expert skill can be employed to a greater extent ; (7) better selection of materials and of processes is possible ; (8) purchases are made in large quantities and hence cheap ; (9) sales are wholesale and hence not troublesome,—and often aggregate profits are higher, though the rate of profits may be low ; (10) competent managers may be appointed for the control of the different departments ; (11) the head of the firm is left free to deal with the larger questions, and to exercise a general superintendence ; (12) by-products are utilised, and even small things are not thrown away. The economic disadvantages are : (i) very great loss arises from a change in the demand for commodities ; (ii) the cost of superintendence is often large ; (iii) the interest of the paid managers is much less than that of the small proprietor ; (iv) large industries are not possible or profitable unless there is a sufficient demand.

Merits and defects of large-scale production.

¹ Henry George, *Progress and Poverty*.

² The distribution of British incomes (in 1904) was thus calculated by Sir L. G. C. Money : “rich, 1½ million—£585,000,000 ; comfortable, 3½ millions—£245,000,000 ; poor, 38 millions—£880,000,000.” Since then, the disparity seems to have substantially lessened.

³ Henry George, *Progress and Poverty*.

The
industrial
revolu-
tion.

Opinions
for and
against it.

that an industrial revolution has commenced in India. Whether such revolution is a desirable thing or not is a question on which opinion is hopelessly divided. There are some who not only welcome the revolution, but are even prepared to hasten it as much as they can ; there are others who curse it and wish that it could be stopped. On the one hand, it is believed that the regeneration of the country will come through an industrial revolution ; on the other, it is feared that the materialism of the west will destroy the spiritual ideals of the people and deaden the finer elements in their nature. One class of persons look confidently to the change for an economic millennium which will bring untold wealth and immense prosperity into the country ; another class are appalled at the prospect of the extreme misery that is likely to come in the train of the revolution.

Element
of truth
in each
view.

In the midst of such conflict of opinions, the economist would naturally find himself in a difficult position when called upon to give advice. On a careful consideration of the pros and cons of the matter, he would probably find that an element of truth underlies each of the two rival sets of opinions. He cannot deny that in the west enormous wealth stands side by side with abject poverty. He cannot forget the fact that the Industrial Revolution in England and other European countries was accompanied by great evils. He would recognise that competitive economics—under which there is a tendency for “ the rich to grow richer and for the poor to become poorer ”—may be unfair in its behaviour towards the weak. He would be alive to the grave danger of the new system affecting the simple life of the people. At the same time he would not overlook the simple facts, namely, that the industrial change has already made its appearance without any invitation from the people, that it is not in the power of anybody to prevent it, that it is bound to grow and expand against all odds, and that if the people of the country will not take advantage of it, others will. The only advice which the economist can, under such circumstances, offer to the people would be to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations, and to try and minimise the evils of an industrial change. He would even try to harmonise the old and the new, by taking the good from each and eschewing the evil.

General
con-
clusion.

One of the chief means by which the evils of capitalism may be minimised in some degree is the adoption of the principle of co-operation.¹ Co-operation has produced great results in Europe and America, and there is no reason why it should not succeed in India.² Co-operation, however, presupposes the existence of certain qualities, such as business honesty, mutual confidence, and sense of duty ; and they must be cultivated by those who wish to engage in business.

Co-operation.

Even if the large-scale system be adopted in India, small industries need not die out. Some of the small industries may be made successful with the help of co-operation. Count Alex Karolyi has defined the aim of all co-operative work as “ the attainment of greater social force through co-operation, greater economic knowledge through practical instruction, and a higher moral development through the need of being equitable.”³ In one class of cases, the small manufacturers possess such inherent advantages that they can keep the cost of production at a very low figure, and can thus withstand the competition of large producers. Japan was, until recently, a country mainly of small industries, but she is fast developing the large-scale system. The success of such industries in Japan, however, is due partly to the efficiency of the workers and partly to the protection given to them by the state through the system of high tariffs. Sometimes small industries may flourish side by side with large ones, either as meeting supplementary demands or as producing goods complementary to those produced by the latter. Speaking of the cottage industries of Switzerland, Mr. Tressler, Director of Industries, Madras, says : “ There fully one-third of the industrial population is engaged in cottage industry—chiefly watch- and ribbon-making—and, if not exactly amassing wealth, is at least maintaining itself in comfort. And all cottage workers are

Small industries need not die out.

¹ It is true that one of the chief features of the industrial revolution is the substitution of competition for the old regulations which used to control the production and distribution of wealth ; but it is open to doubt whether unrestricted competition is likely to be a permanent factor in industry in the future.

² For an account of the subject see Fay, *Co-operation at Home and Abroad*, and Holyoake, *Co-operative Movement To-day*. It must be admitted that co-operation has not yet succeeded to the same extent in production as in distribution.

³ Quoted in the Presidential Address at the South-Bihar Co-operative Credit Conference, 1911.

‘linked’ with a manufacturer. The manufacturer turns out a very large quantity of finished material in his own mills, but a large quantity is also sent out. The yarn is warped and prepared ready for use, and the cottage worker has thus only to perform those operations in the process of manufacture that experience has shown most remunerative to him; the manufacturer’s labour-saving machine does the rest. The worker thus obtains all the advantages of a division of labour, of expert assistance, and of a market as large and constant as a modern sales-organisation can make it.”

The importance of the small industries is thus considerable even in these days of large-scale production. In recent years the interests of the small industries have been watched by the Government and also by non-official bodies. In Bombay and in Bengal, and also in the Central Legislative Assembly, attempts have been made by the supporters of small industries to secure help and encouragement from all quarters. The Departments of Industries in different provinces have done something to help these small industries. Almost all the provinces have passed State Aid to Industries Acts and, in accordance with the provisions of these Acts, financial assistance is being rendered.

Value of
achievement
often ex-
aggerated.

But the value of the achievement is often exaggerated. Those who look complacently on the enormous increase in the trade returns, forget that the greater part of the industrial development of the country has been due to foreign capital and enterprise. The mining industries, the factory industries, and the more important of the industrial arts are mainly in the hands of Europeans. The profits accruing from these industries, instead of accumulating in the country, are remitted abroad, so that, in the words of Sir A. Chatterton, formerly a high Government official, “the people of India benefit by the establishment of these prosperous undertakings only to the extent that a certain number earn wages in subordinate positions or by doing coolie work.”¹ But it is no use fretting over the success of other people. The children of the soil neglected to utilise the vast resources of the country, and they have no right to complain of the exploitation of these by outsiders. Commercial development, like time and tide, does not wait for anybody.

¹ A. Chatterton, *Notes on Industrial Work in India*, 1905.

This brings us to the much-debated question of Indian *versus* foreign capital. Much of the controversy to which the subject has given rise has been due to a want of clear thinking. On the one hand, it has been maintained that its effect is in all cases beneficial. It has been pointed out that at a time when India could not provide even a small part of the capital required for her development, it was foreign capital which helped in the process of development, took all sorts of initial risks, and thus paved smooth the path of future progress. If in those days foreign capital had not come forward, India to-day would have remained without railways and without many of her important industries. It has also to be admitted that the entry of foreign capital into the country brought in its train the latest method and technique from Europe, and thus the educative value of the investment of foreigners' resources in India has also been considerable. If it is once admitted that a speedy development of industries is absolutely essential for India, and if it is realised that Indian capital is absolutely insufficient for securing this end, it is inevitable that foreign capital should play an important part in the industrial field of the country.

Indian *vs.*
foreign
capital.

On the other side, it has been held that foreign capital must necessarily do harm to the country. The arguments against the unrestricted use of foreign capital are directed not so much against foreign capital itself as against foreign capital controlled by foreign ownership. It is pointed out that the anticipated educative value of foreign capital is negligible because the directors are generally all foreigners and they take little interest in training Indians for the higher posts. The fact that the profits go out of the country is also an important one to be considered. It is also pointed out that Indian concerns are often handicapped in their initial stages by the price-war carried on by competing European firms who find that their vested interests are being endangered. In coastal and inland shipping such complaints have often been heard.

Sir Vithaldas Damodar Thackersey, a great authority on the subject, and himself a very successful businessman, attacked the question with great clearness of thought and force of expression. He rightly observed that no country in the world could make much progress in industrial directions without plenty of capi-

Sir V.
Thacker-
sey's view

Foreign capital is comparatively small. India cannot, therefore, do without foreign capital. It will be a short-sighted policy to reject it on sentimental grounds. But it is necessary to form a clear conception of the limits within which the application of foreign capital is beneficial. The patriots of Japan have been eager to attract foreign capital to their country for purposes of industrial development. At the same time, they have not allowed the profits of industry to go out of the country. While, therefore, we should avail ourselves of foreign capital, whenever necessary, we ought to take care that we do not pay more for it than other nations. There are some enterprises which are necessary for the welfare of the country, but for which enough capital is not available within the country, and in such cases it is desirable to have resort to foreign capital. Railways are an instance of the right use of such capital. "But", says Sir Vithaldas, "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and less favourable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports, after omitting Government transactions. It must be remembered that so much of this amount as represents merely the interest on borrowed capital should not be regarded in the light of a drain from the country. It is in the huge profits of some investments that we find cause for complaint. In such cases, I 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,¹ until the gradual regeneration of the country, which must come about under British rule, enables her own industrialists to raise them and get the profits of the industries. A country which maintains a population of thirty crores is not

¹ Sir V. Thackersey is undoubtedly right on this point, for the mines are not perennial sources of wealth like the soil; once exhausted, the mines will yield no more.

likely to let about one lakh of persons starve, and this is the number of wage-earners benefited by these industries. The price paid is much too great for the advantages accruing from them to the country.”¹

The same view was held by Sir Thomas Holland, at one time Director-General of Geological Survey to the Government of India and subsequently a member of the Executive Council of the Governor-General. Speaking of the successful exploitation of the petroleum fields of Burma, he observed, “The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry, as in so many other enterprises of the kind, India will continue to pay an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes.”²

Sir T.
Holland's
opinion.

In recent years the question has received considerable attention. Arguments which are usually advanced against the inflow of external capital into the country have been summarised by the External Capital Committee as follows :

(a) A certain proportion of the profits will go out of the country.

(b) Investors will always prefer to choose their own directorate, and will naturally be prejudiced in favour of their own nationality. There will be the same prejudice in the selection of the superior staff.

(c) The vested interests created by external capital acquire enormous political influence which is utilised in resisting political progress.

(d) Industries of national importance may be monopolised by foreign capital.

(e) External capital may exploit the natural and irreplaceable resources of the country such as minerals.

The External Capital Committee observe : “As a general principle, the inflow of external capital is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of a country and in increasing its wealth and employ-

¹ Sir Vithaldas Damodar Thackersey's Presidential Address at the Indian Industrial Conference, 1906.

² Paper read by Sir T. Holland at the Indian Industrial Conference, 1905.

ment.”¹ The Indian Fiscal Commission point out the additional advantage which will accrue to the country from the employment of foreign capital. They say: “Moreover, apart from the intrinsic benefits of increased supplies of capital, the foreigner who brings his capital to India supplies India with many things of which at present she stands urgently in need. It is, on the whole, the foreign capitalist who imports into the country the technical knowledge and organisation which are needed to give an impetus to industrial development.”²

Summary. The position may be summed up in the remark that Indians should utilise foreign capital in the development of the country, and pay the necessary price for it; but they should not allow the country to be exploited by foreign capital for its own gain. It may happen in many cases that, although the people of the country may not be able to provide all the capital required for a new industry, they may yet be able to supply a portion of it, and thus prevent some part of the profits of the industry from leaving the country. This is important, for the enrichment of a country depends, in the words of Sir Frederick Nicholson, “upon the profits of the industry remaining in the country.”³ Unrestricted admission of foreign capital can by no means be salutary from the point of view of the interests of the nation. The proposal of the majority of the Indian Fiscal Commission does not go far enough. In their opinion the only exception to the free inflow of foreign capital ought to be where Government grants a concession either in the form of a monopoly or a bounty. But this view is inconsistent. The minority of the Commission point out that “bounties and protective duties are two means of attaining the same end, the fostering of industries in India, and if external capital should be controlled in the one case, it would appear to be equally desirable to control it in the other.” It is essential, therefore, that Indian capital should have full scope for investment in Indian industries, and that foreign capital should only supplement it to accelerate the pace of industrial development. Unless companies are incorporated in India in rupee capital, the opportunity for such investment will hardly arise. Provision must also

Suggest-
tion for
state
interven-
tion.

¹ *Report of the External Capital Committee*, p. 4.

² *Report of the Indian Fiscal Commission*, p. 158.

³ p. 201.

be made for the training of Indian apprentices and the reservation of a proportion of seats for Indians on the directorate of each non-Indian company.

It is difficult to estimate the total amount of foreign capital invested in India. In 1932-33 there were 901 joint-stock companies registered in countries other than India and their paid-up capital was £831 millions, *i.e.* Rs. 1,100 crores. The sterling debt of the Government of India in the same year amounted to £320 millions. The total amount of foreign capital may thus roughly be estimated at £1150 millions (=Rs. 1332 crores).

It must be recognised that steps against the unrestricted use of foreign capital would defeat their purpose unless something is done to mobilise the indigenous capital of India.) One noteworthy feature of the recent industrial history of India is the re-incorporation of many European companies in India with rupee capital for Indian business. A number of foreign firms have been thus registered in India with rupee capital and in most cases with a small proportion of Indians on the directorate. The main purpose behind such moves is the desire to secure those Government concessions and contracts which may be available to the purely Indian concerns.

The business units of India to-day are almost all joint-stock companies, and there are generally three different forms of supervision and management. In some cases the directors concern themselves only with the broad questions, and the entire work of management is left in the hands of a paid manager. In others, one or two directors become managing directors, and in return for some special remuneration they carry on the normal duties of management and supervision. But the third type, known as the managing agency system, is the most characteristic form in India. Under this system, the work of management is left under a contract with a firm of managing agents, generally a private partnership, who are paid an adequate remuneration for the services rendered. There are well established and reputed firms of managing agents in India, each of which is acting as agents of a number of companies, sometimes concerned with different industries.

Organisa-
tion.

The Indian Companies Amendment Act 1936 has introduced

important changes in regard to the organisation and management of joint-stock companies in the country.¹

Industrial
labour.

The problem of industrial labour has assumed a great importance in recent years, and the report of the Whitley Commission has added more significance to many aspects of the labour problem. During the post-war years a large number of laws has been passed affecting various sides of the labour problem, and all these laws have been amended during the last four or five years with the object of ameliorating the conditions of factory labourers.²

Industrial
educa-
tion—
In foreign
countries.

As economic efficiency is greatly enhanced by education, the subject deserves the earnest attention of all interested in the economic welfare of the people. Industrial education is undertaken in every civilised country either by the state or under state guidance and control. In the United States every single state has a college where technical education is imparted, which is absolutely free. Germany, France, and England spend large sums annually for this purpose, and Japan is not behind-hand in the matter. But in India the matter has been sadly neglected, and technical education has not yet been undertaken on anything like an adequate scale either by the state or by individual effort.

In the
states of
India.

The question is now beginning to engage the attention of the Government, who are collecting information from various sources in order to do something in the matter. Some of the Indian states—the chief among them being the enlightened state of Baroda—have also realised the necessity of imparting a sound system of instruction in the arts and industries, and have been making earnest efforts to remove the long-felt want.

In British
India.

In 1890 an industrial survey was made in Bengal, and in the report the necessity of technical education was clearly pointed out. The Government instructed some of the district boards and municipalities to start technical schools on a small scale. In Bombay the Victoria Jubilee Institute was started with assistance from the Government. This institution has since then been doing good work in training mechanics for employment in the mills. Technical schools have been started at a few centres in some of

¹ The managing agency system has been discussed in greater detail in the last chapter.

² The subject will be discussed more fully later on.

the other provinces, but none of them have yet attained to any considerable magnitude. Engineering Colleges have also been established in many of the provinces for imparting instruction which is indirectly useful for industrial purposes.

Independent efforts are also being made in this matter in almost every province. The institutions most worthy of notice are the Association for the Advancement of Scientific and Industrial Education and the Bengal Technical Institute. The former was started in 1904, and since then has been sending out every year young men to foreign countries for industrial training. Many of the students who have returned after a successful career abroad have either started factories on their own account or found employment in existing mills and workshops. The Bengal Technical Institute (now known as the Bengal Engineering College) was started in 1906. It has arrangements for teaching some of the more important branches of technical instruction, such as mechanical and electrical engineering, technological chemistry, sheet-metalling, economic geology, etc. The Indian Association for the Cultivation of Science imparts instruction in practical chemistry and other similar subjects. The Indian Institute of Science—which owes its foundation to the munificence of the late Mr. J. N. Tata,—though not in itself a technical college, is sure to prove very useful for the higher study of technical subjects. The Calcutta University has established a Department of Applied Science. A Technological Institute has been started at Cawnpore. The various railway workshops offer facilities for the training of apprentices. The Nari Siksha Samiti of Calcutta and similar institutions at other centres have set themselves to a very important side of technical education, namely, the training of women in the domestic arts and industries. Much good work is also being done by missionary societies in different parts of the country, but the standard they have kept in view is very low.

Independent institutions.

Industrial exhibitions, held from time to time in different parts of the country, besides serving as an advertisement to consumers, produce an educative effect on the minds of producers. They tend to improve the production of goods by helping to expand the craftsmen's ideas. Thus both supply and demand sides derive advantages from such exhibitions.

Industrial exhibitions.

Partial
failure of
technical
education.

Our brief review discloses the fact that a great deal still remains to be done in the matter of technical instruction. Unfortunately, the little that has been done has not been attended with complete success. This partial failure has been due to several causes. One reason is that technical instruction did not, in the beginning, attract intelligent and earnest young men. Only those who were likely to be hopeless failures in other walks of life sought industrial education, and it is no wonder that they profited little by it. It is, however, a hopeful sign of the times that in recent years a greater attraction for it has become discernible among the better classes of young men in the country. The second reason is to be found in the fact that, owing to the lack of proper facilities for practical training, both in India and abroad, greater attention has been devoted to theory than to practical work. It is now being realised, however, that a thorough practical training is indispensable for success in industrial undertakings, and attempts are being made to remove the impediments which prevent students from obtaining it in workshops and factories.¹

Technical
education
and
castes.

The modern system of technical education is different from the indigenous system. Under the old system every young man used to go through his period of apprenticeship in the profession of his father, and, on his attaining manhood, became a member of his caste-guild. He could not leave the profession proper to his caste and adopt some other. The new system does not recognise distinctions of caste, but admits young men of all classes and creeds. The system of training under caste-guilds has had its day of success; but under the changed conditions of the modern age it must give place to a more systematic and scientific method of instruction.

Commer-
cial edu-
cation.

Another need of the hour is for a proper system of commercial education. Modern business is a very complex affair, and no one can hope to achieve success in it unless he has thoroughly mastered its principles. The would-be captain of industry should, besides acquiring a general knowledge of economic science, make

¹ Complaints are often heard to the effect that Indian students encounter greater difficulties in getting admission into workshops and factories in England than in Germany, America, or Japan. It is not too much to hope, however, that the narrow-minded selfishness of factory-proprietors will gradually give place to a more enlightened sense of self-interest. It is satisfactory to note that the matter is now beginning to engage the attention of the India Office.

a serious study of the special problems which arise in this country in regard to the production and exchange of commodities. And a well-conceived method of instruction is needed to give them a sound knowledge of subjects like commercial law and history, banking methods, import and export problems, foreign exchange, transport and freight, company management, and the conditions of the markets in different countries. Commercial education is also necessary for those who intend to occupy the comparatively inferior positions in the business line. In recent years the matter has attracted the attention of some of the universities, and instruction in commercial subjects has begun to be imparted at Calcutta, Bombay, Lucknow, and Allahabad.

CHAPTER VIII

DISTRIBUTION

1. RENT

Factors
which de-
termine
rent :
custom,
competi-
tion, legis-
lation.

RENT in India depends on the interaction of three forces—custom, competition, and legislation.¹ In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different provinces, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The rent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large extent, the foundation of Indian rents. The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree ; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application to those countries. In India, they are conspicuous by their absence ; and, consequently, the theory can hardly be said to hold good in India. Here rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation, but is a more or less definite charge. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only

¹ Vide *The Imperial Gazetteer of India*, vol. iii.

one of several factors. Rent is often an element in the cost of agricultural produce.

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak, competition has its way, unless it is checked by law. In sparsely populated tracts, such as Assam, Central Provinces, and Rajputana, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the landowner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant, and tenants were fewer. Rents were, therefore, comparatively low. The population has since considerably increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places, and, consequently, rents have gone up. In the larger cities, rents have risen very high.

The relative influences of the factors.

Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally they rise considerably after prices. In some cases, however, a rise in prices does not entail an increase of rents at all.

Connection between rents and prices.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—perhaps not at all. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Cash rents and rents in kind.

The systems of tenure under which land is held are various.

Systems of tenure :	Roughly speaking, the tenants or holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases, they are entitled to hold at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord. ¹
Per- manent,	
Tem- porary.	
Condition of peasants of the two classes.	Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors. ² Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. "The magic of property," of which Arthur Young speaks so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally wretched. The economic and moral value of the system of peasant-proprietorship is immense, and there can be no surer means of improving the conditions of the Indian cultivator than to confer on him at least limited rights of proprietorship. ³
"The magic of property."	
Rent of mining lands.	So much about the rent of land used for purposes of cultivation and building. The rents of mining lands stand on an entirely different footing. ⁴

¹ Questions relating to land revenue, rent, and tenancy will be discussed in the last chapter.

² Cf. J. S. Mill : "The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms" (vide *Principles of Political Economy*).

³ In England, a system of peasant-proprietorship is being encouraged at the present moment under the provisions of the Small Holdings Act.

⁴ Vide Sir T. Holland, *Sketch of the Mineral Resources of India*.

In practically all the Feudatory States, the mineral rights belong to the respective rulers, and concessions are granted for mining and prospecting under rules that involve a certain amount of supervision by the Government of India. In parts of British India the minerals have been ceded with the surface rights by terms of settlement; but in the rest of India the Government retain rights over the minerals and grant concessions for their exploitation in accordance with the terms of rules framed by the Government.

By these rules, *exploring licences* for one year can be obtained, but they give no exclusive or perpetual rights, and there is no prohibition anywhere against free exploration in unoccupied and unreserved land. *Prospecting licences* are granted, under certain conditions, over restricted areas for a period of one year, renewable for a second and a third term. Such licences carry an indefeasible claim for a subsequent *mining* lease for any mineral other than precious stones over the same or a more restricted area.

Exploring
licences.

Prospect-
ing
licences.

Provincial Governments have the power to grant *mining leases* for periods of thirty years, which may be renewed for further periods with the sanction of the Imperial Government. Every such lease contains such conditions and stipulations as the Local Government may think necessary in each case.

Mining
leases.

Under the rules, the *prospecting rent* charged is a moderate rent not exceeding one rupee per acre. Every lessee has to pay a surface rent, the rate being assessable under the Revenue or Rent Law of the Province; or, if no such rent is so assessable, the rate which may be fixed by agreement, subject to a maximum of one rupee per acre. In addition to this, he has to pay a *royalty* at certain specified rates. The lessee has also to pay every year after the first year a fixed yearly *dead rent*, but no lessee has to pay both royalty and dead rent in respect of the same lease, but only such one of them as may be of the greater amount.

The question of the ownership of land is one of the many disputed questions of Indian Economics. In Europe and America, nationalisation of land is the favourite ideal not only of Socialists but also of many scientific economists. The influence of this ideal has made itself felt in India, where there is a tendency among the officials to regard the Government as the universal

Owner-
ship of
land.

Taxation
Enquiry
Commit-
tee's
views.

landlord,—the ultimate proprietor of all lands,—and to consider the revenue taken from the people by the state as in the nature of rent. Some would go farther and draw the legitimate conclusion from such a theory that the Government would be justified in demanding as its revenue the whole of the economic rent. An attempt is often made to prove historically the correctness of this view.¹ Without entering upon the discussion of the technicalities of this question, we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the landlord or zemindar, and the Government. The Taxation Enquiry Committee (1924–25) were unanimously of opinion that “under both Hindu and Mahomedan rule, the state never claimed the absolute or exclusive ownership of the land and definitely recognised the existence of private property in it.” The Committee also were of the view that, “in the case of lands under permanent settlement, the Government have now no proprietary right.” With regard to *ryotwari* and other temporarily settled areas, the Committee were agreed in the view that in the generality of cases the zemindars and ryots were respectively the possessors of the proprietary rights, subject to the payment of land revenue. Besides, the Government itself is the direct owner of large plots of land, such as waste land, land which has been forfeited or lapsed to or purchased by the Government, and all public land. With regard to these, the state stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

2. WAGES

Wages in
ancient
village
com-
munities,
in modern
times.

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to a large extent; the amount of influence, however, varies according to the nature of the industry and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively inelastic.

¹ See Part II of the book; also P. N. Banerjee, *A History of Indian Taxation*, chap. vii.

They are not even half as responsive to changes of circumstances as in Europe and America. Wages do, no doubt, fluctuate on either side of the customary rates, but such fluctuations are always confined within narrow limits.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense.¹ But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, as for instance in the cities, the scale of wages is high. So also, wherever a demand of labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. On the other hand, in the sparsest parts of the country, wages are exceedingly low, because there is no demand for labour. In general, however, it may be said that, with the development of means of transportation, a broad labour market is gradually evolving itself. Labour is not so immobile now as it once was. Industrial labour is often recruited from distant parts of the country. The tea gardens of Assam and the jute industry of Bengal depend upon neighbouring provinces for their labour supply.

Influence
of com-
petition.

Wage-earners in different employments are classified as skilled and unskilled labourers. In the manufacturing industries, labourers earn wages mainly as unskilled workmen, skilled labour being largely supplied by foreigners. In such cases, the remuneration of labour represents a very small proportion of the total produce. This is the injustice of the capitalistic system of production against which labourers are fighting in every country.

Skilled
and
unskilled
labour.

The wages statistics are incomplete, and admittedly faulty. By far the most important class of labour is agricultural, but the record obtained entirely fails to give a reliable indication of the remuneration of labourers. Wages differ not only in different

Average
wage.

¹ Many economists regard the current doctrine of wages as being founded on a misconception. "In truth," says Mr. Henry George, "wages are produced by the labour for which they are paid, and should, other things being equal, increase with the number of labourers." According to Dr. Walker, wages represent the residual share in distribution.

employments but also in the same employment according to differences of locality and circumstances. The regularity of employment also varies greatly, and employment is practically nowhere continuous throughout the year. An average wage, therefore, for India generally has little meaning; but, for purposes of comparison with other countries, it may be calculated at 6 as. per diem for the able-bodied unskilled labourer. The average wage of the child-labourer or woman-labourer is, of course, less.

Kinds of wages.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases, wages are regulated by special contract; in some others, a certain minimum is agreed upon, and, if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.¹

System of payment.

The system of payment was formerly in kind; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are still remunerated, wholly or partly, by a percentage of the crop-yield. There is a tendency, however, everywhere for money wages to be substituted for wages in kind.

Rise in wages, real and nominal.

Since the last quarter of the nineteenth century, in response to rise in prices, money wages have substantially advanced. Wages, however, did not always keep pace with the rise in prices. Before the war, during a period of forty years, the wages census showed that in Bengal and the Punjab the wages of agricultural labourers rose by 29 per cent. and 49 per cent., and those of artisans by 48 per cent. and 50 per cent. respectively. But the rise in the prices of food-grains was much higher proportionally. In 1914 the index-numbers of the prices of rice and wheat showed increases of 154 per cent. and 100 per cent. as contrasted with 1873.

During the post-war period there was a marked advance in the wages of all kinds of labourers in India. Comparable and

¹ These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

comprehensive statistics with regard to wages have not been collected by any reliable agency, except by the Bombay Labour Office. In the Presidency of Bombay, the daily average wages of field labourers rose from 4 as. 9 pies in 1913 to 9 annas in 1922, and in the case of unskilled urban labour the rate increased from 6 as. 3 pies to 9 annas in the same year. In the same Presidency the rate of wages of skilled labour rose from 13 as. 9 pies in 1913 to Rs. 1 10 as. 9 pies in 1922.¹ This rise in wages was the result of high prices, which caused great hardships to all classes of labour, and the effects of which on industrial labour were so acute that in many places frequent strikes and lock-outs disorganised industries. The employers were in many cases obliged to concede the demands of labour, with the result that the wages were nearly doubled.² More recently, however, there has been a tendency in the direction of a reduction in the cost of living, and a rise in real wages has consequently resulted.

The present level of prices is 102 (1936) as compared with 100 of 1914 and 173 of 1921, and this shows that the cost of living has fallen, but there has been no substantial reduction in wages. There is evidence to show that in certain industries and in certain parts of the country a substantial margin now exists between the effective wages and the present cost of living.

The question which suggests itself here is—Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same

Con-
nec-
tion
between
prices and
wages.

¹ The average monthly earnings of workers in 19 selected cotton mills of Bombay, according to the results of an investigation by the Bombay Labour Office in 1926, were Rs. 37 10 as. 2 pies for men, and Rs. 17 12 as. 4 pies for women.

The Royal Commission on Labour in India (1931) in an analysis of wages in engineering and metal industries observes: "Taking five typical occupations—masons, carpenters, blacksmiths, fitters, and turners—the earnings are highest in Bombay City and Ahmedabad. Masons there may earn from Rs. 50 to Rs. 70 a month, carpenters and blacksmiths from Rs. 60 to Rs. 75, and fitters and turners between Rs. 65 and Rs. 80. . . . [wages] are lowest in Madras, Bengal, Bihar, and Orissa, and the United Provinces, where the average monthly earnings of masons are in the neighbourhood of Rs. 30, of carpenters about Rs. 35, and of blacksmiths, fitters, and turners about Rs. 40. Midway between the two extremes come the Central Provinces, Burma, the Punjab, and Delhi in the order named."

² *Report on an Enquiry into the Wages and Hours of Labour in the Cotton Mill Industry*, p. 11.

result. The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

3. INTEREST

Capital
mostly
raised in
Europe,
and
borrowed
from
banks.
Rate of
interest.

The capital of most of the large industries is raised in Europe, and the interest on such capital, together with the profits, has to be paid abroad. The subscribed capital of a firm is never sufficient for the carrying on of the business, and every firm has, therefore, to borrow money on occasions. This they get from the Imperial and other banks.

The rate of interest, although it is theoretically the same for all at any given time and place, depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also differ in different parts of the country. The rates of interest in the interior of the country are considerably higher than the Reserve Bank rate.¹ Even within the limits of the Presidency towns the rates are not uniform, those charged by the smaller indigenous money-lending concerns being higher than the rates of the Exchange Banks. This rate varies from day to day according to the demand for money ; but it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. As a rule, the bank rate is the lowest in July and August. In September and October it begins to rise slowly, and the upward movement is continued till in February and March the rate reaches the maximum. In April it shows a downward tendency, and continues to fall till it again reaches the minimum. The average rate of

¹ A further discussion will be found in Part II.

interest is usually a little higher than in England and other countries of Europe ; but it is not so much the average effective rate for the whole year as the maximum rate in each year that is high.¹ On their Deposit side the Banks keep the moneys, on which they pay interest, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The rate of interest of recent loans floated by the Central Government and the Provincial Governments has been 3 per cent. or near about this figure.

Agricultural capital is supplied mostly by the village money-lender.² The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, on which he has to pay high—sometimes exorbitant—rates of interest. The practice of borrowing money is almost universal. It is frequently a part of the bargain that the produce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes he becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

The money-lender.

A high officer of the Government once wrote : “ A great number of the agricultural community appear to have a kind of running account with the mahajan ; he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for the equally inevitable lawsuit. When the tenant falls on evil days he would advance him rent to save him from ejection. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief ; and the consequence is that a large proportion of the cultivating community is seldom free from the mahajan’s influence. When the crops are reaped the greater portion finds its way to his granary ; the tenant

The money-lender and the creditor. Usual arrangements.

¹ J. M. Keynes, *Indian Currency and Finance*.

² “ The term includes professional money-lenders like Banias or other classes who set up regular shops for doing this business, landlords, prosperous agriculturists, and traders ; there are also pawnbrokers, the roving Pathans and others who traffic in money-lending.” (*Statutory Report of the Reserve Bank of India*, 1937.)

Communi-
ty of
interest.

retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the mahajan. The system is not without its advantages in hard times ; it is to the interest of the creditor as well as the debtor that the latter should live ; there is a community of interest which secures him from starvation."

Sir F.
Nichol-
son's view.

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir Frederick Nicholson wrote many years ago : " On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial."

The
money-
lender a
dangerous
necessity.

Need of
facile
credit,

Credit is almost an inevitable condition of small farming. The farmer needs credit for the purchase of land ; for permanent improvements, such as the digging of wells ; for equipment, including implements and cattle ; and as working capital for buying manures, seeds, and fodder, and for paying the labourers.

its danger.

Fifty years ago, M. G. Ranade advocated the establishment of credit institutions all over India, so that agriculturists might get loans at low rates of interest. Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon, for there is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing, and often for purposes other than those which help to increase the volume of production.

Measures
for check-
ing
peasant's
indebted-
ness.

Various measures have been adopted or proposed, from time to time, to check the indebtedness of the cultivator and thus to improve his condition. Enactments have been made with the object of restricting the transfer by sale or mortgage of agricultural land to non-agriculturists, the best known being the Punjab Land Alienation Act. The Land Improvement Loans

Act of 1883 and the Agriculturists Loans Act of 1884 were also passed to facilitate the supply of loans respectively for permanent improvements and short-term needs of agriculture, *e.g.*, purchase of seeds and cattle. But as the Royal Commission on Agriculture in India observes : "Legislative measures designed to deal with the problem of indebtedness have proved a comparative failure." The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Raiffeisen and Schulze-Delitzsch, on which the Indian Co-operative Credit Societies are modelled, fulfil both these conditions. The principles of action of these associations are those of self-help, co-operation, solidarity, prudence, thrift, and public spirit. The Agriculture Commission also unhesitatingly record their belief that "the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well organised co-operative movement based upon the careful education and systematic training of the villagers themselves."

Legisla-
tive
measures.

Co-opera-
tive
Credit
Societies.

Positive measures to check usury by legislation have also been found necessary. The subject engaged the attention of the Government of India some time ago, who invited the opinion of the Provincial Governments and public bodies on the three suggested remedies, namely, (a) the fixing of a legal maximum rate of interest recoverable ; (b) the determination of a legal maximum amount of interest recoverable, commonly known as *damdupat* ; and (c) the bestowal of authority on the courts to go behind a contract, reopen a transaction, and reduce the rate of interest to what might be thought equitable. The first remedy seemed to most people to be the most suitable, but the opinion of the Government inclined towards the third.¹ They passed the

Check for
usury.

¹ In regard to the comparative merits and defects of the three suggested remedies, the Government of India said in their circular letter : "The first of these solutions has the authority of various foreign precedents and of certain special local laws in this country, but the Government of India are willing to accept the adverse opinion of the Select Committee of the Houses of Parliament on money-lending which reported in 1898. . . . The rule of *damdupat* has the

Usurious Loans Act in 1918. This Act, as amended in 1926, provides that, in proceedings for the recovery of a loan, the court, if satisfied that the interest claimed is excessive and that the transaction is substantially unfair, may reopen the contract and grant an equitable decree. The action under the law is not obligatory, but discretionary. But this provision is being evaded, as it is not applicable to a loan transaction under a mortgage deed. The money-lenders now insist on mortgages so that the court may not interfere with the rate of interest. Measures designed to give relief to agricultural debtors have been enacted in several provinces and are in contemplation in some others.¹ It is to be observed, however, that mere legislation will not solve the problem of agricultural indebtedness. Steps must be taken to educate the cultivator and to deprive the money-lenders of their monopolistic position by establishing land-mortgage banks and co-operative credit societies.

Co-operative
Grain Banks.

In Bengal, a number of public-spirited gentlemen established Co-operative Grain Banks (*Dharmagolas*) in several villages, many years ago. The cultivators deposited portions of their produce in these banks, which in times of need they were allowed to withdraw. Needy members were also given loans of grains from these deposits. The chief merits of the system are its simplicity and its accord with the social sentiments of the people. A

advantage of being already in force in parts of the country—between Hindus in the town of Calcutta, in Berar and Bombay, and in certain Native States, and it has the authority of the early law-givers. . . . At best, however, the rule is a rough and ready remedy. . . . In the case of *Ram Conoy Audicary vs. Johur Lal Dutt*, Mr. Justice Wilson speaks of *damdapat* as a rule of limitation which only affects the accumulation of interest. . . . This rule also indirectly controls the rate of interest. The third remedy is that embodied in the English Moneylenders' Act of 1900 (for extortionate or unconscionable rates). . . . The Government are disposed to think that legislation on the lines of the English Act offers the best chances of success. The stock arguments against it are: (i) it would interfere with private contract; (ii) it would increase litigation; (iii) it would leave too much to the judge; (iv) it would harass and confuse the ordinary operations of trade; (v) it would tend to raise the interest paid by those who do not resort to the courts; (vi) it would be ineffective. . . . Finally, the Governor-General in Council would only remark that while he fully recognises the benefits which have accrued from the extension of co-operative credit, and the potentialities for good inherent therein, he does not consider that the progress made in this direction affords in itself an adequate remedy of the state of affairs which it is desired to alter."

¹ For a further discussion see Part II.

third advantage is that the value of grain increases in times of scarcity. But its defect is that the grain cannot be invested in any profitable undertaking so as to yield interest and profit. Moreover, there is the risk of loss through deterioration or waste.

Sir Daniel Hamilton suggested that the cultivators or the zemindars might provide the grain capital necessary to set the *dharmagola* a-going. The grain would be lent out at a grain rate of interest, the profit with the original grain being dumped into the *gola* for the benefit of the village. "The Dharmagola," said Sir Daniel, "might in time be developed into a village grain store in which the villager could deposit his crop and draw advances thereon at a reasonable rate of interest, instead of, as he now does, throwing his entire crop in a lump on the market or into the hands of the friendly Bunia, and getting the low price which must result from the whole of the crop being dumped on the market at one time." Most of the Grain Banks have now ceased to exist.

4. PROFITS ¹

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-making business, agriculture is not so profitable as manufactures. Again, as we have already noticed, agriculture has to depend on several uncertain factors, such as drought or excessive rain, and the profits are consequently more uncertain than in manufactures. Manufactures involve various stages in production, and the profits are thus obtained by a larger number of persons.

Profits of manufacture compared with those of agriculture.

Full details regarding the profits of the different industries of India are not available ; but the reports published by the larger business firms give us some idea of the general rates of profits. These may be said to range from 8 to 15 per cent. Sometimes, the profits of certain industries go up as high as 30 or 40 per cent., and in exceptional times like wars they rise even higher.² Profits

Statistics.

¹ Some points relating to this subject have been treated in Part II.

² Out of 51 jute mills 32 paid dividends over 100 per cent. in one or more years following the war.

have generally been high in certain industries, *e.g.* mining, jute, etc.¹ Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low.

Profits of
the mid-
dleman.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who often make substantial profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus produce of corn from the cultivators and send it to other parts of the country.

The produce of agriculture or manufactures is distributed among those who own or control the different factors of production. It is not necessary, however, that the shares should go to different persons. Sometimes, all the factors are controlled by the same person, and in such cases all the shares would go to him. India is a country mainly of small industries which are carried on by workers on their own account. They supply the labour as well as the small capital required, and they are themselves the organisers. In a considerable number of cases, therefore, the whole of the produce goes to the same persons and the question of distribution does not arise at all. In the institution of peasant proprietorship also there is hardly any distribution among different parties. Therefore, it is often held that the economic problems of India are mainly those of production rather than of distribution. But it can hardly be denied that, with the growth of large-scale industries, the

¹ The following statement, showing the profits of companies for which statistics were available for 1936 and comparing them with the profits of the same companies in 1935, is contained in the *Review of the Trade of India in 1936-37* :

(In Rs. 000)

	1935	1936
Coal - - - -	48,91	46,65
Cotton - - - -	80,12	82,39
Jute - - - -	2,79,71	1,82,47
Tea - - - -	28,78	34,90
Cement - - - -	6,81	7,08
Sugar - - - -	24,96	34,49

problems of distribution are gradually assuming greater importance.¹

¹ The effects of the misdirection and waste of capital and labour due to the inequitable distribution of wealth in the West were thus generalised some years ago by Sir L. Chiozza Money : " The unduly large share of the national dividend possessed by the rich produces in them grave faults of character and purpose which make them indifferent administrators of the capital without which labour is powerless. The unduly small share of the national dividend possessed by the poor is the source of a stream of moral and physical evils which, mingling with the waters of death which descend from the high levels of luxury, produce effects whose causation is only obscure as long as we neglect the study of the Error of Distribution." (*Riches and Poverty*, p. 152.)

CHAPTER IX

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in
ancient
times :

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was once "the seat of commerce."

by sea,

Even in pre-Vedic times India had commercial relations with the Accadian-Semitic Empire of Persia, and it is well known that Indian produce was exported to the Kingdom of Solomon in the tenth century B.C. The range of commerce was gradually widened, and as early as the sixth or seventh century B.C., India had commercial relations with Egypt, Phoenicia, Arabia, Syria, Persia, China, Greece, and Italy. The Hindus built ships and navigated the ocean as early as the time of Alexander's invasion. Later, they held in their hands all the threads of international commerce in the East, whether overland or by sea.¹ The unknown author of that remarkable book, the *Periplus of the Erythræan Sea*, describes this commerce in detail,² and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea, the Persian Gulf, and the Indian Ocean, and his testimony is corroborated by that of other ancient historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were : Barygaza (modern Broach), Saurashtra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were other commercial towns, some of which also attained to great eminence. The value of this maritime commerce must

¹ There are several references to sea-voyages in the *Rig-Veda*, while the *Baudhayana Dharma-Sutra* mentions maritime navigation and taxes levied on maritime trade.

² Vide *Periplus of the Erythræan Sea*, and other works by Greek writers, translated by J. W. McCrindle. The term Erythræan Sea was applied to the Indian Ocean with its bays and gulfs.

have been very considerable.¹ The dimensions of the export trade with Rome were such that there was a steady drain of specie and coins from that Imperial city. The chief articles of export were rich apparels made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics; and those of import were gold, silver, brass, copper, and tin. India's trade activity towards the east led to the foundation of colonies in Cambodia, Siam, Java, Sumatra, and the Malay Archipelago, which in course of time became prosperous countries. A brisk coastal trade was also maintained between the various seaport towns.

Trade by land with Central Asia, China, and other parts of Asia, as well as with some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by merchants.² Besides, an active internal trade was carried on between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

Commercial activities were continued in full vigour till the ninth or tenth century, A.D. During the Pathan ascendancy, however, maritime commerce was gradually abandoned; but trade intercourse by land was continued. Later on, Akbar encouraged the building of boats and ships, and, for a time, both coastal and maritime trade received an impetus. The exports of the country were much larger in volume than its imports. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and Europe, so much easier, cheaper, and safer than any that had previously been used, as to change completely the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was once again revived, this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the French, and the English companies competed with one another

by land.

In medi-
æval
times.

¹ Strabo says: "I found that about 120 ships sail from Myos Hormos to India."

² Trade routes are classified by Chanakya under four heads, namely, those going north, south, east, and west, respectively. The northern and southern routes were regarded as very important. The Indian caravans on the western routes were met at border stations by caravans bound for Persia, Tyre, and Egypt.

In
modern
times.

for the largest share in the commerce with India. Ultimately, the English East India Company was able practically to oust the other companies from Indian waters. The invention of steamships led to a further increase of maritime commerce. And lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

The foreign trade of India has now vastly increased, but Indians have a comparatively small share in it. The bulk of the internal trade still remains in the hands of Indians, but even in this they do not display the amount of enterprise, foresight, and resourcefulness which is essential for success in business.

2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Indigen-
ous
system
of internal
trade.
The
village
trader.

Fairs and
religious
festivals.

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.¹

Two kinds
of internal
trade.

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agents in the towns and thence dispatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributed by the same machinery working in the opposite direction. Internal trade may be divided into two kinds : (a) traffic with the ports, and (b) commerce between different parts of the country. The former is largely concerned with the collection of agricultural products for export, and with the dis-

¹ Vast concourses of people gather at the *Kumbha Melas* which are held at Allahabad, Hardwar, and other places. The car-festival at Puri and the fairs at Harihar Chattra are attended by people from the most distant parts of the country. These fairs serve not only the purpose of marts but also of industrial exhibitions.

tribution of imported merchandise, and the latter with supplying the surplus produce of one part to other parts of the country. Trade passes through the hands of a considerable number of middlemen and is consequently hampered to no small extent.

Towns spring up where trade activity increases, and historical cities often lose their importance as soon as they cease to be trade centres. Employment in trade often gives rise to trading castes or classes. These have now lost much of the importance which they once possessed, but they still possess a considerable degree of organisation, and retain a good part of the trade of the country in their hands. The Marwaris of Rajputana are found in almost every part of the country. In Madras the Chettis form the most important trading community. In the Bombay Presidency the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India. Among the Mahomedans the most notable commercial classes are the Borahs and Khojahs of Bombay and Gujarat.

Growth
and decay
of towns.
Trading
castes.

3. TRANSPORT

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels, and asses or carts drawn by these animals, were the only means of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still largely utilised for carrying goods to the towns, ports or railway stations.

The old
system.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as the Mahomedan rule, roads and canals were constructed,¹ which connected the outlying districts with the capital. Major Briggs, speaking of these roads, remarks that for bold engineering skill and wonderful contempt of difficulties, they "deserve to rank with the works of the old Romans." Their

Means of
communi-
cation in
early
times.

¹ The Jumna Canal, constructed by the Mahomedan Emperors, must be considered as a great achievement for those days.

number, however, was few and condition not always satisfactory. The great rivers did, no doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up intercourse between the different parts of the country throughout the year.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy.¹ In the later years of the Company, however, matters began to improve, and, after the Mutiny of 1857 and the assumption of the government of India by the Crown, the construction of public works went on with increasing speed.

Railways. Railways now connect the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport. Nearly 43,000 miles of railway are now open, and the total mileage of metalled and unmetalled roads maintained by public authority is about 268,000.

Roads. The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another. The recent development of motor transport has given an impetus to the construction and improvement of roads. This has created a problem for the railways in many cases, as short-distance traffic is often being diverted from the railways to the roads.

Steamship communication. Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Aviation. Civil aviation is making rapid progress in India since the opening of the tri-weekly air transport service between England and India with an *airship* base at Karachi.

Communication of intelligence. Lastly, the post office, the telegraph, the telephone, and the wireless afford great facilities for the communication of intelligence, so that the slightest alteration in trade conditions

¹ Vide *Imperial Gazetteer*, vol. iii.

in any part of the world has its repercussions throughout the country.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade with any degree of accuracy. Internal trade.

The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports ; the balance is the trade within the British Provinces and the Indian States. The traffic flowing from the port towns to the interior of the country consists principally of foreign merchandise imported by sea, and that flowing to the port towns from the country comprises chiefly food articles and raw materials.¹ Among the provinces, Bengal's position in the inland trade is high on account of jute, rice and other food-grains, oil-seeds, coal, and tea produced in the province. Bihar (including Chota Nagpur) is important for its production of coal. Tea is the staple product of Assam. Cotton, wheat, and seeds in the Bombay Presidency and Sind, cotton and ground-nuts in the Madras Presidency, and spring and winter crops (*e.g.*, wheat, gram, linseed, rapeseed, etc.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to the various seaports. The United Provinces, well served by railways, conduct a larger business in purely inland trade than any other province of India.²

The inland trade of the country is much larger in volume and value than its sea-borne trade. But the foreign commerce of India is also very important. Foreign commerce.

Of late years, along with the trade of other countries, the foreign trade of India has passed through a phase of acute depression. Thus, while the average value of the total foreign trade of India during the five years preceding the great war of 1914-18 was Rs. 431 crores, and the average value during the five years following Sea-borne trade.

¹ "In the inland trade Calcutta holds the premier position as a trading centre amongst the port towns, its trade being much larger than the total trade of all other port towns taken together."

² *Review of the Trade of India.*

the war was Rs. 639 crores, the value during 1936-37 of the total sea-borne trade was only Rs. 376 crores. The latest trade returns therefore can give no idea of the normal trade position. Further, the different commodities entering into the lists of imports and exports have been differently affected, though their relative positions have not been very much altered. Lastly, the relative positions of different countries as purchasers of Indian exports or as suppliers of imports to India have also been affected both by general economic factors and by the fiscal policies and other measures adopted by them to cope with the depression. In the case of India, the foreign trade began to decline by the middle of 1929, reaching the lowest point in 1933-34, in which year the total value of foreign trade was only Rs. 336 crores. Keeping these facts in mind, it is instructive to study the latest trade returns available.

Imports.

The total value of imports in the year 1936-37 was Rs. 143 crores, as compared with Rs. 300 crores in 1928-29, and Rs. 119 crores in 1933-34.¹ Of this, the value of merchandise was a little over Rs. 128 crores, and that of treasure somewhat more than Rs. 15 crores.

Manu- factured articles.

The largest class of imports was that of articles wholly or mainly manufactured. It amounted to Rs. 92 crores in value, and formed about 72 per cent. of the total imports of merchandise. Cotton goods, the chief item in this class, were imported to the extent of Rs. 17 crores 88 lakhs, the chief sources of supply being the United Kingdom and Japan, which sent Rs. 8.8 crores and Rs. 7.6 crores worth of cotton goods respectively. The imports were lower than in the previous year, partly owing to an increase in the production of cotton goods in India. Machinery and mill-work, (consisting principally of textile, electrical and sugar machinery and prime-movers, came next to cotton goods,) and the value of these imports was about Rs. 15 crores, of which more than Rs. 9 crores was the value of the imports from the United Kingdom. Imports from Germany have displaced British imports in this field to a certain extent in recent years. The third place was held by metals and metal manufactures, amounting to about Rs. 10 crores, of which iron and steel goods accounted

¹ Although Burma has been separated from India, for the purposes of this edition of the book it has in most places been regarded as part of the country.

for Rs. 6 crores. Of the iron and steel manufactures imported, 45 per cent. came from the United Kingdom, and 23 per cent. from Belgium. The value of the imports of vehicles, including motor cars, was Rs. $6\frac{1}{2}$ crores, the United States of America and the United Kingdom being the chief sources of supply. The imports of instruments, valued at Rs. 5 crores, came principally from the United Kingdom. There was a notable expansion in the imports of artificial silk, the value of which reached Rs. 3 crores 86 lakhs in 1936-37. These imports came mostly from Japan. Other manufactured articles imported were dyes, hardware, paper, chemicals, etc.

The second important class of imports consisted of raw materials and articles mainly unmanufactured, having an aggregate value of Rs. 19 crores in 1936-37. Oils, including mineral, animal, vegetable, and essential oils, took the first place in this group, and the fourth place in the general list of imports. These oils were imported to the extent of Rs. $7\frac{1}{4}$ crores, of which Rs. 6 crores was the value of mineral oils imported. Iran and Soviet Russia were the most important sources of supply of mineral oils. Next came the imports of cotton, raw and waste, which amounted to Rs. $6\frac{3}{4}$ crores.

Raw
materials.

Articles of food and drink, amounting to Rs. 11 crores 15 lakhs, constituted the third group of imports. Biscuits, cakes, canned and bottled provisions were the most important of such articles, and they were imported mostly from the United Kingdom. The imports of sugar were only Rs. 24 lakhs in value, though it was the most important item in this group up to the year 1931-32.

Food and
drink.

The two remaining groups of imports, namely, living animals, and unclassified and miscellaneous articles, together amounted to Rs. 2 crores 26 lakhs in 1936-37.

Miscel-
laneous.

As regards exports from India, their total value, including treasure, amounted to Rs. 232 crores 69 lakhs in 1936-37, as compared with Rs. 345 crores in 1928-29, and Rs. 206 crores in 1932-33, in which year the value of exports reached its lowest point. The value of Indian produce was Rs. 196 crores in 1936-37, the re-exports of foreign merchandise amounted to Rs. 6 crores 24 lakhs, and exports of treasure, consisting mostly of gold, amounted to Rs. 30 crores 20 lakhs. Raw materials and articles mainly unmanufactured formed the largest class of exports, having a

Exports.

value of nearly Rs. 103 crores. Exports of manufactured articles, valued at Rs. 50 crores, formed the second largest class, while articles of food and drink, with a total value of Rs. 40 crores, came third in the list of exports. The two remaining groups, namely, living animals and unclassified and miscellaneous articles together accounted for Rs. 3 crores 5 lakhs.

Cotton.

Among individual articles of export, the most important was cotton, raw and manufactured. The exports of raw cotton amounted to Rs. 45 crores, the principal purchasers being Japan, the United Kingdom, Belgium, and Germany. The exports to Japan showed a remarkable increase as the result of the Indo-Japanese Trade Agreement of 1934. The value of cotton manufactures exported in 1936-37 was about Rs. 4 crores. The chief markets were Ceylon, Iran, and the Straits Settlements.

Jute.

The value of the exports of jute manufacture was Rs. 28 crores in 1936-37, the chief purchasers being the United States of America, Argentine, the United Kingdom, and Australia. Raw jute was exported to the extent of Rs. 14 crores 80 lakhs. The United Kingdom, Germany, the United States, France, and Belgium were the principal purchasers. There was a slight improvement in the export of raw jute, but the quantity exported was smaller than the consumption in Indian mills, though it had always been larger before 1932.

Tea.

Tea was exported to the extent of Rs. 20 crores. The bulk of the exports, over 86 per cent., went to the United Kingdom which, however, re-exported a large amount to other countries. Tea exports are now governed by an international agreement which assigns quotas to the different exporting countries.

Seeds.

The value of seeds exported was Rs. 18 crores 40 lakhs, an increase of about 80 per cent. over the previous year. This improvement is due partly to the general trade revival, and partly to a reduction of import duties in France, which is one of the most important markets for ground-nuts. The United Kingdom, Belgium, and Netherlands are the other principal markets for oil-seeds. Other important articles of export were metal manufactures, leather goods, hides, ores, wool, and lac.

Other articles.

Trade with principal countries.

Of the countries participating in the foreign trade of India, the United Kingdom had the largest share, the total trade with that country in merchandise only amounting to nearly Rs. 113 crores, representing 34.5 per cent. of the total trade. The trade

in merchandise with British possessions other than the United Kingdom amounted to Rs. 42 crores, and that with countries outside the British Empire amounted to Rs. 172 crores. Before the war, India's imports came mainly from the United Kingdom, while her exports went chiefly to foreign countries. But since the war considerable changes have occurred in the direction of India's foreign trade. The following statement shows the proportion of India's trade, export and import, with each of the principal countries in 1936-37.

	Trade in Merchandise only, 1936-37	
	Percentage share	
	Export to	Import from
United Kingdom - - - -	32.1	38.4
Other British Possessions - -	14.2	10.8
Japan - - - -	15.0	17.0
United States - - - -	9.5	6.5
Germany - - - -	4.7	9.7
Belgium - - - -	3.6	2.2
France - - - -	4.0	0.9
Italy - - - -	2.4	1.0
Netherlands - - - -	2.2	1.1

The bulk of the carrying trade with India is done by British Shipping. ships. During the year 1936-37 the tonnage under the British flag was nearly 65 per cent., Japanese vessels carried about 9 per cent., while German and Italian vessels carried about 7 per cent. each of the total trade. The other countries whose vessels are engaged in the carrying business are the United States of America, Norway, Holland, and France. There is a slight improvement in the amount of carrying trade done in Indian craft, which was about 1.1 per cent. of the total carrying trade in 1936-37.

The trade across the land frontiers of India is also recovering slowly after the depression. The statistics of this trade are incomplete and not wholly reliable. An agreement for the separate registration of trade between India and Afghanistan has been entered into with effect from the 1st February, 1937. Frontier trade.

The imports into India across the land frontiers consist chiefly of food-grains, hides, tobacco, wool, linseed, and silver, while among exports, food-grains, salt, sugar, petroleum, iron and steel, and tea are the chief items.

Coasting
trade.

The total value of the coasting trade is about Rs. 160 crores. A large part of this trade is between the ports on the east coast and Burma, and along the coast between Bombay and Karachi.

Indo-
Burma
trade.

The value of the imports of private merchandise into Burma from India was Rs. 10 crores 93 lakhs in 1936-37, while the exports of private merchandise from Burma to India in the same year had a total value of Rs. 34 crores 92 lakhs. The Indian exports to Burma consist chiefly of cotton goods, jute manufactures, coal, and iron goods, while Burmese exports to India consist principally of rice, mineral oils, lac, and teak wood.

The
balance of
trade.

From the foregoing account of the commerce of India, it is clear that the exports of India exceed her imports. The excess of exports over imports in merchandise only in 1936-37 was Rs. 77 crores 77 lakhs, as compared with an average annual excess during the post-war period 1924-29, of Rs. 112 crores 80 lakhs. Thus the balance of trade in merchandise still showed the effects of the economic depression. In 1931-32 the balance had fallen to as low a figure as Rs. 3 crores 22 lakhs. The diminution in the balance of trade during the depression was due to the fact that the average prices of Indian exports fell in a higher proportion than the average prices of Indian imports. A feature of the depression was the continuous flow of gold out of India, more than Rs. 300 crores worth of the metal having been exported between the years 1931 and 1937, out of which the net flow during 1936-37 was Rs. 27 crores 85 lakhs. This marked a complete reversal in the direction of specie flow. Up to 1931, there was always a net inflow of specie into India from foreign countries. This inflow of gold served to pay for a portion of the balance of trade, the remaining portion of which was accounted for by 'invisible imports.' These items consisted of the Home Charges, interest on foreign capital invested in India, and payments for shipping, banking, insurance, and other services rendered by foreigners in this country. As most of these items represented payments based on long-period contracts, they did not diminish to any appreciable extent during the depression,

and consequently exceeded in value the balance of trade in merchandise only. The difference was made up by the exports of gold. With the gradual improvement in the balance of trade, it is expected that there will be a cessation of the flow of gold out of the country, but it is doubtful whether, in the present dislocated condition of international commerce, this result will come about automatically without any intervention on the part of the Government.

5. PRICES

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency became more progressive during the first two decades of the twentieth century. The decennial average for the period 1901-10 was higher than the average for the previous decennial period, and the average for the period 1911-20 higher than that for the period 1901-10.

Changes
in prices.

Prices soared very high between 1917 and 1920, the rise being especially marked in the prices of food-grains. Thereafter, there was comparative stability of prices up to 1929, in which year prices fell suddenly. During the next four years, prices went on falling, the lowest point being reached in the first part of 1933. There has been a slow, but none the less noticeable, revival of prices in recent years, but the general level is still much lower than the average for the period 1920-1929, and considerably lower even than the pre-war period. Thus the course of average prices after the great European War has been highly chequered, and it is in marked contrast to the steady upward tendency which had characterised the pre-war movement. The following statement shows the decrease in the year 1934 in the average retail prices of the principal food-grains as compared with those of 1929 (the prices of 1873 being taken as 100) :

					Prices in 1929	Prices in 1934
Rice	-	-	-	-	336	152
Wheat	-	-	-	-	262	135
Jowar	-	-	-	-	294	148
Bajra	-	-	-	-	312	146
Ragi	-	-	-	-	347	189
Gram	-	-	-	-	340	138
Barley	-	-	-	-	284	127

The general index-number for all articles, calculated on the same basis, was 203 for 1929 and 119 for 1934.¹

Influence
of world
factors.

These fluctuations of prices, especially the war and post-war changes, are connected with similar price-movements in the rest of the world. As different countries of the world become more and more interdependent, the economic bonds among them become closer, with the result that prices tend to move in the same direction in all countries. This is especially the case with respect to the prices of those articles which enter into foreign trade. In the case of India, this general tendency has been accentuated by the exchange and fiscal policies of the Government. From 1893 onwards, the rate of exchange between India and Great Britain has been kept fixed, with only occasional lapses. Since London is the world's financial centre, and since the British currency is the world's chief money-of-account, the maintenance of a fixed rate of exchange with that country by India has helped in communicating movements of prices in other countries to India. Another factor which helped in the same direction was the maintenance of a policy of free trade by India up to 1924.

Factors
leading to
the de-
pression.

The years 1925 to 1929 witnessed a remarkable expansion of industry and trade, and a steady upward movement of prices all over the world. In India also, production and prices rose in sympathy. The continuous rise in prices fostered a spirit of optimism, specially in the United States of America, where it overreached itself in an orgy of speculation. This led to the catastrophic financial collapse of the New York Stock Exchange in October, 1929. The whole structure of international finance was rudely shaken by this event. In the summer of 1931, a severe financial crisis occurred in Central Europe, owing chiefly to the accumulated burdens of inter-governmental debts. England, which had lent heavily to these countries, was forced off the Gold Standard in September 1931, and India immediately followed in her wake. Other factors also had been in operation. Even before the New York crash of 1929, the prices of agricultural goods had begun to fall owing to an excessive expansion of production under the spur of high prices. This fall in prices of agricultural goods was accentuated by the European crisis leading to a diminution of

¹ *Statistical Abstract, Thirteenth Issue.*

the purchasing power of European countries, which are the chief markets for these goods. All these factors brought down the prices of India's staple articles of export to exceptionally low levels. The prices of agricultural commodities fell in India to an even greater extent than in other countries. Prices of other articles followed the prices of exports, and the general price level, therefore, sagged down. This depression continued till 1935, but signs of a revival manifested themselves in 1936. The recovery continued during the first half of 1937, but towards the end of that year a distinct check became discernible, which continued during the year 1938.

The following table gives the general index numbers of prices in India and in some other important countries for the years 1931 to 1936, the prices of 1929 being taken as 100.¹

Index
numbers.

Year	India	United Kingdom	United States	Japan	France
1931	- 68	77	77	70	80
1932	- 65	75	68	73	68
1933	- 62	75	69	82	64
1934	- 63	77	79	81	60
1935	- 65	78	84	84	54
1936	- 65	83	85	90	66

¹ *Review of the Trade of India for 1936-37*, p. 21.

CHAPTER X

EXCHANGE—(*Continued*)

CURRENCY

Antiquity
of money
in India,

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is known as the manufacturing and commercial stage. Such a state of society implies exchange, and exchange implies the use of money.

proved
from
various
sources.

The great antiquity of Indian money is proved from various sources, the chief amongst which are (*a*) the most ancient accounts of the population and condition of society in India ; (*b*) the Vedic writings ; (*c*) the code of Manu ; (*d*) the Buddhistic works ; (*e*) numismatic and other archaeological remains ; and (*f*) comparative philology.¹ Various kinds of coins made of gold, silver,² and copper were in use ; and many other substances, such as clay, lacquer, and shells (*cowries*) were also used for exchange. Rulers had the prerogative of coining gold or silver, though adequate measures were rarely taken to prevent coinage by private persons.

During
Mahomedan
rule.

During the Mahomedan rule, a reform of the currency was attempted, and several interesting monetary experiments were made. The rulers began to enforce the prohibition of coinage by private persons. Mahomed Tughlak entertained a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins. But this bold scheme, which was in reality a forerunner of the modern system of paper money, failed. The discovery of America and increased com-

¹ Del Mar, *History of Money*, p. 58.

² Historians tell us that silver was in the earliest period more valuable than gold.

mercial relations with Europe led to an influx of silver into India in exchange for spices and gold ; and Akbar the Great attempted to introduce a uniform standard, but his efforts did not fully succeed. In the seventeenth century, the East India Company also began to issue coins for use in their factories. During the remaining years of Moghul rule, coins continued to be struck at various places, and they were of different weights.

Under the
East India
Company.

At the beginning of the nineteenth century, some parts of India (*e.g.*, Madras) maintained a gold standard and currency ; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation. Throughout India the coins, whether of gold or silver, differed in denominations as well as in intrinsic value, even within the same district. The resulting confusion afforded an opportunity to a class of indigenous bankers, who made profit by charging high fees or *batta* for exchanging one kind of money for another. The media of exchange failed, therefore, to function as measures of value. In 1806, the Directors of the East India Company gave their approbation to the demand for a uniform coinage, and the first step that was taken was to replace the old miscellaneous coinages by four denominations of rupees and fewer kinds of gold coins. In their Despatch to the Governments of Bengal and Madras, the Directors observed that, while fully satisfied with the silver rupee being the principal measure of value and the money-of-account, they by no means desired to drive gold out of circulation. Nevertheless, in 1818, the rupee was substituted for the gold pagoda in Madras ; and, in 1835, the rupee, which weighed 180 grains, and contained 165 grains of pure silver, was made the standard coin for the whole of British India. It was further enacted that “ no gold coin shall henceforward be a legal tender of payment in any of the territories of the Company.” The coining of gold mohurs (15-rupee pieces) was authorised by the Act of 1835, and in 1841 a Proclamation authorised officers in charge of public treasuries “ freely to receive these coins.” A few years later, however, the effect of the Proclamation was found embarrassing to the Government of India, on account of the extensive discoveries of gold in Australia, which resulted in diminishing its value in relation to silver. Consequently, in 1852, the Proclamation of 1841 was withdrawn. In 1864, the Govern-

In the
nine-
teenth
century.

ment of India proposed that sovereigns and half-sovereigns coined at any Royal Mint in England, Australia, and India, be made legal tender at the rate of one sovereign for 10 rupees, and that Government currency notes should be exchanged either for rupees or for sovereigns at that rate. The Imperial Government, though unwilling to make the sovereign legal tender, accepted the second proposal.

India a
silver-
standard
country
till 1893.

Fall in the
value of
rupee.

Conse-
quences of
the fall.

India thus continued to be a silver-standard country.¹ Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many civilised countries caused a heavy fall in the value of silver. The maintenance of bimetallism by the countries of the Latin Union, which was formed in 1865 with France as the leading member, served for a time to keep up the rate of exchange between silver-standard and gold-standard countries, in the face of a continuing fall in the market value of silver. But these countries were compelled to give up bimetallism in 1873, and thereafter the exchange value of the rupee in terms of gold fell continuously. Thus the rate fell from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold-standard countries it produced very bad results. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital.² Besides, the Government of India suffered great loss in making remittances to meet its obligations in England. The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange-rate of the rupee. The Government had also to pay compensation allowances to British officers to make good the loss which the latter suffered. This rendered necessary a considerable increase of taxation; and the violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly diffi-

¹ *Report of the Indian Currency Committee, 1898*, pp. 1 and 2.

² In 1892, the Bengal Chamber of Commerce represented to the Government that "it was impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise".

cult task. In view of this embarrassment, the Government tried for a number of years to promote a system of International Bimetallism. But when their efforts became ineffectual they appointed, in 1892, a Committee, under the presidency of Lord Herschell, to consider the proposals submitted by the Government of India for the closing of the mints to the free coinage of silver, and for the adoption of a gold standard. In accordance with the recommendations of this Committee, the Coinage Act of 1893 provided for the closing of the Indian mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were also issued arranging for (i) the receipt of gold at the Indian mints in exchange for rupees at the rate of 16d. per rupee, and for (ii) the receipt of sovereigns and half-sovereigns in payment of dues to the Government at the rate of Rs. 15 for a sovereign.¹ The net results of these measures were (1) that the exchange value of the rupee ceased to coincide with the price of silver, and (2) that silver ceased to be the standard of value, though it continued to be used as the chief material of currency. Gold, however, did not yet become legal tender.

The
Herschell
Com-
mittee.

In 1898, another Committee was appointed, under the chairmanship of Sir Henry Fowler (afterwards Lord Wolverhampton). The Fowler committee reported in 1899. Their chief recommendations² were : (1) that the British sovereign should be made a

The
Fowler
Com-
mittee.

¹ The Herschell Committee recommended that " the closing of the mints to the free coinage of silver should be accompanied by the announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be fixed at, say, 1s. 4d. per rupee ; and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio " (*Indian Currency Committee's Report*, 1893, para. 156).

² " We concur with the Government of India in their decision not to revert to the Silver Standard. . . . Over four-fifths of the foreign trade of India is with Gold Standard countries, and for this reason it is desirable that India should have the same measure of value as those countries. . . . A further and certainly not less important consideration for a country like India is that an established Gold Standard is the simplest and most effective means of attracting capital. . . . We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. . . . Under

legal tender and a current coin in India ; (2) that the rupee should also continue to be legal tender to an unlimited extent ; (3) that the sterling rate for the rupee should be fixed at 1s. 4d. ;¹ (4) that the Indian mints should be thrown open to the unrestricted coinage of gold ; (5) that the mints should not be reopened to the free coinage of silver ; (6) that, though the Government should continue to give rupees for gold, fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public ; and (7) that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

Government's
approval
of recom-
menda-
tions.

The Government of India approved of these recommendations, and proceeded to give effect to them. In September 1899, the sovereign was declared legal tender, but the rupee also continued to be legal tender to an unlimited amount. In 1900, the then Finance Member of the Government of India announced in the Imperial Legislative Council that it had been decided to constitute a branch of the Royal Mint for the coinage of gold, but the scheme was dropped after nearing completion in 1902. The monetary standard which was thus established came to be known as the Gold-Exchange Standard, or, in other words, a Gold Standard without a gold currency.² The Gold-Exchange Standard may be said to exist under the following conditions : (1) gold does not

Adoption
of the
Gold-
Exchange
Standard.

an effective Gold Standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender. . . . In conclusion, we desire to record our opinion that the effective establishment of a Gold Standard is of paramount importance to the material interests of India. Not only will stability of exchange with the great commercial countries of the world tend to promote her existing trade, but also there is every reason to anticipate that with the growth of a confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources. For the speedy attainment of the object, it is eminently desirable that the Government of India should husband the resources at their command, exercise a resolute economy, and restrict the growth of the gold obligations. . . ."

¹ The Committee were not unanimous in regard to this rate.

² The Hilton Young Commission expressed the view that it should have been called a "Sterling-Exchange Standard."

circulate to an appreciable extent within the country ; (2) the local currency is not necessarily redeemable in gold for internal use ; (3) the Government or the Central Banks make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency ; and (4) the reserves necessary to provide these remittances are kept, to a certain extent, abroad. This system, which was first advocated by Mr. A. M. Lindsay, was adopted by the Government, not as a consistent whole, but piecemeal, as the result of a series of experiments.

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. In 1893, the rupee stood at 1s. 2½d. The Government set itself to the task of raising its value. In this, however, they were disappointed. The restriction of supply caused apprehension in the minds of the people, and brought into circulation the hoards of rupees, and the quantity which would otherwise have been used for artistic and ornamental purposes remained to swell the total silver currency. Rupees which were outside British India also naturally sought the Indian markets. The first result of the closure of mints, therefore, was that the rupee fell in value.¹ The Government stood out for a while, but in the end was compelled to sell rupees for about 1s. 1½d. During the next few years the policy of abstention from coinage was resolutely persisted in. But the value of the rupee continued to fall, and in January, 1895, it reached the minimum of 12½d. After that date it rose by gradual steps till in 1898 it stood at 1s. 4d. The value of the rupee rose, not because there was a contraction of currency, but because the value of silver could no longer influence the value of the rupee owing to the suspension of free coinage. From 1898 to 1916 the value of the rupee did not fluctuate to any important extent, except for a brief period during the crisis of 1907-8, when the rupee fell considerably below specie point.²

Immediate effect.

Further fall in the value of rupee.

The rupee almost steady in value from 1898 to 1916.

This currency experiment was the subject of criticism of Criticism.

¹ This immediate result was foreseen by Professor J. S. Nicholson (*vide* his article entitled the "Indian Currency Experiment" in the *Contemporary Review*, 1893).

² In 1908, the exchange fell to 1s. 3½d., but this marked fall was due to the combined effect of the Indian famine and the American monetary crisis.

various sorts. The admirers of the system claimed for it great and unqualified success.¹ Experience showed, they said, that the system was perfectly stable, as had been found at the time of the severe test of the crisis of 1907-8; great developments of trade and industry had proceeded under the system; it had settled the finances of the Government and had made possible the remission of a considerable amount of taxation; and, lastly, the wisdom of the measure was proved by the fact that many other countries had followed the example of India in this matter.² Its detractors pointed to the inelasticity of the system as a great defect. In busy seasons, an increased currency was required, which, in a dull season, led to an inflation of the currency from a want of automatic regulation, and thus raised prices. The Gold-Exchange Standard failed to secure stability of purchasing power. During the period 1893-1923, prices varied more in India than elsewhere. Further, they contended that during the crisis of 1907-8 the system was almost on the verge of a collapse,³ and that in the post-war crisis of 1919-20 it completely broke down. As for the remission of taxation, they argued that there had

¹ Mr. Keynes wrote in the *Economic Journal* (October 1914): "The Gold-Exchange Standard, based on a reserve in London, has enabled the Indian currency system to meet the crisis better than that of almost any other country. No moratorium has been declared, and the exchange value of the rupee has been maintained throughout between the gold points. Of no other important country can this be said."

² The Gold-Exchange Standard was adopted by the Philippines, Mexico, and the Straits Settlements. The currency systems of Russia, Holland, Japan, and Austria-Hungary also were not very different from the Indian system. The Currency Commission (1914) pointed out that, "in those countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's Gold-Standard Reserve is held in London" (*Report*, para. 51).

³ The following question by the Chairman of the Currency Commission (1913) and the answer given by Lord Inchcape are interesting in this connection:

Q. 10,185. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price?

A. Things then would be very bad indeed. You would all be 'bust' up, if it came to that.

really been none, for the remitted taxation represented the additional amount that had been taken from the taxpayers by an artificial appreciation of the rupee.¹ Furthermore, it was asserted that India's national capital invested in rupees was a wasting asset, inasmuch as the rupee depreciated as bullion. Besides, they held that it was desirable for the Government to interfere as little as possible with the currency. Lastly, the Gold-Exchange Standard was a very complicated mechanism, and, in the words of Prof. Cannan, it was "neither fool-proof nor knave-proof."

Now, admitting that the system was not perfect, what were the alternatives to it? Some people, whose number was exceedingly small, advocated a return to the old system; but to do so would have meant a recurrence of the state of affairs which had made the adoption of the Gold-Exchange Standard necessary. Bimetallism² was another alternative, but it could be successful only if it was accepted by at least a majority of the civilised nations, which was very unlikely to happen.

Alternatives suggested :
Silver currency,

Bimetallism,

The third alternative was the adoption of the Gold Standard in its entirety. The chief arguments adduced in favour of this standard were thus summarised by the Finance and Currency Commission of 1913 :

Gold Standard in entirety.

(i) That gold was a more convenient and portable medium of circulation than the rupee.

(ii) That a gold currency was a necessary step towards what might be regarded as the ideal currency, viz., paper backed by gold in reserve.

Arguments for.

(iii) That some prestige attached to the possession of a gold currency, whereas a silver circulation was the mark of less progressive peoples.

(iv) That a large amount of gold in circulation was a strong, and, in the view of some people, the only adequate support for exchange.

¹ The amount of taxation remitted between 1898 and 1910 was 5 crores of rupees, and this, according to the late Mr. G. K. Gokhale, was the additional amount taken from the people by means of the appreciation of the rupee (G. K. Gokhale's Budget Speech, 1910).

² Prof. J. S. Nicholson, in his *Money and Monetary Problems*, tried to prove that bimetallism was both advantageous and practicable. On the other hand, an eminent authority like the late Sir Robert Giffen held that bimetallism was unattainable, and, if attained, would be dangerous.

(v) That the constant mintage of fresh supplies of rupees was objectionable, and would be obviated by an increasing circulation of sovereigns.

(vi) That until India had a gold currency in active circulation, India would continue to possess an artificial and managed currency.

(vii) That India should be encouraged to absorb gold in order to protect the world in general from a further rise of prices due to the greatly increased production of gold.

Answers
to such
argu-
ments.

To these arguments the objectors (including the majority of the Commission) replied as follows :

(i) The first argument was valid only in so far as large payments were concerned, but even there notes were preferable to gold.

(ii) History lent no support to the second argument, and it was not impossible to reach the ideal system of currency without taking the intermediate step of a gold currency.

(iii) The third argument was the result of a confusion in the minds of some people between a Gold Standard and a gold currency. In internal circulation, a wide-spread use of cheques was the most progressive system ; for the cheaper the money-material, the greater was the economy in the use of the precious metals.

(iv) As for the fourth, the opinion of eminent economists and financiers, as well as the experience of the most advanced countries, was against this view ; as a matter of fact, the only support for exchange in a monetary crisis had always been found to lie in the gold reserve of the banks and not in gold in the pockets of the people.¹

(v) The fifth argument was met by the reply that rupees were generally used for small payments, and a larger circulation of sovereigns would not obviate the need for the mintage of fresh rupees to any appreciable extent ; on the other hand, gold coins

¹ " Gold wanted for exportation is almost invariably drawn from the reserves of banks, and is never likely to be taken from the outside circulation while banks remain solvent " (J. S. Mill, *Political Economy*, bk. iii, chap. 22).

" We only have as an effective circulation that which is required for the daily wants of the people. You cannot tap that to any extent so as to increase your central stock of gold " (Lord Goschen's Speech at the London Chamber of Commerce, 1891).

would prove a very formidable rival to the note issue, which would be most undesirable.

(vi) In regard to the sixth argument, it might be urged that a 'managed' system was not necessarily a bad system, and that it was not possible for the Government of India to manipulate the currency for their own purposes, for they would add to the active circulation of the currency only in response to public demands.

(vii) The last argument was not one of any importance, for the extent to which India should use gold must be decided solely in accordance with India's own needs and wishes, and it would be manifestly unjust to force gold coins into circulation in India on the ground that such action would benefit the gold-using countries of the world.

The conclusion at which the Chamberlain Commission arrived on this point was that gold in circulation was "wasteful", and "that it would not be to India's advantage to encourage such circulation".¹ This, however, did not dispose of the question of the adoption of a Gold Standard.

Chamberlain Commission's conclusion.

The advocates of a gold currency demanded the establishment of a gold mint in India. In March, 1912, Sir V. D. Thackersey moved a resolution in the Imperial Legislative Council urging that the Indian Mints be opened to the free coinage of gold and that distinctive Indian coins be issued.² A vigorous agitation was also carried on by Sir M. de P. Webb and his supporters to secure the same object. The Chamberlain Commission, after fully discussing the question, remarked: "We cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle, either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the

Suggested gold mint in India.

¹ Sir James Begbie, however, in his Note of Dissent said: "The true line of advance for the currency policy is to discourage an extension of the token currency by providing facilities for the distribution of gold when further increases in the currency become necessary," and he advocated the issue of a suitable gold coin from an Indian mint (*Report*, p. 90).

² The Finance Member, Sir Guy Fleetwood Wilson, in his reply, expressed his sympathy with the proposal, but declined to commit the Government of India to any particular line of policy.

sovereign (or the half-sovereign): and it is pre-eminently a question in which Indian sentiment should prevail. If, however, the final decision be against the opening of a gold mint, we recommend that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms."

Devices to
maintain
Gold-
Exchange
Standard.

A few words may be said here about the device by means of which the Gold-Exchange Standard was made to function in India. To keep up the Standard and to prevent great fluctuations in the value of the rupee, two things were essential: firstly, that importers of gold should obtain rupees for their gold; and, secondly, that when gold was required for the purpose of remittance, the exporters should get it in exchange for silver. To ensure this, the Government sold and bought rupees in India and in London at the rate of 1s. 4d. the rupee *plus* or *minus*, as the case might be, the approximate cost of transport. And for these transactions, a special fund, called the Gold Standard Reserve, was created out of the profits derived from the coinage of rupees.

Gold
Standard
Reserve.

In accordance with a recommendation made by the Fowler Committee it was decided that, with effect from the 1st April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be credited to the Gold Standard Reserve. Up to 1906, practically the whole amount was remitted to England and appropriated to the purchase of British Government Securities, the interest realised being added to the fund and invested; but in that year it was decided that a portion of the Reserve should in future be held in silver in India. In 1907-8 and 1908-9, in consequence of a further decision, half the profits on coinage were to be applied to capital expenditure on railways, and about £1,100,000 was actually diverted for the purpose; but this decision was soon reversed. In 1914, the Indian branch of the Gold Standard Reserve was abolished on the recommendation of the Chamberlain Commission. The Currency Committee of 1919 recommended that a portion of the gold in the Gold Standard Reserve, not exceeding one-half, should be held in India; the sterling investments should, however, continue to be held in London. In 1921-22, the excess over £40 million in this Reserve was used to cancel created securities.

From 1922-23 to the date of establishment of the Reserve Bank the excess over this sum was annually added to the general revenues.

On the 30th September, 1926, the Reserve stood as follows :

Com-
position.

Cash at short notice	-	-	-	-	£3,940
British Treasury Bills	-	-	-	-	£3,146,812
Other British and Dominion Government					
Securities	-	-	-	-	£36,849,248
Total	-	-	-	-	<u>£40,000,000</u> ¹

Had it not been for the rash policy of selling Reverse Councils amounting to over £55 million in the crisis of 1919 and 1920, India would have had a Reserve of over £95 million at that time.

So much about the device by which the Gold Exchange Standard was maintained. We must now resume the history of the Standard itself. With the outbreak of the war there was a general dislocation of trade and industry, resulting in a weak exchange. This was met by offering sterling bills or reverse drafts up to a maximum of £1,000,000 a week, and the stability of the rupee was maintained till the end of 1916. Towards the end of 1915 the export trade of India revived owing to a persistent demand for India's products at good prices. On the other hand, there was a contraction of her imports, due to the inability of foreign countries to export a sufficient volume of commodities to India. The balance of trade thus turned considerably in favour of India. Normally, her favourable balance is liquidated by foreign countries by the export of precious metals to India and also by the sale of Council Bills by the Secretary of State for India. The embargo placed on the export of precious metals by the belligerent countries left only one method available for the liquidation of India's balance of trade, namely, the sale of Council Bills. But the capacity of the Secretary of State for selling Council Bills depended upon his purchase of silver to replenish the rupee resources of the Government of India. Here he was confronted by the high price of silver brought about by heavy demands accompanied by a reduc-

Break-
down of
the Gold-
Exchange
Standard.

¹ In the interval between the 31st March, 1913, and the 31st March, 1923, the aggregate of the Gold Standard Reserve had increased to £40 million.

tion in the supply. The price of silver rose continually till August 1917, when it was no longer economically possible for the Secretary of State to sell Council Bills at 1s. 4½d. as he had done hitherto. It is worthy of note that when the price of silver is 43d. per ounce, the exchange value of the rupee is just equivalent to the cost of coining a rupee. Silver rose above 43d. per ounce in August 1919, and it continued to rise till in December 1919 it reached the abnormally high figure of 78d. per ounce. The rate of Council Bills was consequently raised till in December 1919 it was as high as 2s. 4d. Besides, as sterling had depreciated in terms of gold, the rate for Council Bills had to be fixed a little higher to make allowance for this depreciation. The Gold-Exchange Standard thus broke down.

Babington-Smith
Committee.

It was thus found necessary to appoint a Committee to consider the question. The Committee under the chairmanship of Babington-Smith recommended a rate of 2s. (gold) for the rupee. They believed that the price of silver would continue to be high for some years to come, and they thought that the maintenance of the token character of the rupee would be attended with risk unless the exchange-value of the rupee was fixed at a high figure. They also thought that a high rate of exchange would be advantageous, as it would arrest the rising tendency of prices and would incidentally cause a saving in Home Charges. The Committee did not apprehend that this policy would adversely affect Indian trade, for they believed that the world shortage of raw materials and food-stuffs would enable the Indian producer to obtain a satisfactory rupee price in spite of the high exchange, while the high cost of production in foreign countries would neutralise any advantage that might accrue to them from a high exchange rate in sending goods to this country. The Committee further recommended that during periods of exchange weakness, the Government of India should be authorised to sell Reverse Council Bills.¹

Mr.
Dalal's
Note of
Dissent.

Sir Dadiba Dalal wrote a Note of Dissent, in which he strongly criticised the exchange and currency policy which had been pursued by the Secretary of State and the Government of India during and after the war. He urged that the ratio between the gold sovereign (or *mohur*) and the rupee should con-

¹ Vide *Report of the Babington-Smith Committee*, 1920.

tinue to be 15 to 1, any attempt to fix the rate at 2s. being in his opinion likely to lead to disastrous consequences. He suggested that Council Bills should be sold only for Government requirements and not for trade purposes, and that 'Reverse Drafts' should be sold only at 1s. $3\frac{2}{3}\frac{9}{2}$ d., the proceeds of which were to be kept apart and utilised only for meeting drafts drawn by the Secretary of State. His other chief suggestions related to the free and unfettered exportation and importation of gold and silver bullion and coins and the coining of gold at the Bombay mint. With regard to the monetary standard, he expressed himself in favour of a Gold Standard, and observed: "India is fairly entitled to a system of sound money. The Gold-Exchange Standard has failed to provide such a system."¹

The recommendations of the majority of the Babington-Smith Committee were accepted by the Secretary of State, and Mr. Dalal's note of warning was ignored. The publication of the Report coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2s. gold recommended by the Committee by the offer of Reverse Councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold as shown by the dollar-sterling exchange. The rates for Reverse Councils offered by the Government varied from 2s. $3\frac{2}{3}\frac{9}{2}$ d. (sterling) to 2s. $10\frac{2}{3}\frac{7}{2}$ d. (sterling). By the Indian Coinage Amendment Act of 1920 the sovereign was made legal tender at Rs. 10. The attempt to hold the rate at 2s. gold led to enormous losses to the Government of India, and proved unsuccessful. The Government thereupon tried to maintain exchange at 2s. sterling. This attempt resulted in a further enormous loss to the Indian Exchequer. There were strong protests from the Indian public against this squandering of the resources of the country. The attempt was therefore abandoned from the 28th September, 1920.

Government's
action.

The blunder committed by the Government in hastily accepting the recommendations of the Babington-Smith Committee at a time when world conditions were quite unsettled involved a loss not only to the Indian Exchequer, but ultimately also to the mercantile community. It was not long before the tide of ex-

¹ Note of Dissent of Sir Dadiba Dalal to the *Report of the Babington-Smith Committee*, 1920.

change began to turn. Early in 1921 exchange fell below the level of 1s. 3d. sterling and 1s. gold. The 2s. ratio passed in 1920 remained on the statute-book, but was ineffective for purposes of tender of gold to the currency office. In January, 1923, there was another turn in the tide, and exchange recovered to 1s. 4d. sterling. Exchange showed a general tendency to move upward. In October 1924 it reached the level of 1s. 6d. sterling, which was nearly equivalent to 1s. 4d. gold. From that time till March 1926 the upward tendency of exchange continued. Meanwhile, sterling had been restored to parity with gold in England about the middle of 1925, and since then the rupee was for a considerable time in the neighbourhood of 1s. 6d. gold. Economic conditions in the world also became more stable.

A Royal Commission, under the presidency of Mr. Hilton Young, was appointed towards the end of 1925 to "examine and report on the Indian exchange and currency system and practice."¹ The Report of this Commission was published in July, 1926. After examining the various aspects of the question, the Commission came to the conclusion that a Gold-Exchange Standard was "not the best for India under present conditions," and that, "in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or in other words, that it is necessary to establish a true Gold Standard." They added, however, "It should be understood that this does not necessarily imply a gold currency. . . . The essence of the proposal which we propose to develop is that the ordinary medium of circulation should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever." The main feature of the system recommended by them—the Gold Bullion Standard—was that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces, no

Hilton
Young
Com-
mission
Report.

¹ *Report of the Royal Commission on Indian Exchange and Currency, 1926.*

limitation being imposed as to the purpose for which the gold was required. The fulfilment by the currency authority of this obligation would, in the opinion of the Commission, secure the stability of the gold value of the rupee and the stability of exchange within the gold points corresponding to the selected parity. They recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability led the Commission to urge the establishment of a Reserve Bank. This Bank was to be given the sole right of Note Issue for a period of about 25 years. The Notes of the Bank were to be legal tender, and guaranteed by the Government. The legal right to obtain silver rupees in exchange for Notes was to be withdrawn, and the currency authority was to be under a statutory obligation to convert all Notes, other than one-rupee Notes, on demand into legal tender money, *i.e.*, into Notes of smaller denominations or silver rupees at the option of the currency authority. The other important recommendations related to the unification of the Gold Standard and Paper Currency Reserves and to the re-issue of one-rupee Notes.¹

Sir Purushottamdas Thakurdas appended a Note of Dissent to the Report, in which he urged, among other things, the establishment of a Gold Standard proper and the fixing of the rupee at 1s. 4d. With regard to the latter proposal, he apprehended that if the recommendation of the majority to stabilise the rupee at 1s. 6d. be accepted, India would be faced with a very serious disturbance in her economic organisation during the next few years, the consequences of which were likely to be disastrous. "Until adjustment is complete," he said, "agriculture threatens to become unattractive and less remunerative than it is to-day, and industries will have to undergo a painful process of adjustment, unnatural, unwarranted, and unavoidable—an adjustment which will be much to their cost, and affect not only their stability and their progress, but, in certain cases, their very existence. And should nature have in store for India a couple of lean years after the four good harvests that we have had, during the period of forced adjustment to a rate of 1s. 6d., the

Sir Purushottamdas Thakurdas's Note of Dissent.

¹ *Report of the Hilton Young Commission, 1926.*

steps that the currency authority will have to take to maintain exchange at this rate may deplete the gold resources of the country to an extent that may seriously shake the confidence of her people in the currency system recommended.”¹

The
Currency
Bill.

The main proposals of the Commission were placed before the Indian legislature in three Bills. The object of the Currency Bill was to give effect to those recommendations of the Hilton Young Commission which related to the immediate stabilisation of the rupee in relation to gold. The Bill provided for fixing the gold value of the rupee at 1s. 6d. It laid an obligation upon the Government to buy gold bullion when tendered at the rate of Rs. 21-3 as. 10 p. per tola of fine gold in the form of bars containing approximately fifteen fine ounces. An obligation was also laid upon the Government to sell at its option either gold at the Bombay mint at the above-mentioned rate or gold exchange at an equivalent rate payable in Gold Standard countries outside India at the gold points of the accepted gold parity of the rupee, provided that no person was to be entitled to demand gold of less value than four hundred fine ounces or gold-exchange payable in any one country of less than that value. Another provision was to remove the legal tender quality of the sovereign and the half-sovereign.

Argu-
ments for
1s. 6d.

The ratio question gave rise to a great deal of controversy. When the Currency Bill came up for discussion before the Legislative Assembly, Sir Basil Blackett, the then Finance Member, expressed the view that the silver rupee had no natural value other than the value of the silver bullion which it contained, and that no one ratio for the rupee could possibly be permanently more advantageous for India than another. He defended the 1s. 6d. ratio on the following grounds, viz. (1) that the rupee had been fairly steady at this rate for over two years; (2) that the prices had adjusted themselves in a preponderant degree to the 1s. 6d. ratio; (3) that the equilibrium of every budget in India, central and provincial, would be upset if a lower ratio were adopted, entailing the imposition of additional taxation all round; (4) that if the 1s. 4d. ratio were adopted, a considerable amount of inflation would have to be resorted to;

¹ Note of Dissent of Sir Purushottamdas Thakurdas to the *Report of the Royal (Hilton Young) Commission on Indian Exchange and Currency*, 1926.

and (5) that it would mean a curtailment of the real wages of labourers, bringing in its wake industrial unrest in the shape of strikes and lockouts.¹

The popular leaders, on the other hand, pointed out (1) that the rupee had been fairly steady at the 1s. 4d. rate for nearly 20 years ; (2) that the relative price levels in India and other principal countries were very nearly the same at the end of 1926 as they had been before the war, thus pointing to the conclusion that the 1s. 4d. rate seemed to approximate closely to the ' natural ' ratio ; (3) that the 1s. 6d. ratio had been artificially worked up to ; (4) that proper adjustments to the 1s. 6d. rate had not taken place in all directions ; (5) that in the absence of an adjustment, indigenous industries would suffer in competition with imported goods ; (6) that as the exports from India exceeded the imports, the country as a whole would be a loser by the adoption of the higher ratio ; (7) that the effect of the policy of discriminating protection recently adopted would be nullified to a considerable extent ; (8) that a considerable amount of deflation would be needed, which might hamper the development of industries owing to a contraction of credit ; (9) that it would be difficult to maintain the 1s. 6d. ratio in view of the likelihood of a fall in world gold prices ; (10) that the Gold Standard Reserve stood in serious danger of being frittered away in the attempt to maintain the ratio at an artificially high level ; and (11) that the maintenance of an artificially high ratio would imply concealed additional taxation.

Argu-
ments
against
1s. 6d.

The demonetisation of the sovereign was also objected to by many of the elected members of the Assembly, who considered the provision as a retrograde one and thought it would stand in the way of India ever attaining a Gold Standard with a gold currency in future. This was also likely to give a fillip to the hoarding habit among the people, which had been, as a consequence of the increasing familiarity with the precious metals, on the wane.

Demonet-
isation of
sovereign.

The Bill, however, was passed by the Legislative Assembly and the Council of State in March, 1927. Since that date the ratio has been fairly steady at 1s. 6d. It must, however, be noted that deflation has taken place to a substantial extent and that the

Bill
passed.

¹ *Legislative Assembly Debates*, 7th March, 1927.

money market has experienced considerable stringency. It is, indeed, a sad commentary on Government action that in the slack season of May 1928 the Imperial Bank rate rose to 7 per cent., and that the Finance Member was compelled to raise a sterling loan in England in violation of the pledge he had previously given.

The
nature of
the mone-
tary
standard.

The Gold-Exchange Standard was thus rehabilitated with a legal sanction behind it. The external value of the rupee was directly linked to gold. Sterling now became merely a convenient medium for securing that connection. If sterling depreciated in future in terms of gold, the rate of exchange between the rupee and sterling would, it was to be expected, no longer remain stable, though the rupee would be worth the same amount of gold as before. But these intentions were not actually realised, as subsequent events showed.

The
financial
crisis.

The years 1927 and 1928 were marked by a comparative stability of economic conditions, both in India and outside. But a world-wide economic depression set in towards the end of 1929, agricultural countries being the first to be affected. Its repercussions began to be felt in India from 1930 onwards, with the decline of Indian exports and the consequent shrinkage of her favourable balance of trade. It became, therefore, increasingly difficult to maintain exchange stability. By the middle of 1931 the economic situation in Europe became very critical. Foreigners who had invested in Indian Treasury Bills, *i.e.*, short-term obligations of the Government of India, began to withdraw funds. The Government of India were then compelled to sell Reverse Councils to keep up the rate of exchange. The climax was reached when England suspended the Gold Standard on the 21st September, 1931. The Government of India at once suspended the Currency Act of 1927, and thus severed the link of the rupee with gold. But only three days afterwards, on the 25th September, 1931, the rupee was linked to sterling. As sterling was fast depreciating in terms of gold at this time, there was the possibility of speculation in exchange being practised in India. Such speculation would have made it impossible to maintain stability of exchange between the rupee and sterling. A system of exchange control was, therefore, introduced, but it was found to be unnecessary, and the control was withdrawn at the end of

January 1932. There has, on the whole, been a marked stability of exchange between September 1931 and the first few months of the year 1938. Thus, India has been made to revert to the Sterling-Exchange Standard, in spite of the warnings of the Hilton Young Commission.

The chief explanation of exchange stability since 1931 is to be found in the regular exports of huge quantities of gold from India since September, 1931. We have already noted the decrease in our favourable balance of trade during the depression. This would have made it impossible to maintain the rate of exchange if the decrease in the export of commodities had not been made up by the exports of gold. Opinions differ regarding the causes of this outflow of gold. One view is that it is both a symptom as well as the effect of the depression. It is held that the staggering fall in prices and incomes compelled people to release the gold which had been piled up in idle hoards during prosperous years. Another view finds the explanation in the linking of the rupee with sterling which continued to depreciate in terms of gold. This continuing depreciation of sterling created and maintained a gap between the price of gold in India and its price outside. It was only natural that gold should be exported with a view to obtaining the higher price to be obtained abroad. Both the factors, viz., the economic distress within the country, as well as the exchange factor, seem to have been in operation, though it is difficult to determine which of the two was the more important. It is to be remembered that during the last few years, there has been a great increase in the demand for gold in the west, which has led to a substantial rise in its price.

Exchange
stable
after 1931.

Gold
exports.

A few words ought to be said here about the coinage. In 1896, a reform of the coinage was undertaken. The '1835' rupees ceased to be re-issued, and in 1901-2 similar orders were given with respect to '1840' rupees. In 1906, bronze coins were issued as tokens for small transactions, and they are now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; later on, four-anna and two-anna nickel pieces were also coined.

Reform of
coinage.

We come now to a consideration of the Paper Currency system of the country. As in other countries, the origin of the Paper Currency system in India may be traced back to the bank-notes

Paper
Currency.

Early
history.

issued in the early days of the East India Company by private banks, some of which carried on both mercantile and banking business. These Notes were not legal tender, and their issue was unregulated by law. The circulation was generally confined to the locale of the issuing banks. By 1830 most of the private banks ceased to issue Notes. Meanwhile, the three Presidency banks of Bengal, Bombay and Madras, were empowered to issue Notes in accordance with the regulations of their respective charters of incorporation. These charters were replaced by new Acts in 1839, 1840, and 1843, which fixed the maximum amount of Note Issue for each bank. The authorised maximum issue for the three Presidency Banks was Rs. 5 crores in the aggregate. A reserve of one-fourth of the amount of Notes issued was to be held in specie. The actual amount issued was always much less than the maximum permitted, and the circulation was practically confined to the Presidency towns. Nevertheless, the bank-notes served to familiarise the public with paper money, although they were not legal tender.

Issue by
the Gov-
ernment.

After the Mutiny, the Government considered it desirable to take steps to develop the Paper Currency. It was found that the amount of coins in circulation had been increasing apace for some years past, owing to the increase in the volume of foreign trade. It would be very economical for the country if the need for more money could be met with Paper Currency. But paper currency would not be widely used unless it were made legal tender, and before that was done it was desirable to ensure its convertibility into coins. On these grounds, it was considered necessary that the Government should undertake the issue of Paper Currency directly. Accordingly, by an Act of 1861, the right of Note Issue by private banks and Presidency banks was abolished, and the Government undertook a monopoly of Note Issue through a Government department.

Denomi-
nation of
Notes.

Circles of
issue.

Under the Paper Currency Act, 1905, Paper Currency Notes of the following denominations, viz., Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000 were issued to the public. They were issued without limit in every Paper Currency office against rupees or gold. There were eight circles of issue, having their headquarters at Calcutta, Cawnpore, Lahore, Bombay, Karachi, Madras, Calicut, and Rangoon respectively ; and until 1910, the

Notes were legal tender only within the particular circle from which they had been issued. The Government were not legally bound to cash any Notes outside their circle of issue ; but, as a matter of fact, they were cashed in any Government Treasury (if they were not for very large sums), and also by the Presidency banks. The reason for this restriction was that if Notes were cashable in all circles the cost of carrying rupees from one part of the country to another would fall on the Government, and a considerable reserve would have to be kept at each centre to meet the demands for cash.

In 1909, the five-rupee Note, which had previously been made legal tender throughout India, was declared to be legal tender in Burma. The growing popularity of the universal five-rupee Note led the Government to further universalise the Paper Currency, and in 1910 the ten- and fifty-rupee Notes were made universal. The hundred-rupee Note was also declared universal in 1911.¹

The universalising process.

The law required that a Paper Currency Reserve should be held against the Notes equal to their full value. Under the Act of 1861 Notes could be issued against the Securities of the Government of India to a maximum of 4 crores. The issue of Notes against Securities was raised by various Acts, and just before the War the Securities stood at 14 crores, of which 4 crores were British Government Securities and the remainder Indian Government Securities. Till 1898, the whole of the remaining portion of the Reserve was held in silver coin in India. But under the Gold Note Act of that year the Government of India obtained authority to hold any part of the metallic portion of the Reserve in gold coin. An Act of 1900 made it legal to hold part of this gold in London. In 1905, the Government was given full power to hold the metallic portion of the Reserve or any part of it, at its discretion, either in London or in India, or partly in both places, and also in gold coin or bullion, or in rupees or silver bullion, subject only to the exception that all coined rupees should be kept in India.

Paper Currency Reserve.

The needs of war finance, together with a heavy demand for Council Bills, necessitated a large expansion of Note Issue.

Effect of the war on the composition.

¹ The Chamberlain Commission recommended the immediate universalisation of the 500-rupee Note (*Report*, p. 26).

But the strengthening of the Reserve was rendered difficult by the high price of silver, which prevented the coinage of fresh rupees and the absorption of large quantities in the up-country districts. The result was a large increase in the fiduciary issue. By various Acts and Ordinances the fiduciary issue was increased to 120 crores in 1919 and the percentage of metallic backing to the total issue was 44.6 as against 78.9 in 1914. The currency situation was extremely acute during the first half of 1918, when the silver portion of the Reserve diminished to a little more than 4 crores. The situation was, however, saved by the acquisition of silver from the United States Government under the Pittman Act.

Paper
Currency
Act, 1920.

During the post-war period the composition of the Paper Currency Reserve was regulated by the Act of 1920 as amended by the Acts of 1923 and 1925. Under these Acts the metallic portion of the Reserve should not be less than 50 per cent. of the Currency Notes in circulation. But as it was found difficult to conform to this condition, it was further provided that the Securities should be limited to 85 crores, which amount was subsequently increased to 100 crores.¹

Issue of
emergency
currency.

The Indian system of Note Issue was formerly modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and the restrictions were provided with the object of preventing the abuses attendant on the issue of Notes without the backing of a metallic reserve. The result was that in the busy season the money-market became tight and the rate of interest

¹ The composition of the Paper Currency Reserve on the 30th September, 1926, was as follows :

	Rs.
Notes in circulation - - - -	1,96,44,81,189
Reserve—Coin and Bullion :	
In India—	
Silver coin - - - -	94,86,14,267
Gold coin and bullion - - - -	22,31,93,905
Silver bullion under coinage - - - -	7,87,00,190
Total coin and bullion - - - -	1,25,05,08,362
Securities (Purchase Price) :	
In India - - - -	57,40,21,946
In England - - - -	13,99,50,881
Total Securities - - - -	71,39,72,827
Grand Total of Reserve - - - -	1,96,44,81,189

rose very high, while in the slack season money was plentiful, and the rate of interest dropped. These fluctuations caused great inconvenience and uneasiness to trade and commerce. To remedy this inelasticity of our currency the Act of 1920 (amended in 1923 and 1925) made two new departures in our currency practice. In the first place, it provided that 50 per cent. of the Paper Currency Reserve might be held in Securities, so that with every increase in the metallic currency, the scope for the expansion of Paper Currency would largely increase, and consequently the inelasticity of currency would be gradually remedied to a greater and greater extent. In the second place, it provided for the issue of additional Paper Currency up to 5 crores against bills of exchange or *hundis* maturing within 90 days, to the Imperial Bank of India at a rate of interest not below 8 per cent. The issue of Currency Notes when the bank rate was as high as 8 per cent. involved hardships to the borrowers, with the result that the Act had to be so amended as to allow a loan of 4 crores when the bank rate was 6 per cent., and thereafter with every rise in the bank rate by one per cent. an additional issue of 4 crores would be available up to a maximum of 12 crores. This provision corresponded in some measure with the issue of emergency currency by the Bank of England when the banks are in need of temporary accommodation owing to stringency in the money-market. The location of a portion of the Reserve in London formed the subject of adverse criticism. As the object of the Reserve was the redemption of Notes in India, there seemed to be no valid reason why the whole of it should not be held in India. The view that the Paper Currency Reserve should be held as a second line of defence for the support of exchange could hardly be regarded as sound.

Location.

The Hilton Young Commission recommended that the Paper Currency Reserve should be amalgamated with the Gold Standard Reserve, and the combined resources should be placed with a Reserve Bank which would take over the management of the currency system from the hands of the Government. These recommendations were carried into effect in 1935. The arrangements made at that time with regard to Paper Currency will be described in the next chapter.

Recent changes.

The political and economic connection of India with Great

Council
Bills.

Britain necessitates the remittance of large sums of money annually to the Secretary of State for India. These remittances constitute what are known as Home Charges. The practice of drawing funds from India to meet the Home Charges by means of bills of exchange on India was inherited by the India Office from the East India Company. The Secretary of State for India took the initiative in this remittance business by drawing bills on India, and these bills were known as Council Bills. The favourable balance of trade which India normally enjoys made this system possible, and, at the same time, economical. The Secretary of State for India required money in London for disbursement on behalf of India, and many merchants abroad required funds for remittance to India for the purchase of Indian produce. When the Secretary of State for India sold Council Bills on the Government of India, he received funds in sterling in London, while the merchants obtained funds in rupees in India. Thus the system obviated the necessity for the double shipment of bullion between the two countries. 'Telegraphic Transfers' were sold at slightly higher rates to those merchants who wanted to avoid the delay of sixteen or seventeen days which the Council Bills took to reach India.¹

Later
develop-
ment.

Up to 1905, the sale of Council Bills was limited to the requirements of the Secretary of State for India. But the experience gained from the working of the Gold-Exchange Standard showed that the sale of Council Bills could not be limited to the amount of Home Charges alone. From 1905 the Secretary of State for India began to sell Council Bills to meet the demands of trade by a standing offer of bills within specie points. This system assumed considerable importance in the financial machinery of India, and the financing of India's export trade practically hinged upon the sale of Council Bills. It was in practice the only method by which additional currency could be supplied to the market whenever there was stringency.

It is clear that in a normal year, with a favourable balance of trade, the rate of exchange could be prevented from rising be-

¹ The price charged for Telegraphic Transfers was ordinarily $\frac{1}{4}$ d. higher than that charged for Council Bills; but when the Calcutta or Bombay bank rate exceeded 8 per cent., the Secretary of State charged $\frac{1}{8}$ d. more than the price of Bills.

yond 1s. 4d. by selling as many Council Bills as necessary. When the exchange began to fall during the crisis of 1907-08, the system was modified to suit the situation. There was no demand for Council Bills in London, as the balance of trade was adverse. On the contrary, there was a keen demand for remittance of funds from India to England. The absence of facilities for such remittance had led to a fall in the rate of exchange. The Government of India, therefore, took to the selling of 'Reverse Council Bills', drawn on the Secretary of State, at the official rate of exchange. These were cashed out of the Gold Standard Reserve in London, and they served to keep the rate of exchange stable.

Reverse
Councils.

During the last European War, the sale of Council Bills was the subject of much adverse criticism. The control of exchange was accompanied by secrecy and by the sale of Councils to 'approved parties'. The merchants were absolutely at the mercy of the Secretary of State for India for the remittance of funds to India, as the alternative of gold exports from European countries was non-existent. The rise in the price of silver disorganised the exchange market, and the rate had to be varied in accordance with the sterling price of silver. After September 1920, the Government abandoned the attempt to regulate the rate of exchange.

War and
post-war
periods.

The remittance operations of the Government have always exerted an important influence upon the exchange rate. It has recently been realised that the rate of exchange could be regulated far more efficiently from India than from London. This has led to a discontinuance of the sale of Council Bills, and to the adoption of the method of remittance by the purchase of sterling in the open market in India. The purchase is effected by public tender. The remittance business has now been handed over to the Reserve Bank.

Present
system.

CHAPTER XI

EXCHANGE—(*Concluded*)

CREDIT

The indigenous system.

CREDIT is an indispensable factor in business. In the towns there are Indian bankers or *shroffs* who generally do banking business on a small scale. They finance nearly the whole of the internal trade of India, but they rarely, if ever, discount European paper and never purchase foreign or sterling bills. They do, sometimes, lend money on Government paper or similar securities, but the bulk of their business consists in the discounting of traders' *hundis* and in advances to cultivators. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people in the neighbourhood. The petty *mahajan* knows the affairs of his constituents intimately, and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*) or by the pawning of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum.

Inadequacy of banks.

In no advanced country in the world are banking facilities so inadequate as in India. It has been pointed out that India, with a population of over 350 millions, has only about a thousand banking offices. England and Wales, with a population of 40 millions, have over 10,000 banking offices; and Canada, with a population of a little more than 10 millions, has nearly 4,000 branches of banks. Japan, whose population is 64 millions, has over 4,000 banking offices.¹ It is thus evident how inadequately developed are banking facilities in India, with the result that the "financial power of India is insufficiently mobilised."

There is, however, a greater variety in the Indian banking

¹ The figures for England and Wales as well as for Japan relate to the year 1935, while those for Canada relate to the year 1932.

system than is to be found in most other countries. At the apex is the Reserve Bank of India, constituted in 1935, which is the Central Bank of the country, having a monopoly of Note Issue. Next comes the Imperial Bank, constituted in 1920, which was, till 1935, a quasi-Central Bank, and which, by virtue of its pre-dominance and special position, stands in a class by itself. Then there are the Exchange Banks, all of which are foreign concerns, engaged principally in financing the external trade of the country. The Indian Joint-Stock Banks, the proper development of which constitutes the chief problem in Indian banking, form still another class. It would be convenient to discuss them in the order enumerated above.

The
banking
system.

The establishment of the Reserve Bank marks the culmination of a long period of development. Proposals for an institution similar to a Central Bank were submitted as early as 1836 to the Directors of the East India Company by a number of English merchants. Similar proposals were considered again in 1860, when Government were contemplating the taking over of the Note Issue from the Presidency Banks, and again in 1867, when the Bank of Bombay went into liquidation. A similar proposal for a State Bank was made by one of the members of the Fowler Committee of 1898. But none of these proposals could materialise owing to the opposition of the Government. The Chamberlain Commission referred to the question of a Central Bank, but did not commit themselves either way. A carefully drawn-up scheme for a State Bank was, however, submitted by Mr. J. M. Keynes and Sir E. Cable, both of whom were members of the Commission. When the Imperial Bank was founded in 1920, it served to a certain extent to remove the difficulties arising out of the absence of a Central Bank. But it was felt in many quarters that it was no substitute for a Central Bank proper.

The
Reserve
Bank :

its evolu-
tion.

The Report of the Hilton Young Commission brought matters to a head. This Commission expressed the view that the necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involved the establishment of a Central Banking system. They recommended that the Central Banking functions should be entrusted to a new organisation, to be called the Reserve Bank of India, and outlined the constitution, functions, and capacities of this bank. The Commission

Hilton
Young
Commis-
sion's
recom-
menda-
tions.

rejected the idea of a State Bank, on the ground that such a bank would be susceptible to undesirable political influences, and they recommended the establishment of a Shareholders' Bank.

The Bills
of 1927.

These recommendations were embodied in a Bill which was placed before the Indian Legislative Assembly in January, 1927. A great deal of difference of opinion was expressed on the main provisions of the Bill. The Select Committee, to which the Bill was referred, altered some of its important provisions. That body decided that the Reserve Bank should be a State Bank. The composition of the Board of Management was substantially altered, and the disqualification sought to be attached to membership of legislatures was removed. The Bill as amended in the Select Committee was placed before the Legislative Assembly, and an animated discussion took place on the amendments. At this stage, a proposal was made on behalf of the Government to convert the proposed bank into a Stockholders' Bank. But the further progress of the measure was suspended under the direction of the Secretary of State for India. The Finance Member paid a hurried visit to England to consult the authorities there, and on his return to India he placed before the Legislative Assembly a fresh Bill on the lines of the original measure with a few modifications in detail. The discussion of the new Bill was, however, disallowed by the President on the ground that the previous Bill was already under the consideration of the Assembly. The old Bill was then taken up by the Government, but they were defeated in the voting on one of its clauses. It was, therefore, dropped in February, 1928, and the whole question was postponed *sine die*.

Later
develop-
ments.

At this stage, the problem was approached from a new angle by the Government in connection with the proposed constitutional changes. In their Despatch on the proposals of the Simon Commission, dated 20th September, 1930, they argued that the formation of the Central Bank on approved lines must precede the transfer of financial responsibility to a minister responsible to the Indian Legislature. The Federal Structure Sub-Committee of the First Round-Table Conference in their Report, dated the 13th January, 1931, endorsed this opinion, and "with a view to ensuring confidence in the management of Indian credit and currency" recommended that "efforts should be made to estab-

lish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank which will be entrusted with the management of the currency and exchange." Meanwhile, the Indian Central Banking Enquiry Committee, in their Report published in June 1931, strongly urged the formation of a Central Bank at the earliest possible date, with a view to the development of banking in the country. The constitutional proposals embodied in the ' White Paper ' of 1933 assumed the establishment of a Reserve Bank prior to the inauguration of the new Constitution. Accordingly, a Committee, presided over by the Secretary of State, and consisting of 23 members, a number of whom were Indians, met in London in July 1933 with the purpose of drafting the Reserve Bank Bill. Based on their Report, a Bill was introduced in the Indian Legislature in September 1933, and passed by both Houses in February 1934. It received the assent of the Governor-General on the 6th March, 1934, as the Reserve Bank of India Act, 1934. In accordance with the provisions of the Act, the Reserve Bank was inaugurated on the 1st April, 1935.

The
Reserve
Bank Act.

The Reserve Bank is a shareholders' bank, the original capital being Rs. 5 crores, divided into shares of Rs. 100 each, fully paid-up. The capital may be increased or decreased with the sanction of the Government, and with the approval of the Central Legislature. Separate registers of shareholders are maintained at Bombay, Calcutta, Delhi, Madras, and Rangoon, shares being transferable from one register to another.¹ Each shareholder has one vote for every five shares held, subject to a maximum of ten votes.

Reserve
Bank—a
share-
holders'
bank.

The Bank has offices in Bombay, Calcutta, Delhi, Madras, Offices.

¹ A separate issue of shares in each of the areas served by these registers was made at the time of the establishment of the Bank, different amounts of shares being assigned to each register in accordance with the Act. Shares of the nominal value of Rs. 2,20,000 are reserved for and held by Government for disposal at par to Directors seeking to obtain the minimum share qualifications.

A shareholder must be (a) domiciled in India, and either an Indian subject of His Majesty or a subject of an Indian state, or (b) a British subject ordinarily resident in India and domiciled in the United Kingdom, or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indians, or (c), (i) a company or a co-operative society registered in India, or (ii) a ' scheduled bank ', or (iii) a company incorporated under an Act of Parliament or under laws in force in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indians.

Qualifica-
tions of
share-
holders.

Rangoon, and London, and may establish branches or agencies in any other place in India, or, with the previous sanction of the Governor-General, elsewhere.

Organisa-
tion and
manage-
ment.

The Bank is managed by a Central Board of sixteen Directors, constituted as follows : (a) A Governor and two Deputy Governors appointed for a maximum period of five years each by the Governor-General in Council after considering recommendations made by the Board ; (b) four Directors appointed for five years each by the Governor-General in Council ; (c) eight Directors, elected by the shareholders on the various registers, who hold office for five years each¹ ; and (d) one Government official nominated by, and holding office during the pleasure of, the Governor-General in Council. Besides, there is a Local Board for each of the five areas. A Local Board consists of not more than eight members, five of whom are elected by the shareholders on the register for that area, while the remaining members are nominated by the Central Board with a view to securing the representation of territorial or economic interests, particularly agricultural interests, which might not otherwise be duly represented. It is the five elected members of the Local Board who are to elect from amongst themselves the Directors for representing their area on the Central Board. The function of the Local Boards is to advise the Central Board on matters referred to them, and to perform such duties as are delegated to them by it.

Functions
of the
Reserve
Bank.
As Gov-
ernment
banker.

The functions of the Reserve Bank may conveniently be studied under three heads, viz., as banker to the Government, as the currency authority of the country, and as the bankers' bank. As the Government's banker, the Reserve Bank accepts moneys and makes payments on behalf of the Government, and carries on their exchange, remittance, and other banking operations, including the management of the public debt and the issue of

¹ Two Directors are elected for each of the three registers in Bombay, Calcutta, and Delhi respectively, and one Director is elected for each of the two registers in Madras and Rangoon respectively. A Director of the Central Board or a member of a Local Board must not be (a) a salaried Government official or a salaried official of an Indian state, or (b) a member of either the Central Legislatures or of any of the Provincial Legislatures, or (c) an employee of any bank, or (d) a director of any bank other than a co-operative bank, or (e) an insolvent person, or (f) a person of unsound mind.

new loans. An agreement was entered into in 1935 by the Bank with the Secretary of State for India, defining the terms and conditions under which these services are performed. Besides, the Bank is entitled to receive the cash balances of the Government for deposit free of interest at places where the Bank has no branches or agencies. Since the 1st April, 1937, the Provincial Governments have opened separate banking accounts with the Reserve Bank. The separation of Burma from British India led to the conclusion of a separate agreement between the Reserve Bank and the Burma Government on the lines of the Agreement with the Secretary of State for India. The Reserve Bank continues to be responsible for the management of the currency and credit of Burma, and bank-notes of a special design for circulation in Burma are now issued by this Bank.

As currency authority, the Bank has a monopoly of Note Issue, and it is under an obligation to buy and sell sterling with a view to maintaining the exchange value of the rupee in terms of sterling at 1s. 6d. For purposes of Note Issue, an Issue Department, separate from the General or Banking Department, has been created. This Department has taken over all the gold held formerly in the Gold Standard and Paper Currency Reserves, together with a part of the other assets, such that the gold and the assets, taken together, are equal in value to the total of the Government Notes in circulation at the time of the transfer. Liability for these Government Notes has also been undertaken by the Issue Department. Both the Gold Standard Reserve and the Paper Currency Reserve have thus been abolished, and their resources concentrated.

Functions
relating to
currency.

Two
depart-
ments.

The liabilities of the Issue Department consist in the total of the Notes in circulation, including the old Government Notes in circulation, as also the Notes held in the Banking Department. The assets must not fall below the total of the liabilities in value, and they consist of (a) not less than two-fifths in gold coin, gold bullion, or sterling securities, provided that the amount of gold coin and gold bullion (which are valued at 8·47512 grains of fine gold per rupee) shall not at any time be less than Rs. 40 crores in value, and that not less than $\frac{1}{2}$ ths of the gold coin and bullion shall be held in British India ; and (b) rupee coin, Government of India rupee securities, and such bills of exchange and promissory

Liabilities
and assets
of the
Issue De-
partment.

notes payable in British India as the Bank is empowered to deal in by the Reserve Bank of India Act, provided that the amount of rupee securities held must not exceed one-fourth of the total amount of the assets, or 50 crores of rupees, whichever amount is greater, or, with the previous sanction of the Governor-General in Council, such amount *plus* a sum of 10 crores of rupees.

Proportional reserve system.

Thus the Note Issue is to be made according to the proportional reserve system, and not the fiduciary reserve system, as heretofore. But the proportions fixed in the Act are not rigid, for it is provided that less than two-fifths of the assets may be held in gold coin, gold bullion, and sterling securities, with the previous sanction of the Governor-General in Council, for specified periods. But in such cases the Bank is to pay a graduated tax of 6 per cent. and above on the deficiency for the period during which such deficiency occurs.

The bank-notes are legal tender and are guaranteed by the Governor-General in Council. They were first issued to the public in January, 1938.

As regards the purchase and sale of sterling for maintaining exchange, these are not to be made for amounts of less than £10,000 in any instance. The Act recognises exchange stability to be a temporary arrangement, leaving the question of the best monetary standard to be considered when international monetary conditions become more stable.

Functions as the bankers' bank.

As the bankers' bank, or the Central Bank of the country, the position of the Reserve Bank is regulated by a number of provisions in the Act. Thus the kinds of business that the Bank may transact are specified. These include the rediscounting of internal bills of exchange maturing within 90 days, and of agricultural bills maturing within 9 months. There is, besides, provision for 'open market operations', when, in the opinion of the Bank, a special occasion for such operations arises. The Bank is prohibited, among other things, from competing with ordinary banks by engaging in trade, or otherwise taking a direct interest in any commercial or industrial undertaking, and from dealing in immovable property. These provisions, which aim at keeping the Bank out of speculative transactions, are reinforced by a statutory limitation on the profits annually payable to the shareholders. The maximum rate of profits allowed under the

Restrictions on the Bank's activities.

Act is a cumulative dividend of 5 per cent. per annum on the share capital of the Bank, plus an additional rate, depending on the surplus, which works out to a maximum of about 1 per cent. Any surplus remaining after the payment of dividends to shareholders are to be paid by the Bank to the Governor-General in Council. By this arrangement the Government secures a sort of indirect return for the assets transferred to the Reserve Bank from the Gold Standard and Paper Currency Reserves.

Limita-
tion of
profits.

The solvency and safety of the Bank are finally assured by the institution of the Reserve Fund, which has been created by the transference to the Bank of Rupee Securities of the value of five crores of rupees by the Governor-General in Council. Should the capital of the Bank be increased in future, the Reserve Fund must be increased by an equivalent amount out of the Bank's own resources.

The
Reserve
Fund.

As against the restrictions imposed on the Reserve Bank's activities by the Act, certain privileges have been granted to the Bank, such as the exemption of the Bank from the payment of income-tax or super-tax on its income and profits. Another privilege, essential to its functioning as a Central Bank, consists in its being entitled to hold the cash reserves of the more important banks of the country, which are designated as 'scheduled banks' in the Reserve Bank Act. The 'scheduled banks' include the Imperial Bank, the chief Joint-Stock Banks, the Exchange Banks, and their relations with the Reserve Bank will be studied later.

The
Bank's
privileges.

A special feature of the Reserve Bank is the Agricultural Credit Department, which studies questions of agricultural credit and attempts to co-ordinate the operations of the Bank in this direction as well as its relations with the indigenous banking concerns and the provincial co-operative banks.

Agricul-
tural
Credit De-
partment.

The wide range of the functions and responsibilities of the Reserve Bank necessitates a considerable measure of governmental control over the Bank, notwithstanding the fact that it is not a Government institution. Thus, as we have already seen, out of sixteen Directors of the Central Board, seven, including the Governor and the two Deputy Governors, are nominated by the Governor-General, while one other Director is a government officer. The Reserve Bank Act was modified by sections

Govern-
ment con-
trol over
the Bank.

152 and 153 of the Government of India Act, 1935. Under these sections, no Bill affecting the constitution or functions of the Reserve Bank may be introduced in the Federal Legislature without the previous sanction of the Governor-General, and the power of appointing, nominating, and removing from office the Governor, Deputy Governors, and Directors of the Central Board is vested in the Governor-General himself.

Imperial
Bank the
agent of
the
Reserve
Bank.
The Pre-
sidency
Banks.

The Reserve Bank was designed to take advantage of the experience and of the large organisation of the Imperial Bank, and, accordingly, it has entered into an agreement with the latter under conditions specified in the Act.

The Imperial Bank was formed by the amalgamation of the Presidency Banks. The Presidency Bank of Bengal was established in 1806, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally semi-Government institutions. At one time they enjoyed the privilege of issuing bank-notes, which privilege was withdrawn by the Act of 1861.

The
Imperial
Bank.

The constitution and management of the Imperial Bank are regulated by Imperial Bank Act of 1920, as amended in 1934. This Act prescribes the kind of business which it can undertake. The control of the Imperial Bank is entrusted to a Central Board of Directors, with Local Boards at Calcutta, Bombay, and Madras, and such other places as the Central Board may determine. The Central Board consists of (a) the President, the vice-Presidents and the Secretaries of the Local Boards, (b) one person elected from amongst the members by each Local Board, (c) a Managing Director and a Deputy Managing Director appointed by the Central Board, and (d) not more than two non-officials nominated by the Central Government.

The principal restrictions placed at present on the business of the Imperial Bank are as follows : In the first place, it is not permitted to make any loan or advance, (a) for a period longer than six months, except in a few stated cases ; (b) upon the security of its own stock or shares ; (c) upon mortgage or security of immovable property generally. Secondly, the amount which may be advanced to any individual or partnership concern is limited. Thirdly, discounts or advances cannot be made on personal security, unless there is the individual responsibility of at least two persons or firms, not in general partnership with each

other. Fourthly, discounts or advances cannot be made against any security not being a security in which a trustee may invest trust money under the Indian Trusts Act, 1882.

The agreement between the Reserve Bank of India and the Imperial Bank is for a period of fifteen years and thereafter, until terminated after five years' notice on either side. According to this arrangement, the Imperial Bank is the sole agent of the Reserve Bank at all places in British India where the former had a branch at the time of the inauguration of the Reserve Bank, and where there is no branch of the Banking Department of the Reserve Bank. The Imperial Bank is not permitted, without the sanction of the Reserve Bank, to open any branch in substitution for a branch existing at the time when the Agreement came into operation. In consideration of the agency services performed by it, the Imperial Bank receives from the Reserve Bank of India a certain sum depending, during the first ten years of the Agreement, on the volume of business transacted by it on behalf of the Reserve Bank, and, during the next five years and afterwards, on the actual cost incurred for that purpose. In addition, it receives certain stated sums for maintaining at least as many branches as it had at the time of the inception of the Reserve Bank.

Agreement with Reserve Bank.

The extent and growth of business of the Imperial Bank in recent years may be seen from the following figures :

Extent of business.

	31st Dec., 1921 (in lakhs of rupees)	31st Dec., 1935 (in lakhs of rupees)
Paid-up capital - - -	5,62	5,62
Reserve and rest - - -	4,15	5,76
Public deposits - - -	6,80	— ¹
Other deposits - - -	65,78	79,09
Cash balance - - -	13,60	19,59

The proportion of cash to deposits was 25 per cent. in 1935.

The Imperial Bank of India had 163 branches in 1935 in different parts of the country. These are under the direct control of the local head offices, and their funds are included in those of the head offices.

Branches.

Next in importance to the Imperial Bank of India are the Exchange Banks, which are concerned mainly with the larger

Exchange Banks.

¹ Public deposits are now kept with the Reserve Bank.

operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks are mostly Europeans, but Indians deposit their moneys with them, on which they get interest at low rates. The most important of such banks are the Chartered Bank, the National Bank of India, the Mercantile Bank, Lloyds Bank, the National Bank of South Africa, and the Eastern Bank. Some of the other larger Asiatic banking institutions also, such as the Hong-Kong and Shanghai Corporation, the Yokohama Specie Bank, the Sumitomo Bank, the International Banking Corporation, and the Bank of Taiwan, do some amount of Indian business. The total number of Exchange Banks doing business in India was 17 in 1935. Their aggregate capital and reserves amounted to £137 millions, while their deposits and cash balances in India were £57 millions and £9 millions respectively.

Indian
Joint-
Stock
Banks.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Some of them are under European supervision, but most of them are managed by Indians themselves. There has been a considerable increase in their number in recent years, and the total amount of their business has also expanded a great deal. At present their business is mainly confined to the financing of the internal trade of the country ; but it is to be hoped that they will extend their operations to foreign exchange, and thus take advantage of foreign capital. The number of banking concerns in the country is quite large. But in 1935, only 38 banks had a paid-up capital and reserves of over Rs. 5 lakhs each. The aggregate paid-up capital and reserves of these banks amounted to Rs. 13·20 crores, the deposits to Rs. 84·45 crores, and cash balances to Rs. 19·12 crores.

Recent
changes.

The position of Indian Joint-Stock Banks has been affected to a great extent by the amendment of the Indian Companies Act. This amended Act came into operation in January, 1937. The Act attempts to define banking, and to segregate banking from other commercial operations. It recognises the special status of the ' scheduled banks ' and exempts them from certain measures of control imposed under this Act on other banks, on the ground that the scheduled banks may be left to the general

supervision of the Reserve Bank. "These provisions embody original features for which there does not seem to be, so far as is known, an exact parallel in other countries, but they appear to be justified by the special nature of the conditions prevailing in India, and it is hoped that they will lead to the development of scheduled banks working on modern and scientific lines."¹

The 'scheduled banks,' referred to above, are so called owing to the fact that the Reserve Bank Act contains a schedule giving the names of the banks which are directed to maintain balances with the Reserve Bank. This schedule gives a list of 50 banks, and the Act empowers the Governor-General to include in the schedule any other bank having a paid-up capital and reserves of at least 5 lakhs of rupees in the aggregate. Any scheduled bank, the aggregate value of whose paid-up capital and reserves falls below 5 lakhs of rupees, shall be excluded from the schedule. The number of scheduled banks rose from 50 to 54 during the year 1937-38.

Scheduled
Banks.

Each scheduled bank is required by the Reserve Bank Act to maintain with the Reserve Bank a balance amounting to at least 5 per cent. of its demand liabilities, and 2 per cent. of its time liabilities (*i.e.*, fixed deposits) in India. It has to submit a weekly return to the Reserve Bank, giving a clear statement of its affairs in a prescribed manner. Failure to submit the weekly return entails the payment of a penalty of 100 rupees for each day during which the failure continues. Further, should the balances of a scheduled bank kept with the Reserve Bank fall below the prescribed minimum, a heavy fine is to be paid by it to the Reserve Bank in the form of penal interest on the amount of the deficiency.

Provisions
relating to
them.

These regulations were considered necessary in order to ensure the solvency of the scheduled banks, because a number of bank failures in the past had severely checked the growth of Indian banking. In 1935, there were 51 cases of bank failure in the whole of India.²

Bank
failures.

¹ *Second Annual Report of the Reserve Bank of India.*

² During the last quarter of a century, the number of bank failures in the country was quite large. The crash came with the failure of the People's Bank in the Punjab, with its 72 branches in the different parts of the country and its crore and a quarter of deposits. Next failed the Credit Bank of India, and the Indian Specie Bank too—the only purely Indian Bank which had a branch in

Necessity
for growth
of credit.

It will, however, be a misfortune if these failures produce the effect of permanently hindering the growth of Indian banking. "Credit," as the American jurist-statesman, Daniel Webster, put it, "has done more, a thousand times, to enrich nations than all the mines of all the world"; and, in the words of the eminent economist, McLeod, "it is by the cautious and gradual extension of Banking, and the development of Banking habits among the people that the future progress of India in wealth and prosperity is to be promoted."¹

Progress
of
banking.

There has been a progressive increase in bank deposits during the last decade, the temporary set-back in 1931 having been due to the economic depression. The total deposits of all Banks in India amounted to Rs. 274 crores in 1935. The respective shares in the total deposits in 1935 were : Reserve Bank of India, 13 per cent. ; Imperial Bank of India, 28 per cent. ; Exchange Banks, 27 per cent. ; Indian Joint-Stock Banks, 32 per cent.

Proportion
of
cash to
deposits.

Cash balances at the end of 1935 were 25 per cent. on the liabilities on deposits in the case of the Imperial Bank of India ; 16 per cent. in the case of Exchange Banks. The percentage for Indian Joint-Stock Banks was 23 in the case of those having capital and reserve of Rs. 5 lakhs and over, and 16 in the case of those with smaller capital.

The Gov-
ernment
itself a
great
banker.

The Government itself is also a great banker. It holds in deposit moneys from the people in its Post Offices and pays interest on them. The total amount of deposits in the Post Office Savings Bank was on 31st March, 1936, over 67 crores of

London—was unable to weather the storm. These were followed by thirteen other failures. Various causes contributed to bring about the crisis. The management of some of the banks was in the hands of men who had very little experience of this kind of business, and they often embarked on speculative ventures of a dangerous character. In some cases the banks had high-sounding titles, but their paid-up capital was very small ; they lent money on insufficient security ; and the proportion of their cash reserves to their liabilities was exceedingly small. A further cause was the lack of support from well-established banks at a time of stress. The failure of the Alliance Bank of Simla, one of the greatest joint-stock banks in India, in 1923, was due to too large sums having been advanced to Messrs. Boulton Brothers of London, who had indulged in highly speculative ventures. The failures brought misery to large numbers of poor men and women ; and future bankers will do well to learn from the experience of the past and avoid mistakes such as those which led to the crises in the past.

¹ H. D. McLeod, *Indian Currency*, p. 53.

rupees. No special balances are held by the Government against these deposits, they being regarded as part of the Unfunded Debt. The Government also advances loans to cultivators for agricultural improvements and the purchase of land, cattle, etc. This is done on a large scale in times of famine and scarcity. The Co-operative Credit Societies are institutions similar in object, though not in scope and organisation, to the Agricultural Banks of Europe.

A banker utilises his capital and a considerable proportion of his deposits in making advances. Such advances are generally made either by means of an overdraft or a definite loan against security, personal or otherwise, or on a cash credit bond providing for a fluctuating balance within a certain definite amount. Besides, banks invest in the discounting of commercial bills and in loans to stockbrokers and others against Negotiable Securities. Loans made on mortgage or against securities form the chief business of the Indian Joint-Stock Banks. Loans against the personal credit of the borrower only, form one of the important classes of advances given by commercial banks in western countries, but they are relatively unimportant in India. The reason for this difference in practice is to be found, according to the Indian Central Banking Enquiry Committee, in the following factors : a tradition established by the Presidency Banks, and later followed by the Imperial Bank, because of the restrictions imposed upon their operations ; the absence of touch and the consequent lack of knowledge between borrowers and lenders in the principal money-market centres in India ; the absence of the policy of ' one man, one bank ' which obtains in western countries ; the prevalence of the managing agency system in India ; and the absence of agencies for supplying information about the financial standing of borrowers.

The instruments of credit in India are governed by the Negotiable Instruments Act. A Negotiable Instrument means a promissory note, bill of exchange, or cheque. A promissory note is a written unconditional promise made by one person to pay another a certain sum of money. A bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to, or to the order of, a certain person or to the

bearer of the instrument. A cheque is a bill of exchange drawn on a banker and payable on demand. Negotiable instruments may be either inland or foreign. Those drawn or made in British India and made payable in, or drawn upon, any person resident therein, are called inland instruments ; those not falling within this definition are foreign instruments. Besides these, some other instruments, passing from hand to hand by delivery, have by the custom of trade acquired a quasi-negotiable character.

Bank rate. The bank rate is the standard rate at which the Reserve Bank is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Reserve Bank Act. The annual average of these rates for the years 1935 and 1936 were 3.46 per cent. and 3.00 per cent. respectively.¹ The bank rate varies from day to day and from month to month. During some months of the year the rate is very high in India—sometimes rising to over 8 per cent. Such high rate, however, prevails only for a short period, namely, the winter months, when the exporters need money for purchasing agricultural products. The bank rate in India does not exercise the same influence over the other rates in the money-market. The more important of these rates are the call money rate charged for very short-period

¹ The averages of the Imperial Bank rates during the ten years previous to the establishment of the Reserve Bank were as follows : 1925, 5.64 per cent. ; 1926, 5.17 ; 1927, 5.73 ; 1928, 6.20 ; 1929, 6.33 ; 1930, 5.89 ; 1931, 7.04 ; 1932, 5.03 ; 1933, 3.56 ; 1934, 3.50.

The following observations made in the League of Nations Report on " Money and Banking, 1936-37," are interesting : " The state of the London capital market exercises an appreciable influence on the course of interest rates in India, as there is an active market in India for sterling as well as rupee Government securities and as the yields on the latter do not normally diverge very far from those on the former, which are mainly determined in London. Another influential factor in the decline of interest rates in India was the large-scale dishoarding of gold by the present population which followed the depreciation of the rupee after the autumn of 1931 and which increased the cash liquidity of the banking system. As in the case of China, the cheapness of money in the main financial centres, Calcutta and Bombay, contrasted sharply with the continued scarcity of capital in the interior, partly due to inadequate machinery for the diffusion of modern credit facilities.

" Even in Calcutta, the ' bazaar ' rate—the rate of discount on bills of small traders—did not fall below 6 per cent. in the period under review. Nevertheless, the low level of interest rates in India has probably been an important factor in the rise of industrial development, building activity, and public utility investments in the country in recent years." *Money and Banking* (League of Nations), 1936-37, p. 94.

loans, repayable at the option of either the lender or the borrower, the deposit rate charged by the joint-stock banks, and the bazaar rate charged by indigenous bankers for small traders' bills.¹

¹ These problems will be discussed more fully in Part II of the book.

CHAPTER XII

CONSUMPTION

Relation
between
consump-
tion and
produc-
tion.

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus seen to be very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent.

Standard
of life

varies in
degree,

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life not only differs among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great ; but so far as the elementary facts are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary facts of life.

and in
kind.

The standard of life, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral well-being. It would be a narrow view of Economics to confine the standard within the limits of physical needs. From our standpoint, it would be more desirable to take the term to include higher ends as well. We will follow Marshall, who says : " Let us take the term the Standard of Life to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy, and self-respect ; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect

no strength, and of ways of living that are unwholesome, physically and morally.”

According to this view, then, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term ‘refinement’. To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low.¹ This is true in a sense ; but it is not in itself a thing to be regretted. We must, however, distinguish between the standard of life which is the aim of the religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

The most expensive standard not necessarily the best.

The Indian standard.

In recent years, many artificial wants have made themselves felt in India. It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied ; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Wants and activities.

Economists divide articles of consumption into necessities and luxuries. Necessaries, again, are subdivided into necessities for existence and those for efficiency. There are, besides, certain

Classification of articles of consumption.

¹ The Labour Commission in their *Report* dealing with the conception of a fixed standard relating to industrial workers challenge the view that when the worker has earned enough to maintain that standard, he ceases to make any further effort. “The evidence of unprejudiced observers regarding improvement in the general standard of living and the increase in the level of real wages show that the workers’ earnings have risen, i.e., ‘that the idea of any general fixed standard is fallacious. . . .’”

articles which have come to be regarded as conventional necessities. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessities to some may be luxuries to others.

Statistics
of con-
sumption.

Reliable statistics of Indian consumption are not available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population. But as these commodities are not the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any knowledge of the condition of the different sections of society. It is very much to be desired that a thorough study of consumption in typical towns and villages will be undertaken by some enthusiastic persons on the lines of work of Charles Booth, Seeböhm Rowntree, and others.

The first
necessaries
of life :
Food.

Views of
eminent
officials.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small ; consequently, a large majority of the people are hardly supplied with the barest necessities. Sir William Hunter observed many years ago that more than one-sixth of the people went through life on insufficient food. Sir Guy Fleetwood Wilson, at one time Finance Member of the Government of India, said : “ A large proportion of the people are poor, an appreciable proportion very poor.” As a matter of fact, a considerable proportion of the people are below what is known as the ‘ primary poverty ’ line, and large numbers of persons hardly get one full meal a day. It is doubtful if all persons belonging to the ‘ middle class ’ get a sufficient quantity of nutritious diet.

Clothing.

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices ; but in winter, warm clothing of course becomes essential, especially in Northern India, where the winter is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The

middle-class people perhaps spend more on their dress than they ought to, in order to find money for their dress they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress, but they represent only a microscopic minority of the total population. As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in Europe and America.¹

House-room.

The primary wants are necessities for existence. An insufficient supply of these may just enable a person to keep body and soul together, but cannot but be ²detrimental to his physical and moral welfare. The effect of ¹inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-

Effect of inadequate consumption on production.

¹ The following table, compiled for the Indian (*Times of India*) *Year-Book* from various official sources, would serve to indicate the variations in the standards of life of working-class families at different centres in India (the figures, it should be noted, are not strictly comparable due to differences in items included in the different enquiries):

PERCENTAGE DISTRIBUTION OF EXPENDITURE

	Bombay (1932-33)	Ahmedabad (1926)	Sholapur (1925)	Nagpur (1927)	Jubbulpore (1927)	Rangoon (1928)
Food - - -	46.60	57.9	49.25	64.10	66.0	52.7
Fuel and light -	7.11	7.04	9.6	9.62	7.95	5.2
Clothing - - -	7.75	9.45	11.86	10.7	10.86	10.6
House rent - -	12.81	11.74	6.27	1.92	1.44	13.9
Miscellaneous -	25.73	13.87	23.02	13.66	13.75	17.6
Total - - -	100	100	100	100	100	100
Average size of the family (in persons)	3.70	3.87	4.57	4.33	3.76	3.01
Average monthly income (Rs. a. p.)	50-1-7	44-7-2	39-14-10	—	—	58-8-3

fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation ; and with the progress of physical degeneration, their moral stamina also tends to become less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.

Increased consumption necessary, but only of wholesome articles.

The stinting of necessities is always economically wasteful ; and there can be little doubt that production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink and narcotics means not only the waste of money spent on them, but an injury to body and mind.¹ In matters of dress, furniture and dwellings, the objects of attainment should be health, happiness, and morality—not luxury. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from augmenting our capacity, makes us “at once less wealthy, less healthy, and less wise ”.²

Necessaries of a higher kind : education, sanitation, leisure, recreation.

So much about the physical necessities. But there are necessities of a higher kind which are of as much importance as those we have been discussing, and the failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds

¹ Discussing the subject of the consumption of drink, the Labour Commission in their *Report* observe that it is “a feature of the majority of industrial areas and has created considerable havoc in some of them”. The reduction of drinking should not only effect improvements in the “health, efficiency, and standard of living of the workers”, but will also increase, the *Report* points out, the taxable capacity of the people. The *Report* also notes that by ensuring for the worker better surroundings, less fatigue, and increased facilities for amusement and recreation, considerable reduction in the consumption of drink may be expected.

² Sidney Webb, Preface to R. Jones's *Nature and First Principle of Taxation*.

Soundness of judgment.

greatly to his productive efficiency. Sanitation is a question of vital importance, particularly in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it exercises the greatest influence on happiness and morality. As a celebrated economist observes: "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."¹

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the first necessities of life. When an augmentation of income commences, the increments will, in the initial stages, go to make up the deficiency on the score of the primary wants, and the later increments will be devoted to the satisfaction of the higher needs.

Consider-
able
increase
of income
needed.

¹ Devas, *Groundwork of Economics*.

CHAPTER XIII

PUBLIC FINANCE

1. REVENUE

**Classifica-
tion.** THE revenue of the Government of India is derived from various sources. Several methods may be adopted in classifying these sources. The most natural method would be to divide the state income into four parts : (i) the income derived from the possession of state property, *e.g.*, forests, (ii) the profits of commercial undertakings, *e.g.*, the railways, (iii) incidental gains from administrative departments, *e.g.*, the law-courts, and (iv) taxation proper. Another and simpler method would be to put the first of these three items in one class, and to divide the revenue into two parts, namely, non-tax-revenue and tax-revenue. No classification can be wholly logical ; and it does not matter which one we adopt, provided it does not lead to a confusion of ideas.

**Tax-
revenue
and non-
tax
revenue.**

**Revenue
the only
purpose of
tax-
system.**

Unlike the tax-systems of some other countries, the only object of the Indian system is the production of revenue. No attempt is here made to remove or modify through its system of public finance any inequalities that may exist in the distribution of wealth among the different classes of society.

**Principles
of the
distribu-
tion of
taxation.** The Government of India, in framing their budget, do not professedly adhere to any of the current theories of the apportionment of taxation.¹ As a matter of fact, however, so far as the income-tax is concerned, they have definitely accepted the ‘ progressive ’ principle,² as we shall see presently.

**‘ Tax ’
defined.**

¹ A ‘ tax ’ is defined by Professor Bastable as “ a compulsory contribution of the wealth of a person or body of persons for the service of the public powers.” Compare this idea of a tax with that of Kalidasa, the great Sanskrit poet, who says that the king received taxes from the people with the sole object of benefiting them, just as the sun draws moisture from the earth in order to give it back a thousand-fold.

**The
different
theories of
taxation.**

² Although every student of Economics is supposed to be familiar with the different alternative principles of taxation that have been suggested by thinkers,

It is evident that the tax-system of the Government of India is not unitary—that is to say, it does not consist of a single tax (on real property, land rent, capital, income, or any other substance). It rather inclines to the opposite extreme, viz., the multiple tax-system.¹ The taxes are collected from a fairly large variety of sources.

The tax-
system
'plural'.

yet it will not perhaps be out of place to say a few words about them here. The first and the simplest principle is that the amount of service rendered by the state should be the standard by which to regulate taxation. The principal objection to this theory is that it is not possible to distribute the advantages among individuals, and to charge in proportion. The second principle is that of equality of taxation. All are equally benefited by the state; why should not all pay equally for these advantages? This method of equal contributions per head would be impossible politically, besides being extremely unjust. Thirdly, we come to the widely accepted doctrine which takes 'faculty' or 'ability' as the measure for taxation. 'Ability', however, is a vague term, and a measure of 'ability' is needed. This measure may be property, or gross income, or net income. A slight variant of the 'faculty' theory is the 'sacrifice' theory. 'Ability' is objective; 'sacrifice' is subjective. Either of these theories may lead us to two forms of distribution: (1) proportional taxation, in which income is taken as the standard, and the amount of public burdens proportioned to it; and (2) progressive or graduated taxation, which places a heavier rate of charge on large than on small incomes, because the ability of the tax-payer increases in a more rapid ratio than the increase of his income. The chief merit of the proportional system is its simplicity. It was the accepted doctrine of classical political economy, but progressive taxation has now been adopted in most countries of the civilised world. The chief objections urged against the latter system are its arbitrary nature, the danger of its evasion, the probability of its harmful effect on the accumulation of wealth, and the relative unproductiveness of the progressive tax. On the other hand, it is held that progressive taxation is more equitable than proportional taxation. One extreme form of the 'progressive principle' would be to substitute 'least sacrifice' for 'equal sacrifice'. Another extreme would be 'greatest sacrifice', which would lead to socialistic equality. There may be several modifications of the proportional principle, and one of these would be 'degressive' taxation, a system in which a uniform rate of tax is levied beyond a prescribed limit (*Vide Bastable, Public Finance, and Seligman, Progressive Taxation*).

¹ The merits of the 'single tax' system are that the method is simple, the cost of collection is small, and the incidence on the several individuals and classes is precisely known. Among the many defects of the system may be pointed out the following: Its pressure may be extremely heavy at a particular point; it may be easily evaded; there is no possible room for correction in case there be any error or miscalculation; it may really prove very complex and troublesome; there is the risk of exciting discontent by raising the required sum in a single payment. The chief advantages of multiple taxation are that it bears lightly on an infinite number of points, heavily on none, and has a tendency to bring about equality in the burden falling on the people. But the system is open to several objections, namely, that its incidence is not easily ascertained, that it is prejudicial to the development of industry, that it is

Direct and
indirect.

The Indian tax-system consists of both 'direct' and 'indirect' taxes. Land revenue and the assessed taxes are direct. Customs and excise duties are 'indirect'. Opium revenue partakes more of the character of profit from commercial transactions than of a tax. It must be remembered in this connection that a hard-and-fast line of division cannot be drawn between 'direct' and 'indirect' taxes.¹ There are some taxes which stand on the borderland between the two classes—for instance, registration fees and the stamp duties.

Attributes
of a sound
system of
taxation.

Before we pass on to a somewhat detailed account of the various sources of revenue, it would be desirable to state here the generally-accepted attributes of a sound system of taxation, so that we may be able to judge how far they are accepted by the Indian Government in their financial system. They are as follows: (1) The revenue-system must be adequate to the just needs of a progressive state; (2) taxation should be productive, for otherwise its very object would be defeated; (3) the state should take as little as possible from the people, consistently with

irksome and inconvenient to the payers, and that it is very costly in collection. The system which finds most favour in modern countries is 'plural taxation', which combines, to some extent, the merits of the two opposed systems.

¹ A tax is said to be 'direct' when the burden of the tax falls on the person who pays it. It is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance. The great recommendation of 'direct' taxation is its educative influence on the minds of the people. Each citizen knows exactly how much he contributes to the income of the state. If at any time the Government becomes tyrannical or unmindful of the interests of the people, he can refuse to pay taxes; and when an undue burden is put on him, he may resist. Besides, there is the greater facility and lower cost of collection. The drawbacks are: (1) the disagreeable nature of a direct demand and the discontent which an increase of taxation is likely to give rise to; (2) the difficulty of assessment; (3) its inducement to concealment and evasion; (4) the difficulty of obtaining a due proportion from the poorer members of society; and (5) its comparative inelasticity. The advantages of 'indirect' taxes are that (1) they are not often felt by the payer, and therefore cause him less annoyance; (2) they supply a facility for taxing the smaller contributors; (3) they are productive, and, in times of prosperity, they are elastic without causing undue pressure; and (4) they are collected at a time convenient to the payer. The disadvantages are the facilities which they offer for smuggling, the probability of a shrinkage in bad years, the possibility of their falling on the poor more heavily than on the rich, the greater expense of collection, and their possible harmful effect in disturbing the course of industry. The proper system of taxation seems to be that in which there is a judicious combination of 'direct' and 'indirect' taxes.

the maintenance of its efficiency ;¹ in other words, the total disutility should be at a minimum ; (4) taxation should be inexpensive in collection ; (5) taxation should not check men's desire to save, and should retard as little as possible the increase of wealth ; (6) it should be justly distributed, so that the burden may be equal on all citizens, or, in other words, the marginal disutility for each tax-payer should be at a minimum ; (7) it should be certain ; (8) it should be elastic ; (9) the objects taxed and the periods of payment should be such as suit the convenience of the people, and to cause as little vexation and opposition as possible ; and (10) the tax-system should be adjusted as far as possible to the habits and ideas of the people.²

Taxes in India fall into three classes, namely, central, provincial, and local, according to the category of administration to which they belong. The Central Government, the Provincial Governments, and the local bodies have separate resources, but there is not always a clear-cut distinction between the sources of revenue.

The introduction of the Montagu-Chelmsford reforms in 1920-21 led to a complete revision of the system of public finance in India. The budget of the Central Government was separated from the budgets of the Provincial Governments. Provincial sources of revenue were completely differentiated from central sources, and provincial expenditure was made entirely distinct from central expenditure. Further changes were made by the Government of India Act, 1935. The chief sources of revenue of the Central Government at present are : (1) customs, including the central excises ; (2) taxes on income, other than on agricultural income ; (3) salt ; (4) opium ; (5) payments by Indian states ; (6) railway receipts ; (7) receipts from other central departments, such as posts and telegraphs, civil and military departments, and

Chief
sources of
central
revenue.

¹ This was the old theory, when taxation was regarded as a necessary evil. Some of the modern economists, *e.g.*, Sidney Webb, incline towards the opposite view, holding that the state should take as much from individuals as possible, in order to confer a maximum of benefit on society as a whole.

² A corollary that is often deduced from these maxims is that the first necessities of life should not be taxed. Some economists would also add to the list another attribute, *viz.*, that no tax should be levied, the character and extent of which offer, as human nature is generally constituted, a greater inducement to the tax-payer to evade than to pay. (*Vide* D. A. Wells, *Principles of Taxation*.)

currency and mint ; (8) interest on moneys lent. It is clear that the first three of these heads fall wholly into the class of tax-revenue, and the others either wholly or partly into that of non-tax-revenue.

Customs :
import
duties.

Customs now form the largest source of revenue of the Central Government in India. Customs revenue dates from the early days of the East India Company. But its yield was not large during the Company's rule. In 1857-58, the income from this source amounted to only a crore of rupees. Even after the assumption of the administration by the British crown, the growth of customs revenue was very slow. It was during and after the great European war that there were sharp successive rises in the yield of customs. Till the commencement of the great European war, the Indian tariff was based on the orthodox free trade principles. The customs duties were levied solely for fiscal purposes, and were not protective or preferential in their nature. They were not intended to benefit one class of industry at the expense of another. The financial exigencies of the war, however, introduced considerable changes into the fiscal arrangements of the country. In spite of an avowed free trade policy, the tariff rates were raised several times till at last the duties on cotton piece-goods, sugar, iron and steel manufactures, paper and pasteboard, dyes and paints, and some other articles became moderately protective in character. The customs tariff then acquired an importance which it had never possessed before. Import and export duties, which had produced only 14 per cent. of the central revenue during the years 1909-10 to 1913-14, yielded more than 33 per cent. in 1924-25.

Discrimin-
ating pro-
tection.

The Indian Fiscal Commission of 1922 recommended the adoption by India of a policy of discriminating protection. Though halting and unsatisfactory in many respects, this Report may be said to mark the beginning of a new tariff policy in India.

Free im-
ports and
low rates.

The existing customs tariff consists of a long list of articles. Hides and skins, metallic ores, raw cotton and wool, manures, precious stones, grain and pulses, paper-making materials other than wood pulp, some agricultural implements and dairy appliances, water-lifts, sugar mill machinery, gold bullion and coins, books, live animals, cinchona bark and its alkaloids are now imported free of duty. In recent years, the free import list has

been considerably curtailed. A few unimportant articles are now taxed at the low rate of $2\frac{1}{2}$ per cent., some others at 10, $12\frac{1}{2}$, 15, and 20 per cent. *ad valorem*.

General import duties, at the rate of 25 per cent. *ad valorem*, are levied on a large number of commodities. Certain articles of luxury are taxed at higher rates. In addition, protective duties are levied in some cases. Preferential duties, at less than the standard rates, are levied in a few instances. Specific duties are levied on a comparatively small number. On a few articles, both specific and *ad valorem* duties are imposed. A general surcharge at one-fourth of the duty levied was added to the import duties in September 1931 to meet the deficit in the budget.

General
and
special
duties.

The net revenue contributed by import duties amounted in 1936-37 to more than 35 crores.

There are a few articles which are liable to an export duty. Raw jute cuttings pay duty at R. 1-4 as. per bale of 400 lbs., all other descriptions of raw jute at Rs. 4-8 as. per bale ; jute bags, twist, yarn, cloth, rope, and twine, at Rs. 20 per ton ; hessians and other jute manufactures at Rs. 32 per ton ; and rice, excluding certain categories, at 2 as. 3 pies per maund. These duties are said to be in accordance with the principle that the levy of export duties is justifiable on those commodities in which the exporting country has a virtual monopoly of production. The net yield of export duties was about 5 crores in 1936-37, which was about 10 per cent. of the total customs revenue. There are few countries in which the yield of export duties amounts to such a high percentage of the total customs receipts. Of the net proceeds of the jute export duty, $62\frac{1}{2}$ per cent. is transferred to the Governments of jute-growing provinces.

Export
duties.

In recent years, excise duties, which are consumption taxes levied on local production, have been imposed by the Government of India on the production of a number of articles. The main object of the levy of these duties is to recoup the financial losses suffered by the Government by reason of the substantial fall in the revenue derived from the import duties on those articles. The excise duty on silver bullion is at present 3 annas per ounce, on steel ingots Rs. 4 per ton, and on kerosene 2 as. $9\frac{3}{4}$ pies per gallon, *plus* a surcharge of 25 per cent. Excise duties were imposed on sugar for the first time in 1934, at the following

Excise
duties.

rates : 10 as. per cwt. on Khandsari sugar, and R. 1-5 as. per cwt. on all other sugar except Palmyra sugar. These rates were increased in 1937 to their present level, viz., R. 1 per cwt. on Khandsari sugar, and Rs. 2 per cwt. on all other sugar except Palmyra sugar. On motor-spirit, an excise duty was levied in 1929 for the first time ; the present rates of duty are 10 as. per gallon plus a surcharge of 25 per cent. A portion of the receipts from the excise duty on motor-spirit is transferred to the provinces for purposes of road development. Matches were subjected to excise duty in 1934 at the following rates : R. 1 per gross boxes containing not more than forty sticks, R. 1-8 as. per gross boxes containing more than forty but less than sixty sticks, Rs. 2 per gross boxes containing more than sixty but less than eighty sticks, and on all other matches, 4 annas for every 1,440 matches or fraction thereof. These rates are in force at present. The receipts from the excise duties were as follows in 1936-37 : motor-spirit, Rs. 5 crores 57 lakhs ; kerosene, Rs. 3 crores 2 lakhs ; silver, Rs. 5 lakhs ; sugar, Rs. 2 crores 53 lakhs ; matches, Rs. 2 crores 39 lakhs ; and steel ingots, Rs. 34 lakhs.

Cotton
excise.

It is interesting in this connection to note that, since 1896 an excise duty of $3\frac{1}{2}$ per cent. *ad valorem* used to be levied on cotton goods and yarn produced by Indian mills, with the object of countervailing the almost negligible protective effect of the import duty on those articles. This duty was suspended in December 1925, and abolished in March 1926. The total yield of these duties was nearly 6 crores in 1924-25.

Character
of customs
revenue.

Customs revenue is generally elastic ; it tends to expand with the expansion of trade and industry. As for the incidence of customs duties, those on matches and kerosene fall on almost the entire community, but more heavily on the poorest than on the other classes. The cotton duty is paid by the bulk of the population, more particularly the middle and well-to-do classes. The tax on refined sugar, stationery, and paper affects mainly the middle class ; while the heavy duties on motor cars, silk manufactures, cigars and cigarettes, and jewellery fall on the richer classes who are best able to bear the burden. The high duties on iron and steel, while they press upon important industries and means of communication, have the beneficial effect of safeguarding an industry of vital national importance. The

duty on liquor tends to check, however slightly, the consumption of a deleterious article.

The net receipts from customs duties amounted to Rs. 53½ crores in 1936-37. The customs revenue, at the present moment, amounts, roughly speaking, to over one-half of the net revenue of the Central Government.¹

Import-
ance of
customs.

The second important source of revenue of the Central Government is the income-tax. It is the most equitable of all taxes, as it is based on the principle of ability to pay. An income-tax was for the first time introduced in India in 1860 to meet the financial stringency caused by the Mutiny of 1857-58. It was levied at the rate of 2 per cent. on incomes between Rs. 200 and Rs. 500, and at the rate of 4 per cent. on all incomes above Rs. 500. This tax expired in 1865. It was reintroduced in 1869, and lasted for four years. The income-tax found a permanent place on the Statute-book in 1886. On this occasion, it was levied on incomes derived from sources other than agriculture, which was exempted. On incomes of Rs. 2,000 and upwards it fell at the rate of 5 pies in the rupee; on incomes between Rs. 500 and Rs. 2,000 at the rate of 4 pies in the rupee. In 1903, the taxable minimum was raised to Rs. 1,000. In 1916-17, as one of the measures needed to finance the war, the rates of income-tax were completely revised and largely increased; and the progressive principle was definitely adopted. Another feature of war taxation in India was the imposition of the super-tax in 1917. This was levied in addition to the ordinary income-tax on large incomes above Rs. 50,000.

Income-
tax.

Further changes were made in 1922, when the law relating to the income-tax was placed on a more satisfactory basis. The Income-Tax Act of 1922 was a purely administrative measure which regulated the basis, the methods, and the machinery of assessment, but did not contain any provisions relating to the rates of taxation. As a matter of fact, the rates were increased in 1922, and remained unchanged up to 1930. During these

¹ It is interesting to note that, during the trade depression, the revenue from customs did not decline to any considerable extent in India, as the result of imposing a surcharge of 25 per cent. on all taxes in 1931. This relative stability of the customs revenue is in marked contrast to the experience of other agricultural and raw-material producing countries during the depression. (*Wide World Economic Survey, 1933-34*, pp. 226-230.)

years, the tax was levied according to a graduated scale rising from 5 to 18 pies in the rupee on all incomes over Rs. 2,000 per annum, with the exception of agricultural incomes. Incomes derived from interest on securities, and the incomes of companies and registered firms, were subject to the maximum rate, whatever the total annual income might be. The rates of super-tax, imposed in addition to income-tax on incomes over Rs. 50,000 (in the case of Hindu undivided families, on incomes over Rs. 75,000), were similarly graduated, the lowest rate of super-tax being 12 pies per rupee, and the highest rate 6 as. per rupee. In the case of companies, the super-tax was payable at a uniform rate of 12 pies in the rupee.

There were various increases in the rates of income-tax, including the imposition of surcharges, between 1930 and 1934, owing to deficits in the budget. Besides, the taxable minimum was lowered to Rs. 1,000 for purposes of the ordinary income-tax, and to Rs. 30,000 for purposes of the super-tax. In 1935-36, surcharges on the income-tax and on the super-tax were reduced by one-third, as the result of an improvement in the financial position, and in 1936-37 incomes between Rs. 1,000 and Rs. 2,000 per annum were made free of income-tax. The rates as at present levied rise by gradual steps from 9 pies in the rupee on incomes between Rs. 2,000 and Rs. 5,000 per annum, to a maximum of 2 annas and 6 pies in the rupee on incomes above Rs. 15,000 per annum. Companies and registered firms are taxed at the maximum rate. The rates of super-tax rise from one anna in the rupee on the first ten thousand rupees of the excess above Rs. 25,000, to a maximum rate of seven annas in the rupee. Companies are taxed at a uniform rate of one anna in the rupee. This uniform super-tax on companies is known in India as the Corporation Tax.

Special
features
of the
Indian in-
come-tax.

The Indian income-tax has, among others, the following distinctive features. Agricultural incomes are exempted from payment of the tax, but the provinces have been empowered by the Government of India Act, 1935, to tax incomes derived from agriculture. No distinction is made between earned and unearned incomes. There are no allowances in respect of wife, children, and dependents. The graduation in respect of the ordinary income-

tax used, until recently, to follow the step system, while, in regard to the super-tax, it has always followed the slab system. A Committee, appointed to enquire into the income-tax system, made important recommendations in 1936 with a view to improving the method of administration of the tax and preventing evasion. It also recommended the substitution of the slab system for the step system in regard to the ordinary income-tax. A Bill, incorporating these recommendations, was passed by the Central Legislature in 1939.

The revenue derived from the income-tax has increased enormously since the war. During the period 1899–1913, the annual yield was only Rs. 1·95 crores, which increased to 10·70 crores in 1919–20.¹ There was a great jump forward in the yield in the years 1921 to 1923, after which slight decreases in the yield took place. The net receipts from the income-tax in 1936–37 were Rs. 15 crores 37 lakhs.

Yield of
Income-
tax.

The salt tax has always been regarded by the Government as a fiscal reserve to fall back upon in case of financial stringency.² The revenue can be increased without any material addition to the cost. For a long time the salt tax held a place second only to the land revenue. The successive reductions in the duty in 1903, 1905, and 1907 resulted in substantially lightening the burden which it imposed on the people. From 1908 to 1916 the tax was levied at R. 1 per maund. In 1916 it was raised to R. 1 4 as. In 1923–24, it was raised to Rs. 2–8 as. in the teeth of popular opposition and by the exercise by the Governor-General of the special powers vested in him. In 1924–25, however, in deference to public opinion, the rate was reduced to R. 1–4 as. per maund. This rate continues till the present day, but a surcharge at the rate of 25 per cent. on this rate has been in operation since 1931.

Salt.

The question of granting protection to the Indian Salt Industry was investigated by a Tariff Board, and, on their recommendation, an additional import duty at the rate of 4½ annas per

¹ An Excess Profits Duty was levied in 1919–20 on all incomes made by companies or individuals above the normal standard. This duty yielded a sum of Rs. 11½ crores. It was allowed to lapse in the following year.

² The production of salt is not a Government monopoly, but private manufacture is prohibited owing to the difficulty of preventing an evasion of the tax.

maund was imposed in 1931. Seven-eighths of the receipts from this additional duty were handed over to the provinces in which the imported salt was consumed, the object being to encourage the local salt industry. This object was realised in the rest of India, but not in Bengal, the largest consumer of imported salt. The rates of the additional duty were subsequently reduced, and the additional duty itself expired in 1938.

The salt duty produced 8·8 crores in 1936-37. Salt is a vital necessity to the people, and the tax has often been objected to by popular representatives. But the Government has continued to levy it on the ground that it is the only contribution which the masses of the people make to the revenues of the state.

Opium.

The production of opium is a Government monopoly in British India. Poppy cultivation is permitted only in parts of Bihar and the United Provinces, and is under the control of the Government.¹ Opium grown in the Indian states, known as 'Malwa opium', is permitted to enter British territory only on payment of a heavy duty. By agreement with the Chinese Government, as well as under certain international conventions, the Government of India have been obliged to reduce the production and export of opium. The revenue from opium, which was at one time a very important item in the financial resources of the Government, has now dwindled down to about four crores.

Revenue
from rail-
ways and
other
sources.

Of the income derived from sources other than taxation, that from railways formed at one time by far the largest proportion. The net railway receipts amounted to 32·70 crores in 1936-37. In 1925-26 the railway budget was separated from the general budget. It was arranged that out of the net profits a sum of Rs. 5·09 crores was to be annually contributed to the general revenues. From the balance the sum of Rs. 3 crores was to be transferred to the railway reserve. Further, one-third of the surplus left after the transfer to the reserve was to accrue to the general revenues. In 1924-25, the total contribution of the rail-

¹ The cultivator has to get a licence, and is required to deliver the whole of his out-turn of the crude opium to the Government at a fixed price. The excise opium, that is, the small quantity required for consumption in India, is made over to the Excise Department, and a fixed amount per seer is credited to opium revenue. The rest, known as provision opium, is sold by auction, and is intended for export. The exports to China, the principal market for opium, have now ceased altogether.

ways to the general revenues was Rs. 5½ crores, and up to 1931, the total contribution was Rs. 42 crores. Since then no contribution has been made.¹

Posts and telegraphs used at one time to be a source of considerable profit to the Government, but at present these departments can hardly be said to be revenue-earning. Payments from the Indian States amounted to about 74 lakhs in 1936-37. The total Gross Revenue of the Central Government amounted in 1936-37 to about Rs. 119 crores, and the total Net Revenue to about Rs. 75·6 crores.²

The revenue has largely increased during the last fifty years. Now the question which suggests itself is, How far does this expansion of revenue furnish evidence of increasing prosperity? This question is answered differently by different individuals and parties. The Government officers say that general prosperity has undoubtedly increased; Indian publicists, on the contrary, suggest that the increase of revenue has been necessitated by the ever-increasing cost of administration in utter disregard of the capacity of the people to bear the burden.

According to official calculations,³ the incidence of taxation per head of the population is Rs. 2-11·3 as. (3s. 7·3d.) per year.

The
burden of
taxation.

¹ The Wedgwood Committee recommended in 1937 that the contributions made by railways to the general revenues should be abolished, but this would mean a great loss to the public exchequer.

² In the figures relating to Gross Revenue and Expenditure, all receipts are included in the total of revenue and all outlay in the total of expenditure, with the one exception that the working expenses of railways are treated not as expenditure but as a deduction from revenue. In Net Revenue and Expenditure, the interest charges as well as the working expenses of railways, the interest charges and working expenses of irrigation works, the cost of the cultivation and manufacture of opium, and the charges against other revenue-earning departments are treated as deductions from revenue, and the receipts of spending departments are treated as deductions from expenditure.

³ The figures are taken from *The Statistical Abstract for British India*. It is not known by what process of calculation these figures have been obtained. A different calculation gives us Rs. 3-3 as., and if the land-revenue be excluded, for which we do not see any reason, R. 1-15 as. As for tax-paying capacity, Lord Cromer, in an article on "Indian Progress and Taxation", contributed to the *Quarterly Review*, wrote in 1913: "It would be an error to suppose that the incipient industrialism of the past decade has resulted in any accretion of wealth so as to increase the tax-paying power of the people." By reason of the poverty of the Indian people, he said, it was the least potentially tax-paying community in the world.

If land revenue be excluded, the burden would be R. 1-7·8 as. (1s. 11-8d.). The proportion of taxation to the average income is officially estimated at nearly 9 per cent.

2. EXPENDITURE

In Public Expenditure the basic principle should be public advantage. Expenditure should be so apportioned between the different heads that the public may derive the maximum utility from each.

The annual expenditure of the Central Government amounts nearly to 87 crores. In preparing his annual budget, the Finance Member usually attempts to balance the two sides, and, if possible, to secure a surplus.

The principal heads of expenditure are the following : Direct Demands on Revenue, Debt Services, Civil Administration, Civil Works, Defence Services, and Miscellaneous.

Direct Demands on the Revenue represent the cost of collection. This is, of course, an absolutely necessary item of expenditure. The expenditure under this head amounts to about Rs. 427 lakhs, or nearly 5 per cent. of the total net revenue.¹ There seems to be considerable room for the practice of economy in this matter.

Expenditure on Debt Services accounts for Rs. 12 crores 56 lakhs, made up of the interest on ordinary debt, interest on other obligations, and appropriations for reduction or avoidance of debt.

The Public Debt of the Central Government is divided into two classes : (i) Permanent Debt, and (ii) Floating Debt. The latter consists of temporary borrowings, such as treasury bills and ways and means advances from the Reserve Bank of India for not more than twelve months. Another classification of the Public Debt is into (i) Debt in India, and (ii) Debt in England. Besides the permanent and floating debts in India and in England, on each item of which the Government are to pay interest each year, there is usually a certain amount of loans outstanding on which no interest has to be paid by reason of the fact that they

¹ It is interesting to note that in the case of Opium, Land Revenue, Excise and Stamps, however, the charges of collection were about 40 per cent. of the revenue derived from these heads, while in the case of forests, the expenditure actually exceeded the revenue by a large amount.

represent unclaimed balances of old loans which have been notified for discharge and have ceased to bear interest from the due date of discharge. The composition of the Public Debt of India on the 31st March, 1937, was as follows :

PUBLIC DEBT IN INDIA (RUPEE DEBT)

	In lakhs of rupees
Permanent Debt in India - - - -	437,33
Floating Debt (Treasury Bills) - - -	28,54
Loans not bearing interest - - -	55
Total Debt in India - - - -	<u>466,42</u>

PUBLIC DEBT IN ENGLAND (STERLING DEBT)

	In £000
Permanent Debt - - - - -	317,444
Railway annuities - - - - -	39,856
Loans not bearing interest - - -	7
Total Debt in England - - - -	<u>357,307</u>

[Equivalent to Rs. 476 crores 41 lakhs (at 1s. 6d. per R.)]

The total public debt on the 31st March, 1937, was thus Rs. 942 crores 83 lakhs. Interest payments on account of the ordinary debt amounted to Rs. 35 crores 66 lakhs. The Central Government, however, recovered the whole of this amount from the commercial departments and from the accounts of the Provincial Governments, owing to the contributions to capital and other advances made by the Central Government. In fact, the bulk of the loans outstanding were raised for the construction of railways, irrigation works, and for similar capital expenditure in the commercial departments. Besides the loans raised in the open market, the Government of India had made advances to these departments out of its ordinary revenue, surplus cash balances, and savings bank deposits. Recoveries of interest were similarly made from the Provincial Loans Fund. The amount of interest payments received by the Central Government from these sources exceeded the interest payments on the ordinary debt by Rs. 2 crores and 87 lakhs. Thus, during 1936-37, there would have been a surplus income under the head 'Debt Services', if interest on ordinary debt were the only item to be considered.

The next item, interest on other obligations, involved the payment of Rs. 12 crores 43 lakhs in 1936-37. The 'other obligations' consist of the 'Unfunded Debt', the fixed deposits of Provincial Governments, the deposits of balances of the Famine Relief Fund, and the deposits of the Railway Reserve Fund and of the Depreciation Reserve Funds of Railways and of other commercial departments. The 'Unfunded Debt' consists principally of the Post Office Savings Bank Deposits, the Post Office Cash Certificates, and of State and other Provident Funds.

The amount of appropriation for reduction or avoidance of debt in 1936-37 was Rs. 3 crores. A regular scheme of debt redemption was adopted by the Government of India in 1925, prior to which year reliance had been chiefly placed on casual budget surpluses for this purpose.¹ The scheme was modified in 1932-33 and the annual provision for redemption was reduced to the figure of Rs. 3 crores at which it now stands.

Burden of
debt.

The National Debt appears to be rather large for a poor country like India. But nearly 72 per cent. of it can hardly be regarded as a burden, as the state derives income from the undertakings financed by such loans. On the question whether the state should undertake industrial operations or not, opinion, of course, is divided. But there is one advantage. When the money required for such undertakings is borrowed by the Government, they can obtain loans at cheaper rates of interest.²

As for the amount of debt, 107 crores were inherited by the

¹ This scheme, which was framed by Sir Basil Blackett, then Finance Member, provided for an annual contribution of Rs. 4 crores *plus* one-eightieth of the amount by which the total debt outstanding in any year exceeded the total debt outstanding on the 31st March, 1923. Though originally designed for five years, these arrangements were continued till 1932-33. But they placed too great a strain on the finances, and, besides, were found to have become more than adequate in view of an improvement in the debt position. Accordingly, the annual provision was reduced in 1932-33 to the figure of Rs. 3 crores, at which level it has since been maintained.

² The bulk of the public debt is at 3 or 3½ per cent. Mr. Gokhale, in his speech in the Viceregal Council, February 1911, compared this rate of interest with the rates paid by some other countries, and tried to prove that the credit of India was excellent. "Japan", said he, "borrows at from 4 to 7 per cent.; Russia borrows at about 5 per cent.; Turkey borrows at 5 per cent. and over; China borrows at between 4 and 7 per cent., 4 per cent. in a few cases, 6 and 7 per cent. being the usual rate."

Indian Government from the East India Company; and it is sometimes argued that the debt incurred by a commercial body should not have been fastened on the people of India. That amount steadily grew by successive additions. But between 1888 and 1907, the unproductive portion of the debt was steadily reduced. 'The unremunerative debt', said Sir G. Fleetwood Wilson in 1907,¹ "has shrunk in the last twenty years from being nearly one-half to being just over one-seventh of the total volume of our outstanding loans."² This policy was continued till the commencement of the war. Between 1914 and 1925, there was an addition of Rs. 462.42 crores to the public debt. This great increase was brought about, firstly, by the war, to the expenses of which India contributed directly Rs. 150 crores and various other sums in an indirect manner; and, secondly, by five successive post-war deficits, aggregating about 100 crores of rupees. With the increase in the amount of debt the interest charges also grew. From the year 1916-17, there was a large addition to the unproductive debt. In recent years, however, the unproductive debt has considerably decreased, and, if a wise policy be adopted, the whole of it can be wiped out within a short period of time. The incurring of debt for a purpose which is likely to contribute directly to the welfare of the people is, in general, desirable; but it may happen that a debt which was originally considered to be productive may cease to be so in course of time. Another matter which requires consideration is the desirability of redeeming the foreign debt of the country. When funds were not available in the country, it was necessary to float loans abroad; but now that funds in India are gradually becoming more and more available, the justification for floating loans in England is steadily diminishing. When interest charges are equal at home and abroad, the burden of a foreign debt is greater than that of an internal debt; in addition, a foreign debt is undesirable from a national standpoint, because the lending country always seeks to exercise a control over the political affairs of the borrowing country.

Sir Guy F.
Wilson's
view.

¹ *Vide* Sir G. Fleetwood Wilson's Budget Speech, 1907.

² The critics of the Government argued that inasmuch as the productive public works were likely to deteriorate in value in the course of time, this was an over-estimate.

Loans or
taxes?

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows : (a) the Government should meet all ordinary expenditure out of the ordinary revenues ; (b) they should not place the burden on posterity for any improvements which tend to benefit the present generation ; (c) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure partly, or even wholly, out of a loan ; and (d) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it would be better to have recourse to a loan, provided that suitable measures were adopted for redemption. The view is also held by some authorities that Government would be justified, at a time of acute economic depression, to help industry and trade by raising loans. As a general proposition, it may be laid down that it is advisable to keep the national debt down at as low a figure as possible, unless the interests of the country dictate a different policy.

The gross expenditure on Defence Services amounts to over Rs. 50 crores, and the net expenditure to about Rs. 45½ crores. To this must be added the recent additions to expenditure to be presently described. Besides, there are several items of expenditure of a military nature which are included under other heads. These amount to over Rs. 1½ crores.¹ The expenditure on Frontier Watch and Ward, on Strategic Railways and on some other items of a similar nature should also be included under the head of Defence Services. If this is done, the net annual expenditure will be found to exceed the sum of Rs. 50 crores.

Defence
services.

During the eleven years, 1913-14 to 1924-25, the net military expenditure nearly doubled itself. This huge expenditure has always been criticised by Indian statesmen as an exceedingly heavy burden on the people ; but the Government seem to view it as necessary. The question whether the country is or is not paying too high a price for the peace and security it enjoys is answered differently by different people. Critics of the Government think that the expenditure under this head can be curtailed

¹ *Finance and Revenue Accounts*, 1936-37, p. 298.

a good deal without running any risk.¹ It is the British portion of the army that accounts for the greater part of the expenditure, and if a part of it could be replaced by Indian soldiers, there would be an appreciable relief to the Indian Exchequer. The cost of a British officer is 3 to 4 times as great as that of an Indian officer. The cost of a British soldier is nearly four times as great as that of an Indian soldier.² The Retrenchment Committee of 1922-23 recommended that defence expenditure should be brought down to Rs. 50 crores as soon as possible, and to a lower figure if there was to be a fall in prices. This was an exceedingly cautious suggestion. Gradual reductions in military expenditure were made after 1924, but these economies were arrested in 1928 on the ground that it was necessary to modernise the equipment of the army. The economic crisis, however, compelled a temporary reduction in military expenditure to about Rs. 46 crores, and a heavy fall in prices made this possible.

On the recommendation of the majority of the Capitation Tribunal, an annual contribution of £1½ million has been made since 1933 by the British Exchequer in lieu of the expenses incurred by India for training the British troops. This contribution, however, did not go far enough, as was pointed out by the Indian members of the Tribunal. A substantial increase in defence expenditure occurred in 1938, owing principally to the increase in the pay of British officers, as a consequence of similar increases in England. Another factor which accounts for the increase was the addition made to the equipment of the naval and air forces. These measures will soon involve a large capital expenditure and will also increase the recurring expenditure in future years by two to three crores of

¹ Sir George White, Commander-in-Chief of India, said on one occasion : " We maintain that the Indian army does supply a great addition of military power to England, that a part of the British army is trained at the expense of India, and that the whole of the men passed into the reserve has been maintained out of the Indian revenues." It is argued that if a part of the Indian forces be really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance. India has fought the wars of England in the past both with her blood and her treasure, and she has the right to expect equitable treatment from England in return.

² Vide *Report of the Indian Retrenchment Committee, 1922-23*, Appendices A, C, and D.

rupees. As a partial relief to the Indian Exchequer, the British Government made an annual grant of £500,000 as well as a capital grant not exceeding £5 million towards India's defence expenditure in 1938. But this relief is almost negligible, for a sum of £500,000 in the British budget is a mere trifle, whereas an addition of two to three crores to the Indian budget of about 80 crores is very substantial.

The defence expenditure in India imposes an exceedingly heavy burden on the poor people of the country, and it is absolutely necessary that it should be substantially reduced. Three important steps ought to be taken immediately for this purpose. First, the cost of the British portion of the army should be borne by the British Exchequer. This surely is not an unreasonable demand. It had the support of the minority members of the Welby Commission. So great an authority as Lord Salisbury observed in 1896 : " Millions of pounds have been spent in increasing the army in India, not to provide for the security of India against domestic enemies or to prevent incursions of the warlike peoples of the adjoining countries, but to maintain the supremacy of the British power in the East. The scope of these great and costly measures reaches far beyond India's limits and the policy that dictates them is imperial policy." More recently the Esher Committee remarked : " We cannot consider the administration of the army in India otherwise than as a part of the total army forces of the Empire," and added : " the novel political machinery created by the peace treaty has enhanced the importance of the army in India relative to the military forces in other parts of the Empire and more particularly to those of the British Isles." Secondly, British officers should be replaced by Indian officers in the Indian portion of the army. Thirdly, the strictest economy should be observed both in recurring and in capital expenditure in all the departments of the army. The League of Nations recommended, not long ago, that the military expenditure of a nation should not exceed 20 per cent. of its revenue. This is a quite sound view, and if it is accepted India's military expenditure would be considerably less than Rs. 20 crores.

The next head is that of Civil Administration. The expendi-

ture under this head amounts to over 11 crores.¹ This figure represents an increase of more than $1\frac{1}{2}$ crores over the expenditure incurred in 1933-34. Under the stress of the economic depression, reductions were made under this head by postponing certain items of expenditure and by imposing temporary cuts in pay in 1932. The cuts were, however, restored two years later, even before the emergency had disappeared.

The financial history of India is a succession of periods of surplus and deficit. But the net result always is increased expenditure and additional taxation. During the years 1901-06, the Government of India were under the demoralising influence of fat surpluses, which tempted them to indulge in increasing recurring expenditure. This soon afterwards became a serious matter, and compelled the Government, faced with deficits on account of the decrease of the opium revenue and the creation of the new (now defunct) Province of Eastern Bengal and Assam, to have recourse to fresh taxation. A second period of increased expenditure and increased taxation began with the outbreak of the war in 1914-15. Another new factor responsible for a further growth in expenditure in this period was the introduction of the Reforms. During the seven years 1914-15 to 1920-21, the expenditure of the Central Government vastly increased. This great and sudden increase was met partly by increased taxation and partly by budgeting for deficits. There was a cumulative deficit of 100 crores, or

¹ The main sub-heads are :

	Crores of rupees (1935-36)
(i) General Administration - - - -	1·80
(ii) Audit - - - -	1·09
(iii) Justice - - - -	·07
(iv) Jails and Convict Settlements - - - -	·22
(v) Police - - - -	·55
(vi) Ports and Pilotage - - - -	·26
(vii) Ecclesiastical - - - -	·29
(viii) Political - - - -	1·78
(ix) Scientific Departments - - - -	·73
(x) Education - - - -	·30
(xi) Medical - - - -	·26
(xii) Public Health - - - -	·21
(xiii) Agriculture - - - -	·45
(xiv) Industries - - - -	·08
(xv) Aviation - - - -	·21
(xvi) Miscellaneous - - - -	·24

Inchape
Retrench-
ment
Com-
mittee.

an average of 20 crores per annum, during the five years 1918-19 to 1922-23. Besides, during the periods 1914-15 and 1922-23, fresh taxation amounting to a total annual sum of 49 crores was imposed. In 1922-23, the fifth successive year of a deficit budget, in response to an emphatic demand by the Central Legislature, the Governor-General appointed a Retrenchment Committee under the chairmanship of Lord Inchape. Its members were mostly eminent men of business. This Committee subjected the expenditure of the Central Government to a searching scrutiny, and unanimously recommended a net reduction in expenditure amounting to Rs. 19½ crores, part of which was to be effected gradually in a number of years. The expenditure for 1922-23 was Rs. 136.43 crores, while that for 1927-28 was Rs. 128 crores, inclusive of the expenditure on railways.¹

There was, however, a considerable increase during the two following years. The economic depression necessitated the appointment of another Retrenchment Committee, and, in accordance with its recommendations, considerable reductions in expenditure were made between 1931-32 and 1933-34. During this period, a heavy amount of additional taxation was imposed to meet the deficits in the budgets. Expenditure touched the lowest point in 1933-34, but thereafter a tendency towards an increase again set in, which is still continuing. The reductions that had been effected during the depression were, however, very small in comparison with the decline in national income during these years, and it is regrettable that, even before the depression had disappeared, the expenditure of the Government was allowed to go up.

There cannot be any solution of these persistent and recurring difficulties unless a determined effort is made to attack the root-causes. The Indian administration is exceedingly top-heavy. The maintenance of unnecessary posts and the high level of salaries paid to Government officers in the higher ranks are the chief difficulties in the way of securing economy in administrative expenditure. Among the other important causes which have helped to swell central expenditure, mention may be made of the following : (i) absence of proper co-ordination between different departments with a view to the elimination of wasteful expend-

¹ Vide *Report*, Cd. 131 of 1900.

iture ; (ii) the recently growing practice of importing so-called 'experts' from foreign countries ; (iii) the recent creation of several new provinces which have been dependent upon contributions from the Central Government ; and (iv) the unfair adjustment of financial relations between India and Burma under the new constitution. The removal of these causes is an urgent necessity. It is also essential to substitute Indian for European agency in all departments of the administration, which will go a considerable way towards relieving the burden of expenditure.

The Miscellaneous Charges include Territorial and Political Pensions (·29 crores), Superannuation Allowances and Pensions (2·82 crores), Stationery and Printing (·39 crores), and Miscellaneous (·62 crores). The total sum amounts to 4·14 crores, of which about 2 crores is spent in England. Other items charged to Revenue are Railways (32·69 crores), Civil Works (2·61 crores).

Miscellaneous
Charges.

Retrenchment ought to be the watchword of the Government ; for if they check their expenditure in other directions, they will have no difficulty in finding money for the real needs of the people, namely, education, sanitation, and social reform.

Need for
retrenchment.

The Minority Members of the Welby Commission thus summarised the views of Indian statesmen regarding the management of Indian expenditure, and the direction in which improvements might be effected to the advantage of the Indian people.¹

Welby
Commission
Minority
Report.

" 1. That Indian expenditure is not always exclusively, or even mainly, governed by Indian considerations, as is illustrated by :

(a) Indian Defence ; Indian frontier policy in its varying phases—adopted in furtherance of Imperial schemes of trans-frontier territorial expansion more than for India's defence—tending only to weaken her natural defences and loading her with indefinite and ever-increasing liabilities ;

(b) Railway extensions forced on without due heed to the country's needs or means—apparently intended to advance her industrial development, but unaccompanied by other and larger necessary measures which alone could make them serviceable to the proposed end ;

(c) Continued concessions, in respect of pay, promotion, pension, etc., to the European services, both civil and military—

¹ Vide *Report*, Cd. 131 of 1900.

concessions lending colour to the view that the country exists for the services, and not the services for the country.

The greater part of the increase of expenditure in recent years falls under these heads, and this fact bears out the contention of the Indian people that Indian interests are often subordinated to considerations of Imperial expansion, British commerce, and the European services.

“ 2. That due care is not exercised, nor is strict economy enforced, in the spending of India's money, as may be seen from the following :

(a) Comparatively little is yet done in the way of substituting qualified indigenous agency for foreign agency in the various departments of the civil administration (*e.g.* judicial, police, medical, post, telegraph) ;

(b) Overgrowth of controlling and supervising central establishments (*e.g.* sanitation, police, jails, stamps, registration, etc.) ;

(c) Organisation and maintenance of the Indian armies permanently on a war footing, without the necessary supports of reserves and militia—a system of national defence long since discarded as wasteful in European countries ;

(d) Disproportionately large numbers of British troops as compared with Native ;

(e) The officering of the Native army—over-recruiting of the Staff Corps and an increasingly restricted employment of Indian officers, the question having an important bearing on finance ;

(f) Railway contracts and concessions to railway companies.

“ 3. That there is a faulty distribution of expenditure of Indian money :

(a) Comparatively more is spent on so-called national defence, and less on the material and moral development of the country and the improvement of the civil administration ;

(b) More is spent on Imperial purposes and less on provincial purposes than is desirable in the present circumstances of the country, the provincial purposes being intimately connected, and the Imperial purposes only remotely, with the immediate well-being of the people ;

(c) More is spent on improvement of communications, and less on the improvement of the condition and capacity of the people themselves.

The present scale of India's expenditure is also open generally to objection on the ground that it is much beyond the capacity of the country to bear."

Though forty years have elapsed since these views were expressed, yet they remain, to a large extent, true even at the present time.¹

3. HOME CHARGES

The details of the expenditure incurred in England on account of India are as follows : ²

	£ Millions (in 1936-37)	Home Charges.
(i) Railway debt—interest, annuities, sinking funds	10·9	Details.
(ii) Interest on ordinary debt - - - - -	6·57	
(iii) Management of debt - - - - -	·1	
(iv) Stores for India - - - - -	2·83	
(v) Military and Marine - - - - -	10·91	
(vi) Expenditure in connection with Civil Departments in India - - - - -	0·88	
(vii) India Office and High Commissioner's Office - - - - -	·23	
(viii) Furlough and Pensions, etc. (Civil) - - - - -	1·76	
(ix) Unclassified - - - - -	0·03	
	<u>34·21</u>	

The receipts in England amount annually to about £4 million. The net expenditure in England is thus about £30 million.

The Home Charges have for many years past been the subject

Are Home
Charges a
tribute?

¹ Thus, Sir Walter Layton, the Financial Assessor to the Simon Commission, in commenting on the financial situation in India, summarised its chief features in the following words : " The mass of the people are extremely poor. She is incurring expenditure on the primary functions of government, such as defence and the maintenance of law and order, as high in proportion to her wealth as Western nations. Her expenditure on social services such as education, health, sanitation, etc., on the other hand, is far behind Western standards, and indeed in many directions is almost non-existent." (*Report of the Simon Commission*, vol. ii, p. 207.)

² Vide *Statistical Abstract for British India*.

of much adverse criticism. They have been regarded by many Indian as well as English statesmen as one of the main causes of Indian poverty. Further, some have described them as a tribute levied by England upon India ; and J. S. Mill's statement that " international payments for which no equivalent in commodities or money is paid have all the effects of a tribute " has been quoted in support of this view. Sir George Wingate observed many years ago : " The taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another. . . . In this case they constitute no mere transfer of a portion of the national income from one set of citizens to another, but are an absolute loss and extinction of the whole amount drawn from the taxed country." Sir Thomas Munro also expressed a similar opinion.

Political
and
economic
aspects.

Considered from the standpoint of the economist, the Home Charges present two aspects—one political and the other economic. As is evident from the analysis given above, about one-third of the total amount is spent in England owing to the political relations of that country with India, and the remaining two-thirds represent payments which are really transactions of an economic character. It would be a mistake, therefore, to regard the whole amount of the Home Charges as a drain upon the resources of the country. But, however legitimate and justifiable some of the payments may be in themselves, there is no denying the fact that a large proportion of the total annual revenue of India goes out of the country without any direct return. This certainly is not satisfactory. Every effort ought, therefore, to be made, not only to check the further growth of the Home Charges, but to reduce as much as possible their present size. In regard to civil expenses, army and marine charges, furlough allowances, pensions and gratuities, Indian politicians are of opinion that the aggregate amount can, and ought to, be greatly reduced by the substitution in a large measure of Indian for British agency in the administration as well as the defence of the country. As for the debt services, they urge that serious efforts must be made in future to raise the capital for productive public works as far as possible in India, and that the debt now held in England be gradually redeemed and, if possible, replaced by a rupee debt. Regarding the purchase of stores, it may be noted that in defer-

Sug-
ges-
tions for
reduction.

ence to a strong public opinion, there was established in India some years ago a Stores Department, which is intended to bring Government purchasers into effective touch with local manufacturers. Since then, textile goods, engineering materials, and goods of various other descriptions have been purchased through this department to a considerable extent. But this must be regarded merely as a beginning. With the gradual expansion of the scope of this department, it ought to serve the two-fold purpose of reducing the Home Charges and encouraging indigenous industries.

4. CASH BALANCES

In order to be able to carry on their operations, the Government must have working balances in hand. On the basis of experience it has been estimated that the minimum balance required in London is 6 crores (£4 millions) and that in India 18 crores (£12 millions). On some occasions, however, the balances in London were very much in excess of the normal requirements. During the years 1919-20 to 1921-22, for instance, these were £12, £7·2, and £9 millions respectively in London, and £17·65, £9·22, and £17·11 millions respectively in India. The large balances held in London formed the subject of much adverse criticism. Government money, it was said, had been moved unnecessarily from India in order that it might assist the London merchants. It was also pointed out that, while the Government were borrowing with one hand, they were lending with another at lower rates of interest to 'approved borrowers' in London. Although the critics perhaps went too far in accusing the authorities at the India Office of acting from unworthy motives, the position was manifestly unsatisfactory. If the Government have in hand moneys for which they have no use, they ought to utilise them either in initiating measures tending to the benefit of the people, such as primary education and sanitation, or for the reduction and avoidance of debt. If they have any moneys which they can safely lend out temporarily, the people of India ought to have the benefit.

Minimum
amounts
of
balances
required.

Balances
in recent
years.

5. PROVINCIAL FINANCE

History. Originally, the whole of the revenue of India was treated as a single fund, collected into a central account and thence doled out piece-meal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast. Besides, as they had no motive for economy, the system led to much extravagance. Moreover, there were constant disputes between the Central and Provincial Governments. Even the minutest items of expenditure had to be reported for the orders of the Government of India.

Direct
control by
Supreme
Govern-
ment.

Provincial
contracts.

Perman-
ent settle-
ment.

In order to remedy this unsatisfactory state of things the first step was taken in 1871. Certain departments were made over to the Provincial Governments, and they were credited with departmental receipts together with a lump sum of money. The second step towards a system of provincial finance was taken in 1877, when some heads of revenue were made over to the provinces instead of lump sums of money and the Provincial Governments were given power to meet deficits by provincial taxation. From 1882 to 1904, there was a system of provincial contracts, which were revised every five years, and which proved to be a fertile cause of friction, improvidence, and waste. In 1904, quasi-permanent settlements were made with all the provinces. In 1911, the financial settlements with most of the major provinces were made permanent: succour to a distressed province was to be given only in case of a wide-spread famine. On the other hand, the Central Government would call upon the provinces for aid in case of a war or in a grave financial crisis. Revenue derived from opium, salt, customs, post office, telegraphs, mint, exchange, and state railways was wholly Imperial. Land revenue, irrigation, stamps, excise, assessed taxes, and forests were divided heads of revenue. On the expenditure side, the charge for military services, debt services, and certain other heads were entirely Imperial. General Administration was divided, while many of the important heads of expenditure were wholly provincial. Subject to certain contingencies, the settlement was fixed, rigid, and permanent.

With the introduction of the Montagu-Chelmsford Reforms, this state of affairs passed away. There was a complete separation between the finances of the Central Government and those of the Provincial Governments. The system of divided heads of revenue was altogether done away with. Land revenue, irrigation, excise, and stamps were wholly provincialised. The provinces were also to get a very small share of the growth of the income-tax revenue. As under this arrangement the Government of India's resources were somewhat curtailed, it was arranged that in 1921-22, the Provincial Governments should contribute 983 lakhs to the Government of India. This, however, was regarded as a transitional measure, the ultimate aim being to dispense with provincial contributions altogether.

For the year 1921-22, the fixed provincial contributions in lakhs of rupees were : Madras, 348 ; Bombay, 56 ; Bengal, 63 ; United Provinces, 240 ; Punjab, 175 ; Burma, 64 ; Central Provinces and Berar, 22 ; and Assam, 15. It was also decided that as the finances of the Central Government would improve, the provincial contributions were to be reduced. It was arranged that the provinces whose contributions reached certain standards would have preference in the reduction. Accordingly, considerable reductions were effected in 1925-26 and 1926-27, and in the central budget for 1927-28, no provision was made for provincial contributions.

Provincial
contribu-
tions.

As an integral part of the scheme of financial autonomy, some independent power of taxation was also conferred upon the provinces. They were authorised, without the sanction of the Central Government and Legislature, to impose taxes, fees, or duties on (1) land put to non-agricultural uses, (2) succession, (3) betting or gambling permitted by law, (4) advertisements, (5) amusements, (6) any specified luxury, (7) registration, (8) stamps other than those of which the amount was fixed by Indian legislation. They were also given the right to borrow, under certain conditions, on the security of their own revenues.

Powers of
taxation
and
borrow-
ing.

Unfortunately, from the date of separation of provincial from central finance, both the Central Government and the Provincial Governments had to pass through a period of acute financial distress. As in the Central Government, so also in the provinces, expenditure considerably increased, owing partly to high prices

Financial
distress
in the
Provinces.

and partly to the increased cost of administration. A large portion of the provincial revenues was annually swallowed up by the reserved departments. Very little was left for meeting the growing demands of the nation-building departments, *e.g.*, sanitation, education, industry, agriculture, etc., which were transferred subjects under the Reforms. There was dissatisfaction in all the provinces on account of the Meston Award, under which the revenues were divided between the provinces and the Central Government and the provincial contributions were fixed. On the other hand, as we have already seen, the Central Government also was faced with a series of budget deficits, and was unable to come to the relief of the provinces by remitting the provincial contributions. This handicap seriously endangered the success of the Reforms, inasmuch as the ministers could not effect those improvements in the nation-building departments which were eagerly and insistently demanded by public opinion.

In 1921-22, it was found necessary to remit the contribution of Bengal (63 lakhs per annum) for three years. The case of this province was exceptional, and it had been recommended to the especial consideration of the Government of India by the Joint Select Committee of Parliament. This concession led other provinces also to make demands for a similar remission. In 1922-23, the position of the provincial administrations became serious. Out of nine provinces, seven had to budget for deficits, the aggregate deficits amounting to Rs. 352 lakhs. The Central Government having failed to come to the rescue of the provinces, these latter were compelled to impose new taxation and retrench expenditure. In 1922-23, Bengal imposed new taxation to the extent of 140 lakhs; Bombay, 60 lakhs; Madras, 78 lakhs; Assam, 3 lakhs. Retrenchment Committees were appointed in several provinces. The Bengal Retrenchment Committee recommended a saving of 190 lakhs, the Punjab Committee, 37½ lakhs, and the Bombay Committee, 88 lakhs. These strenuous efforts improved the provincial finances considerably in 1923-24. The financial positions of the provinces were further strengthened by the remission and ultimate abolition of the contributions.

Revenue
and Ex-
penditure
of the
Provinces.

Criticism.

The system of provincial finance introduced under the Montagu-Chelmsford Reforms was subjected to severe criticism both in and outside the legislatures. The chief grounds of objection were

as follows: Central and provincial sources of revenue were demarcated on the wrong principle of a clean-cut; although the provinces required ever-increasing revenues to develop their nation-building activities, the more elastic sources of revenue were allotted to the Central Government; the distribution of the resources among the provinces was not made on an equitable basis, some provinces getting far larger resources than others relatively to their respective populations; the burden of provincial taxation fell mainly upon the agricultural classes while the industrial classes contributed mostly to the Central Exchequer.¹

No heed was paid at the time to these criticisms. The whole subject was investigated by Sir Walter Layton, the Financial Assessor to the Simon Commission. In the Report submitted by him, he fully endorsed the substance of the criticisms. He specially emphasised the financial difficulties of Bengal, whose position had become almost hopeless.² He recommended the re-allocation of resources as between the Central Government and the Provincial Governments, and suggested the imposition of a number of fresh taxes. His chief recommendations were as follows: (1) "For administrative and fiscal reasons it is desirable that the customs duty on imported liquor should be brought into relation with the excise policy of each province . . . the provinces should be given the right of imposing further duties in the form of excises on such liquor in accordance with their excise

Layton
Report.

¹ For a full discussion of this subject, see the author's *Provincial Finance in India*, chap. x.

² Sir Walter Layton observed: "The allocation of resources between the centre and the provinces respectively has been criticised and with justice on three main grounds:

(a) Although the provinces have rapidly expanding needs, the sources of provincial revenue (of which the chief are land revenue, alcoholic excises, and stamps) are almost stationary, while the revenue of the centre (the chief sources are customs, non-alcoholic excises, income-tax, and salt duty) which has to meet comparatively stationary needs has expanded and is capable of further expansion.

(b) It has treated the provinces very unequally, by giving some of them a much greater proportionate increase of revenue than others.

(c) It has given practically no power to the provinces to tax industrial activities, and has therefore handicapped the industrial provinces." Sir Walter pointed out that "in Bengal the expansion of educational and other services has practically ceased." (*Report of the Simon Commission*, vol. ii, pp. 235 and 274.)

policy." (2) "The revenue from commercial stamps should be transferred to the centre." (3) "To meet the claims of the industrial provinces, one-half of the proceeds of the income-tax paid by residents of a province should be assigned to the province concerned." (4) "The exemption from income-tax of agricultural incomes should be abolished by definite stages." (5) "There should be a Provincial Fund fed by specially designated taxes, including the following: (a) excise on cigarettes, (b) excise on matches, and (c) the duty on salt. . . . The resources of this Fund should be automatically distributed to the provinces on a *per capita* basis." ¹

This question was considered in connection with the proposals for constitutional changes which were discussed at the Round Table Conferences in London. A Committee presided over by Lord Peel was appointed at the First Round Table Conference to investigate the question. This matter was further considered by the Federal Finance Committee which reported in 1932. The recommendations made by the Committees were taken into consideration by the British Government, and some important provisions were included in the Government of India Act, 1935.

Government of
India Act,
1935.

This Act provided for a scheme of federal finance. Certain heads of revenue were made entirely federal, such as import duties, and the corporation tax. Certain others were made entirely provincial, *e.g.*, land revenue; duties of excise on alcoholic liquors, opium and other narcotic drugs; taxes on agricultural income; taxes on land and buildings; duties in respect of succession to agricultural land; capitation taxes; taxes on professions and trades; taxes on the sale of goods and on advertisements; taxes on luxuries, including taxes on entertainments, amusements, betting and gambling. A few other heads of revenue were made partly federal and partly provincial, such as the income-tax, and, under certain circumstances, duties on salt, federal excise duties, and export duties. A fourth category of taxes was to be administered by the Federal Government, but the proceeds were to be transferred to the provinces, subject to surcharges for federal purposes in cases of emergency, *e.g.*, duties in respect of succession to property other than agricultural land, such stamp duties as are mentioned in the Federal Legislative

¹ *Report of the Simon Commission*, vol. ii, pp. 274-275.

List, terminal taxes on goods and passengers carried by railway or air, and taxes on railway fares and freights. The Act also provided for grants-in-aid of certain provinces out of federal revenues.

Sir Otto Niemeyer was appointed by the Secretary of State to recommend the proper distribution of the proceeds of a share of the income-tax and of the export duty on jute to the provinces, as also the subventions to be paid to the different provinces. His recommendations were adopted by an Order-in-Council, which provided as follows: Fifty per cent. of the proceeds of the income-tax should be assigned to the provinces and to the Federated States, and the sums falling to be distributed shall be apportioned as follows: Madras, 15%; Bombay, 20%; Bengal, 20%; the United Provinces, 15%; the Punjab, 8%; Bihar, 10%; the Central Provinces and Berar, 5%; Assam, 2%; the North-West Frontier Province, 1%; Orissa, 2%; Sind, 2%. But, out of the total amount falling to be distributed among the provinces, the Federal Government might retain "for a first period of 5 years, in each year, the whole or such amount as, together with any general budget receipts from the railways, will bring the Central Government's share in the divisible total up to 13 crores, whichever is less, and for a second period of 5 years, in the first year five-sixths of the sum, if any, retained in the last year of the first period, decreasing by a further sixth of that sum in each of the succeeding 5 years".

Sir Otto
Nie-
meyer's
Report.

The Order-in-Council provided further that 62½ per cent. of the net proceeds of the jute export duty should be assigned to the jute-growing provinces. It also provided for the following grants-in-aid out of the federal revenues: the United Provinces, 25 lakhs of rupees annually for 5 years; Assam, 30 lakhs of rupees annually; the North-West Frontier Province, 1 crore of rupees annually; Orissa, 47 lakhs of rupees for 1 year, 43 lakhs of rupees annually for the next 4 years, and 40 lakhs of rupees annually thereafter; and Sind, 110 lakhs of rupees for 1 year, 105 lakhs of rupees in each of the next 9 years, 80 lakhs of rupees in each of the next 20 years, 65 lakhs of rupees in each of the next 5 years, 60 lakhs of rupees in each of the next 5 years, and 55 lakhs of rupees in each of the next 5 years.

Further, in accordance with the recommendation of Sir Otto

Niemeyer, the debts due from the provinces to the centre have been consolidated or cancelled, either wholly or in part, and the balances held by the Central Government have been decentralised. The Provincial Loans Fund has, accordingly, been wound up as from 1st April, 1937. All receipts and liabilities which, on the 31st March, 1937, were associated with the balances of an intrinsically local nature, or definitely associated with any function which, after that date, has become a function of Provincial Governments, have been assumed by the Provincial Governments concerned.¹

Remarks. This financial arrangement has substantially improved the financial positions of the provinces. Some of these provinces, however, are not yet completely free from difficulties. Bengal is not fully satisfied with the arrangement and demands that the whole of the proceeds of the jute export duty and a considerably higher proportion than 20 per cent. of the provincial share of the income-tax proceeds be made over to her.

6. LOCAL FINANCE

Local Government² may be considered under three heads : Municipalities, District and Local Boards, and Port Trusts.

Municipalities. The aggregate income of all the municipalities taken together was about 38 crores in 1934-35. About 70 per cent. of this was provided by Calcutta, Bombay, Madras, and Rangoon. Municipal revenue is derived from various sources : Rates and taxes, realisations under special Acts, proceeds of municipal property, and grants from the Government. Of the taxes, the most important are those on houses and land and octroi duties. The

Sources of income.

¹ Vide *Finance and Revenue Accounts of the Government of India, 1936-37*, p. 569.

² The system of local self-government in India was introduced during the Viceroyalties of Lord Mayo and Lord Ripon in the seventies and eighties of the last century. The municipal bodies are in general partly elected and partly nominated, but the system of nomination is now being gradually discarded in several provinces. They are subject to Government control in various ways. In 1922 there were 751 municipalities in India, containing within their limits about 18·8 million people, or about 7 per cent. of the total population. Their functions are, roughly speaking, similar to those of the Borough Councils and Urban District Councils of England, but their constitutions are less democratic and they do not enjoy any control over the police and the maintenance of law and order.

octroi duties, which formerly used to form a chief source of revenue, have now become unpopular, and attempts are being made to replace them in provinces by some sort of direct taxation.

Besides these, there are taxes on animals and vehicles, taxes on professions and trades, tolls on roads and ferries, water rate, lighting rate, conservancy rates, and other minor taxes. Under special Acts the municipalities derive income from cattle-pounds, hackney carriages, and licences for the sale of spirits and drugs. Most of the municipal bodies also derive income from rents of lands and houses, sale proceeds of municipal property, receipts from markets and slaughter-houses, fees from educational institutions, etc. Their income is often supplemented by grants from the Government.¹

The main objects for which municipal funds are spent are : Expenditure.
Lighting, police, public health and convenience, including water supply, drainage, conservancy, hospitals and dispensaries, vaccination, prevention of plague, the maintenance of markets and gardens, the construction and maintenance of roads and buildings, and public instruction.

The total expenditure of the municipalities often slightly exceeds their ordinary income, and these bodies have frequently to apply to the Government for special assistance.

The incidence of the municipal rates and taxes on the population has been calculated at Rs. 5-12 as. per head.² Incidence of municipal taxation.

In rural areas, District and Local Boards³ perform duties similar to those assigned to municipalities in urban areas. District and Local Boards.

The funds of District and Local Boards are largely derived from rates or cesses levied upon agricultural land over and above the land revenue. Since April 1908 the accounts of the Boards have been excluded from the general provincial accounts, and their funds treated independently in the same way as municipal funds. The Boards have also other sources of income, such as Income.

¹ The incomes, excluding opening balances, of the municipalities of Calcutta, Bombay, Madras, and Rangoon in 1921-22 were about 2 crores, 3½ crores, 58 lakhs, and 85 lakhs respectively.

² *Statistical Abstract for British India*, 14th issue, p. 75.

³ The Boards contain a varying proportion of elected members. In 1934-35, there were 1,098 Boards (including 448 Union panchayats in Madras). In recent years, the number of Union Boards has increased appreciably in some of the provinces, while there is a tendency to abolish the Local Boards.

cattle-pound receipts, educational receipts, medical receipts, tolls on ferries and bridges, and contributions for specific purposes from the provincial funds. Their aggregate income (exclusive of debt items) is about 16 crores.

Expendi-
ture.

The expenditure of the Boards is chiefly for roads and bridges, hospitals, vaccination, conservancy, drainage, water supply, primary education, markets, and rest-houses.

Incidence
of Boards'
taxation.

The incidence of the Boards' rates and cesses is $9\frac{1}{2}$ as. per head of the population.¹

Recently, Union Boards and Panchayat Committees have been established in some of the provinces for the local administration of villages.

Port
Trusts.

The administration of the larger ports is placed by various Acts in the hands of Port Commissioners, who are charged with the provision of suitable dock accommodation, and other services necessary to shipping. The Port Commissioners are empowered, subject to the control of the Government, to levy dues on shipping and goods, to charge fees for services rendered, to contract loans for port improvement, to maintain the harbour and its approaches, and to erect warehouses, jetties, harbour lights, and docks, for the convenience of commerce and shipping.

Chief
ports.

The chief Indian ports are Calcutta, Bombay, Karachi, Rangoon, and Madras. The approximate incomes of these ports are nearly 3 crores, 2.66 crores, 71 lakhs, 72 lakhs, and 31 lakhs respectively. Chittagong is also gradually rising into importance as a port.

¹ *Statistical Abstract for British India*, 14th issue, p. 87. These figures, relating to the incidence of the rates levied by local bodies, convey no idea as to the real burden on the ratepayers, and are therefore quite meaningless.

PART II

CRITICAL AND CONSTRUCTIVE

[SOME ECONOMIC PROBLEMS]

CHAPTER XIV

LAND SYSTEMS ✓

1. STATE-LANDLORDISM

As we have already seen, there is a tendency among Government officers to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the state from the people as in the nature of rent. Attempts are often made to prove the correctness of the view by a reference to past history. The *Imperial Gazetteer* says : “ Throughout the periods of native rule for which we have any historical data, the prevailing custom was for the cultivator to deal direct with the representative of the state, and the whole of the economic rent passed straight from the one to the other. Even when there was an intermediary and when that intermediary enjoyed, to a greater or less degree, the other incidents of proprietary right, he seldom received any substantial share of the profits of cultivation, and such dues as he might intercept would more fittingly be classed as *fees* or perquisites than as *rent* in the proper sense of the term. As the several provinces passed under British rule, the Government at first continued the native practice of taking as land revenue the whole or nearly the whole of the economic rent. When the intermediaries were few or weak, the Government dealt direct with the cultivator, *e.g.*, in raiyatwari tracts ; where, on the other hand, the intermediaries were numerous and powerful, as in the zamindari tracts of Bengal, Bihar, and some of the other provinces, the Government dealt with these intermediaries, leaving them to collect the rents from the cultivators, and, when paying the proceeds to the state, to retain a small proportion, generally 10 per cent., for their own use. It is from this percentage that payments now representing the net rental have developed.” It goes on to say : “ The peculiarity of Indian rents lies, therefore, in this fact, that whereas in most

Tendency among officials to regard Government as universal landlord.

countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."

Legitimate conclusions from the theory.

If this theory of state-landlordism be correct, two results will legitimately follow—(a) the landlords will sink into the position of a merely superior kind of tenants, and (b) the Government will be justified in demanding as its revenue the whole of the economic rent.¹

Mr. Baden-Powell's view.

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land and to its right to an economic rent. As B. H. Baden-Powell, a great authority on the subject, says: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."² The Government, as a matter of fact, bases its claim to land revenue on "the ancient right of the state to a share of the produce of the soil"—that is to say, on the historical fact that the rulers of successive Governments in India have at all times raised the greater part of their state income by levying a *tax* on the land.³

His standpoint.

Baden-Powell looks at the matter from a practical point of view. He says: "The British Government has everywhere conferred or recognised a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is, then, impossible to say broadly that the state takes a *rent* from the landholders regarded as tenants. The Government is certainly not owner. . . . The

¹ E. S. Montagu, in a lecture delivered at the Liberal Colonial Club, London, in February 1914, said: "The Government of India has succeeded to the position of premier partner in the land, not only with the rights but the corresponding duties of that position. I have shown how, in areas under a temporary settlement, it has been able to take in the form of revenue a large share of the unearned increment from the land; this is, of course, devoted to public purposes, the benefit of which is ultimately shared by the agriculturists."

² Baden-Powell, *Land Systems of British India*.

³ This share usually varied from one-sixth to one-tenth during the Hindu period, but was liable to be increased in time of war or of special necessity. Akbar raised this share to one-third of the produce.

utmost it does is to regard the land as hypothecated to itself as security, in the last resort, for the land revenue assessed upon it." He adds in the same strain: "After the Government has so distinctly conferred proprietary rights in land, any later use of the term 'universal landlord' applied to Government can only be in the nature of a metaphor. The only function of a landlord that the Government exercises is the general care for the progress of the state, making advances to enable the cultivator to sink wells or effect other improvements, advancing money for general agricultural purposes, suspending or remitting the demand for revenue owing to famine or calamity of season." Baden-Powell gives his final decision in the following sentences: "The land revenue cannot, then, be regarded as a rent, not even in the raiyatwari lands. . . . I should be inclined to regard the charge as more in the nature of a tax on agricultural incomes."¹

The Land Revenue a 'tax'.

Regarded from this standpoint, then, the Government is not the ultimate proprietor of all lands. Now, the question arises, Can we point to any class which has absolute proprietary rights to the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but that there are various grades of proprietary rights, each of a series of persons having some of the characteristics of a landowner.

No absolute property in land.

The proprietary rights may be divided into five main classes :

Various grades of proprietary rights.

- (i) The Government may be the direct owner.
- (ii) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.
- (iii) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.
- (iv) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.
- (v) The Government may recognise certain sub-proprietary rights, e.g., *patni*, *dar-patni*, etc.

Land tenures in India are largely the result of changes and growths. It very often happened that one set of rights was

¹ Baden-Powell, *Land Systems of British India*.

superimposed upon another, and thus the various grades came into existence.

2. PERMANENT ZAMINDARI SETTLEMENTS

The early settlements.

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to increase continually the land-tax. A remedy against famines, like the one of 1769-70 which carried off one-third of the population of Bengal and Bihar and turned large areas of cultivated land into wild jungle, was also greatly needed. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis. Three possible methods of settlement in Bengal were open to the Government : (a) a settlement with the raiyats, (b) a settlement with the farmers of revenue, and (c) a settlement with the zemindars. Shore (afterwards Sir John, Governor-General of India) advocated the last method as being the only one consistent with good government and the improvement of the country.

Three possible methods.

The Permanent Settlement introduced, 1793. Objects.

The Permanent Settlement was introduced in Bengal in 1793, and extended to Benares in 1795. In promulgating the measure, the Government had two objects in view : (1) the security of the revenue ; and (2) the improvement of the land. The hope was entertained that if the land revenue were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the state. Further, it was expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure had been attended with

great success. The Commissioners of the Agra province in a circular letter said, "The Permanent Settlement concluded in the Bengal Provinces has notoriously been attended with the happiest success, and the flourishing state of those provinces must, we think, be ascribed, in an eminent degree, to that wise and salutary measure." They, therefore, recommended the extension of the measure to the Agra province. ¹Many other officials also held the same view, and desired that the Permanent Settlement should be extended to the whole of India. But some officers of Government began to entertain doubts as to the results of the system.

Views of
earlier
officials.

The Sepoy Mutiny and the famine of 1860–61 gave rise to a prolonged discussion on the desirability or otherwise of introducing a permanent settlement into the United Provinces of Agra and Oudh. Sir Charles Wood, then Secretary of State for India, was greatly impressed by the arguments in favour of a permanent settlement and definitely accepted the policy. His successors in office also followed his policy, and in 1867 orders were actually issued for concluding such a settlement in the United Provinces of Agra and Oudh. For financial reasons, however, the plan could not be carried out at the time.¹

Not long after this, the official view underwent a change ; and at the beginning of the present century there was almost a unanimity of opinion among officials regarding the failure of the system. The attitude of the Government towards the measure was clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of the late R. C. Dutt. The Note was in these terms : "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the Permanent Settlement, a contention which appears to them to be disproved by history ; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "As regards the condition of cultivation in Bengal . . . there is still less ground for the contention that their position owing to the Permanent Settlement has been converted into one of exceptional comfort and prosperity. It is precisely because this

Official
attitude.

¹ P. N. Banerjee, *A History of Indian Taxation*.

was not the case, and so far from being generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, that the Government of India felt compelled to intervene on his behalf."

"As for the allegation that the Permanent Settlement has been the means of developing in Bengal an exceptional flow of public-spirited and charitable investment, while the Government of India are proud of the fact that there are many worthy and liberal-minded landlords in Bengal as there are also in other parts of India, they know that the evil of absenteeism, of management of estates by unsympathetic agents, of unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between the zemindar and the cultivator in many and various degrees are at least as marked and as much on the increase there as elsewhere; and they cannot conscientiously endorse the proposition that, in the interest of the cultivator, that system of agrarian tenure should be held up as a public model, which is not supported by the experience of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the state has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in temporarily settled areas."

The experiment
a failure.

Independent
opinion.

Independent opinion is divided in respect of this question. One view is that it has most effectually safeguarded the economic welfare of the people. R. C. Dutt said, "If the object of the Permanent Settlement of 1793 was to create a thoroughly loyal class of landlords, and a prosperous class of peasantry in Bengal, that object has succeeded beyond all expectation."¹ The earlier generations of Indian statesmen favoured this view; but the modern trend of Indian opinion seems to be to look upon the measure as a mistake. It has deprived the state of the unearned increment of the land, and has not conferred a proportionately large benefit on the great bulk of the people. Some people think that it would have been an ideal measure if it had been introduced without the intervention of zemindars.

J. S. Mill wrote: "The measure proved a total failure as

¹ R. C. Dutt, *Famines in India*.

to the main effects which its well-meaning promoters expected from it. They flattered themselves that they had created throughout the Bengal provinces English landlords, and it proved that they had only created Irish ones. They did nothing for the improvement of their estate, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist, and other families, mostly the descendants of Calcutta moneylenders, now occupy their place, and live as useless drones upon the soil which has been given up to them. Whatever the Government has sacrificed of its pecuniary claims for the creation of such a class has at the best been wasted.”¹

J. S. Mill's
view.

A competent official critic² observed: “It is true that the settlement may have apparently freed the Central Government for its wars in southern India, but that freedom was obtained at a heavy price in money and internal administrative tangles, that freedom was obtained rightly or wrongly at the expense of the proprietary classes then existing, and wrongly, without doubt, at the expense of the cultivator. The freedom gained by Government was merely temporary; the destruction of the proprietary classes was a permanent bequest to posterity; while the position of the cultivator has remained to this day one of the most difficult and insoluble of administrative problems.”

So much for the defects of the system³; but it undeniably has one good feature. As J. S. Mill observed: “In this ill-judged measure there was one redeeming point. The ryots were reduced to the rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been

One good
feature.

¹ Vide J. S. Mill, *Principles of Political Economy*.

² F. D. Ascoli, *Early Land Revenue History of Bengal*.

³ James Mill, in his *History of India*, said: “Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate cultivators of the soil. For the rights of the zemindars a complete compensation might have easily been made.”

In England the land-tax was made perpetual in 1798, when William Pitt the Younger was the Prime Minister. According to R. C. Dutt, the English settlement had benefited the landed classes only, but the Bengal settlement conferred a share of the benefit on the agricultural community.

more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue ; but along with the evil the good also has been left undone.”

The
defects of
temporary
settlement
system.

Though the Permanent Settlement is open to objection, the system of temporary settlements is not without its defects. The latter not only means expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing state demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, fifty years, so as to avoid the defects of both the extremes.

Practical
solution :
long-
period
settle-
ments.

The
zemindar's
right to
the soil

Before leaving this subject, a few words may be said about the zemindar's right to the soil. A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense, or only farmers and collectors of revenue. In the great Rent Case of 1865, an authoritative opinion was delivered by the Calcutta High Court, in which the judges held the view that the Bengal zemindars were, in their origin, not true landowners, but revenue-farmers. Some Indian statesmen, however, regarded them as having been real owners of the land, and, in some cases, rulers of portions of the province. The view of the Government of Bengal was clearly expressed in their letter to the Government of India, dated the 24th of June, 1901, in which they said, “ But the truth probably lies between the position adopted by the advocates of the two sides of the question, and while there were large numbers of middlemen suddenly converted into landholders, there were also hereditary chiefs with all the attributes of proprietorship that were known in their time in India.” ¹

The
zemindar
a limited
proprietor.

Thus whatever may have been the original status of the zemindars, in practice as well as in the eye of the law they are and must be regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue, and of the tenant to whatever rights are vouchsafed to him by law and custom.

¹ *Note on the Land Revenue Policy of the Government, 1902.*

3. LAND-REVENUE ASSESSMENTS

With reference to the land revenue, the tenures are divided into two kinds, *zamindari* and *raiyatwari*. When the revenue is assessed by the state on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as *raiyatwari*. Under either system, there may be rent-paying subtenants. The former system prevails in almost the whole of Bengal, in the United Provinces, the Punjab, the Central Provinces, and some parts of Madras; while the latter is found in Bombay and Sind, Burma, Assam, Berar, and the greater part of Madras.

Zamindari
and
raiyatwari
tenures.

The Revenue Settlements may be either permanent or temporary. The permanently settled districts cover most of Bengal and parts of Madras and the United Provinces; while in the rest of India the settlement is for a period varying from ten to forty years. About 20 per cent. of the total area is held by permanently settled and 33 per cent. by temporarily settled *zamindari* proprietors; while the remaining 47 per cent. is held by temporarily settled *raiyats* (or peasant proprietors).

The
Revenue
Settle-
ments:
permanent
and tem-
porary.

The land revenue appears to the ordinary person to be a tax on rent. But Government officers hold a different view; they rather regard the rent as a deduction from the revenue.¹ The latter view cannot be regarded as correct from the standpoint either of theory or of history. Even at the present moment the Government do not claim that they are entitled to take the whole of the economic rent as land revenue. For practical purposes, therefore, this view is entirely devoid of substance.

Nature of
land
revenue.

Assessment methods vary according to the kind of estate and its mode of working. But two general principles are found to underlie these methods. One is to fix empirical rates, which are first ascertained only as maximum rates, on the basis of those actually paid in the past, but with such increase as can at the moment be taken with reference to the rise in prices and pro-

Principles
of assess-
ment.

¹ *Imperial Gazetteer of India.*

gress in prosperity, and then to apply those rates in a sliding scale, according to the productivity of particular lands. The other principle is applied to all varieties of landlord estate where there are tenants ; it consists in finding out the rents which the tenants actually pay, and then demand from the landlords a fixed proportion of such rents.¹ Except in Bombay (where the assessment is not fixed in terms of produce), the land revenue is assessed so as to represent a share, not of the gross, but of the *net* produce (or net assets).

Assess-
ment
rates.

In the temporary zamindari settlements, the Government usually takes about 50 per cent. of the rent as revenue ; and in the permanent settlements about 25 per cent. of the rental on an average. The rates of revenue vary greatly with the productive power of the soil, advantages of climate and irrigation, and facilities for marketing produce.

The
burden.

The question of the burden of the land revenue is one of the most controversial questions in Indian economics and politics. Many of the Indian patriots hold that the burden is oppressive, that it is one of the causes of the extreme poverty of the masses of the people, and that it is a contributory cause of famines. On the other hand, the Government officers maintain that the land revenue is not excessive, and that it is becoming increasingly liberal.² The calculations given in Government publications

¹ B. H. Baden-Powell, *Land Revenue in British India*, pp. 47, 48.

² Vide R. C. Dutt, *Open Letters to Lord Curzon and the Land Revenue Policy of the Government of India*, 1902. A memorial was submitted by a number of retired high officers of the Government in which they urged that (i) where Land Revenue is paid directly by the cultivators the Government demand should be limited to 50 per cent. of the value of the net produce, after a liberal deduction for cultivation expenses had been made, and should not ordinarily exceed one-fifth of the gross produce ; (ii) where the Land Revenue was paid by landlords, the principle adopted in the Saharanpur Rules of 1855, whereby the Revenue demand was limited to one-half of the actual rent or assets of such landlords, should be universally applied ; (iii) no revision of the Land Tax of any province or part thereof should be made within 30 years of the expiration of any former revision ; (iv) when such revision would be made there should be no increase in the assessment except in cases where the land had increased in value (a) in consequence of improvements in irrigation works carried out at the expense of the Government, or (b) on account of a rise in the value of produce ; and (v) that a limit be fixed beyond which it might not be permissible to surcharge the land-tax with local cesses. The official reply to these recommendations was the following : (1) The suggestion that the land revenue should be fixed at a share of the produce was impracticable, and would, if accepted,

regarding the burden of land revenue do not seem to have been arrived at after careful investigation, nor are they based on any definite principles. These calculations are, therefore, of no value to the student of economics.¹

4. TENANCY LEGISLATION ^a

The object of the tenancy laws of the Government in India is to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom. As a large proportion of the population is connected with the land, a summary of the legislative provisions relating to it will perhaps be found useful.

Object of
tenancy
laws.

lead to the placing of burdens on the shoulders of the people, from which, under a less rigid system, if sympathetically administered, they were exempt. (2) The Saharanpur Rules, issued in 1855 (so called because they were issued in connection with the resettlement of the land revenue in the Saharanpur district of the United Provinces), laid down "not that the revenue of each estate is to be fixed as one-half of the net average assets, but in taking these assets with other data into consideration, the Collector will bear in mind that about one-half, and not two-thirds as before, of the well-ascertained net assets should be the Government demand", and the Rules did not prevent them from demanding more than 50 per cent. (3) The considerations which determined the term of settlement were: "Where the land is fully cultivated, rents are fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are re-adjusted once in thirty years, i.e. once in the lifetime of a generation, and where the opposite conditions prevail, where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways, or canals, or to an increase of population, or to a rise in prices, the postponement of re-settlement for so long a period as thirty years is both injurious to the people, who are unequal to the strain of a short enhancement, and unjust to the general tax-payer, who is temporarily deprived of the additional revenue to which he has a legitimate claim." (4) To deny the right of the state to a share in the unearned increment of land would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted partly from the actions of the Government and partly from a rise in the standard of civilisation. (5) The aim of local taxation was the benefit of the community, and to place an absolute limit to such taxation would be against the interests of the people.

¹ The figures of *average incidence of revenue per cultivated acre* are as follows: Bengal, Re. 1-2 as.; Bihar and Orissa, R. 0-10 as. 7 pies; Central Provinces, R. 1-1 as.; Punjab, R. 1-13 as.; Bombay, Rs. 2; Madras, Rs. 2-5 as.; United Provinces, R. 1-14 as. (Vide *Agricultural Statistics of India and Land Revenue Administration Reports*).

² Vide Baden-Powell, *Land Systems of British India and the Tenancy and Rent Acts of the different Provincial Governments*.

Origin of
tenures.

We have already seen that landlord and overlord rights grow up over, and often at the expense of, other rights in land. As time goes on, some of the landlords become predominant, and the rest of the original landholders tend more and more to sink into non-proprietary cultivators or tenants. A certain number of such tenants, however, succeed in asserting themselves and securing from the landlords permanent tenures.

The
twelve
years' rule
in Bengal
and Agra
province.

It is very difficult to draw a line between the tenants who represent the old landowners and those whose position is due to contract. In Bengal and the Agra Province, the legislature has avoided the difficulty by enacting a general rule that where any tenant has continuously held land in the same village for 12 years, he should be regarded in all cases as an Occupancy Tenant. In the Punjab and Oudh, however, the 12 years' rule does not apply; and in the Central Provinces the right of occupancy is granted to tenants irrespective of the length of occupation.¹ But in these provinces a number of privileged landholders is recognised as sub-proprietors. It should, however, be noted that the contents of the right of occupancy differ from province to province.

In Bengal
three
classes of
tenants:
(1) Tenure-
holders,
(2) Ryots,
(3) Under-
ryots.

The tenancy law of Bengal divides tenants into three classes: (1) Tenure-holders; (2) Ryots; and (3) Under-ryots. The ryots, again, are divided into (a) Ryots holding at fixed rates (that is, either at a rent fixed in perpetuity or a rate of rent fixed in perpetuity); (b) Occupancy-ryots, that is, ryots having a right of occupancy in the land held by them; and (c) Non-occupancy ryots.

A Tenure-holder is a person who has acquired from a proprietor or from another tenure-holder a right to hold land for the purpose of collecting rents or bringing it under cultivation by establishing tenants on it; and the term includes the successors in interest of persons who have acquired such rights.

A Ryot² is a person who has acquired the right to hold land for the purpose of cultivating it by himself or by members of his

¹ Central Provinces Tenancy Act, 1920.

² In determining whether a tenant is a tenure-holder or a ryot, the court shall have regard to (1) local custom, (2) the purpose for which the right of tenancy was originally acquired. Where the area held by a tenant exceeds 100 bighas, the tenant shall be a tenure-holder until the contrary is proved.

family, or by hired servants, or with the aid of partners ; and the term includes the successors in interest of persons who have acquired such rights.

Under-ryots are tenants holding land, whether immediately or mediately, under a ryot.

In Bengal, ryots at fixed rates are the highest class of tenants, and have practically very much the same privileges as the tenure-holder. The rent cannot be enhanced and the holder cannot be ejected, except for some express breach of the conditions of tenancy. All other privileged tenants are grouped together as occupancy tenants. The rest of the tenants are tenants-at-will, who have only the benefit of some protective provisions, *e.g.*, notice of ejection of not less than six months, etc.

Privileges
of Ryots
at fixed
rates.

The existing tenancy law of Bengal is based on the Bengal Tenancy Act of 1885, as amended in 1928 and 1938. The amending law of 1938 provides for the abolition of the landlord's transfer fee and his right to pre-emption ; a right of pre-emption has, however, been given to co-sharer tenants of occupancy holdings. All provisions relating to enhancement of rent have been suspended for a period of 10 years beginning from the 27th August, 1937. There are other provisions also to give financial relief to agriculturists, *e.g.*, the rate of interest on arrears of rent has been reduced from $12\frac{1}{2}$ to $6\frac{1}{4}$ per cent. per annum. The right has also been conferred on tenure-holders to surrender their tenures and under-ryots to surrender their holdings.

Tenancy
(Amend-
ment) Act
of 1938.

The whole question of tenancy laws and the permanent settlement is at present the subject of investigation by a Land Revenue Commission, with Sir Francis Floude as Chairman.

Floude
Com-
mission.

The Agra Tenancy Act of 1926, which superseded the Act of 1901, made substantial alterations in the relations between landlords and tenants. Under the previous Act there were five classes of tenants—(a) permanent tenure-holders, (b) fixed-rate tenants, (c) ex-proprietary tenants, (d) occupancy tenants, and (e) non-occupancy tenants. Two other classes were added under the Act of 1926, viz., statutory tenants and heirs of statutory tenants. The first two classes are to be found only in the permanently settled districts. A fixed-rate tenancy is one which has been held by a tenant from the time of the Permanent Settlement at the same rate of rent. Such tenants have a right of occupancy

Tenant
Law in
Agra
province,

at that rate. The right of occupancy arises when a tenant has held the same land continuously for a period of 12 years. Ex-proprietary tenants are occupancy tenants in their *sir* and in the land which they have cultivated continuously for 10 years at the date of the transfer. With regard to the enhancement of rent of occupancy holdings, fair and equitable standard rates are determined by the Government. The ex-proprietary tenants have a privilege in this that their rent is $12\frac{1}{2}$ per cent. less than the rate prescribed for occupancy tenants. Statutory tenants are those who were at the commencement of this Act tenants, but who did not fall into any of the above categories. Statutory tenants may also be admitted without the right of occupancy after the commencement of this Act if they cultivate the land of the tenure-holder's own holding. Such tenants are called statutory tenants because their rights arise from the provisions of the Act, and they are entitled to a life tenancy of the holding. No statutory rights accrue in favour of a sub-tenant. The heir of a statutory tenant is entitled to succeed to the tenancy, in the event of the death of the statutory tenant, until the expiry of the period of the lease or for a period of five years from the date of such death, whichever is longer. All other tenants are non-occupancy tenants.

in Oudh,

In Oudh, an attempt was at first made to introduce the policy followed in the Agra Province of ignoring the overlords and dealing with the villagers as proprietors, but after the Mutiny a settlement was made with the Talukdars. This necessitated an elaborate series of provisions as to the protection to be afforded to tenants in the Taluks. The rights of the tenants are recognised and protected by the tenant law of 1886 as amended by Act IV of 1921, which ensures permanent occupancy to hereditary tenants, and the limitation of their rents. Enhancement is possible only at times of settlement and in every tenth year of settlement.¹

in Central
Provinces,

In the Central Provinces, the landowners or Malguzar proprietors have a strictly limited control over a large part of the tenantry, both as regards raising of rents and ejectment. Eject-

¹ At the time of writing a bill consolidating the tenancy laws of Agra and Oudh is before the United Provinces legislature. Two of the objects of this measure, viz., the curtailment of the landlords' rights over *sir* (proprietor's own) lands, and procedural changes in favour of the tenant, aroused considerable discussion.

ment of the tenants of the privileged classes can only be effected by a decree of court on very special grounds, and enhancement of rent is restricted. The Central Provinces Tenancy Act mentions specifically *absolute occupancy tenants* who cannot be ejected for any cause whatever, and whose rent must be fixed for the term of settlement. The next class is that of the *ordinary occupancy tenants*. The rights of this class, however, are not growing as in Bengal and the Agra Province. Tenants holding land as a remuneration for village service are specifically recognised in this Act. Ordinary (that is non-occupancy) tenants are protected in various ways.

In the Punjab, the occupancy right is purely of natural growth. The Punjab law defines as *occupancy tenants* those who for two generations have paid neither rent nor service to the proprietor, but only shares of the land-revenue, those who are ex-proprietors, those who had settled along with the founder and aided in the first clearing, and those who had been revenue-assignees and had remained in possession of the land. These naturally-entitled classes are given different degrees of privilege.¹ in the Punjab,

In Madras, every tenant is allowed to have whatever privilege he can prove. There is no artificial rule about the rate of rent or the limit of enhancement. All contracts, express or implied, are enforced. If there is no contract, the rate is to be that of the Government assessment, or, failing that, the customary rate of the locality. Tenants in general can only be ejected pursuant to a decree of court, but they can always relinquish the land at the end of the year.² in Madras,

In Bombay, the holder of the land is either a direct occupant paying revenue to the Government, or is an inferior occupant paying rent to some superior. In the latter case, if there is an agreement, the terms alone determine the features, rent-charges, in Bom-
bay,

¹ Punjab is mainly a land of peasant proprietors and rents are automatically adjusted to changes in the value of the produce. Alienation of land to non-agriculturists had been regulated for long in the Punjab and recent amendments to the Punjab Land Alienation Act provide for the cancellation of *benami* transactions, and for placing agriculturist money-lenders on the same disadvantageous footing as non-agricultural money-lenders.

² *Vide the Madras Estates Land Act*, 1908, as amended up to 1936. A committee in Madras has reported (in 1938) that in the permanently settled tracts there should be a reversion to the rates of land revenue prevailing in 1802.

and liabilities of the tenancy ; if not, then the usage of the locality is referred to.

in Bihar,

In Bihar a tenant who has cultivated land in a village for 12 years is a settled ryot, and every settled ryot acquires occupancy right not only in respect of the land he cultivates for 12 years, but also in respect of other lands of which he may come into possession as a tenant. An occupancy holding is heritable, but under a recent ¹ amendment a tenant can divide his holding among his co-sharers and the landlord is bound to recognise such division. Under-ryots have also been enabled to acquire occupancy-rights if they have cultivated land for 12 years as under-ryot.

in Orissa.

After the creation of the new province of Orissa, the principal changes introduced relate to the abolition of landlord's transfer-fee and the granting of the right of tenants to trees in places where the settlement records are silent thereon. Both in Bihar and in Orissa, as is to be expected, there is a certain similarity with conditions in Bengal, due to historical reasons.

Since the advent of provincial autonomy, tenancy legislation has been undertaken in all the provinces. The condition of Indian tenants is at present far from satisfactory and every effort should be made to improve it. Agriculture is the occupation of the bulk of the people of India, and no stone should be left unturned to improve this primary industry. Legislative proposals should be based on principles of equity and justice to all classes of the population.

¹ *Bihar Tenancy (Amendment) Act of 1938.*

CHAPTER XV

FAMINES AND SCARCITIES

DURING the Hindu period of her history, India did not enjoy absolute immunity from famines. But judging from the infrequency of allusions to these calamities in the ancient Sanskrit works, as well as the testimony of foreign travellers,¹ it would not be unsafe to make the assertion that famines were exceptional occurrences in ancient India. When they did occur, adequate relief measures were undertaken by the state. Chanakya, in his *Arthasastra*, mentions the following among other remedial and relief measures : (i) remission of taxes, (ii) emigration, (iii) the granting of money and grain from state funds, (iv) construction of artificial lakes, tanks, wells, etc., and (v) the importation of grain from other places.²

History of
famines :
Hindu
period.

The historians of the Mahomedan period have left records of several famines, four of which were very severe. The first occurred in 1343, when the well-meaning but half-insane Muhammad Tughlak was the sovereign of Northern India. The distress was of a most acute character, but the Sultan was not slow to organise relief measures on an extensive scale. He "ordered provisions for six months to be distributed to all the population of Delhi".³ During the reign of Akbar, "there was a scarcity of rain throughout the whole of Hindustan, and a fearful famine raged continuously for three or four years." The Emperor ordered that alms should be distributed in all the cities ; and Nawab Sheikh Farid Bokhari, being ordered to superintend and control

Mahome-
dan Rule.

¹ Megasthenes says : "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food" (McCrindle, *Ancient India as described by Megasthenes and Arrian*).

² Kautilya, *Arthasastra*, bk. 4, chap. 3.

³ "The Judges, Secretaries, and other Officers inspected all the stores and markets, and supplied to every person provisions for half a year" (Elliott, *History of India*).

their distribution, "did all in his power to relieve the general distress of the people."¹ The fifth year of the reign of Shah Jehan witnessed one of the greatest famines recorded in history. It afflicted almost the whole of India, and, in spite of the vigorous measures of relief adopted by the Emperor, a prodigious mortality ensued. There was another great famine in the reign of Aurangzebe. James Mill thus writes of the measures adopted to cope with this calamity: "The prudence of Aurangzebe, if his preceding actions will not permit us to call it his humanity, suggested to him the utmost activity of beneficence on this calamitous occasion. The rents of the husbandmen, and other taxes, were remitted. The treasury of the Emperor was opened without limit; corn was bought in the provinces where the produce was best, conveyed to those in which it was most defective, and distributed to the people at reduced prices."

East
India
Com-
pany's
Rule.
1770.

During the rule of the East India Company, "India suffered, in one part or another, from twelve famines and four severe scarcities."² The first of these was the dreadful calamity of 1770, "by which more than a third of the inhabitants of Bengal were computed to have been destroyed."³ Although signals of the impending disaster had been received in 1769, nothing had been done to check the famine, and even when distress became acute, no relief measures on an adequate scale were adopted.⁴ In 1784. Madras, 1781 and 1782 were years of severe scarcity; and in 1784 a severe famine devastated the whole of Northern India. A drought in Madras and Hyderabad in 1791 was followed by an intense famine the next year. It was on this occasion that relief-works were first opened by the Madras Government for the support of the famine-stricken. In 1802-03. a failure of rains led to famine in Bombay and scarcity in Madras, which were followed the next year by a widely extended famine in the North-Western Provinces and Oudh (now called the United Provinces of Agra and Oudh). The measures adopted on this occasion

¹ Dowson, *History of India*.

² *Report of Famine Commission*, 1901, p. 1.

³ James Mill, *History of India*.

⁴ The price of common rice rose from 40 seers per rupee to 3½ seers. In the plentiful year of 1714, coarse rice had sold at 120 seers the rupee, and wheat 90 seers. *Vide* Col. Baird Smith's *Report*, Sect. II, p. 29.

consisted in making remissions of the revenue, in giving loans and advances to landowners, in offering a bounty on all grain imported into Benares, Allahabad, Cawnpore, and Fatehgarh. In 1806-07, there was a severe scarcity in some districts of Madras.¹

The next great famine was that of 1833, known as the 'Guntur famine'. It affected the northern districts of Madras, and parts of the Southern Mahratta country and of Mysore and Hyderabad. The severity of the calamity was not recognised by the Government till it was too late, with the result that 200,000 persons died in Guntur out of a population of 500,000.² In 1837 there was a severe famine in Upper India. Public works were opened at several centres, but the work of relieving the helpless and the infirm was left in the hands of the charitable public. The mortality was great, and the extremity of suffering endured by the people was such as to leave behind a wide-spread and lasting recollection of the horrors of the calamity.³ In 1854, a famine, severe, though limited in area, visited Northern Madras.

Since the transfer of the administration of India from the Company to the Crown, there have been ten important famines, besides a large number of severe scarcities. The first famine occurred in 1860-61, the chief area affected being that between Delhi and Agra. This was the first occasion in British India on which poor-houses were used as a means of relief; and it was also the first time when the authorities thought fit to enquire into the causes, area, and intensity of the famine, as well as the measures to be adopted to cope with distress. Col. Baird Smith being placed on deputation for the purpose. A drought in 1865 was followed the next year by a severe famine. The calamity fell with the greatest intensity on Orissa, hence its name, the 'Orissa famine'; but it also affected Madras, Northern Bengal, and Bihar. The Government officers, although forewarned, took no steps to meet the approach of the calamity, so that when it came they were absolutely helpless. It was estimated that about

1833.

1837.

1854.

Direct
British
adminis-
tration.
1860-61.

1865.

¹ This scarcity gave the occasion for a discussion regarding interference with private trade. The Government at the outset declared against any interference, but in the end they conceived it necessary to purchase grain, guaranteeing a minimum price to importers. The principle of non-intervention in trade was followed in 1812-13 and 1824-25.

² *Report of Famine Commission*, 1880.

³ *Ibid.*, 1880.

1868. a million persons died in Orissa alone. A year had hardly elapsed before Northern and Central India were visited by one of the most wide-spread and grievous famines on record. The conditions were the worst in Rajputana and Central India, where there was an entire loss of crops as well as of fodder and grass, besides a dearth of water ; and, to add to the miseries of the people, an epidemic of cholera broke out and spread in all directions. Prompt action was taken by the Government to relieve distress, but the relief given was hardly commensurate with the magnitude of the distress, and there was considerable loss of life.
1873. In 1873, Bihar and the eastern districts of the United Provinces were afflicted with a famine. The Bengal Government, however, took prompt action and carried out relief measures on a scale and with a thoroughness which had never been equalled before. The total cost of the relief measures amounted to nearly 10 crores.
- 1876-78. The great famine of 1876-78 was, in respect of the area and the population affected, as well as the duration and the intensity of the distress, the most grievous calamity experienced since the beginning of the nineteenth century. It affected Madras, Bombay, the United Provinces, and the Punjab. The relief measures on this occasion were insufficient and imperfectly organised. The Government refused to recognise their responsibility for saving human lives, and declared with cynical calmness that " the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition." ¹ Small wonder that a fearful mortality was the result of the adoption of such a policy!
- 1896-97. Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in varying degrees of intensity, the population sorely afflicted being estimated at 34 millions. In addition to the opening of public works at various centres, gratuitous relief was given extensively, and in many parts of the country people were relieved in their own homes. The relief operations were conducted with a fair measure of success, except in the Central Provinces, where the

¹ *Report of the Famine Commission, 1901.*

death-rate rose very high above the normal.¹ The total cost of relief measures was 7·27 crores.²

Following closely upon this came another calamity of the severest type, namely, the famine of 1899–1900. The area and the population affected were, roughly, 189,000 square miles and 28 millions respectively. The authorities failed and, in some cases, refused to open relief works in the early stages of the famine; and when they were opened such vast numbers came on them that the system almost completely broke down in many cases. The total expenditure amounted to 10 crores, and the excess of mortality over the normal was 1,236,855. Several famines and scarcities of a local character occurred after 1900, those of 1906–07 and 1907–08 being the most important. It was not, however, considered necessary to adopt any large scheme of relief on any of these occasions.

1899–1900

1906–07.
1907–08.Famines
recurring
calamities.

From this brief sketch it is evident that famines are frequently recurring calamities in India. It was estimated by the Famine Commissioners of 1880 that, on an average, there are two bad seasons to seven good, and one-twelfth of the population may be approximately taken as the portion affected by each famine. Some provinces are more liable to these calamities than others, but hardly a year passes in which some part or other of the country does not, in some degree, suffer from a famine or a scarcity. The more important famines come at irregular intervals,³ though not without warning.

The first signal of an approaching famine is a failure of rains, followed by a failure of crops. Prices rise high, and the less efficient among the labourers, finding no employment, swell the ranks of beggars. At the same time there is a contraction of credit and of private charity. Theft and robbery increase, and a general restlessness is visible among the people. There is also a deterioration in the health of the people, which often leads to epidemics of a serious kind.

Signals.

¹ *Report of the Famine Commission, 1898.*

² “Relief was given to 821 millions of persons at an average cost of 1·42 annas a day for each person relieved.” (*Report of the Famine Commission, 1898.*)

³ It has sometimes been suggested that famines occur in cycles, but, as the Commission of 1880 remarked, our knowledge of the periodicity of past famines does not enable us to calculate such cycles.

Famine
Codes.

In order to cope with famines, all the provinces have their Famine Codes,¹ which, differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be permanently maintained in ordinary times, and the steps to be taken when the information received indicates the imminence of scarcity or famine. They also lay down the duties of all officers concerned when famine or scarcity is actually present, and the various measures of relief to be adopted.

Relief
measures.

As soon as the Local Government are able to read the first signals of an approaching famine or scarcity, it is their duty to take the necessary steps for meeting it. The Famine Commissions recommended a plan of work which may be briefly described thus : During the first stage,

First
stage.

(i) liberal advances should be given for the construction of temporary, and the repair of permanent, wells, and for other village improvements ;

(ii) non-official co-operation should be enlisted and the organisation of public charity should be vigorously taken in hand ;

(iii) liberal advances should be given for the purchase of seed for the ensuing crop ;

(iv) the police should be supplied with funds to relieve wanderers in distress ;

(v) test works should be started, and poor-houses should be opened at the chief centres of population ;

(vi) enquiries as to suspensions of revenue should be begun ;

(vii) relief circles should be organised, and the necessary inspections should be made ;

(viii) preliminary lists should be drawn up of persons eligible for gratuitous relief ;

(ix) if there are threatenings of a scarcity of fodder or drinking water, steps should be taken to meet them and to encourage private enterprise to import fodder and to develop the water-supply.

Second
stage.

The object of test works is “ not to relieve famine, but to test the presence of it : not to relieve hunger, but to find out whether people are hungry ”. Directly the numbers attending test works

Relief
Works.

¹ In 1883, the provincial Famine Codes were first promulgated. Since then they have undergone several revisions.

indicate that further relief measures are necessary, test works should be converted into relief works, which are the backbone of famine-relief administration. All who apply and are capable of working should be admitted to relief works and task and wages should be graduated according to their respective strength and physical requirements. The fundamental principle of the famine wage is that "the lowest amount sufficient to maintain health" should be given. Relief works should be of two kinds: public works and village works. The former would be works under the control of the Public Works Department, and would engage large numbers of people. The latter would be under the revenue authorities and would be local works of use to a particular village or group of villages.

The distribution of gratuitous relief should also begin when test works are converted into relief works; and care should be taken to see that all persons entitled by the Code to receive it are brought upon the list. These are persons having no relative able and bound to support them, who are incapacitated by physical infirmity, or by their presence at home being necessary to attend on sick or infant children, from earning a subsistence on relief works. Gratuitous relief.

Poor-houses also should at the same time be started at all convenient centres for the reception of persons unfit to work, who either have no homes or cannot conveniently be sent to their homes, and of persons in need of relief who, though fit, refuse to labour.¹ Poor-houses.

Of the minor measures of relief, the most important is that of kitchens, intended mainly for the dependents of persons engaged on the relief works. The other measures are (a) gratuities or semi-gratuitous relief to *purdanashin* women, (b) relief to respectable men, (c) relief to artisans, (d) relief to weavers, and (e) temporary orphanages. Kitchens and minor measures.

Before the rains break, and in time for the prudent use of the money, large *takavi* advances should be given for cattle and seed, and Charitable Fund donations should be distributed. At the Last stage.

¹ The Famine Commissioners of 1901 observed in this connection: "We were struck by the failure of the local officers in Bombay in this respect . . . a failure which was one of the causes of the great mortality in Gujrat" (*Report*, p. 20).

beginning of the monsoon, people may be induced to leave the relief works, provided the necessary pressure is used with the greatest caution and safeguarded by a large extension of gratuitous relief. After the necessity for state relief has completely ceased with the growth of new crops, all relief operations should be closed.

Foresight,
energy,
and sym-
pathy
essential
for
success.

The rules recommended by the several Famine Commissions and embodied in the Famine Codes leave very little to be desired. But in practice the success of operations depends very largely upon the foresight, energy, and sympathy of the executive officers of the Government. In this connection three things are necessary to be borne in mind : first, that it is desirable to take steps for warding off a calamity, if possible ; secondly, that it is ultimately economical to start relief operations early ; and thirdly, that for preventing loss of life and preserving the health and strength of the people, relief ought to be given liberally.

Causes
and
Remedies:
(i) Physi-
cal.

We ought not, however, to rest content with mere palliatives. Prevention is always better than cure, and it would certainly be wise to find out the root-causes of these calamities and to adopt the necessary preventive measures. Of course, the most obvious and direct cause is drought, that is to say, the late commencement, or insufficiency, or early cessation of the monsoon rains. Disforestation has been pronounced by experts as a cause of insufficient rainfall ; and a more perfect system of afforestation than has hitherto been practised will, it is believed, go a long way towards preventing drought. The artificial supply of water by means of irrigation is of even greater importance ; and although much has been done in this matter, there is still room for a great deal more of work. The Famine Commissioners of 1901 said : " All provinces do not, indeed, present practicable schemes for the construction of great canals ; but the possibility of smaller protective works has in no province been exhausted, while in some provinces they have as yet hardly been examined. For storage tanks, reservoirs, and, above all, irrigation wells, the scope and the necessity are very great." Improved methods of agriculture and the adoption of a system of ' dry cultivation ' are also needed to ensure the production of crops. Sometimes crops are destroyed by floods, against which an efficient system of drainage is the only safeguard. Insect pests have also been

known to be destructive to crops, but with the aid of science it ought not to be very difficult to check this evil.

Important as these physical causes are, the chief cause of famines is an economic one. Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas, but the main reasons for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power. The Famine Commissioners of 1880 ¹ held that there was enough food in the country to feed the entire population, even in the worst years; and the Famine Commissioners of 1898, concurring in this view, remarked, "We think that the surplus produce of India, taken as a whole, still furnishes ample means of meeting the demands of any part of the country likely to suffer from famine at any one time, supposing such famine to be not greater in extent and duration than any hitherto experienced." ² The calamities which devastate the country from time to time are not, therefore, crop famines, but money famines. It is not the lack of food which the people suffer from, but the want of resources with which to buy food. Speaking of the poverty of the cultivator, the Famine Commissioners of 1901 said, "In good years he has nothing to hope for except a bare subsistence; in bad years, like last year, he falls back on public charity." But there is a class of persons whose condition is much worse than that of cultivators, namely, the landless labourers. This class is, in fact, the first to succumb to the effects of a famine. It is not, however, these sections of the community alone but almost all sections that are affected, in a greater or less degree, by famines.

(ii) Economic.

Crop famines or money famines?

Whatever differences of opinion may exist about the improvement in recent years of the material condition of the people, that there is still a dense mass of poverty is admitted on all hands. Now this general poverty can be traced to several causes. The great bulk of the people is dependent on agriculture; and agriculture as a profession is not so remunerative as manufactures are. Most of the old handicrafts have died out, and only a few modern industries have as yet been established. The population of the country has considerably increased, but it has not been

General poverty the main cause.

¹ *Report of Famine Commission*, 1880, p. 59.

² *Ibid.*, 1898.

accompanied by a proportionate increase in the wealth of the country. Again, a costly system of administration has necessitated the imposition of a heavy burden of taxation, and the annual drain of wealth leaves the country poorer and poorer as one year succeeds another. Lastly, litigation, the custom of early marriage, and those social habits which prompt improvident expenditure in ceremonial functions, add largely to the miseries of the people.

Measures
for com-
bating
poverty.

Several measures can be suggested for combating the poverty evil. Besides introducing improvements in the method of agriculture and extending the cultivated area, every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts,—large-scale industries, medium-size industries, as well as small handicrafts and cottage industries. As Sir H. S. Cunningham said, “The direct, deliberate, and systematic promotion of industrial enterprise is not a less important duty, and its thorough recognition by the state would, I believe, be the most important administrative reform of which the Indian system is capable.” A reduction of public expenditure and of the amount of the annual drain is urgently needed so as to make a reduction of taxation possible. Greater moderation in the assessment of the land revenue, together with less rigidity in its collection in bad years, and, if possible, a definite limitation of the share of the state in the income derived from the land, will ensure to the cultivator the fruits of his labour and greatly improve his economic condition. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. The establishment of Arbitration Courts will decrease ruinous litigation. And, lastly, it is to be hoped that the leaders of society will take active steps to root out evil customs, wherever prevalent.

Effects of
famines.

In some quarters there is a tendency to regard the famine question as identical with the question of unemployment. A famine does, no doubt, throw workers out of employment; but, unlike the unemployment which one finds in England and Germany, it affects millions of men, and the magnitude of the distress which ensues is unimaginable in modern Europe. Hundreds of

thousands of people succumb to starvation or to diseases which lie in the wake of famines, and those who are left behind remain in a condition more miserable than before,—their resources crippled, health shattered, and capacity for work greatly impaired. A famine also means much loss to the Government. Decrease of revenue and increase of expenditure combine to dislocate its finances. It would be extremely unwise, therefore, to minimise the importance of this serious question. And if science and state effort have succeeded in making famines an impossibility in modern Europe, there is no reason why they should be allowed to continue their ravages in India.

Prevention necessary and possible.

As a result of recent constitutional changes, the principal responsibility for the relief as well as of prevention of famines has fallen on Provincial Governments. Since the Montagu-Chelmsford reforms every province has to maintain a Famine Insurance Fund, the amount depending upon the liability of the province to the occurrence of famines and the extent of relief that may be required. In some cases, *e.g.*, irrigation and control of floods, inter-provincial co-operation will be essential. Some of the fundamental causes of famines pointed out before can, however, be remedied by concerted action taken by the Central Government and the Provincial Governments. It should be remembered in this connection that the Central Government is still responsible for guiding India's fundamental economic policy and institutions, *e.g.*, banking, railways, currency, exchange, tariffs, etc. It is to be hoped that the transfer of political power to popular ministers in the provinces and in the centre will before long result in a scientific and planned drive against poverty, famine, and scarcity.

Responsibility of Provincial Governments.

CHAPTER XVI

IRRIGATION

Necessity
of
irrigation.

WE have already seen that in many parts of India the normal annual rainfall is very defective ; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the seasons or the requirements of the crops. In all these areas, irrigation is necessary for the growth of crops.

Irrigation
practised
from re-
mote ages.

Irrigation has been practised in India from very early times. The remains of the canals constructed by Hindu monarchs as well as by Mahomedan rulers are still to be found in many parts of the country.¹ But the chief works executed by Hindu kings were tanks of which there are thousands,—many silted up, many in ruins, many dry by destruction of the supply channels. The whole of Southern India is still covered by a network of old tanks, and millions of acres are still irrigated by them. These tanks vary in size from a few acres to ten square miles of water surface. In some places there is the chain system, where the surplus of one tank flows into the one below. Well-irrigation has always been very important in Northern India.

Neglect
during
early
years of
British
rule.

During the early years of British rule, the subject of irrigation was much neglected, and to this neglect was due ² the destruction

¹ Speaking of the 'overflow canals' of Bengal in the past, or 'dead rivers' as they are called to-day, an expert observed that "they fall behind the great irrigation works of other countries in no particular whatever. First of all stands the magnitude of the work. Take the country traversed by these canals on the Ganges and the Damodar, and we have an irrigated area which could not have been under 7,000,000 acres. And then we have canals aligned and designed on the soundest principles, which worked for many hundreds of years and were only dislocated by a generation of civil war and discord" (Sir William Willcocks, *Ancient System of Irrigation in Bengal*).

² Lt.-Col. Tyrrell wrote : "In the Nagpur and Hyderabad country of the Deccan, the ruins of extremely large tanks exist, now in the midst of jungles, formerly the sites of a rich cultivation and a busy population" (*Public Works Reform in India*).

of many noble works. The repair of old storage works and the construction of canals were strongly urged by Sir Arthur Cotton, but it was not until the middle of the last century that the matter engaged the serious attention of the Government.

The simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals.¹ They are formed by making shallow cuts through the river bank, into which the water flows when the level of the river is raised by the floods. These are mainly to be found in the basin of the Indus and its tributaries. It is, at best, a precarious system of irrigation.

Inunda-
tion
canals.

The most important system is that of perennial canals. Many of the weirs in Madras were constructed by the Hindu monarch, Krishna Raya, early in the sixteenth century. The earliest in Upper India were the Jumna Canals. The one on the west bank is attributed to Firoz Shah in the fourteenth century ; it fell into disrepair and was restored by Akbar and Shah Jehan. The eastern Jumna Canal was originally commenced by Shah Jehan, and restored and improved by the British Government. The early efforts of the British Government in India were directed to the improvement of the existing indigenous works rather than to the construction of new irrigation projects. In the first quarter of the nineteenth century, three important improvement schemes were taken in hand, viz. the Western Jumna Canal in the Punjab, the Eastern Jumna Canal in the United Provinces, and the Cauvery Delta system in Madras. The famine of 1832–1833 led to a vigorous construction of irrigation channels, but these were executed in haste upon imperfect information or bad alignments. The Cauvery Delta system in Madras is of far greater antiquity than the two Jumna systems, and irrigates over a million acres. This system comprises some 1,500 miles of main canals and branches and near 200 miles of distributaries.

Perennial
canals.

Remains
of old
works.

Early
efforts.

Important
canal
schemes.

Cauvery
Delta
system.

The first serious attempt in the construction of canals for irrigation may be said to have commenced about the year 1840, when the project for the Ganges Canal was submitted. But the construction of this canal was greatly delayed owing to political and financial difficulties. As Mr. Harris remarks, “from the beginning, however, the shadow of war lay heavy over the canal

¹ Vide Buckley, *Irrigation Works of India*.

works, and neither the attention of the higher authorities nor the funds required for the rapid prosecution of construction were forthcoming to any adequate extent.”¹ In 1844, Sir Arthur Cotton reported on the question of irrigating the Godavari Delta, and the work was sanctioned in 1846. This system has been of untold value to the tract it irrigates. During the fifties and the sixties of the century, the great inundation canal systems of Sind were restored, enlarged, and brought into working order. In the Bombay Presidency, storage works were undertaken, and the Mukti Tank was constructed in 1869. Efforts were made during this period to construct combined irrigation and navigation works by private enterprise, and these ended in failure involving a huge waste of capital and interest. But the most important move in the direction of pushing irrigation works came when the Secretary of State for India accepted the principle of financing productive works by loans raised in the open market. So long as heavy capital expenditure had to be incurred from revenues the progress of irrigation works was bound to be slow. Under this policy five works of great magnitude, viz., the Sirhind, Lower Ganges, Agra, Lower Swat and Mutha Canals, and several smaller ones were taken in hand.

Bari Doab
Canal.

Sutlej
Valley.

Triple
Canal
Project.

The Cauvery system is the largest delta system and is the most profitable of all the works in India. There are seven similar delta systems in Madras, and one in the delta of Mahanadi in Orissa. The Bari Doab Canal was the first of the modern works in the Punjab, commenced in 1850, and has been followed up by a series of canal projects. Of these the Sutlej Valley project alone accounts for 533 miles of main and branch canals and about 3,000 miles of distributaries. The Haveli project, estimated to cost about Rs. 535 lakhs, is expected to yield a return of 8 per cent. on the expenditure involved. It is calculated to provide perennial irrigation over $5\frac{1}{2}$ lakh acres and non-perennial irrigation over $4\frac{1}{2}$ lakh acres, besides irrigating neighbouring tracts. The Triple Canal Project, which was completed several years ago, is regarded as one of the most brilliant feats of canal-engineering in India. Under this scheme, the excess waters of the Jhelum are taken off and carried to the Chenab and discharged into that river, and what remains after is carried to the Ravi and

¹ *Irrigation in India*, p. 22.

poured over the Lower Bari Doab. This system irrigates nearly two million acres.

Irrigation in the Punjab has turned arid deserts into fertile fields. Millions of acres of wilderness have been turned into sheets of luxuriant crops, and a new population of a million people have found homes in these areas. With their planned villages and towns, built up with the aid of modern science and organisation, coupled with state assistance and the beneficent activities of co-operative societies, the Punjab Canal colonies have become the objects of envy to other provinces. They have added not only to the economic prosperity of the people, but also to a considerable increase in Punjab's revenue. They have largely fulfilled Sir G. F. Wilson's prophecy that these colonies were calculated to become "the richest granaries of Asia, and afford scope for the rise of large and important industries among the sturdy and practical races of India". About one-fifth of the total area cultivated in the Punjab is colonised as a result of irrigation.

Punjab
Canal
Colonies.

The demand for storage works is the greatest in Bombay and Madras, where most of the rivers have short courses, and the rain, which frequently falls in heavy but brief storms, passes away rapidly. The reservoirs and tanks in the Bombay Presidency are constructed in hilly ground. The most important of these are Lake Fife and Lake Whiting, near Poona. In Bombay, the irrigation works have been unremunerative; but there is no province in India more liable to famine, and the extension of protective irrigation is urgently needed there. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India.

Storage
works.

There are a few canal systems in India which have been constructed for the sole purpose of navigation. These include the Circular and Eastern Canals in Bengal, the Orissa Coast Canal (including the tidal canal), and the Buckingham Canal in Madras. The length of such canals open for navigation in 1935-36 was 1,392 miles in Bengal, 1,365 miles in Madras, 412 in United Provinces, 294 in Orissa, 197 in Bihar, and 163 in the Punjab. The largest quantity of cargo, amounting to $5\frac{1}{2}$ million tons out of an all-India total of 11 million tons, was carried by the Orissa canals. In point of value of cargo carried, however, the Madras canals

Naviga-
tion
canals.

come first with Bengal canals as a close second, having carried cargo valued at about 11 crores and 10·7 crores respectively out of a total of 22½ crores.

Major and
Minor
Works.

Productive and
Protective
Works.

For official purposes, irrigation works were formerly divided into two main classes—Major Works and Minor Works. Each of these main heads was again subdivided into two subsidiary ones—(i) Productive and (ii) Protective. Those which were financially remunerative fell under the first sub-head; while those works were called protective, the revenue derived from which did not cover the interest on the capital expended. These latter were works which it was considered desirable to construct in order to help in producing food-grains as a protection against famine, and they were financed out of the Famine Relief and Insurance Grant of a crore and a half set apart every year.¹ With the introduction of the Montagu reforms, two important changes were made in regard to the classification of Government irrigation works. In the first place, irrigation was given the status of a provincial reserved subject. In the second place, the old and somewhat cumbersome classification of the individual works was given up. All works are now classified as productive or unproductive. Productive works are such as satisfy the conditions that within ten years of the completion of construction they produce sufficient revenue to cover their working expenses and the interest charges of their capital cost. All other works are classed as unproductive. The average cost per mile of irrigation works varies from Rs. 3,000 to Rs. 50,000.

Area
irrigated.

During the year 1935–36, the area annually irrigated by state works alone rose to about 31 million acres, *i.e.*, about one-eighth of the total cultivated area in British India, as compared to about 10½ million acres in 1878–79. The total capital outlay on irrigation and navigation works amounted to over Rs. 153 crores in 1935–36, as compared to Rs. 42½ crores in 1901–02. The gross revenue for the year was Rs. 14 crores and the working expenses about 5 crores, thus yielding a net return on capital of about

¹ Mr. Buckley said many years ago, "The financial test is not the only—or, indeed, the ruling—one which should be applied in order to determine whether a particular irrigation work should be constructed or not." The classification of irrigation works into productive and unproductive no longer relates to the source from which funds for their construction were provided.

5.7 per cent. The estimated value of crops raised from areas served by state irrigation is about Rs. 1,100 crores.¹

It may be mentioned that in 1934-35, of the total area of 259 million acres sown (including area sown more than once), only 50½ million acres were irrigated, of which 22½ million acres were irrigated by Government canals, 3⅔ million acres by private canals, 6½ million acres by tanks, 12½ million acres by wells, and the rest by other sources. The area irrigated is the largest in the Punjab (14½ million acres, 9½ of which was due to Government canals), followed by the United Provinces (10⅔ million acres, 3¼ of which was by Government canals), and Madras (9¼ million acres, 3¾ of which was by Government canals).

In the percentage of area irrigated from Government sources to the total area sown, Sind leads with a proportion of about 90 per cent., followed by the Punjab with 35 per cent., and Madras with 21 per cent. Bengal is the only province where the area irrigated is less than 1 per cent. of the total area sown.

Of about 300 irrigation schemes in operation in British India, 70 are of a major description and only a third is classified as unproductive. Special mention should be made of the following new major works : the Sukkur or Lloyd Barrage in Sind, expected to irrigate over 5½ million acres ; the Sutlej Valley Project, estimated to command over 5 million acres ; and the Cauvery Reservoir and Mettur Project, expected to irrigate over 3 million acres. The Lloyd Barrage and Canals scheme, with its 6,600 miles of channels and 48,000 miles of watercourses, is by far the largest canal system in India—possibly in the world. Its largest canal is said to be the broadest ever excavated and exceeds the Panama Canal in width at bed-level. The Mettur Dam, easily the first among those in the British Empire, is over a mile long and impounds a lake with a shoreline of 180 miles. It may be noted, however, that from the financial point of view, some of the canals have not proved quite remunerative. The Sukkur Barrage in Sind and the Damodar canals in Bengal are instances in point.

Irrigation used at one time to produce a net revenue of about 1½ crores a year to the Government of India. It is now an important source of revenue to some of the provinces, e.g. the Punjab, Madras, and the United Provinces. The revenue is

New
Major
Works.

Irrigation
Revenue.

¹ *Triennial Review of Irrigation in India, 1933-36.*

derived from the supply of water for the crops, besides certain subsidiary receipts, such as tolls for navigation, rents of fisheries, etc. The income from navigation is considerable in Bengal and Madras, but is insignificant in the other provinces. The amount of revenue charged for irrigation does not depend on the volume of water supplied, but on the nature of the crop and the area irrigated. In the provinces of Upper India, and in parts of Bombay, the irrigation revenue is not assessed with the land revenue, but is distinct from it. It is assessed by irrigation officials, and consists of (i) occupier's rate, (ii) owner's rate, and (iii) enhancement of land revenue due to canals. In Madras, the system of consolidated rates—including both the land and the irrigation revenue—is followed.

Benefits of
irrigation.

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the out-turn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively small cost. The landowners derive benefit from the works by the increased rentals they obtain. The advantages to the country as a whole¹ are that they protect large areas from the effects of famine, and increase the total food-supply of the people. Lastly, they are beneficial to the Government in this, that besides bringing increased revenue into its coffers, they help to lessen the miseries of the people, and thus remove one of the chief causes of popular discontent.

U.P. grid
system.

Another possibility has been recently brought to public notice by the rural electrification scheme carried on in conjunction with irrigational developments in United Provinces. Under the system, convenient centres are being established all over the province to supply cheap electricity secured from water-power available in the course of the manipulation of irrigation water.

¹ In pleading for the restoration of the ancient irrigation of Bengal, Sir William Willcocks claimed that it had "combated malaria, provided an abundant harvest of fish, enriched the soil and made congestion of the rivers impossible". He went so far as to declare that in the larger interests of the country and "as the irrigation canals have all worked for thousands of years", the interests of railways and roads must yield, whenever necessary, to the needs of irrigation. "The roads and railways, where they have crossed canals without allowing sufficient waterway, must provide the waterway, or, in the case of roads, make paved crossings and use ferries in flood" (*Ancient System of Irrigation in Bengal*).

It has been suggested that the United Provinces scheme has been extremely costly, and it is contended, on the analogy of similar projects in other countries, it should have been possible to supply power at a nominal cost. Such a development may in course of time revolutionise the agricultural and industrial outlook of those tracts where power can be generated out of the energy of running water. An enquiry into the water-power resources of India was made about fifteen years ago. A more up-to-date hydrographic survey is needed immediately, and this should be followed by well-considered schemes of hydro-electric development.

Although great progress has been made in irrigation, much yet remains to be done. Only a small percentage of the total supply of water has been utilised for the benefit of man.¹ In order to prevent the water of rivers and streams from flowing uselessly into the sea, many more canals and storage works will be needed. Agriculturists, too, should be encouraged with loans and grants to construct wells and reservoirs. It is also to be hoped that greater attention will be given to the improvement of internal navigation.²

Need for
more
irrigation.

¹ This observation made by the Irrigation Commission of 1902 remains substantially true to the present day. "It is estimated that of the total rainfall on this continent, nearly 60 per cent. gets evaporated, about 40 per cent. passes through the river channels, and of this 40 per cent. barely 6 to 8 per cent. is utilised by the rural population for irrigating their fields." (Dr. Meghnad Saha, F.R.S., *Presidential Address to the National Institute of Sciences of India*, Calcutta, 1938.)

² Lt.-Col. Sir Arthur Cotton said many years ago, "If 1,000 yards of cubic water can be made use of at a cost of 6d., and if its value, so applied, is 10s., there is no gold mine in the world that can be compared to an irrigation work." (*Lecture on Irrigation Works in India*, p. 1.)

CHAPTER XVII

RURAL INDEBTEDNESS

1. THE BURDEN OF DEBT

REFERENCE has already been made to the existence of indebtedness among the agriculturists of India.¹ The investigations carried on by some responsible persons disclose the existence of appalling indebtedness under which the peasantry of the country groan. In the Bombay Presidency the Famine Commission of 1901 estimated that at least four-fifths of the cultivators were in debt. At a later date Dr. Harold Mann remarked about this Presidency: "This economic enquiry into the condition of the people of a typical dry Deccan village is disheartening. The debts are a crushing load on the people." He estimated that the average debt of the cultivators of a Bombay village is about Rs. 130.² In Bengal it was calculated by Mr. Jack that in the district of Faridpur, 45 per cent. of the cultivators were in debt, and the average debt of each family was Rs. 121.³ In Southern India, in the Cochin State, it was pointed out that nearly 75 per cent. of the agriculturists were in debt.⁴ In the Punjab it has been pointed out by Mr. Darling that only 17 per cent. of the people are free of debt, and the average debt per indebted proprietor is Rs. 463.⁵

Recent
estimates
of indebtedness.

The Central Banking Enquiry Committee in 1931 roughly estimated the total rural indebtedness at Rs. 900 crores, distributed as follows: Assam, 22 crores; Bengal, 100 crores; Bihar and Orissa, 155 crores; Bombay, 81 crores; Burma, 50-60 crores; Central Areas, 18 crores; Central Provinces, 36 crores;

¹ Chapter on 'Distribution', Part I.

² Mann, *Land and Labour in a Deccan Village*, p. 130.

³ Jack, *Economic Life of a Bengal District*, p. 98.

⁴ Slater, *Some South Indian Villages*, p. 137.

⁵ Darling, *The Punjab Peasant in Prosperity and Debt*, p. 5

Coorg, 35-55 lakhs ; Madras, 150 crores ; Punjab, 135 crores ; and United Provinces, 124 crores. The Committee noted that there was a consensus of opinion that the volume had been increasing gradually in the course of the last hundred years. The Agricultural Credit Department of the Reserve Bank of India in a recent survey of the position notes that the burden of this indebtedness has really become "much more crushing than can be judged from a comparison of the growth of its volume in rupees," owing to the great depression. There is no doubt that the figures of the Banking Enquiry Committee must have been doubled, due to the accumulation of interest, not to speak of the principal debt ; to which was added additional debt incurred due to distress and, in particular, low agricultural prices.

To what extent this state of things is due to thriftlessness or extravagance on the part of ryots cannot be definitely asserted, but there is no denying the fact that there is an inherent defect in the credit organisation of the country. The dependence upon the village money-lenders and the usurious rates of interest charged by them are sapping the foundations of the rural prosperity of the country.

2. THE CO-OPERATIVE MOVEMENT

It is a recognised fact that credit is an absolute necessity in all agricultural countries, and particularly in India. Easy and cheap credit, however, has a great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of Raiffeisen and Schulze-Delitzsch have proved the most successful. Many years ago, Sir William Wedderburn, Justice Ranade, and other statesmen advocated the establishment of credit institutions in India on the lines of these societies. In 1892, the subject attracted the attention of the Government of India, and they appointed Mr. (afterwards Sir) Frederick Nicholson to enquire and report on the matter. His Report was submitted in 1895. He said in the Report : "The lesson of universal agricultural history is that

Credit an
absolute
necessity
in India.

Sir F.
Nichol-
son's
Report.

an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact, that agriculturists must borrow. This study assumes as axiomatic that the peasantry of India have, by the very conditions of their existence in tenure, to borrow, and borrow freely, annually, and continuously.”¹

Advantages of Village Banks.

Nicholson suggested the introduction of Co-operative Credit Societies on the German model, for he realised that the State or Central Banks would of necessity be situated far away from the village, and thus would not possess the advantages which are possessed by Village Banks.² These are :

- (i) Absolute proximity to the borrower.
- (ii) Their ability to excite local confidence and consequently to draw in local capital.
- (iii) Their exact knowledge of the clients and their influence over them as co-villagers.
- (iv) Their ability to work cheaply—almost gratuitously—and thus to provide cheap credit.
- (v) Retention of local capital and all profits thereon within the village.
- (vi) Their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities.
- (vii) Their capacity for acting as village granaries.
- (viii) Their ability to act as intermediaries between the state and the individual in agricultural or industrial developments, or in times of seasonal stress.
- (ix) Their power of influencing borrowers towards the true use of credit and of watching the utilisation of loans in accordance with contract.
- (x) Their ability to prevent fraudulent default.
- (xi) Their steady educative influence in matters of thrift, association, and self-help.
- (xii) Their tendency to develop high forms of individual capacity, public life, and national character.

When the Government of India became fully convinced of

¹ For an account of the co-operative societies in Europe, see Wolff, *People's Banks*, and Fay, *Co-operation at Home and Abroad*.

² *Vide* Sir F. Nicholson's Report.

the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904, with the hearty approval of all sections of the community. This Act divided the Societies into (1) Central, (2) Urban, and (3) Rural. The Co-operative Societies Act of 1912, however, substituted for the distinction between Urban and Rural Societies the division of Societies into (i) those with Limited Liability, and (ii) those with Unlimited Liability. It also authorised the registration of co-operative associations for purposes other than credit. Under its provisions, unless the Local Government by general or special order otherwise directs,

Co-operative Societies Acts, 1904 and 1912.

Limited and Unlimited Liability Societies.

(i) The liability of a society of which a member is a society is limited ; and

(ii) The liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, is unlimited.

The conditions of registration are (i) that not less than ten persons can form a society, (ii) they must be above the age of 18 years, and (iii) they must either reside in the same town or village or group of villages, or must belong to the same tribe, class, caste, or occupation.

Registration.

It is contemplated that the management of these societies should be democratic. It should be in the hands of the members themselves, who ought to appoint from their own body a Committee to do the work for one year. The members of the Managing Committee receive no remuneration for their work. No member has usually more than one vote ; but where the liability is limited, a member may have more than one vote, if prescribed by the bye-laws.

Management.

The accounts of every Society are audited by, or by order of, the Registrar, who at all times has access to all the books, accounts, papers, etc.

Audit and Supervision.

The main privileges of these Societies are :

Privileges.

(a) They are bodies corporate, that is to say, they have perpetual succession, common seal, legal right to make contracts, etc.

(b) A registered Society is entitled in priority to other creditors to enforce any outstanding demand due to the Society from a

member or a past member (subject to any prior claim of the Government in respect of Land Revenue).

(c) The shares are not liable to attachment.

(d) On the death of a member, his share is transferred to his heir.

(e) The Societies may be exempted from the payment of income-tax, stamp duty, and registration fees.

Liabilities. As the members have privileges, they have liabilities. These liabilities are limited, or unlimited, according to the class into which a Society falls. A past member is liable for the debts of a Society for a period of two years, and the estate of a deceased member is liable for one year.

Restrictions on work. There are certain restrictions on lending and borrowing. No Society with unlimited liability is permitted to lend money on the security of movable property. The Provincial Government may also impose other restrictions. Borrowing must be made to such an extent and under such conditions as may be prescribed by the bye-laws.

Investment of funds. The funds of the Societies may be invested in the Government Savings Banks, in any of the institutions prescribed by the Indian Trusts Act, in the shares or on the securities of any other registered Society, with any Bank or person approved by the Registrar, or in any other way permitted by the bye-laws.

Use of profits. No part of the funds may be divided by way of *bonus* or *dividend* or otherwise among its members ; provided that after one-fourth of the net profits in any year has been carried to a *Reserve Fund*, payment from the remainder of such profits and from profits of past years may be made among the members to such extent and under such conditions as may be prescribed by the bye-laws ; provided also that in the case of a Society with unlimited liability, no distribution of profits may be made without the order of the Provincial Government. Such Societies may, with the sanction of the Registrar, after one-fourth of the net profits has been carried to a Reserve Fund, contribute an amount not exceeding 10 per cent. of the remaining profits to charitable purposes.

Provincial Acts. Closely following the Act of 1912, came the enquiry by the Maclagan Committee. The Maclagan Report of 1915 made

several significant proposals for the strengthening of the movement, one of the most important being the establishment of Provincial Co-operative Banks.

Under the constitutional changes introduced by the Government of India Act of 1919, co-operation came under the control of a Minister, as it became a transferred provincial subject. Several provinces, notably Bombay, Bihar and Orissa, and Madras, have replaced the Act of 1912 by local legislation. Such legislation is also contemplated in Bengal and other provinces.

The progress and problems of the movement have, in recent years, been the subject of serious examination by provincial committees, besides the Agriculture Commission, the Central and Provincial Banking Enquiry Committees, and the Reserve Bank of India.

The Co-operative Societies in India were from the very beginning handicapped for lack of funds. The growth of deposits was not encouraging, nor was it possible for Societies to borrow from the general money-market. In order to finance the Co-operative Credit Societies a new type of bank was felt necessary to link them with the money-market, and central agencies developed as a consequence. The Act of 1904 did not provide for the registration of Central Banks, which was, however, remedied by the Act of 1912. These Central Banks, as the MacLagan Committee suggested, should confine themselves to financing primary societies and serving as their balancing centres. The Central Banks have now been linked with a Provincial Co-operative Bank located in the chief money-market centre of the province. Thus an organisation has been built up through which the funds of the commercial centres may percolate to the villages to finance the vital industry of the country.

Financing
of
Societies.

The potentialities of the co-operative movement have been amply demonstrated by the steady growth of Societies among the rural population of India. In 1914, the Government of India said with a sense of pride : " Ten years ago there was nothing beyond a few scattered experiments to indicate the presence of the Co-operative movement in India. To-day there are over 12,000 Societies with nearly 600,000 members with a working capital of 5 crores of rupees, and co-operation has firmly established itself as a powerful factor in the material and moral welfare of the

Progress
of Co-
operative
Credit.

people.”¹ Since then, although the number of members has increased, there has not been a steady improvement in the financial position of co-operative organisations taken as a whole. In 1935-1936, the total number of societies in British India was 91,119, and in the Indian States 16,838, while the total number of members was 4,029,504 and 710,374 respectively. The working capital of the entire co-operative movement for the whole of India was a little above 100 crores of rupees.

Categories
of working
capital.

The different categories into which the working capital of co-operative organisations was divided were, in 1935-36, as follows : Share capital, $13\frac{4}{5}$ crores of rupees ; deposits from members, $8\frac{3}{4}$ crores ; loans from persons, other societies, and banks, 59 crores ; loans and deposits from the Government, $1\frac{1}{2}$ crores ; reserve fund, $11\frac{1}{4}$ crores.

Agricul-
tural
Societies.

A few words may be said about the financial operations of the different classes of institutions which constitute the co-operative credit movement. The agricultural societies claim our attention first, in view not only of their number but also of their importance in the economic life of the community. Their aggregate working capital in the year 1935-36 amounted to a little over $29\frac{1}{2}$ crores of rupees and the number of societies to 94,433. The usual rate of interest on borrowings varied during the year 1935-36 from 6 to $12\frac{1}{2}$ per cent. ; that on lendings ranged from $7\frac{1}{2}$ per cent. to 15 per cent., though the maximum was as high as 25 per cent. in Bihar and Orissa. The usual dividend paid on shares, though universally affected by the recent economic depression, varied generally from 5 to $12\frac{1}{2}$ per cent.

Non-agri-
cultural
Societies.

The activities of primary non-agricultural societies are smaller in volume. In 1935-36, their number was a little over 12,000 and the working capital over $22\frac{1}{4}$ crores.

Central
Banks.

The financing agencies of co-operative societies are the Central and Provincial Banks. The main function of a Central Bank is two-fold, namely, (1) the balancing of funds of primary societies, and (2) the supply of capital. In 1935-36, the number of Central Banks in India was 615, of which 119 were in the Indian States. Their total working capital was $29\frac{1}{2}$ crores of rupees.

Provincial
Banks.

In order to co-ordinate the operations of Central Banks, an apex financing institution is needed in every province. In the

¹ *Vide* Resolution dated 17th June, 1914.

absence of a Provincial Bank, the work of the Central Banks can hardly be performed with efficiency and economy. The main object of a Provincial Bank is thus the direction of the financial system of co-operation in a province with the aid of the Central Banks. Almost all the provinces of India have now a Provincial Bank, and steps are being taken to establish such Banks in the new provinces. Some leading Indian States now possess similar apex institutions. The total working capital of the Provincial Banks in India, at the end of the year 1935-36, was 12½ crores.

It is evident from the figures given above that the development of the co-operative movement has so far been considerable. But the rate of progress has been exceedingly slow. The population of the country is so large that the movement may be said to have only touched the fringe of the problem.¹ In order that an appreciable impression may be made on the economic life of rural India, funds must be forthcoming on a much larger scale. Besides, there are certain defects in its financial system, the most serious of which are an absence of elasticity, irregularity in collection, accumulation of overdues, and a defective system of audit. While the difficulty of providing adequate fluid resources is great, the drawback due to the lack of proper education of members in the ideals and working of the co-operative movement is no less a hindrance.

Short-
comings.

Another drawback of the existing system of co-operative finance is the inadequate provision so far made for long-term credit. The necessity for such credit is already great, and is likely to be greater in future. If agriculture is to be a profitable industry, the results of science and education must be applied to it. For this purpose, loans ought to be made available to cultivators for fairly long periods. Another purpose for which cultivators in India require credit is the liquidation of old debts. It is a well-known fact that agriculturists are, as a rule, heavily involved in debt. So long as these loads are not lifted from their shoulders, they will continue to drag their dull and dreary existence, without hope and without energy.

¹ According to the official estimates, in 1936-37, of every thousand persons 32·6 persons in the Punjab, 29·7 persons in Bombay, 28·3 persons in Madras, and 15·6 persons in Bengal, were members of a co-operative society.

Land
Mortgage
Banks.

The existing resources of co-operative organisations are insufficient for the granting of long-term loans on an extensive scale. Nor is the nature of the funds at their disposal such as to allow of investment for long periods. With a view to meeting these difficulties, special institutions known as Land Mortgage Banks have recently been established in several provinces, notably Madras, Bombay, Punjab, Assam and Bengal. These banks are financed by the issue of long-term debentures (bonds), the principal of, and interest on, which are being guaranteed by Provincial Governments. Long-term deposits and share-capital are other sources from which funds are secured by the banks. On the security of the land, loans are being granted for periods ranging from 5 to 30 years, the amount of loan usually not exceeding half the estimated value of the land. These loans are advanced mainly to redeem old debts, to help the purchase of land, or to finance the purchase of implements and the improvement of cultivation, etc.

The Central Banking Enquiry Committee, while enthusiastically advocating the establishment of Land Mortgage Banks on a co-operative basis, warned that the working of the primary co-operative credit societies and land mortgage banks should be entirely kept separate. They also advocated the establishment of Provincial Land Mortgage Corporations to function as apex institutions controlling the primary and district banks, and also as the authority for issuing debentures. While action has been taken on these lines in certain provinces, especially Madras, in the other provinces the combination of functions still continues. This should cease as early as possible.

All-India
Co-operative
Bank.

It is held by some that these developments have rendered desirable the formation of an All-India Co-operative Bank, which would be in a better position to co-ordinate the activities of all types of co-operative organisations and to attract large investments. They urge that the Provincial Co-operative Banks and Land Mortgage Banks should be affiliated to such a body. It will command large resources, and be able to balance the funds of co-operative organisations throughout the country, the surplus of one province being utilised to make good the deficiency of another.

It should be noted that, in spite of provincialisation, oppor-

tunities for reviewing the movement from a national point of view and for the exchange of ideas are steadily being provided, by means of Registrars' Conferences, and the publications and conferences organised by the All-India Co-operative Institutes Association and the Indian Provincial Co-operative Banks Association.

The international aspect of co-operation should not be lost sight of. At the Conference on International Co-operative Banking which met at Stockholm in August 1927, the following resolution was passed : " The Conference further recommends that if the co-operative banks are placed on a uniform basis, this will facilitate the creation of an International Co-operative Bank." Both economic and political considerations perhaps stand in the way of the establishment of such an institution at the present moment, but it is an ideal which ought surely to be kept in view. Mention should also be made of bodies like the Horace Plunkett Foundation and the International Co-operative Alliance, which seek to promote the solidarity and efficiency of the movement on an international scale by celebrating annually the International Co-operators' Day, issuing literature and organising conferences.

Inter-
national
contact.

The co-operative movement has been productive of considerable good to the country. In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the Co-operative Societies instead of from the village money-lenders, are saving a large amount. Besides, with the progress of co-operation and with credit democratised, money that used to lie in hoards has been released and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and old debts have been liquidated in a number of cases. Co-operation has placed within reach of many cultivators cheap manures and implements, it has tended to help improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated. In the Punjab, Co-operative Societies are undertaking the task of consolidation of holdings and the marketing of agricultural produce. In Bengal, Co-operative Milk Societies, Anti-malarial Societies, Supply and Sale Societies have been started. Co-operative irrigation work is also being attempted in

Economic
benefits.

some districts. In Bombay, societies for the hire of cane-crushers, for the maintenance of oil engines for lifting water, have been established. Cultivation and sale of sugar-cane on a co-operative basis are being attempted in some of the provinces. Another significant development is in connection with insurance. In several provinces and Indian States steps have been taken in this matter. It will thus be interesting to watch the progress of co-operative activities in directions other than credit, particularly in the neglected sphere of consumers' co-operation.

Intellectual and moral benefits.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for literacy. The criterion for admission into these Societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts has acted as a sort of check on expenditure for unproductive purposes. In some places, litigation has markedly decreased. In others, surplus funds have been used to start schools, to provide scholarships, to supply drinking-water, and to clean roads.

Draw-backs.

But the great drawback of the existing system of working of the movement is that sufficient attention is not paid to the basic principles of co-operation. The co-operative movement ought essentially to be a moral and social movement. But the fact that, after the lapse of a third of a century, a rigid governmental control has to be maintained over its working shows that the fundamental aspects of the question have been sadly neglected. Co-operation, to be successful, must be founded on self-help, self-reliance and mutual trust, but it does not seem that sufficient stress has so far been laid on the development of these qualities. So long as the foundations remain weak, a strong and massive superstructure can never be erected. What is, therefore, immediately needed is to take steps to imbue the minds and hearts of the rural population with the true spirit and ideal of co-operation. Unless this is done, the co-operative movement, instead of permeating the inner life of the people, will only affect a small part of its outer existence. If, however, the right goal is kept in view, co-operation will strengthen the moral and social fabric of the country and help in reviving the village corporate life

True spirit and ideal.

which has been almost completely shattered by the influence of modern times.¹

3. DEBT LEGISLATION

In recent years, increasing reliance has been placed by many Provincial Governments on legislation for the relief of indebtedness. We have in a previous chapter² mentioned some of the steps taken in the past in this direction. Notwithstanding these legislative measures, the burden of indebtedness has steadily been on the increase. With regard to the Usurious Loans Act, the Royal Commission on Agriculture observed that it has been "practically a dead letter in all provinces". The Commission recommended to the consideration of Provincial Governments the case for a simple Rural Insolvency Act, the enactment of legislation for the restriction of the powers of moneylenders, the establishment of conciliation boards and similar measures to alleviate the situation. These suggestions were supplemented in the valuable reports of the Central and Provincial Banking Enquiry Committees.

As a result there has been a crop of legislation in most provinces and some measures are under consideration in others. A review of the laws, which have been recently enacted, reveal the following underlying objects : (1) control of moneylending ; (2) scaling down of old debts, and (3) liquidation of old debts.³ With a view to controlling moneylenders and their operations, provision has been made for the registration or licensing of moneylenders, the regulation of accounts, and the fixation of maximum rates of interest. For instance, while in the Central Provinces and in Bihar certificates of registration on payment of the requisite fee has been made compulsory, in Bombay a more elaborate procedure has been laid down for licensing moneylenders who are required to pay fees on a progressively rising scale. Though details vary

Object of recent legislation. Control of usury.

¹ Sir Fred. Lely, in his *Note for the Industrial Conference*, 1906, said, "As the old English guilds have been succeeded by the modern Friendly Societies, so from the village commune may arise a brotherhood which shall harmonise the modern sense of individual right with the need of mutual help."

² *Vide* Part I, the Chapter on 'Distribution'.

³ *Vide* a Paper on *Legislation for the Relief of Indebtedness*, read by Prof. C. N. Vakil at the Indian Economic Conference, 1938.

from province to province, most provinces now require money-lenders to maintain regular account books and to furnish periodic statement of accounts to every debtor. Similarly, the maximum rate of interest prescribed by law varies from ¹ a minimum of 6¼ per cent. in Madras to 15 per cent. in Bengal for secured loans, and from 6¼ per cent. in Madras to 25 per cent. in Bengal for unsecured loans. The United Provinces Agriculturists' Relief Act (1934) provides for the novel principle of a progressively diminishing rate of interest as the amount of loan increases.

Debt conciliation.

A more radical remedy has been the establishment of Debt Conciliation Boards, seeking to scale down debts, on a voluntary basis. Such Boards have been working in the Central Provinces, the Punjab, Assam, Bengal and Madras, and their duty is to institute enquiries in the case of every debtor or creditor applying for relief and equitably adjust the debts. These Boards enjoy certain powers of civil courts. They can issue certificates, usually if creditors to whom 40 per cent. or more of the total debts are due agree to a settlement, the Boards undertaking to collect the agreed instalments, on the basis of a small commission. Recently, however, the method of compulsory scaling down of debts, *i.e.*, irrespective of any agreement with the creditors, has been adopted notably in the Madras Agriculturists' Relief Act (1937).

Liquidation of past debt.

The liquidation of old debts in order to allow the agriculturists to start anew on a clean slate has been partly secured in areas where Land Mortgage Banks have been established. But the number of such banks do not as yet exceed 150, nearly 100 being situated in Madras. Under the Bengal Agricultural Debtors' Act of 1935, the Debt Conciliation Boards are empowered to declare a debtor insolvent when his debt is so high that it can not be repaid even in 20 annual instalments.

Reserve Bank's Report.

The result of recent debt legislation has been a marked restriction of credit and, in the absence of the development of alternative sources of supply of credit, the agriculturist is bound to be in great difficulties, especially in periods of financial strain. The logical need of a comprehensive approach to the problem was emphasised in the Statutory Report of the Reserve Bank of India

¹ The rates for secured and unsecured loans have been lowered by the new Act to 8 per cent. and 10 per cent. respectively.

in the following terms: "These [legislative enactments] are definitely emergency measures to be justified only by the occurrence of unusual circumstances. Their effect in frightening away credit can not be minimised. . . . Where, however, there is chronic indebtedness and debts accumulate because the cultivator's income is not sufficient to leave him a reasonable margin of profit, the mere scaling down of debts can not provide a permanent cure. . . . Such chronic indebtedness requires a comprehensive policy aimed at improving the whole life and economic status of the agriculturist." In the absence of a bold and constructive policy of agricultural regeneration, it is to be feared, the negative character of recent debt legislation is likely to do greater harm than good to the agriculturists themselves.

Mention may also be made of the novel attempt made by the state of Bhavanagar to check usury and eradicate the evil of unproductive debt. The Durbar initiated a comprehensive scheme of redemption of agricultural debts in 1932. The entire debt of the ryots, totalling Rs. 86,38,874, was compromised for Rs. 20,59,473. The Durbar paid off the creditors in the first instance, and is now realising the amount from the ryots, in instalments collected along with the land revenue dues. It should be noted, however, that the commendable experiment of the Durbar, relating as it is to a small area and comparatively small amount, is of limited application to the rest of India. Moreover, along with such a bold step for liquidating past indebtedness, simultaneous arrangements should be made for the supply of adequate credit for productive purposes at least, though, of course, under requisite control.

Bhavanagar experiment.

If rural indebtedness is to be checked in an effective manner, it is essential that comprehensive measures of a radical character should be taken up without delay, in order to reconstruct the whole economic edifice responsible for the present situation. The real remedy can only come from an augmentation of the income of the agriculturist. Agriculture by itself is not sufficiently remunerative. The first thing that is necessary is that agricultural operations will have to be substantially improved so as to yield larger returns. Secondly, occupations subsidiary to agriculture will have to be introduced, such as dairy-farming, bee-keeping, and cottage industries of various kinds.

The real remedy.

CHAPTER XVIII

THE POPULATION PROBLEM

Complexity of the problem.

THE relationship between the population of a country and its prosperity or poverty is one which it is often difficult to analyse. Attempts have been made by writers on Indian economic problems at different times to discover whether India should be regarded as over-populated or not. More recently, some economists have sought to find out the exact optimum for India, that is to say, the exact number of heads that will secure for the Indians the maximum average return from the available natural resources and productive organisation. Differences of opinion on a problem like this are natural, and in many cases these differences have appeared on account of the existence of various standpoints from which the problem can be studied.

Increase of population and poverty.

It is not really easy to make a clear pronouncement on the problem of population in India. In course of the decade 1921-31, the population of India increased from 319 millions to 353 millions, the rate of increase being 10·6 per cent. in the whole period. It may seem from this figure that there is taking place an alarming increase in the population of the country. There are some, like Sir John Megaw, a former Public Health Commissioner with the Government of India, who assert that the pressure of population is one of the chief causes of the extreme poverty of the people, and who predict that this pressure, if allowed to grow unchecked, will in the near future produce great misery in the country. On the other hand, there are others who direct attention to the rich natural resources of India, and conclude that our country ought to be able to maintain even larger numbers.

A study of the Indian population problem can be complete only when full account has been taken of the birth-rate, the death-rate, the rate of migration, and the rate of increase of

wealth. The Census Report of 1921 pointed out some peculiar features of the Indian social system leading to important effects on the growth of population. Among these, the practical universality of marriage and the importance attached to male issues may be mentioned as factors leading to a generally high birth-rate. On the other hand, poverty, the insanitary conditions of living, the low standard of life, early marriage with its attendant evils of infantile and maternal mortality, all lead to an inordinately high death-rate. Emigration is an almost negligible factor, the total number of Indians abroad being much less than one-tenth of the net increase of population during 1921-31. The net increase of population is thus the resultant of a set of complex forces acting in diverse directions.

Factors
affecting
growth of
popula-
tion.

The implication of this net increase of about 34 millions has been differently interpreted by writers with reputation as authorities on the subject. Mr. A. M. Carr-Saunders in his recent book, *World Population*, after considering the evidence of the vital statistics and of the density of population, concludes that "Indian statistics are compatible with, and may be said to suggest, pressure upon the means of subsistence". He even thinks that the position is not improving, and may be deteriorating. Mr. D. G. Karve, on the other hand, in his monograph on *Poverty and Population in India*, draws attention to "the falling rate of infant mortality, the comparatively stationary and slightly falling birth-rate, the definitely falling death-rate, and the slightly improving figure for expectation of life at birth" and infers that "these factors point towards an improving, at any rate towards a by no means worsening, population situation".

To say, however, that the situation is not worsening is not to say that India is not over-populated.¹ The vital statistics of India give all the indications of an excessive population in relation to the total amount of wealth produced. The very great pressure on land is the most unsatisfactory feature of the situation. Estimates have often been made by writers on the problems of Indian agriculture of the 'optimum holding' that an average

Is India
over-
popu-
lated?

¹ In an article contributed to the *Economic Problems of Modern India*, vol. i, Mr. P. M. Lad analyses the available statistics relating to the "population at the reproductive period," following Kuczynski's method, and observes that "there is a *prima facie* proof for raising a strong presumption that it is low and indicative at the most of a normal stable growth."

agricultural family should have. These estimates vary from one to another, but, even if the most modest estimate of acres for a family of six be taken as the standard, it will be found that land in India has to maintain a much larger population than what it properly should. The very low percentage of people depending on trade and industry is another undesirable aspect of the question. When with all this one combines the fact that an appalling amount of poverty exists in the land, one naturally feels inclined to conclude that the population in India is more than what, according to the present-day standards, it ought to be. It has, however, to be remembered that the economic organisation at present prevailing in India pays little regard to the conservation and maximum utilisation of man-power, and it is probable that an improvement of the productive organisation will make it possible for the present population to produce a much larger amount of wealth than is produced now.

Solutions
to the
problem.

It is difficult, however, to suggest solutions to the problem of population in India. Mr. D. G. Karve thinks that the population-condition of our country is in the main only a symptom of social and cultural backwardness, and, according to him, the remedy lies in pushing forward a vigorous programme of social and intellectual reformation. It is, however, often forgotten that social reforms are likely to increase the effective rate of increase of population. Prevention of child-marriage, for example, will make it possible for most women to live up to the end of their reproductive age and will increase the rate of birth per marriage. A wider prevalence of widow-remarriage is also likely to produce a similar effect. It is necessary, therefore, to pay more attention to what Mr. Karve calls 'intellectual reformation'. The rate of birth can fall perceptibly only when the people have become educated enough to be fully alive to their own responsibilities. The birth-rate depends more upon the culture and the outlook of the people than upon age and duration of marriage. Carr-Saunders suggests that "family limitation is the only way of escape"; but this family limitation cannot be brought about unless the people have attained a sufficiently high level of education. In a country where the percentage of literacy is even now below 8, it is perhaps too much to expect that family limitation will play any considerable part in relieving the situation.

the Government the necessity for accelerating the pace of railway construction as a protection against the recurrence of famines. This led to the re-introduction of the Guarantee System with terms more favourable to the Government, and several lines were constructed under this system. In the case of some guaranteed lines the Government exercised the option of purchase, and in some cases the option was not exercised. The resulting consequence of this has been that railways in India are managed under diverse conditions, and they may be classified into three broad classes :

- (1) State lines worked by the state.
- (2) State lines worked by a company.
- (3) Company lines worked by a company.

Having thus briefly traced the history of railway construction, let us examine the relations which subsist between the Government and companies at present. These relations may be stated as follows :

Relations
with the
Govern-
ment.

- (a) The lines that they work are the property of the state.
- (b) The greater part of the capital is the property of the Government, either through originally having supplied it or through subsequent acquisition.
- (c) When the funds are required for further capital expenditure, the Government has the option of either providing them or of calling on the company to provide them.
- (d) The contracts are usually terminable at the option of the Secretary of State.

The Government also possesses a considerable power of administrative control which is exercised through the Railway Board. In the first place, the company is bound to keep the line in good working order and fully supplied with rolling-stock, plant, and machinery. Secondly, the Secretary of State may require the company to carry out any alteration or improvement in the line for the safety of the public. Thirdly, he may require a company to enter into agreement with other companies for the interchange of traffic. Fourthly, he has a general control over rates, and can fix the maximum and minimum rates. Lastly, companies are bound to keep their accounts in proper form and submit them to the Government.

A few words may be said here about the advantages and dis-

State vs.
private
ownership
of rail-
ways.

advantages of the state ownership of railways. The points in favour of such ownership are :

- (i) Profits accruing from railways help to swell the state income ;
- (ii) On state-owned railways the convenience and the safety of passengers are first considerations ; and
- (iii) Rates are fixed on a fair basis, and may, whenever necessary, be so adjusted as to help the economic development of the country.

The objections are :

- (i) The fear of uneconomical management owing to the want of interest on the part of the railway officials, and
- (ii) The apprehension that state interference with industry may be prejudicial to industry itself.

Acworth
Com-
mittee.

In 1921, an expert Railway Committee under the chairmanship of Sir William Acworth made important recommendations in regard to the future railway policy of India. The majority of this Committee condemned the existing system of the company management of state railways as essentially unworkable. But the minority favoured the continuance of the system of both state and company management, and desired that the Government should not be committed to a policy of state management only for all railways. It was true that company management of a railway line had in some countries been found more economical, efficient, and business-like than state management ; but the conditions in India were very different. The Government was the owner of the property entrusted to the management of the companies, and as such it was bound to be responsible politically, financially, and morally for its working, so as to secure the best interests of the country. From past experience it could not be said that the companies had looked to the interests of the country in the same way as they ought to have done. This was the reason for the insistent Indian demand for the management of Indian railways by the Government. Further, a system of dual control where none had the power of an effective initiative was bound to result in great inefficiency and failure.

Secondly, the majority recommended that the whole of the capital for the future development of the Indian railways should be raised directly by the state, and loans should be floated both

in England and in India. The Committee further recommended the establishment of a systematic organisation to familiarise the population of India with the idea of subscribing to Government loans, and for this purpose they suggested that the assistance of banks in India should be enlisted.

But the most important and far-reaching recommendation of the Committee was the separation of the railway budget from the general budget. The Committee recommended that the Finance Department should cease to control the internal finance of the railways. The grounds for this important change were stated by the Committee in the following words : " Apart from the successive stages of discussion and estimating already indicated, there are frequent revisions and reviews of the figures and estimates which are necessitated mainly by the inclusion of the railway figures in the general budget of the country. The grants intimated to the railways at the end of March, that is, just before the commencement of the year to which they relate, are far from being ' fiscal ' except in name. Changes are frequent throughout the year ; they are sometimes necessitated by the developments in the railway position, which lead to increased demands which could not have been foreseen, or to the surrender of funds which for one reason or another has proved impracticable to spend advantageously within the period covered by the grant. But they are also occasioned by the considerations of an extraneous nature ; grants may be cut down during the year because the Finance Department has to meet increased demands from other Departments, or they may be increased unexpectedly at a later stage of the year because of some unforeseen windfall." ¹

Separation of the railway budget.

During the last European war, the financial embarrassment of the Government of India had compelled them to exercise the utmost economy and stringency in providing money for depreciation and renewals, with the result that the assets did not represent the full value which was shown on paper. It was also pointed out that the railways in India had no reserve fund from which they could draw in times of difficulty. Further, the Committee expressed the view that they should be run as a commercial concern and not as an appendage to the general finance of the country. To remedy these defects the Committee recommended

¹ Vide *Acworth Committee's Report*.

the separation of the railway budget from the general budget, and the recommendation was accepted by the Government. The terms on which the railway budget has been separated from the general budget rest upon a convention agreed to by the Assembly in September, 1924. According to this convention, the Central Revenues are entitled to receive from the railways a contribution equal to 1 per cent. of the capital at charge in the penultimate year *plus* one-fifth of the surplus profits in that year. The Assembly also stipulated that, if after payment of the contribution so fixed the amount available for transfer to Railway Reserves should exceed 3 crores, one-third of the excess over 3 crores should be paid to the General Revenues.¹

Financial
results.

The financial results of the operation of Indian railways have shown peculiarities of their own. From 1854 to 1898, the total loss resulting from the Indian railways was 58 crores. From 1898 the railways regularly earned annual profits till the year 1930-31. Up to the year 1923-24, the total profits from railways amounted to 114 crores of rupees. After the separation of the railway budget in 1924-25, contributions from the railways to the General Revenues varied between $5\frac{1}{2}$ crores and $6\frac{3}{4}$ crores annually, the total sum received by the Government during this period amounting to 41.65 crores of rupees.

Railway
finances
during the
depression.

The year 1930-31 brought upon the railways the serious effects of the trade depression. The railway surpluses began to turn into considerable deficits, and the system could be kept going only by loans from the Reserve Fund and afterwards from the Depreciation Fund. No contributions could be paid to the Central Revenues, and by 1936-37 the outstanding obligations of the railways on this account amounted to 30.75 crores, while the loans from the Depreciation Fund stood at 31.33 crores. This huge fall in railway receipts was due to a number of factors. Apart from the decline in the prices of all commodities and of raw materials in particular, resulting in a much reduced volume of goods traffic, there were other causes, like intense competition from motor buses and from river and coastal steamships.

Wedg-
wood
Commit-
tee, 1937.

Reviewing the financial position of the railways in 1936-37, the Railway Enquiry Committee, under the presidentship of Sir Ralph Wedgwood, remarked that there were many adverse fac-

¹ Vide *Budget for 1925-26*, p. 4 (Speech of the Honourable Sir Charles Innes)

tors against which the Indian railways had to, and would have to, contend. The improvement in trade visible in recent years had been due to precarious factors and its effects might not be lasting ; road-competition had come to stay ; besides, some of the burdens assumed by the railways in the years of prosperity would continue to exist. The conclusion of the Wedgwood Committee was as follows : “ The railways should not be regarded as a possible source from which contributions to the General Revenues might be derived. We are aware that it was hoped that the surplus earned by the railways might be such as to place the Central Government in a position to contribute revenues to the Provincial Governments, if not immediately, at least 5 years hence. This hope should no longer be maintained ; but every endeavour should be made towards placing the railways in an assured position to pay their interest charges in full, and so avoid becoming a burden upon the General Revenues.”¹

Since 1936-37, however, the railways have again been showing surpluses. The actual surplus earned in 1936-37 was 145 lakhs. The revised estimate of the surplus for the year 1937-38 was put at 283 lakhs, while the Railway Member budgeted for a surplus of 256 lakhs in his estimates for 1938-39.² Under the Order-in-Council issued in accordance with the recommendations of Sir Otto Niemeyer, the provincial share of income-tax receipts will depend mainly on the extent of railway contributions to the federal revenues. The necessity for a vigorous policy of remunerative operation of railways is therefore imperative.

Recent
improve-
ment.

The Committee laid stress on the importance of giving to the Indian public an adequate voice in the management of their railways, and for this purpose they recommended the establishment of Central and Local Advisory Councils. It may be observed that the Indian public have always been insistent in their demand for a voice in railway administration so as to be able to ventilate their grievances as regards the convenience of passengers, as also for a more judicious and impartial distribution of wagons for traffic. The Government have ultimately yielded to this demand, and have set up Central and Local Advisory Councils at Delhi and other important railway centres. Though they have no legal

Advisory
Councils.

¹ *Report of the Railway Enquiry Committee, 1937, p. 129.*

² *Vide Railway Member's Budget Speech, 14th February, 1938.*

powers, these bodies are, if properly constituted, likely to exercise considerable influence over the railway administration in the country. The Central Advisory Council is partly elected from among the members of the Central Legislature. The Standing Committee on Railway Finance, also partly elected by the Central Legislature, exercises some sort of control over financial matters.

Railway
organisa-
tion.

Formerly, the Government of India discharged its functions of railway administration through its member-in-charge advised by the Railway Board. The Acworth Committee recommended the appointment of a chief commissioner and four other commissioners, of whom one should be in charge of finance and three other commissioners should be in charge of three respective geographical divisions, Western, Eastern, and Southern. The Railway Board now consists of a chief commissioner and three other members. One of these members deals with administrative and traffic problems, the second with technical questions, and the third with the relation of the railway management with labourers. There is also a financial commissioner for railways.

Federal
Railway
Authority.

The Government of India Act of 1935 provides for the appointment of a Federal Railway Authority to supersede the present Railway Board. This Authority will be in complete charge of the state railways of India, and will, if necessary, take up the control and management of other forms of transport ancillary to the state railways. In the discharge of its functions it will be guided by such instructions on questions of policy as may be given to it by the Federal Government; and, subject to this guidance, it will act on business principles, due regard being had to the interests of agriculture, industry, commerce, and the general public. Not less than three-sevenths of the members will be appointed by the Governor-General in his discretion. The President also will be appointed by him. Indian public opinion is severely critical of the way in which the administration of railways is sought to be sheltered against the influence of the Legislature and of the Ministers.

Third-
class pas-
sengers.

The Indian public have, for a long time past, protested against the treatment generally accorded to third-class passengers. They provide by far the greater part of the coaching earnings and nearly one-third of the entire railway revenue. Although some improvement has been effected in recent years in regard

to the comforts of the third-class passengers, their interests have received much less attention than those of the organised trades and upper-class passengers. There is a strong feeling in India that the provision of the improved facilities for third-class passengers has a priority of claim. This is necessary no less in the interests of the railways themselves than in those of the passengers, in view of the competition between motor and rail traffic.

Another insistent demand of the Indian public has been for the Indianisation of the superior ranks of the railway services. The number of Indians in the higher posts is exceedingly small, while not one of the highest posts is at present occupied by an Indian. The Acworth Committee suggested that early steps should be taken to accelerate the pace of Indianisation. At the same time, greater educational facilities should be provided in order to enable Indians to equip themselves for higher positions in the technical branches of the railway services.

The question of railway rates has long agitated the public mind in India. The Industrial Commission pointed out that there were complaints to the effect that Indian railway policy did not tend to foster the industries of the country.¹ As an instance they mentioned the case of hides. "The grant of port rates nearly 50 per cent. less than the internal rates has," they said, "certainly discouraged Indian tanning, and aided certain foreign industrialists to obtain a hold on a class of raw material of which India possesses a partial monopoly." The governing principle in railway rating should be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports. Imported manufactured articles from the ports are often carried at a lower rate. The Industrial Commission, in substantiating this charge, mentioned the case of sugar, "the increased import of which coincided with the reduction rates brought about by railway competition."²

Railway
rates.

Another charge against railway rating lies in the 'block rates' or higher mileage charges for short lengths imposed on traffic moving from a station near a junction with another system towards the junction, in order to travel a much longer distance over

¹ Vide *The Report of the Indian Industrial Commission*, p. 205.

² *Ibid.*, p. 207.

that other system. Further, each railway treats the length of its own system as the sole basis for its charges.

It is a matter for regret that many of the defects of the rate-structure pointed out by the Industrial Commission twenty years ago continue to exist even at present. The lack of a uniform policy in the quotation of rates is a glaring defect, particularly when about 75 per cent. of the railways is owned by the state. The complaint that rates quoted for traffic from and to the ports discriminate in favour of exported and imported goods is insistent even now. The Railway Board, it is pointed out by the business community, generally take an extremely conservative standpoint in any issue concerning rates. In some cases, complaints are heard of special preferences being granted to some parties causing detriment to the interests of others. The rates policy of the railways also affects adversely the industrial development of some provinces in their competition with the others.

Railways in modern times are a potent instrument in the development of the industries of a country. One important factor in the industrial development of Germany has been a judicious manipulation of the railway rates. There seems to be no reason why a similar policy should not be followed in India with an eye to the development of her industries, especially in view of the fact that the largest railways are owned by the state. To deal with the difficult problem of rates, the Acworth Committee recommended the appointment of a Rates Tribunal consisting of an experienced lawyer as chairman and two other members to represent railways and commercial interests. But the Government did not take any steps to constitute a Rates Tribunal of a quasi-judicial character. A Rates Advisory Committee was constituted instead, in 1926, consisting of a chairman and two members representing commercial interests and the railways. The decisions of this Committee are not binding on any party, and it has not been able to satisfy the business community. Section 191 of the Government of India Act of 1935 provides that the Governor-General may from time to time appoint a Railway Rates Committee to give advice to the Federal Railway Authority in connection with disputes as to rates or traffic facilities. This is no improvement upon the existing state

of affairs. An impartial Rates Tribunal alone with judicial powers similar to those of the body existing in England can be expected to solve the problem.

The Wedgwood Committee admitted that they were impressed with the feeling of grievance which appeared to exist in regard to the preferential treatment of export and import traffic. They also took into consideration the complaint that the railways were too 'individualistic' in quoting rates. In both these matters, they recommended that traders should have free recourse to the Railway Rates Advisory Committee.¹ Considering what this Advisory Committee has been able to achieve during the last twelve years of its existence, it does not appear that even a more frequent resort to it will in any way improve matters.

2. ROAD-RAIL COMPETITION AND CO-ORDINATION

A problem of a serious nature has arisen in recent years in the shape of a strong competition between road and rail transport. The competition between railways and coastal shipping has also sometimes been severe, but it has never assumed dimensions attained by the road-rail competition. The post-war years have seen a phenomenal increase in the volume of road transport in India. The total mileage of roads in India is over 300,000, and the total number of buses and lorries registered in British India up to the end of March 1934 is nearly 80,000.

The road policy of the Government has undergone a considerable change during the last decade. In 1928, the Jayakar Committee recommended the creation of a Central Road Fund. In the following year, the Government of India increased the duties on motor spirit to finance this Fund. Up to the end of 1934-35, the total revenue of the Road Fund amounted to 641 lakhs of rupees, of which more than 500 lakhs was actually distributed among provinces. Questions of importance affecting the roads of India are discussed periodically at sessions of the Indian Road Congress convened by the Government of India.

Central
Road
Fund

The recent road policy of the Government has helped to bring into prominence the chaotic way in which competing transport

Loss to
railways.

¹ *Report of the Railway Enquiry Committee, 1937, chap. ix.*

services have been allowed to develop in India. More than 48 per cent. of the railway-mileage of India has a metalled roadway running parallel to it. The Mitchell-Kirkness Report estimated in 1932 the annual loss to the Indian railways on account of road competition at 190 lakhs. In 1937, the Wedgwood Committee estimated the loss at Rs. 450 lakhs a year. This loss was tending continuously to increase, because road-mileage was increasing, roads were becoming better, and the organisation of motor transport was steadily improving.

Benefits
from
motor
transport.

On the other hand, the motor services are in many cases bringing increased traffic to the railways by connecting the railway stations with distant villages. Besides, the motor transport gives the railways a large goods traffic in petrol and motor accessories. It is also to be noted that motor transport contributes annually about Rs. 1 crore to the Road Development Account, Rs. 4½ crores to the Central Revenues, and Rs. 3 crores to the provincial, state, and municipal revenues, making a total of over 8¼ crores.¹ Motor transport has many advantages over railway transport, particularly in the case of short-distance traffic. But the Indian railways represent an investment of over Rs. 800 crores, the interest and annuity-charges on which have to be borne by the Indian taxpayer. In England, regulations were imposed upon motor-transport under the Road Traffic Act of 1930. In the U.S.A., the Inter-state Commerce Commission exercises control over the motor-transport agencies. In Italy and in Germany, the railways are state-owned, and hence there are very strict restrictions on road transport. The Wedgwood Committee recommended that the Indian railways should be given full powers to run road services for passengers and goods, to hold financial interests in road companies, and to make arrangements with contractors for the running of feeder road services. The Indian Railways (Amendment) Act of 1933 had already enabled the Governor-General in Council to sanction the running of road services by railways.

The railways can also adopt a number of innovations for increasing their own traffic. More frequent services, better third-class carriages, greater facilities for the conveyance of passengers and goods, cheap return tickets, observance of strict economy in

¹ *Mitchell-Kirkness Report, 1932.*

the administrative expenditure of the railways are some of the measures that can be adopted.

Co-ordination between road and rail transport is desirable, but it is not easy to bring it about in practice. One of the purposes of the Motor Vehicles Act recently passed by the Indian Legislature is to secure this object. It provides for the appointment of Provincial and Regional Transport Authorities with wide powers over motor traffic. Regulations have been adopted regarding the licensing of motor-drivers and also regarding the speed limits and the limits of weight for vehicles using the road. Another important provision of the Act is that all motor vehicles will have to be insured against third-party risks. It is hoped that by these means competition between railways and motor transport will be considerably restricted.

Co-ordination of transport.

3. SHIPPING

Shipping is no less important for a nation than railways from the economic point of view. In ancient times, not only was an active trade carried on along the extensive sea-board of the country, but Indian vessels carried cargoes to Persia, Arabia and parts of Eastern Africa on the west, and to Malaya and the Indian Archipelago on the east. During the mediaeval period, the foreign shipping of India lost much of its previous enterprise, but an active coastal traffic was continued. In the eighteenth century, ships were built in Indian yards for the East India Company's service. But, owing to various factors, mainly the protection given to British shipping, ships ceased to be built in India. Thus, by the beginning of the nineteenth century, Indian shipping practically went out of existence, and it was not until the beginning of the present century that fresh efforts were made to revive the industry.

Shipping in ancient India.

Gradual decline.

At the present moment the part played by Indians in mercantile shipping is miserably poor.¹ India sends out very few vessels

¹ The United Kingdom has a total mercantile marine tonnage of 17·4 millions, Japan of 4·1 millions, Germany of 3·7 millions, and even countries like Finland and Belgium have a tonnage of more than 400,000 each. The gross registered tonnage of Indian shipping in 1935 was only 220,071. Vide *Supplementary Statement by The Federation of Indian Chambers of Commerce and other bodies*, 1937.

Domina-
tion of
foreign
concerns.

to foreign countries, and her maritime activity is confined almost entirely to her coastal sea-board. Even in the field of coastal shipping, the bulk of the business is in the hands of foreign steamship companies. Indian-owned shipping concerns have not developed quickly on account of the intense and unfair competition of the established foreign concerns. It has, for example, been complained that a very large proportion of the export and import trade of the country is in the hands of foreigners, and an analysis of the conditions shows that the foreign domination in this particular sphere is the result of the preferential treatment given to foreign firms by their national steamship lines. Lala Harkishen Lal, giving evidence before the Indian Fiscal Commission, stated as follows: "The present foreign steamship companies give preferential treatment to foreign exporting houses as against the Indians engaged in that line, with the result that it is impossible for Indians to take part in a very profitable branch of business".¹

Rate wars
and de-
ferred
rebates.

The port-to-port rates quoted by these foreign lines have often been higher than the rate from a foreign country to India. As a result, in some areas foreign goods have enjoyed advantage in competing with goods coming from other parts of India through coastal shipping lines. Moreover, these foreign concerns have killed or injured some Indian steamship lines by means of unscrupulous rate-wars or by such devices as the grant of deferred rebates.

Advan-
tages of a
national
mercantile
marine.

No elaborate discussion is needed to stress the necessity of developing a mercantile marine owned and operated by Indians. Besides being an important business in itself, it can remove the evil effects of foreign monopolies, provide a new career for enterprising young men, and serve as a potential auxiliary of national defence. The Government of India was prevailed upon to appoint a Mercantile Marine Committee in 1923. The Committee recommended a system of licensing of steamers plying between coastal ports with a view to gradual Indianisation. They also recommended that arrangements should be made to provide training in marine engineering to Indian young men. Suggestions were also made for the purchase by the Government of one of the

¹ S. N. Haji, *Indian Mercantile Marine*, Indian Shipping Series, Pamphlet No. 4.

British lines and of the grant of bounties to Indian companies. But the only tangible result was the arrangement made for training in marine engineering, and the 'Dufferin scheme' was launched.

In 1928, Mr. S. N. Haji of the Scindia Steam Navigation Company, introduced in the Legislative Assembly a Bill providing for the reservation of coastal traffic in India for concerns of which 75 per cent. of the shares was vested in Indian nationals. The Bill further provided that in the case of joint-stock companies operating shipping lines, 75 per cent. of the directors, including the chairman, should be Indians and the same percentage of the members of managing firms should also be Indians. The Bill, however, could not become an Act on account of the decision of the Government to wait till the constitutional position was clarified at the Round Table Conference. The consideration of another Bill regarding the abolition of the system of deferred rebates was also postponed on the same ground.

Mr. Haji's
Coastal
Reserva-
tion Bill.

The constitutional issue was sought to be solved by the provision in the new Government of India Act to the effect that there should be no discrimination against British commercial interests. This means that reservation of coastal shipping for Indian nationals would be *ultra vires*, and that any consideration shown to Indian concerns would have to be extended to British concerns also.

The latest attempt in the direction of developing a mercantile marine in India is that made by another non-official member of the Central Legislative Assembly who in 1937 introduced a Bill to control the coastal traffic of India. This Bill¹ does not go as far as Mr. Haji's, but only seeks to limit unfair competition between Indian-owned and foreign concerns in coastal traffic. The Bill has received qualified support from the non-official members of the Legislature and the general public. What India desires is that, while coastal traffic should be entirely in the hands of the children of the soil, Indians should also have a substantial share in the carrying trade of India with foreign countries.

Bill to
control
coastal
shipping.

¹ A Bill to control the coastal traffic in India by Sir Abdul Halim Ghuznavi.

CHAPTER XXI

INDUSTRIAL ORGANISATION AND FINANCE ¹

1. THE MANAGING AGENCY SYSTEM

The Managing Agency system.

THE pioneering and management of large-scale industry in India present certain distinct features which differ from company promotion and management in other countries. Industrial enterprises in this country have been mostly promoted and controlled by a system which is peculiar to India. It is known as the Managing Agency system. The more important jute mills, cotton mills, tea gardens, sugar factories, electric supply companies, and light railways were started and are still managed by managing agents. There are many industries which would never have been established in the country but for the initiative and the risk taken by the managing agents. Without the assistance of the Tatas, the iron and steel industry and the hydro-electric industry would not have been developed as they have been.

The origin and growth of Managing Agencies forms an interesting subject of study. The system was first adopted in European concerns. Among the representatives of European firms trading in India there were some persons of outstanding ability and enterprise who began to utilise the experience gained in their own businesses for promoting other kinds of industrial and commercial activity. When these were successfully started, the organisers managed the new concerns on behalf of the shareholders and became known as the Managing Agents. The system was subsequently adopted for promoting and organising Indian concerns.

Organisation of managing agents.

Managing agency firms are organised as individual proprietorships, private partnerships, private limited companies, or public limited companies. The second and third forms appear to be

¹ For a fuller treatment of the subject see Lokanathan, *Industrial Organisation in India*, and N. G. Das, *Industrial Enterprise in India*.

the most common, and the more important houses are organised under either of these two forms.¹ Whatever the form in which the agency firm is organised, the services rendered by them to the concerns under their management are similar.

Broadly speaking, there are three main types of managing agency firms in India, (1) European managing agency firms in Calcutta, (2) Indian managing agency firms in Bombay, and (3) Indian managing agency firms in Ahmedabad. There is one important distinction among them in respect of their tenure. The managing agency is hereditary and permanent almost invariably in Ahmedabad, and in some instances in Bombay, but not so in Calcutta.

Types of
managing
agency
firms.

The agency firms are formed by a group of individuals with strong financial resources and considerable business enterprise.² They promote joint-stock companies, employ their own funds or the funds of their friends and relatives for financing their requirements, and manage their business. Thus they are the promoters, financiers, and managers of the businesses they have established. They also act as sale or purchase agents for the concerns under their control. The remuneration which they charge for the services they render takes the form of a commission. The basis on which this commission is calculated varies from one industry to another and in different parts of the country. Thus in the case of the cotton mill industry in Bombay, the system of a commission on profits has been prevalent for a long time, but in Ahmedabad a commission on the sales basis existed until recently. The agents are able to supplement their usual remuneration by earning substantial commissions in respect of various subsidiary services rendered by them.

Functions
of
managing
agents.

While recognising that the managing agency system has played a very important part in the industrial development of the country, it must be admitted that the system has given rise to some grave defects. The managing agents were, until recently, outside the scope of the Indian Companies Act, and in the absence of any statutory control they were able to carry on their

Defects of
the
system.

¹ It was pointed out by the Indian Central Banking Enquiry Committee that out of 36 managing agency firms whose names appeared in the Calcutta Exchange only seven were limited companies and the rest were private firms.

² *Report of the Industrial Commission*, pp. 12-13.

activities in a manner highly injurious to the interests of the shareholders. The hereditary and irremovable character of managing agencies, the system of remuneration on a sales basis, the practice of rendering subsidiary services such as the purchase of machinery and stores on behalf of their client concerns, the inter-investing of mill funds, the control exercised over the directors so as to turn them into mere puppets are some of the main grounds on which the system has been severely criticised. The agents have also been accused of numerous mal-practices. Not infrequently, charges of dishonesty, inefficiency and uneconomical management have been brought against them. Thus the abuse of the system has led to the general belief that it has outlived its usefulness. It is, therefore, not surprising that there has arisen an insistent demand that the system should be abolished or at least reformed and placed under statutory control.

Demand
for Statu-
tory Con-
trol—the
passage of
the Indian
Companies
Amend-
ment Act.

In these circumstances the Indian Companies Act was amended in 1936 so as to bring the managing agents for the first time under its purview. The aim of this amended Act has been to remove some of the gravest defects of this system. The tenure of the managing agents has been fixed at 20 years¹; the charging of commission on the basis of sales has been prohibited²; the practice of inter-investment of mill funds has been curbed, no company being allowed to purchase the shares and debentures of any company under the same managing agency, unless approved by the unanimous decision of the Board of Directors of the purchasing company.³ The rendering of subsidiary services has not been banned altogether, but the receipt of any additional remuneration for such services has been made subject to the sanction of a special Resolution of the company.⁴ The independence of the directorate has been sought to be secured by limiting the number of directors nominated by managing agents to a maximum of one-third of the total number.⁵

It is to be hoped that Managing Agents will now do their best to remove the defects of the system. In particular, they should concentrate their attention on the use of the most up-to-date machinery, the adoption of a better system of marketing, the improvement of the method of recruiting and training labour, the

¹ Section 87 A.

² Section 87 C.

³ Section 87 F.

⁴ Section 87 c (2).

⁵ Section 87 I.

introduction of greater facilities of research and a more economical way of management. If they utilise to the full extent their opportunities during the limited span of life allotted to them, their services in the cause of the industrial development of the country will be remembered with gratitude, and they will have paved the way to the formation of a new class of capable directors and entrepreneurs who will be able to give a fresh impetus to the growth of Indian industry.

2. INDUSTRIAL FINANCE

The problem of industrial finance in India has engaged considerable attention in recent years. The question was brought to the forefront by the Industrial Commission in their Report published in 1918. It was also considered by the External Capital Committee in 1924. But it received full attention from the Central Banking Enquiry Committee in 1929. Not only did the Committee make a detailed examination of the entire banking system of the country, but it also conducted a searching enquiry into the existing position of industrial finance in India, particularly the part played by the Indian banks in providing it.

Broadly speaking, organised industry requires two kinds of finance, namely, fixed (or block) capital and floating (or working) capital. The former includes not only the initial capital for the purchase of land, the erection of factory buildings and the installation of plant and machinery, but also the funds required for extension, replacement, and reorganisation. The floating or working capital is required for the payment of wages, the purchase of raw materials and stores, marketing charges, and other current expenses. The problem of industrial finance in India relates both to the provision of long-term financial facilities and to the supply of current finance. In western countries the short-term financial needs of industries are met without much difficulty, and there the complaint is chiefly made about the inadequacy of long-dated capital. But in India, industries suffer not only from a lack of long-term financial facilities but also from the insufficiency of working capital and the heavy cost of obtaining it.

Indian investors are proverbially nervous about industrial shares and debentures. Land constitutes perhaps the most

Long-term industrial finance.

attractive field for investment. After land come Government securities, postal cash certificates, and port trust and municipal debentures. A very small proportion of the people's savings is put in industrial shares. India's banking system is modelled not on the continental system but on the pre-war English system of deposit banking and is ill-adapted for the task of long-term industrial financing. Issue houses, investment banks, and underwriting firms are conspicuous by their absence in India. There is hardly any organisation in the country which grants long-term loans to industries against their fixed assets. In these circumstances industries experience great difficulties in raising their long-dated capital. Cases in which the share capital is over-subscribed are exceptional, and in the majority of instances the amount obtained from share capital is inadequate even for the initial fixed capital expenditure. Debentures, again, are not a popular form of investment in the country; and it is almost impossible for industries either to supplement their share capital or to obtain the necessary finances for extension and re-organisation by resort to this method.

Current finance.

It often happens that the capital raised by the issue of shares is soon spent in the erection of factory buildings and the installation of the necessary plant and machinery, very little being left for meeting the current expenses. Most industrial concerns, therefore, have to seek this finance from outside sources. But the difficulty of securing this finance is great, and the cost of obtaining it is enormous. The Imperial Bank and other joint-stock banks play some part in the provision of this sort of finance. But industrial concerns are severely handicapped by the fact that the banks do not lend only against the hypothecation of liquid assets but insist on the guarantee of the managing agents.¹

Banks, however, are not the only or even the chief source of supply of current finance for industry. In the cotton mill industry of Bombay and Ahmedabad, the financial assistance provided by the banks is of an insignificant character. In the former 9 per cent. and in the latter only 4 per cent. of the

¹ Although the Imperial Bank (Amendment) Act of 1934 has authorised the Bank to lend directly against the hypothecation of goods, there is no evidence to indicate that the Bank is willing to dispense with the additional guarantees of the managing agents.

total finance required by the mills was obtained from the banks in 1930. Public deposits are the most important source from which the mills in Bombay and Ahmedabad obtain their current finance. These constituted 11 per cent. of their total finance in Bombay and as much as 39 per cent. in Ahmedabad¹ in 1930. In ordinary times the system has certain inherent advantages, and cotton mills under sound and prudent management have been immensely benefited under it during the last 30 or 40 years. But it is a fair-weather friend and is likely to prove a source of great embarrassment in times of crisis when the public make sudden and heavy withdrawals. In recent years, this source of the supply of current finance has considerably dried up. During the economic depression large withdrawals were made. A considerable number of businesses was landed in disaster.

Reference has already been made to the important part played by the managing agency system in the provision of financial assistance to industries. Managing agents themselves subscribe largely to the share capital and debentures of industrial companies under their management and frequently induce their friends and relatives to take up considerable parcels of such shares and debentures. They offer their guarantee for the loans obtained from the banks and their reputation helps the mills to draw large amounts of deposits. They also make considerable advances to their companies out of their own funds whenever the companies are in need of finance for meeting their capital expenditure or for development and extension. Not only do the managing agents directly subscribe to the shares and debentures but they also assist in their flotation in the market. Thus they perform the same functions in India as the issue houses of England and the 'industrial banks' of Germany.

The
managing
agency
system.

But the credit which managing agents claim for the financial assistance rendered by them to their constituent companies is far greater than they deserve to get. If one goes deep into the problem, it will be evident that the concerns which they financially assist are under their control and management and all the details of their financial position are well known to them. Thus the risk they run in lending to them is less than in ordinary investments. Besides, the rates of interest charged by them are much higher

¹ *Indian Central Banking Enquiry Committee's Report*, vol. i, pt. 1, p. 278.

than what they would have obtained by investing in shares of other companies.

Need of
Industrial
Credit
Corpora-
tion.

The necessity of setting up special institutions for solving the problem of industrial finance in India was recognised by the Industrial Commission as well as by the Central Banking Enquiry Committee. The Industrial Commission favoured the establishment of an institution in India on the lines of the Industrial Bank of Japan. The Central Banking Enquiry Committee recommended that those Provincial Governments which could find it necessary to furnish better financial facilities to industries within their respective provinces should take the initiative in starting Provincial Industrial Corporations. Such Industrial Corporations should obtain their capital by issuing shares and debentures to the public, and the Provincial Governments should subscribe a substantial proportion of the share capital. The Government may also give a limited guarantee for the debentures. Further, funds may be obtained by accepting fixed deposits from the public.¹ These corporations should specialise in the provision of long-term capital to industries which should continue to obtain their working capital from existing institutions.

It was further suggested by the Committee that an All-India Industrial Corporation might be established if the Central Government and the Legislature were convinced of its need, and meanwhile the Provincial Corporations should form a Central Association to promote and safeguard their common interests.

The
Industrial
Credit
Syndicate
of Bengal.

Attempts have so far been made by only two Provincial Governments to start special institutions for the financing of industries. The Industrial Credit Syndicate of Bengal was registered in March 1937, with an authorised capital of Rs. 50,00,000, with the special object of financing small and cottage industries in the province. An agreement has been made with the Government of Bengal under which the Provincial Government will from time to time pay to the company (1) one-half of any losses of capital attributable to the first 10 lakhs of rupees lent by this company, and (2) one-half of any losses of capital attributable to any amount lent by the company after and in addition to the company's first loans, provided that the capital sums covered by these subsequent loans in origin formed a part of the sum of 10

¹ *Indian Central Banking Enquiry Committee's Report*, vol. i, pt. 1, pp. 301-303,

lakhs of rupees referred to above. The Provincial Government has further agreed to pay to the company in respect of each of the first 5 financial years the amount spent in each year in administrative expenses or a contribution of Rs. 20,000 towards these expenses, whichever is less. The maximum amount that can be lent by the company to a single customer is limited to Rs. 15,000, and the duration of the loan must not exceed 10 years.

In the United Provinces, the Industrial Finance Committee (1935) recommended the establishment of a joint-stock bank under the title of the United Provinces Credit Bank Ltd., with the distinct object of providing both long- and short-term financial facilities to the provincial industries. The initial authorised and issued capital should be fixed at Rs. 25 lakhs, and the Provincial Government should guarantee a dividend on the initial paid-up capital of the Bank at the rate of 4 per cent. per annum free of income-tax. Under certain conditions the Government guarantee would terminate after 5 years, but in no case should it continue for more than 20 years. The United Provinces Industrial Corporation has been established more or less on the lines of these recommendations. It will have a capital of Rs. 15 lakhs fully paid-up. The Government will guarantee payment of Rs. 60,000 annually to enable the company to declare a dividend and will also contribute Rs. 20,000 annually for the first five years towards one-half the cost of the management. Assistance will be confined to industrial companies having a capital not exceeding Rs. 50,000.

The
United
Provinces
Industrial
Corpora-
tion.

These are, however, extremely feeble efforts.¹ The problem of industrial finance in our country cannot be solved unless industrial banks are established in the important industrial centres for providing long-term financial facilities to small-, medium-, and large-scale industries. These banks may be federated into an

¹ A Report of the United Provinces Industrial Financing Corporation, subsidised by the Government, has been issued to shareholders for their meeting to be held on July 6, by which time the Corporation covers the legally allowed period of six months. The accounts show that out of Rs. 3,55,675 received Rs. 3,06,000 was invested in gilt-edged securities carrying about a three per cent return. Rs. 9,984 as preliminary expenses is already received from the Government. A contribution amounting to 4 per cent on the paid-up capital plus 50 per cent for working expenses is still receivable from the Government. Commission paid amounted to Rs. 9,020, which works out at less than 1 per cent on the subscribed capital of Rs. 10,00,000. It is needless to say that such institutions can be of little assistance to the industrial development of India.

all-India institution, or an independent Finance Corporation may be established on an all-India basis for supplying the financial needs of the entire country. It is true that there is an under-current of feeling in certain quarters that the experiment of industrial banking actually made has not proved a success. The reference is to the Tata Industrial Bank and a number of other institutions which were started during the post-war period. These institutions failed either because they were not established on a firm basis or because they were not conducted on sound principles. While, therefore, these failures should afford lessons for the more careful management of similar institutions in future, they should not be regarded as a ground for doubting the success of a well-conceived scheme for the financing of Indian industries.

CHAPTER XXII

BANKING AND CURRENCY PROBLEMS

1. THE RESERVE BANK OF INDIA AND AGRICULTURAL FINANCE

THE Reserve Bank of India was authorised by Section 54 of the Act to create a special Agricultural Credit Department. The functions of this department are : (1) To maintain an expert staff to study all questions of agricultural credit and to be available for consultation by the Governor-General in Council, Provincial Governments, Provincial Co-operative Banks and other banks, and (2) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks and organisations engaged in the business of agricultural credit.

Functions
of the
Agricul-
tural
Credit
Dept.

The Rural Credit Department of the Commonwealth Bank of Australia has supplied the principle on which the Indian system has been organised. But the functions here are purely advisory, while the Rural Credit Department of the Australian Bank has separate funds of its own, contributed partly by the Bank and partly by the Commonwealth Government, and is authorised to issue debentures and make advances against agricultural produce for periods not exceeding 1 year.

The provisions of the Reserve Bank Act in relation to agricultural finance are to be found in sub-sections 2 (b), 4 (a), 4(c), and 4 (d) of Section 17. The financial accommodation which the Reserve Bank has been authorised to grant covers the following cases :

Provisions
of the
Reserve
Bank Act
relating to
Agricul-
tural
finance.

1. Loans and advances against Government paper for 90 days to provincial co-operative banks and through them to co-operative central banks and primary land-mortgage banks.

2. Similar loans and advances to provincial co-operative banks and central land-mortgage banks declared to be provincial co-

operative banks and through them to co-operative central banks and primary land-mortgage banks against approved debentures of recognised land-mortgage banks which are declared trustee securities and which are readily marketable.

3. Advances to provincial co-operative banks for 90 days against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations, or rediscount of such promissory notes maturing within 9 months.

4. Loans for periods not exceeding 90 days to provincial co-operative banks against promissory notes of approved co-operative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops, or rediscount of such promissory notes maturing within 9 months or loans and advances on the promissory notes of provincial co-operative banks supported by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies.

Principles
on which
the Bank
furnishes
agricul-
tural
finance.

In explaining the part the Reserve Bank can take in the provision of agricultural finance, the Bank in its Statutory Report has emphasised its character as a bankers' bank in emergency and not their ordinary financing agency. The Reserve Bank thinks it impossible for it to lend to agriculturists direct or to advance large sums to co-operative banks or indigenous bankers for re-lending them to the cultivators as a matter of course. Nor does it think that it can take the place of the Government in this connection. What can be done by a Government with its own revenues is not open to the Bank owing to the limitations inherent in its constitution. In outlining the principles on which the Bank can make advances to co-operative banks, it stresses the necessity of their recognising that they must stand on their own legs, obtaining their normal finance from deposits and not relying upon the Bank for its supply. Moreover, sound co-operative banks to-day are suffering not from a shortage but from a plethora of funds, which makes it increasingly difficult for them to find a suitable channel of investment within the movement. The Reserve Bank intends to follow the same basic principles in making advances to co-operative banks as those for other forms of credit and will come into the picture only when the ordinary

pool of credit is found to be insufficient to meet the reasonable requirements of agriculture.

While the Reserve Bank is prepared to deal with provincial co-operative banks on the lines indicated in Section 17 of the Act as quoted above, it has laid down certain conditions for the grant of advances. The conditions are : (1) The Reserve Bank must have the right to inspect the banks approved for financial assistance ; (2) such banks must furnish periodically financial statements in certain forms ; (3) they will have to maintain with the Reserve Bank minimum balances, the amounts of which will be prescribed from time to time ; and (4) the funds advanced must be repaid within the time-limit allowed by the Act, and accommodation should definitely be for helping the banks to tide over a temporary shortage of funds.

The position taken up by the Reserve Bank of India is based upon the orthodox conception of the functions of a central bank. But there has been a strong feeling in the country that the provisions of the Act in relation to agricultural finance are hardly adequate.¹ The conditions laid down by the Bank for making advances to provincial co-operative banks appear to be unnecessarily stringent. The Co-operative Associations have from time to time made insistent demands for extending the provisions of the Act in this respect. As early as 1935, the Indian Provincial Co-operative Banks' Association urged that the Agricultural Credit Department should not merely be an agency for advice and consultation but it should be used as a regular channel for supplying normal agricultural credit to co-operative banks. It has been suggested in some quarters that cash credit facilities should be granted to provincial banks. It has also been suggested that Section 17, 4 (d), which at present allows advances against promissory notes of provincial co-operative banks which have granted cash credits or overdrafts for financing the marketing of crops, should be extended to include promissory notes given for loans and advances granted for the same purpose. It has further been urged that Section 17, 2 (a) should be so amended as to include the provincial co-operative banks in order that urban co-operative banks dealing with small artisans and traders may

Suggestions for affording greater facilities.

¹ Mr. C. W. Heyden, manager of the National City Bank of New York, thinks, however, that there is no dearth of credit facilities in India.

be able to approach the Reserve Bank through them. As at present constituted, the Reserve Bank cannot contribute much to the provision of long-term rural credit. But there is a widespread feeling in the country that the Reserve Bank should invest in the debentures of land-mortgage banks and arrangements should be made to enable the Reserve Bank to give long-term agricultural credit.

In any scheme for effective improvement of agricultural credit, the question of bringing the money-lender within the banking structure is important. The money-lender is the largest supplier of such credit, and if a contact could be established between the money-lender and the money-market it would be of substantial advantage to the agriculturist. But there are great difficulties in the way. The Reserve Bank does not think it possible to have direct relations with the money-lenders, but it is willing to cultivate indirect relations with them through the scheduled banks in certain forms of agricultural finance. If the scheduled banks discount the bills of approved money-lenders drawn for advances to cultivators against produce, the Reserve Bank will be prepared to re-discount such bills at special rates by the grant of rebates to scheduled banks. This concession will enable the scheduled banks to make advances to money-lenders for such purposes at low rates of interest and the money-lenders in their turn will be able to make finance available to the cultivators more freely and more cheaply.

2. THE RESERVE BANK AND THE MONEY-MARKET

Dual control of currency and credit prior to 1935.

Prior to the establishment of the Reserve Bank of India in 1935, India was one of the few countries where a dual control was exercised over currency and credit. The Government controlled the currency, and the credit situation, so far as it was controlled at all, was controlled by the Imperial Bank. While in other countries the control of both currency and credit was centralised in and fixed upon a central bank, there was in India, as the Hilton Young Commission rightly pointed out, an antiquated division of responsibility in this respect. Divided control meant divided counsel and failure to co-ordinate. With

the inauguration of the Reserve Bank, the control of both credit and currency was placed in the hands of a single authority.

Instru-
ments of
credit
control.

The chief instruments of credit control at the disposal of a Central Bank in a country are : (1) credit rationing, (2) moral suasion, (3) the discount rate, and (4) open-market operations. So far as the first weapon is concerned, it is out of the question in India, for the Reserve Bank has not yet attained such a position of strength and respectability that in rationing credit it may expect to escape from the charge of favouritism. By moral suasion is meant the advice given or request made by the Central Bank to the market. The effectiveness of this instrument obviously depends on the willingness of the market to co-operate with the Central Bank. It is idle to expect any useful result from this particular policy in India unless the Reserve Bank were to attain the position of the Bank of England or the Federal Reserve Banks in the United States. Even in those countries this method is of limited utility.

In the pre-war days the discount rate was regarded to be the most potent instrument of central banking control. In 1914, all the Central Banks relied upon it. Even in 1931, when the Macmillan Committee reported, the bank rate method was visualised as one of the two main methods of control. The bank rate policy derived its importance from the fact that the rate, when effective, was the key to the whole structure of interest and discount rate in the market. But though it was an important instrument of Central Bank policy, it was not free from certain shortcomings which were recognised by the Macmillan Committee. In recent years, the instrument has lost a good deal of its potency in the western countries, and in India it is blunt for all practical purposes.¹

The ineffectiveness of discount policy in India arises from the fact that the bank rate does not permeate the entire banking system. Before the advent of the Reserve Bank, the bank rate in India meant the rate at which the Imperial Bank was prepared to give demand loans against Government securities. The movements of this rate had more intimate relations with the loan operations and exchange policy of the Government and its balances with the Bank than with the requirements of trade and industry. The money-market was divided into two parts, viz.,

¹ J. C. Sinha, *Indian Currency in the Last Decade*, p. 160.

the European and the Indian (or the Bazar) parts. There was no cohesion between these parts of the market and there were frequent differences between the bank rate and the bazar rates. The Reserve Bank no doubt supplied the central co-ordinating agency which was hitherto lacking, but matters have not improved. The Reserve Bank is still unable to control the money-market satisfactorily by raising or lowering its discount rate, for this operation does not bring about a similar rise or fall in the market rate. Indigenous banking is not materially affected by the Reserve Bank rate. If one remembers that 90 per cent. of Indian banking is in the hands of indigenous bankers, one can form an idea of the predominating influence of this form of banking.

The fourth traditional method of Central Bank control—the open-market policy—is usually regarded as supplementary to the bank rate policy. This method is usually employed in order to make effective a given bank rate policy or it may be employed by itself when changes in bank rate are considered undesirable. But even here it is debatable if the Indian securities market is sufficiently wide to enable the Reserve Bank to buy and sell securities without considering their repercussion on the public finances of the country. In the conditions obtaining at present it will be difficult for the Reserve Bank to carry on operations on a drastic scale and coerce the money-market into submission.

Linking of
indi-
genous
bankers
to the
Reserve
Bank.

Among the obstacles in the way of credit control, the existence of indigenous bankers outside the organised banking system is found to be one of the most serious. Hence the question of linking indigenous banking with the organised banking system is of the utmost importance. The Reserve Bank in its Statutory Report has stressed the difficulties of linking indigenous bankers directly to it and has stipulated certain conditions under which it will be prepared to admit their direct access to it. These conditions include the confinement of their business to banking proper by developing deposit business and shedding trading and other forms of non-banking business, the maintenance of proper books of account, the right of the Reserve Bank to inspect the accounts, the filing with the Bank of periodical statements prescribed for scheduled banks, and the opening of accounts with the Bank within five years of their registration as private bankers in its books.

The ultimate solution must lie in the development of an open bill market in which first-class bills are freely negotiated. An important characteristic of the Indian money-market is the scarcity of commercial bills of exchange which form a much smaller proportion of the assets of the banks here than in the West. In the absence of a proper bill market rediscounting facilities are very inadequate. If such a market could be developed, it would be possible for the Reserve Bank to extend its open-market operations to trade bills in addition to Government securities. This would give the indigenous bankers ultimately the close and direct relationship which they desire without subjecting them to undue restrictions and formalities.¹

Solution—
develop-
ment of a
bill
market.

But there are several obstacles to the development of a bill market, the greatest being the heavy stamp duty. The abolition of the stamp duty was recommended by the Hilton Young Commission as well as the Central Banking Enquiry Committee. It was high time that it was abolished. With the fall in the rate of interest the incidence of the duty has become a heavy burden. Definite steps should also be taken to induce the bankers to have greater recourse to commercial bills. A useful suggestion was made by Sir Basil Blackett during his term of office as Finance Member, namely, the drawing of export bills in rupees. The conditions in Sir Basil's time might not have been favourable to the development of this method of financing export trade, but the situation has changed considerably since then. Efforts should be made now to develop this method. The feasibility of introducing rupee bills to finance the Indian import trade should also be carefully considered.

The use of bills might be further extended if warehouses and godowns were established under proper management in different parts of India. Finance bills drawn at present by shroffs and merchants would then be replaced by genuine trade bills accompanied by documents, and these are sure to be preferred by the banks.²

With the increasing use of commercial bills and the develop-

¹ *Statutory Report of the Reserve Bank of India (Agricultural Credit Supplement)*, 1937.

² *Statement of the Bengal National Chamber of Commerce ; Indian Central Banking Enquiry Committee*, vol. ii, p. 502.

ment of an active discount market, with the willing co-operation of the scheduled banks, with the Reserve Bank operating fully as a bankers' bank and not as a rival institution, with the indigenous bankers brought within the fold of organised banking, it will not be difficult for the Reserve Bank to achieve a unified control of currency and credit.

3. REGULATION OF BANKING IN INDIA

Absence
of any
regulation
before
1936.

Prior to the amendment of the Indian Companies Act in 1936, there was hardly any regulation of banking in India. Joint-stock banks in the country were registered under the Indian Companies Act of 1913 and were governed by its general regulations. It was only in a few matters that the Act distinguished between banks and other companies and contained half a dozen special regulations applicable to banks only. Banking institutions stood outside the purview of the Indian Companies Act. In the absence of any statutory control, banking activity was frequently directed into unwonted channels and abuses crept into banking practice with the result that the country was often littered with a crop of bank failures involving the utter ruin of thousands of depositors.

The
Central
Banking
Enquiry
Commit-
tee's re-
commen-
dation for
a special
Bank Act
for India.

There was a widespread feeling for a long time in the country that there should be some legislative control over the operations of banking institutions. The point was made with great emphasis before the Indian Central Banking Enquiry Committee by a large number of witnesses. The Committee, though not in favour of elaborate banking regulations and restrictions, were of the opinion that the then existing provisions in the Companies Act governing banking companies were inadequate and recognised the desirability of placing on the Statute Book a special Bank Act for regulating certain aspects of banking activity. Accordingly they made in their Report a number of suggestions for the regulation of banking in India. The licensing of banks to prevent over-extension of banking, the prohibition of organisation of banking on the managing agency system, the prescription of a statutory minimum capital to ensure adequate capitalisation, the building-up of a reserve fund equal to the paid-up capital, the prohibition of loans on the bank's own stock, and the protection of a bank

from malicious attacks by designing persons were some of their more important recommendations.¹

The 'Foreign Experts' who were invited by the Government to assist the deliberations of the Committee were not in favour of a Special Bank Act. Neither did they accept in their entirety the recommendations of the Committee. The introduction of a special Banking Act would in their opinion hamper banking activities in the country and was calculated to do more harm than good. The objective of banking regulation, according to them, could be better attained by the amendment and amplification of the Indian Companies Act. But it may be pointed out that the method of regulation by means of a special Bank Act as proposed by the Banking Committee has been adopted in recent years in a large number of countries, including those of some of the 'Foreign Experts' themselves. The Danish Bank Act of 1930, the German Credit Act of 1934, the Belgian Bank Act of 1934, and the Argentine Banking Laws of 1935 are some important instances.

The
'Foreign
Experts',
opposition
to a Bank
Act.

The Government of India, however, rejected the recommendation of the Banking Committee and, agreeing with the 'Foreign Experts', added a new chapter relating to Banking Companies in the Company Law when the Indian Companies Act was amended in 1936. The special provisions relating to banks in the amended Act comprise Sections 277 F to 277 N. (1) A banking company has been defined as a company which carries on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft, or order.² (2) The activities of all banking companies have been restricted to ordinary banking business.³ (3) The future employment of managing agents for the management of a banking company has been prohibited.⁴ (4) Adequate working capital before business is commenced has been ensured by providing a statutory minimum capital of Rs. 50,000.⁵ (5) Provisions have been made for a substantial reserve fund by requiring every banking company to transfer to the reserve fund not less than 20 per cent. of its annual declared profits before any dividend is declared until the

Indian
Companies
Amend-
ment Act,
1936.

¹ *Indian Central Banking Enquiry Committee*, chap. xxv.

² Section 277 F.

³ Section 277 G.

⁴ Section 277 H.

⁵ Section 277 I.

reserve fund becomes equal to the paid-up capital.¹ (6) Adequate cash reserve has also been provided for by requiring every banking company other than a scheduled bank of the Reserve Bank to maintain a cash reserve equivalent to $1\frac{1}{2}$ per cent. of its time liabilities and 5 per cent. of its demand liabilities.²

Inade-
quacy of
the pro-
visions in
the Act.

A careful study of the new provisions in the amended Companies Act makes it clear that they fall far short of the requirements. Not even the moderate recommendations of the Central Banking Enquiry Committee have been incorporated. Some of the more urgent reforms have no doubt been carried out but a number of important features of recent banking legislation elsewhere are missed in the Act. No attempt has been made to develop the banking system on sound lines by providing for the taking out of licences for new banks. The duties and responsibilities of bank directors and managers have not been specifically defined and limited. Restrictions have not been imposed on loans on real estate which have been a fruitful source of disaster for commercial banks here and elsewhere. In the circumstances the existing provisions must appear to be meagre and inadequate, and their replacement by a comprehensive Bank Act on the lines of similar Acts in other advanced countries is urgently called for.

Good laws
do not
necessarily
produce
good
banking.

In conclusion, it must be pointed out that too much emphasis must not be put upon legislation as a means for ensuring a good banking system. As Mr. Hartley Withers pointed out long ago, it is good bankers but not good loans which produce good banking. The admittedly successful banking system of England does not owe its sound development to an elaborate banking law. It is also true that banking business is largely a matter of discretion, and hard and fast rules often fetter the discretion of bank directors and hamper banking activities. But at the same time it must be recognised that certain matters should be provided for by law which will ensure a minimum standard of efficiency and integrity in the conduct of the business of banks.

¹ Section 277 K.

² Section 277 L.

4. THE RUPEE-STERLING RATIO

The question of the rupee-sterling ratio has been the subject-matter of widespread controversy in the country for a long time. The issue is of very great importance, for upon it hangs the fate of the agriculturists, the industrialists, the Government, and the public. A careful analysis is required for rejecting or accepting a particular ratio.

The Hilton Young Commission recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. for the rupee. At that rate they believed that prices in India had already attained a substantial measure of adjustment with those in the world at large and that any change in it would mean a difficult period of adjustment and widespread economic disturbance. But it will be recalled that even at that time there was a cleavage of opinion among the members of the Commission as to what should be the proper ratio. In his dissenting Minute, Sir Purshotamdas Thakurdas vigorously advocated the case for stabilisation at the old pre-war ratio of 1s. 4d. and accused the Government of having thrown away the opportunity of stabilising at this rate in September and October, 1924. The controversy between 1s. 6d. and 1s. 4d. ran a long course and many arguments were adduced to support each point of view. The advocates of a lower ratio for the rupee argued that India was predominantly an agricultural, and essentially an exporting, country. The lower ratio would give a bonus of $12\frac{1}{2}$ per cent. to the agriculturists. But, on the other side, it was pointed out that agricultural commodities changed so many hands before exportation that any advantage from a depreciating exchange would be intercepted by the middlemen and very little of it would reach the prime producers. The lower ratio would further unbalance the central as well as the provincial budgets. The Government accepted the recommendations of the Hilton Young Commission and linked the rupee to 1s. 6d. By the Currency Act of 1927 was established a gold bullion-cum-sterling exchange standard in India. The Government had the option of giving sterling and not gold, and hence the standard thus established was in reality a Sterling Exchange Standard although in practice it worked as a Gold Exchange Standard until

Hilton
Young
Commis-
sion's re-
commen-
dation of
1s. 6d.
ratio.

The Cur-
rency Act
of 1927.

26th September, 1931, during which period sterling was at par with gold. The Government had hoped to silence all controversy by this decision, but the voices of protest did not die down.

In the meantime, the world was caught in the grip of a depression of unparalleled intensity. The full brunt of the world-wide depression began to be felt in India after June 1930, and the year 1931-32 proved to be a critical one in the history of Indian currency. There was a collapse of prices, and trade began to decline rapidly. The financial position of the Government became embarrassing and the exchange position was quite serious. The rupee began to fall rapidly to the lower gold point, and even went below it. Sales of Reverse Councils by the Government to keep up the exchange rate proved futile, and throughout the months of August and September 1931 the rupee-sterling rate remained just below the gold export point.

Great
Britain
goes off
gold and
linking of
rupee to
sterling at
1s. 6d.

On the 21st September, 1931, Great Britain abandoned the Gold Standard. On the 24th September, the Government of India announced its decision to link the rupee to sterling at the 1s. 6d. rate. Thus India again passed on to the Sterling Exchange Standard which had been condemned as most unsuitable for India by the Babington-Smith Committee as well as the Hilton Young Commission.

Strong
criticism
of Govern-
ment
policy.

The step taken by the Government raised a storm of protest in the country. One view that was widely canvassed at the time was that the rupee should have been left to fluctuate freely and allowed "to find its own level". It was stated that by the sterling link the rupee would be following exactly the course of sterling in its relation to gold, but what might suit England in this respect was not necessarily the best course for India. She must have perfect freedom, it was contended, to regulate the currency in her own interests and as directed by her own position and requirements. The reasonings advanced by the Hilton Young Commission in rejecting the Sterling Exchange Standard for India in 1926 were applied to support this view. Another charge that was levelled against the sterling link was that it would introduce 'Imperial Preference' by the backdoor. A large section of Indian economists and business men, though not advocating a 'free' rupee, was definitely of the opinion that the rupee was overvalued at the rate of 1s. 6d. The gold exports, the declining

merchandise balances, and the persistent fall in prices constituted, according to them, strong evidence of the overvaluation of the rupee. There arose an insistent demand for immediate devaluation.

But the Government adhered to their decision. It was pointed out on their behalf that they had nearly £32 millions of sterling obligations to meet every year and a 'free' or devalued rupee would be a source of great embarrassment in the framing of their budgets. Of all the alternatives open to them in 1931, it was stated, they had chosen the best. So far as the gold export, the reduced merchandise balances, and the declining prices were concerned, the exchange rate had very little to do with them; they were due to other causes.

Defence of
Government
policy.

With the inauguration of the Reserve Bank in 1935 an element of strength was imparted to Indian finance. The exchange position was free from any serious difficulty and things moved fairly smoothly for some time. But troubles began to arise early in 1938. The balance of trade in merchandise in favour of India and Burma declined from Rs. 66·32 crores in 1937 to Rs. 39·80 crores in 1938. During the first three months of 1938 the situation was particularly bad. The exports of precious metals also declined considerably in this period. The cumulative effect of this decline in the exports of merchandise and of gold soon made itself felt on the course of the rupee-sterling exchange. On the 13th of April, the Reserve Bank for the first time after several years accepted tenders of sterling to the amount of £10,000 at 1s. 6 $\frac{3}{4}$ d. instead of at 1s. 6 $\frac{1}{4}$ d. This was immediately followed by a decline in the market rates and though the Reserve Bank subsequently suspended purchases by tender altogether the rates continued to fall and reached the statutory lower point of 1s. 5 $\frac{1}{4}$ d. in the first week of June.¹ In their efforts to maintain the rate of exchange the Reserve Bank was obliged to utilise freely the sterling resources at its disposal. The depletion of the sterling assets of the Issue Department amounted to more than 19 crores of rupees during the period March 16 to December 18, 1938.

Decline of
the export
trade and
the sag-
ging of the
rupee in
1937.

There was widespread resentment in the country against this Government policy which was leading to the depletion of the foreign balances and even to contraction of currency. It was

¹ *Report of the Central Board of Directors, Reserve Bank of India, 1939.*

Steps
taken by
Govern-
ment to
maintain
exchange.

pointed out that the notes in circulation which stood on 30th April, 1937, at Rs. 192.6 crores came down by 1st July, 1938, to Rs. 177.31 crores. The rupee coin at the same time was returning to the Reserve Bank at the rate of more than 5 crores a year. This was regarded as an evidence of a deliberate policy of contraction which the Government were pursuing in order to maintain what had always been described by them as a 'sound' rupee. The commercial community were considerably alarmed, for a continuance of this process could not but have a deflationary effect with all the attendant evils of monetary stringency, falling prices, and commercial and economic mal-adjustment.

Demand
for a revi-
sion of the
exchange
ratio.

A revision of the exchange ratio was urgently demanded by a large section of Indian economists and publicists. The question of the ratio came to engage the attention of even the Working Committee of the Congress which passed a Resolution in December 1938 urging upon the Governor-General in Council the necessity of taking immediate steps to lower this rate to 1s. 4d.¹ But on the 17th December, 1938, the Government of India issued

Resolu-
tion of the
Working
Commit-
tee of the
Congress.

¹ The Resolution runs thus : " Since the fixation of the ratio at 1s. 6d. to the rupee all trade interests in India and public bodies have protested that this measure is against the vital economic interests of India and have insistently demanded its revision. The Government of India have hitherto resisted all these attempts and issued a Communique on 6th June, 1938, declaring that they did not intend making any change in the ratio for the time being and in support of that declaration sought to rely merely on the instability and uncertainty during the period of readjustment which according to them was likely to cause greater loss to Indian interests than any corresponding gain from the change to a lower ratio. Since June last the balance of trade has turned more and more against India. The Committee are of opinion that the rate of exchange of 1s. 6d. to the rupee has hit hard the agriculturist of this country by lowering the price of agricultural commodities and given an undue and unfair advantage to imports in this country. The Working Committee is satisfied that the rate of 1s. 6d. can not any longer be maintained on the balance of trade. During the last 7 years that rate has been maintained by large exports of gold which have been very injurious to the country. Matters have now reached a stage where the rate can only be maintained by a policy of contraction of currency and credit and by further depletion of the gold and sterling resources of India and particularly the paper currency reserve. These sterling resources have already been used up to an alarming extent and there is a danger of further serious depletion taking place if efforts continue to be made by the Government of India to maintain the present ratio. The Working Committee look upon such prospect with the utmost concern and anxiety.

" In view of this situation the Working Committee have come to the conclusion that the best interests of the country demand that efforts to maintain the present exchange level should henceforth cease."

a communique on the Congress resolution in which they declined to take any step to lower the present exchange value of the rupee.¹

Government
Communique.
Government
policy can
not be
defended.

There is some truth in the contention of the Government that the devaluation of the rupee would seriously weaken their budgetary position. The sterling obligations, apart from the cost of stores, amount to nearly £35 million, and in the event of

¹ "The Government of India wish to make it clear that they have no intention of allowing a lowering of the present exchange value of the rupee.

"On the contrary, they intend to defend it by every means in their power and are confident of their entire ability to maintain it.

"It is said that since their previous declaration of 6th June, 1938, the balance of trade has turned more and more against India. The fact is that in every month since June the balance of trade, even including treasury, has been in favour of India, and to an extent greater than in the corresponding months of the previous year.

"It is said that the sterling resources of India, particularly those of the Paper Currency Reserve, have been used up to an alarming extent. The facts are that the assets of the Paper Currency Reserve were merged in those of the Reserve Bank in April 1935, and that the gold and sterling resources of the Bank are as high now as they were at the time of its inception and are in any event more than 50 per cent. of the total liabilities as opposed to a Statutory requirement of 40 per cent. only."

"Moreover, since the inception of the Bank 60 crores of sterling debt have been repatriated.

"It is said that the 1s. 6d. ratio has hit hard the agriculturist by lowering the price of agricultural commodities. The fact is that since June last the trend of the price index of the chief articles of export has been definitely upward.

"The Government of India are convinced that a lowering of the ratio in existing international market conditions would produce no appreciable rise in what the cultivator can realise for his produce. They are equally convinced that it would produce an immediate rise in the cost of what he buys.

"It would also seriously weaken the budgetary position of the Central Government and the larger Provincial Governments.

"In fact, the lowering of the ratio would do no good to anybody except the monied and speculative interests who profit from conditions of uncertainty and disturbance, or who secure an additional but unseen all-round increase of 12½ per cent. in the protection afforded to them at the expense of the consumer.

"Altogether, the Government of India have no doubt that it is their clear duty in the interests of India generally and the cultivator in particular to defend the present ratio to the utmost of their power.

"As already stated, they have every belief in their ability to do this and they are confident that drastic measures of contraction will not be necessary except to the extent that they are forced upon them by the action of the speculators who place their funds abroad in the hope of bringing them back at a profit.

"Incidentally, they are convinced that the exchange would be materially stronger to-day, were it not for the fact that there have been large movements of funds to the United Kingdom by the same speculative interests during the last year."

devaluation these transactions alone would add a considerable sum to Government expenditure. But it may be replied that devaluation will ultimately exercise an expansionary effect on both exports and imports and on the whole internal economy of the country. In the circumstances the increasing field of the different sources of taxation will more than make up for the loss sustained by an exchange premium on Indian foreign obligations.¹ The Government and their apologists have entirely ignored the fact that devaluation would be an effective instrument for fighting the economic depression. By devaluating the rupee, an inflationary effect could be brought about which would whip up the prices, quicken trade and commerce, and accelerate the pace of industrialisation. In this connection a lesson may be taken from Australian experience. With the depreciation of the Australian currency, the fall in export prices was immediately arrested. The volume of exports also was not only well maintained, but was even increased.² It would be no mean achievement if the devaluation of the rupee could at least prevent export prices in rupees from falling.³

The broad fact remains that there is a definite tendency for the Indian export trade to decline. The Government in their communique have made much capital of the balance of trade growing in favour of India since June 1938. But to regard the slight improvement in the active balance of trade as signifying a real upturn of the trade cycle is nothing but short-sighted complacency on their part. There was in fact a set-back in October 1938. Moreover, they have completely ignored the general trend of the last few years. The export trade of India consists of 21 main items, among which only 4 or 5 figure prominently. Her exports are being challenged to-day. India's rice has to meet increasing competition from Japan and Burma. China has become a serious rival in her tea markets. The future of jute is none too rosy, for the world is trying to do without it. It will be impossible for the Government to keep up the high rate of exchange without a development of India's export trade. Instead of frittering away the sterling resources of the Reserve

¹ B. N. Ganguly, *Whither Rupee?*, p. 148.

² *Lessons of Monetary Experience* (Ed. by A. D. Gayer), p. 410.

³ *Vide* B. N. Ganguly, *Whither Rupee?*

Bank, they should make some effort to stimulate the exports of the country by concluding bilateral treaties and by improving the quality of India's agricultural goods. Not only should steps be taken to extend the export trade but measures should also be adopted to speed up the industrialisation of the country so that India's imports may be reduced.

From the foregoing discussion it is surprising how the current ratio of rupee to sterling can be regarded as sound in authoritative circles. A system which has to be maintained with great difficulty and by the adoption of measures injurious to the interests of the country can hardly be called a rational one. Moreover, the City of London has not been known to judge impartially the question of the rupee ratio. Even Sir Basil Blackett admitted the "risk" of "tying the rupee to the chariot wheels" of the Bank of England. In these circumstances, instead of relying on their London advisers, the Government of India should immediately appoint a Committee of impartial experts to examine the whole question. If the rupee is found by such experts to be overvalued, it must be devalued.

5. GOLD EXPORTS

Since September 1931, when Great Britain abandoned the Gold Standard, a large quantity of gold has left India for other countries. This export of gold is an abnormal feature in Indian economy. She had generally been an importer of precious metals in the past. The net imports of gold during the 31 years, 1900-01 to 1930-31, were 547.76 crores.¹ It is, however, not implied that she had never been an exporter of gold before. The fact that she has been an exporter occasionally in the past has been made much of by officials who have expressed their surprise that it had not excited any comment in the press at the time. For instance, in a pamphlet issued by the Publicity Department of the Bengal Government, it was shown that the average export of gold during the period 1919-20 to 1923-24 amounted to Rs. 10.25 crores; in 1920-21 it was as large as 21.46 crores, and in 1921-22, 16.48 crores. But these are gross figures. The fact is that except during only one of these years, namely,

India—
always an
importer
of gold in
the past.

¹ *Report of the Reserve Bank of India, 1936-37*, p. 12.

Amount
of gold
exports
since
1931-32.

1921-22, there was a net export and all the other years were years of heavy net imports of gold. In the year 1921-22, the net export was to the extent of only Rs. 2.79 crores.¹ But this export sinks into insignificance compared with the exports during the six years 1931-32 to 1936-37. These amounted to 35,404,000 ounces valued at Rs. 298.29 crores, giving an annual average of 5,901,000 ounces valued at Rs. 49.71 crores. They formed more than a quarter of the total annual production of gold in the world excluding Soviet Russia. The great bulk of the Indian export obviously came out of the quantity previously imported into the country which had been lying hoarded, partly in the form of bullion, but mainly in the form of ornaments. In the pamphlet already referred to, the Government sought to minimise the significance of the recent net export of gold by arguing that it was only a fraction of the total imports. But the percentage increased year by year and no substantial part of this vast accumulation had ever left the country until the present time.

Real cause
of the
gold
exports.

Various reasons have been assigned for this persistent exodus of gold from India. The real reason of the gold export was that the rupee price of gold did not rise quite as much as was warranted by the depreciation of sterling below gold. India was a cheap market for buying the metal and England a dear market for its sale, which enabled exporters to reap a windfall profit. This is why gold was exported. So long as the rupee was linked to gold, it was not usually profitable to export it. But in September 1931 the situation completely changed. The rise in the rupee price of gold did not come up immediately to the full extent of the depreciation of sterling in terms of gold, and hence the export of the metal afforded a profit to the Indian bullion dealers.²

'Let-
alone'
policy of
the Gov-
ernment
and its
criticism.

But whatever the reason might have been, these gold exports on such an unprecedented scale considerably alarmed public opinion. The policy of the Government in allowing these gold exports to continue—the 'let alone' policy as it was called—came to be subjected to a fire of criticism in the press and on the platform. The export of gold was severely condemned as being injurious to the best interests of the country. It was contended that the gold

¹ *Report of the Controller of Currency, 1921-22.* There was also a net export of gold in 1915-16 amounting to Rs. 1.15 crores.

² J. C. Sinha, *Indian Currency Problems in the Last Decade*, p. 118.

that was being exported was 'distress' gold and that the people were living on their capital, a process which could not continue indefinitely. It was further argued that the exports of gold meant the wastage of India's gold resources and a drain on the savings of the people accumulated for several generations. While all other countries were making the most strenuous efforts to acquire gold, India was wasting her gold resources. It was generally believed that the world would return to some form of a Gold Standard, although the old parities might not be adopted in many cases. A Gold Standard, owing to a variety of reasons, would be more suitable to India in her peculiar conditions than any other managed standard. If India were to adopt the Gold Standard in the near future, it would most probably be a gold bullion standard. This, as the Hilton Young Commission had pointed out, called for a large reserve of gold. This requirement now greatly increased, partly because of the depreciation of sterling assets and partly because of the heavy fall in the price of silver. Moreover, India was a debtor country and the bulk of her exports consisted of only a few commodities subject to keen foreign competition. Hence she would require a fairly large gold reserve to guard against a possible external drain.¹ The uncontrolled gold export of such magnitude was likely to make it impossible for her to attain the goal of the Gold Standard in the near future. There was a strong feeling in the country for the restriction of this gold exodus, and as early as 1932 the Federation of Indian Chambers of Commerce at their annual meeting passed resolutions urging the Government to put an immediate embargo on the exports of gold and to purchase all gold offered at a price fixed on the basis of the day-to-day ruling rate.

A Gold Standard for India in the future.

Public demand for restriction of gold export.

On the other hand, the Government and their supporters found in these gold exports no indication that India was being driven by distress to part with her last reserves and hence no cause for regret or alarm.² These gold exports, if studied in their proper setting, stood, according to them, on an entirely different footing from the gold outflows from currency reserves. It was an outflow of gold from the Bank of England which hastened her decision to go off gold. But in the case of India it

Defence of Government policy. Gold outflow not from currency reserves but from hoards.

¹ H. C. Sinha, *Indian Journal of Economics*, April 1933.

² *Vide* Sir James Grigg's Budget Speech, 1935.

was the breaking away from gold that was the cause of her enormous gold exports. If an analogy was wanted, they argued, this might be found in the exports of the metal from mining countries like South Africa. Just as a rise in the value of gold extended the margin of profitable mining, so a rise in the price of gold opened the Indian hoards in the latter half of 1931. Gold exports continued and increased in amount as the price of the metal rose, tempting new sellers in the markets. It seemed to them that India had done well in converting her dead stock of gold into interest-bearing assets. As a result of larger production and of dishoarding from China and India, the stock of monetary gold was fast increasing and in the future the value of gold was likely to fall rather than rise. If India wanted back her gold then, they said, it would not be difficult for her to get it back much more cheaply. Further, in their view the gold export had certain great advantages. "It stemmed the headlong fall of commodity prices in India", and thus benefited the business community. It maintained the exchange and solved the remittance problem of the Government. It also caused to some extent a rise in the price of Government securities and thus by contributing to the fall in the long-term rate of interest paved the way to recovery.

Advantages of gold exports.

Conclusion.

Although there is some truth in the view held by the Government and their supporters, it can hardly be denied that gold, though a commodity, occupies a much more important position in the economic world than other commodities. The expedient of gold export was found by the Government to be very useful in maintaining the rupee-sterling exchange, but they seemed to have forgotten that this expedient could not be available for all time to come.¹ Instead of standing idly by when the country was being denuded of its gold, they should have taken definite steps to check this outflow and to develop the Indian export trade. A duty on gold export at a moderate rate would have been justified if the proceeds of the duty had been devoted to the adoption of measures tending to restore India's favourable balance of trade.

¹ P. J. Thomas, in the *Economic Journal*, June, 1938.

CHAPTER XXIII

THE STATE AND INDUSTRY

THE East India Company was primarily a trading corporation whose chief business was to exchange the manufactured goods of England for the agricultural products of India. But when the Company attempted to improve the existing industries of the country, by organising and financing, "their policy met with opposition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended, and that the Company should instead concentrate on the export from India of the raw materials necessary for manufacturers in England."¹

Besides, the acceptance of the policy of *laissez faire* or economic individualism in England kept the Government of India more or less aloof from the industrial affairs of the country. It was held that what was good for England was beneficial to India as well, even though the circumstances of the two countries were quite different. The efforts of the state were confined to improving communications and facilitating the flow of trade. The result was that the old industries of the country gradually decayed owing to their inability to withstand an unequal competition, and the artisans were compelled to leave their old occupations and take to the cultivation of land. This increased the pressure of the population upon land, as was pointed out by the Indian Famine Commission of 1880. In many parts of the country the number of persons who had no employment other than agriculture was greatly in excess of what was really required for the cultivation of the land. Another consequence was that India was gradually converted into an exporter of food-stuffs and raw materials and an importer of foreign manufactures.

The Famine Commission of 1880 directed the attention of the

¹ *Report of the Indian Industrial Commission*, p. 75.

Need for a
change in
policy.

Government to a policy of diversification of industries as a remedy against the recurrence of famines. About the same time, thoughtful Indians felt that the existing conditions were unsatisfactory, and insisted that the state should take an active part in promoting the industrial development of the country. The first measure adopted by the Government took a two-fold form, namely, a very imperfect provision of technical education, and the collection and dissemination of commercial and industrial information. The Calcutta Exhibition of 1884-85 was an expression of this policy. There was also an examination of the resources of India by the Reporter on Economic Products, and the publication of a number of monographs on Indian industries. The creation of the Department of Commerce and Industry in 1905 foreshadowed the pursuit by the Government of India of a more definite policy of industrial development. But in 1910 its activities were curtailed by a decision of the then Secretary of State for India. Some of the Provincial Governments had taken a few practical steps in the matter. The Madras Government had taken the initiative in experimenting with the production of aluminium hollowware, in the improvement of hand-loom weaving, and in the introduction of chrome processes of leather manufacture. The Government of the United Provinces had started a pioneer oil mill, and granted loans for the establishment of a sugar factory. This policy was disapproved by Lord Morley, who, in a despatch, said : " The policy which he was prepared to sanction was that state funds might be expended upon familiarising the people with such improvements in the methods of production as modern science and practice of European countries could suggest. Further than this the state should not go, and it must be left to private enterprise to demonstrate that these improvements could be accepted with advantage." It goes without saying that this action was the outcome of a lamentable lack of foresight on the part of an able statesman like Lord Morley. His dictum produced a deadening effect on the initial attempts made by the Government for the improvement of industries.

Govern-
ment's
narrow
view.

Lord Crewe, while re-affirming the decision of his predecessor, said : " There is no objection to the purchase and maintenance of experimental plant for the purpose of demonstrating the advantages of improved machinery or new processes, and for

ascertaining data of production." He limited the functions of the Directors of Industries in Madras and the United Provinces to the following kinds of work, namely, (1) to collect information as to existing industries, their needs, and the possibility of improving them or of introducing new industries; (2) to carry out and direct experiments connected with such enquiries; (3) to keep in touch with local manufacturers, to bring the results of experiment to their notice, and to obtain their co-operation in the conduct of operations on a commercial scale; (4) to supervise the training of students; and (5) to advise Government with regard to technical matters involving legislation.¹

Meantime, Indian public opinion had begun to demand a forward policy in regard to industrial development. The Partition Agitation in Bengal with its programme of boycott of British goods impressed the people of the country with their helpless industrial situation. Private efforts were made to start industries and to equip the younger generation with mechanical and scientific training. These efforts in many cases failed, but they made manifest the real industrial position of the country. The Industrial Conferences organised by a body of prominent Congressmen and industrialists riveted the attention of the country upon the possibilities of industrial development in India. The example of Japan showed what an Asiatic country could do in the matter of industries, when the Government supported its activities. But the policy of the Government of India was one of hesitancy and non-interference. The result was that the European War showed clearly and vividly the industrial shortcomings of India, which proved a source of weakness both to India and the Empire. The Industrial Commission expressed their regret in these words: "Much valuable time has been lost, during which substantial advances might have been registered, and the outbreak of the war, which should have proved an opportunity to reap the fruits of progress, has served mainly to reveal and accentuate startling deficiencies."² In March 1916, Sir Ibrahim Rahimtoola moved an important resolution in the Imperial Legislative Council urging the appointment of a Committee to consider and report what measures should be

Public
agitation.

Industrial
Com-
mission.

¹ *Report of the Indian Industrial Commission*, p. 79.

² *Ibid.*, p. 82.

adopted for the growth and development of industries in India. This led to the appointment of the Industrial Commission under the chairmanship of Sir Thomas Holland. The Commission, discussing the industrial deficiencies of India, laid special emphasis on the fact that, while India produced nearly all the raw materials necessary for the requirements of a modern community, she was unable to manufacture many of the articles essential alike in times of peace and war. For instance, her great textile industries were dependent upon supplies of imported machinery, and would have to shut down if command of the seas were lost. It was vital, therefore, for the Government to ensure the establishment of those industries whose absence was likely to expose the country to great danger in the event of war. The Commission pointed out that the formulation of a definite industrial policy rested upon the acceptance of two important principles : (1) that in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material ; and (2) that it would be impossible for Government to undertake that part, unless it was provided with adequate administrative equipment and fore-armed with scientific and reliable technical advice. The Commission suggested that state aid to industries might be rendered in various ways, *e.g.*, research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, direct financial assistance, and local purchase of stores.

M.-C.
Reforms
regime.

Under the Montagu-Chelmsford Reforms the development of industries became a provincial transferred subject, and this led to a division of the functions of the Central and Provincial Governments in regard to industrial activities. The Central Department of Industries was made responsible for the general direction of the accepted industrial policy of the country, including technical and industrial education. The other duties of the Department consisted in the initiation and running of any all-India pioneer and research factories which might be needed ; the management of full-scale Government factories ; the supply of stores ; the collection and dissemination of commercial and industrial intelligence. In other words, subjects of all-India

interest were kept in the hands of the central authority. The provincial departments were charged with the duty of rendering advice and assistance to local industries of all kinds in technical matters and giving direct financial aid. They were also to collect industrial and commercial information. They had under them a fairly large staff, including engineers, technological chemists, specialists in various industries, craftsmen, and technical and industrial teachers of various grades.

The financial difficulties of the post-war period rendered the schemes of many Provincial Governments infructuous, and consequently progress in this direction was extremely slow. In Madras, a Textile Institute and a Leather Institute were established. Under the provisions of the State Aid to Industries Act, 1923, power was taken to grant loans to industries under certain conditions. At Cawnpore, in the United Provinces, a Technological Institute was started with the object of imparting instruction in dyeing and in the chemistry of oils and fats. A Leather Institute was also started for the training of foremen. The Board of Industrial Loan Commissioners dealt with applications for financial assistance to new industrial undertakings. In Bihar, for the training of young men in the iron and steel industry, a Metallurgical Institute was established. A School of Mines was established at Dhanbad, while a railway workshop was started at Jamalpur. In Bengal, the Government Research Institute began to make experiments in chrome tanning. Some amount of spadework was thus done, but no large scheme was taken in hand.¹

In recent years, small industries have also received some attention and help from the Government. Demonstration parties for carrying instruction to the villages have been organised by some Provincial Governments. These demonstration parties generally give lessons to the villagers in hand-loom weaving and sericulture. In 1934, the Government of India decided to spend a sum of Rs. 1 lakh a year for 5 years on the development of the silk industry in India.

Recent activities of the Government.

Among permanent institutions engaged in the training of artisans we may mention the Central Weaving Institute at Poona, the Silk Institute at Bhagalpore, the Silk Weaving and Dyeing Institute at Berhampore in Bengal, the Wool Weaving Institute

¹ Ainscough's *Report*.

at Gaya, the Cottage Industries Institute at Gulzarbagh, Patna, and the Government Textile Institute in Madras.

Acts for granting state aid to industries requiring financial assistance have been passed in Madras, the Punjab, Bihar, Orissa, Bengal and the Central Provinces. In Bengal, recently the Government has framed a scheme for helping to bring into existence an Industrial Credit Syndicate which will offer financial facilities to released *détenus* seeking to pursue an industrial career.

Government help after provincial autonomy.

The introduction of provincial autonomy under the Government of India Act of 1935 has given wide powers to the provincial ministers in respect of industries. Some provinces have already undertaken investigations into the possible ways of encouraging industries. Active steps are also being taken in most of the provinces to help the growth of indigenous industries. From what has been done in course of the short time since the popular ministers came into office, it may be legitimately expected that they will fully utilise their powers to give a greater encouragement to the industries than has been given in the past.

Purchase of stores.

Among the most important of the proposals of the Industrial Commission was one which recommended the local purchase of Government and railway stores. The Government, in its different departments, commercial as well as administrative, is a large purchaser of industrial products. It is almost an invariably common practice in all advanced countries to purchase Government stores from local manufacturers to the fullest possible extent, and even to encourage and assist the establishment of necessary industries for the supply of various articles. In India, however, for a very long time, the Government took no steps to encourage the local production and purchase of stores. All the necessary stores, amounting in value somewhere between 10 to 15 crores of rupees per annum, were purchased through the India Office in England. Similarly, the Indian railways purchased large quantities of materials costing 10 to 12 crores a year from England. It was the Munitions Board, established during the war, which for the first time took substantial steps towards encouraging local purchase. Large quantities of chemicals, leather and textile products were purchased in India. It is also worthy of note

that the Tata Iron and Steel Company rendered invaluable service to the Government by supplying large quantities of rails and sleepers for military railways in Mesopotamia, Palestine, East Africa, and Salonika. The experience gained from the successful operations of the Munitions Board brought into prominence the desirability of establishing a Stores Department in India, with the object of diverting to Indian mills and workshops the large indents which were usually sent to London.

In 1919, an expert Committee recommended the constitution of an Indian Stores Department with a view to bringing Government buyers into effective touch with local manufacturers and supplying Government indents in an increasing degree in India. The Department was set up in 1922 and immediately took up the purchase of textile goods for the army and other departments in India. The two organisations for inspection and test—the Metallurgical Inspectorate at Jamshedpur and the Government Test House at Alipore—were incorporated as parts of this Department. In 1931, the Government issued a revised set of rules for regulating the purchase of stores. The preamble stated that “the policy of the Government is to make their purchase of stores for the public service in such a way as to encourage the development of the industries of the country to the utmost possible extent, consistent with economy and efficiency”. According to these rules, preference in making purchases is given in the following order: first, to articles produced in India or manufactured in India from Indian raw materials, provided that the quality is satisfactory; secondly, to articles wholly or partially manufactured in India from imported materials; thirdly, to articles of foreign manufacture stocked in India; and fourthly, to articles manufactured abroad and specially imported. During the eight years 1928–29 to 1935–36, the Indian Stores Department purchased articles, wholly or partially manufactured in India, worth Rs. 15·6 crores.

Indian
Stores De-
partment.

Revised
rates.

Another important line of state-help to industries comes from the orders placed by the Railway Board for materials and for construction. The rupee tender system has now been adopted for all such purchases and orders, and in 1935–36, railway stores worth Rs. 2·78 crores were purchased in India. Some orders for bridge construction or repairs have been placed with Indian

Railway
Stores.

firms. The Indian Iron and Steel Company have obtained a long-term contract for manufacturing cast-iron sleepers. Collieries also supply a large amount of their raisings to the Railway Board. From 1928-29 to 1934-35, all orders for railway wagons and underframes were placed in India for manufacture in India.

Non-
Indian
concerns
in India.

There is, however, one fact which cannot be ignored. Many European firms are registering themselves in India with rupee capital and with a small number of Indians on the Directorate in each case. These firms are claiming all the privileges available to Indian firms, and are receiving a large proportion of the Government orders. In such cases, Indian labourers, mostly of the unskilled sort, and Indian producers of raw materials are undoubtedly being benefited, but it would have been more gratifying if Government stores could be supplied by firms started by Indian capital and enterprise.

Protec-
tion.

The most important step taken by the Government for helping the Indian industries is the policy of protection. Detailed discussion about the protective system will be found elsewhere in the book. The development of the iron and steel industry, the sugar industry, or the textile industry would not have been possible if the Government had not brought about a re-orientation of their fiscal policy after the war.

Vigorous
policy
needed.

The Government has thus begun to recognise its responsibilities in the matter of industrial development. What is now wanted is the adoption of a vigorous policy. One important aspect of the question should not be lost sight of. A high Government official wrote more than a quarter of a century ago: "With the spread of education, to which a stimulus is now being applied, and the desire which exists of improving the condition of the people, corresponding assistance seems called for in the sphere of economic development. Unless this is given, a condition of affairs will be created wherein the better educated will not have suitable material to which to devote their minds, and there will result the anomalous spectacle of a highly educated people in an undeveloped country." Even to-day, in spite of what the Government has done or is doing, the relevance of this statement has not entirely disappeared.

CHAPTER XXIV

FISCAL POLICY

1. DISCRIMINATING PROTECTION

THE abstract question whether Free Trade or Protection should be adopted by a state in its commercial policy would form more fittingly the subject of discussion in a treatise on General Economics than in a work on Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problem. The advocates of free trade point out the following advantages of the system : (1) international trade is like internal trade ; the freer it is, the greater are the advantages to both parties ; by allowing trade to be absolutely unfettered, everyone is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum ; (2) every nation is in a position to develop its natural advantages to the utmost, and thus the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion ; and (3) free trade means goodwill among nations and among sections of a community. To these arguments the opponents of the system would reply that the analogy between internal trade and international trade is not quite correct ; that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the former that the world's wealth is being augmented at the cost of its own ; and that, far from promoting goodwill, free trade may produce the result of placing one country in economic subjection to another.

Merits of
Free
Trade

not recog-
nised by
 Protec-
tionists.

The reasons that have been usually advanced in favour of protection are the following : (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country ; (2) protection is beneficial to agriculture as well as to industry because the result-

Merits of
 Protec-
tion.

ing increase of wealth and population is likely to afford a larger market for the food and raw material of the neighbourhood ; (3) protection has a tendency to increase wages and to raise the standard of living of the labourer ; (4) it furthers an all-round economic development and secures national industrial independence ; and (5) under the fostering care of the state, infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The

Defects.

usual objections to protection are : (1) In principle, it is destructive of all foreign trade and the moral and intellectual benefits resulting therefrom ; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of protection ; (3) it does not really protect, because it destroys as many industries as it artificially fosters ; (4) it diverts capital from its natural channels ; (5) it tends to demoralise the industrial classes and to render industry unproductive ; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few ; (7) it involves interference of the state with trade and industry, and it often produces political corruption, and (8) it causes national animosities.

Element of truth in each theory.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that in their enthusiasm for their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by the extremists on each side are untenable, there is an element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free trade means rivalry among the industries of different countries ; and when such industries are on a footing of equality, it helps to make each of them stronger. But when the struggle is between a strong industry and a weak one, the latter is sure to be pushed out of the field unless it is backed up by the state. Even such an ardent supporter of free trade as J. S. Mill admitted that in the infancy stage of an industry protection was useful. " The only case ", he said, " in which, on mere principles of political economy, protective duties can be defensible, is when they are imposed temporarily (especially in

Mill's concession in favour of Protection.

a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country." Mill further said: "A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers be ever allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."¹

Friedrich List was an ardent advocate of the infant industry argument. "A nation", said List, "which only carries on agriculture is like an individual who in his material production lacks one arm."² He laid great stress on productive power, and held that the power of producing wealth was "infinitely more important than wealth itself". The productive powers of all nations are not equal, and the differences are largely the result of natural and acquired advantages. The superiority of one country over another may be due to acquired advantages, and List rightly urged that "the less advanced nations must be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated." He also regarded the value of manufacturing industries, from the point of view of civilisation, as very great. Without them a nation must remain relatively unprogressive.

List's
views.

Professor Taussig also supports the infant industry argument. His view does not simply rest on List's "doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage." He goes a step further when he says: "I am disposed to admit that there is scope for protection to young industries

Taussig's
opinion.

¹ Mill, *Principles of Political Economy*, Bk. V. chap. x.

² List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and of liberty, characterise, on the contrary, a state devoted to manufacture and commerce."

even in such a late stage of development. Any period of transition and of great industrial change may present an opportunity.”¹

The fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. All the industrially advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundations of the industrial greatness of England and France respectively. Germany, France, the United States, the British Colonies, and Japan have for a long time past maintained definitely the policy of protection. England, after having been a free trade country for nearly a century, has again become protectionist.

The right
fiscal
policy
for India.

It has already been pointed out that India has, until recently, been mainly an agricultural country exporting raw materials and food-stuffs and importing manufactured products. Producing only raw materials, she imported manufactured goods, and was thus, in the words of the great economist, “like an individual with one arm, which is supported by a foreign arm.” Besides, the exportation of agricultural products meant the sending away of the soil. It increased the tendency to the operation of the Law of Diminishing Return in an intensified form. Further, a purely agricultural country, dependent on the mercy of the monsoons, must always remain subject to periodical visitations of the spectre of famine. It should also be remembered that agriculture is not a sufficiently remunerative occupation, and a people devoted almost exclusively to it can never hope to make any great progress in material civilisation.

‘Infant
industry’
argument.

It is, therefore, obvious that industrial development is one of the most essential conditions of national progress. The question now is whether a judicious application of the policy can hasten the pace of industrial advancement of the country. India can at present be said to be in the same inevitable stage of transition from the agricultural and extractive stage to the manufacturing stage as List found in America and Germany about the middle of the last century. There is, therefore, a considerable scope for the application of the ‘infant industry argument’ for protection to her case. But in order that the trouble and expense may not go

¹ Taussig, *Some Aspects of the Tariff Question*.

in vain, it is desirable, at the outset, to consider whether or not India satisfies the conditions essential for the successful development of manufactures. The Indian Fiscal Commission laid down the following three conditions for the protection of an industry :

The Fiscal Commission : Its recommendations.

(1) the industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, and a large home market ;

(2) the industry must be one which without the help of protection is not likely to develop at all, or as rapidly as is desirable in the interests of the country ;

(3) the industry must be one which will eventually be able to face world-competition without protection.

Apart from the cases to which these general principles should be applied, there are two classes of industries which deserve special consideration. In the first place, there are some industries which are essential for purposes of national defence, and these should be protected irrespective of the general conditions mentioned above. Secondly, there are industries of which the products are utilised as raw materials by numerous other industries—these are called ‘ key industries ’—and of which any cessation of import would bring other industries to a standstill.

The Indian Fiscal Commission recommended a policy of ‘ discriminating protection ’. An ‘ all-round, all-pervasive ’ protective system cannot possibly be advantageous or beneficial to the country. It is argued by some enthusiastic supporters of a protective policy that an indiscriminate use of protection is necessary in order to create an atmosphere favourable to industrial development. But they forget to count the cost of such a policy or to estimate its probable ultimate gain or loss.

The Government of India accepted the policy of ‘ discriminating protection ’ as recommended by the Indian Fiscal Commission. They created a Tariff Board to consider the case of every industry that might put forward a claim for protection. The first industry that came under the examination of the Tariff Board was the steel industry. The Tariff Board found that this industry satisfied all the conditions insisted on by the Indian Fiscal Commission, and recommended the grant of protection to it. This led to the passing of the Steel Industry Protection Act of 1924. Under this Act not only were the import duties on steel bars

Discriminating Protection.
Tariff Board.

Protection to steel industry.

increased, but bounties were given on the production of steel rails and fish-plates in India. In 1925, on account of a heavy decline in the prices of steel imported from abroad, the Government had to grant a bounty of Rs. 20 per ton on 70 per cent. of the steel ingots produced in India. During the first three years of protection the industry made satisfactory progress, and the cost of production was brought down to an appreciable extent. For a considerable time the steel market was unsettled, and the price of steel showed a tendency to fall. The depreciation of the continental exchanges and the appreciation of the Indian exchange rendered protection to the industry almost ineffective. By 1926, the price of steel became fairly stable, but there was a considerable difference between the price of continental steel and that of British steel, the latter being higher. The whole question was investigated by the Tariff Board before the expiry of the Act of 1924.

The new Tariff Board recommended the continuance of a policy of protection until India was self-sufficient in the production of steel, on the ground that, unless it was continued, the previous efforts to save the industry would be altogether infructuous. The Board treated British steel and continental steel as different classes of steel, the former being equivalent to standard steel and the latter to non-standard steel. As Indian steel had to compete with the products of the United Kingdom as well as those of the continent, it was considered desirable, on economic grounds, that two scales of duties should be imposed, a basic duty fixed with reference to the price of the British steel and an additional duty in respect of the margin between British and continental prices. The basic duty was to be levied on steel coming from all countries, while the additional duty would be confined to non-British steel. The Board also recommended that the payment of bounties should be discontinued.

Fresh
action.

A Tariff Bill was introduced in the Legislative Assembly to give effect to the recommendations of the Tariff Board. This Bill marked a notable departure from the principle adopted in the previous Act. "The preference to manufactures of the United Kingdom over those of the Continent", observed Pandit Madan Mohan Malaviya, "is the clear issue writ large on the Bill." He strongly objected to this introduction of the principle of

preference by the back door, and remarked : “ If the question of preference to United Kingdom manufactures has to be taken up, let it be taken up as a matter to be discussed and considered by itself.” But the Bill became an Act in its original form, in spite of strong non-official opposition to some of its provisions.

A supplementary measure in 1928 granted protection on a small scale to the manufacture of wagons and underframes and of steel castings, by converting certain *ad valorem* duties into specific duties. Wire and wire nails did not receive any help in 1928, but, in 1932, protection was granted to the manufacture of these articles on the recommendation of the Tariff Board. The whole position of the iron and steel industry was reviewed by the Tariff Board in 1934 and new measures of protection to continue up till 1941, were adopted. The immense development of the iron and steel industry in India during recent years amply justifies the policy of protection adopted in its favour.

Steel
Protection
Act of
1934.

The cotton industry has for a long time been the chief subject of fiscal controversy. It is, therefore, necessary to say a few words about the duties on cotton manufactures. The early commercial policy of England in regard to India had a two-fold object, namely, the production of raw materials for British industries and the consumption of British manufactures by the people of this country. The highly developed cotton industry of Lancashire required a market for its products, and India supplied the best market. The import duties on cotton piece-goods and yarn were kept unduly low in order to encourage importation from England. But the growth of the cotton industry in India during the second half of the last century aroused the jealousy of Lancashire manufacturers, who in 1874 demanded the abolition of the 5 per cent. import duty levied on cotton goods for revenue purposes. The ground of the complaint was that the duty was protective in character, and gave an advantage to the Indian mill industry in competition with the English industry. A Committee appointed by the Government found the demand unreasonable. But Lord Salisbury, Secretary of State, insisted on the repeal of the duty. The Government of Lord Northbrook opposed the proposal on the ground that the proposal would involve a sacrifice of a large amount of revenue. But when Lord Northbrook resigned the Viceroyalty, Lancashire manufac-

Cotton
duties.
History.

turers found an ardent supporter of their interests in his successor, Lord Lytton. In 1878, the Government of India exempted from payment of duty the coarser classes of goods which competed successfully with the Manchester goods. In 1882, the whole of the cotton duties were abolished along with the other general import duties. The question was reopened in 1894, when the Government of India, faced with a heavy deficit, was compelled to re-impose cotton duties. A duty of 5 per cent. on imported piece-goods and yarns was levied and this was accompanied by an excise duty of an equivalent amount of Indian yarn of counts above 20's. The concession of a duty on yarn did not satisfy Manchester, but only egged it on to further demands. In 1896, two Bills were passed in the teeth of non-official opposition both in and outside the council chamber, by which a direct excise duty of $3\frac{1}{2}$ per cent. was levied on all cotton piece-goods woven by Indian mills, and the import duty of 5 per cent. was reduced to $3\frac{1}{2}$ per cent.¹

Abolition

The cotton excise duty gave rise to a considerable amount of discontent in the country. In 1916, during the war, the Government of Lord Hardinge gave a definite pledge that this duty would be abolished as soon as financial considerations permitted. In 1922, the Fiscal Commission observed: "The existing cotton excise duty should, in view of its past history and associations, be unreservedly condemned." Agitation in favour of its abolition continued. In 1925, the duty was suspended by an Ordinance of the Governor-General, and in March 1926 it was abolished.

Fresh difficulties.

This was a measure welcomed by all sections of the community, but it was not adequate for the purpose of placing the cotton industry on a firm basis. The reasons were obvious. The Indian cotton mill industry had been suffering from very serious depression during the post-war period. The prices of cotton goods had fallen largely, but it had been found impossible to reduce appreciably the cost of production. The fall in prices was, to a certain extent, accentuated by the stabilisation of the exchange value of the rupee at 1s. 6d. This depression might also partly be attributed to world factors. The competition of Indian products with foreign products was very acute. The importation of cotton

¹ For a fuller discussion of the subject, see the author's *Fiscal Policy in India*.

goods from Japan assumed considerable importance in the years 1918 to 1928. It was also pointed out by the Bombay Mill-owners' Association that the fall in the Japanese exchange gave the exporters an unfair advantage. Besides, unfair labour conditions in Japan, which permitted the working of double shift, gave the Japanese producers an advantage over the Indian producers. The Association, therefore, demanded protection against unfair Japanese competition.

The Tariff Board, to whom the question was referred, thought that the competition of Japanese yarn exercised a depressing effect on the price of Indian yarn, while double-shift working in Japan gave the Japanese industry an advantage of 4 per cent. on the actual cost of manufacture both of yarn and cloth. They expressed the view that there existed an unfair competition between Japan and India, and that this competition was an important cause of depression in the Indian cotton textile industry. They also held that the case for a small all-round increase in the import duty on cotton manufactures other than yarn was strengthened by the handicap imposed on the industry by the stabilisation of the rupee at 1s. 6d. The majority of the members of the Board recommended an additional import duty of 4 per cent. on all cotton manufactures other than yarn. An additional duty on yarn or a differential duty against Japan was deprecated by the majority. They, however, proposed that an attempt should be made to encourage the spinning of yarns of higher counts by means of a bounty of 1 anna per lb. on yarn of 32's and higher counts, the amount of such bounty being met out of the proceeds of the additional duty levied. The President of the Tariff Board recommended the imposition of a differential duty of 4 per cent. on all cotton manufactures imported from Japan.

Recom-
menda-
tions of
the Tariff
Board.

The Government of India did not accept the recommendations either of the majority or of the minority of the Tariff Board. They introduced a Bill to levy a specific duty of $1\frac{1}{2}$ as. per lb. of yarn, or 5 per cent. *ad valorem*, whichever would be higher, imported into the country, irrespective of its origin. The sole object of the Bill, the Government said, was to safeguard the manufacture of cotton goods in India against unfair competition. It was not really a protective measure in the sense in which this

Govern-
ment
decision.

term was usually understood. The Bombay industrialists were not satisfied with the measure.

Textile
Protection
Act of
1930.

Representations, therefore, continued to be made to the Government about the effects of Japanese competition and the necessity of protection on a more adequate scale. The Report on External Competition in Piece-goods, submitted by Mr. G. S. Hardy in 1930, supported the contentions of the Bombay Mill-owners' Association, and the Government was induced to pass in April 1930 the Cotton Textile Industry (Protection) Act, which imposed a general *ad valorem* duty of 15 per cent. and also a minimum specific duty of $3\frac{1}{2}$ as. per lb. on plain grey cloth. A special additional duty of 5 per cent. was imposed on all non-British imports of cotton goods. The policy of preference involved in this measure was attacked in the Assembly, but the Bill was ultimately passed, and India had to swallow another dose of Imperial Preference.

Increases
in duties.

The economic depression compelled the Government to raise the duties in March, 1931. In November of the same year, a supplementary budget had to be passed to meet a heavy deficit, and a 25 per cent. surcharge was imposed on all duties. As an emergency measure against a sudden influx of Japanese cotton goods on account of the depreciation of the yen, the duty on non-British cotton goods was further raised (bringing it up to 50 per cent. *ad valorem*) in August 1932, and still further, up to 75 per cent. *ad valorem*, in June 1933.

The last important measure for the protection of the cotton textile industry was undertaken in April, 1934. The provisions of this measure were based on the Report of the Tariff Board, the Indo-Japanese Agreement, and the unofficial 'Pact' between the Lancashire and Indian textile interests (the Mody-Lees Pact). This Act imposed a duty of 50 per cent. on cotton piece-goods of non-British origin, and also a minimum duty of $5\frac{1}{4}$ as. per lb. in the case of plain greys. An enquiry was carried out by the Tariff Board in 1935 on the effects of British imports upon the Indian textile industry. The protective policy adopted in regard to cotton manufactures has helped very largely to foster the development of a great Indian industry.

Paper.

A number of other industries were examined with a view to finding out whether protection was necessary. The paper-

manufacturing industry was protected by the Bamboo Paper Industry (Protection) Act of 1925, based on the recommendations of the Tariff Board. The Act was renewed in 1932 and made operative till the end of March, 1939. The Act which was passed in 1939 reduced the quantum of protection granted to some kinds of paper produced in India. The development that has recently taken place in the local manufacture of paper from bamboo-pulp shows the wisdom of the adoption of the policy of protection.

The most important case of protection in recent years has been that of the manufacture of sugar in India. After an exhaustive enquiry into the conditions prevailing in different centres of sugar-manufacture in India, the Tariff Board proposed, in 1931, a protective duty of Rs. 7-4 as. per cwt. for seven years and a duty of Rs. 6-4 as. per cwt. for a further period of eight years. The Sugar Industry (Protection) Act of 1932 gave effect to the proposals of the Tariff Board. The excise duty levied on the local production of sugar in 1934 and the subsequent alterations made in the rates of duty in 1937 and 1939 had the effect of considerably reducing the protection granted to the sugar industry. Protection to sugar.

As a result of the encouragement given by protection, nearly 130 factories have been started during the period 1932 to 1938. The total production of sugar in India is now well above a million tons a year, and the imports of sugar into India have become almost insignificant. It is also worthy of note that while, according to the estimate of the Tariff Board, the cost of manufacturing one maund of sugar in India was Rs. 8-3 as. 1 p. in 1931, at present it has become less than Rs. 6 per maund.

The phenomenal development that has taken place in the sugar industry within a period of seven years is a glaring instance of the success of the policy of discriminating protection. It has, however, involved a considerable sacrifice on the part of the consumer, and it is incumbent on the mill-owners to increase their efficiency to the fullest extent so that the price of sugar may be brought down to a much lower level. The sugar-cane growers ought also to be able to derive a substantial benefit from the growth of the industry, and suitable steps should be taken to assist them.

Other
industries.

Among the other industries to which protection has been granted are matches (1928), heavy chemicals (1931), gold thread (1931), salt (1932), silk yarn and piece-goods (1934), etc. In the case of matches, however, the advantage has been taken mainly by foreign capital and enterprise. The excise duty imposed on matches in 1934 reduced to some extent the protection granted to the industry. The protection of the salt industry ceased on the 31st March, 1938, when the Salt (Additional Duty) Act was allowed to lapse. In some cases, the claim for protection was turned down by the Tariff Board. Three of the most important of such cases are cement, coal, and petroleum.

It is needless to emphasise the importance of a policy of protection in a country like India, where a rapid development of industries cannot possibly be brought about by any other means. The value of the recommendations of the Indian Fiscal Commission has by now been appreciated on all sides. The way in which some industries have progressed under protection leads us to hope that within a short time they will be able to stand on their own legs without the assistance of import duties on competing foreign goods.

Fiscal
autonomy.

India has committed herself to a policy of discriminating protection, and even the partial fiscal autonomy secured by her may be regarded as a landmark in the economic history of India. It is to be hoped that she will attain full measure of fiscal independence at no distant date. Meantime, it is expected the power already acquired will be exercised without creating vested interests and without stereotyping inefficient methods of production. The interests of the people of India as a whole, and not those of any particular section of it, should be the concern of the Indian legislature.

2. INDIA AND IMPERIAL PREFERENCE

Early
history.

We now come to an important practical question allied to, and yet different from, the one we have just treated. From the eighties of the last century Imperial Preference came into great prominence as a subject of practical politics. The idea of Imperial Preference originated with that eminent statesman, Joseph Chamberlain. The reasons which influence the advocates of Imperial Preference are partly economic and partly political.

Economically speaking, the idea is that the British Empire, with its multifarious resources, must be a self-contained organic unit, each part of the Empire acting as an economic complement, as it were, of the other parts. On the political side, it is thought that the solidarity of the Empire and the Imperial sentiment will be greatly strengthened by a policy of 'give and take'. More than four decades ago, Chamberlain had declared: "The establishment of commercial union throughout the Empire would not only be the first step, but the main step, the decisive step, towards the realisation of the most inspiring idea that has ever entered into the minds of British statesmen." The strength of these arguments was very greatly enhanced during the last war, which revealed the weakness of the Empire's dependence on foreign countries for important commodities essential both for peace and war. At the same time, the Imperial sentiment, the pride of belonging to a great Empire received added emphasis in the tense atmosphere of the war. In 1917, the Imperial War Cabinet passed a resolution, later on approved by the Imperial War Conference, to this effect: "The time has arrived when all possible encouragement should be given to the development of Imperial resources, and specially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries."

The subject of Imperial Preference had been formally put before the Colonial Conference of 1902, when the principle had been for the first time recognised as one of general application. The chief points in the resolution passed by the Conference may be summarised as follows: A policy of inter-Imperial Preference would facilitate mutual commercial intercourse, and by developing the resources of the different parts, would strengthen the whole. On the other hand, however, the Dominions would only grant such preference on a purely voluntary basis as was consistent with their own economic interests, even to the extent of fully maintaining their own protectionist policy. The United Kingdom also, should, in her turn, try to reciprocate the preference as far as possible.

Canada was the first colony to give effect to the principle of preference. In 1897, Canada reduced her duties on British goods. In 1898, the preference was fixed at 25 per cent. of the ordinary

Steps
taken by
the
Colonies
and the
United
Kingdom.

rates, and it was extended to such British colonies as gave her a favourable treatment. In 1900, the preference was raised to 33½ per cent. In pursuance of the resolution of 1902, New Zealand and South Africa in 1903, and Australia in 1907 gave preferences to the United Kingdom. Both in 1903 and 1907, the United Kingdom definitely rejected a policy of preference, as it would involve a taxation of food. Thus all the Dominions gave preference to the United Kingdom at such rates as they could, consistently with their own interests. Besides, New Zealand extended her concessions to the whole Empire, Canada to New Zealand, India, and the Crown Colonies, while Australia and South Africa adopted the principle of reciprocity with regard to the other parts of the Empire. But whatever the rate of preference, it was not allowed to interfere with the degree of protection considered necessary for the home industries. The United Kingdom, which had consistently refused to give effect to the policy of preference, at last adopted it in 1919 as a result of the resolution passed at the Imperial War Conference; and, without altering the general tariff policy, granted to the whole Empire preference to the extent of ¼th or ⅓rd on nearly all dutiable articles.

Originally
India
not
interested.

In all the earlier discussions about Imperial Preference, India had been practically left out of account. In 1903, however, at the invitation of the Secretary of State for India, the Government of India discussed the question at some length, and concluded that India had very little to gain by joining a scheme of inter-Imperial Preference; and that she had a good deal to lose or risk. The subject was dropped for the time as being outside the range of practical politics. But since the war the movement has become a general one throughout the Empire. Most parts of the Empire have either joined the scheme of Imperial Preference, or are seriously considering the subject with a view to giving practical effect to the principle. India, therefore, has found it difficult to ignore the movement. And since 1917 the question has always presented itself to the Government of India in one form or another.

Economic
effect of
preferen-
tial duties.

As a matter of practical policy, preference to Empire goods may be given by admitting Empire goods at lower rates of duties than non-Empire goods. Now, the economic effect of these differ-

ential rates would depend upon the varying conditions of supply of the articles affected. When the preferred country supplies only a fraction of the market, the result would be that prices would be affected by the higher rates, and the sacrifice of the consumer would only mean a subsidy to the Empire producer, without any corresponding gain to the Treasury. On the other hand, when the Empire goods supply the major portion of the article affected, the result is that the prices of all articles are affected by the lower rates, with the likelihood that the preferred producer may ultimately capture the whole market. This involves loss not to the consumer, but only to the non-favoured foreign producer.

In 1920, a small measure of Imperial Preference was introduced in India by the back door when an export duty on hides and skins was levied, the rates of the duty on exports to Great Britain being fixed at a lower level than on exports to other countries. The issue regarding Imperial Preference was examined carefully by the Indian Fiscal Commission in 1921-22. The Commission were "impressed by the almost complete unanimity with which Indian witnesses opposed the principle of Imperial Preference". The reasons for this opposition were threefold: it was feared that Imperial Preference might diminish protection, that it might put a heavy burden on the Indian consumer for granting a bounty to the British manufacturer, and that it might affect the fiscal autonomy of India. The Minority Report strongly opposed any preference to the British Dominions so long as these retained anti-Asiatic laws on their Statute-Books.

Indian
Fiscal
Commis-
sion's
view.

The move towards Imperial Preference was slackened down after the publication of the Report of the Fiscal Commission. But, in spite of the refusal of the legislature to be a party to any scheme of Imperial Preference, an advantage was granted to England when differential duties were imposed on standard specification steel and other sorts of steel. Standard specification steel came mainly from Great Britain and lower duties were imposed upon its imports. Thus, in effect, if not in principle, the policy of preference was adopted in 1927.

Imperial
Prefer-
ence
by the
back door.

The Imperial Conference that met in London in 1930 raised again a demand for uniting the different units of the Empire into some sort of a *Zollverein* by means of mutual grant of preferences

Imperial
Confer-
ence,
1930.

Ottawa
Confer-
ence,
1932.

and of raising duties on imports from non-Empire countries. The culmination of these efforts took place at Ottawa in 1932, when delegates from all parts of the Empire met to devise ways and means for a scheme of Empire Preference. England at first used to be somewhat cold regarding all preference proposals, but, at Ottawa, a complete change of attitude became apparent. The decline in the export trade of England and the gradual invasion of the English markets by goods from other countries led the National Government to adopt drastic measures like the Abnormal Importation Customs Duties Act of 1932. The situation in which England found herself in 1932 made her desire earnestly a scheme of preferences that would expand her export trade and also shut out the rivals from her own markets.

The
Ottawa
Agree-
ment.

The Agreement between the Indian and British delegates was entered into on the 20th August, 1932. The United Kingdom undertook to give free entry to certain classes of Indian goods, *e.g.*, cotton and jute manufactures, tanned hides and skins, non-essential vegetable oils and sandalwood oil, rice, groundnut, coffee, tobacco, tea, teakwood, pig lead, magnesite, magnesium chloride, etc. The United Kingdom also agreed to retain all existing preferences and to impose a 10 per cent. duty on foreign linseed. The British delegates further promised that their Government would "co-operate in any particular scheme agreed to by the United Kingdom cotton industry and the Indian growers for promoting a greater use of Indian cotton by Lancashire".

On the other side, India promised to grant a $7\frac{1}{2}$ per cent. preference to motor vehicles (other than motor cycles) coming from the United Kingdom, and a 10 per cent. preference to a number of articles including building and engineering materials, chemicals, drugs and medicines, hardware, instruments, apparatus and appliances, leather manufactures, aluminium, copper, lead, german silver manufactures, paints, paper, stationery, and rubber products including tyres and cycles. The preferences to these goods would, however, be subject to any scheme of protection undertaken in India. The Indian delegates agreed to grant preference to another group of articles without any reservation regarding protection of Indian industries. There were also other provisions regarding the grant of preference to cotton

textiles and iron and steel goods coming from the United Kingdom.¹

Indian public opinion had been opposed to such preferential schemes for a long time, and it was only natural to expect that the Ottawa Agreement would be severely criticised. The apologists for the Agreement argued that the intensity of the trade depression and the growing tendency towards economic nationalism had considerably affected India's trade, and that without a preferential policy India's trade would gradually become still smaller. India's exports, they pointed out, were being shut out from foreign countries and consequently India should willingly enter a scheme that would retain for her exports a secure market. It was also urged that, even if India would not gain much by joining the preference scheme, she would lose much by not joining it, and, therefore, it would not be practical wisdom to denounce and reject the Ottawa scheme of preferences.

The
Ottawa
Agree-
ment and
Indian
public
opinion.

On the other side, the defects of the Agreement, both as regards principle and details, were easily discernible. After the Agreement had been in operation for three years, it became easy to point out that the claims of its supporters had not materialised. The expansion of Indian export trade attributable to the preferences granted by England was not considerable, and in many cases there had taken place only a diversion of trade from non-Empire countries to the United Kingdom.

Defects
and draw-
backs of
the Agree-
ment.

In fact, the advantage gained by England from the Agreement was much greater than the advantage gained by India. During the period from 1931-32 to 1934-35, Indian exports of preferred articles to England had increased by $7\frac{1}{2}$ per cent., while British imports of preferred articles into India had increased by 34 per cent. On the other side, "as regards articles *not enjoying preference*, the imports into the United Kingdom of Indian goods had increased by 39·7 per cent., while imports into India of United Kingdom goods not enjoying preference had increased by only 14·4 per cent." ² This was sufficient proof of the inefficacy of the Ottawa Agreement from the standpoint of the Indian

¹ *Report of the Indian Delegation to the Imperial Economic Conference, Ottawa, 1932, Appendix E.*

² *Vide Dr. P. N. Banerjee's Speech, Legislative Assembly Debates, 20th March, 1936, p. 3328.*

trade interests. The figures regarding the imports into the United Kingdom of non-preferred Indian goods proved that, even if India had not joined the preference scheme, she would not have lost much.

The diversion of trade caused by the Agreement involved a two-fold danger : in the first place, it was feared that this would lead to a contraction of markets for Indian goods, not only for the time being, but also for the future ; secondly, by limiting competition among the countries buying Indian goods, it would place India at a disadvantage as regards the terms of trade. The excessive dependence upon one market might easily prove disastrous to the country.

It has also to be remembered that India's trade with non-Empire countries had for a long time been more important and of greater value than her trade with the Empire countries. It would be undesirable for India therefore to risk any retaliation from non-Empire countries, only in return for a remote possibility that there might arise some benefits from preference. Further, the Ottawa Agreement did not in any way help to increase the export-surplus required for meeting India's sterling obligations. Lastly, the Agreement was unsatisfactory from the standpoint of India's public finance as it involved a substantial loss of revenue in the shape of customs duties.

Assembly
refuses
continu-
ance,
1936.

These considerations weighed heavily with the members of the Indian Legislative Assembly who refused in 1936 to sanction the continuance of the Agreement. During the two following years, negotiations went on between British official and trading interests on the one side and an Indian delegation led by Sir Muhammad Zafrullah Khan, Commerce Member of the Government of India, for a new agreement between Great Britain and India. No agreement, however, was arrived at.

Fresh
Agree-
ment,
1939.

In March, 1939, fresh proposals for an agreement were placed before the Central Legislature, and they were given effect to in spite of the opposition of the Assembly.¹ Time will show the beneficial or harmful character of this Agreement.

¹ Vide *Legislative Assembly Debates*, March, 1939.

3. BILATERAL TRADE AGREEMENTS

A new feature of the fiscal policy of India during recent years has been India's participation in bilateral commercial treaties. The years of depression led many countries in Europe and America to regulate their volume of trade by quota or clearing arrangements with one another, and international trade in recent years has come more and more to resemble direct barter of goods between two countries. The first bilateral agreement in which India was concerned was the unofficial 'pact', known as the Mody-Lees Pact, between the representatives of Lancashire and Bombay textile industries. The 'pact' was signed in Bombay on the 8th October, 1933. It was agreed (i) that though the Indian cotton mill industry needed all-round protection, yet it required a higher level of protection against non-British imports than against British imports, (ii) that the Government of India would reduce the surcharge on import duties, (iii) that the duties on British cotton yarns and artificial silk goods would be lowered, and (iv) that the British Textile Mission would recommend a more extended use of Indian raw cotton in Lancashire.

Mody-
Lees Pact,
1933.

The Agreement was apparently one-sided. Indian textile interests were not represented fully, and India had to grant definite concessions in return for only a declaration of the intention to use larger quantities of Indian raw cotton. Official approval was, however, given to this 'pact' by the Indian Tariff (Textile Protection) Amendment Act of 1934. After a Tariff Board enquiry in 1936, the duties on cotton piece-goods coming from Lancashire were substantially lowered.

The Ottawa Agreement provided for a negotiation for settling certain lines of policy regarding Indo-British trade. An Indo-British Trade Agreement was arranged in 1934 and signed in January, 1935. This Agreement, after enunciating certain broad principles regarding the need for protection and for customs revenue in India, provided that protection would be granted only to the extent necessary for equalising costs, and so, whenever possible, lower rates of duty would be imposed upon British goods than upon other goods. The Government of India also promised to allow British industrialists full opportunity to

Indo-
British
Trade
Agree-
ment,
1935.

present their case whenever the Tariff Board would undertake any enquiry regarding protection of an Indian industry. The United Kingdom Government, on the other hand, promised to develop the importation of Indian raw materials and semi-manufactured goods, particularly of raw cotton. They also undertook to allow Indian pig-iron to enter the United Kingdom duty-free so long as India would not raise her duties upon British imports of iron and steel.

Indian business men criticised this agreement on the following grounds : first, their views had not been considered, and secondly, this agreement, like the Mody-Lees Pact, gave definite advantages to Britain without securing anything substantial for India. It was also pointed out that the Agreement would restrict the powers secured by the Legislature under the Fiscal Autonomy Convention of 1923.

Indo-
Japanese
Agree-
ment,
1934.

The other important country with which commercial arrangements have been made is Japan. In 1933-34, there were substantial increases in the import duties upon Japanese cotton goods. Japan retaliated by organising a boycott of Indian raw cotton. It was felt, however, on both sides that a mutual agreement would be the proper solution of the problem. Therefore, a Japanese delegation was invited to come to India. After a protracted period of negotiation the Indo-Japanese Trade Agreement was signed in January, 1934. By this Agreement, the two countries extended to each other the most-favoured-nation treatment, but retained the right of adopting countervailing measures necessitated by fluctuations in the rupee-yen exchange. Under this Agreement the customs duties on Japanese piece-goods were not to exceed 50 per cent. *ad valorem*, or 5½ as. per lb., in the case of plain greys and 50 per cent. *ad valorem* in the case of others. Japan promised to buy from India every year 1 million bales of raw cotton in return for exporting to India 325 million yards of cotton piece-goods. Sliding-scale arrangements were made to allow increases in Japan's exports of piece-goods to India, if she would buy from India more than the minimum quota of raw cotton. It was also arranged that of the total Japanese piece-goods imports into India, 45 per cent. should be plain grey goods, 34 per cent. coloured goods, 13 per cent. bordered grey goods, and 8 per cent. bleached goods.

Although the terms of the Agreement were quite definite, it was criticised on the ground that Japan had secured the greater part of the advantage in the bargain. Japan took advantage of the most-favoured-nation clause, and began to send to India a large quantity of manufactured products. The provision limiting Japan's exports of cotton goods to India was circumvented by the export in huge quantities of made-up cotton garments which did not come under the terms of the Agreement. As regards Japan's purchase of Indian raw cotton, Indian publicists were of opinion that the minimum ought to have been placed at a higher level.

The Indo-Japanese Trade Agreement of 1934 expired in 1937, and a new Agreement was entered into on the 12th April of that year. This Agreement secures to India terms more favourable than the earlier one, and it will have effect till the 31st of March, 1940. Under this Agreement Japan is permitted a net export of 283 million yards of cotton piece-goods annually against purchases of Indian raw cotton of 1 million bales. Exports to India of piece-goods may be increased to a maximum of 358 million yards, if purchases of raw cotton reach $1\frac{1}{2}$ million bales. The proportion of the different classes of Japanese piece-goods imported into India shall be as follows: Plain greys, 40 per cent., bordered greys, 13 per cent., bleached (white) goods, 10 per cent., coloured printed goods, 20 per cent., and coloured dyed or woven goods, 17 per cent. The quota is exclusive of cotton fents, but Japan undertakes to limit exports of cotton fents to India to 8.95 million yards annually. The Government of India on their side agree that import duties on cotton fents must not exceed 35 per cent. *ad valorem*.

Indo-
Japanese
Agree-
ment,
1937.

Bilateralism, although desirable in principle, is not free from difficulties. It may in some cases lead to the squeezing out of triangular or multi-angular trade. For a country like India, requiring every year an export-surplus, a quota-system carried too far may result in a diminution or even an elimination of the surplus. There is, however, justification for agreements with those countries that import less from India than they export to her and with others with whom permanently stable trade-relations may be desirable. For instance, a trade-agreement with the U.S.A. is likely to prove beneficial to both the countries.

Extension
of bi-
lateralism.

CHAPTER XXV

UNEMPLOYMENT

A
difficult
problem.

THE problem of unemployment has become pressing in almost all countries of the world after the beginning of the trade depression. Economists have devoted a considerable amount of attention to the study of unemployment and its remedies, and governments in most countries have also tried to take steps for reducing the severity of the miseries caused by it. It has not, however, been possible for anybody up till now to suggest a policy that would prevent unemployment from coming into existence, and writers like Keynes have emphasised the fact that 'involuntary unemployment' is an inevitable result of an economic system where the rate of interest and the rate of investment are allowed to be determined by uncontrolled competition.

Agricul-
tural and
industrial
unem-
ployment.

It is difficult to measure the precise extent to which the evil of unemployment exists in agricultural and industrial occupations in India. The estimate has been made in some quarters that the number of persons unemployed in India would be about 50 millions. It is impossible to vouch for the accuracy of such an estimate, and it has also to be borne in mind that the number of persons who may be described as 'under-employed', that is to say, employed for only a part of the year or a part of the day, is very large. The cultivators mostly remain idle for a considerable part of the year, and this fact has to be taken into account in estimating the total volume of unemployment in the country.

In the field of industries, the difficulty of measuring the extent of unemployment is great. There is no permanent labour-population in India, and the unemployed labourers generally go back to the villages and help to increase the pressure on the land. It has, however, to be noted that only a small percentage of the total population of India is engaged in factory work, and, consequently, the problem of unemployment in the country mostly relates to rural areas.

Nothing has practically been done by the Government for the relief of unemployment among the cultivators and agricultural labourers. Nor will any patch-work remedy be able to achieve much. A strenuous effort to regulate the entire system of agricultural production and to increase the demand for agricultural products can bring about a better state of affairs. But the most important and effective solution can come only with a diminution of the pressure on the land. The remedy of the problem of rural unemployment lies thus, partly in the improvement of agriculture and the development of small-scale industries, but mainly in the absorption of greatly increased numbers of people in large-scale manufacturing industries.

Discussions regarding unemployment in this country often centre round the problem as it affects the middle class. By the term 'middle class' is generally meant the class the members of which are educated at least to some extent and are dependent upon some salary-yielding jobs for their livelihood. In recent years, the extent of unemployment among members of the middle class has been enormous, and the problem has for some time past engaged the attention of the Government and of the public.

Middle-class unemployment.

Middle-class unemployment is brought about by a number of factors, social and economic. Lack of initiative and enterprise, unwillingness to enter occupations requiring manual labour, caste-prejudices against certain lines of employment, early marriage, and increase of population are some of the factors causing unemployment. The educational system is often blamed because it lays too much emphasis upon 'academic learning' and puts a discount on vocational training. Facilities for vocational and technical training are inadequate, and, consequently, the universities are crowded with students who have to try to become graduates because they have nothing else to do.

Causes of middle-class unemployment.

Among the economic causes of middle-class unemployment the most important in recent years has been the depression. There has been a reduction on all sides in the number of persons employed, and the educated young men have had to bear the full brunt of this policy. Coming to the more permanent aspect of the question, it may be pointed out that the inadequate development of industry, commerce, shipping, banking, insurance, and other avenues of employment has been one of the main causes of

Effect of depression.

unemployment. If industries were in a developed state they could have provided employment for a large number of educated persons. In this respect the situation in India has been far from desirable. While the number of Indian concerns has always been small, the European concerns have given very little encouragement to Indians except in the lower ranks.

Provincial
enquiries.

In 1922, a Committee was appointed by the Government of Bengal to deal with the problem of middle-class unemployment. It made some valuable recommendations, but no effect was given to them. In 1926, the Government of India issued a circular to the Provincial Governments requesting them to consider practicable remedies for the problem of middle-class unemployment. Committees were accordingly appointed in many provinces and various suggestions were made. The Madras Committee emphasised the need for diverting the educated young men to the villages mainly by establishing farm colonies. The idea behind farm colonies is subject to two limitations, namely, that in many provinces vacant cultivable land is not available, and that it is difficult to create the 'rural bias' without which such a policy cannot be expected to materialise.

Suggested
remedies.

Industri-
alisation
the most
effective
remedy.

The most effective solution of the problem can come from a more rapid industrialisation of the country. In recent years, industrial concerns, banks, and insurance companies have given employment to quite a number of educated young men. But there is even now an immense scope for the development of large-scale industries, commercial and shipping concerns, and financial institutions; and, when these are developed, a large number of educated persons may be absorbed by them. The European firms should also employ Indians in the higher positions under them. The larger employment of Indians in the various higher services of Government and the opening of officers' ranks in the Defence Department of the country to a greater extent will help substantially to ease the situation. The development of small industries can also help to some extent in reducing unemployment. Small industries can be started in district or subdivisional towns, or even in villages.

What the
Govern-
ment can
do.

Up till now the Government has not done much to bring relief to the educated unemployed persons. It may be urged that the proportion of Government appointments to the total number

of jobs needed is small, but this is no justification for shutting Indians out of responsible positions in the various services under Government. The educated young men of the country find it practically impossible to enter the army or the navy or the air force. A large number of Indians can be employed only if the Government would give up its rigidity in regard to grants of commissions in the defence services. Again, it is certainly possible to appoint Indians in larger numbers to the higher posts in the other departments and in the railways.

In times of depression, when there is temporary unemployment, the Central Government as well as the Provincial Governments should try to create employment for the people. Keynes and other economists have recently advocated the undertaking of construction of public works in periods of slump and unemployment, if necessary, even by deliberately unbalancing the budget. As a matter of fact, such a policy was adopted in the United States, Great Britain, Germany and some other countries during the recent depression. But no such deliberate step has ever been taken in India. The opportunity for adopting beneficent emergency measures during the depression was completely missed by the Government, and all that they did was to launch a scheme of retrenchment and reduction of salaries, which further aggravated the situation.

Public
works.

An exhaustive enquiry into the unemployment problem was carried out in 1935 in the United Provinces by a Committee under the chairmanship of Sir Tej Bahadur Sapru. Many of the recommendations of the committee are applicable to all the provinces besides that to which these related. A few of their suggestions may be noted here : Municipalities and District Boards should employ qualified engineers and doctors in larger numbers than they do at present ; the Government should extend the scope of operation of the public health department and thus provide employment for doctors ; there should be a greater specialisation of functions among lawyers ; the rule regarding retirement should be strictly enforced ; large-scale and small-scale industries should be stimulated ; primary education should be extended so as to give employment to more teachers ; the High School Examination should be split up into two examinations—a lower one qualifying the candidates for Government service as well as for technical

The
Sapru
Commit-
tee, 1935.

and commercial education, and a higher one qualifying for university education; medical practitioners should be encouraged to settle in villages by the grant of Government subsidies; the courses in schools and colleges should be more diversified.

A useful recommendation of the Sapru Committee regarding the constitution of Appointment Boards for university graduates has been given effect to in Calcutta, Dacca, and some other universities. The Calcutta University Appointment Board has already done some useful work by bringing university graduates in touch with commercial houses.

Lower
age-limit
for Gov-
ernment
service.

But one recommendation of the Sapru Committee has been subjected to severe criticism throughout the country. They argued that the Government was wrong in insisting on a high educational qualification for entrants to the subordinate services and recommended that appointments to such services should be made before a candidate would reach the age of 19 through an examination held all over the country. The adoption of this recommendation would mean that every young man would have to decide at the early age of 17 or 18 whether he would enter Government service. Besides, the Government would be deprived of the services of all those who in their early youth could not persuade themselves to give up all chances of getting a higher education. The Government of India issued a circular letter to the Provincial Governments in January, 1938, inviting their opinion on the proposal to reform the methods of recruitment to Government service by lowering the age-limit of admission to 19 and holding an examination for entrants at the age of 17. Most of the Provincial Governments, however, signified their disapproval of the proposal, and it seems that the Government of India has dropped the idea.

Employ-
ment
creates
employ-
ment.

It has to be borne in mind that there is no one sure way of solving the problem of unemployment. But industrialisation, rural reconstruction, economic planning, educational reforms, technical training will all contribute to the solution of the problem. It is also worth noticing that employed persons themselves give employment to others through their expenditure on consumption-goods. The relation between secondary employment and primary employment has been studied by Kahn, Keynes, and Colin Clark in their analysis of what they have named the

multiplier'. In a country with a large number of persons with small incomes, the value of the multiplier is likely to be high, because a considerable portion of the increment of income will in such circumstances be spent on consumption-goods. Even a small increase in employment in India will in itself cause a further increase on account of the increased demand for goods and services coming from those employed at first.

The need for vigorous state-action is urgent. Adequate arrangements should be made to collect statistics and information about the extent and the nature of unemployment, and the Central Government as well as the Provincial Governments should adopt effective measures to combat the evil.¹ Private enterprise can never be expected to operate to the extent and the manner most desirable from the standpoint of the unemployed. It is because of this fact that the necessity of state-help is greater in this particular field than in any other.

¹ The Government of Bengal has recently appointed an Employment Adviser for investigating the possible avenues for employment of educated young men.

CHAPTER XXVI

ECONOMIC PLANNING

The post-war depression and the need for planning.

THROUGHOUT the nineteenth century, it was the prevailing idea in many countries that the development of industries should be the function of individuals, and that the state should not attempt in any way to interfere in any aspect of industry and commerce. The great war of 1914-18, however, marked the end of *laissez faire*, and in the post-war years there has been some amount of control and regulation of industries in every country. It is now recognised on all hands that the free play of private interests does not secure results that are most desirable from the social point of view. When private individuals are left alone to decide how they will utilise the resources available, wastage of materials on one side, and lop-sided development on the other are inevitable. Besides, trade cycles are essentially connected with the injudicious course of investment and monetary policy which a competitive economy entails. Therefore, the need for control of the utilisation of the resources of the community and of the development of industries is beyond question in the present times.

Economic planning, however, denotes more than mere control and regulation. It implies a calculated effort on the part of the state to secure within a given period of time the maximum of well-being for the members of the community by the most economic allocation and utilisation of the available amount of resources. It is this sort of economic programme that was undertaken by Soviet Russia in 1928. In the U.S.A., the Recovery Plan of President Roosevelt also provided an example of a deliberate attempt to neutralise the effects of the depression by industrial regulations and agricultural adjustments.

The last depression emphasised the need for a planned economy to prevent the recurrence of such situations. In a country like India, however, where the entire economic structure

is in a backward state, and the average income and output are inordinately low, the necessity of planning is greater than in other countries. In the previous chapters, the defects and the shortcomings of the economic life of India have been analysed. If these defects have to be remedied, a well-defined programme of action is absolutely essential.

In a sense, some amount of planning is already operative in India. Discriminating protection, restrictions on the export of tea and rubber, debt-legislation, and labour laws are all different aspects of economic planning. But these programmes have been adopted without any definite or ultimate aim in view, and as a result they do not form parts of an organic whole. The administration of these are in the hands of different bodies, and thus no unified policy is as yet practicable.

Some amount of planning already operative in India.

A full programme of planning involves a marshalling of all available means for the attainment, within a time-limit, of some predetermined end. On the one hand, therefore, it is necessary to collect full information about the resources available within the country and about the possibility or otherwise of increasing the supply of resources immediately. In this respect, we are at a disadvantage, because adequate statistics of our agricultural products, minerals, power-resources, capital equipments and the like are lacking. Dr. A. L. Bowley and Mr. D. H. Robertson, who were appointed by the Government of India in 1933 to suggest a scheme for an economic census of India, emphasised the need of reorganising the statistical service with a view to securing accurate information regarding national income and production. No scheme of planning can be launched unless a comprehensive knowledge of all the means of production available in the country has been acquired.

Lack of statistics and information.

The other important pre-requisite of planning is that the authority in charge of it should have in view a well-defined end which they are to attain within the time available. There is a tendency to speak in vague terms whenever the question of the definite ends of economic planning comes in. It is, however, pleasing to note that in the midst of countless suggestions of a superficial nature, there have been a few attempts by discerning thinkers to put before the country some definite ideas regarding the practicable lines of economic planning. Sir M. Visvesvaraya,

Ends of economic planning.

for example, has studied carefully the entire problem of planning, and has suggested a ten-year programme for the whole of India. The schedule of developments sought to be secured by his programme includes the doubling of the national income and an increase in the output of all industries. The net value of the yearly production from industries is to increase five-fold in ten years, and during the same period the population supported by agriculture is to diminish by 20 per cent.¹ No programme of this kind can be absolutely perfect, but the value of such schemes lies in the guidance they can give to the formulators of practical policy.

Special
difficulties
in India.

In India, special difficulties in the way of economic planning are many. Planning involves a considerable amount of control over the economic and social life of the citizens. A difficulty arises in India on account of the introduction of provincial autonomy. A successful plan involves unified action by a central authority, and in this respect, the existence of autonomous provinces will make the administration of an All-India plan difficult. Besides, the statutory limitations that have been placed by the Government of India Act of 1935 upon the powers of the provincial and federal ministers will make it difficult for them to undertake thorough-going schemes. The provision that makes it illegal to grant any advantage to purely Indian concerns without granting it at the same time to British concerns operating in India will make planning of Indian industries almost meaningless. It may, moreover, be pointed out that even if the federal ministers appoint a National Planning Board or Development Board, such an authority will be unable to exercise any effective control over the Reserve Bank of India or over the railways. A planning authority that cannot control the money-market and the transport system, and does not possess the power to assist Indian industries in preference to industries started by foreign capital and enterprise, will not be able to achieve any substantial improvement in the situation.

Financing
of
planning.

These practical and constitutional difficulties may limit considerably the scope of a planned economy in India. Another serious difficulty that will have to be faced is that of finance. Any scheme of development involves a huge capital expenditure

¹ Visvesvaraya, *Planned Economy for India*, Bangalore, 1934, chap. xv.

and also a fairly large annual recurring expenditure. If new industries are to be developed, and raw materials and other resources are to be diverted from their present uses to uses socially more desirable, the preliminary capital programme will have to be heavy. Sir M. Visvesvaraya estimates that a comprehensive programme of development including a ten-year plan for the whole of India and five-year plans for the provinces will necessitate a capital expenditure of Rs. 500 crores and a recurrent expenditure of 10 crores of rupees annually. The recurrent expenditure will certainly have to be met by budget grants, and Sir M. Visvesvaraya suggests that 2 crores should be annually provided by the Central Government and the remaining 8 crores by the provinces in proportion to their population. The capital expenditure will have to be met by borrowing, and the interest and sinking fund charges should be met from the income secured from the industries developed. It is, however, doubtful whether a sudden increase in our public debt to the extent of Rs. 500 crores will be a practicable proposition.

If, therefore, a programme of economic planning has to be set into operation, the authority in charge of it will be faced with a number of obstacles. The conditions in the different parts of India are of such a varying character that it may sometimes be difficult to secure benefits to all areas at the same pace. The planning authority will, therefore, have to bear in mind the needs of all the provinces and it will have to secure improvements in agriculture, mining, trade, transport, and industries in such a way that a balanced development of different areas may be possible.

A new spurt to the discussions regarding economic planning has recently been given by the Indian National Congress, which has appointed a National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru, to enquire into the possibilities of a planned economy in India and to suggest practicable schemes for securing the desired end. The Committee has just commenced work and it has, as a first step, issued a questionnaire to the Provincial Governments, Indian states, chambers of commerce, labour unions, and organisations of agricultural interests. The questionnaire has been framed mainly with a view to eliciting opinion and gathering information regarding the objectives of

National
Planning
Com-
mittee.

national planning, sources of raw material, scope for development of production of different commodities, capital and labour supply, marketing and commerce, transport facilities, conditions of and fields for employment, facilities for technical training, sources of fuel, power, and energy, and other allied subjects.

It may be expected that the Committee will be able to place before the country an adequate and comprehensive programme of economic development. No endeavour ought to be regarded as too great when the people sincerely desire a better economic structure than what prevails now. Every branch of our economic life calls for immediate improvement, and it is only a well-organised scheme of economic planning that can bring about the desired consummation within a short time. The difficulties that exist in the way of the adoption of a satisfactory programme of development have to be recognised, but these should not deter us from attempting to make improvements where improvements are possible, and to remove the obstacles by marshalling all the powers we possess. We have allowed our economic structure to be shaped in a haphazard way for a long time, and now we have realised that such a process will not be able to bring about the amelioration we long for. Economic planning, in spite of the difficulties inherent in it, offers at least a possible solution, and any attempt in this direction ought to be welcome.

APPENDIX A

INDIAN CURRENCY

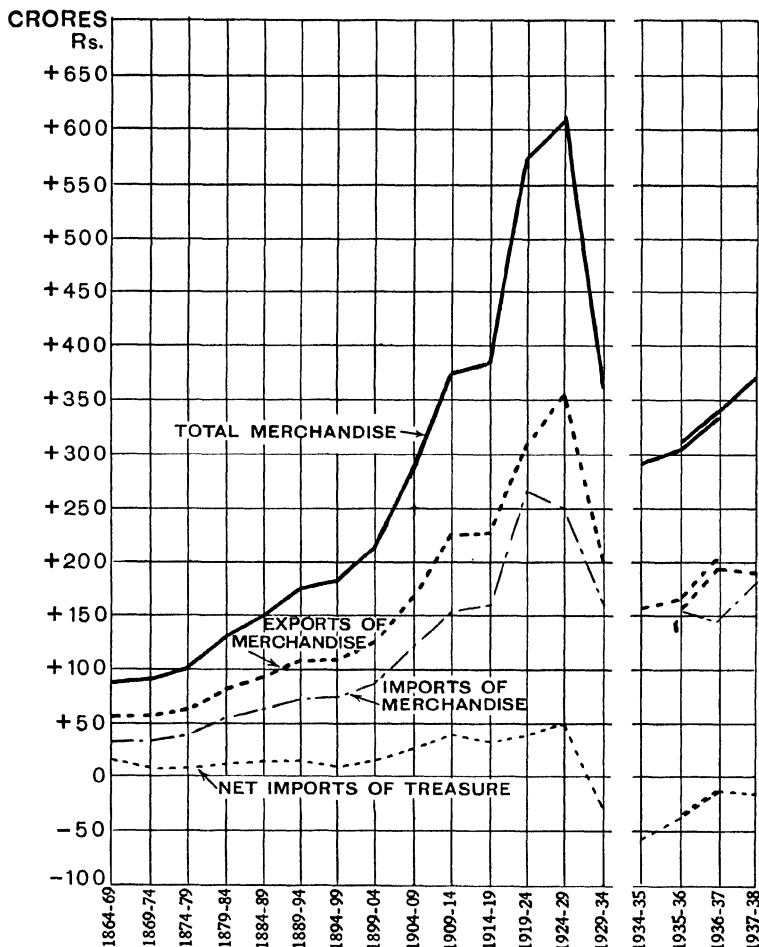
1 Pie	$=\frac{1}{12}$ anna.
4 Pice	=1 anna.
1 Rupee (16 annas)	=1s. 6d.
	=0·36 dollar.
	=1·3 yen.

A lakh is 100,000 Rupees, and a crore is 100 lakhs.

APPENDIX B

FOREIGN SEA-BORNE TRADE OF BRITISH INDIA

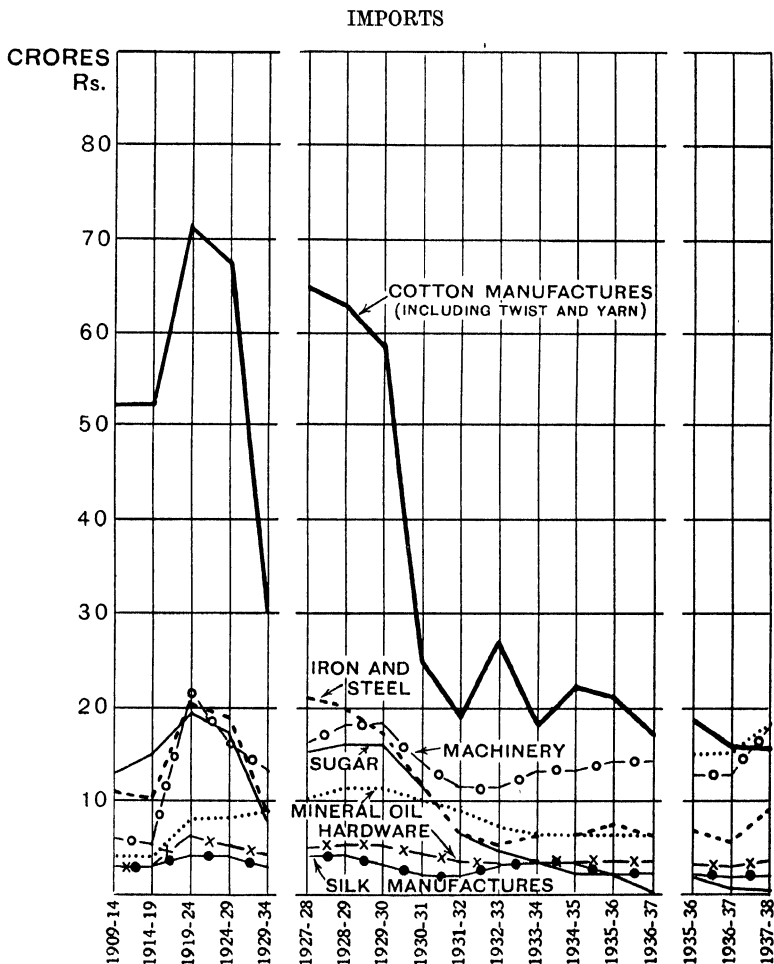
QUINQUENNIAL AVERAGES DURING THE SEVENTY YEARS (1864-69 to 1929-34)
AND THE ANNUAL TRADE FOR THE LAST FOUR YEARS
(PRIVATE AND GOVERNMENT)



NOTE.— (i) The space after 1929-34 separates the several quinquennia and the annual figures.
(ii) The three points starting from 1934-35 represent unadjusted figures which include Burma.
(iii) The three points starting from 1935-36 represent adjusted figures excluding Burma for 1935-36 and 1936-37 and actual figures for 1937-38.
From the *Review of the Trade of India, 1937-38.*

APPENDIX C

(I) VARIATIONS IN THE VALUES OF PRINCIPAL ARTICLES IN THE IMPORT TRADE OF BRITISH INDIA DURING THE FIVE QUINQUENNA ENDING 1929-34 AND THE LAST ELEVEN YEARS.



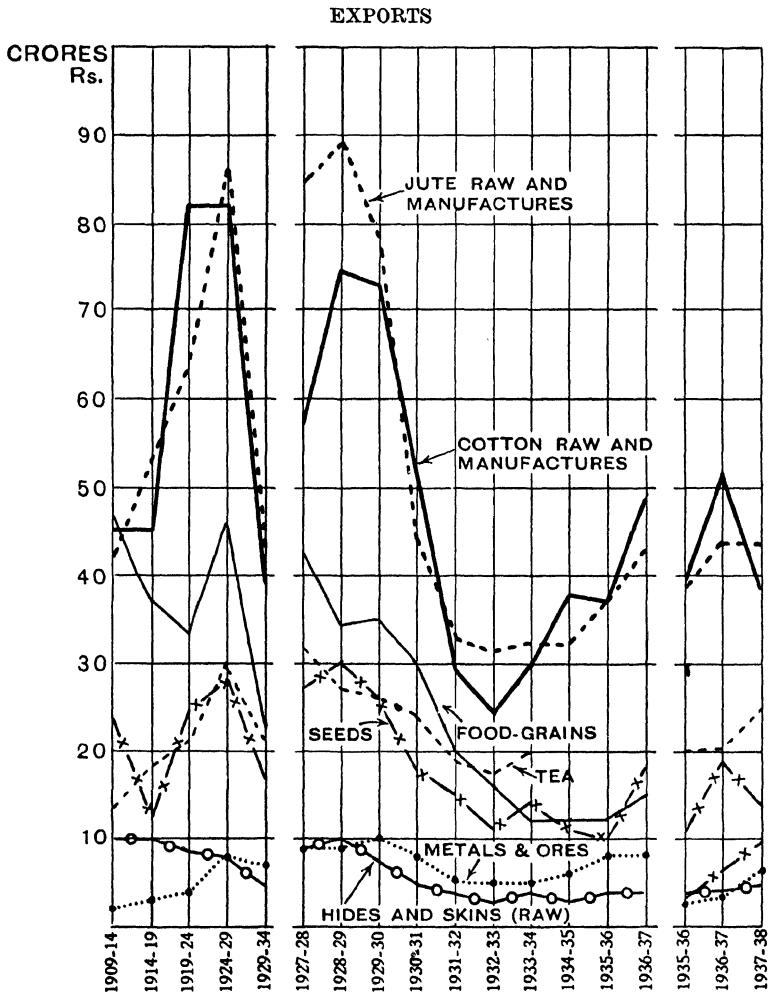
NOTE.— (i) The space after 1929-34 separates the several quinquennia and the annual figures.

(ii) The points starting from 1927-28 and ending in 1936-37 represent figures for India including Burma.

(iii) The three points starting from 1935-36 represent adjusted figures for 1935-36 and 1936-37 and actual figures for 1937-38.

APPENDIX D

(II) VARIATIONS IN THE VALUES OF PRINCIPAL ARTICLES IN THE EXPORT TRADE OF BRITISH INDIA DURING THE FIVE QUINQUENNIA ENDING 1929-34 and THE LAST ELEVEN YEARS.



NOTE.— (i) The space after 1929-34 separates the several quinquennia and the annual figures.

(ii) The points starting from 1927-28 and ending in 1936-37 represent figures for India including Burma.

(iii) The three points starting from 1935-36 represent adjusted figures for 1935-36 and 1936-37 and actual figures for 1937-38.

APPENDIX E

AREA (ACRES) OF IMPORTANT CROPS From Estimates of Area and Yield of Principal Crops in India

Crops	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	1924-25	1935-36
Rice -	50,855,000	50,067,000	56,051,000	70,252,000	79,519,000	81,328,000	79,888,371
Wheat -	22,649,000	25,518,000	26,565,000	30,550,000	30,499,000	31,788,000	25,149,550
Sugar cane	(a)	2,258,000	2,302,000	2,383,000	2,656,000	2,530,000	4,038,392
Tea -	467,000	525,000	540,000	593,000	664,000	716,200	786,751
Cotton -	13,866,000	16,652,000	21,321,000	23,221,000	21,891,000	26,465,000	15,760,603
Jute -	2,035,000	2,335,000	3,264,000	3,058,000	2,631,000	2,770,000	1,935,761
Linseed -	2,869,000	3,547,000	3,061,000	3,852,000	3,157,000	3,695,000	2,121,444
Rape and Mustard	4,541,000	5,598,000	6,056,000	6,416,000	6,169,000	6,376,000	2,920,969
Sesamum	4,019,000	4,903,000	5,016,000	5,177,000	4,450,000	5,167,000	3,673,070
Groundnut	(a)	431,000	827,000	1,610,000	1,785,000	2,838,000	4,306,745
Indigo -	1,280,000	722,000	354,000	216,000	475,000	111,900	39,825
Coffee -	—	—	—	—	—	(b) 135,600	97,411

(a) Not available.

(b) Excluding certain tracts in Madras for which figures are not available.

APPENDIX F

YIELD OF IMPORTANT CROPS

From *Estimates of Area and Yield of Principal Crops in India, 1935-36*

Crops	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	1924-25	1935-36
Rice - tons	21,466,000	21,550,000	22,291,000	23,389,000	32,017,000	31,097,000	28,269,000
Wheat - "	6,029,000	7,676,000	8,092,000	9,663,000	9,288,000	8,702,000	9,420,000
Raw Sugar (Gur)	(a)	2,049,000	2,030,000	2,411,000	2,864,000	2,537,000	5,931,000
Tea - lbs.	158,375,000	201,389,000	242,386,000	290,060,000	374,265,000	375,255,900	394,429,000
Cotton (b) bales	2,303,000	3,203,000	3,996,000	4,370,000	4,412,000	6,070,000	7,254,000
Jute - "	5,771,000	7,036,000	8,136,000	9,069,000	7,992,000	8,062,000	7,215,000
Linseed tons	352,000	416,000	333,000	508,000	434,000	541,000	388,000
Rape and Mustard "	915,000	1,011,000	992,000	1,226,000	1,072,000	1,172,000	957,000
Sesamum "	348,000	465,000	458,000	471,000	421,000	504,000	463,000
Groundnut "	(a)	(a)	358,000	695,000	952,000	1,450,000	2,258,000
Indigo - cwts.	156,000	100,000	49,000	37,000	74,000	(c) 21,700	6,800
Coffee - lbs.	—	—	—	—	—	29,318,600	41,173,000
Rubber "	—	—	—	—	—	15,601,300	48,545,000

(a) Not available.

(b) A bale contains 400 lbs.

(c) Excluding certain tracts in Madras for which figures are not available.

APPENDIX G

JOINT-STOCK COMPANIES IN 1914-15, 1923-24 AND 1935-36 ¹

	1914-15 Number	1923-24 Number	1935-36 Number	Paid-up Capital (lakhs of rupees)
Banking and loan - - -	436	809	1,910	29,86
Insurance - - -	182	63	760	3,35
Navigation - - -	24	25	43	2,85
Railways and tramways -	44	47	47	14,75
Other transit and transport -	—	144	320	4,55
Trading and manufacturing companies - - -	754	1,959	3,957	93,73
Tea - - -	208	384	476	13,69
Other planting companies -	29	69	94	1,71
Coal mining - - -	140	254	283	10,43
Gold mining - - -	8	4	4	—
Other mining and quarrying companies - - -	57	96	102	29,18
Cotton mills - - -	205	262	329	29,38
Jute mills - - -	34	54	80	18,48
Mills for wool, silk, hemp, etc.	13	23	20	2,27
Cotton ginning, pressing, and baling - - -	—	120	124	2,19
Jute presses, etc. - - -	139	28	33	2,10
Flour mills - - -	30	28	34	1,35
Estate, land and building -	32	98	178	11,32
Sugar - - -	22	39	192	7,49
Other companies - - -	123	324	724	10,77
Total - - -	2,480	4,821	9,710	2,90 crores

¹ *Statistical Abstracts for British India, 1926-27 to 1935-36.*

APPENDIX H

CAPITAL AND RESERVE AND DEPOSITS OF THE IMPERIAL BANK OF INDIA, EXCHANGE BANKS, AND INDIAN JOINT-STOCK BANKS, IN EACH YEAR FROM 1916 TO 1925 AND IN 1935.

YEAR	IMPERIAL BANK OF INDIA		EXCHANGE BANKS		JOINT-STOCK BANKS	
	Capital and Reserve	Deposits	Capital and Reserve	Deposits (in India)	Capital and Reserve	Deposits
1916	R(1,000) 7,35,99	R(1,000) 49,91,45	R(1,000) 37,93,10	R(1,000) 38,03,88	R(1,000) 5,24,29	R(1,000) 25,72,28
1917	7,42,52	75,43,02	32,68,20	53,37,53	5,21,09	32,16,21
1918	7,19,58	59,62,03	39,44,90	61,26,33	6,65,12	42,14,83
1919	7,32,81	75,93,61	53,07,00	74,35,90	8,38,31	61,27,96
1920	7,52,79	87,04,53	90,21,70	74,80,71	11,73,85	73,48,10
1921	9,76,78	72,58,00	1,11,63,20	75,19,61	13,39,89	80,15,65
1922	9,95,57	71,16,30	1,12,22,06	73,38,44	11,74,54	65,01,75
1923	10,17,71	82,76,45	1,40,10,30	68,44,28	10,84,78	47,69,32
1924	10,42,58	84,21,48	1,30,46,40	70,63,48	11,77,80	55,17,05
1925	10,55,23	83,29,77	1,38,31,10	70,54,57	11,78,13	57,90,76
1935	11,38,60	79,09,17	£13,70,34	76,18,33	13,19,85	84,44,61

APPENDIX I

The following tables summarise the rates of income-tax and super-tax which are in force at the present moment :

INCOME-TAX

A. Individuals, Unregistered Firms, Hindu Undivided Families and Associations of persons (other than Companies).

	Rs.	RATE
First - -	1,500 of income	Nil
Next - -	3,500 „ „	9 pies in the rupee.
„ - -	5,000 „ „	1 anna 3 pies in the rupee.
„ - -	5,000 „ „	2 annas in the rupee.
Balance of income - -	- -	2 annas 6 pies in the rupee.

No tax payable on incomes not exceeding Rs. 2,000 ; Income-tax on incomes just above Rs. 2,000 to be restricted to half the excess of the income above Rs. 2,000.

B. Rate for Companies—2 annas 6 pies in the rupee.

SUPER-TAX

A. Assesseees other than Companies.

	Rs.	RATE
First - -	25,000 - -	Nil
Next - -	10,000 - -	1 anna in the rupee.
„ - -	20,000 - -	2 annas in the rupee.
„ - -	70,000 - -	3 annas in the rupee.
„ - -	75,000 - -	4 annas in the rupee.
„ - -	1,50,000 - -	5 annas in the rupee.
„ - -	1,50,000 - -	6 annas in the rupee.
Balance of income - -	- -	7 annas in the rupee.

B. Companies—1 anna in the rupee on the whole income (no exempted slab).

No surcharge to be charged in respect of either the Income-tax or the Super-tax.

APPENDIX J

RESERVE BANK

WEEKLY STATEMENT OF ACCOUNTS

The following is the statement of accounts of the Reserve Bank of India for the week ended June 16, 1939 :

Issue Department

LIABILITIES :

						Rs.
Notes held in the Banking Department	-	-				20,99,03,000
Notes in circulation :						
(a) Legal Tender in India	-	-	-	-		177,89,05,000
(b) Legal Tender in Burma only	-	-	-	-		9,90,23,000
Total Notes issued	-	-	-	-	-	208,78,31,000
Total Liabilities	-	-	-	-	-	208,78,31,000

ASSETS :

							Rs.
A. Gold Coin and Bullion :							
(a) Held in India	-	-	-	-	-		41,54,48,000
(b) Held outside India	-	-	-	-	-		2,86,98,000
Sterling Securities	-	-	-	-	-		59,50,11,000
Total of A	-	-	-	-	-	-	103,91,57,000
B. Rupee Coin	-	-	-	-	-	-	67,51,91,000
Government of India Rupee Securities	-	-					37,34,83,000
Internal Bills of Exchange and other commercial							
Paper	-	-	-	-	-	-	Nil
Total Assets	-	-	-	-	-	-	208,78,31,000
Ratio of Total of A in Liabilities : 49,772 per cent.							

Banking Department

LIABILITIES :

	Rs.
Capital paid up - - - - -	5,00,00,000
Reserve Fund - - - - -	5,00,00,000
Deposits :	
(a) Government—	
(1) Central Government of India - - -	5,06,54,000
(2) Government of Burma - - -	2,34,29,000
(3) Other Government Accounts - - -	3,37,57,000
(b) Banks - - - - -	17,23,65,000
(c) Others - - - - -	67,83,000
Bills Payable - - - - -	6,22,000
Other Liabilities - - - - -	93,73,000
Total - - - - -	39,69,83,000

ASSETS :

	Rs.
Notes :	
(a) Legal Tender in India - - - - -	20,98,58,000
(b) Legal Tender in Burma only - - - - -	45,000
Rupee Coin - - - - -	6,03,000
Subsidiary Coin - - - - -	4,60,000
Bills Purchased and Discounted :	
(a) Internal - - - - -	Nil
(b) External - - - - -	Nil
(c) Government Treasury Bills - - - - -	26,87,000
Balances held abroad - - - - -	8,48,11,000
Loans and Advances to Governments - - - - -	1,36,00,000
Other Loans and Advances - - - - -	2,00,000
Investments - - - - -	7,10,95,000
Other Assets - - - - -	1,36,24,000
Total - - - - -	39,69,63,000

* Includes Cash and Short term Securities.

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