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FOREWORD

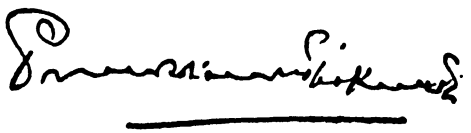
By

SIR PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E.

It gives me pleasure to write these few lines as a Foreword to Mr. K. P. Khara's very useful thesis on Industrial Protection in India. It is a very whole-hearted effort at tracing the history of Indian Industry and bringing it up-to-date over a period which can be said to be co-extensive with the influence of British power in India. This is the first work of its kind reviewing all the industries inquired into by the Tariff Board since its inception. The facts and figures as narrated by Mr. Khara are reliable, and his presentation of the rise and progress of each industry is impartial. Mr. Khara has expressed his views regarding the constitution and functions of a Tariff Board which can inspire confidence in the public, and these, in the main, coincide with the general opinion which the Indian public hold. I look upon his effort as a very creditable one on the part of a graduate who has had no practical experience of commerce or industry, and I am sure that the compilation which he has put forward will be a very useful one to any student of Indian economic structure, generally, and the progress of Indian industries, in particular.

I understand that Mr. Khara comes from a family which has shown commercial enterprise till now and

I am glad to learn that it is his intention to take to his paternal business. I have no doubt that he will utilise his technical knowledge of a high order displayed in this thesis to serve in the field of national industry in a practical manner in the course of his business career hereafter.



"SUNEETA,"
Ridge Road,
Bombay, May 22, 1939.

PREFACE

This work was originally written as a thesis for Part I of the M. Com. examination of the University of Bombay. No apology for the choice of the subject, *viz.* "Industrial Protection in India" is needed having regard to the fact that India is on the threshold of an industrial renaissance whose progress depends largely on the tariff policy of the state.

The subject of Industrial Protection has received a great deal of attention both before the war and especially in the post-war period. India adopted the policy of protection as late as 1923. An attempt has been made here to study critically the working of the new policy of "Discriminate Protection." Suggestions have been offered to make the policy more liberal and generous so as to ensure the rapid industrialisation of India with a view to bringing about a balanced economy in the country.

It is hoped that the book may be found useful to persons who are interested in the modern economic development and industrial planning of our country, and in particular to those who are directly or indirectly concerned with industries in India.

An attempt has been made to bring the book up-to-date. The recent Reports of the Tariff Board on Sugar, Paper and Magnesium Chloride Industries and the new Indo-British Trade Agreement have been reviewed in Appendix VI.

I take this opportunity of expressing my gratitude to Sir Purshotamdas Thakurdas, KT., C.I.E., M.B.E., for writing the Foreword to my work and to Prof. S. G. Beri, of the Sydenham College of Commerce and Economics for giving me able guidance and offering valuable suggestions while writing the thesis. My thanks are also due to many authors to whom I am indebted for their researches in the field of Protection.

K. P. Khara.

RUPA MANZIL,
4th Thomson Avenue,
Rangoon, June 16, 1939.

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INTRODUCTION

Protection, the rage of the Modern World.— It is inconceivable that economists and politicians will ever agree regarding the comparative merits of Protection and Free Trade. Taking facts as they are, the World War of 1914-18 and its aftermath cut short the life of economic liberalism and sowed the seeds of economic nationalism. The most effective instrument for the attainment of this new goal has been the old policy of Protection revived with numerous new and ingenious ramifications. A vigorous policy of protecting home industries may thus be said to be the rage of the modern world and the prospects of freer international trade appear at the present moment to be none too bright. The subject of fiscal policy as based on protection has naturally received a great deal of attention from economists and statesmen in the post-war period and the literature on the subject has been continuously growing.

Strong protectionist sentiment in India.— The trend of world opinion has had its inevitable reactions on economic thought and policy in India. The controversy regarding the most suitable fiscal policy for India is a long-standing one. It may be said, however, that Indian Economics of all shades have generally speaking been strong protectionists ever since the days of the late Dadabhai Nowroji and Justice M. G. Ranade. As the distinguished authors of the Montague-Chelmsford Report observe, "the theoretical free trader hardly exists in India." The fiscal policy of the Government of India was, however, for a long time out of tune with the trend of public and commercial opinion in the country. Broadly speaking it may be said that before the War the Government of India were wedded to the policy of *laissez-faire*. In fact, they had no freedom of action in fiscal

matters and had to carry out the policy as dictated by the Secretary of State for India, *i.e.*, really by the British Government who were then firm believers in the blessings of Free Trade. The War imparted a new urgency to the problem of industrial development of India and the Constitutional Reforms of 1919 made the recognition of fiscal autonomy for India necessary. Then followed the Fiscal Commission and their recommendation for Discriminate Protection. The new policy was implemented in 1923 and since then has been carried out through the agency of the Tariff Board whose numerous Reports are a veritable mine of information for the research student. The subject of Industrial Protection is thus a very important one in India to-day and has a peculiar fascination for the student of economics and commerce.

Outline of the Thesis.—This thesis on Industrial Protection in India, for the sake of convenient analytical and critical treatment, is divided into four parts. Part I deals with the general problems in connection with protection and forms the background for Part II. Part II is devoted to the study of the past and present Fiscal Policy of India. The working of the new policy is reviewed in Part III. Part IV is devoted to a critical examination of the present policy of protection in India.

We may now briefly indicate the general arrangement of the various chapters of the thesis. Part I comprises of three chapters. Chapter I, "Fortunes of Protection" gives a brief review of the different phases through which Protection has passed from Mercantilism which was the first scientific system adopted to foster national industry, down to the post-war economic nationalism. In Chapter II, "Theoretical Background of Protection," it is proposed to examine the theoretical basis of Protection and to attempt a critical survey of the various arguments advanced in favour of protection and its limitations.

In Chapter III, "Methods of Protection," we deal with the various methods of extending protection to home industry. Although tariffs form the chief weapon in the protectionist armoury, there are other missiles too for protecting national industries.

Part II comprises of Chapters IV and V. As a necessary preliminary to the study of the present fiscal policy of India, we deal with the past industrial and tariff policy of the Government of India in Chapter IV, "The Protectionist Movement in India." It elucidates the controversial points connected with the early history of India's tariff policy, and indicates the subsequent changes in that policy especially during and since the War. It is concluded with the appointment of the Fiscal Commission in 1921. Chapter V, "Policy of Discriminate Protection" is devoted to the study of the recommendations of the Fiscal Commission which commended the adoption of the policy of Discriminate Protection. The action taken by the Government of India and the Legislative Assembly on the Report is also indicated.

Part III consists of Chapters VI to IX. In these chapters we pass under review the working of the policy of protection in respect of the several industries examined by the Tariff Board. In making the survey of the various industries a historical treatment of the development of each industry is given in order to bring out its position at the time of the reference of its claim for protection to the Tariff Board. The findings of the Board in each case are considered and the growth of the industry after the grant of protection to it and its present position are also examined.

Chapter VI, "Iron and Steel Industry" is devoted to the question of the grant of protection to the Iron and Steel Industry and the numerous enquiries made by the Tariff Board from time to time. In Chapter VII "Cotton and other Textile Industries" the questions arising from protection to the Textile Industries are

dealt with. Chapter VIII "(1) Paper, (2) Cement, (3) Sugar, (4) Salt-Industries" reviews the question of protection to these industries. In the last chapter of this part—Chapter IX "(A) Other Industries, (B) Removal of Tariff Anomalies" the remaining industries which were examined by the Tariff Board are dealt with. In the concluding portion of this chapter the question of Tariff Anomalies is considered.

In Part IV a critical examination of the present policy of Discriminate Protection is undertaken and suggestions for improvement offered. The question of the future Fiscal Policy of India is also dealt with. In Chapter X "Protection and Imperial Preference" which forms the first chapter of Part IV, the bearings of Imperial Preference on the policy of Discriminate Protection in India are critically examined. This is followed by Chapter XI "Conditions, Mechanism and Procedure of Protection in India" which attempts a scrutiny of the conditions, mechanism and procedure of Discriminate Protection and makes suggestions. In Chapter XII "Other Measures of Protection" the other methods of extending protection to home industries in India are considered and suggestions made wherever necessary. This chapter "Other Measures of Protection" ends with the general conclusion regarding the right future Fiscal Policy for India.

The five Appendices at the end of the thesis are illustrative of some of the important problems connected with the thesis. Appendix I shows with the help of charts, the progress made by the main industries after the grant of protection to them. Appendix II gives a Tabular Statement of the several enquiries carried out by the Tariff Board from time to time. The rates of duties after the grant of protection to the Iron and Steel, Cotton Yarn and Piecegoods and Sugar Industries, in force during different periods, are given in Appendices III, IV and V respectively.

Materials and Sources consulted.—The treatment of Part I is mainly based on foreign books. For the study of recent tendencies in the industrial policy of the world, besides the foreign books mentioned in the Bibliography, the Annual Volumes of World Economic Survey published by League of Nations have been depended upon. For, Chapter IV, Part II "Fiscal Policy of India—Past and Present," standard works by Indian Economists have been consulted. Chapter V "Policy of Discriminate Protection" is mainly based on the Report of the Fiscal Commission (1921-22). Part III, which studies Protection under Operation, is chiefly based on the materials collected from the Reports of the Tariff Board and the Minutes of Evidence tendered before the Board. For the purpose of reviewing the growth of industries after the grant of protection and the present position of the various industries, statistics have been taken from the Annual Review of the Trade of India, Monthly Survey of Business Conditions in India and the various Year Books. Considerable difficulty has been experienced in collecting figures up-to-date, as the statistical and other Governmental publications are available after such long intervals that the most recent facts cannot easily be incorporated.

I have freely drawn upon the Bombay Secretariat Library, the Bombay University School of Economics and Sociology Library, the Library of the Sydenham College of Commerce and Economics, Bombay and the Library of the Indian Merchants' Chamber, Bombay. I take this opportunity of expressing my gratitude to the authorities of these Libraries for extending to me generous facilities. A detailed Bibliography of the various sources laid under contribution is given at the end of the thesis and exact page and paragraph references are mentioned in the foot notes to the several chapters.



INDUSTRIAL PROTECTION IN INDIA

PART I.

GENERAL.

CHAPTER I

FORTUNES OF PROTECTION

Scope of the Chapter.—A brief general review of the fortunes of Free Trade and Protection, the growth of the protectionist sentiment and strengthening of the protectionist armoury is necessary as a background for a proper study of the problem of 'Industrial Protection in India.' The prevalence of strong protectionist sentiment abroad and the example of countries like U.S.A., Germany and Japan who have invoked protective tariffs in aid of their industrial development have exercised a deep influence on the protectionist sentiment in India. Such a general review will also serve to indicate the strong and weak points of the policy of protection and will be generally helpful in finding a solution of the complex problem of protective tariffs in India.

(I) **Mercantilism.**—The genesis of the modern protectionist movement can be traced back to Mercantilism, which was the first scientific movement in Economics, and which assigned wide economic functions to the state, thus laying the foundation of the present system of protective tariffs.

The first systematic measures relating to foreign trade were those of a system called mercantilism, employed in the seventeenth century in England, France and other European countries. Mercantilism was based on the idea that wealth of a country depended on the abundance of precious metals and that for countries not possessing gold and silver the best means to obtain wealth was a large export trade. Spain's amazing rise to wealth and power in the sixteenth century was believed to be due chiefly to the

silver and gold she drew from the New World.* Mercantilism is generally divided into three phases. In the first phase absolute prohibitions of the export of money and precious metals were employed, and the rate of exchange was fixed by law. The second phase, 'The Balance of Bargains' was characterized by the obligation of home merchants to bring back into the country, in money, the proceeds of their sale abroad, and the obligation of foreign merchants to employ the whole or part of what they obtained from the sales of the goods they brought in purchases inside the country. The third phase 'The Balance of Trade,' is that which included directly and indirectly measures employed from the seventeenth century until the middle of the nineteenth century for the purpose of assuring a favourable balance of trade with foreign countries.†

Its aims.

In order to obtain a favourable balance in foreign trade the tariff policy of mercantilism (1) imposed prohibitions on the export of precious metals, foodstuffs, and raw materials which could be utilised in the country itself; (2) levied heavy import duties; (3) prohibited the use of foreign vessels and accorded privileges and monopolies to national shipping; (4) instituted the national monopoly of colonial trade; (5) prohibited all trade, whether import or export, between colonies and foreign countries; (6) granted favours, subsidies or bounties to national manufacturers and to the export of manufactured goods.‡

Thus the purpose of mercantilists policy for example in England was fourfold (i) to strengthen the mercantile marine, (ii) to develop the colonies and overseas possessions as sources of supply of raw materials and as markets for British goods, (iii) to promote arable farming at home, especially the cultivation of the staple foodstuff, wheat, (iv) to foster

* Knight, Barnes and Flugel—Economic History of Europe, p. 316.
† O. Paranagua—Tariff Policy, pp. 5-6.
‡ *Ibid.*, p. 6.

the ancient industries of the country especially the premier industry of woollens.* The Commercial Legislation of the period supplies innumerable illustrations of the use of restriction to foster home industry. The industrial control was exercised by the state through the privileged corporations and trading companies. Heavy duties on imports were resorted to in England for this purpose. All competition with the native woollen industry was impeded as much as possible. The silk and iron industry received the same aid. The colonies were prohibited from trading with other European nations than the parent country. Under this system colonies were regarded as hewers of wood and drawers of water for the mother country. India was no exception to this. For example, the Directors of East India Company wished, "the manufacture of raw silk to be encouraged in Bengal and that of silk fabrics discouraged."† The British Statesmen in the early years of the nineteenth century did all they could to promote British industries at the sacrifice of Indian industries. British manufactures were forced into India while Indian manufactures were shut out from England by prohibitive tariffs.

The policy outlined above reached its full development about the middle of the eighteenth century in Great Britain. In every direction of commercial legislation its principles were predominant, and had come to be regarded by practical men as unquestionable.‡

France offers another striking example of the commercial policy of mercantilism, systematically pursued by Colbert in the seventeenth century during the reign of Louis XIV. Colbert looked upon trade as a public service and attempted to regulate in detail the economic life of France. In order to develop existing industries and to establish new manufactures Colbert

* C. R. Fay—Great Britain from Adam Smith to the Present Day, pp. 23-24.
† Romesh Dutt—The Economic History of India under Early British Rule, p. 256.
‡ C. F. Bastable—The Commerce of Nations, p. 42.

imposed heavy duties on imports, granted bounties to and conferred favours on manufactures and the export of manufactured goods. Besides measures concerning foreign trade and manufactures, Colbert employed others with the object of developing French shipping and colonial trade.

The policy of mercantilism pursued systematically in the seventeenth century and developed until the nineteenth century, was also adopted by most other European countries.*

Criticism.

At first the mercantilist system was regarded as a masterpiece of wisdom and statecraft. Then under the influence of the liberalizing movement of the eighteenth century it was condemned as a gigantic imposture.† But it is not difficult to trace the process of reasoning by which the mercantilist conclusions were reached. Every import implies a corresponding debt in money; now if the need of importing can be obviated, the liability will cease, but the fact that commodities can be produced in the country shows that their importation is not necessary, and therefore to hinder their needless import will so far reduce the money due to other countries and increase national wealth.

The mercantilist held firmly to the belief that commerce was a species of warfare in which the advantage to one country could only be obtained at the expense of another.‡ In its details the mercantile system embraced many fallacies. Its central error was a mistaken notion with regard to the nature of wealth. According to the mercantile theory, wealth consists mainly or even entirely of money or of gold and silver bullion. It is true that gold and silver are important forms of wealth and were possibly more important in the eighteenth

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* Ref. O. Paranagua—Tariff Policy, p. 18.
† C F. Bastable—The Commerce of Nations, p. 40.
‡ A. Birnie—An Economic History of Europe (1760-1930), p. 66.

century than they are now, on account of their great scarcity and of the imperfect development of paper money and credit facilities at the time. But this is no sufficient justification and does not help the mercantilists to refute the charge of having seriously misconceived the real nature of wealth.

An estimate of the economic and social effects of the mercantile system is not quite so easy to form and the vacillations of opinion in this respect have been remarkable. Fuller historical inquiry, and the general change in the attitude of economists, have led to a more sympathetic treatment of the older policy. Many modern students think with Roscher that "a system which has lasted for centuries cannot be wholly erroneous, and they notice that the direction in which the mercantile policy tended to guide society was the true line of progress."* They thus reach the conclusion that mercantilism was a necessary and beneficial stage of social development, not to be contemptuously set aside as the product of error and selfishness.

Mercantilism was a politico-economic doctrine that possibly fitted the seventeenth and eighteenth century conditions in Europe fairly well.†

(II) **Rise of the Free Trade Movement.**—(From Adam Smith to 1860). It is commonly thought that the revolt against Mercantilism was the outcome of speculation by students of social matters—a contest of theory against practice. The persistence of this belief is noteworthy, as it has had important effects on the progress of the later Free Trade movement. The foundation for it is very slight. The first persons to feel acutely the pressure of restrictions were those actually engaged in commerce, and it appears from the "memoires" of the representatives of the principal commercial towns in France (prepared in 1701) that

Overthrow of the Mercantile System.

* C. F. Bastable—The Commerce of Nations, p. 41.
† R. A. Hodgson—An introduction to International Trade and Tariffs, p. 41.

they were in favour of freedom of commerce subject to moderate duties.*

The evils of a rigorous system of restrictions on trade are necessarily first perceived by those who suffer from it, though they may not formulate their objections in the shape of a general theory.

Intellectual revolt.

Both in England and France such writers as Dudley North and Boisguillebert had dissented from the efforts to encourage manufactures, and the former had insisted on the value of freedom in industrial matters.† But now the opposition became serious. The Free Trade movement presents two distinct phases. The first, which concerns the movement for individual economic liberty, and which is one of the aspects of the liberal reaction, is represented by the writers of the eighteenth century and their precursors. The principal representatives of this phase are Boisguillebert, Quesney, and the Physiocrates.‡ The French economists laid down the doctrine of absolute liberty in the most uncompromising form. "Maintain complete liberty of Commerce" said their leader Quesney, "for the regulation of internal and external commerce that is most certain, most precise, and most profitable to the nation and to the state, consists in full liberty of competition."§ This general rule, enunciated in different ways and expanded into volumes, formed the substance of their teaching.

The second is the economic phase of Free Trade, in which the ideas of the liberal movement have found expression in the famous work of Adam Smith, the "Wealth of Nations," published in 1776. The "Wealth of Nations" examined the actual effects of existing commercial restrictions. Each part of the mercantile system was assailed by Adam Smith. He stated that

* C. F. Bastable—The Commerce of Nations, p. 43.
† Ref. *Ibid.*, p. 42.
‡ O. Paranagua—Tariff Policy, p. 19.
§ C. F. Bastable—The Commerce of Nations, p. 42.

to limit importation was contrary to the interests of the community; to prohibit export of raw material or machinery was an injury to the particular producers engaged in those industries; restriction on colonial trade retarded the growth of these young societies while they did not benefit the parent state. Thus considering the actual effects of mercantile system, he overthrew the authority of the theories on which these restrictions had been based. Adam Smith also showed the fallacy underlying the traditional view that the commercial prosperity of one country is at the expense of and incompatible with that of another. Every nation in its exchange wanted to have the whole of the profit of the trade, but it did not see that by the very nature of the exchange there was bound to be some profit on both sides since each on its side gave less than it received. He thus demonstrated the true nature of international trade and prepared the way for the freer trade policy and more liberal regulations of the modern age. These ideas of the liberal movement were later consolidated and adopted as a new theory of international trade by David Ricardo and John Stuart Mill.*

Thus during the eighteenth century, the intellectual re-action against mercantilism slowly gathered strength. But it was at the hands of Adam Smith that mercantilism received its most complete and crushing refutation. The economic aspect of international trade will be discussed in a subsequent chapter.

This intellectual revolt gained ground because of economic development in various countries. It must suffice for the moment to state that the decay was due to the development of capitalism, the expansion and intensification of trade and the gradual transformation of the industries which fed foreign commerce.†

The European market was rediscovered, and nations made treaties with each other to promote ex-

* O. Paranagua—Tariff Policy, p. 19.
† Knight, Barnes and Flugel—Economic History of Europe, p. 321.

changes advantageous to both parties. Protective tariffs were continued, but they are better understood and more reasonable.

The revolt of the American colonies of England destroyed at a blow one part of the English mercantile system and showed on how weak a basis it rested.

Thus it is seen that mercantilism reached its peak as a recognised system in the seventeenth century and declined from the eighteenth century.

New Economic Doctrines.

The rapidity with which the new economic doctrines established their ascendancy over the minds of men is indeed remarkable. Within ten years of the publication of the "Wealth of Nations" a serious breach had been made in the English mercantile system.

The Free Trade movement as a political force owed its strength to the fact that it had a scientific character. The fundamental idea of the Free Trade movement which can be found in its various tendencies from the eighteenth century until the present time, is that of natural economic order. We shall discuss the theoretical background of Free Trade movement in the following chapter. Here we shall examine the rise of the Free Trade movement in some important countries.

Pitt's efforts

(A) **England.**—One of the first statesmen to come under the influence of the new economic philosophy was the Younger Pitt. It was said at the time that he understood the principles of the "Wealth of Nations" better than their author himself, and during the early years of his premiership he made a determined effort to put them in practice.* He reduced in 1784 the heavy duties on Tea to a single *ad valorem* rate of 12½%. The Budget of 1784, imposed new excise and licence duties. While tightening indirect taxation Pitt effected in 1787 a consolidation of the tariff. He

* A. Birnie—An Economic History of Europe (1760-1930), p. 71.

substituted for the existing compound duties a single rate for each article and thereby simplified enormously the burden of the trader.* Under the influence of Adam Smith, Pitt went as far towards Free Trade as the industrialists would allow him, but that was not far. He scored at least a temporary success in opening up a larger measure of free intercourse with France, by the treaty (Eden Treaty) which was concluded in 1786.† But Pitt's further schemes of fiscal and financial reform were interrupted by the outbreak of the French War in 1793, which automatically cancelled the Eden Treaty and postponed the destruction of the mercantile system for another fifty years.

The outbreak of war with France in 1793 put an end to all legitimate trade between the two countries. In order to raise money for the war, everything that could bear taxes was taxed, and Free Trade received a big setback. In the course of the war Napoleon adopted new tactics when he attempted to strike a mortal blow at Great Britain by undermining her industrial and commercial power. He attempted to organise an economic blockade of the United Kingdom. In 1806 the Berlin Decree prohibited all commerce or intercourse of any kind with England and ordered the confiscation of all cargoes and vessels of English origin.‡ The orders in Council in 1807 were the reply of the British Government to this policy of systematic boycott. These declared France and all countries under French control in a state of blockade.§

Corn Law.

When foreign supplies were cut off during the French wars, a large amount of inferior land was brought under cultivation, and the price of corn rose.

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* C. R. Fay—Great Britain from Adam Smith to the Present Day, p. 36.

† W. Cunningham—The Rise and Decline of the Free Trade Movement, p. 17.

‡ Kenneth G. Lewis and Noel Branton—The Rise of British Commerce, p. 78.

§ Ref. C. R. Fay—Great Britain from Adam Smith to the Present Day, p. 32.

When peace came in 1815, it was evident that the foreign supplies coming into the country would cause the price to fall, and the ruin of the agricultural interest seemed certain. In the same year a Corn Law was passed without much opposition. It prohibited the importation of foreign corn when the price of home-grown corn was under 80 sh. a quarter.* Thus the protectionist policy was greatly intensified. It was over the question of this and succeeding corn laws that the battle between Free Trade and Protection was fought out in England.

After Waterloo the agitation against Protection was again revived. In 1820 the demands of the commercial community were formulated in a notable statement drawn by the merchants of the cities of London and Edinburgh. This document, popularly known as the Merchant's Petition, was a statement of the Free Trade cause and the proposals embodied therein formed the basis of reforms carried out by Huskisson.

Huskisson's Reform—1823-27.

Huskisson during his presidency of the Board of Trade from 1823 to 1827 made several important changes in the tariff, including a reduction in the import duties on wool and silk and the removal of the embargo on foreign silk goods. At the same time he modified the Navigation Acts by a reciprocity measure.†

The evolution of the British policy towards Free Trade began in 1822. Until this year the British tariff was still that of the Navigation Acts. The three statesmen chiefly responsible for the establishment of Free Trade in England were Huskisson, Peel and Gladstone. Free Trade was adopted as the British tariff policy for about sixty years after a period of reforms gradually introduced during thirty-eight years. The Corn Laws were revised in 1828 and 1842, the chief alteration being the introduction of a sliding-scale which adjusted the duty to variations in the price.

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* Kenneth G. Lewis and Noel Branton—The Rise of British Commerce, p. 80.

† A. Birnie—An Economic History of Europe (1760-1930), pp. 74-75.

The agitation against the Corn Laws was taken up with great vigour by the Anti-Corn Law League, which was founded in 1838*. In 1839 this was formed into a permanent union under the name of the National Anti-Corn Law League, its object being to continue the agitation by every constitutional means until the repeal of the laws was secured. From the beginning Richard Cobden was one of the most active members of the Association. He fully realised the advantages of free exchange and set himself to work for its attainment. The success of the Anti-Corn Law agitation was mainly due to his labours.

This Free Trade movement differed fundamentally from that on the continent. The English free traders were the manufacturers and the land-owners were the protectionists. On the Continent the reverse was the case. The English manufacturers feared no competition and wished to get raw materials under the cheapest possible conditions. They also wished for the free imports of corn partly because they thought that foreign countries could not pay for manufactures unless England would open her ports freely to their foodstuffs. They desired to stop the demand for a rise of wages on account of dear food and they thought that free imports would lower the price of food. Hence the manufacturers financed the movement for the repeal of the Corn Laws. As Great Britain had become a manufacturing State the free trade party were victorious.

Peel's Reform.

When Peel took office in 1841, he did so as an upholder of the Corn Laws. Nevertheless, Cobden's propaganda and the pressure of circumstances including the Irish famine led to the repeal of the Corn Laws. The Irish famine convinced Peel that the Corn Laws must be repealed, but all except a small section of the Tory party refused to follow him, and it was only with the assistance of Whig votes that repeal was

* W. Cunningham—The Rise and Decline of the Free Trade Movement, p. 59.

carried in 1846. In 1842 and 1845 Peel carried through two drastic revisions of the tariff which reduced the number of dutiable articles from 1,150 to 590 and made remission in taxation amounting to nearly £4 million yearly.*

Gladstone's Reforms

The repeal of the Corn Laws sealed the fate of protection in England. Peel's work was taken up and carried to a conclusion by his brilliant follower and disciple, Gladstone. Gladstone secured the final removal of all duties and preferences except such as were for purely revenue purposes.† He retained the income tax which was introduced by Peel and raised estate duties so as to make up for the consequent loss in revenue.

From 1860 onwards Britain was a Free Trade country. This policy of Free Trade followed in Great Britain had a considerable influence on Indian tariff, which will be discussed in a subsequent chapter.

Having reviewed the rise of Free Trade in Great Britain, we shall now consider its development in some other important countries of the world.

France.

(B) **France, Germany and U.S.A.**—The tariff history of France and U.S.A. during nineteenth century like that of England is divided into two periods, one ending with the year 1860 and the other beginning after 1860. France emerged from the revolutionary wars with a cumbrous tariff system, resting partly upon the highly complicated measures left over from the mercantilism of the eighteenth century and partly upon complete prohibition of importation (directed primary against England) which had been adopted during the war period and was left in force, largely through inertia, for almost half a century thereafter. The economic policy of Napoleon had brought

* A. Birnie—An Economic History of Europe (1760-1930), p. 75.
† Kenneth G. Lewis & Noel Branton—The Rise of British Commerce, p. 84.

into existence a small but powerful class of iron masters and textile manufacturers, who were bent on maintaining their monopoly of the French market.* The Tariff Act of 1816 made it perfectly clear that, for a long time, France would adhere to the commercial policy which she had accepted during the war (1806-1814). The tariff system of France, in other words, from 1815 was rigidly protectionist. In the 'forties a feeble Free Trade movement developed under the leadership of the economist Bastiat. This movement made very little progress and was practically brought to an end by the Revolution of 1848, which diverted public attention to new and more engrossing issues. The Free Trade movement was initiated in France under the leadership of Napoleon III from 1853. The Cobden-Chevalier treaty of 1860 marked the end of the protective movement.† This treaty was epoch making as it signified the adoption of a Free Trade policy by France under the influence of Great Britain.

Germany.

The tariff history of Germany is closely connected with Prussia. Prussia took the lead in the creation of the German Customs Union (Zollverein) which reached a successful conclusion in 1833. Prussia was then a grain exporting country and favoured a liberal tariff system. As time went on, manufacturing industries developed, especially in the west and south of Germany, and contests arose within the Zollverein between the Free Trade and Protectionist parties. The anti-protectionists were on the whole victorious until after the establishment of the Empire. The question of protection or Free Trade was more of a political nature in Zollverein. In order to exclude Austria from Zollverein Prussia steered Germany along the lines of low tariffs. The Treaty of 1862 with France bound the Zollverein to low tariff for

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* Cf. Percy Ashley—Modern Tariff History, p. 331.
† L. C. A. Knowles—Economic Development in the Nineteenth Century, p. 246.

twelve years. Thus the era of Free Trade began from 1865 on political grounds.*

In 1841 Frederick List published a powerful plea for a protective policy in his 'National system of Political Economy' but time was not ripe for it and his appeal fell on deaf ears.† He protested against the view of the dominant school of economists that the same principles could be advantageously applied in every country alike. He believed that when any nation had reached a high stage of progress Free Trade was the best policy for that particular country; but he also held that Free Trade failed to give the most favourable conditions for the economic development of countries which had the requisite capabilities but were for any reason backward.‡ The influence of List's propaganda was powerful in shaping commercial policy of Germany after 1870, as will be shown later in the chapter.

U.S.A.

American tariff history before 1860 may be divided into three sub-periods, the first extending from 1789 to 1816, the second from 1816 to about 1846, the third from 1846 to 1860. (1) The Tariff Act of 1789 was the first legislative measure passed by the United States. The Act says, "that it is necessary for the support of the Government and the encouragement and protection of manufactures that duties be laid."§ Thus America did not develop as a Free Trade country from the first. The spirit of the act of 1789 was protective. Such in the main remained the situation until 1816. (2) After the close of the War of 1812, however, a new spirit was in evidence and a new policy developed. A demand arose for two

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* Ref. L. C. A Knowles—Economic Development in the Nineteenth Century, p 267.
† A. Birnie—An Economic History of Europe (1760-1930), p. 77.
‡ W. Cunningham—The Rise and Decline of the Free Trade Movement, p. 89.
§ L. C. A. Knowles—Economic Development in the Nineteenth Century, p. 289.

closely connected measures: protection to domestic manufactures and internal improvement. Hence, the protective tariff of 1816 was passed which marks the beginning of the really protective movement upto 1846. (3) In 1846 a very considerable change was secured by the South and a new era entered in. From 1846, the country seemed to be approaching Free Trade.* In 1844 the Democrats came into power. President Polk soon made his views plain. Duties there must be for revenue, but no duty should be put so high as to diminish imports, nor must they be raised upto that limit, as a margin must be allowed. Under this line there might be discriminations but not so as to affect the manufactures of articles in general use. The protectionism of the President would apply to none of the great manufactures of the country. The result was the Walker Tariff Act of 1846. All minima and specific duties were abolished.† The further lowering of the tariff was carried in 1857, when an all round reduction of 25 per cent. was made. But the crisis of 1857 handicapped further progress towards Free Trade; and the country in 1861 again returned to the tariff of 1846.

(III) **Growth of the Protectionist Sentiment** —re-action against Free Trade—(1860-1914):—The Free-Traders believed that the adoption of their system by England and its extension to other countries by treaties described above marked a definite step in the progress of liberal economic policy. Protectionist ideas were thought to be obsolete and destined to disappear in consequence of the diffusion of sound ideas on the nature of commerce. The course of events since 1870 gave a rude shock of these sanguine anticipations.

Rise of Nationalism and its effects on Protection.

The causes of this change are various and differ in different countries, but some stand out pre-eminently

* William Smart—The Return to Protection, p. 67.
† See for detail L. C. A. Knowles—Economic Development in the Nineteenth Century, pp. 294-296.

and are unmistakable. The growth of nationalist sentiment after the Franco-German War, the development of industry in the chief countries of the Continent and the invasion of European markets by cheap American corn were the principal factors, which brought about the protectionist reaction.

We shall now review the beginning of protectionist sentiment in the principal countries of the world.

(A) **France, Germany and U.S.A.**—In France the Cobden treaty regime had never been popular. As a result of the Franco-German war, the economic life of France suffered a great setback. The Frenchman became the heaviest taxed citizen in Europe and the costs of production rose. Hence there arose a cry that, "our taxes are so heavy that we cannot compete." The effect of the war accordingly was to strengthen the cry of protection.* The cry of protection had grown stronger in 1877 when France was beginning to feel the effects of the great depression. The tariff which was revised in 1881 completely reversed the policy pursued by France for the previous twenty years. The protectionist revival culminated in the great M'eline Act of 1892 and marked a definite return of protection in France. At the time the Great War of 1914 broke out, France was one of the most strictly protected countries of Europe.

France.

In Germany the liberal tariff which the Empire had inherited from the Zollverein remained untouched till 1879. The liberal policy which Germany followed after 1867, although Austria was shut out, was of a political nature. Bismarck had to rely on the liberals for his parliamentary majority. But within ten years the situation had changed from the economic as

Germany.

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*L. C. A. Knowles—Economic Development in the Nineteenth Century, p. 251.

well as the political point of view.* Thanks to the influence exercised by the ideas of F. List and in consequence of an alliance between the industrialists of the west and south and the agricultural interests of the east (now threatened by imports), Germany under Bismarck's lead returned in 1879 to protection. A revision of the tariff in 1902 established a higher level of food-duties in the interests of the German agriculture. The protective tariff remained in force down to the War.

U.S.A

The Civil War proved a decisive turning-point in shaping American fiscal policy. The country's revenue requirements led to an extravagant and oppressive system of taxation on both home and foreign goods.† As an incident of war the nation reversed its tariff policy and became committed to a system of protection. Discontent was growing among the farmers who felt that they had to pay dearer for their manufactured goods as the result of the protective measures, but the Presidential election of 1889 was a victory for the protectionist. The Republicans Congress, interpreting the results of the election, enacted the McKindley Tariff Law in 1890, granting to American manufacturers a greater measure of protection than they had ever before enjoyed.‡ The Underwood Tariff Act was passed in 1913 to lower duties. This tariff did not mean reversion to Free Trade, or even low tariffs necessarily: it simply meant lower tariffs on the ground that existing tariffs were unnecessarily high.§

From a low tariff country, the United States came to be the leading protectionist country of the world.

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* A. Birnie—An Economic History of Europe (1760-1930), p. 79.

† C. F. Bastable—The Commerce of Nations, p. 75

‡ Thurman W. Van Metre—Economic History of the United States, p. 426.

§ L. C. A. Knowles—Economic Development in the Nineteenth Century, p. 304.

(B) **England.**—As shown above, for a generation after the repeal of the British Corn Laws, the Free Trade movement in Europe was strong; tariffs generally were lowered. Then however came a change. The United States after the Civil War, Germany in 1879, France in 1881 successively embarked upon a policy of Protection.* Twenty years after the adoption of the Free Trade system, the expansion of British industries was relatively less rapid compared with those of Germany and U.S.A. During the period from 1873 to 1886 the country suffered from long-continued commercial depression.†

Imperial Preference.

The necessity of a tariff reform as well as the introduction of preferential tariff for the countries of the British Empire became stronger at the end of the nineteenth century. The question of a British preferential system was discussed at the inter-Colonial Conferences of 1887, 1894 and 1897. The Conference of the Colonial premiers of July 1902 adopted the policy of Imperial Preference as one of the general application to all parts of the Empire. Canada lowered her duties in favour of British goods in 1897. Preferential duties in favour of Great Britain were introduced by New Zealand and then by Australia in accordance with the resolution of the Colonial Conference of 1902.‡ United Kingdom was expected to reciprocate and grant preferences in return, but she was not prepared to depart from her Free Trade policy. We shall see in a later chapter that the offer of Imperial Preference made to India in 1902 was not favourably received either by the Government of India or public opinion in the country.

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* Tariffs—The case examined by a Committee of Economists under the chairmanship of Sir William Beveridge, p. 3.

† W. Cunningham—The case against Free Trade, p. 24.

‡ Ref. L. C. A. Knowles—Industrial and Commercial Revolution in Great Britain during the Nineteenth Century, pp. 330-332.

Chamberlain Agitation.

The movement for a tariff reform in Great Britain and Imperial Preference was strongly supported by the late Sir Joseph Chamberlain from 1903 till 1906.* Mr. Chamberlain proposed to use protection for achieving a double object, on the one hand to safeguard British manufacturers against the increasing foreign competition and on the other hand to bind the colonies closer to the mother-country by the establishment of an Imperial Customs Union. This plan met with great difficulties. The colonial markets could only consume one-fourth of the British exports, and therefore Great Britain had to consider the foreign markets Chamberlain proposed to accomplish his second object by means of preferential duties to other countries of the Empire, chiefly interested in agricultural products. This would involve the taxation of foodstuffs, to which public opinion in Great Britain had a deep-rooted repugnance ever since the 'hungry forties.' Owing to these difficulties Chamberlain's proposals were rejected in the general election of January 1906.†

The outbreak of the Great War fundamentally altered the tariff situation in the several countries of the world including India. These new developments are discussed in the following sections.

(IV) **War-Period.**—(1914-1918)—Controlled Economic Activities:—During the Great War of 1914-18 'business as usual' was the cry for a while, but it was soon realised that even that part of the export trade which was desirable, namely with North and South America was at the expense of essential efforts in the production of war materials or in the fighting line. Before the end of the War every new requirement of the Allies was obtained definitely at the cost of

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* O. Paranagua—Tariff Policy, p. 35.
† *Ibid.*, p 36.

curtailing other production which was hardly less necessary.*

In those countries which participated in the War, plant in many instances was increased for military purposes beyond the scale of what is required in peace; in other countries new plant was installed to produce goods which could not be imported during the War; and the experience of War deprivation developed a desire on the part of a number of nations to make themselves self-sufficing.† The indirect protection given to Indian industries during the War-period is discussed in a later chapter.

The years that followed the Armistice were marked by a tendency to foster national manufactures which were developed during the War. This tendency has manifested itself also in India. The World-War revealed to Great Britain the danger of her dependence on certain German industries, chiefly in respect of materials indispensable for national defence.‡ The Balfour Committee was appointed to consider the commercial and industrial policy to be adopted after the War in July 1916.§ The Committee presented its Final Report in December 1917. The chief recommendations made by it were (1) maintenance of British Key industries at all hazards and at any expense, (2) protection to such industries whose development was essential for national safety or for general economic strength, (3) Imperial preference in respect of any custom duties now or hereafter to be imposed in the United Kingdom.¶

In 1917, the British Government adopted the resolution passed by the Imperial Conference on the principle that 'each part of the Empire shall give special

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* C R Fay—Great Britain from Adam Smith to the Present Day, pp. 89-90

† A. L. Bowley—Some Economic Consequences of the Great War, pp. 168-169.

‡ O. Paranagua—Tariff Policy p 36.

§ See for terms of reference—J. M. Robertson—The New Tariffism, p. 5

¶ Ref O Paranagua—Tariff Policy, pp 37-38.

facilities and favoured treatment to the produce and manufactures of other parts of the Empire.' This resolution was put into practice by the Finance Act of 1919. The McKenna duties and the revenue duties on certain goods in favour of Empire products were reduced British preference was later extended to all new custom duties subsequently introduced.*

In course of these unprecedented events, long-established practices came to be overthrown. Prohibition and restrictions on importation and exportation became common measures during the War period. Private economic activities were strictly controlled by the state for the production of war-materials.

We shall now review certain post-War developments, *viz.* (i) adoption of protectionist system in Great Britain in particular and (ii) economic nationalism in the world in general.

(V) **Post-War Development in Great Britain.** —Adoption of a policy of Protection.—The adoption of a general policy of protective tariff by Great Britain during the Post-War period is an event of outstanding importance in the tariff history of the world and may be said to have driven the nail into the coffin of Free Trade of which she had been a staunch champion for nearly a hundred years.

On August 19, 1921, was passed the Safeguarding of Industries Act by which protective duties were introduced by Great Britain. This Act consists of two parts, the first imposing protective duties on the products of 'Key Industries' which are essential factors in national defence or of outstanding importance to industry in general and the second part providing for the defence of British industries against dumping or unfair competition.† The life of the Act was at first limited to five years, but the Act was renewed in 1926 for a further period of 10 years.

* O. Paranagua—Tariff Policy, p. 36.
† *Ibid*, p. 39.

In October 1931, at the general election, the National Government obtained a mandate for the defence of the British market.* Before the enactment of a general tariff, emergency legislation was passed in order to prevent the importation of abnormal quantities of foreign goods.

(1) Industry

The Abnormal Importation and (Customs Duties) **Act 1931.**—The first of the new duties were imposed under the Abnormal Importations Act, 1931. They applied exclusively to articles wholly or mainly manufactured which were being imported in abnormal quantities. Duties were not to exceed 100 per cent. They were not to apply to Empire products. The Act was to apply for a period of six months only.†

(2) Agriculture.

The Horticultural Products (Emergency Customs Duties) **Act, 1932.**—The next series of import duties was authorized by Horticultural Product Act. Its object was frankly protective, for the benefit of British growers of fruit, vegetables and flowers.‡

The inevitable result of returning a predominantly protectionist Government to power was the Import Duties Act, which authorized in Great Britain the general system of Protection which the leading Government spokesmen at the General Election had said was not contemplated. On March 1, 1932, the Import Duties Act came into force, imposing a general *ad valorem* duty of 10 per cent. on foreign imports into United Kingdom except on those specified in a list of exemptions.§ This Act marked the definite change of British tariff policy in favour of protection. The Free Trade regime of nearly a century thus came to an end.

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* O Paranagua—Tariff Policy, p. 41.
† Ref. Ronald M. Findlay—Britain Under Protection, p. 15.
‡ *Ibid.*, p. 17.
§ Ref. O. Paranagua—Tariff Policy, pp. 42-43.

(VI) **Economic Nationalism.**—Prohibition and restriction on importation and exportation were the usual means of commercial policy until the middle of the nineteenth century, but from this period until the War the principle of freedom of commerce was accepted by most countries. Certain classes of prohibitions were however accepted such as those relating to public safety, traffic in arms, ammunitions and similar goods, the protection of public health, etc. But after the War many countries imposed prohibition and restrictions on imports and exports for the purpose of safeguarding certain industries indispensable to national safety and for readjustment of national economy.

Effects of War.

Apart from the survival of many War-time prohibitions and restrictions and hampering regulations there was, as soon as the War was ended, a remarkable exhibition of national economic policies.*

Economic nationalism is undermining old-world relationships between nation and nation. This tendency to national isolation is not only undermining friendly international trading intercourse, which is a problem of economics, but it is also re-acting on polical relations. It amounts frankly speaking to an economic war, the stage being merely shifted from the battle field to the sphere of trade and commerce.†

Economic Nationalism.

Every nation is arming itself with every conceivable economic, monetary, or trade device against buying from its neighbours—while itself indulging in hectic efforts to become self-sufficing. The situation thus is one in which all want to be sellers and none buyers.

This growth of economic nationalism is a disaster to the world and yet the thing derided and condemned

* World Economic Survey—(League of Nations)—(1931-32), p. 278.
† Ronald M. Findlay—Britain Under Protection, p. 216.

by all nations has spread like a plague in the Post-War years. Great Britain, France and Italy, all imposed protective tariffs in the years 1920 and 1921. The newer European States also hastily erected tariff barriers to protect and foster their industrial development. Uptil about 1925, therefore, there was a general upward movement of tariffs, particularly marked in relation to industrial products.*

In 1925 Germany re-imposed higher duties on food imports. This proved to be the beginning of a strong upward movement of agricultural tariffs. The development of agricultural protection in Europe proved to be decisive. The whole period of 1921-26 was characterised by great activities in regard to tariff and custom barriers.

World Economic Conference in 1927

When the World Economic Conference met in 1927, the tariff situation still remained open. The Conference surveyed the whole field of trade restrictions and was practically unanimous regarding the necessity for their removal. This Conference was important as a demonstration of the widespread recognition of the importance of international economic co-operation. Its discussions, resolutions and reports form what is virtually a manifesto for a movement towards freer trade conceived not on national but on international lines. The Economic Consultative Committee set up by the World Economic Conference was able to report at its first meeting in 1928 that, "the effect of the Conference has already substantially checked the upward movements of tariffs, which was in full swing in May, 1927." But the agricultural states of the world began in 1928-29 to feel stringency which preceded the depression. In 1928, Persia, and China introduced their first autonomous tariffs while 'Spain, Peru and Chile made general revisions.'† It was this pressure

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* World Economic Survey—(League of Nations)—1931-32, p. 278.
† See for detail *Ibid.*, pp. 278-279.

for agricultural protection which destroyed the movement towards freer trade in the years 1927 and 1928.

Tariff Truce.

Alarmed at the prospects of a new tariff war, of which signs were visible in 1929, the meeting of the League Assembly in September 1929, gave favourable attention to the proposals made for a 'tariff truce' to last for two or three years, during which time negotiations might be undertaken for a permanent settlement.

World Economic Crisis.

But the World economic crisis enormously intensified the protectionist movement. The United States led the way with the Smoot-Howley Tariff Act of 1930 which imposed heavy increases and evoked protests from twenty-nine Governments.

The whole movement was undoubtedly accentuated by the Howley-Smoot Tariff. It was followed quickly by new tariffs in many other countries among others, Canada, Cuba, Mexico, France, Italy, Spain, Australia, New Zealand. It was obvious therefore that by the end of 1930, the protectionist current was running at full tide. The deepening of the economic depression throughout the year made still more strongly for economic nationalism and in the scramble for national security the international aspects of tariff alterations did not weigh heavily.*

Financial Crisis of 1931 and its Effects.

When the financial crisis supervened in the spring of 1931, the imposition of restrictions upon commerce assumed alarming proportions. No country was immune, as the difficulty of transferring foreign exchange spread from debtors to creditors. The rapid succession of tariff changes, exchange controls, contingent systems, clearing agreements is a confusing story that cannot be narrated in detail here, but their

* Ref. World Economic Survey—(League of Nations)—1931-32, p. 281.

inevitable results in further restricting the volume of international trade, raising the costs and complicating the machinery of trade regulations are only too clear.

In 1932 Great Britain adopted a policy of general protection.

Tariff Warfare

The period of tariff warfare, which was renewed after a temporary lull at the time of the World Economic Conference in 1927, culminated in the United States tariff of 1930 and the new British tariff of 1931-32; but these events were merely the outstanding examples of a widespread tendency. The tariff warfare naturally fed on itself and has continued to do so as duties have been de-consolidated, treaties have been denounced or allowed to expire, currency instability has resulted in the creation of a maze of new protectionist regulations and private trading initiative generally has given way to administrative controls.

The agreement at Ottawa between Great Britain and Dominions in November 1932 gave a decisive turn to events and meant a further setback to international discussion on tariffs and trade. During 1932 and early months of 1933, trade negotiations, almost wholly bilateral in character, occupied an increasing share of the activities of Governments in international affairs.*

Monetary and Economic Conference

The World Monetary and Economic Conference was held on June 12, 1933 at London to consider the paralysis of international finance, exchange instability and the widespread and drastic restrictions imposed on international trade. The Economic Commission set up by the Conference divided its work into four main groups dealing respectively with Commercial Policy, Co-ordination of Production and Marketing, Indirect Protection and Public Works.

* See for detail :—World Economic Survey—(League of Nations)—1932-33, p. 206.

On the economic side of the Conference, while some progress was made in the exploration of the practical difficulties involved both in the reduction of trade barriers and in the co-ordination of protection and marketing, definite agreements were not reached except in preparatory fields.* After the failure of the Conference to devise means of escape from this complicated network of trade restrictions, Commercial policy became still more definitely nationalist and as it developed towards negotiated regulation of bilateral trade, the quantitative restrictions tended to become not merely emergency measures, but definitely accepted means of supplementing tariffs.†

During 1934, the dominant trend of commercial negotiations was towards further trade restrictions and in certain cases towards the logical development of such restrictions into more organised State control of external trade and financial payment. There were several attempts at the formation of regional groups. A Conference was held at Paris in early 1935 with the object of realising a "French Ottawa,"—such conferences were also held between European countries. But the practical results have been very limited up to the present.‡

The failure of international trade to respond to increasing production and rising prices is a new phenomenon. The main reason for this is quite clearly to be found in the unprecedented effectiveness of the restrictions now imposed everywhere upon the exchange of commodities. The new protectionism is much more effective than the old. In the new system of trade regulation, tariffs play a much less important role than formerly. It would not be accurate to deny that the tariff changes in the United Kingdom and other countries have been effective in restricting imports and modifying the current of trade, but the more

* World Economic Survey—(League of Nations)—1932-33, p. 305.
† World Economic Survey—(League of Nations)—1933-34, p. 204.
‡ See for detail :—World Economic Survey—(League of Nations)—1934-35, pp. 186-187.

important factors have been monetary and quantitative measures of restriction.

The new protectionism in Europe, the widespread derogations from the most-favoured-nation clause and an almost universal attempt to secure a closer approximation to bilateral trade balancing have on the whole riveted the fetters of international trade and in particular, have further limited the possibility of multi-angular exchanges. The new mercantilism thus developed lays great stress upon trade balances and intensifies the conflict of national interest, not only in commodity trade but in every other aspect of international economic relations.*

The Ottawa agreements which were to expire in August 1937 contain a clause providing for their prolongation subject to six months' notice on either side. In May 1936, the Indian Legislative Assembly passed a motion calling upon the Government to give the requisite notice for terminating the treaty with the United Kingdom.† Negotiations are at present in progress for a fresh agreement.‡

The Tripartite Agreement.

One important development in recent months, which holds forth the hope of international co-operation in economic matters is the Tripartite Monetary Agreement between England, France and the United States in October 1936 following the devaluation of the franc and of the currencies of other Gold Bloc countries.

The main objectives of the Tripartite Monetary Agreement were, "a common desire to foster those conditions which will safeguard peace and which will best contribute to the restoration of order in international economic relations and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living." To this end

* Ref World Economic Survey—(League of Nations)—1935-36, p. 192.
† *Ibid.*, p. 193.
‡ See Appendix VI—For the New Indo-British Trade Agreement.

the three Governments had decided to " take into full account the requirements of internal prosperity " and to maintain " the greatest possible equilibrium in the system of international exchanges " and to " avoid to the utmost extent the creation of any disturbance to the system by American or British monetary action." The three countries expressed a common aspiration that action would be taken " to relax progressively the present system of quotas and exchange controls with a view to their abolition," and appealed to other countries not to " attempt to obtain an unreasonably competitive exchange advantage and thereby hamper the efforts to restore more stable economic relations which it is the aim of the three Governments to promote."*

This development in the recent history of world's currencies has a double significance of an international nature. (1) Firstly, the measure will be judged as giving a welcome respite from the process of devaluation and supplying a unifying force in adjusting costs and prices all over the world by a sort of stabilisation, thus removing one of the obstacles to a steadily growing upward trend in international revival of trade. (2) Whatever may be the effects of the Agreement on the trend of world trade, the one major result of the devaluation has been a definite move towards stabilisation of world currencies. For this purpose the new devise of Exchange Equalisation Funds bids fair to be permanently adopted by the several countries of the world. These funds will be operated by the Treasuries concerned in secrecy and not by the various central banks. It is hoped that the Exchange Equalisation Funds backed by the substantial gold reserves of the five countries will minimise the range of exchange fluctuations and thereby exercise a beneficial control over credit expansion or contraction, thus mitigating if not neutralising the worst effects of the ever-rolling trade cycles.

* Ref. The Article by George Glasgow—Foreign Affairs—(A Currency Agreement) in The Contemporary Review—December 1936, pp. 737-740.

The Tripartite Agreement thus opens a new prospect that international trade, which had been almost dislocated since 1929, might once again enjoy at any rate a fraction of the old freedom which was accorded to it At the same time we must reckon with the fact that the protectionist sentiment is as strong as ever. No immediate spectacular scaling down of the protective tariffs and removal of other restrictions on international trade can therefore be expected.

Conclusion.—The world is anxiously waiting to see whether the hopes aroused by recent events will be fulfilled. World trade is now at the cross-roads. A complete return to Free-Trade is impossible, for no country will consent to abandon what it regards as essential industries to unrestricted competition from abroad. Equally the world has had far too much of the restrictions associated with economic nationalism and people now realise that no country can depend upon the home market alone and that beyond a point home industries can only be protected and developed at the cost of the complete destruction of its export industries. The problem before the world to-day, is how to reconcile the very natural desire of the different countries for greater self-sufficiency with the equally pressing need for active international trade and the restoration of general puchasing power throughout the world. Today we have to determine at what point to draw the line between the extremes of economic nationalism and complete Free-Trade. We need hardly stress the point of view that while India should be willing to extend her co-operation to the countries of the world in any attempts that may be made to revive world trade, she must continue to enjoy the freedom she has recently won to follow the tariff policy best suited to her requirements. A protective tariff has been introduced in India only since 1924 and she has not had a fair chance of building up her industries. A premature scaling down of the present protective tariff might spell disaster to the industrial development of India.

CHAPTER II

THEORETICAL BACKGROUND OF PROTECTION

The General Attitude of the Protectionist.—The keynote of the protectionist case is nationality. The advocates of Protection with wearisome repetition present their plan as national and contrast it with what they deem to be the cosmopolitan creed of Adam Smith and other Free Traders. The claims of the nation as a whole are emphasized and regarded as being far more important than those either of the individual or the world at large.

The whole economics of Protection are thus seem to be rooted in the soil of separation, disruption and antagonism. Its policy is realized in a number of conflicting preferences and pulls, that of producer against consumer, trade against trade, locality against locality, capital against labour, land against both and lastly, nation against nation, falsely represented as economic corporation.* Economic protectionism represents the logical consequence of the situation created by world-economy relations breaking into national-economy sphere. It is not therefore a policy of world economy, but only a detail of the external policy of the national economy.†

Although it is perfectly true that, under favourable conditions, Free Trade is calculated to secure "(i) the greatest mass of goods in the world as a whole and (ii) the maximum amount of immediate comfort for each consumer,"‡ it is now generally agreed that the Free Trade doctrine, while laying stress on the well-being of the world as a whole, rather tends to throw into the background the idea of the nation as a unit with interests often at variance with those of other nations.

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* J. A. Hobson—The New Protectionism, pp. 9-10.
† Josef Grunzel—Economic Protectionism, p 7
‡ W. Cunningham—The Rise and Decline of the Free Trade Movement, p. 9.

We have shown in the first chapter that protectionism is the general policy of statesmen and in all countries commands a great deal of popular favour to-day.

ARGUMENTS FOR PROTECTION

We shall now examine the various arguments urged in favour of the protective system. In presenting these arguments a distinction may be made between economic and non-economic arguments.

(A) **Economic Arguments for Protection.**—(1) **Protection aids Infant Industries.**—The most effective of the arguments used by the protectionist is that which asserts that infant industries stand in need of protection from foreign competition. We have seen in the first chapter how this argument was employed by List. It has, moreover, received the qualified approval of J. B. Say and Mill* The infant industry argument was clearly formulated as early as 1790 by Alexander. A more precise and correct formulation of this argument was given by the Free Trader John Stuart Mill. He writes that, "the only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country"† Since Mill gave his approval, the infant industry argument has been accepted in principle by many Free Trade Economists. Thus the argument may be regarded as a theoretical exception to Free Trade.

It is argued that a protective duty on the import of foreign goods is necessary in order to allow the infant industries of a country to grow and attain

* C. F. Bastable—The Commerce of Nations, p. 133.
† Gottfried Von Haberler—The Theory of International Trade, p. 280.

maturity, because the task of co-ordination of various agents of production into an establishment or factory is a process requiring time and not likely at first to be remunerative. Thus the young home industries cannot at first manufacture as cheaply as the old and well-established industries in other nations. But if the initial hindrances could be overcome, it may be that the particular industry would yield its cultivators a satisfactory return. A protective duty imposed on the product of the industry will give sufficient inducement to home producers to encounter the obstacles in their way and to establish under cover of this protection a healthy and self-reliant industry. Though there is an immediate loss, yet when the industries have been firmly established, they may prove to be a valuable part of the national industries and there would be greater gain which would more than compensate the nation for its earlier sacrifice.

Its increasing scope and importance

The weight and importance of the consideration lying behind this argument have been constantly increasing with the growth of the complexity and scale of business enterprise. The advantage always enjoyed by established enterprise has been greatly increased by the growth of massive production, the massive treatment of by-products and by the internal and external economies corresponding to the expansion of business units and industries. The natural advantages of large scale production are multiplied by the powers developed through integrations and combinations.* On the other hand, improvements in transport and the reduction of freights intensify the foreign competition. All these factors add to the difficulties of starting new industries in a country. The present day policies of cutting out foreign rivals by export bounties open or concealed, special export transportation rates, etc., would have convinced even orthodox

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*J C. Coyajee—The Indian Fiscal Problem, p. 4.

advocates of Free Trade like Mill and others, of the theory of protection to young industries. The infant industry argument is the main consideration for the policy of protection in India as will be shown more fully in a subsequent chapter.

Limitations

While thus the argument for protection to infant industries has been strengthened, it does not follow that we would benefit by extending protection indiscriminately to all national industries. The introducer of new processes must perforce take the chance of loss on himself otherwise there would be no check on rash and improvident enterprises. Before granting protection to any industry it must be asked to show (1) that it will after a time be self-supporting and (2) that the ultimate advantage will exceed the losses incurred during the process.* Thus it is desirable to insist on applying the most rigorous tests to any particular case before granting protection to it because the establishment of an industry under cover of a protective duty does not necessarily prove that it is an economic benefit.

When an industry is once given protection it will naturally try to retain the advantage as long as possible, pretend to remain an infant indefinitely and always want protection. This danger can be avoided by the withdrawal of protection on the ground that the industry has not derived any benefit from it. A good summary of the correct principles of protection is given by Lala Harkishen Lal, who says "Nurse the baby, protect the child and free the adult."

(II) **Protection increases Productive Power.**—The plea that a new industry may stand in need of support against foreign competitors has been expanded into the wider doctrine that protection to industry, although it inflicts a present loss, tends to improve the productive power of the country in which it is

* C. F. Bastable—The Commerce of Nations, p. 135.

applied and enables it to more than recoup the early losses by the subsequent increase in production. Considered from this point of view, the system of industrial protection resembles investment of capital on the part of the community. National protection resembles the case of the clerk who sacrifices his present earnings to prepare himself for—say the medical profession.*

(III) **Protection and Diversification of Industry.**—The development of various types of industries is in itself a desirable goal as affording a field for the employment of different grades of skill and as having a salutary influence on the national character and in so far as protection leads to such development we have another argument in its favour.† The many ways in which diversification of industry stimulates intellectual life and promotes culture and civilization are not left unnoticed. From all this it seems to follow that the indefinite and disputable loss that protection inflicts on consumers of imported goods is a small price to pay for such substantial benefits.‡

This argument has special validity in the case of a predominant agricultural country like India. The frequent occurrence of famine in the last quarter of the nineteenth century in this country had disastrous economic effects. The diversification of industry is expected to give relief to the agricultural class and make a more stable national economy.

It is easy to exaggerate the scope of the argument for diversification of industries, but we must bear in mind the limitations of this argument. The principle of comparative cost must be considered while dealing with this argument. The truth is that the acquisition of industries for which a country has no comparative

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* C. F. Bastable—The Commerce of Nations, p. 137.
† G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 1-2.
‡ C. F. Bastable—The Commerce of Nations, p. 139.

advantage is an undesirable diversion of labour and capital from more profitable employment and hence a waste of national resources. The principle of comparative cost limits the scope of diversification of industries.

(IV) **Protection and Public Revenue.**—It is said that protection will have a salutary effect on the public revenues. To say the least, however, this is highly problematical. If before levying protective duties, certain commodities were being admitted free of duty, it is obvious that so far the income from customs duties will increase. On the other hand, the inevitable rise in prices will decrease the taxable capacity of the customers. Moreover, as imports decrease with the expansion of home industry, the revenue from the import duties will decline. The increased national dividend will however eventually increase the taxable capacity of the people and this may favourably affect public revenue. The net result of protection on revenue depends on many complex factors that it is impossible to predict with confidence whether the revenue will gain or lose.*

(V) **Protection secures a steady Home Market.**—A protective policy is sometimes advocated as providing a steady home market. "Economic protectionism" says Grunzel, "is directed to no other end than the securing of the domestic market to the businessman of a country by political means."† Such a guarantee is necessary because any branch of production needs the largest possible stable market especially in these days of economic nationalism accompanied as it is by restrictions on international trade. Thus the protective duties check the imports and the articles previously imported are made at home. A home market it is argued, is thus created. No doubt it is created; but there is not, as protectionists commonly

* Ref. G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 4.
† Josef Grunzel—Economic Protectionism, p 132.

state or imply, an additional market. To cut off imports is to cut off exports also; it means simply the substitution of exchange within the country for exchange between the countries,* and since it has to be brought about artificially by the imposition of duties, the home market cannot be as beneficial as the foreign market. The only advantage seems to be the greater security of a home market. This argument is most frequently used in the United States with reference to farmers.

(VI) **Protection and Employment.**—We shall now consider protectionist arguments which deal with the question from the point of view of the working classes. The protectionist argues in the first place that protection supplies an additional field for labour in the industries that it brings into being. This argument appeals to the man in the street and particularly to the working classes. These classes see only the first and most obvious results and do not stop to think what other results must follow. The real issue to be considered is whether the increase of employment which protection may give in one industry can be obtained without corresponding loss elsewhere. The advocates of this argument state that the imports of articles formerly imported will be checked and the need will be supplied by home manufacturers. But it must be borne in mind that if there are less imports, there will be less exports. Thus the protected industry will find a home market, while the exporting industry will lose its market abroad. So labour, if employed more in new ways is employed less in the old.† Although it is impossible to say that under no circumstances the exclusion of certain imports brought about by tariffs will cause net increase of employment, there are other ways which could lighten unemployment more directly than what protection could do.‡

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* F. W. Taussig—Principles of Economics—Vol. I, p. 509.

† *Ibid.*, pp. 510-511.

‡ Ref Tariffs—The case examined by a Committee of Economics under the chairmanship of Sir William Beveridge, p. 74.

(VII) **Protection and Wages.**—Fresh industries require labour and this increased demand, as in the case of other commodities, raises its price or wages. It is argued that protection makes wages high or enables wages to be high. In this connection reference may be made to the familiar 'pauper-labour' plea. It is maintained in the United States that wages can be kept high and the American standard of living can be maintained, only if there is protection against the goods made by the cheap labour of other countries.* The absurdity of this argument is obvious. The farm hand, for example, in the United States get higher wages than the same class of labourer in England, but the price of the American product is not higher than that of England. The truth is that higher wages are the results of the superior efficiency of labour and this is naturally at its maximum in a new country with natural resource, not yet fully developed.†

To contend that protection makes wages high and then to advocate protection because wages are high is a reasoning in a circle. Curiously enough both pleas are advanced simultaneously in support of a protective system. The error in the case of the former contention is plain, there is, however, more truth in the latter. But then the appropriate weapon for maintaining wages higher than in other countries is the prohibition of immigration, just as the appropriate method for creating a difference between the home and the foreign price of a commodity is to prohibit or tax its importation.‡

(VIII) **Protection encourages Immigration of Labour and Capital.**—Among the arguments that have attracted the more thoughtful supporters of protection this holds a high place. Cournot and Carey have both dwelt on it and moderate Free Traders have conceded the difficulty of dealing with some aspects

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* F. W. Taussig—Principles of Economics—Vol. I, p. 512.
† C. F. Bastable—The Commerce of Nations, p. 150.
‡ Gottfried Von Haberler—The Theory of International Trade, p. 251.

of the case. The effect of a rigorous protective duty is to shut out the foreign producers of the protected article, who if they desired to retain their hold of the market, may transfer at least a portion of the industry to the protecting country. A direct increase of labour and capital is thus gained by the protecting country and the result is characterized as, "the great triumph of the protective system." (Roscher).* But in so far it is desired to protect national industries and interests, this competition of foreign capital and labour from within may be looked upon as defeating partially the principal object of protection. In fact, the possibility of the foreign capitalist competing from within instead of without may be regarded as a great drawback of protection from the national point of view.

(IX) **Home Trade and Additional Employment to Capital.**—Readers of Adam Smith will remember the discussion in the "Wealth of Nations" regarding the relative advantage of different uses of capital and the conclusion that home trade replaces two distinct capitals, thus differing from foreign trade, which replenishes only one domestic capital. The same line of thought recurs in protectionist writings. The exchange of American corn or cotton for foreign cloth or linen involves only the employment of the capital used in producing the exported cotton or corn. If the exchange had been for American cloth or linen, two capitals would have been replaced and profits and wages would have been earned by Americans on both parts of the transaction instead of going to foreign producers. Thus by another road we reach the 'Home Market' argument.

(X) **Protection is expedient in heavily-taxed Countries.**—That heavy taxation makes protection requisite is an old plea. The weight of taxation in England was a favourite argument in support of the Corn Laws and the burdens of France are alleged as

* C. F. Bastable—The Commerce of Nations, p. 141.

a reason for the increase of protection. Similarly the heavy War-Time and Post-War taxation in India may be said to have expedited the advent protective tariffs in the country. The grounds on which home taxation is supposed to justify the use of protective duties are somewhat confused. The pressure of protective duties falls mainly on the home consumer and an additional charge is not the best way of alleviating an already heavy load. Protection, when necessary, may be justified on its own merits.

(XI) **Protection against Dumping &/or Currency Depreciation.**—Protection may sometimes have to be resorted to or increased as a measure against dumping. Dumping is said to occur when goods are sold to the foreign consumer at a lower price than in the country of production. The intention here is to drive out rivals in the country subjected to the process of dumping and to recount the losses by charging higher prices either in the sheltered home market or in foreign markets when competition is extinguished. When dumping is clearly proved and is injurious to some home industry whose prosperity is a matter of national concern, a special dumping duty may be necessary. A special duty may be justified against the goods of a country whose currency is seriously depreciated, enabling it to export them at prices which are excessively low in terms of a relatively stable foreign currency. This virtually amounts to dumping. This argument has been frequently invoked in recent years which have been characterised by a race for devaluation of currencies among the nations of the world.

(XII) **Protection by way of Retaliation.**—This argument is based upon the belief that, while Free Trade may be correct in principle, a liberal trade policy cannot be afforded by a country surrounded by neighbours who have all armed themselves with tariffs.* This case may be regarded as constituting an

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* Gottfried Von Haberler—The Theory of International Trade, p. 243.

exception to Free Trade. It may be pointed out, however, that retaliation, unless it succeeds in lowering tariff in other countries, can only result in a further lessening of the advantages of international trade.

(B) **Non-Economic Arguments for Protection.**—(I) **National Defence and Self-sufficiency.**—It is contended by the protectionist party that from the standpoint of national defence each country should avoid too close a dependence upon other countries.* National safety, it is argued, requires that a country should aim at economic independence even if this should entail a permanent burden on the community. Certain restrictions on trade have been advocated on the ground of national safety. The best known instance of this is to be found in the English Navigation Laws, which received the approval of Free Traders like Adam Smith and J. S. Mill.† Protection is sometimes advocated on the ground that it can be used for making a country economically self-sufficient. The doctrine of self-sufficiency is often supported from the standpoint of national defence. It may be pointed out here that both national defence and self-sufficiency which are desirable ends in themselves can only be practised within certain limits. A country cannot organize its peace economy on a war basis. Nor is it possible for a country to follow the ideal of a hermit nation.

(II) **Preserving the Special Ethos of the Nation.**—Another non-economic argument relates to the need for preserving the special ethos of the nation, which, it is claimed, would tend to disappear under too close an intimacy with other peoples and other more or less non-rational views.‡

(III) **To preserve certain classes of the Population or certain Occupations.**—Finally protective tariffs may be advocated in order to preserve certain

* Gottfried Von Haberler—The Theory of International Trade, p. 239.
† Ref. C. F Bastable—The Theory of International Trade, p. 145.
‡ Gottfried Von Haberler—The Theory of International Trade, p. 240.

classes of the population or certain occupations which it is thought would disappear under Free Trade and the preservation of which is desired on political and social grounds. This argument is used almost exclusively in favour of agricultural duties. These duties, it is claimed, would assist in the preservation of peasant class in prosperity. The agrarian population, it is said, forms a loyal and conservative element in the community, indispensable to the balance and moral unity of the population and one should not, by giving free play to the price-system, allow it to fall into decay. Agriculture is the wellspring from which the human race is physically and mentally regenerated.* During the post-War period agricultural protection has been stiffened all over the Continent, including even England where before the War it was sacrificed to Free Trade.

THE CASE AGAINST PROTECTION

Although the doctrine of protection possesses a certain persuasive plausibility, it is not free from blemishes of its own. We have already indicated the limitation of the various arguments advanced in favour of protection. We shall now proceed to discuss the several kind of sacrifice it involves.

(I) **Loss to the Consumer.**—One of the strongest of the objections to protection raised by the Free-Traders relates to the high cost of protection to the consumer A duty imposed on any commodity raises its price and thus the burden of supporting the favoured industries is placed on the whole community. The consumers will suffer as well as those industries which are not protected owing to increase of expenses. "When import duties are placed on a wide range of articles, there is a tendency for the general level of

* Gottfried Von Haberler—The Theory of International Trade, p. 240.

prices in the country to be raised; the rise is not confined to the particular articles taxed."* The wages may rise with the cost of living but generally they do not rise as fast as prices. The middle classes will undoubtedly be the losers under a protective system. It has been well said that for one plus these are several minuses.

The protectionist have thought to escape from this result by emphasising the fact that increased home production will eventually lower prices. "If" says List, "protective duties enhance for a time the prices of domestic manufactures, they secure afterwards lower prices by means of internal competition."† The case of the sugar industry in India may be cited in support of List's argument. It will be considered more fully in a subsequent chapter. Thus if protection is given with discrimination to deserving industries, which can ultimately be dispensed with, the cost of living will be lowered especially in consequence of internal competition.

The protectionist also asserts that the cost of protection is not borne by the home consumer. Import duties, it is contended, have to be paid by the foreign producer. A country by raising taxes on its imports can force the foreigner to contribute to its budget revenue.‡ The profits abroad are curtailed and the national revenue benefits. This will only happen if the exporting country cannot easily sell these commodities in other markets and cannot easily shift the labour and capital to other industries. Such an instance cannot well be the foundation of a general rule. If the foreign supply comes in, in spite of a protective duty, there is no stimulus to home producers and the sole object of protection fails. Thus there is an obvious flaw in the contention of protectionists that the burden of protection will be borne by foreigners.

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* Report of the Indian Fiscal Commission (1921-22), par. 68.
† C. F. Bastable—The Commerce of Nations, p. 143.
‡ J. E. Meade—An Introduction to Economic Analysis and Policy, p. 352.

(II) **Combination of Manufacturers.**—An undesirable feature which the history of protectionist countries discloses is the tendency towards combination of manufacturers for the purpose of exploiting the domestic consumers. The protectionist system certainly gives an opportunity for undesirable forms of combination. "Tariff," it is well said, "is the mother of Trust." In a Free Trade country also there may be combination of manufacturers but they are not able to keep the price of a commodity above the world price. Industrial combinations may be desirable as a measure of rationalisation but they should not degenerate into dividend earning concerns.

(III) **Stagnation of Industry.**—Another danger of protection is that it may breed inefficiency and lead to the stagnation of the sheltered industries. A periodical review of the progress made by such industries resulting in a variation and eventual withdrawal of protection is essential to keep up efficiency. Here again, internal competition may be expected to supply a healthy check on inefficiency.

(IV) **Political Corruption.**—The interests at stake in the determination of a rate of duty are frequently large. In some countries important financial interests find it profitable to offer to legislators inducements which are not necessarily of obvious or crude nature or to spend money on getting their nominees into the legislative bodies which have the decision of matters vitally affecting their prospects. As the Indian Fiscal Commission of 1921-22 pointed out conditions in India are less favourable to such developments than they are in many countries, owing to the predominance of the rural classes.* This point will be considered in greater detail at a later stage.

(V) **Danger to World Peace.**—The adoption of an intensive protectionist policy by nations may result

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* Report of the Indian Fiscal Commission (1921-22), par. 85.

in tariff war which may promote real war, thus threatening international peace. While Free Trade does not guarantee world peace, it is undoubtedly true that protection further jeopardises international goodwill. It will be conceded by an impartial student of international politics that the tariff policy of nations is one of the factors that are responsible for the frankly alarming international situation today.

Conclusion.—The foregoing survey shows that while in some cases protection may be desirable, it is not free from serious drawbacks. Theoretically the infant industries argument appears to be the only sound economic argument in favour of protection and it is admitted even by the Free Trader as an exception to his creed. Most of the arguments for protection are frankly of a non-economic nature. But of course so long as national considerations are strong and powerful, protection will always have many devotees. "Protection is a purgatory through which the nation must pass before reaching the heaven of a well developed industrialism."* The only sensible course is to recognise that it is inevitable and to take steps to minimise its losses and maximise its gains.

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* G B Jathar and S. G Beri—Indian Economics—(Fourth Revised Edition)—Vol II, p. 6.

CHAPTER III

METHODS OF PROTECTION

Introduction.—In this chapter it is proposed to discuss the various methods of protecting and stimulating home industries. Import duties hold so prominent a place in the system of protection that other modes of stimulating national industry have so far been comparatively neglected, though they may claim a greater antiquity and have, in many instances, quite as much show of reason.

(A) In the first place, we shall consider **the positive measures for securing protection.**—(1) **Bounties.**—A bounty is, in principle, something received by producers in addition to the price received from consumers through the ordinary operation of the market.* In economics the term is usually confined to a premium paid by the government to encourage some branch of production or industry. Bounties are designed to stimulate production or to encourage export.

I Bounties on Production.

Protective duties are the chief expedient by which protection has been carried out; but in certain cases where manufactured articles are used as raw materials or vehicles of production in various industries, the method of bounties has been substituted. If the cost of these articles is artificially increased by means of protective duties, the costs of production in those industries automatically increases. This is by no means a pleasing prospect. The Government must not allow this increase in the cost of basic articles to take place; but at the same time as these basic articles have got to be protected against foreign competition, the two objects can be achieved only by the grant of bounties on the manufacture of those basic articles.

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* Palgrave's Dictionary of Political Economy, Vol. I, p. 171.

II. Bounties on Export.

Bounties to secure exportation of goods have never played a large role. They correspond to the general ideas of mercantilism which sought to improve the balance of trade and to favour the flow of money into the country by promoting exports as much as possible.

The direct premium on exportation has become best known in "the case of the grant of grain bounties in England, which formed the subject of animated controversy in the classical literature of political economy."* As an encouragement to domestic industry and a mode of increasing the quantity of exports, the payment of a premium on exports is unquestionably effective, so that if these were the sole ends of the protective policy, such a policy would doubtless be extensively employed. The modern system of protection has, however, a financial as well as an economico-political side.†

One advantage claimed specifically for bounties is that the amount drawn from the national purse is known and it can be accepted as a definite subsidy, as one of the expenses of national life for an end deemed desirable. Since the amount of support given to the assisted industries appears in a definite form of a grant of public money, the public can use these figures as the basis of their argument that any interference with free exchange is expensive to the society. The American Free-Trades have often argued that if protection is desirable, it ought to be given in such a manner that the nation would be able to count the cost of the policy. For the same reason the protectionists are unwilling to abandon the use of import duties. The method of bounties is strictly confined to cases where import duties are ineffective or undesirable, because a bounty acts as a drain on the public revenue and is for that reason unpopular.

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* Josef Grunzel—Economic Protectionism, p. 200.
† C. F. Bastable—The Commerce of Nations, p. 171.

(2) **Freight-Rate Concession in the case of Exports.**—The extent of the market for any product is not determined by geographical distances, but by the means of transportation and the cost of freight. The cost of transportation is a very important item in determining the total cost of an article. So the special freight rates applicable to exports are considered as means of overcoming the effects of foreign tariff protection. They tend to make the total cost of an article cheaper and thus make it possible for the national manufacturers to compete in foreign markets. Their operation is just like the grant of bounties on exports. They are the means of encouraging exportation and have achieved great development and extended application in recent years. As they do not invoke retaliatory measures on the part of foreign countries, they have been from the very beginning manipulated openly and publicly.

In the 'nineties of the last century the 'export classification' so called, was introduced in Austria, Hungary, Germany and Switzerland.* This means that the goods in question are placed in a lower freight class in case they are destined for exportation. The special railway freights granted by the South African Railways on the exports of coal, enabled the coal industry of the country to find a market in India.† In India, on the other hand, the railway rates policy has been criticised on the ground that it has encouraged importation of foreign manufactured goods into and exportation of raw materials from the country.

(3) **Measures for the Encouragement of Shipping.**—A favourable field for the promotion of the interests of national economy is afforded by oceanic transportation, since the highway of the seas is international and every ship represents to some country an extension of the sphere of its economic power beyond its natural borders. Two objects have been pursued by the political authority in this connection. The

* Josef Grunzel—Economic Protectionism, p. 236.
† C. N. Vakil and M C. Munshi—Industrial Policy of India with special reference to Customs Tariff, p. 51.

first is that of securing the largest possible share of ocean commerce for its own merchant fleet. The shipping of a nation brings freight earnings into the country from without and has great military significance and in the case of war affords auxiliary ships for the transportation of troops and supplies, etc. The second is the aim of making the ocean traffic subservient to the interests of the production and commerce of the country. The secondary aim, however, has become gradually the principal one. Two methods (i) shipping subsidies and (ii) bounties are employed for the purpose.

(i) Shipping Subsidies

A shipping subsidy represents an absolutely definite material outlay, usually fixed for a term of years, granted by the state to an individually specified shipping company in consideration for the maintenance of regular lines.

In Japan since 1910 subsidies are granted to shipping companies. By the Shipping Subsidy Act of 1910, which named the important routes and ordered companies to engage in transport according to the provisions of the Act, the Government adopted the principle of protecting national shipping.*

(ii) Shipping Bounties.

Shipping bounties are general payments open to any one in return for certain legally specified performances in the interest of national shipping.† The shipping bounties as distinct from subsidies are based on terms and not agreements and are applicable to all alike and not to specified ship-owners. They are meant for encouraging the general navigation and not for maintaining regular lines.

Japan passed the Shipping Encouragement Act in 1896 for the encouragement of ship building industry.‡ In 1921 Japan imposed heavy duties on the imports

* S. Uyehara—The Industry and Trade of Japan, p. 185.
† Josef Grunzel—Economic Protectionism, p. 237.
‡ S. Uyehara—The Industry and Trade of Japan, p. 156.

of ships of foreign manufacture.* In European countries bounties have been granted for the construction of ships.†

(4) **Other Positive Measures for Protection:—** (i) **Government Measures for the Promotion of Exportation.**—We shall now deal with the question of what steps the Government should take to encourage the export of home manufacturers in addition to the measures discussed in preceding sections. The Government should publish commercial reports and furnish all the necessary informations to the traders and manufacturers in respect of foreign markets. The appointment of commercial Consuls by the Government in different countries is very essential in the interests of the export trade. The following illustrations gives a clear idea regarding the scope of such Governmental encouragement for the exportation of national products. The Austrial policy of encouraging exportation is characteristic in this respect. Beginning with the year 1898, a sum for the promotion of exportation, fixed at first at 80,000 Kronen, was included in the national budget and in the year 1907 the amount was precipitately increased to 1,000,000 Kronen. These amounts were used to defray the expenses of "commercial emissaries" (Sendlinge), whose duty it was to travel in specified oversea countries with samples of Austrian products and to solicit orders.‡ India has only recently adopted the policy of appointing Trade Commissioners abroad. So far only a few appointments have been made and much leeway yet remains to be made in this direction.

(ii) **Encouragement of exportation by Political and Capitalistic influence.**—In a period in which political issues relate more and more exclusively to economic policy it is but natural that external political connections should be utilized to open up

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* Ref. S Uyehara—The Industry and Trade of Japan, pp 164-165.
† See for detail—C. F Bastable—The Commerce of Nations, p. 172.
‡ Josef Grunzel—Economic Protectionism, p. 251.

new markets to a country's production. In the year 1906, for example, Austria threw its political influence into the balance in order to secure certain ordinance contracts in Serbia.

Large loans to foreign states or foreign enterprises are usually granted under the condition, expressed or understood, that the debtor is to buy in the markets of the country making the loan the materials for the purchase of which it is made. Thus in the year 1910 Serbia obtained a loan of 150,000,000 francs in France, subject to the implicit condition that a contract for arms for the Serbian army should be granted to the French firm of Schneider and Company at Creusot.*

(B) **Protection of Home Industries by Negative Measures.**—(1) **Custom Duties.**—It is true that tariff duties no longer form the sole means of carrying out an economic protective policy, but they continue to form the most important of such means. Customs duties serve two purposes, the fiscal needs of the state and the protective requirements of domestic production. Regarding protective duties there are three groups of theories, (i) the developmental theories, (ii) the compensatory theories and (iii) defensive theories.

The developmental theories look upon world economy as an ideal, but as one which cannot be reached immediately, but only by way of a transitional stage of development through protective duties. The compensatory theories seek a solution of the conflicts which arise from the existence side by side of national economy and world economy without concerning themselves with the question of the ultimate goal of the development. The defensive theories, finally, see in national economy itself the permanent form of organization which on particular and economic grounds must

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* Josef Grunzel—Economic Protectionism, p. 253.

defend itself against injurious tendencies originating in the sphere of world economy.*

The aim of modern tariff protection is to use the political power as a means of securing to a particular national economy its own domestic market. Custom duties mean duties charged by law upon commodities imported into or exported from a country.†

(I) Import Duties

A protective tariff consists of duties levied to afford protection to home producers of commodities which were being imported before the imposition of the duty.‡ The protective import duties assist the industries of a country by increasing the price of foreign manufactured articles to such an extent as to enable the home producer to compete with better organised foreign rivals. They are meant to neutralize the adverse effects of the lack of experience and organization of home producers. They thus artificially increasing the price of the protected article, enable the national industries to survive which would, otherwise, have disappeared owing to the losses incurred by not realising sufficient return for their output.

Apart from assisting the important industries, the import duties are also levied for protecting national industries against foreign competition due to dumping and currency depreciation. The result of dumping and currency depreciation is the sale of foreign goods in the home market at a lower price than before. The import duties levied as a special measure against dumping or currency depreciation, serve to neutralise their effects of lower prices and counteract unfair competition. In India as it will be shown later, the import duties upon Japanese textile goods were raised to 50%

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* See for detail Josef Grunzel—Economic Protectionism, pp 141-142
† Palgrave's Dictionary of Political Economy—Vol I, p. 474
‡R A. Hodgson—An Introduction to International Trade and Tariffs, p. 110.

and then to 75% to cope with the severe competition from Japan due to currency depreciation since 1932.*

Thus we see that import duties are resorted to encourage and maintain essential industries, which are endangered by foreign competition. The import duties form the chief weapon of modern protectionist armoury.

(II) Export Duties

The export duties are levied for the purpose of securing cheaply important raw materials for the use of manufacturers at home. The object of export duties is to bring about a difference in the local price and the price in foreign countries of the raw materials Thus they are designed to secure to domestic producers a cheaper supply of goods and hence an advantage over the foreign competitors. But as the most important raw materials have become staples in the world market, the export duties in a single country can no longer make it difficult for any foreign industry to secure its supplies. If these duties are to serve their purpose, the country must hold a monopoly in the production of goods upon which export duties are levied. The export duties must be kept very high in order to secure their purpose because the cost of raw material forms a small part of the total cost of the manufactured article. The danger of losing foreign market is always inherent in the system of export duties. Thus the export duties cause a disproportionate injury to the home producer without being of appreciable assistance to the manufacturers. Therefore generally bounties and protective import duties are preferred to export duties. The duties on export have been condemned by modern economists and the Indian Fiscal Commission is no exception to this general tendency.

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* Ref. C. N. Vakil and M C Munshi—Industrial Policy of India with special reference to Customs Tariff, p 54.

Specific and *Ad Valorem* Duties.

A duty may be of a certain fixed amount or it may form a certain fixed proportion of the value of goods taxed or it may be compound in character. The first kind of duty is known as *Specific* and the second as *Ad Valorem.*

A Specific Duty.—A specific duty is one based on some definite and invariable physical quality or attribute of dutiable commodities such as weight or superficial measurement.

An Ad Valorem Duty.—An *ad valorem* duty is based upon the value of the dutiable commodity and is invariably expressed as a percentage of its declared value.

The purpose of most tariff systems is two-fold (1) to raise revenue and (2) to give protection to home industries. We shall here examine the effects of particular types of duties only in relation to protection.

The degree of protection afforded by an *ad valorem* duty is constant while the protection afforded by a specific duty varies according to the changes in the price of dutiable articles. The chief advantage of specific duty is that it dispenses with the necessity for an elaborate appraisement machinery. The *ad valorem* duty is more elastic and self-adjusting than specific duty. The *ad valorem* duty certainly possesses greater advantage provided the importers are honest and the Government officials are incorruptible. But these ideal conditions do not exist and there will be attempts at under-valuation, smuggling, corruption and fraud. Thus, on the whole, the specific duty offers much less inducement to deceit and dishonesty than the *ad valorem* duty. A specific duty is, however, regressive in character and becomes increasingly heavy when the prices fall. On the whole, the general tendency is for the *ad valorem* duty to disappear. The regressiveness of the specific duty is largely overcome by a compound duty. The purpose

of a compound duty is to get the advantages of each type without its disadvantages. A compound duty combines in itself both specific and *ad valorem* duties. Its complexity is, however, an objection from the point of view of administrative convenience.* In subsequent chapters we will have several occasions to deal with the suitability of these different types of import duties from the point of view of India.

(2) **Freight-Rate Protection.**—When the freight rates are fixed at different levels for the purpose of favouring home industries to the disadvantage of foreign industries, the case is one of the freight-rate protection. The discriminating rates for imports on the railways to the disadvantage of foreign goods operate in the same way as import duties. They have been used as an auxiliary to customs duties in the furtherance of the protective policy.

The railway rates are governed by the principle of inland parity. This makes it difficult to charge discriminating rates on home production and foreign goods. But the principle of inland parity forms no insuperable obstacle. The methods adopted for introducing such protective transport rates on imports are provided by special provisions whose advantages can only be taken by the domestic producers. A comprehensive review of measures of this character is hardly possible, as they are frequently so concealed under general provisions that they are apparent only to the parties directly concerned.

The use of this method of protection was first made by the Continental countries in the last quarter of the nineteenth century, when the need of protection increased so rapidly that import duties were unable to keep pace with the growing requirements. For example, Germany adopted in 1890 a policy of restricting inland parity in her commercial treaties.†

* Ref. J. H. Higginson—Tariffs at Work, pp. 72-74, and R. A. Hodgson—An Introduction to International Trade and Tariffs, pp. 129-130.

† See for detail Josef Grunzel—Economic Protectionism, pp. 172-174.

(3) **Protection by the Mechanism of Restriction.**—Under this section we shall deal with the recent evolution of quantitative restrictions by means of the quota system and the methods of monetary manipulation that have been developed in the countries that have introduced exchange-control. The object of these measures is two-fold. They aim either at safeguarding the exchanges or at protecting home industries. Very often the Government have both ends in view in imposing these measures. Here we are concerned only with the protective aspect of these restrictions. We shall examine them under the following sub-divisions.

(1) Quota Restrictions

Quota restrictions are imposed for the purpose of protecting home industries against the competition from a country with a depreciated currency. The manufacturers of a country with depreciated currencies, are able to sell their products in foreign markets at much lower rates than before. As the quota restricts the quantity of imports into a country imposing restriction, it is considered as a better and more effective device than any increase of import duties. The usual procedure is the institution of licensing systems, which rapidly lead to the fixation of quotas.

In 1931, the French Government imposed the quota restrictions to protect French producers against competition from countries with depreciated currencies.* In India, the severe Japanese competition owing to the depreciated Japanese currency, also led to the imposition of quota in 1934 for Japanese imports, as we shall point out in greater detail in a subsequent chapter. Besides, the quota for Japanese goods have been introduced into many British Colonies in 1934. Licensing and quota arrangements have also been introduced in Bolivia, Chile, Columbia, and Peru.†

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* Ref. Paul Einzig—Exchange Control, pp 173-174
† World Economic Survey—(League of Nations)—1935-36, pp. 204-205.

(ii) Barter Agreements

The barter agreements provide for the direct exchange of goods. The purpose of these agreements is mainly to obviate the necessity of devising means of payment through exchange. But in addition to relieving pressure on the exchange through the purchase of indispensable commodities abroad, they may pursue the end of creating a market for home products.* Barter agreements may consist of private or official arrangements. Barter agreements have been arrived at in recent years between various European countries. Germany has entered into barter agreements with Italy and other nations of the world.

(iii) Exchange Clearing Agreements

They are designed mainly to regulate bilateral trade so as to produce as far as possible an exact balance of exports and imports and to regulate foreign exchange. These agreements mainly aim at safeguarding the exchanges. They incidentally serve the purpose of protecting home industries by the exclusion of certain commodities from the clearing arrangements. While barter agreements indirectly control the exchanges, the Exchange Clearing arrangements is a direct method to control the exchanges. Although these methods are primarily concerned with exchange control, they may indirectly provide protection to home industries.

(4) **Protection secured by State Patronage.**— With the progressive extension of the activities of the State in the various fields of private economy, the State and other public bodies have achieved an ever-increasing importance as consumers and purchasers. The requirements of the army and navy and those of state railways and of other public bodies provide a considerably large market. The State in supplying their needs, should not be guided exclusively by their own advantages. As they spend public money they

* Paul Einzig—Exchange Control, p. 16.

must consider the question as it affects public interest. The principle that has been recognised in this connection is that domestic production must be given preference over foreign goods by the State in supplying their needs. The assurance of the State patronage is calculated to encourage national industries.

According to Article 37 of the Bulgarian Law of 1911, for the promotion of industry, all state, district, and Commune authorities are required to procure from domestic industrial enterprises any article needed by them, in so far as the articles in question are to be had and are produced within the country even in case the price is five per cent. above that of foreign goods.*

In India, the Indian Store Department was instituted in accordance with the recommendation of the Industrial Commission of 1916-17. The functions of the Store Department are to regulate the store purchase policy of the Government in such a manner as to stimulate Indian industries.† We shall deal in detail with this policy of Government purchases in the last chapter.

(5) **Protection by Concerted Popular Action.** The means of protection discussed in the above sections can be utilised only by the government and legislature of a country, which in consequence becomes morally responsible before other nations. Measures of far too arbitrary a character will eventually be met by retaliatory steps on the part of the foreign State affected and hence their value in general will be lessened or destroyed. In recent years, however, protective measures have been more and more brought into play, which do not involve government and legislation and may even be formally condemned by the latter. These arise from the modern principle of concerted popular action.

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* Josef Grunzel—Economic Protectionism, pp. 190-191.
† A. G. Clow—The State and Industry, pp. 85-87.

The concerted popular action first developed in the field of relations between employer and employees and between the sellers and buyers of certain goods, but which gradually spread into international affairs also. It produces economic effects even when its immediate motive is of a non-economic (political or religious) character. In the present connection, two principal forms are to be distinguished : it appears either as a (1) boycott of foreign goods or (2) as an effort to arouse the national consciousness.

(1) Boycott of Foreign goods.

The boycott of foreign goods aims at inflicting injury on a foreign country by preventing the marketing of its products. The concept of the boycott originated in the agrarian struggles in Ireland and later found its most frequent application in European history in the conflicts between employers and employees. At present it has become a weapon even in field of foreign politics. Turkey, for example, has in recent years repeatedly made use of the boycott on goods as a political weapon in her conflicts with European countries. In India also the weapon of the boycott has been practised from the advent of Swadeshism in 1905. The boycott of British goods became a live issue during the days of the Civil Disobedience movement. On the other hand, Japan announced in 1932 a boycott of Indian cotton as a measure of retaliation for the higher duties on Japanese cotton piece-goods imported into India.

(2) Appeal to the National Consciousness.

The exclusion of foreign goods is more effective and permanent when it takes the form of a national movement directed toward increasing the economic efficiency of the home country and people. It is in this form that the idea of concerted popular-action has most frequently been operative in international commerce. For example, British India, where public sentiment is designated as "overwhelming protectionist," in view of the impossibility of introducing

protective duties, instituted in the year 1905 the Swadeshi movement. The object of the movement was to develop in the purchasing public a preference for home manufactures, and in this way to build up the industries of the country.

(6) Protection secured by **cessation of foreign competition during war.**—War produces the almost complete cessation of normal trade. The cutting-off of the enemy countries from the import trade and the almost complete withdrawal from it of the allied countries on account of their pre-occupation with the war, seem to offer exceptional opportunities for the development of industries. This really means prohibition, with the consequential high prices. During the Great War the Indian market came to be virtually protected against foreign competition owing to cessation of all trade with enemy countries like Germany and Austria and considerable decline in the import trade of England and other allies owing to their pre-occupation with War. The War thus stimulated to some extent the development of Indian industries. The Indian Munition Board was established by the Government of India in February 1917 "to control and develop Indian resources, with special reference to the needs created by the War."* We shall discuss more fully the methods adopted by the Board to encourage the development of Indian industries in a subsequent chapter.

Conclusion.—The foregoing survey shows the baffling variety of methods of extending protection to home industries and the wide choice available for attaining the purpose of the development of home industries. In subsequent chapters we shall consider the application of these methods to Indian conditions.

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* A. G. Clow—The State and Industry, p. 13.

PART II.

Fiscal Policy of India—Past and Present.

CHAPTER IV

THE PROTECTIONIST MOVEMENT IN INDIA

Protection has had a very chequered career in India and has had a long history. For convenience of treatment it may be divided into the following periods :—

I. The industrial policy of the East India Company.

II. India under the Crown—Pre-War Period—(1857-1914).

III. The War Period (1914-1918).

IV. The Post-War Period (1918-1922).

We may now proceed to review the outstanding events of these several periods.

Period I. **The industrial policy of the East India Company:—**

Policy in favour of Indian industries

" The commercial instincts of the East India Company had from its earliest days in this country led it to make various attempts to improve those Indian industries from which its export trade was largely drawn, as, for example, by organising and financing the manufacture of cotton and silk piecegoods and silk yarn."* It was during the closing years of the eighteenth century that the Company withdrew its patronage; it was forced to do so by the powerful industrial interests in England, to whom the annihilation of all textile industries in India was more welcome than their prosperity or even their existence. During the nineteenth century the East India Company had been reduced more or less to the position of an automatic machine to execute the decrees of its masters at home; its motives and ideals with regard to industries in India could easily be identified with the motives

* Indian Industrial Commission 1916-18—Report, par. 105.

and ideals of the English manufacturing classes who had now become the dominant political force in England.*

Attempts at fiscal reconstruction on provincial basis.

When the East India Company assumed ruling powers, it developed its own tariff system. But the acquisition of territories by the Company was made piece-meal. For many years, the machinery of administration was very imperfect. Even after a stable form of Government had been introduced, the three Presidencies of Bengal, Bombay and Madras were independent of each other, so far as the regulation of customs was concerned. The result was that not only did each Presidency administer its own customs department, but had its separate tariff.† But the fact, that all the separate provincial governments received general instructions on matters of policy and administration of customs, as on similar other matters, from one and the same source, *viz.*, the Board of Control and the Court of Directors in England and that their Regulations were subject to the approval of that authority, considerably helped to introduce some unity of policy, though not uniformity, into the diversity of the tariff systems of the different Presidencies. In spite of this, the customs regulation of these Presidencies varied according to differences in local circumstances until they were finally assimilated after 1833.

In the beginning, there were all round low import and export duties intended for revenue purposes only. After 1810, the principle of preference to British shipping and British manufactures was introduced into the tariff system of British India. "In Customs and Trade Regulations a preference was always given to British over not only foreign but Indian interests as well."‡

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* H. R. Soni—Indian Industry and its Problems, p. 342.
† P. N. Banerjea—Fiscal Policy in India, p. 8.
‡ N. J. Shah—History of Indian Tariffs, p. 57.

"The Company's trade was abolished altogether in 1833 and from that date they stood forth simply as administrators of India, drawing their dividends from the revenues of India."* The Charter Act of 1833 established a centralised form of administration in India and divested the Presidencies of their legislative independence. The period 1833 to 1857 witnessed a series of reforms in the Customs Regulations in British India. It is interesting and significant to note that this period in the tariff history of India generally coincides with the period in the history of commercial policy of Great Britain during the nineteenth century, which was specially characterised by similar reforms in relation to Trade, Tariff and shipping restrictions. "Various Acts were passed from time between 1833 and 1853 by the Indian Legislature to regulate Trade and Navigation and to fix the Tariff."† In 1830 the movement for the abolition of inland duties in India and the general revision of commercial regulations became the subject of frequent discussion in the Bengal Council. The abolition of inland duties and the general revision, equalisation and assimilation of the tariffs of the different Presidencies were accomplished between 1836-1844.

Tariff Reforms 1833-1857.

By the end of the first half of the nineteenth century, many of the most pressing reforms in these commercial regulations which had violated all sound economic principles had been completed. The whole complicated customs system was reduced to simplicity. Generally speaking, these reforms proceeded in accordance with the development of the *laissez-faire* policy in shipping and trade in Great Britain and the interests of indigenous industries were neglected.

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* Romesh Dutt—The Economic History of India under early British Rule, p. 270.

† Romesh Dutt—The Economic History of India in the Victorian Age, p. 157.

General attitude.

During the greater part of the Company's rule in India, Great Britain protected and encouraged her industries against Indian competition and treated India as the source of raw materials for her industries and as a compulsory market for her industrial products. British imports were admitted into India practically free or paid only nominal duties; while Indian goods were penalised by heavy duties within the country and their entry into Great Britain was either absolutely prohibited or barred by high duties under the baneful influence of the old Colonial policy which was also followed at one time in relation to the American Colonies and Ireland. The inland trade of the country was discouraged and her foreign commerce was directed for the benefit of England. Not only was any attempt made to foster the indigenous industries, but also the fiscal policy of India was so shaped in a manner adverse to those industries which were then in a flourishing state.

Period II. **India under the Crown—Pre-War Period (1857-1914):—**

(A) **1857-1874—Tendencies towards Free Trade.**—The Mutiny of 1857 rang the death knell of the East India Company. In 1858 the Company ceased to rule over India and the government of the territories under its direct management and control on behalf of and in trust for the Crown was transferred by the Act "for the better Government of India" of 1858 to the Crown.* This transfer of government from the Company to the Crown did not mean any change of fiscal policy. Indeed, the Free Trade policy of the British Government exercised a more powerful influence on the fiscal policy of the Government of India which was now directly controlled by the British Cabinet and the Parliament. The consequences of the policy were injurious to the interest of Indian industries.

* N. J. Shah—History of Indian Tariffs, p. 153.

The financial situation in India was rendered embarrassing by the Sepoy Mutiny of 1857-58. In 1859 the necessity of raising more revenue to meet the charges occasioned by the Mutiny led to a revision and enhancement of the tariff. The differential duties on British and foreign goods were abolished. "The general rate of duty which had been so far 5 per cent. was raised to 10 per cent., the duty on the cotton yarn at the same time being raised from 3½ to 5 per cent. In 1862 the duty on cotton piecegoods was reduced to 5 per cent. and that on yarn to 3½ per cent. In 1864 the general rate of duty was lowered from 10 to 7½ per cent."* During 1866, the tariff was revised by a Committee with a view to the better classification of the articles, to a re-adjustment of value and charges and to the removal of duties which were not so valuable to revenue as they might be obstructive to trade. The custom tariff was again revised by a Committee in 1869 and in accordance with their recommendations, the tariff valuations of cotton yarn and piecegoods and other articles were largely reduced. Of greater importance towards the end of the first period (1857-1874) was "the real beginning of that movement by which under the cover of Free Trade principles, the interests of Manchester were pushed forward at the expense of the Indian Cotton Industry."†

(B) **1872-1882—The Cotton Duties Controversy.**—The existing low revenue duties on piecegoods and yarn were obnoxious to the Manchester Chamber of Commerce, which addressed a memorial to the Secretary of State in 1874, pointing out their protective character and praying for their early removal. The memorial was forwarded to the Government of India, who in November 1874 appointed a Tariff Committee for revising the tariff rates and valuations, for examining the articles subject to export and import duties and particularly for enquiring into

* Report of the Indian Fiscal Commission (1921-22), par. 153.
† C. N Vakil—Our Fiscal Policy, pp. 7-8.

the complaints of the Manchester Chamber of Commerce. The Committee was specially instructed that, " the Government of India does not impose or maintain customs duties for the purpose of affording protection to any branch or class of industry, but for the revenue purposes only." The members of the Committee differed in their recommendations on certain points but unanimously rejected the demand of Manchester for the abolition of the cotton import duties.* Their conclusion was based on the fact that there was no competition between Indian and English cotton industries; the former produced coarse fabrics, whereas the latter produced finer fabrics. But Lord Salisbury, the Secretary of State for India remained unconvinced. He ordered the removal of the import duties. The Government of India protested at this unwarranted interference of the Secretary of State, because they did not consider this action consistent with the interest of India.

In 1875 the Government of India found themselves in possession of a surplus which they utilised partly for the abolition of a number of export duties and partly for reducing the general rate of import duty from 7½ to 5 per cent., leaving the duties of 5 per cent. on cotton piecegoods and of 3½ per cent. on cotton yarn untouched. This action was disapproved by the Home Government.† The Secretary of State for India in his despatch of 1876, directed the Government of India to abolish the cotton duties as soon as their finance permitted.‡ Further impetus to the removal of cotton duties was given in July 1877 when the House of Commons passed a resolution recommending

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* Ref N J Shah—History of Indian Tariffs, pp. 198-199.
† Ref Report of the Indian Fiscal Commission (1921-22), par. 16
‡ Ref. C. N. Vakil and M C. Munshi—Industrial Policy of India with special reference to Customs Tariff, p. 39—The despatch of Secretary of State stated as follows :—" Whether then, the question be regarded as it affects the consumer, the producer or the revenue, I am of the opinion that the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects and self-destructive in its operation."

the removal of cotton duties in India which were considered protective in their nature and contrary to sound commercial policy.

In view of this and the change in the personnel of the Government of India, certain kinds of the coarse goods which Indian manufacturers were supposed to compete with were exempted from duty in 1878. This did not satisfy the Manchester Chamber of Commerce and in 1879 all goods containing yarn finer than 30s. were exempted from duty. In 1882 the Government of India owing to a surplus found it possible to remit taxation. It was decided totally to abolish the Cotton Duties and General Import Duties.*

Thus closed an important chapter in the fiscal history of India. The cotton duties and with them other customs duties were abolished and the controversy was ended with warm expression of thanks by the Manchester and Lancashire to Lord Salisbury and his successors and the Government of India for achieving the "great reform" in the fiscal system of India. The ports of agricultural India were thrown open to the industries of the world. The competition of manufactured goods had by this time given a serious setback to the village industries of India. The village craftsman was forced to become either an agricultural labourer or to immigrate to town to accept work in factories. The few new type of large scale industries which were beginning their precarious life were now "free" to compete with the advanced industries of England or the protected industries of the rest of the world.

(C) **1882-1894—Period of Complete Free Trade.**—There was no tariff change of any importance for several years after 1883. From 1882 to 1894 no import duties were levied in India with certain exception such as the duties on arms and ammunition which were retained for administrative purposes. During

* Ref. Report of the Indian Fiscal Commission (1921-22), par. 16.

this period the system of Free Trade was in full operation.

(D) **1894-1896—Reimposition of Import Duties with a countervailing Cotton Excise Duty.**—In 1894 the fall in the sterling value of the rupee rendered fresh taxation necessary. In 1893-94, there was a deficit of $1\frac{3}{4}$ crores and in the following year, Sir James Westland was faced with a deficit of no less than $3\frac{1}{2}$ crores.* "They therefore proposed to levy Import Duties at the rate of 5 per cent. But at the bidding of Her Majesty's Government, cotton yarns and goods were to be excluded from among the articles liable to duty."† The revenue situation, however, made it impossible to maintain this exclusion of cotton goods from the tariff and in December 1894 an import duty of 5 per cent. was placed on cotton piecegoods and yarn, accompanied by an excise duty of 5 per cent. on Indian yarn of counts above 20s. The excise on yarn did not give satisfaction to the Lancashire cotton industry and accordingly in 1896 the duty on cotton piecegoods was lowered to $3\frac{1}{2}$ per cent., an excise duty at the same rate was placed on all Indian mill woven cloth and cotton yarn was admitted free of duty.‡

This unpleasant controversy thus came to an end, when Manchester saw to her gratification that she had left no possibility of even a nominal competition on the part of her Indian rival. "In the history of Indian Finance (or of British Rule in India), the way in which under the cover of Free Trade principles and equality of treatment, the political power of England was misused to forward the interests of a section of the English Community, without due regard for the interests of India, will always remain a great blot."§

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* P. N. Banerjea—Fiscal Policy in India, p. 89.
† C. N. Vakil—Our Fiscal Policy, p. 27.
‡ Report of the Indian Fiscal Commission (1921-22), par. 18.
§ C. N. Vakil—Our Fiscal Policy, p. 36.

(E) 1899-1914—Deviation from the rigid policy of Free Trade and emergence of new Problems.—The tariff as reimposed in 1894 remained in its main essentials unaltered till the War except for the imposition of a countervailing duty on foreign bounty-fed sugar. In general it consisted of a low uniform rate of duty (5 per cent.) imposed on nearly all imports. Its object was purely revenue.

Countervailing Duties on Sugar.

From 1890 the imports of sugar from Austria and Germany into India began to increase. The exportation of beet-sugar from these countries was specially encouraged by a system of bounties. In 1897 the United States of America passed an Act imposing countervailing duties on bounty-fed sugar. As a consequence, the Austrian and German sugar was forced to find its market in India and imports of beet-sugar from these countries into India increased enormously from this year. On account of this unfair competition from foreign countries with the Indian sugar industry, which the Free Trade policy of the Government of India allowed, the area under sugar-cane was being reduced and sugar refineries were being closed down. To save the Indian industry from complete ruin, on 10th March 1899, a Bill on the American model, to levy countervailing duty on the import of bounty-fed sugar into India was introduced into the Legislative Council.* The Bill was unanimously passed. (Act XIV of 1899). The Act of 1899 did not, however, prove effective in checking the importation of bounty-fed sugar. In addition to the direct bounty system, the export of sugar was encouraged by Germany and Austria by preferential railway and shipping rates. Besides the development of sugar combinations gave a fresh stimulus to the export of the bounty-fed sugar. The Tariff Act of 1902 was therefore passed to check the imports of sugar into India which were being

* N. J. Shah—History of Indian Tariffs, pp. 306-307.

artificially stimulated.* In 1902 there assembled a International Conference at Brussels to discuss the question of sugar bounties. An agreement was reached to abolish all kinds of bounties on the production or export of sugar. Consequently in December 1903 the countervailing duties were abolished in the case of those countries which adhered to the agreement. The duties remained in force for some years in respect of Denmark, Chile and the Argentine Republic. But the import of sugar from these countries were practically nil and the duties were at last abolished in 1909 and 1912.†

It is necessary to add that the action taken by the Government, by way of imposing countervailing duties on bounty-fed sugar imported into India was effected within the framework of the Free Trade policy and was not intended as a measure of protection to the Indian Sugar Industry which was then suffering from intense foreign competition. The object of these measures was merely to remove the unfair advantage which manufacturers in other countries had on account of the bounty system in order to fulfil the conditions of Free Trade and fair competition.

State aid to Industries.

Turning now to the general industrial policy of the State during the pre-War period the interest of the State in industrial development did show itself occasionally but in a very fitful and haphazard manner and it was ridiculously inadequate to the needs of the situation. For a long time it did not go beyond a very imperfect provision of technical and industrial education and the collection and dissemination of commercial and industrial information.

The first direct attempt under the Crown to help industries was made in Madras in the year 1898 when Mr. (now Sir) Alfred Chatterton, who was Superintendent of the Madras School of Arts at the time,

* Ref. P. N. Banerjea—Fiscal Policy in India, p. 99.
† C. N. Vakil—Our Fiscal Policy, pp. 38-39.

obtained a small grant from the Madras Government to demonstrate the possibility of manufacturing alluminium vessels.* "In 1905 proposals were put forward for the creation of a department which would be in charge of official efforts for the development of industries in the Presidency."† In the meanwhile, individual Provincial Governments like those of the United Provinces and Madras, had begun to put forward programmes of industrial policy requiring close co-operation, help and guidance from Government. The adoption by Provincial Governments generally of a forward policy appeared to be inevitable when an unexpected check occurred. In his despatch dated 29th July 1910, Lord Morley said that the results of the attempts to create new industries were not of a character to remove his doubts as to the utility of State efforts in this direction, unless it were strictly limited to industrial instruction and avoided the semblance of a commercial venture. 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 the 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 adopted on a commercial enterprise.‡ While Lord Morley's despatch brought to a standstill the activities in Madras and the United Provinces, it had a paralysing effect upon the policy of the Government of India. They now became so cautious and timid that their attitude suggested a relapse to the extreme policy *laissez-faire* of mid-victorian days.

The new Secretary of State declared himself prepared to follow a somewhat bolder policy, but it was

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*H. R. Soni—Indian Industry and its Problems, p 349.

† A. G. Clow—The State and Industry, p. 3.

‡ Indian Industrial Commission, 1916-18—Report, par. 108

now the turn of the Government of India to be oppressed by doubts as to how far they would be justified in sanctioning proposals for demonstration plants, financial assistance and other forms of direct State aid to industries.* But this new communication failed to neutralize the demoralizing effects of the Morley despatch. However, one tangible result of Lord Crewe's despatch was that Directors of Industries were appointed in almost all the major provinces.†

The Swadeshi Movement

In view of the impossibility of the introduction of protective duties by the Government the Swadeshi Movement was instituted in the year 1905 as a bye product of the partition agitation in Bengal. The object of the movement was to develop in the purchasing public a preference for home manufactures and in this way to build up the industries of the country. The weakness of the organization, however, which did not command any considerable financial resources, as well as various pacificatory and precautionary measures of the Government, prevented it from achieving any notable success. "The Swadeshi Movement resulted in numerous failures, almost always due mainly to lack of business aptitude and commercial and industrial experience in classes which had had no opportunity of acquiring them."‡ It also confirmed the faith of Indian publicist in the necessity of protection and made Indian opinion overwhelmingly protectionist.

Imperial Preference

It may be noted, that it was during this period that the question of Imperial Preference was first mooted in India and discussed as a problem of practical politics. At the end of the nineteenth century and in the beginning of the present century, the "Tariff Reform" movement was in full swing in England.

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*Ref G. B Jathar and S G Beri—Indian Economics—(Fourth Revised Edition)—Vol I, p. 451.
†H. R. Soni—Indian Industry and its Problems, p. 355
‡Indian Industrial Commission, 1916-18—Report, par. 104.

Various Colonial Conferences were held in different years. Certain Dominions had already adopted the Preferential System in favour of the United Kingdom. The Colonial Conference of 1902 accepted the principle of preferential trade between the United Kingdom and the British Dominions beyond the seas, with a view to strengthen the political and economic solidarity of the Empire. All Dominions had agreed to the Resolution; but in so far as the principle of the Resolution implied any change in the fiscal system of the United Kingdom, His Majesty's Government did not give assent to it.* India had no share in passing the Imperial Preference Resolution of 1902. The Government of India were, however, asked by the Secretary of State to make any observations and suggestions which they might wish to make from the point of view of Indian interests, in connection with this resolution. The idea was rejected by Lord Curzon's Government in 1903. In the Imperial Conference of 1907, again the official view was expressed against India joining any system of Imperial Preference.† It should be noticed, however, that the rejection of Imperial Preference by the Government of India was not influenced by any protectionist sentiment, but by other considerations such as the fear of retaliation and loss to Government revenue from customs duties.

General attitude of Government.—During this period of over fifty years, India was compelled to follow the policy of Free Trade, ostensibly on the ground of theory, but largely for the benefit of British industries and in opposition to the wishes not only of the people, but sometimes of the Government of India themselves. She was not allowed to develop any industrial enterprise if it happened to come into competition, even in a remote and indirect way, with any English industry. This unjust treatment accorded to

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* N. J. Shah—History of Indian Tariffs, pp. 314-315.
† K. T. Shah—Trade, Tariffs and Transport in India, p. 268.

India, while she was in a position of helpless political dependence upon England, was often the subject of adverse comment at the hands of fair-minded Englishman. Dr. Cunningham, for example, wrote in 1911, "Ireland and India have been forced, under compulsion, to submit to Free Trade without being consulted and for the sake of English interests; in both these cases, economic dissatisfaction is associated with political unrest."*

Period III.—**The War Period (1914-1918):—**

General.

The advent of the War-Period opened a new chapter in the industrial and tariff history of India. There was a welcome change in angle of vision of the Government which was more ready to modify its traditional *laissez-faire* policy for the benefit of Indian industries.

Financial Strain and Fresh Taxation.

On the eve of the European War of 1914, India was in a fairly satisfactory financial position. But no sooner did hostilities commence than the impact was felt in India, situated though she was many thousand miles away from the theatre of operations. The Government was able, however, to meet the financial strain without resort to fresh taxation for the first year and a half of the War. But as the deficiency in the revenue tended to assume a more or less abiding character, additional taxation became necessary. "In 1916 the financial burden imposed by the War necessitated an enhancement of the tariff. The general rate was raised from 5 to 7½ per cent. There was a considerable curtailment of the list of exemptions. Machinery, other than that for cotton mills and railway materials were now taxed at 2½ per cent., and the duty on iron and steel was raised from 1 to 2½ per cent. The cotton duty and excise still remained at 3½ per cent. In the following year, largely as a result of the contribution of £100

* W. Cunningham—The Case against Free Trade, p 87.

million made by India towards the prosecution of the War, still further revenue had to be found. The cotton duty was therefore raised to the general level of 7½ per cent., the excise remaining unchanged at 3½ per cent."* This partially removed the handicap on the growth of the Indian Textile industry in its competition with foreign rivals.

Virtual Protection.

This period may be said to mark the transition from an absolute adherence to the Free Trade principles to the adoption of a policy of protection. The Great War was destined to result in a period of unprecedented prosperity for the leading industries of India. But the immediate effect of the outbreak of War was a dislocation of the Indian market. The cutting-off of the enemy countries from import trade and the almost complete withdrawal from it of the allied countries on account of their preoccupation with the War, seemed to offer exceptional opportunities for the development of Indian industries. But neither the public nor the Government were ready to take any considerable advantage of this favourable situation, created by the virtually complete, though temporary, elimination of foreign competitors, and they had the mortification of seeing these opportunities grasped by Japan and the United States whose participation in the import trade of this country increased enormously during the War. These countries were in a position to obtain firmer footing in the Indian market because they had already reached a high stage of industrialization. Industrial development during the War was hindered by several causes, which made it far more difficult for India than for other countries more advanced industrially to take advantage of the opportunities afforded by the War. These were :—(*a*) the great difficulty under War conditions of obtaining essential machinery and materials such as could not be made in India, (*b*) the shortage of coal and cooking plant, coupled with a shortage of railway waggons and

* Report of the Indian Fiscal Commission—1921-22, par. 20.

coasting vessels, (*c*) the difficulty of procuring from abroad chemical and technical experts who were needed in their own countries. India herself had very few such own experts and (*d*) the shortage of skilled labour in the country.* At the same time the military importance of developing the economic resources of the country was brought to light by the War. It was realised that, while the services rendered by India in the eastern theatres of the War were valuable, they would have been vastly greater if the country had been industrially developed. The creation of an un-precedented opportunity and the emergence of an unprecedented need led the Government of India in 1915 to institute a general survey of the position, as a result of which they became convinced of the necessity for a definite industrial policy for India as a whole. No such policy had existed hitherto; such efforts as had been made had generally owed their inspiration to the enthusiasm of individuals rather than to any consistent purpose on the part of the Government.

The appointment of the Industrial Commission.

The deliberations of the Government of India resulted in the appointment, with the approval of the Secretary of State, of the Indian Industrial Commission in May 1916, to examine the whole question of industrial development in India and to indicate new openings for the profitable employment of Indian capital in commerce and industry and the manner in which Government could usefully give direct encouragement to industrial enterprise.† Tariff policy on account of its far-reaching and highly controversial nature was, however, deliberately excluded from the terms of reference, as it was considered undesirable to raise any such controversies when the War was in progress. This omission was made good during the Post-War period by the appointment of the Fiscal Commission in 1921.

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* Indian Munitions Board—Industrial Hand Book—1919, p. 16.
† Ref. A. G. Clow—The State and Industry, pp. 9-10.

The Indian Munitions Board.

Pending the Report of the Industrial Commission an emergency industrial policy had to be adopted. The Indian Munitions Board was established by the Government of India in February 1917. One of the most important of the functions of the Board was the utilisation of the Defence of India Rules for the purpose of securing munitions of War and facilitating the development of the resources of India.* The functions of the Indian Munitions Board as laid down in the Gazette of India in February 1917, were :— "to control and develop Indian resources, with special reference to the needs created by the War. . . . to limit and co-ordinate demands for articles not manufactured or produced in India and to apply the manufacturing resources of India to war purposes with the special object of reducing demands on shipping." The ability of the Board to develop industries in India was therefore strictly limited by the concentration of its energies on its primary object, namely, the immediate supply of demands from the armies in the Eastern theatres of War. Within these limits, however, the Board was able to foster the growth of indigenous industries in many ways, the most important of which were :—(i) direct purchase of articles and materials in India, (ii) the diversion, by means of the priority system and control over Home indents, of all orders from the United Kingdom and elsewhere to manufacturers in India, (iii) assistance to individuals and firms who desired to import plant or engage experts or skilled labour from abroad; and (iv) the dissemination of information and expert advice to persons prepared to establish new industries in India.†

In this manner considerable stimulus was given to various industries, notably cotton, jute, iron and steel, and leather manufactures, as also a number of others, such as engineering industries, manufacture of

* Indian Munitions Board—Industrial Hand Book—1919, p. 7.
† *Ibid.*, p. 9.

chemicals, mineral acids, oils, paper, glass, cement, cutlery, fertilizers, paints and varnishes, surgical instruments, etc.*

Report of the Industrial Commission.

In 1918 the Industrial Commission presented its report. The Commission's proposals were based upon the fundamental principles 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 that "it is impossible for Government to undertake that part unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice."† The Commissioners described industrial conditions in India and discussed the potentialities of development.

These recommendations were accepted in principle by the Government of India, but little could be done immediately owing to the temporary dislocation due to the War and Post-War re-organisation.‡

Departments of industries were started by the end of the War in all the Provinces as recommended by the Industrial Commission and the Munitions Board was merged in the Imperial Department of Industry and Commerce in February 1921.

Period IV.—**The Post War Period (1918-1922):**—

Demand for Tariff Revision.

A large part of the stimulus received by Indian industries during the War period was necessarily temporary in its character and ceased to operate with the cessation of the War purchases of Government and the re-appearance of normal trading relations with other countries after the Armistice in November 1918. The Indian manufactures were again subjected to intense

* S. G. Panandikar—Some aspects of the Economic Consequences of the War for India. pp. 103-109.
† A. G. Clow—The State and Industry, p 10.
‡ Vera Anstey—The Economic Development of India, p. 219

foreign competition helped by the absence of any protective tariff barriers, apart from enhanced import duties imposed for revenue purposes under the financial stress caused during the War and early Post-War years.* In these conditions, the longstanding demand for a revision of tariff policy again became more vocal and insistent than ever.

The Reforms of 1919 and Fiscal Autonomy Convention

The support lent by the distinguished authors of the Montagu-Chelmsford Report to the view that since the theoretical Free Trader hardly existed in India, considerations of justice and fairness required that Indians should have full liberty of deciding their own tariff policy and that Government had no right to force their Free Trade convictions on them, strengthened the hands of the protectionist party in India. The case for a protectionist policy was supported by the recommendation of the Joint Select Committee on the Government of India Bill 1919, that as "a satisfactory solution of the question (of fiscal policy) can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs," and as "it cannot be guaranteed by Statute without limiting the ultimate power of the Parliament to control the administration of India and without limiting the power of veto which

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* The general *ad valorem* import duty, which has been raised to 7½ per cent. in 1916-17 (cotton piece-goods however, were not raised to 7½ per cent. till 1917-18); to 11 per cent in 1921-2 (including cotton piece-goods); and to 15 per cent in 1922-3 (cotton goods remaining at 11 per cent.) Railway materials were taxed at 2½ per cent. in 1916-17, and the tax was raised to 10 per cent. in 1922-3. Iron and steel were raised from 1 per cent. to 2½ per cent in 1916-17, and to 10 per cent. in 1922-3. Sugar was increased from 5 to 10 per cent. in 1916-17, and from 15 per cent. to 25 per cent. in 1922-3. Machinery and stores for cotton-spinning and weaving were taxed at 2½ per cent. in 1921-2, but exempted later on. A high specific duty on matches at 12 annas per gross boxes was imposed in 1921-2 instead of the 7½ per cent. *ad valorem* duty. This duty was doubled in 1922-3. Luxury goods like motor cars, cinema films, watches, silk piece-goods, etc., were raised from 7½ per cent. to 20 per cent. in 1921-2 and 30 per cent in 1922-3. (Ref. Jathar and Beri—Indian Economics—Vol. II, p. 535.).

rests in the Crown. . . . it can only therefore be assured by an ackowledgment of a convention. . . . In the opinion of the Committee, therefore, the Secretary of State should, as far as possible, avoid interference on this subject when the Government of India and its Legislature are in agreement and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."*

Non-official move for Protection.

No tangible change in the tariff policy of India was immediately effected on these recommendations. On the 23rd February 1921, however, a resolution was moved by the late Hon'ble Mr. Lalubhai Samaldas in the Council of State, and after having amended was passed in the following form :—

"The Council recommends to the Governor-General in Council that His Majesty's Government be addressed through the Secretary of State with a prayer that the Government of India be granted full fiscal autonomy subject to the provisions of the Government of India Act." This resolution was forwarded by the Government of India to the Secretary of State with the request that it should be laid before His Majesty's Government. Meanwhile the Secretary of State in reply to a deputation from Lancashire on the increased Indian import duties on cotton goods, on the 23rd March 1921 endorsed the principle laid down by the Joint Committee and declined to modify the cotton duties. This was followed up by a despatch dated the 30th June 1921, in reply to the resolution passed by the Council of State. The Secretary of State said in the course of the despatch that he had, on behalf of His Majesty's Government, accepted the principle recommended by the Joint Committee in their report on clause 33 of the Government of India Bill.† For the

* A. G. Clow—The State and Industry, pp. 113-114.
† Report of the Indian Fiscal Commission—1921-22, par. 4.

first time in history, the Government of India could now in theory shape their fiscal policy according to the requirements of the country.

In the meantime Committee of the Imperial Legislative Council appointed by the Government of India in February 1920, to report on the feasibility of Imperial Preference and the future fiscal policy of India had declared its inability to make any definite recommendations on the latter question and suggested a special Commission of inquiry for the purpose. On the 1st March 1921 the question was once more raised publicly by Mr. Jamnadas Dwarkadas, who enquired in the Legislative Assembly whether in accordance with the recommendations of the Committee of the Imperial Legislative Council the Government of India proposed to appoint a Fiscal Commission and what would be its terms of reference.

The appointment of the Fiscal Commission

In reply the Government of India announced that they had decided to appoint a Fiscal Commission, which it was hoped would start work in the following cold weather and indicated its terms of reference. On the 7th October 1921, a Government Resolution was issued stating that the Government of India with the approval of His Majesty's Secretary of State had decided to appoint a Fiscal Commission under the Presidency of Sir Ibrahim Rahimtoola.*

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* The personnel of the Commission were as follows —

President—Sir Ibrahim Rahimtoola

Vice-President—Mr J. M Keynes

Members :—Mr. T V. Seshagiri Ayyar, Mr (now Sir) J. C. Coyajee, Mr. Jamnadas Dwarkadas, Mr R A. Mant, Mr C. W Rhodes, Mr Ghanshyamdass Birla, Sir Maneckjee Byramjee Dadabnoy, Sir Edgar Holburton, Mr Narottam Morarjee, Sir Montagu Webb.

Secretary—Mr. H G. Haig, I.C.S.

Assistant Secretary—Mr E F Rogers

(Ref. Report of the Indian Fiscal Commission (1921-22), par 6)

The Indian Fiscal Commission was appointed on 7th October 1921 to :—

Terms of Reference.

"examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference and to make recommendations."*

Thus after a good deal of waiting and uncertainty the Government of India gave up their old *laissez-faire* policy and declared their willingness to explore the possibilities of protection.

We shall review in the following chapter the principal recommendations of the Fiscal Commission.

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* Report of the Indian Fiscal Commission, 1921-22, par. 6.

CHAPTER V

POLICY OF DISCRIMINATE PROTECTION

Report of the Fiscal Commission.—The report of the Fiscal Commission which was not unanimous in every respect was published towards the close of September 1922.*

(*a*) **Need for Industrial Development.**—The Commission made an exhaustive examination of the fiscal measures best suited to the requirements of industries in India and laid down definite rules to guide the policy and action of the Government. The preliminary conclusion to which the Commission came after examining the requirements and resources of the country was that " the industrial development of India has not been commensurate with the size of the country, its population and its natural resources."† The Commission also endorsed the conclusion drawn by the Indian Industrial Commission, which at the close of an enquiry extending over two years (1916-18) summed up the position as follows :—

" The industrial system is unevenly and in most cases inadequately, developed; and the capitalists of the country, with a few notable exceptions, have till now left to other nations the work and the profit of manufacturing her valuable raw materials or have allowed them to remain unutilised."‡

(*b*) **Advantages of Industrial Development.**—The Commission then proceeded to examine the advantages of development of industries. In Chapter IV of their Report they pointed out the advantages

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* A minority of the following five members of the Commission appended to the Report a Dissenting Minute—(Report of the Indian Fiscal Commission (1921-22), pp. 175-214.)
President—Sir Ibrahim Rahimtoola.
Members :—Mr. T. V. Seshagiri Ayyar, Mr. Ghanshyamdass Birla, Mr. Jamnadas Dwarkadas and Mr. Narottam Morarjee.

† Report of the Indian Fiscal Commission (1921-22), par. 41.

‡ *Ibid.*, par. 41.

which the establishment and promotion of industries would bring to agriculture, labour, public revenues and to national character. Their review of the economic conditions of India convinced the Commission that industrial development was essential for the well-being and progress of the people of the country. The conclusion of the Commission regarding the importance of industrial development in India may be given in their own words : " We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character."*

Choice between Free Trade and Protection.— Having established the case for industrial development of India, the Commission next considered the measures to be adopted to achieve that aim. They examined the fundamental question underlying the fiscal policy of India, *viz.*, the choice between Free Trade and Protection and laid down the circumstances under which a policy of protection was justified and calculated to prove beneficial to the country.† The general principles evolved out of the discussion were then applied to the special conditions obtaining in India. The chief question that required an answer was whether the industrial development, universally desired in India, could be attained without the stimulus of protective duties, and if not, whether the advantage to the country arising from the industrial development would outweigh the burden which protective duties would impose. On a consideration of the different factors involved in the problem such as the industrial aptitude of the people, the natural

* Report of the Indian Fiscal Commission (1921-22), par. 54.
† See for detail—*Ibid.*, pars. 62-69.

resources of the country and the difficulty of new industries being able to face outside competition without assured Government aid, the Commission came to the conclusion that protection was calculated to bring a very material gain to the country, having regard to the desirability of industrial development and impossibility of its taking place without the stimulus of protective duties.*

The main Recommendation of the Fiscal Commission.—The Fiscal Commission recommended that a policy of protection should be adopted for the industrial development in India. There arose, however, a serious difference of opinion amongst the members of the Commission regarding the qualified statement of the majority regarding the policy of protection which was "to be applied with discrimination along the lines indicated in the Report."† The minority were of the opinion that there should be unqualified pronouncement that the fiscal policy best suited for India was protection.‡ They stated that there was no country in the world including British Dominions, which had so qualified the policy of protection.§ They admitted that the policy of protection should be applied with discrimination, but held that such a formal limitation should not be a condition precedent to its adoption. The discrimination, they held, should be intended to minimize the sacrifice, which is inherent in a policy of tariff protection, as far as possible, but the minority pointed out "we do not subscribe to the condition that such discrimination should be *along the lines of the Report.*"¶

We shall deal with the controversy regarding the outline of the scheme of protection laid down by the majority in a later section of the chapter. We shall

* See for detail—Report of the Indian Fiscal Commission (1921 22), pars 74-75
† Ref. *Ibid.*, par. 55.
‡ Ref. *Ibid.*, Minute of Dissent, par. 2.
§ Ref. *Ibid.*, par. 5.
¶ Ref. *Ibid.*, par. 6.

now proceed to examine the reasons which led the Commission to recommend the adoption of a policy of Protection rather than one of Free Trade and to emphasise that protection should be applied with discrimination.

Strong Sentiment for Protection.—The report draws attention to the strong feeling in India in favour of protection. This desire for a policy of protection has in many cases been strongly reinforced by a consideration of India's past. Travellers relate that before the advent of Europeans, India was a country of great wealth. The protectionist feeling in India is strengthened by the remarkable industrial development under a system of protection of all the great industrial nations of the world. We have already shown in chapter I how the leading industrial nations of the world have sheltered their industries behind a protective wall. The Commission pointed out that, "other countries have developed their manufactures to a remarkable degree under a system of protection and we believe that Indians are fully capable of doing the same." India can thus cite numerous precedents for the adoption of a policy of protection.

This public sentiment is referred to in the Report not as a reason for the adoption of protection, but as an additional support to the reasoned grounds on which the adoption of a policy of protection may be justified. The Commissioners observed :—"We do not wish, however, to rest the case for protection in India on the sentiment of the Indian people or the example of other countries. We have considered most carefully the economic arguments and we hope to show that the policy which we advocate will stand this crucial test."*

Economic Arguments for Protection.—The Commission examined the merits and drawbacks of Free Trade and protection and fortified their case for

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* Report of the Indian Fiscal Commission (1921-22), par. 61.

protection by drawing in the well-known arguments of J. S. Mill and Frederick List. We have already referred to these arguments in chapter II while dealing with the Theoretical Background of Protection. We propose here to examine the circumstances in India which led the Commission to advocate a policy of protection for India.

Infant Industry Argument.

The economic argument in favour of protection for India is based on a passage stated many years ago with admirable lucidity by John Stuart Mill, who wrote, "the superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire may in other respects be better adopted to the production than those which were earlier in field."* The classical exposition of this argument is to be found in the works of List, whose economic theories have exercised a profound influence on the policy of the great protectionist countries and on the writings of a veteran Indian Economist like the late Mr. Justice Ranade.† Professor Pigou, in dealing with List's arguments, writes as follows :—

"The main element of productive power, whose development involves a long process, is a population trained in the general atmosphere of industrial pursuits. If a country is entirely agricultural and has no important class of artisans or factory workers, the skill required for starting any particular kind of mill will be very difficult to get. From these considerations it follows that the case for protection with a view to building up productive power is strong in any agricultural country which seems to possess natural advantages

* Report of the Indian Fiscal Commission (1921-22), par. 64.
† Ref. M G. Ranade—Essays on Indian Economics, Chap. 1.

of manufacturing. In such a country the immediate loss arising from the check to the exchange of native produce for foreign manufactures may well be outweighed by the gain from the greater rapidity with which the home manufacturing power is developed. The 'crutches to teach the new manufacturers to walk,' as Colbert called protective duties, may teach them this so much earlier than they would have learnt it, if left to themselves, that the cost of the crutches is more than repaid."* The Commissioners rightly concluded that, "these words might almost have been written with direct reference to India and the case for protection in India can hardly be stated better."†

The infant industries argument possesses unquestionable theoretical validity; but at the same protection to infant industries have to be used judiciously and with discrimination.

The Fiscal Commission emphasised the great advantages India would derive from industrial development and pointed out that the conditions for a rapid advance were suitable, provided the stimulus of protective duties was made available. They were convinced that protection would bring a very material gain to the country.‡

Public Revenue.

Another important consideration in favour of a high tariff urged by the Commission related to the revenue needs of the Government of India. A general opinion was expressed against the possibility of a further increase in direct taxes in India and in favour of indirect taxation in case additional revenue became necessary.§ This salutary effect on public revenue hoped for by the Commission is, however, highly problematical.

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* Report of the Indian Fiscal Commission (1921-22), par. 74.
† *Ibid.*, par. 74.
‡ *Ibid.*, par. 75.
§ *Ibid.*, par. 76.

Professor Vakil rightly pointed out, " in discussing this point the Commission shows a serious lack of economic knowledge. The simple truth that a really effective protective tariff will not yield large revenue is ignored. The possibility of an increase in Income-Tax receipts from the existence of new industrial concerns which will spring up under the tariff wall is forgotten and a capitalistic denial to an increase in direct taxation is given with characteristic indifference to the interests of the general mass of the people for whom great concern is shown in other parts of the Report."*

The case for protection in India is so strong that it was unnecessary for the Commission to resort to the argument regarding public revenue which cannot stand the test of rigid reasoning.

Diversification of Industry.

It has often been asserted that the basic argument of Indian protectionism is the infant industry argument. This is only partially true. The argument of diversification of industry has always been to the fore in India. The Famine Commissioners in their Report of 1880 had argued that no remedy for the ends of famines could be complete which did not include the introduction of a diversity of occupations, through which the surplus population might be drawn from agricultural pursuits and be led to find the means of subsistence in manufactures.† It will thus make the problem of famine much less serious, afford a field for the employment of different grades of skill and have a salutary influence on the national character. The economics of an agricultural country like India are bound to be unstable and it is therefore very essential to aim at and evolve a well-balanced national economy based on a simultaneous advance of manufacturing as well as agricultural industries.

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* C. N. Vakil—Our Fiscal Policy, p. 123.
† J. C. Coyajee—The Indian Fiscal Problem, p. 8.

National Defence.

National safety, it is argued, requires that a country should aim at economic independence even if this should entail a permanent burden on community. It may indeed be feasible and desirable to sacrifice economic considerations and to nurse a few industries for the avowed purpose of national defence. And yet it would be sheer folly to try to regulate the whole of the normal peace economy on a war basis.*

Regarding national defence argument, the Commission stated that, " the military value of the industry must be balanced against the economic cost of maintaining it and the final decision must be based on a sense of proportion."†

Losses and Danger of Protection.—We now turn to the losses that must be set against the gains to India from protection. The most important item of loss is the burden of increased prices that protective duties impose on the people. We have already referred in chapter III (Methods of Protection) how the import duties will raise the general price level and how the rise is not confined to the particular articles taxed. The consumers of the taxed articles as well as those industries which are not protected will suffer owing to the increase of prices.

(*a*) **Wage earners.**—There will be thus an increase in the cost of living and wage earners may be adversely affected. Wages may in course of time rise with the cost of living but generally they do not rise as fast as prices. Although the skilled labourers, especially in the protected industry, will benefit, the unskilled labourers, on account of their excessive numbers will probably be worse off as the result of protection. The

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* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 2.

† Report of the Indian Fiscal Commission, (1921-22), par. 107.

wages of the agricultural labourers may also rise, particularly in the neighbourhood of industrial centres, but it is doubtful whether they will quite overtake the increased cost of living.

The losses which a system of protection will involve was considered by the Commission from the point of view of (1) the agricultural classes and (2) the middle classes.

(*b*) **Agricultural Class.**—In the case of the former either of the two consequences will follow. Either the agricultural producer will not receive for his produce an increased price which will fully compensate him for the increased cost of production, in which case agricultural interests would suffer and there would be a tendency for marginal land to go out of cultivation; or the price of agricultural produce will be raised generally to cover the increased cost of production with injurious effects on the mass of population.* The remedy for this dilemma according to the majority was that protection should be applied with discrimination as laid down by them.

(*c*) **Middle Class.**—With regard to the middle classes, *viz.*, the professional, clerical and petty trading classes—there is no doubt that they will be more adversely affected than any others by a policy of protection The middle classes have a certain standard of living which entails expenditure on imported goods. Their cost of living will undoubtedly rise. The possibilities of equivalent expansion in their incomes, however, are limited. It is probable therefore that for some period they will feel the effects of protection more than any other class of the population.† The Commission instead of suggesting a remedy for this assumed the willingness of the middle classes to merge their own immediate interests in the wider interests of the country

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* Report of the Indian Fiscal Commission (1921-22), par. 80.
† Ref. *ibid.*, par. 81.

(*d*) **Other Disadvantages of Protection.**—The Commission then referred to certain other disadvantages which are inherent in any system of protection, namely, (i) the danger of political corruption, (ii) the possibility of combinations of manufacturers and (iii) the risk of encouraging inefficient methods of production We have referred to these dangers in a general way in chapter II. Here we propose to examine the extent to which they apply to the particular conditions in India.

(i) Political Corruption.

Regarding political corruption the Commission pointed out that, "conditions in India are less favourable to such development than they are in many countries. The variety of the interests represented in the legislative bodies and the strength of the representation of the agricultural and landed classes make it improbable that the industrial point of view could secure undue prominence, while under the existing system of high revenue duties, which is open to the same dangers, there have been no traces in the Indian Legislature of any undesirable development of this nature."* Moreover, the enquiry into the conditions of each industry, which discriminate protection will make necessary, will be conducted by an impartial body with the utmost publicity and the conclusions arrived at and the reasons for them will be known to the public when the case of the industry comes before the Legislature, will greatly reduce the opportunities for political corruption.

(ii) Combination.

A protectionist system certainly gives the opportunity for undesirable forms of combinations. The Commission was not unmindful of this danger and proposed a remedy for this. The matter should be investigated by the Tariff Board and if the Board

* Report of the Indian Fiscal Commission (1921-22), par. 85.

reports that the combination is injurious to the interests of the Indian consumers and the Legislature agrees, the protection given to the industry could be lowered or withdrawn or possibly special legislation could be introduced to deal with the matter.*

(iii) Inefficient Method.

As regards the danger of encouraging inefficient method of production, it can partly be met by the supervision of the Tariff Board but mainly by the exercise of discrimination in the selection of industries for protection.†

Need for Discriminate Protection.—These and other disadvantages of protection can be overcome as the Commission pointed out, only by the exercise or discrimination in the selection of industries for protection. The principle on which this recommendation is based is that the suffering and sacrifice of most section of population should be restricted to the minimum in a country where there is already far too much economic distress.

According to the majority discriminate protection which is explained in fuller details later in this chapter, while giving the necessary stimulus to industrial development would try to minimize the burden on the community. It would restrict the rise in prices to a minimum by granting protection only to suitable industries which satisfy certain necessary tests.‡ It would also curtail the period of the burden by making the adoption of efficient methods one of the necessary conditions of admission to the benefits of protection.§ Wise discrimination is essential in the best interest of the industries themselves. High duties indiscriminately levied on imports are likely to stimulate a host of weak and inefficient enterprises. Their inevitable collapse will shake the confidence of capital

* Report of the Indian Fiscal Commission (1921-22), par. 86.
† *Ibid.*, par. 87.
‡ Ref. *Ibid.*, par. 89.
§ Ref. *Ibid.*, par. 90.

which is essential for steady industrial progress. They are also likely to unsettle labour because it will be attracted from the sound to the unsound industries in the period of unhealthy boom caused by the indiscriminate protection and will be involved in ruin sure to overtake them sooner or later.*

The majority of the Commission came to the conclusion that, " in the interests of consumers generally and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress, the policy of protection which we recommend should be applied with discrimination, so as to make the inevitable burden on the community as light as is consistent with the due development of industries and to avoid abrupt disturbances of industrial and commercial conditions."†

Concluding observations.—We may at this stage make certain concluding observations on the case for protection in India. So far we have examined the arguments for and against the adoption of a policy of protection in India. Firstly we have emphasised the benefits that will accrue to India from industrial development. We have next examined the necessity of extending the stimulus of protection to secure rapid progress in that direction. On the other hand, we have admitted that there are certain losses and dangers of protection but we have shown that these could be mitigated by following a policy of discriminate protection and by the constant supervision of the Tariff Board. We fully endorse the finding of the Commission that, " the temporary loss involved will be more than made good by the ultimate gain and that the balance of advantage is heavily on the side of the recommendation of the adoption of a policy of protection to be applied with discrimination."‡ It is our view that the policy of protection should have been

* Ref. Report of the Indian Fiscal Commission (1921-22), par. 91.
† *Ibid.*, par. 93.
‡ *Ibid.*, par. 84.

accepted by the Government long ago, for example when the late Mr. Justice Ranade and other Indian Economists of the time clamoured for it. The recommendation of that policy by the Fiscal Commission in the Post-War period of intense foreign competition and industrial reorganization was none too early in the circumstances of India.

Outline of the scheme of Discriminate Protection.—We have considered the reasons for recommending the adoption of a policy of protection for India and for holding that that policy should be applied with discrimination. We shall now review the outline of the scheme of protection as conceived by the majority of the Fiscal Commission. The most controversial part of the Report which has given rise to the Minute of Dissent is the scheme of protection outlined by the majority.

The most outstanding feature of this scheme is the constilation of an impartial organisation—the Tariff Board for administering in detail the policy of discriminate protection. The Board was to be a permanent body of high standing. It was not to take decisions but make recommendations. There was to be the utmost publicity in connection with the inquiries and reports of the Tariff Board. The duties of the Board were to be, *inter alia*, to investigate the claims of particular industries to protections, to watch the operation of the Tariff and generally to advise the Government and the Legislature in carrying out the policy as recommended in the Report.* As regards its composition the Board was to consist of not less than three members. According to the majority, "the principle should be accepted that the best men available are to be engaged, selection depending rather on general qualifications than on specialised or expert knowledge. It is essential that all the members should be men of

* See for functions of the Tariff Board in detail—Report of the Indian Fiscal Commission (1921-22), par. 305.

ability, of integrity and of impartiality, and other desirable qualifications are a knowledge of economics and a practical acquaintance with business affairs."* On the other hand, the minority wanted the Board "to consist of three members and two assessors. The chairman should be a trained lawyer who has had experience for a reasonable time on one of the High Courts in India; the other two members should be elected by the non-official members of the Indian Legislature and the two assessors should be elected by leading Chambers and Mercantile Associations in India."†

Indian opinion is impatient with the system of nomination by Government to important positions. The minority suggested certain safeguard against this. They proposed to give power of nominating the chairman to the Government, but that power was to be limited in as much as the chairman was to be an ex-High Court Judge. Regarding the election of the other two members of the Board, it was suggested that the right of electing them should be given to the elected members of the Indian Legislature and not to the non-official members thereof. We hold that there is a considerable force in the argument of the minority and that the suggestions made by them deserve the careful consideration of the Government.

Guiding principles for Tariff Board.—In dealing with all claims to protection, the Tariff Board was in the first instance to satisfy itself that the following three conditions were fulfilled :—

"(1) The industry must be one possessing natural advantages, such as an abundant supply of raw materials, cheap power, a sufficient supply of labour or a large home market. No industry which does not possess some comparative advantages will be able to compete with the successful industries of the world on equal terms and therefore the natural advantages possessed by an Indian industry should be analysed

* Report of the Indian Fiscal Commission (1921-22), par. 309.
† *Ibid.*—Minute of the Dissent, par. 60.

carefully, in order to ensure, as far as possible, that no industry is protected which will become a permanent burden on the community.

(2) The industry must be one which without the help of protection, either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country.

(3) The industry must be one which will eventually be able to face world competition without protection."*

Besides fulfilling the above conditions those industries in which the advantages of large scale production could be achieved and in which there was a probability to satisfy the entire needs of the country, were to receive a favourable treatment.

The Commission favoured the grant of adequate protection to industries, irrespective of the general conditions laid down, which were found essential for national defence or were of special military value.† A similar exceptional treatment was to be accorded to basic industries by which were meant industries of which the products were utilised as raw materials by numerous other industries in the country. The commission recommended that such industries might be assisted chiefly by means of bounties.‡ The abolition of the import duties on machinery and on raw materials as well as on partly manufactured goods like yarn and on coal was also recommended by the Commission.§

The minority led by President Sir Ibrahim Rahimtoola disapproved¶ of the main recommendation of the

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* Report of the Indian Fiscal Commission (1921-22), par. 97.
† *Ibid.*, par 106.
‡ *Ibid.*, par 108.
§ *Ibid*, par 109-116.
¶ The reasons given by the minority for dissenting from their colleagues were as follows :—

"(1) The main recommendation has been hedged in by conditions and provisos which are calculated to impair its utility. (2) In places the language employed is half-hearted and apologetic. (3) We are unable to agree with the views of our colleagues on Excise, Foreign Capital, Imperial Preference and the Constitution of the Tariff Board. (Ref. Report of the Indian Fiscal Commission (1921-22)—Minute of Dissent, par. 1.)."

majority that the policy of protection should be applied with discrimination along the lines of the Report. The minority wanted a more emphatic, determined and enthusiastic pronouncement on the question of protection in accordance with the almost unanimous wishes of the Indian people. According to the minority the policy of discriminating protection as laid down by the majority was hedged in by conditions and provisos which were calculated to impair its utility. The policy formulated by the majority in the opinion of minority was open to objection because (1) it mixed up policy with procedure and (2) by emphasising the method of carrying out the policy, the vital issue was sidetracked, (3) it further ignored the fact that every country applies protection with discrimination suited to its own conditions and lastly (4) the outlook of the majority was different from that of the minority.

The minority was of the opinion that there should be an unqualified pronouncement that the fiscal policy best suited for India is Protection.*

Criticism.—Two well defined lines of criticism were directed against the recommendations of the majority. The Press in England and her businessmen and politicians were against its recommendations pointing out that discriminating protection was all the same protection and the inevitable result in high prices would affect the consumer whose poverty was proverbial. On the other hand, the opinions expressed in the dissenting minute which characterises the recommendations of the majority as being of a halting and a vague nature and as not having of a far reaching character, enough, represented the prevalent Indian view.†

The essence of the scheme drawn by the majority was that only those industries were to be entitled to

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* Report of the Indian Fiscal Commission (1921-22)—Minute of Dissent, par. 2.

† Ref. The Paper read by T. K. Duraiswami Aiyar on Discriminating Protection at the Sixth Conference of the Indian Economic Association—in the proceedings of the Sixth Annual Conference p. 9.

State assistance for which conditions in the country were favourable. If we consider the conditions of discriminating protection as laid down by the majority in their practical application, we can see for ourselves that the policy of protection is not to be applied to new industries; and that when applied to old or existing industries it is to be applied only for a given short period provided they fulfil the conditions of discriminating protection. Only those industries in which a definite start has been made and which are run on a very large scale with several natural advantages may, if they can show that they cannot flourish without some assistance, get a qualified measure of protection from the Government. Such halting policy of protection is not likely to bring about an all round industrial development, which we must work for if the poverty problem of India is to be solved. The first two conditions to secure protection seem reasonable and capable of being proved. The third condition on the other hand requires an omniscient Tariff Board. What the world competition will be with regard to a particular industry in future is bound to remain an unknown factor. If this is to be a condition precedent to the grant of protection to an industry, protection may not be granted at all.*

The first and the foremost duty of the Commission was to indicate the lines on which the Government should shape its fiscal policy so as to expedite the development of industries. The recommendations of the Commission clearly do not satisfy this fundamental requirement. The Commission took the requirements of the existing industries into consideration so much so that it actually recommended that no State assistance (by means of protective tariffs or bounties) should be given to industries which have not yet come into existence

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*cf, C. N. Vakil—Our Fiscal Policy, pp. 126-127.

The majority approached the problem with the Free-Trade bias. They did not find it possible to resist the insistent demand of the people of India for a policy of protection. Their own review of the lack of industrial progress and need for industrial development inevitably led them in the direction of protection. But all through the report the dread of offending or injuring British interests seems to have been present in their mind. The halting nature of the recommendations of the majority takes away with one hand what they give with the other. Their concluding chapter is nothing else but a submissive apology to British manufacturers for committing the sin of recommending even discriminating protection for India.

Thus we see that the minority were perfectly justified in complaining about the half-hearted and apologetic tone of the Report. The majority seemed to have forgotten in many cases that they were sitting as an Indian Commission. The Commission did not suggest a really constructive policy but some emergency measures to stop the rot in the existing industrial system of the country. Their recommendations suited the existing system admirably, but they could not serve as the basis of a constructive policy in the future.

Other Recommendations of the Fiscal Commission.—We have dealt with the questions of protection by means of export duties in chapter III (Methods of Protection) and found that this method does not meet with the approval of modern economists. The Fiscal Commission was also against the imposition of export duties for the purpose of protection of Indian industries. They condemned the export duty on hides and skins, which was imposed as a measure of protection to the tanning industry in 1919, as wrong in principle on the ground that if protection was needed, it should have been given through an import

Export Duty

and not an export duty.* Some witnesses had suggested the imposition of export duty on raw cotton with a view to affording protection to the Indian Cotton Mill Industry. The Commission held that an export duty on cotton would fall on cotton producers in India and would have the effect of discouraging the cultivation of cotton.† As stated in chapter III the export duty mainly discourages production of the taxed commodity unless it possesses monopoly, without substantial benefit to the industry utilizing the article as its raw material. It should therefore be considered unfair to penalize only a section of the community.

The Commission recommended that for revenue purposes export duties should be used sparingly and with great caution and should be imposed at a moderate rate only on articles in which India had a monopoly or semi-monopoly.‡ Dealing with the question of restrictions on the export of food grains, the Commission came to the conclusion that in normal times any restriction on the export of food grains whether by export duties or by any other means was contrary to the true interests of the country.§ In abnormal times, however, the Commission favoured a temporary export duty.¶

Excise Duty and Indian Cotton Excise.

On this subject the Commission was divided. It discussed the general principles governing the imposition of excise duties. The majority came to the conclusion that they were to be ordinarily confined to industries concentrated in large factories or small areas, to be imposed for checking consumption of injurious articles or otherwise to be levied for revenue

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* Report of the Indian Fiscal Commission (1921-22), par. 190.
† *Ibid.*, par. 186.
‡ Ref. *Ibid.*, par. 182.
§ *Ibid.*, par. 204.
¶ *Ibid.*, par. 212.

purposes only.* The minority, however, held that they should be restricted to alcohol, tobacco and such other articles, the consumption of which it was desirable to check in the interests of the community and if more revenues were necessary, a few articles of luxury might be made subject to excise duty.†

The principles laid down by the majority in respect of the excise duty were applied by them to the question of Indian cotton excise duty. They recommended that the existing cotton excise duty should in view of the past history and association, be unreservedly condemned and that the Government of India should "clean the slate" and take action with respect to the absolute repeal or retention of the duty, with the consent of the Indian Legislature.‡ The dissenting members pleaded that the cotton excise duty should be immediately abolished. They held that if there was to be "a clean slate" as recommended by the majority the cotton excise duty must go especially as the country unanimously demanded its abolition.§

Foreign Capital.

Foreign Capital was another important subject on which the Commission was divided. The existing predominance of foreign capital in India and the prospect of its increasing under a system of protective tariffs raised the question of how far it was desirable to follow the policy of open door with reference to it. The advantages to India of the import and use of foreign capital were pointed out by the majority particularly for the rapid industrial development of the country which was to be effected with the help of protection.¶ The existing distrust of foreign capital in India was referred to and various suggestions for placing restrictions on its use were examined and

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* Ref. Report of the Indian Fiscal Commission (1921-22), par. 151
† Ref. *Ibid.*—Minute of Dissent, par 12.
‡ Ref. Report of the Indian Fiscal Commission (1921-22), par. 169.
§ Ref. *Ibid.*—Minute of Dissent, par. 27.
¶ Ref. Report of the Indian Fiscal Commission (1921-22), par. 289.

rejected as unpracticable and injurious. They held that only in the case of Government concessions stipulation should be made with respect to rupee capital, Indian directors and facilities for training Indian apprentices.* It was believed that the existing prejudice in India against foreign capital would die out and it was held by the majority that "there is enough room for the Indian and British in the vast field of industrial development of the country and we believe that without any legislative compulsion it will be found that the two communities will co-operate increasingly to the advantage of the country as a whole."†

The minority on the other hand objected to the distinction made by the majority between companies getting concessions and those establishing themselves behind the tariff wall. It was pointed out that there was really no distinction between Government granting subsidies or bounties out of taxation money and allowing an industry to tax the people indirectly by means of higher prices resulting from protective duties. In both cases the people of India had to pay the price either as tax-payers or consumers.‡ The minority pointed out that the absence of any restrictions on the importation of foreign capital in India under a system of protection might lead to results, the danger of which did not exist under a policy of Free Trade. If the principle of protection be adopted and if the importation of foreign capital be not restricted, India would be offering a vast field for industrial exploitation at the cost of her consumers to all foreigners. Foreigners in all parts of the world would then be at liberty to start companies in their own country and in their own currency and establish industrial concerns in India, with all the advantages of a tariff wall, for which the people of India would have to pay.§ The minority

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* Ref. Report of the Indian Fiscal Commission (1921-22), par. 292.
† Ref. *Ibid.*, par. 294.
‡ Ref. *Ibid.*—Minute of Dissent, pars. 46-47.
§ Ref. *Ibid.*, par. 53.

held that reasonably adequate capital would be available under the protective policy, but to secure rapid progress of industrialisation they were prepared to accept the advent of foreign capital provided suitable conditions were laid down to safeguard the essential interests of India. They suggested that all companies protected by tariff should be companies incorporated and registered in India with a rupee capital, they should have a reasonable proportion of Indian Directors on their Board of Management and offering facilities for training Indian apprentices.*

The question of the inflow of capital under a protection system is very important. Many protectionists consider that if a protective system encourages the development of industry by non-nationals it would be regarded as worse than useless. The demand for industrialization in India as has already been indicated, has been closely associated with national aspirations. The ideal was an Indian industrialization —not an industrialization in India carried on and controlled by non-Indians Thus we see that the minority were perfectly justified in suggesting the control over foreign capital, which was expected to safeguard the essential interests of India.

Supplementary Measures.

The Commission besides recommending customs tariff for industrial development, suggested the following supplementary measures for the realisation of same aim:—(1) greater industrial bias in primary education (paragraph 122), (2) measures for the training of Indian apprentices in skilled labour (paragraphs—123-124), (3) measures for ensuring increased mobility of labour (paragraph 125), (4) a change in the railway rates policy with a view to encourage industries on the lines suggested by the Industrial Commission and the Railway Committee (paragraphs 126-129), (5) improvement in railway facilities

Ref Report of the Indian Fiscal Commission (1921-22)—Minute of Dissent, pars. 50-51

(paragraph 130), (6) lowering of coastal shipping rates (paragraph 131), (7) measures against dumping (paragraphs 133-139), (8) safeguards against imports from countries with depreciated currencies (paragraph 140) and against bounty-fed imports from other countries (paragraph 141).

We fully endorse these measures suggested by the Fiscal Commission. While we recognise that protection against foreign competition by means of custom tariff is an important device for promoting the industrial development of a country, other means and methods of industrialisation should be fully explored at the same time. This would accelerate industrial development and appreciably reduce both the duration and degree of protection necessary for the home industries and thus lessen the burden on the consumer. We shall now proceed to indicate the action taken by the Government on the recommendation of the Fiscal Commission.

Adoption of Protection.—Mr. Jamnadas Dwarkadas, member of the Fiscal Commission, moved a resolution on 17th February 1923 in the Indian Legislative Assembly advocating the adoption of a policy of protection, "its application being regulated from time to time by such discrimination as may be considered necessary by the Government of India with the consent and approval of Indian Legislature." On behalf of Government Mr. (afterwards Sir) Charles Innes moved an amendment involving the acceptance in principle of "the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India." The amendment embodied the principle of discrimination with due regard to the criteria laid down by the majority of the Fiscal Commission and recommended the appointment of a Tariff Board for one year in the first instance. The amendment after a full debate was adopted.* It will thus

* A. G. Clow—The State and Industry, pp. 115-116.

be seen that the Resolution as adopted in its final form was based on the recommendation of the majority of the Fiscal Commission, the point of view of the minority being ignored.

In pursuance of the policy the first Tariff Board* was appointed in July 1923 to consider the claims of iron and steel industry for protection. The first enquiry by the Tariff Board will be reviewed in the following chapter.

Procedure in case of an Enquiry.—Before concluding this chapter we may explain the procedure adopted in the case of a Tariff Board enquiry. This is as follows :—

An industry desirous of obtaining protection has to apply to the Government of India in the Commerce Department. If a *prima facie* case is made out in the opinion of the Department, the matter is referred by the Government to the Tariff Board for enquiry. After a preliminary consideration the Tariff Board frames a questionnaire and forwards it to the various interests concerned. The representatives of industry concerned and public bodies like various commercial associations submit their memoranda to the Tariff Board supplemented, where necessary by oral evidence. The Board also visits the principal centres of the industry concerned to familiarise itself in a realistic way with its conditions. As recommended by the Fiscal Commission, the utmost publicity is ensured through, of course, proceedings in camera are resorted to, when the evidence tendered is of such a nature that its publication will involve the divulging of trade secrets. The Report of the Tariff Board when ready is submitted to the Government, who may or may not accept it. On its acceptance, legislation

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* The personnel of the first Tariff Board was as follows :—
President—Mr (now Sir) G. Rainey.
Members :—Mr. (now Sir) P. P Ginwala. Prof. V. G. Kale.
Secretary—Rai Bahadur S. N. Banerji.

is proposed according to recommendations of the Board with which the Government of India are in agreement. The Tariff Board is thus only an advisory body, the final decision resting with the Government and the Legislature.*

The Tariff Board has so far undertaken about 50 enquiries We shall review the more important of these enquiries in the following chapters.

In a subsequent chapter we shall also offer comment on the constitution, working and procedure of the Tariff Board and make proposals for increasing its utility to the country.

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* Ref C N Vakil and M. C Munshi—Industrial Policy of India with special reference to Customs Tariff, pp. 54-55, and Indian Finance Year Book—1936—p 201.

PART III.

Discriminate Protection Under Operation.

CHAPTER VI

IRON AND STEEL INDUSTRY

Inquiries by the Tariff Board.—We will now proceed to review the operation of the policy of discriminate protection adopted by the Government of India in consultation with the Legislative Assembly on the recommendation of the Fiscal Commission. The Tariff Board which may be described as the 'pivot' of the new policy, was first set up in July 1923 and has since carried out inquiries into the claims for protection put forward by a number of industries. We will review these inquiries in the following order :—

(1) Iron and Steel Industry.
(2) Cotton and other Textile Industries.
(3) (i) Paper, (ii) Cement, (iii) Sugar, (iv) Salt—Industries.
(4) Other Industries.

In this chapter we will consider the case of the iron and steel industry.

Rise of the Iron and Steel Industry.—A brief history of the rise of the iron and steel industry may be given to indicate the stage of development reached by it when its case was referred to the Tariff Board.

The art of smelting and fashioning iron seems to have been known to the people of India from very early times. It is the opinion of many historians that the earliest weapons that figure in the half-mythological records of the Mediterranean peoples came from India.* The industry not only supplied all local wants but it also enabled India to export its finished products to foreign countries. The quality of the material turned out had also a world-wide fame. The famous iron pillar near Delhi, which is at least fifteen hundred years old, indicates an amount of skill in

* Ref. H. L. Dey—The Indian Tariff Problem in relation to Industry and Taxation, p. 150.

the manufacture of wrought iron, which has been the marvel of all who have endeavoured to account for it. Cannons of the largest calibre were manufactured in Assam. Indian steel was once in considerable demand for cutlery even in England. The manufacture of steel and wrought iron had reached a high perfection at least two thousand years ago.*

The modern iron and steel industry originated and developed in England during the eighteenth and first half of the nineteenth century. It is altogether a new industry based upon the scientific discoveries of the last 200 years. The ancient iron-smelting industry of India, still clinging to wasteful methods of consuming ore and charcoal became extinct owing to the competition of Europe and America.

The earliest attempt to introduce modern processes for the manufacture of pig iron and steel in India was made by Mr. Josiah Marshall Heath of the Madras Civil Service in 1830 in South Arcot district at Porto Novo. In the following years at Trinomali and Beypore similar attempts were made but by 1867 all of them were no more. In the year 1874 the Barakar Iron Works, the forerunner of the present Bengal Iron and Steel Company, launched upon its career to mark the first effective step towards the establishment of an iron industry in India, but the Bengal Iron and Steel Company began to show profit only from 1899.† But far away the important venture in the history of the industry was that of Tatas. The Tata Company was established at Sakchi (later removed at Jamshedpur) in the Singhbhum district about 150 miles to the west of Calcutta by the late J. N. Tata in 1907 and the construction of the works began in 1908. Pig iron was first produced in 1911

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* Ref. M. G. Ranade—Essays on Indian Economics, pp. 153-154.

† For further details *see* H. L. Dey—The Indian Tariff Problem in relation to Industry and Taxation, pp. 151-152, and M. G. Ranade —Essays on Indian Economics—Iron Industry, pioneer attempts, pp. 160-170.

and steel in 1913. The manufacture of pig iron had from the very beginning been a great commercial success. Substantial dividends were earned for the share-holders for the first time in 1913-14 and 1914-15. During these two years the sale of pig iron by the Tata Iron and Steel Company amounted to 106,795 tons and 97,698 tons respectively.* By 1916-17 the old plant under the stimulus of the World War was under full operation. The War came as a manifold blessing to the infant steel industry of India. Under the stimulus of enlarged demand and high prices production was speeded up. The Government of India had agreed before the War to take 20,000 tons of steel rails annually for ten years, provided that they could be produced of a suitable quality and at a suitable price; but it took much larger quantities on account of the heavy demand for War purposes.† The Railway Board secured 50,000 tons of the 1916-17 output for Indian railways and out of this 21,000 tons of rails and fish-plates were given up to meet the requirements of the forces in Egypt and Mesopotamia. During 1917-18, 97,000 tons of steel in all forms were supplied to Government, out of which 71,000 tons of rails and fish-plates and 4,200 tons of other sections were for overseas use. During the six months April-September 1918, the total supply was approximately 55,000 tons. Over and above these, a considerable tonnage of steel sections was supplied to engineering firms in India for the fabrication of river craft, workshops and other steel structures for various purposes.‡ Thus the Tata Iron and Steel Company, which was struggling with considerable difficulties in the production of steel in 1914, increased the output of rolled steel from 48,872 tons in 1913-14 to 123,890

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* Indian Tariff Board—*Evidence*—recorded during enquiry into the Steel Industry (1924)—Vol. I, pp. 29 and 69.

† Ref. S. G. Panandikar—Some aspects of the Economic Consequences of the War for India, pp. 105-106.

‡ Ref. Indian Munitions Board—Industrial Hand Book (1919), pp. 204-205.

tons in 1917-18.* This was the maximum capacity for the open hearth furnaces then in existence at Jamshedpur. In 1917 a large scheme of extension was mooted and completed in 1924. The old plant turned out finished steel products such as, rails, heavy structurals (beams, angles, channels, etc.) bars, light structurals, light rails and fish-plates. The additional products which the new plant was meant to turn out were plates, sheets—black and galvanized,—sheet-bars, and steel sleepers.†

(1) **Protection to the Indian Iron and Steel Industry:—Claim to Protection.**—The post-war depression and the large imports of cheap foreign steel threatened the very existence of the industry. Reduction of costs was one method of facing foreign attack, but the conditions and circumstances of the industry at that time made it hardly possible. The Indian iron and steel industry was unable to compete with foreign imports and began to incur heavy losses. Fortunately for it, the tariff policy of the Government of India came to be changed by that time and the Fiscal Commission in its report in 1923, recommended "an immediate inquiry into the Indian steel industry."‡

The policy of discriminate protection recommended by the Fiscal Commission as stated previously was accepted by the Legislative Assembly in February 1923. A Tariff Board§ was appointed on 10th July 1923 to carry out the scheme of protection as laid down in paragraph 97 of the report of the Fiscal Commission. The steel industry was the first to receive attention at the hands of the Board. The Tata Iron and Steel

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* Indian Tariff Board—*Evidence*—recorded during enquiry into the Steel Industry (1924)—Vol. I, p. 69.

† Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report—pars. 14-15.

‡ Report of the Indian Fiscal Commission (1921-22), par. 107.

§ The personnel of the Board was :—
President—Mr. (now Sir) G. Rainey.
Members :—Mr. (now Sir) P. P. Ginwala. Prof. V. G. Kale.

Company in its application for protection on behalf of the steel industry proposed that the existing 10 per cent. *ad valorem* import duty should be raised to 33.1/3 per cent. in order to give the industry adequate protection against dumping of foreign steel and iron, which was stimulated by the slump in the world trade, depreciated continental exchanges and the long start which the well-established foreign industry had obtained over the infant industry in India. They drew attention to the opinion of the Fiscal Commission that the prosperity of such an important key or basic industry was essential from the point of view of national safety and development and recalled the great services rendered by it to the Government during the late war.* It was contended that "the strategic advantage of basing the campaigns in Mesopotamia and East Africa on steel supplied by India far outweighed any money-saving and could not be estimated in terms of money."† The help thus rendered was urged as a special ground for the grant of public assistance for the steel producer.

Findings of the Board.—The Tariff Board after an enquiry lasting over nine months and taking evidence of the various parties interested submitted its Report to the Government of India on 15th March 1924. The Board held that the industry satisfied all the conditions for the grant of protection laid down by the Fiscal Commission and that its development had been hindered by severe competition from abroad. We shall now consider how the industry satisfied the conditions laid down by the Fiscal Commission for the grant of protection.

(A) **Natural Advantages.**—The Tariff Board Report on the steel industry stated that "India possesses great natural advantages for the production of

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* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition, 1937)—Vol. II, p. 49.

† Indian Tariff Board—*Evidence*—recorded during enquiry into the Steel Industry (1924)—Vol. I, p. 17.

steel and iron and that the first condition laid down by the Fiscal Commission is therefore fulfilled."*

(1) Raw Materials

The principal raw materials required for the steel industry are iron ore, coking coal and limestone (or dolomite) for fluxing purposes. The Board while considering the question of raw materials pointed out that large deposits of iron ore existed in many parts of India, particularly in the Central Provinces, but the most important were the 'iron belt' extending over the district of Singbhum and the adjoining Feudatory States of Orissa.† The advantage of India in the matter of coking coal was not found to be as great. It was not available in very large quantities nor was it of superior quality as it contained a high percentage of ash. It was, however, estimated that we could get 4 million tons of metallurgical coal per annum for the next 150 years at least.‡ This showed that we had a sufficient supply of coking coal for more than a century.

In respect of fluxing materials it was pointed out by the Board that India did not possess the same superiority as in ore, but economically was at no disadvantage.§ The supplies of limestone and dolomite were ample and good enough for most purposes. Most of the other raw materials required by the industry existed in India. An ample supply of manganese existed in the Central Provinces; and regarding refractory materials, silica bricks of good quality were produced at Kumardhubi. The various raw materials of good quality for the manufacture of silica bricks occurred in abundant quantities in almost every province of India and there was no reason to apprehend any shortage in the future.¶

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* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 18.
† *Ibid.*, par. 18.
‡ *Ibid.*, par. 19.
§ *Ibid.*, par. 22.
¶ *Ibid.*, par. 23.

The effect of these natural advantages was evident in the low cost at which India manufactured pig iron. She produced pig iron more cheaply than any other country in the world, but this advantage with which the Indian manufacturer started was lost owing to the higher cost of the subsequent processes of refining pig iron.

(2) Labour.

In respect of labour, India suffered from a disadvantage, *viz.*, lack of skilled labour which was considered inevitable in any country which was mainly agricultural and where industrial experience and training had still to be acquired.* We had to import skilled workers for the more difficult process and for the work of supervision from Europe or America. This was, however, considered a temporary difficulty, because in course of time we might be able to replace foreign workers by Indians.

(3) Market.

The market available to the Indian steel manufacturer was considered to be not as large as that in Europe and America, but it was held that upto the outbreak of the war the market was steadily growing and in due course the upward movement would no doubt be resumed.† With the increasing transport facilities in the country, the demand for steel goods was bound to expand.

The Board was thus able to show that the industry possessed large natural advantages in raw supplies and an increasing home market and that the disadvantage in connection with labour was likely to grow less in course of time. The first condition of discriminate protection was thus fulfilled.

(B) **The necessity of Protection.**—The second condition referred to the necessity of protection for the

* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 25.
† *Ibid.*, par. 26.

development of the industry and it was to be ascertained whether the industry could be established without protection. The Board after a careful inquiry concluded that at the existing level of prices and costs of production, the manufacture of steel at Jamshedpur was unprofitable and involved a heavy loss. There was every hope, however, that in the course of three or four years, production costs would be substantially reduced, following the adoption of a new process of manufacture and the provision of an up-to-date and efficient plant. But during this extremely difficult transitional period assistance was specially necessary. The Board concluded that, "our deliberate opinion is that without the help of protection, the steel industry is not likely to develop at all."*

(C) **Protection as a Temporary Measure.**—The third condition of discriminate protection referred to the ultimate ability of the industry to stand on its own legs without the help of protection. The Board stated that they had no hesitation in answering the question regarding this condition in the affirmative.† The industry would require time to acquire skill and experience in the difficult process of steel manufacturing, which it would get if protection were granted. It was already manufacturing pig iron at a cheap rate and in course of time, it should be in a position to manufacture steel at a competitive rate.

A Key Industry.—Besides this the steel industry as the Board pointed out was of great importance from the point of view of national advance. It had been laid down in paragraph 106 of the Report of the Fiscal Commission that, "any industry which is essential for purposes of national defence and for which the conditions in India are not unfavourable, should, if necessary, be adequately protected, irrespective of the general conditions which we have laid down for the

* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 27.
† *Ibid.*, par. 28.

protection of industries." There could be no question of the importance of the iron and steel industry for purposes of national defence and there appeared to be no natural obstacles to its development in India. On all these various grounds the case for the grant of protection to the iron and steel industry appeared to be overwhelmingly strong.

Recommendations of the Tariff Board.— Having established the case for protection, the Board proposed various measures for it. In doing so, they were guided by the general principle that the assistance given to the steel industry should be sufficient to give to the Tata Company (which was the Company mainly concerned) a fair return on its capital outlay and should be the minimum in order to safeguard the interests of the consumer. The Board considering the relative importance of the different methods of protection concluded that the best means of assisting a basic industry was by means of a bounty rather than by a protective duty.* But they held that as the financial stringency of the Government might not make possible this form of protection, it was proposed to give protection by a scheme of a combination of tariff duties and bounties.† After discussing the form of assistance, they considered the question whether protection should be given by means of specific or *ad valorem* duties.‡ The Board held that specific duties should be employed in the protection scheme, on the ground that *ad valorem* duties had a serious defect, especially when the prices were subject to wide fluctuations.§ Regarding the period of protection they proposed that protection should be given in the first instance for a period of three years only and the whole question

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* For a detailed discussion on this point *see* Chapter III—Methods of Protection.

† Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 99.

‡ We have already discussed the relative merits and demerits of these two types of duties in Chapter III—Methods of Protection.

§ Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par 100

should be reviewed before the end of that period when the world conditions were expected to be stable and the data for subsequent inquiry more satisfactory.*

The recommendations of the Tariff Board may be summarised as under :—†

(1) A specific duty varying from Rs. 25 to Rs. 45 per ton should be levied on different kinds of steel and iron goods.

(2) Goods of superior quality which were not produced in India were to remain subject to the existing revenue duty.

(3) Bounties were to be given on the manufacture of steel rails and fish-plates according to the following scale :—

Year.	*Per ton.* Rs.
1924-25	32
1925-26	26
1926-27	20

(4) Certain changes in the duties were proposed in order to safeguard the interest of allied and dependent industries which are considered below.

Subsidiary Measures of Protection:—The Allied and Dependent Industries.—There are certain industries which are closely related to the steel industry. The Board found that their positions were bound to be affected by their scheme of protection recommended for the steel industry. It was therefore necessary to give to these allied or dependent industries a sort of compensating protection as against the substantive protection granted to the principal industry. We shall now briefly consider these industries.

The Engineering Industry.—The Board defined the term engineering industry as follows :—

"Where raw steel is finished by forging and not by rolling, it is an engineering process."‡ The

* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 101.
† *Ibid.*, Chapter VIII.
‡ *Ibid.*, 2nd Report, par. 3.

engineering firms would be required to pay a higher price for the raw product. The Board therefore proposed to increase the duty on fabricated steel to 25 per cent. *ad valorem* generally.

The Wagon Building Industry.—The Indian wagon industry, which had come into existence as a result of the Government's announcement in March 1918 that they would purchase annually 3,000 wagons in India for ten years, was to be protected by the grant of bounties for five years on an increasing number of wagons but at a decreasing rate as follows :—†

	Number of wagons on which bounty was payable.	Amount of bounty per wagon Rs.
First year	800	850
Second ,,	1,000	700
Third ,,	1,200	580
Fourth ,,	1,400	500
Fifth ,,	1,600	400

The Tin Plate Industry.—There was an increasing demand for tins of different sizes and shapes for various commercial products; for example, kerosene oil, petrol, cigarettes, biscuits, and fruit provisions. The natural advantages which the industry enjoyed were considered same as in the case of the steel industry.‡ The industry was recommended protection by a specific import duty of Rs. 60 per ton (which was 15 per cent. *ad valorem* instead of 10 per cent.)§

The Wire and Wire Nail Industry.—The Indian Wire Products Co., Ltd., was concerned with the production of these materials. Its general position was the same as that of the tin-plate industry. The

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* *See* for detail—Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—2nd Report, par. 19.
† *Ibid.*, par. 25.
‡ *Ibid.*, par. 30.
§ *Ibid.*, par. 38

same duty, namely Rs. 60 per ton was therefore recommended for its benefit.*

The Agricultural Implements Industry.—A temporary protection was considered necessary for this industry. The Board recommended that the existing *ad valorem* duty be raised from 15 per cent. to 25 per cent. on picks, powrahs or kodalis and hoes.†

The Board did not accept the claim to protection put forward by the Locomotive, Steel casting and Enamelled ware industries.

The Locomotive Industry.—In the case of the locomotive industry it was considered desirable on national ground that the industry should be established in India, but it did not satisfy the indispensable preliminary conditions of a sufficient market. It was held that if protection were given, the country would carry a heavy burden during the next five years and at the end of that period progress made would be insufficient to justify the sacrifice. It was considered that the industry could be established if substantial assistance were given by Government in earlier years.‡

The Steel Casting Industry.—With regard to the steel casting the Board was of the opinion that under the existing circumstances it was not clear whether the annual demand for steel castings in the area which could be commanded from Calcutta was sufficient to keep even one of the steel foundaries fully employed. The Board pointed out that it was very difficult to estimate even approximately the probable annual demand for steel casting in India. Unless some estimate could be formed of the probable output, it was hardly possible to determine the cost of production or to assess the amount of protection needed. For this reason, the Board was unable to make any general recommendations.§

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* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—2nd Report, par. 45.
† *Ibid*, par. 48.
‡ *Ibid.*, 3rd Report, par. 18.
§ *Ibid.*, par. 32.

The Enamelled Ware Industry.—As regards the enamelled ware industry the view of the Board was that its prospects were not unfavourable, if the initial difficulties were once overcome. They considered it desirable that the manufacture of enamelled ware should be established in India and some form of assistance was necessary.* In their opinion the assistance could best be given to the industry by the removal of the import duties on raw materials which were not produced in the country. Since this proposal involved the sacrifice of revenue, it should be simultaneously considered with other applications that were received by the Government for the removal of duties on imported raw materials or for exemption from such duties. For this reason the Board deferred making definite recommendation in favour of the industry though they thought that its claims to assistance were strong.†

The general scheme of protection involved substantial increases in the import duties on iron and steel in various forms and the grant of bounties on steel rails, fish-plates and railway wagons. The price to be paid was a heavy one. The Board estimated the burden at approximately a crore and a half annually.‡ But the alternative was the extinction of industry. The Board considering the probable consequences of cessation of steel manufacture concluded that, "the complete collapse of the greatest single enterprise in the country would put back the clock for twenty years at least."§ The burden on the consumer was expected to be temporary, widely diffused and not too heavy considering the advantages to be gained.

Government Action.—The recommendations of the Board came up before the Legislature for decision at a special session held in May 1924 when the Steel

* Report of the Indian Tariff Board regarding the grant of protection to the Steel Industries (1924)—3rd Report, par. 37.
† *Ibid.*, par 39
‡ A. G Clow—The State and Industry, p. 117.
§ Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry (1924)—1st Report, par. 142.

Industry (Protection) Bill was introduced by the Government in the Legislative Assembly to give effect to the proposals of the Tariff Board. The Assembly, inspite of Government opposition, deleted the proposal to enhance the duty on certain classes of agricultural implements as it was likely to injure the interests of the agriculturist. The Bill passed into law as Act XIV of 1924; it was to have effect for three years and the last section provided for an inquiry to be made not later than March 1927 into the necessity of continuing protection after that date.* The details of the duties levied are given in Appendix III.

(2) **Supplementary Protection—Emergency Enquiry.**—The protection granted to the steel industry was, however, soon afterwards, largely nullified by a combination of circumstances. The Act had only been in force two months when Government received a fresh application for protection for the steel industry. The Tariff Board had pointed out in their first report the possibility of large changes in the world prices of steel and the necessity of reconsidering the rates of duty if these changes occurred. In the months following the passing of the Steel Industry (Protection) Act, the sterling price of steel was falling, the rupee sterling exchange was rising, (it was being maintained in the neighbourhood of 1sh. 6d.) and a collapse of the French and Belgian exchanges had resulted in a great fall in continental prices. The consequence was that almost every class of steel to which protection was granted, was cheaper in India than it had been in 1923.

The matter was referred to the Tariff Board for urgent enquiry. The Board reported that the case for further protection was well-founded and suggested enhancement of the duties.†

The recommendations of the Board for enhanced duties were not accepted by the Government of India, who proposed that supplementary protection should be

* A. G. Clow—The State and Industry, pp. 118-119.

† *See* for detail—Report of the Indian Tariff Board regarding the increase of the duties on Steel (1924), pars. 73 and 78.

given in the form of bounties which, while of immediate benefit to the industry, would not raise the price of steel goods in the country. The proposals of the Government were placed before the Legislative Assembly in January 1925 and the Assembly accepted the Government's proposal to leave the duties unaltered and give additional protection by means of bounties of Rs. 20 per ton on 70 per cent. of the weight of the steel ignots produced, subject to a maximum of Rs. 50 lakhs for one year from the 1st October 1924, to the 30th September 1925. The funds for the bounty were to be obtained from the yields of the increased import duties introduced in May 1924.* It was thought necessary, in view of the uncertain exchange situation, to take a fresh review of the position before September 1925, to decide whether the supplementary protection should be continued and if so whether with any alteration.

(3) **Further Supplementary Protection—1925.** —The Tariff Board again examined the question and decided to recommend the continuation of additional protection in the form of bounties. The recommendation of the Tariff Board were (1) that bounty should be given only to firms manufacturing mainly from pig iron made in India, (2) that it should be paid at the rate of Rs. 18 per ton on 70 per cent. of the total weight and (3) that the total amount of such further assistance should not exceed Rs. 90 lakhs upto March 1927.† The Government of India accepted the recommendations of the Tariff Board with this one modification, *viz.*, that they reduced the rate of bounties from Rs. 18 to Rs. 12 per ton and the total amount payable from Rs 90 lakhs to Rs. 60 lakhs.‡

In February 1926, the position of the industry again came before the Legislature, when a Bill was

* Ref. G. B. Jathar and S. G Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 52.
† Report of the Indian Tariff Board regarding the grant of Supplementary protection to the Steel Industry—Part I—(1925), par. 32.
‡ Indian Finance Year Book—1936, p. 265.

introduced for the amendment of the Steel Protection Act. The Bill which passed into law as Act VIII of 1926 secured three objects. It extended the scheme of bounties on wagons to underframes, enlarged the total amount payable under this scheme from Rs. 21 lakhs to Rs. 33 lakhs and removed the existing restriction on the amount which might be paid in a single year.*

(4) **Wire and Wire Nail Industry.**—In April 1926, the Tariff Board presented a report on the grant of additional protection to the wire and wire nail industry. In this they recommended that the existing protection should not be increased. Their decision was accepted.

(5) **Statutory Enquiry into Iron and Steel Industry (1926-27).**—As laid down in the Steel Industry (Protection) Act of 1924, an enquiry into the condition of the steel industry was to be made before the expiry of that Act in March 1927. Accordingly the Tariff Board was asked in 1926 to consider the question. The Act of 1924 lasted from the middle of June 1924, to the end of March 1927. Therefore the effective period of protection was only 2 years and 9½ months, which must be regarded as too short a period to show the stimulating effect, if any, of protection on the growth of industry. Moreover, it was just before or during this period that many important and difficult parts of the new plant were put into running order.† Besides these discouraging factors the Indian steel industry was handicapped in competition by the continual and precipitous depreciation of the Belgian and French exchanges and the appreciation of the rupee-sterling exchange. Inspite of all these serious disadvantages the industry made considerable progress during this brief period of protection. We shall now

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* A G. Clow—The State and Industry, p 120.

† Statutory Enquiry—1926—Steel Industry—Vol. II—*Evidence*, p. 63.

examine the findings of the Board in respect of all the various branches of the industry.

(A) (i) **Rolled and Fabricated Steel.**—In respect of rolled and fabricated steel the Board found that the policy pursued had been successful. The assistance given to the Indian iron and steel industry had substantially improved its position. In respect of works costs the results were actually better than anticipated in 1923-24.* The growth of the output in the different branches was appreciable. The output of finished steel which was 162,282 tons in 1923-24 increased to 319,597 tons in 1925-26 and was estimated at an average of 560,000 tons for the year 1933-34 as would appear from the following table.†

	Output in 1925-26. Tons.	Expected output in 1933-34. Tons.
Coke	694,070	900,000
Pig iron	573,196	800,000
Ferro-Manganese	7,302	10,000
Steel ignots	470,557	780,000
Blooms, slabs, billets	408,815	663,000
New 28″ mill	94,235	260,000
Old 28″ mill	44,734	...
Plate mill	20,871	25,000
(New) Merchant bar mill	60,163	120,000
(Old) bar mills	28,019	25,000
Black sheets	16,582	55,000
Galvanized sheets	12,681	
Tin bars	40,382	50,000
Steel sleepers	1,773	25,000
Blooms and billets for sale	519	...
	319,957	560,000

* For further details—*See* Statutory Enquiry—1926—Steel Industry—Vol. II—Evidence, pp. 73-93, 239-253.

† Ref. *Ibid.*, pp. 29-34, 64; Vol. III, pp. 26-82, 315-316.

The costs of manufacture were falling steadily with the increase of output and were expected to fall further.* As regards the effect on the consumer, the Board held that the decline in steel prices and the expansion of the market indicated that the protective duties had not proved burdensome, that the trade of the country had not suffered and that no serious hardship had been caused either to the purchaser of steel or to the general public.† Their conclusion was that the protection had enabled the Tata Company to survive the most difficult transitional period.

The Board considered the formation of the Continental Steel Cartel and concluded that the competition from Continental steel goods would be on a more organised basis. The object of the Cartel was to avoid overproduction and to undertake a joint sales organisation. The British manufacturers decided to give a rebate to those who purchased all their steel requirements from them. Thus the position with which the steel industry was faced was summarised as under :—‡

	Fair selling price per ton.	Foreign prices without duty.	
		British.	Continental.
	Rs.	Rs.	Rs.
Rails	118	105	...
Tin plates	156	150	...
Structural sections	120	104	86
Bars	129	108	90
Plates	133	105	92
Black sheets	183	153	122
Galvanized sheets	278	240	...
Sleepers	115	...	105

It was obvious from the above table that the industry was not able to face foreign competition without

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* Statutory Enquiry—1926—Steel Industry—Vol. I—Report, par. 167.
† *Ibid.*, par. 26.
‡ Ref. *Ibid.*, Table XVIII.

protection. The Board considered that the duty based on British prices was likely to be inadequate. Thus in order to give adequate protection and at the same time to reduce the burden on the consumers, the Board recommended that there should be a basic duty on all articles of British manufacture and an additional duty on those of non-British origin. This discrimination was justified not in order to introduce the principle of Imperial preference but on the economic needs of the industry in India. The Board did not favour the continuation of bounties on the ground that they would be too costly to maintain over a period of seven years during which the scheme of protection was to be in operation. The industry was to receive protection in the form of increased duties on imports. At the end of seven years there was to be a fresh enquiry as to the amount and kind of protection which might still be necessary.

(ii) **Tin Plate.**—In the case of tin plate the results were not quite satisfactory; but the Board held that, with a reasonable measure of protection, the industry would be established on a firm basis in the near future.* The rate of duty was reduced from Rs. 85 to Rs. 48 per ton. The period of protection was fixed as seven years.

Government Action.—The Steel Industry (Protection) Act of 1927 was accordingly passed giving effect to these recommendations. The Act was to be in force till March 1934, and before its expiry there was to be an enquiry as to the continuance of protection beyond that date.† The Bill involved differential duties on British and non-British goods as recommended by the Board. There was a heated debate in the Assembly on this proposal to differentiate Standard and non-Standard steel, *i.e.*, practically British and Continental steel. The opposition suspected that the Bill involved the principle of Imperial preference.

* Statutory Enquiry—1926—Steel Industry—Vol I.—Report, par. 226.
† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 59.

The Government supporting the view of the Board held that the above distinction was necessary to ensure a fair distribution of the burden as between the different classes of consumers and ensure stability to the scheme of protection. The opposition refused to favour British at the cost of Continental steel being opposed to the principle of fiscal preference.* The alternative suggested in the Select Committee (namely a uniform rate of duty based on the weighted average price of imported steel) was thrown out by the majority. The Government were opposed to it on the ground that it would offer inadequate protection and would also enhance to an unnecessary extent the price of Standard steel as well as of fabricated steel in India. This would hinder development work throughout India in respect of bridges, public works and manufacture of machinery. British and Standard steel happened to be synonymous, but by levying a differential duty on British and Continental steel, the administrative difficulties in testing every consignment of steel imported into India for the purpose of levying differential duties on Standard and non-Standard steel were obviated. The Assembly passed the Bill as submitted by the majority of the Select Committee which, however, succeeded in introducing two safeguards providing that the Governor-General-in-Council could increase, but not reduce, the duty chargeable on articles of British manufacture so as to ensure effective protection and that he might order an inquiry into the steel industry earlier than 1934 if he thought it desirable.† The Steel Industry (Protection) Act of 1927 as finally passed was based upon the principle of differentiation. The different rate of duties on British and non-British manufacture are mentioned in Appendix III.

(B) **Second Report on Iron and Steel Industry.**—The Tariff Board submitted its second

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* Ref. V. G. Kale—An Introduction to the Study of Indian Economics —Vol. I, p. 453.

† G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 52-53.

report, which concluded the statutory inquiry, in June 1927. The report dealt with (i) railway wagons and underframes, (ii) component parts thereof, (iii) wire and wire nails—industries.

(i) **Railway Wagons and Underframes.**—In the case of railway wagons and underframes, the Board held that great strides had been made in the manufacture of wagons in India.* They found that the policy of protection was successful in respect of the railway wagon industry and that it was able to meet, in normal circumstances, a large proportion of the demand in India. It required no assistance other than the existing revenue 10 per cent. duty and the continuance of bounty scheme was unnecessary. But owing to the abnormally small estimated demand for the next few years, some assistance was required and the Board recommended that until normal conditions were restored, all orders should be placed in India provided a certain limit of price was not exceeded.†

(ii) **Component Parts.**—The Board held that the manufacture of forging should be regarded as merely a branch of the wagon industry and that the same duty should be imposed on imported forgings as was proposed in the case of wagons and underframes. During the next few years, orders for forgings should continue to be placed in India as far as possible and in comparing Indian with foreign prices an allowance of 2½ per cent. above the revenue duty should be made.‡

(1) Forgings.

(2) Steel casting and spring steel.

The annual demand for steel castings was sufficient to permit an economic output. Therefore the Board considered that a good case had been made out for protection. The Board recommended

* Statutory Enquiry—1926—Steel Industry—Vol. VIII—Report, par. 7.

† *See* for detail—*Ibid.*, par. 68.

‡ *Ibid.*, par. 81.

that the most economical and convenient method of assisting the manufacture of steel casting was by the grant of bounty of Rs. 2-8-0 per cwt. and the protection should be extended in that form.* The Board had no recommendation to make in respect of spring steel.

(3) Bolts and Nuts.

The Board recommended a specific duty of Rs. 2 a cwt. be levied in place of an *ad valorem* duty of 10 per cent.†

(iii) **Wire and Wire Nails.**—The Board concluded that the protective duty had failed to achieve its object and should be discontinued. The raw materials for this industry was not being produced in India and that the only firm manufacturing nails had been closed down.

Government Action.—In March 1928, the Government introduced the Steel Protection Bill in the Assembly to give effect to the recommendations of the Board. The Government did not give effect to the recommendation of the Board to give bounties to the steel casting on the ground that the demand in India was not sufficient to justify protection by means of a bounty. The Bill passed into law as the Steel Industry (Protection) Act of 1928.‡

(6) **Certain Railway Materials made of Steel.**

(1) Chrome steel points and crossings.
(2) Bearing plates.
(3) Fish bolts.
(4) Rivets.
(5) Dogspikes.
(6) Stretcher bars.
(7) Gibs and cotters.

—In 1930-31 the Tariff Board considered the application from Messrs. Henry William (India), Limited, stating that the manufacture in India of the articles specified in the margin was hampered by the fact that the import duties on the manufactured articles were lower than, equal to or

* Statutory Enquiry—1926—Steel Industry—Vol. VIII—Report, par. 105.
† *Ibid.*, par. 113.
‡ G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 53.

insufficiently above the protective duties levied on the materials required for their manufacture.*

The Board recommended that a specific duty of Rs 2-4-0 per cwt. should be imposed on fish bolts and nuts, ordinary bolts and nuts and dogspikes and of Rs. 2 per cwt. on rivets, gibs, cotters and keys. It also recommended that chrome steel switches and crossings should be brought under the protective tariff and stretcher bar which formed part of switches and crossings should be liable to the same duty as switches and crossings, whether imported with the latter or separately. These recommendations were given effect to in the Steel Industry (Protection) Act, 1931.†

(7) **Additional Protection for Galvanized Sheets.**—The Tariff Board was appointed to consider the claim of the Tata Iron and Steel Company, Ltd., that galvanized sheets were being imported into British India at such a price as was likely to render ineffective the protection intended to be afforded by the duty on such galvanized sheets under Part VII of the Second Schedule of the Indian Tariff Act, 1894, and by the Steel Industry (Protection) Act, 1927.‡

The opinion of the Board was that the Tata Company had made genuine efforts to secure results which the Tariff Board considered feasible. Lack of progress was due to causes beyond the control of the Company, *viz.*, the strikes and fall in rail orders on which hinged the scheme of protection. Thus the whole balance of the scheme was destroyed and it was of the utmost importance to find a fresh outlet for the ingot steel.§ From that point of view the maintenance of or even an increase in the output of galvanized

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* Report of the Indian Tariff Board regarding certain Railway Materials made of Steel—1930, par. 1.

† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 60.

‡ Report of the Indian Tariff Board on additional protection for Galvanized Sheets—1930, par. 2.

§ *Ibid.*, par. 24.

sheets became a pressing necessity and the Board recommended that the industry should be assisted by the imposition of an additional duty of Rs. 37 per ton under Section 2(1) of the Steel Industry (Protection) Act III of 1927.* The Government accepted the Board's finding and in January 1931 the Assembly passed a resolution to that effect.

(8) **Steel Rails.**—(Further assistance in the shape of increased prices for Rails).—The protective scheme of 1927 involved the purchase by the Government of a certain quantity of rails from the Tatas at a fixed price every year. The Government of India entered into a seven-year contract with the Tata Company for the supply of rails at Rs. 110 per ton. The actual purchases in the three years 1927-28 to 1929-30 were 435,000 tons, while the amount to be purchased for next four years was estimated at a maximum of 360,000 tons only.† The average annual purchase of rails during the seven-year period would thus be only 113,000 tons as against a maximum output capacity of 195,000 tons. On account of this unexpected contraction in the demand for rails the rail mill was operated at much below the maximum capacity. Consequently, the incidence of works as well as overhead charges per ton of steel were higher than what was assumed in 1926. So the Board considered that the price of Rs. 130 per ton of 90 lb. rails was not too high and that an addition of Rs. 7 should be made to the price of Rs. 130 for 115 lbs. rails.‡ This was accepted by a resolution of the Assembly passed in April 1931, by which the Government was empowered to make an additional payment of Rs. 20 per ton.§ On the estimated purchases of rails for the years 1930-31 to 1933-34, this meant an additional assistance of Rs. 72 lakhs.

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* Report of the Indian Tariff Board on additional protection for Galvanized Sheets—1930, par. 12.
† Report of the Indian Tariff Board on Steel Rails—1931, par 5.
‡ Ref. *Ibid.*, pars. 8-9.
§ C. N. Vakil, S. C. Bose and P V. Deolalkar—Growth of Trade and Industry in Modern India, p. 294.

This additional assistance given in the shape of increased prices for steel rails, therefore, amounted in effect to a bounty of Rs. 4.4 per ton of finished steel produced at Jamshedpur.*

(9) **Wire and Wire Nail Industry.**—The question of restoring protection, which had been removed in 1927, to the wire and wire nail industry was considered by the Tariff Board in 1931 on the representation of the Indian Steel Wire Products, Ltd., Tatanagar. The Board recommended a specific duty of Rs. 45 per ton on wire as well as wire nails as there was an early prospect of the firm supplying itself with indigenous raw material. The Government accepted the finding of the Board and in March 1932 the Wire and Wire Nail Industry (Protection) Act was passed giving effect to the Board's recommendations.† The duty was to remain in force until 31st March 1934.

The Ottawa Duties.—The Indian Tariff (Ottawa Trade Agreement) Amendment Act (1932) which came into force from January 1933, gave effect to the tariff changes necessitated by the trade agreement made by the Government of India and His Majesty's Government in the United Kingdom at the Ottawa Conference held during July and August 1932 and the Supplementary Agreement regarding Iron and Steel‡ in September following. The Supplementary Agreement regarding steel, contemplating an arrangement by which the Tata Company would send Indian sheet bars manufactured by itself at Jamshedpur to England, would get it manufactured there into galvanized sheets and bring it back again to India in that form to be disposed of locally, provided for the adjustment of the Indian import duty on galvanized sheets as shown below.

In the class of iron and steel goods, the preference extended only to those commodities not subject to the

* H. L. Dey—The Indian Tariff Problem in relation to Industry and Taxation, p. 228.
† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 60.
‡ India in 1932-33, p. 135.

protective duties and in the class of machinery only to those articles which paid the ordinary revenue rate of 25 per cent. *ad valorem* and not to those which in the interest of agriculture and industries were free of duty or were subject only to the temporary duty of 10 per cent. *ad valorem*.* The Act modified the protective duties on non-fabricated galvanized sheets, then standing at Rs. 67 per ton, which were fixed at Rs. 30 per ton if of British manufacture and made from Indian sheet-bar, Rs. 53 per ton if made from sheet-bar other than Indian sheet-bar and Rs. 83 per ton on sheets not of British manufacture.†

(10) **Statutory Enquiry of 1933.**—The protection afforded to the industry under the Act of 1927 and other Acts referred to above was due to expire on the 31st October 1934. In August 1933, the Tariff Board was requested to hold the enquiry contemplated by the Steel Industry (Protection) Act of 1927 and also to re-examine the question of protection to the wire and wire nail industry as well as the provisions relating to steel and iron in the Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932.‡

The enquiry showed that the scheme of protection had been effective and that inspite of the great falling in the demand for steel products the industry made very substantial progress, maintaining its output and greatly reducing its cost of production. The Board pointed out that an important aspect of the question of the success of the 1926 scheme was the proportion of the Indian market which was captured by the Indian industry. The share of the available Indian market obtained by the Tata Company rose from 30 per cent. in 1927-28 to 72 per cent. in 1932-33.§

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* G. B Jathar and S G. Beri—Indian Economics (Fourth Revised Edition)—Vol. II, p. 54.

† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 60.—*See* Appendix III.

‡ Report of the Indian Tariff Board on the Iron and Steel Industry—1934, par. 1.

§ *Ibid.*—Part IV, par. 1.

Recommendations of the Board.—The main conclusion of the Board was that the 1926 scheme of protection had been successful and that the stage had arrived when, on all articles sold by the Steel Company in direct competition with British imports, either no protective duties were required at all or if any required, the rates could be lower than the normal rates of revenue duty. The Board also added that, if Continental steel products were sold at fair prices the Indian industry could well stand the competition. But the sale of Continental steel was effected through an international organisation which apparently regulated prices for export markets according to the local conditions of each market and not necessarily according to the expenses of production.* So the Board suggested that the duties on Continental goods, which were needed, were more in the nature of anti-dumping than protecting duties.

The Board held that the Ottawa Trade Agreement had been successful and beneficial as regards pig iron,† and suggested that the continued free entry of this product into the United Kingdom should be secured in return for a preferential duty on British galvanized sheets imported into India.

Government Action.—The Iron and Steel Duties Act, 1934 gave effect to these recommendations. As the recommendations of the Board involved considerable reduction in the level of import duties, the Act imposed as a revenue measure an excise duty of Rs. 4 per ton on the production of steel ingots in British India and a countervailing customs duty on steel ingots. This countervailing excise duty was additional to the protective duties recommended by the Board and alternative to the *ad valorem* revenue duties on articles in respect of which protection had not been

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* Report of the Indian Tariff Board on the Iron and Steel Industry—1934, par. 101.
† *Ibid.*—Part IV, par. 4.

proposed. These duties with slight modification had been incorporated in the Indian Tariff Act of 1934 and will remain in force till the 31st March, 1941.*

Conclusion.—On the whole, we may approve of the general policy followed in regard to the iron and steel industry since 1924 and state with confidence that the policy of protection for the industry has gone far to secure the desired results. At the time when protection started, the industry was in such a position that it could not have survived on any scale without State assistance. Although the burden levied by the general scheme of protection was a heavy one, the extinction of the industry, as we have stated, would have had disastrous effects on the industrial progress and general economy of the country.

Inspite of certain unfavourable circumstances, the industry behind the protective tariff, has greatly increased its output and has reduced its costs. There has also been considerable improvement in the efficiency of labour and reduction in the number of foreign hands.† The output of steel at Jamshedpur which was about 163,000 tons in 1923-24 increased to about 630,000 tons in 1934-35.‡ The increase of output and the reduction in the costs justifies the hope that further assistance need not be of long duration. The decision to continue protection until the year 1941 by the renewal of the protective measures adopted in 1934 would thus seem to be abundantly justified.

Present Position.—We shall now briefly review the present position of the iron and steel industry in India. The iron and steel industry of the world showed considerable progress in the year 1935-36 and experienced a year of intense activity during 1936-37.

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* Bulletins of the Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 61.

† H. L. Dey's article, Protection of the Steel Industry—1924-27—(Indian Journal of Economics, July 1928).

‡ Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 61.

The world production of pig iron advanced from 61.5 million tons in 1934 to about 72 million tons in 1935, 89 million tons in 1936 and rose to 102 million tons in 1937. The world production of crude steel in 1937 was estimated at 132 million tons as compared with 116 million tons in 1936 and 95 million tons in 1935 and 79.7 million tons in 1934.* The following table† shows that the record of Indian iron and steel industry during 1935-36, 1936-37 and 1937-38 was also in conformity with the general trend of increased production of the world.

Description.	1934-35	1935-36	1936-37	1937-38
	Tons	Tons.	Tons.	Tons.
Pig iron	1,343,000	1,541,000	1,557,000	1,644,000
Steel ingots	834,000	880,000	861,000	922,000
Finished steel	627,000	677,000	692,000	867,000

The re-armament campaign that is now in progress all over the world, the shortage of steel in Japan, the general economic recovery of the world and the upward trend of prices are factors which may be expected further to stimulate the development of the iron and steel industry.‡

Before concluding this chapter we may refer to the recent merger of the Indian Iron and Steel Company, Ltd., and the Bengal Iron Company, Ltd. The works which are situated at Hirapur, near Asansol, consist of two large modern blast furnaces, having a total capacity of about 43,000 tons of pig iron per month.§

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* Ref. Review of the Trade of India in 1935-36, p. 35, 1936-37, p. 49 and 1937-38, p. 87.

†Review of the Trade of India in 1935-36, pp. 35-36, 1936-37, p. 49 and Monthly Survey of Business Conditions in India—March 1939, p. 765.

‡ The present Iron and Steel Works in India :—
Eagle Rolling Mills—Kumardhubi—Manbhum.
High Speed Steel Alloys Mining Co., Ltd., Tavoy.
Hukumchand Electric Steel Works, Ltd., Calcutta.
Indian Iron & Steel Co., Ltd., Calcutta.
Kirtyanand Iron and Steel Works, Ltd., Samdi, Burdwan.
Mysore Iron and Steel Works, Bhodravati, Mysore.
Tata Iron and Steel Co., Ltd., Jamshedpur.
United Steel Cos. (India), Ltd., Calcutta.
(Industry Year Book and Directory—1936, p. 806.)

§ The Investor's India Year-Book—1936-37, p. 446.

The Company was formed to undertake the manufacture of iron and steel on a large scale, but at present it produces only pig iron and such by-products as are obtainable from the coke-oven gases. This merger may be regarded as an outstanding feature of the year 1936, in view of the prospect of the substantial rise in pig-iron production in India. This amalgamation has made possible the development of a long-cherished scheme for the erection of a second Steel Works in India.

CHAPTER VII

COTTON AND OTHER TEXTILE INDUSTRIES

I. Cotton-Textile Industry

Introduction.—The question of the grant of protection to the cotton textile industry in India has loomed large in the country for the last eleven years and has been the subject of an enquiry by the Tariff Board on several occasions. As in the case of iron and steel industry, it is desirable to give a short account of the progress made by the cotton textile industry and the stage of its development in 1926 when the first enquiry by the Tariff Board was ordered by the Government in June 1926.

Growth of the Industry.—It is hardly necessary here to refer to the old famous cotton industry of India and its fortunes, since we are concerned with the modern mill industry. The first cotton mill in India was erected at Calcutta in 1818. The first mill in Bombay, which was destined to be the home of the cotton mill industry was established in early 'fifties of the last century. Its progress was materially helped by the American Civil War. The year 1877 marks the turning point in the development of the industry from the point of view of its distribution. It saw the beginning of a rapid construction of mills in up-country centres like Nagpur, Ahmedabad, Sholapur, etc., situated right in the heart of the cotton producing tracts. The Government's tariff policy which was apparently one of Free Trade—was calculated to hamper the growth of the industry, the most conspicuous instance of which was the total abolition of the import duty on cotton piecegoods in order to appease Lancashire as we have already said in Chapter IV.

The Bombay Millowners' Association considered that the seeds of the present depression were sown in 1893, with the closure of the mints in India to the free

coinage of silver to which they attribute the loss of the export trade in yarn with China.* This was followed three years later by an imposition of a 3½ per cent. excise duty on cloth manufactured in India mills for the purpose of countervailing the import duties which had been re-imposed at the end of 1894. The weaving industry suffered a set-back owing to the imposition of the excise duty. It was not till the year 1904 that the industry, after a long spell of depression which was aggravated by the famous plague at the close of the last century, again experienced prosperity but this prosperity lasted only for a few years. The growth of the Swadeshi movement during these years gave a very considerable impetus to the cotton manufacturing industry. From 1907, a period of depression again set in and continued with brief period of partial recovery until 1917 when the boom period set in and lasted well on into 1923.† In 1917-18 the existing cotton import duty of 3½ per cent. was raised to 7½ per cent. At this point the countervailing excise duty was left out 3½ per cent. In 1921-22 the general import rate, including the duty on the import of cotton piecegoods, was again raised, namely from 7½ per cent. to 11 per cent., whilst the cotton excise remained unaltered at 3½ per cent., until its suspension in 1925. Thus the industry enjoyed partial protection owing to the high revenue tariff.‡ During the War the industry experienced unparalleled prosperity on account of the impossibility of obtaining normal imports from Lancashire; but owing to the difficulty of obtaining machinery and plant, only a few additional mills could be constructed in the country.

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* The growth of mill industry in Japan had also adverse effect on India's export of yarn to China. Japan succeeded in ousting India from Chinese market and later proved a very formidable rival to India in her own market. (Report of the Bombay Millowners' Association—1926, p. 36.)

† Ref. Report of the Bombay Millowners' Association—1926, pp. 36-37.

‡ Ref. Report of the Indian Fiscal Commission (1921-22), pars. 20-22.

Existing mills worked at top speed and obtained high profits.* The three years immediately following the close of the war were a brief period of abounding prosperity for the mill industry in India.

The following two tables bring out the progress made by the cotton mill in the whole of India and the decline in the import of piecegoods.

TABLE I.†

Year ending 30th June.	Number of Mills.	Number of Spindles.	Number of Looms	Average number of hands employed daily.
1897	173	4,065,618	37,584	144,335
1900	193	4,945,783	40,124	161,189
1904	191	5,118,121	45,337	184,779
1908	241	5,756,020	67,920	221,195
1914	271	6,778,895	101,179	260,276
(Year ending 31st August).				
1918	262	6,653,871	116,484	282,227
1922	298	7,331,219	134,620	343,723
1923	333	7,927,938	144,794	347,380
1924	336	8,313,273	151,485	356,887
1925	337	8,510,633	154,202	367,877

TABLE II.‡

(*Figures are given in million yards.*)

	1904-5.	1913-14	1919-20.	1924-25.
Mill products in India	678	1,164	1,640	1,970
Imports	2,288	3,159	1,064	1,801

The boom lasted for a period of six years at the end of which the inevitable crash came. In the meanwhile, Japan had stolen a march over us not only in the Chinese market but had also begun to pour cheap

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* Vera Anstey—The Economic Development of India, p. 262.

† Report of the Bombay Millowners' Association, 1925, p. 6.

‡ Review of the Trade of India (1934-35), p. 30. These figures are exclusive of fents.

goods into India. Hence the profit of the less prosperous mills began to disappear and the Bombay Millowners' Association became anxious about the position and prospects of the industry as a whole. India was now called upon to participate in the world depression as it did in the earlier world boom. In 1923, the cotton industry of Bombay and to a lesser extent that of Ahmedabad, began to feel the effects of the general trade depression which had set in in Europe two or three years earlier. By July 1925, the crisis in the mill industry of Bombay had become somewhat acute and the Millowners' Association on 29th July put up a notice in all mills regarding the reduction in wages by 12½ per cent. from 1st September. On the 15th September 1925, the workmen employed in about 11 mills struck work and with light rapidity the strike-fever spread in the whole mill area and in about a week's time practically all the mills in Bombay stopped working * A labour deputation waited on the Viceroy in August 1925 and protested against the proposed wage cut of 12½ per cent. asking at the same time for an abolition of the cotton excise duty which had a long and unhappy history. This was followed by a millowners' deputation which urged the same measure. It was clear that the proposed reduction in wages would not be made if the excise duty disappeared. The levy of the duty was thereupon suspended by an Ordinance in December 1925 and the strike thus came to an end. The cotton excise duty was finally repealed in March 1926.

Protection to the Indian Textile Industry.— The remission of taxation in favour of the millowners throughout the country amounted to about two crores of rupees annually; but this relief did not bring prosperity to the industry, particularly in Bombay.† The Bombay Millowners' Association sent an application to

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* The Report of the Bombay Millowners' Association—1925, p. 124.
† A. G. Clow—The State and Industry, p. 126.

the Government of India for the grant of protection. The Government of India appointed on 10th June 1926, a special Tariff Board* to inquire into the conditions of the cotton textile industry in India with special reference to the industry in Bombay and Ahmedabad and to make recommendations regarding the advisability of the grant of protection to the industry as demanded by the Bombay Millowners' Association.†

Findings of the Board.—The Board, which signed its report on 21st January 1927, after a careful enquiry extending for about 8 months, came to the conclusion that the depression in the industry was largely due to causes which were not peculiar to India but were world-wide in their operation. In India itself, the depression had been much more acutely felt in Bombay than in other centres and therefore the demand for protection was more insistent in that centre.

Causes of Depression—(A) External Competition.—The outstanding cause of the depression in cotton textile industry according to the Bombay Millowners' Association was "unfair competition from foreign competitors." The Board found that the competition from abroad from which the Bombay mill industry was suffering, was from one country only, *viz.*, Japan. The Japanese competition was severely affecting the industry in respect both of yarn and piecegoods. The Board considered that there was an element of unfairness owing to the adoption by Japan of a double shift system rendered possible by the non-fulfilment by that country of the Washington Labour Convention both in regard to the limitation of hours as well as the employment of children and women at night. "With a total spindleage of less than five million, Japan produces over two million bales of yarn per annum,

* The personnel of the Board was as follows :—
President—Mr. (now Sir) F. Noyce.
Members :—Mr. Rai Bahadur Pandit Hari Kishan Kaul. Mr. N. S. Subba Roa.

† Report of the Indian Tariff Board (Cotton Textile Industry Enquiry)—Vol. I—Report—1927, par. 1.

whereas India with 8½ million spindles only produces 1½ million bales of yarn. With only just over 60,000 looms Japan produces well over 1,000 million yards of piecegoods per annum; India with 2½ times as many looms only produces 1,700 million yards of cloth per annum."* The effect of this would be apparent on the cost of production of Japanese goods. The unfair advantage arising out of this was calculated to be 4 per cent. of the price of the yarn in one case and 4.8 in the other.†

The depreciation of the Japanese exchange since the early months of 1924 stimulated exports from Japan to India. The labour conditions in Japan were also inferior to those in India. From a review of all these factors the Board came to the conclusion that the unfair Japanese competition was an important cause of the existing depression in the cotton textile industry.‡

(B) **Internal Factors**—Causes affecting the Indian cotton industry as a whole:—

(*a*) Currency Changes

It was alleged that the difficulties of the cotton industry in India had been enhanced by the frequent changes in the currency policy since 1893 and that the latest change of the ratio from 1*sh.* 4*d.* to 1*sh.* 6*d.* had hit the industry very hard at a time when practically the depth of the depression had been reached. The Board concluded that the stabilisation of the rupee at 1*sh.* 6*d.* at that time rendered the problem presented by the disparity between prices and wages in the industry somewhat more pronounced, but otherwise it had no appreciable effect, direct or indirect, on the condition of the industry.§

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* Report of the Indian Tariff Board (Cotton Textile Industry Enquiry)—Vol. II—*Evidence*—1927, p. 29.

† *Ibid.*—Vol. I—Report—1927, par. 32.

‡ *Ibid.*, par. 35.

§ *Ibid.*, par. 38.

(b) Defects in the internal organisation

The depression in the cotton mill industry was also attributed to some extent to certain defects of organization such as over capitalisation, unwise distribution of excessive dividends in the boom period, the faulty managing agency system, inefficient machinery, absence of technical experts on the Boards of Directors resulting in expensive mistakes, uneconomical handling of cotton, coal, waste and stores.

(c) Finance.

Another cause suggested was the absence of any satisfactory system of finance. Difficulties in arranging finance both by mills and dealers in piecegoods must be held to have contributed to accentuate the present depression.

(C) **Causes special to Bombay.**—The depression as stated above had been specially acute in the case of Bombay owing to the loss of the China trade in yarn and the increase in the severity of internal competition from upcountry mills which had shown a remarkable expansion during the recent years. The blame for this partly rested on the Bombay mills which had paid insufficient attention to upcountry market in respect of diversification of production, especially in higher counts, more direct contact with the consuming centres and greater alertness on the part of the commission agents. The Bombay Millowners' Association laid great stress on high labour costs in Bombay as a factor contributing to the depression. Bombay suffered also from higher cost of fuel, water power, high local taxation, distance from the mofussil markets and from sources of raw materials.

The Board, having investigated the conditions of the cotton textile industry in India, with special reference to Bombay, stated that, it was not possible to express a definite opinion as to how far foreign

competition could be regarded as a permanent cause of depression.*

Remedial Measures.—The Board made a number of detailed recommendations directed towards the improvement of the internal organization of the industry. They suggested a better-organized purchase of raw materials, adoption of various devices to obtain a greater output from labour, such as the piece-work system, greater care in recruitment of labour, better housing and education for the workers; greater diversification of production and increasing specialisation in production of higher counts, maintenance of a closer touch with consuming centres in India as well as abroad, etc.† The Board made several useful recommendations for improvement in organization, management and control.

The Scheme of Protection.—As regards protection, the majority of the Board proposed that the *ad valorem* import duty on cotton piecegoods should be increased from 11 to 15 per cent. for a period of three years.‡ In the opinion of the majority this protection was justified on the ground of inferior labour conditions in Japan and not on the ground of depreciated exchange. The protection to yarn by an additional duty was thought undesirable from the point of view of the handloom industry. A stimulus to the production of goods of higher quality should be provided in the form of a bounty on the spinning of higher counts of yarn. The bounty was recommended on the production of yarn produced throughout British India of counts of 32s. and above.§ The President of the Board Mr. (now Sir) F. Noyce did not consider that an all-round increase in the import duty on piecegoods

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* Report of the Indian Tariff Board (Cotton Textile Industry Enquiry)—Vol. I—Report—1927, para 53.

† *See* for detail—*Ibid.*, Chaps. IX-X.

‡ *See* for detail—*Ibid.*, par. 92.

§ *Ibid.*, par. 96.

could be justified, and therefore recommended that an additional duty 4 per cent. should be imposed on all cotton manufactures, including yarn, imported from Japan for a period of three years.

Other recommendations.—The Board also proposed several other measures for the grant of assistance to the industry by the Government. (i) The Board unanimously recommended the remission of the import duty on cotton textile machinery and on certain mill stores for a period of three years.* (ii) Two Trade Commissioners, one at Basra and the other at Mombasa, should be appointed. (iii) The most important unanimous recommendation of the Board was that the Government should contribute towards the establishment of a combined bleaching, dyeing and printing works in Bombay, if a satisfactory scheme was put forward by the Bombay Millowners' Association. A commercial mission which should include a representative of the Millowners' Association should make a survey of the potentialities of export markets.

The Board emphasised its view that the State aid and the changes in the tariff which it had proposed could, in themselves, prove no more than palliatives and would indeed fail in their purpose if they did not succeed in stimulating and encouraging the industry to undertake internal reorganization and effect economies on the lines suggested.†

Government Action (1927).—The Government of India took more than four months in formulating their conclusions on the Report of the Board. The Government of India, in their resolution dated 7th June 1927, after summarizing the recommendations of the Tariff Board, expressed their inability to accept any of the major recommendation for the protection of the industry against unfair competition but agreed to

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* Report of the Indian Tariff Board (Cotton Textile Industry Enquiry)—Vol. I—Report—1927, par. 94.

† Report of the Bombay Chamber of Commerce—1927, Vol. I, pp. 146-147.

abolish the import duty on all machinery and the principal mill stores and to consider the proposal for establishing a combined dyeing, bleaching and printing factory, after ascertaining the views of the Local Government and of the cotton mill industry in Bombay and elsewhere.* The Government of India agreed with the Board in the conclusion that Japan, whose rivalry was to a considerable extent responsible for the depression in the industry, gained an advantage owing to difference in labour conditions. But they found that the existing revenue duty on cotton piecegoods fully covered the advantage gained by Japan in respect of cloth; and in the case of yarn, an additional duty would injure the handloom industry.†

This disappointing decision of the Government of India evoked bitter and widespread resentment and indignation throughout the country. An All-India Millowners' Conference met in Bombay to consider the whole situation and decide what steps should be taken in the interests of the industry in view of the very unfortunate attitude adopted by the Government of India. A deputation of the millowners waited on the Viceroy. The Government of India most carefully considered all that had been urged by the millowners and reviewed their decisions. They came to the conclusion that the cotton spinning industry could fairly claim additional protection. As a result the Indian Tariff (Cotton Yarn) Amendment Bill, which was introduced in the Legislative Assembly in August 1927, proposed to alter the duty on yarn. The duty on cotton twist and yarn, irrespective of the country of origin, was to be 1½ anna per lb., or 5 per cent. *ad valorem* whichever was higher. The Act was to be in force upto 31st March 1930, this date being selected on the assumption that owing to a change in the Japanese factory law, by the end of 1929, night work

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* Report of the Millowners' Association—1927, p 13.
† A. G. Clow—The State and Industry, p. 126.

by women would be prohibited as from 1st July 1929 in that country and it was expected that all the yarn produce by mills employing women on night work would be off the market before 31st March 1930.* The existing import duty on artificial silk yarn was to be reduced from 15 to 7½ per cent. so as to give some relief to the handloom industry from the burden imposed on it by the increased import duty on cotton yarn and to facilitate the diversification of Indian mill production. In the same session was passed the Indian Tariff (Amendment) Act (Act XXIV of 1927) which *inter alia* repealed the duties on machinery and certain cotton mill stores.†

The Government of India also appointed a commercial mission as suggested by the Board. It need hardly be added that all these measures failed to satisfy either the mill industry or public opinion in India. The general feeling was that more substantial help was needed. The mills were no doubt helped by the additional import duty on yarn in producing yarn of higher counts, but the severity of the Japanese and Chinese competition was not materially affected.

Mr. Hardy's Inquiry (1929).—During the next two years the condition of the cotton textile industry showed further deterioration and in July 1929, Mr. G. S. Hardy, Collector of Customs, Calcutta, was appointed to investigate the extent and severity of external competition. Mr. Hardy's report was published towards the end of November, 1929. He found that Japan's progress in the Indian market since the Tariff Board reported had been rapid and uninterrupted. Her most striking advance was in respect of shirtings. Progress was at first made at the expense of Lancashire mills but later was at the cost of Indian mills.‡ It was stated that during the last three years

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* Report of the Bombay Chamber of Commerce—1927—Vol I, p. 150.

† A. G. Clow—The State and Industry, p. 127.

‡ Ref. Report of the Bombay Millowners' Association—1929, pp. 26-27.

and particularly in the latter half of 1929, the pressure of external competition had been intensified and that the cotton mill industry throughout India was depressed though the extent of depression varied at different centres. Thus Mr. Hardy's report fully confirmed the millowners' allegation regarding the Japanese competition.

Further Protection granted (1930).—Soon after the publication of Mr. Hardy's report, the Government of India convened a conference of representatives of the various Associations connected with the Indian textile industry to ascertain their views on the report. The findings of the Textile Tariff Board and Mr. Hardy's inquiry proved the necessity of granting substantial assistance to the mill industry. The Government of India were asked to amend their mistake committed in 1927 in refusing to come generously to the rescue of the industry.

The Government agreed in 1930 to grant some measure of protection to the cotton textile industry, which involved preference for British goods. In addition to the general increase of revenue duty from 11 to 15 per cent., a protective duty of 5 per cent. was proposed on goods of non-British origin. On this occasion there was no investigation by the Tariff Board. The proposal for a protective duty on non-British goods raised delicate constitutional issues. Government made it known that if the Assembly did not accept the Bill as proposed by them, the Bill would be withdrawn.* Just as on the preceding occasion the woes of the Tata Company led the Assembly into acquiescence similarly on this occasion the woes of the Bombay mill industry led the Assembly to agree to a measure of protection which involved preference for British goods. The contention of the Government, however, was that the preference to British goods was

* C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, pp. 59-60.

purely accidental and that unless the duty was limited in scope, the consumer in India would be required to pay dearly for goods which did not directly compete with the goods turned out by Indian mills.

The Cotton Textile Industry (Protection) Act passed in April 1930 gave effect to the Government's scheme of protection as outlined above. It was mainly designed to afford sufficient protection against Japan. The general rate of duty was raised from 11 per cent. to 15 per cent. and in addition an extra 5 per cent. was imposed on goods not of British manufacture. In order to enable Bombay to organize itself financially and technically, a minimum specific duty of $3\frac{1}{2}$ annas per lb. was also prescribed as suggested by Sir (then Mr.) S Chetty at the same time for plain grey goods British as well as non-British and the minimum specific duty of $1\frac{1}{2}$ annas per lb. on cotton twist and yarn imposed in 1927 was continued. These duties were to remain in force upto 31st March 1933.*

Additional protection was secured by the cotton mill industry, under the Indian Finance Act of March, 1931, which placed an additional duty of 5 per cent. *ad valorem* on imported cotton piecegoods and secondly under the Supplementary Finance Act of November 1931, which imposed a surcharge of 25 per cent. on all import duties then existing. In consequence of these changes, the duties were 25 per cent. on cotton goods of British manufacture and $31\frac{1}{4}$ per cent. on those of non-British manufacture; the specific rate on either was as $4\frac{3}{8}$ annas per lb. The higher of the two rates was to be applicable in all cases.†

In 1932 the Indian Tariff (Ottawa Trade Agreement) Amendment Act was passed. The effect of this Act was to differentiate between imports from different

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* Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 62 *See* Appendix IV.

† C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, p. 58. *See* Appendix IV.

countries. A preference was granted on terms of reciprocity to certain classes of goods, not subject to protection in India, produced or manufactured in the United Kingdom, the colonies which are not self-governing and the Protectorates. A 10 per cent. preference was extended to yarns and textile fabrics made of cotton, silk or artificial silk.*

Tariff Board Enquiry (1932).—As the protective duties imposed by the Act of 1930 were due to expire on 31st March 1933, the Tariff Board† was asked on 9th April 1932 to inquire into the question of further protection to the cotton industry in India.

Emergency Enquiry (1932).—Before the Board could complete its investigations, there was a serious fall in Japanese exchange and in the prices of cotton piecegoods imported from Japan, which appeared likely to render ineffective the protection intended to be afforded to the Indian textile industry by the 1930 duties. The Board was therefore directed on 25th July 1932 to make an emergency enquiry in this connection.

The Board reported that the depreciation of Japanese currency since the beginning of 1932 had led to a remarkable increase in the imports of piecegoods from Japan at a very low price and recommended additional protection.‡ The Indo-Japanese trade convention of 1904, however, precluded increase in the duties on Japanese goods alone. The Government of India therefore exercised their power under Section 3 (5) of the Indian Tariff Act, 1894, and raised the duty on all piecegoods not of British manufacture to 50 per cent.

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* C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, pp. 62-63.

† The personnel of the Board consisted of the following gentlemen :—
President—Dr. J. Matthai.
Members :—Mr. F. I. Rahimtoola, Mr. G. T. Boag.

‡ Report of the Indian Tariff Board regarding the grant of protection to the Cotton Textile Industry—1932—par. 7.

ad valorem, with a minimum specific duty of 5¼ annas a lb. in the case of plain grey goods with effect from 30th August 1932. In June 1933, these duties were further raised to 75 per cent. *ad valorem* and 6¾ annas a lb. respectively in order fully to counteract Japanese dumping.* In the meanwhile the operation of the protective duties imposed in 1930 was extended first till the 31st October, 1933, so as to enable the Government of India to consider the Report of the Tariff Board on the textile industry.† The period was again extended to 30th April 1934 pending the question of the conclusion of a new commercial agreement with Japan, in place of the old Convention of 1904, which was formally denounced by the Government of India in April 1933. (*See* below p. 153.)

‡ **Mody-Lees Pact.**—In the interval, an agreement had been reached between the representatives of the Bombay Millowners' Association and the British cotton textile industry. The agreement known as the Mody-Lees Pact was signed on 28th October 1933 at Bombay and was to remain in operation till 31st December 1935. The necessity for reasonable protection to the Indian industry and preference to British goods imported into India as against goods of foreign origin, was admitted by the British and Indian sides respectively. A lower scale of duties on cotton varns and artificial silk goods were agreed to on the Indian side and the British side promised to take all steps to stimulate imports into the United Kingdom of Indian raw cotton.§ Government accepted the scale of duties which had been incorporated into the agreement and gave effect to it under the Indian Tariff

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* Bulletins of Indian Industires and Labour—No. 57—State action in respect of Industries—1928-35 p. 63. *See* Appendix IV.

† Ref the article of K. N Bhattacharya—Indian Cotton Tariff since 1930—in the Mysore Economic Journal, October 1937.

‡ We shall attempt a critical review of this Agreement in a later Chapter.

§ *See* for text of the Agreement—Report of the Millowners' Association, Bombay, 1933—Appendix 30.

(Textile Protection) Act, 1934, which is reviewed a little later. During the debate on the Bill, the then Commerce Member stated that the duties on goods imported from the United Kingdom would come under review before the expiry of the agreement.*

Indo-Japanese Trade Agreement.—We have already referred to the increased severe competition of Japanese goods due to the depreciation of the yen since 1932. But the Government of India were not then in a position to impose safeguarding duties on Japanese goods owing to the Anglo-Japanese Convention of 1904 under which Japan enjoyed the privilege of the most favoured-nation treatment. Accordingly as mentioned above formal notice of the denunciation of the Convention was given to Japan in April 1933. The decision of the Government of India to denounce the Indo-Japanese Trade Convention led to a movement in Japan for the boycott of Indian cotton by way of reprisal. The denunciation of the Convention was followed by an invitation to the Japanese Government to enter into fresh negotiations. A Japanese delegation came to India and met the official and non-official representatives of the Government of India at Simla in October 1933. After negotiations lasting more than three months, the Textile Conference between the Indian delegation and Japanese trade delegation reached an agreement. A new commercial treaty was drawn up and was signed in London on 12th July 1934, although the provisions of the agreement had come into operation from 8th January 1934.‡ The Japanese boycott was withdrawn in January 1934 and at the same time the Government of India issued a press Communique on 8th January, reducing the duties on non-British goods from 75 per cent. to 50 per cent.† The new agreement with Japan consisted

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* Bulletin of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p 63.
† Report of the Millowners' Association, Bombay—1933, p. 69.
‡ *See* Appendix IV.

of two parts, the Convention and the Protocal. The Convention laid down in broad outline the trade relations between the two countries in the future and the Protocal prescribed the maximum duties on Japanese cotton goods imported into India and fixed detailed quotas for such imports based on the quantity of raw cotton imported into Japan in each year.* The duty on plain grey goods was not to exceed 50 per cent. *ad valorem* or $5\frac{1}{4}$ annas per lb. whichever was higher, and on other varieties of cotton piecegoods a uniform duty of 50 per cent. *ad valorem* was to be fixed. The quota of raw cotton to be exported to Japan was fixed at 1 million bales as against a quota of 325 million yards of cotton piecegoods to be imported from Japan into India. A sliding scale was also provided with regard to exports of raw cotton *vis-a-vis* imports of cotton piecegoods; but the maximum quota of cotton piecegoods to be exported by Japan to India was not to exceed 400 million yards in any cotton piecegoods year.

The rationale of the Agreement from the Indian standpoint has to be viewed from two considerations, namely, "(i) that we want to dispose of a certain amount of our cotton and (ii) that in affording certain facilities to Japan in exchange, we want that our indigenous cotton textile industries are not adversely affected "†

The Indo-Japanese Trade Agreement of 1934 which was to remain in force upto 31st March 1937, has been extended till March 31st, 1940, with the formal signing of the protocal in London on October 12, 1937 by Mr. Anthony Eden (Foreign Secretary) and Baron Shigera Yoshida (Japanese Ambassador).‡

Report of the Tariff Board of 1932.—The Report of the Board was signed on 10th November

* See for the text of the Convention and Protocal—Report of the Millowners' Association, Bombay—1934—Appendix 25.
† Indian Finance—Indo-Japanese Trade Supplement, July 15, 1936.
‡ The Indian Textile Journal—October 1937, p. 5.

1932. The negotiations of Mody-Lees Pact and Indo-Japanese Trade Agreement required the Government to delay their decisions on the Report. Meanwhile the protective duties of 1930 were as stated above extended upto April 1934. Now we shall consider the recommendations of the Tariff Board. The case of protection examined in 1926 was based upon the allegation of depreciated exchange and inferior labour conditions in Japan. In 1930, the case for protection was wide in character and was intended to afford temporary shelter to the industry, particularly to the Bombay section of the industry but the scope of the present inquiry was wider and raised the question of substantive protection to the industry as a whole.

Firstly the Board considered the claim of the industry in the light of the first condition laid down by the Fiscal Commission, namely, the natural advantages in respect of materials, labour power and the existence of a home market. The most important raw material required for the cotton textile industry is raw cotton. India has a virtual monopoly of short staple cotton. She also produces sufficient long staple cotton to meet the country's requirements of yarn upto counts 40s. The Board considering the extent of Indian market for cotton goods concluded that, one of the principal advantages possessed by the Indian industry was the large home market.* The greatest disability of the Indian industry as compared with Japan was in respect of labour. The labour cost per pound of yarn of average count 16s. in Bombay mill was found to exceed the cost in a Japanese mill by over 60 per cent., and the labour cost per loom per day on plain grey cloth in a Bombay mill was over 3 times the cost in a Japanese mill.† The Board found that the efficiency of labour might be improved by closer personal contact between the management and labour.

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* Report of the Indian Tariff Board regarding the grant of protection to the Cotton Textile Industry—1932, par. 104.
† *Ibid.*, par. 107.

As regards the second condition of the Fiscal Commission the Board concluded that the majority of mills in India would find it impossible, without the aid of protection, to realise any return on capital or to find adequate sums for depreciation and in many cases even to meet the whole of their out-of-pocket expenses.*

The third condition of the Fiscal Commission required that an industry which claimed protection must be one which would eventually be able to face world competition. The Board found that, the amount of assistance which the industry required made it difficult to forecast the time when it would be able to dispense with protection.†

The national importance of the industry was proved first by the number of the people supported by the industry, secondly by the amount of the capital invested in the industry, thirdly by the consideration that any decline in the production of Indian mills would have a serious reaction upon the cultivation of cotton and would have a serious effect upon the City and Presidency of Bombay in particular.‡

The Board therefore concluded that the industry satisfied first and second conditions laid down by the Fiscal Commission. As regards the third conditions the Board was unable on the existing data to state definitely at what period the industry would be in a position to dispense with protection. But the Board held that this was not sufficient ground for holding that the third condition was not fulfilled. Thus the Tariff Board upheld the claim of the industry to substantial measure of protection and recommended protection for a period of ten years.§ The Board held that for the purpose of protection, specific duties were

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* Report of the Indian Tariff Board regarding the grant of protection to the Cotton Textile Industry—1932, par. 112.

† *Ibid.*, par. 117.

‡ *Ibid.*, pars. 122-125.

§ Ref. *Ibid.*, pars. 121 and 142.

more appropriate than *ad valorem* duties and that these should be made applicable to all goods imported into the country. Accordingly, they recommended the following rates of specific duties as an alternative to the *ad valorem* duties on the various classes of imported goods :—*

Plain grey piecegoods	5 as. per lb.
Bordered grey ,,	5 as. 3 pies per lb.
Bleach goods	6 as. per lb.
Coloured ,,	6 as. 4 pies per lb.

Government Action.—In April 1934, the Indian Tariff (Textile Protection) Amendment Act was passed to give effect to the Board's recommendations. The Government agreed with the Board's conclusion that the cotton textile industry had established its claim for substantial protection; but they found it necessary to review the measures of protection in the light of the events subsequent to the submission of the Report by the Board which was signed on 10th November, 1932. The Mody-Lees Pact and the Indo-Japanese Trade Agreement had introduced entirely new factors into the situation. The Indian Tariff (Textile Protection) Amendment Act which came into force on 1st May, 1934, gave effect to the decision of the Government on the Report of the Tariff Board modified in the light of the two agreements mentioned above.† The life of the Act was limited to 31st March 1939. The Act fixed the rate of import duty on cotton piecegoods, not of British manufacture, at 50 per cent. *ad valorem* subject to a minimum of $5\frac{1}{4}$ annas per lb. in the case of plain grey.‡ (*See* Appendix IV.)

Protection against Import of Fents.—As a result of the widespread complaints that the existing

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* Report of the Indian Tariff Board regarding the grant of protection to the Cotton Textile Industry—1932, pars. 139 and 206.
† The Indian Textile Journal—15th July 1936—Tariff History, p. 335.
‡ G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 42.

35 per cent. import duty on fents of non-British manufacture which was lower than that on the piecegoods, had called into existence an import trade in spurious fents which constituted a threat to the scheme of protection for the cotton textile industry, a Bill was introduced on 23rd March 1936, to increase the duty on fents.* The Bill as finally passed, left the duties unaltered but reduced the permissible length from 4 yards to 2½ yards in the case of silk and artificial silk fents, the imports of which had been specially stimulated by the concessional treatment.

We may approve this action of the Government, which was in keeping with the intention of the Legislature to give adequate protection to the Indian cotton textile industry.

Special Textile Tariff Board (1935).—The Government of India accepted the scale of duties on goods of British origin imported into India as agreed upon by the Mody-Lees Pact and gave effect to it under the Indian Tariff (Textile Protection) Act, 1934. The agreement was to expire on 31st December 1935. During the debate on the Bill, the then Commerce Member, stated that the duties on goods imported from the United Kingdom would come under review before the expiry of the agreement. In pursuance of this undertaking a Special Tariff Board† was appointed in September 1935 to investigate into and report on the question of protection to the Indian textile industry against imports from the United Kingdom.

Recommendations of the Board.—The Report of the Board was published in June 1936. The recommendations of the Tariff Board were as follows :—

(i) That the duty on British plain grey goods should be reduced from 25 per cent. *ad valorem* or

* Ref. Report of the Millowners' Association, Bombay—1936, pp. 62-63.

† The personnel of the Board was as follows :—
President—Sir Alexander Murray.
Members :—Mr. F. I. Rahimtoola, Dewan Bahadur A. Ramaswamy Mudaliar.

$4\frac{3}{8}$ annas per lb. whichever was higher to 20 per cent. *ad valorem* or $3\frac{1}{2}$ annas per lb. whichever was higher.*

(ii) That the duty on bordered grey, bleached and coloured piecegoods (other than prints) should be reduced to 20 per cent. *ad valorem*.†

(iii) That the duty on cotton yarn should remain the same.

The Tariff Board made no recommendations regarding printed goods, having regard to the fact that the Indian textile printing industry was still in its infancy. In the case of artificial silk the Board found it difficult to make any proposals because of insufficiency of data.

Government Action.—Simultaneously with the publication of the Report of the Special Tariff Board the Government of India on the 25th June 1936 announced by a notification under Section 4 (1) of the Indian Tariff Act the reduction in rates of duties as recommended by the Board.‡

This action of the Government in effecting an immediate reduction in the rates of duty by issuing a Notification without consulting the Legislature was severely censured. The reduction in duties pleased neither India nor Lancashire. Prominent millowners in India criticised it as being detrimental to the true interests of the mill industry in the country. Lancashire, while welcoming the reduction appeared chagrined that more generous concessions were not forthcoming.§ They were disappointed at the exclusion of printed goods and yarn from the new schedule of duties. Public opinion in the country,

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* Ref. Report of the Special Tariff Board—Textile Industry—1936, par. 87.
† Ref. *Ibid.*, par. 86.
‡ Report of the Millowners' Association, Bombay—1936. p. 51.
§ *See* for the view of the Lancashire and Indian Millowners—The Indian Textile Journal—July 1936, pp. 345-346.

resented the action of the Government as being premature and hurried, having regard to the fact that the Ottawa Agreement had been denounced and the whole question of inter-Imperial trade relations was in the melting pot. It is also a matter for comment that Government did not make any effort to obtain for India any special concession from Lancashire. It will be necessary to watch the effects of the reduction in duties and if found adverse from the point of the prosperity of the Indian industry; there should be no hesitation on the part of the Government and the Legislature to enhance the duties adequately.

The Government in defence of the action taken by them argued, that customs revenue from imports of piecegoods had been falling off in April and May (1936) mainly owing to the uncertainty regarding the tariffs; that the power granted to the Government under the Indian Tariff Act (1894) could be exercised for reducing as well as increasing the protective duty, and that it had been exercised twice before when the duty on non-British and Japanese goods was increased to 50 per cent. in August 1932, and in June 1933 it was increased to 75 per cent. There was thus precedent for the action taken by the Government.*

Concluding observations.—Our survey of the development of the cotton-mill industry of India from the middle of the nineteenth century in general and from 1926 down to the present time in particular and our examination of its condition in recent years point to certain broad conclusions which may be summarised as follows.

Throughout the whole course of its long history the industry has on the whole shown continuous and sometimes even marked progress inspite of several ups and downs. Upto 1921-22 the import duty played little part in promoting its development. The high

* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 677.

revenue tariff of 1921-22 as previously pointed out enabled the millowners to levy a considerable tribute from the consumers of cotton cloth in the country. The abolition of the cotton excise duty in 1925 enabled the cotton manufacturers to increase their gains. The critical financial condition of the Bombay mills in 1926 was in part due to defects of internal organization, incompetence, inflation of capital, extravagant dividend payments, grave labour unrest, inelastic wage-rates, unsatisfactory labour recruitment, serious defects in the institution of managing agency, neglect of overseas and upcountry markets, etc. The question of protection to the industry was first examined in 1926. The Government of India refused the aid of protective tariff to the cotton industry for three years 1927-30. But at last that Government was persuaded to enact the Cotton Industry (Protection) Act of 1930. The industry was protected against Japan in 1932-33 by imposing anti-dumping duties. The Tariff Board appointed in 1932 recognised the claim of the industry for protection. The industry under the cover of protection has made substantial progress. The following table indicates that during the period of protection the mill production in India has greatly increased at the expense of imports from abroad.

TABLE III.*

Cotton Piecegoods

(In crores of yards)

	Year.	Total imports†	Mill production in India.	Handloom production in India.
Including Burma.	1925-26	154	195	116
	1926-27	177	226	133
	1927-28	193	236	131

* Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 65. Review of the Trade of India in 1936-37, pp. 43, 26-27, 1937-38, pp. 118, 81 and Monthly Survey of Business Conditions in India March, 1939, p. 755.

† The figures include re-exports but exclude fents.

	Year.	Total imports*	Mill production in India.	Handloom production in India.
Including Burma.	1928-29	190	189	108
	1929-30	188	242	140
	1930-31	88	256	139
	1931-32	75	299	150
	1932-33	119	317	170
	1933-34	76	294	144
	1934-35	94	340	146
	1935-36	95	357	166
	1936-37	76	357	149
Excluding Burma.	1937-38	59	408	...
	1938-39	65	...	...
	April 1938 to Feb 1939	...	393	...

Indian mill production is now able to meet the greater part of the total demand for cloth in India and the foreign imports have been substantially reduced. The handloom industry has not secured a corresponding benefit, but it is satisfactory to note that the total consumption of handloom products per head of population has increased from 3.41 yards in 1925-26 to 4.03 yards in 1936-37.† Here it may be noted that tariffs is not the only factor that has brought about the growth of new cotton mills. The wave of Swadeshism that passed over India during and since the Civil Disobedience Movement of 1930, as also the low wages in industries owing to falling prices were potent factors that helped to bring about a revival in the industry. But still it remains a fact that higher tariffs were the most important factor that accelerated the development of the cotton industry,‡ and that without their help not only expansion would have been impossible, but probably there would have been a definite set-back to a great national industry managed and financed by Indians, with adverse reactions on

* The figures include re-exports but exclude tents.
† *See* for detail—Review of the Trade of India in 1936-37, p. 43.
‡ Ref. the article of K. N. Battacharyya on Indian Cotton Tariff since 1930 in the Mysore Economic Journal—October 1937, p. 333.

national economy. Here again, therefore, the policy of protection may be fully justified inspite of the fact that unlike the iron and steel industry, the cotton mill industry cannot be regarded as an 'infant' industry. But recent economic history of the world shows that circumstances may arise when even old established industries may require the help of the State in the shape of tariff and other form of State aid. While we favour the grant of protection to the cotton textile industry, we would like to press for internal reform and the amelioration of the conditions of labour employed in the industry.

II. Sericultural Industry

Introduction.—We shall now proceed to consider the case of the other branches of the Indian textile industry, *viz.*, (*a*) the Sericultural Industry and (*b*) the Woollen Industry. The silk industry in India had been firmly established somewhere near the beginning of the Christian era. The industry was confined to Bengal, Kashmir and Mysore. It received an extraordinary stimulus from the efforts of the East India Company to find a market for Indian silk in Europe in the latter half of the eighteenth century. There was, however, a set-back in the early part of the nineteenth century owing firstly to the reversal of the policy of the Company following the opposition of English weavers and for other reasons and in the second place owing to the success of France and Italy in acclimatising the silkworm within their borders and again towards the end of the last century owing to increased competition from China, Japan and United States in European markets. At present the industry is almost dependent upon the home market, which itself is seriously threatened by competition from abroad. Since December 1931, when Japan left the gold standard there has been an enormous increase in the imports of her silk and artificial silk goods into the country. This has depressed the weaving industry

and driven it to greater use of cheaper substitutes for Indian silk.*

Claim to Protection.—The Tariff Board was appointed on 3rd December 1932 to investigate the claim of the sericultural industry to protection. The question referred to the Board was not one of protecting an infant industry but of saving an old established industry from extinction. The Board stated that the dangers which had threatened the industry were the loss of its export market, a shrinkage in the world demand for silk and silk waste and a corresponding fall in the Indian demand for silk, a tendency even in this restricted field to replace Indian raw silk by cheap substitutes, the reduction in the price of Chinese silks and superimposed upon all these burdens, the depression of the silk weaving industry caused by the continued dumping of cheap manufactured goods.†

The Board examined the claim of the industry to protection in the light of the criteria laid down by the Fiscal Commission for the grant of protection. Regarding the first condition, *viz.*, natural advantages, the Board, considering the fact that the industry had lasted so many years, was still alive and supplied about half the total requirements of the country, concluded that *prima facie* these advantages did exist.‡ As regards the second condition the Board found that the industry could not exist without protection.§ It was placed in grave jeopardy by the world depression and unfair foreign competition. While dealing with the third condition of the Fiscal Commission, the Board stated that it was not possible to anticipate the period for which unfair competition would last. As the raw silk industry occupied an important place in the economic structure of India; its protection was

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* Report of the Indian Tariff Board regarding the grant of protection to the Sericultural Industry—1933, par. 31.
† *Ibid.*, par. 164.
‡ Ref. *Ibid.*, par. 154.
§ *Ibid.*, par. 163.

therefore considered desirable in the interests of the agricultural as well as weaving industry.* The Board proposed protection for a period of five years.

Recommendations of the Board.—The Board recommended an *ad valorem* duty of 83 per cent. on silk goods and 60 per cent. on silk mixtures. They also recommended that all silk yarns, including thrown silk and spun silk should be liable to the duty recommended for raw silk and that a specific duty of Re. 1 per pound be levied on artificial silk yarn.†

‡**Government Action.**—The Indian Tariff (Textile Protection) Amendment Act, 1934 gave effect to the recommendations of the Board. It imposed protective duties on raw silk, silk-yarn, piecegoods and mixtures as well as on fabrics of artificial silk and mixtures. In addition, the duty on artificial silk yarn, which competes with silk yarn, was raised to 25 per cent. *ad valorem* with an alternative minimum specific duty of 3 annas per lb. With a view to affording adequate protection to the indigenous silk industry the rate of duty on imported silk yarn spun from waste or noils has been increased from 25 per cent. *ad valorem* to 25 per cent. *ad valorem* plus 14 annas per lb. with effect from the 1st May, 1936.§

(*a*) Tariff protection.

The Government of India with the approval of the Legislative Assembly, also sanctioned a grant of a lakh of rupees a year for five years to assist the sericultural industry.¶ In 1935 the Government of

(*b*) Other measures of State aid.

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* Ref. Report of the Indian Tariff Board regarding the grant of protection of the Sericultural Industry—1933, par. 166.

† *Ibid.*, pars. 194-197.

‡ The protection granted in 1934 was to expire in 1939. In view of this, the Government referred the question of further protection to the Tariff Board. The Tariff Board recently submitted its Report. As the Government could not complete their examination of that Report before the 31st March 1939, the existing duty has been continued for another year.

§ Review of the Trade of India in 1935-36, p. 33.

¶ Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928—35. p. 65.

India established an Imperial Sericultural Committee and grants amounting to Rs. 93,000 as recommended by it have been allotted to various provinces to enable them to set up schemes for the benefit of sericulture in Bengal, Assam, Madras, Bihar and Orissa and Burma.*

Concluding observations.—The indigenous silk weaving industry has made some progress behind the protective tariff. The imports of silk piecegoods declined from 27.4 million yards in 1935-36 to 21.6 million yards in 1936-37.† The protective duties and the wave of Swadeshism seem to be peculiarly propitious at present for reviving the silk industry; which is one of the important national industries that deserve to be encouraged by the State.

III. Woollen Textile Industry

Introduction.—The manufacture of woollen goods in some shape or form is found in all parts of the country. The cottage industry of carpet making was important under the Moguls. The manufacture of shawls had attained great renown in India in pre-British days. The woollen manufacture of the country kambli is very important as a by-occupation pursued by a large number of shepherds and agriculturists. The woollen handloom industry gives part-time employment to about 400,000 people. Coming to the mill industry, the first woollen mill was started about 1876 at Cawnpore. On the eve of the world War of 1914-18 the important mills in existence were the Dhariwal, Cawnpore and the Bombay woollen mills. During 1919 and 1921, three new companies were floated in Bombay. During 1924 and 1929, however, various mills were liquidated. The industry had to face Italian and Japanese competition. The Italians with their shoddy blankets and tweeds, and the

* Cf. G B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 83.

† Review of the Trade of India 1936-37, p. 47.

Japanese with their cheap merino yarns and worsted piecegoods were more ready than others to place on the market something within the reach of the poor man's purse.* These two factors were largely responsible for the depression in the Indian woollen textile industry.

Claim to Protection.—The application for a claim of protection on behalf of the woollen industry was referred to the Tariff Board on 20th October 1934. The terms of reference were :—(i) whether the conditions laid down in paragraph 97 of the Report of the Indian Fiscal Commission were satisfied in the case of the woollen textile industry in India and (ii) in what form, to what extent and in respect of what articles or class or description of articles protection should be given.†

The Board dealt separately with the woollen and worsted sides of the industry as they were considered to be separate industries

(1) **Woollen Branch.**—The first condition laid down by the Fiscal Commission required that the industry should possess sufficient natural advantages. The Board concluded that the industry possessed natural advantages in respect of raw materials and the supply of power.‡ Regarding labour the Board stated that there was inefficiency but the existing disability in the opinion of the Board could be overcome, and should not be considered as one which should debar the Indian industries from claiming protection. The demand for woollens in India was strictly seasonal and as such the industry should try to secure Government contracts which might enable them to keep work open.

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* Report of the Indian Tariff Board on the Woollen Textile Industry —1935, par. 24.

† *Ibid.*, par. 1.

‡ *Ibid.*, par. 50.

With regard to the second condition as laid down by the Fiscal Commission, the Board concluded that in the existing condition of the woollen industry needed protection as a result of temporary deterioration or atrophy.

The third condition prescribed that the industry would be able to face world competition eventually without protection. The Board held that the fact that the industry had in the past, under what might be regarded as more normal conditions, been able to hold its own, was a *prima facie* evidence that it would be able to do so again.*

After considering the conditions laid down by the Fiscal Commission, the Board concluded that, the claim for protection was established in the case of woollen section of the industry.†

(2) **Worsted Branch.**—The Board, considering the first condition laid down by the Fiscal Commission, with regard to the claim for protection of the worsted branch of the industry, stated that the worsted manufacture was mainly dependent upon foreign supplies for its raw material. They held that this disadvantage ought not to be unduly stressed because the worsted industry in all the chief competing countries was in exactly the same position. Regarding the second condition, they concluded that the industry was in danger of being crushed by competition and that it was in the interest of the country that it should be protected.‡ With regard to the third condition, the Board held that in the chaotic conditions of world exchanges then in existence, it was impossible to forsee what might happen.§ But under normal conditions the industry, it was held, would be able to hold its own except possibly against Japan. Thus in the opinion

* Report of the Indian Tariff Board on the Woollen Textile Industry —1935, par. 60.

† *Ibid.*, par. 63.

‡ Ref. *Ibid.*, par. 73.

§ *Ibid.*, par. 72.

of the Board, the case for protection to both branches of the industry was well established.

Recommendations of the Board.—The Board recommended the following measures of protection. With regard to the woollen branch, they recommended that a specific duty of 4 annas a lb. combined with an *ad valorem* duty of 25 per cent. should be imposed on all woollen blankets. They further proposed a minimum duty of Re. 1 per blanket in order to protect the handloom industry and the lowest class of mill blanket against the importation of very light rugs made of shoddy and mixed materials.* In regard to other woollen fabrics, the Board found that protection was required against shoddy materials imported from Italy and other countries. They recommended that shoddy goods should no longer be excluded from the classification of woollen piecegoods and proposed " a specific duty of Re. 1 per lb., with an alternative *ad valorem* duty of 35 per cent."†

In the worsted section of the industry, the Board found that protection was chiefly required against Japanese goods and that the *ad valorem* duty required to protect the industry against Japan amounted to 77 per cent. a figure far greater than that required against other countries the currency of which had not depreciated. They further suggested that if it be feasible under the Trade Convention, the protective duty should be fixed at 40 per cent. and be coupled with an exchange compensation duty.‡

Government Decision.—In announcing their decision on the Tariff Board's Report the Government of India held that the worsted manufacturing industry failed to comply with the first requisite of protection as laid down by the Indian Fiscal Commission because

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* Ref. Report of the Indian Tariff Board on the Woollen Textile Industry—1935, par. 82.
† *Ibid.*, par. 85.
‡ *Ibid.*, pars. 96 & 102.

of its dependence upon foreign supplies of raw materials and the comparative smallness of the home market available to it. As regards the woollen branch of the industry, the Government of India were unable to agree with the Tariff Board and decided that the case for protection could not be properly determined in the absence of evidence from a very important section of the woollen branch as represented by the Cawnpore and New Egerton woollen mills. The Government of India further stated that they proposed to refer the case back to the Tariff Board if the interests which did not give evidence, were desirous of having another opportunity to substantiate a case, which would otherwise go by default, although they rejected the claim of the woollen industry for the time being.*

Although the Government of India rejected the claim of the woollen mill industry, they were impressed with the recommendations of the Tariff Board in regard to handloom and small scale industry. The Tariff Board had emphasised that the small-scale woollen industry was in need of technical advice and assistance as regards marketing arrangements. The Government of India therefore with the approval of the Legislative Assembly sanctioned early in 1936 a grant of rupees five lakhs spread over five years for the benefit of the cottage branch of the woollen industry.†

Criticism.—The decision of the Government of India thus left both the woollen and the worsted industries exposed to the very severe competition of Japan and Italy, particularly of the former. This decision of the Government created great dissatisfaction among the textile manufacturers. The Government after pigeon-holding the Report of the Tariff Board for a period of eight months discovered that half the industry had not cared to place any evidence or

* Ref. The Article of Mr G. Wiles on the Indian Woollen Industry in the Indian Textile Journal—February 1936, p. 163.

† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 66.

material before the Board. The woollen industry's claim would have been heard again by the Tariff Board according to the decision of the Government who thought fit to defer action. Although the Government of India has given another opportunity to substantiate a case which would otherwise go by default, advantage has not so far been taken of this offer. This attitude of the Cawnpore group is very unfortunate and is not calculated to promote in the best interests of the industry as a whole. The fate of the worsted branch has been definitely sealed on the basis that its raw material was largely imported. This decision has created great disappointment among cotton millowners. One may well ask as to what would be the plight of the Indian millowners if the Government decide that the local mills using long stapled foreign cotton for the manufacture of superior grade of fabrics do not need the aid on the same consideration. This is a rather ominous decision inspite of the fact that the Fiscal Commission had laid down that one of the principal conditions for protection is an abundant supply of raw materials within the country itself.* It may be asked whether it is wise to insist on this condition in the circumstances of to-day and whether the time has not arrived for relaxing this condition provided otherwise the case for protection is sound. We shall consider more fully in a later chapter this aspect of the policy of discriminate protection which has been in operation in India since its adoption in 1923.

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* *See* Editorial—The Indian Textile Journal, February 1936, p. 158.

CHAPTER VIII

(1) Paper Industry. (2) Cement Industry. (3) Sugar Industry. (4) Salt Industry.

Scope of the Chapter.—In this chapter it is proposed to examine the application of the policy of discriminate protection to the following industries:—

(1) Paper Industry, (2) Cement Industry, (3) Sugar Industry and (4) Salt Industry.

I. Paper Industry

Introduction.—The manufacture of paper by hand existed in India from quite early times; but is now almost extinct. The establishment of Bally Mills on the Hooghly in 1870 introduced the modern paper industry in the country. This concern was liquidated in 1905 and some of its machinery was taken over by the Titaghur Paper Mills which had begun work in 1884 The Imperial Paper Mill which was started in 1894 did not prove successful and was taken over by the Titaghur Mills in 1903. The estimated production in 1923-24 of the Titaghur Company was about 20,000 tons of paper per year.* A new concern called the Naihati Mill was started on the banks of the Hooghly by the India Paper Pulp Company, Ltd., which was formed in 1918 for the production of pulp and paper from bamboo.†

We have small concerns in other parts of the country The Upper India Couper Mill was established at Lucknow in 1879. In 1885, the Deccan Paper Mill Company was formed and started work at Poona in 1887. The most important up-country paper mill at present is situated at Raniganj. It was started by Maharaja Scindia in 1881 and was taken

* Indian Tariff Board—Enquiry regarding the grant of protection to the Paper and Paper Pulp Industries—*Evidence*—tendered by applicants for protection—1924, p. 192

† Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1925, par. 4.

over by the Bengal Paper Mill Company and its machinery removed to Raniganj in 1922. There are three other small paper mills in India, two at Bombay and one at Punalur in the Travancore State. In 1927-28, the Carnatic Paper Mills started operation at Rajmahendry for making paper from paddy, straw and bamboo. The Punjab Paper Mill Company situated near Saharanpur has obtained a large concession with regard to the bhabbar grass in the Punjab. Barring these two new mills, the full annual capacity of the old mills was placed by the Tariff Board at 33,000 tons, which would be raised to 43,000 tons if the new mills were included.*

Claim to Protection.—The industry immediately before the War was in a very serious plight, largely as the result of the activities of the German Commercial Attache to the Consulate General, this being one of the trades which the Germans were laying themselves out to capture at that time.† The Great War not only staved off the danger of destruction of the industry implied by this competition, but extended to it a short period of prosperity. In the post-War years the industry was again faced with the recrudescence of the cut-throat competition caused by dumping from which it was suffering before the war. Under the circumstances the paper and paper pulp industry applied to the Government of India for protection in 1924. The question of granting protection to the industry was referred to the Tariff Board on 10th April 1924.

Findings of the Board.—The Board excluded certain kinds of paper such as news print, old newspapers, pasteboard, etc. from the scope of its enquiry on the ground that they did not compete with the products manufactured by Indian mills. The Board

* Ref. Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1925, pars. 5-6.
† Indian Tariff Board—Enquiry regarding the grant of protection to the Paper and Paper Pulp Industries—*Evidence*—tendered by applicants for protection—1924, p. 215.

found that the production of paper in India was 27,000 tons in 1923; the imports in 1923-24 amounted to 72,000 tons, the total consumption being 99,000 tons.* Making allowance for the products in which the Indian industry could not engage profitably, the Tariff Board estimated that 20,000 tons of imported paper competed with Indian paper industry and pointed out that the Indian industry might conceivably capture this portion of the Indian market under a protective system.†

In considering the claim to protection the Board took into account the question of an abundant supply of the raw material for the industry. The staple material for paper making in India hitherto was sabai grass, which grew abundantly in Northern India and was like the esparto grass in Europe. Indian wood had not yet been used to make paper and pulp was imported from Europe. For the cheaper kinds of paper rags, hemp, jute waste and waste paper were used. The India Paper Pulp Company was a notable exception to this and made paper from bampoo pulp. As compared with paper made from bamboo pulp, the paper manufactured from sabai grass was strong and durable. These qualities were, however, associated with the defect of hardness which made the material intractable in the paper machine. These papers so manufactured could not moreover meet the requirements of all the users in India, whose demand for the better qualities of paper was small. The Board concluded that, " there is only a small demand for paper of this kind in India and nothing would be gained by attempting to produce it."‡ They held that the case for protection for making of paper from sabai grass had not been established and that protection to it would never prove a commercial success in view of the difficulty regarding adequate supplies of raw material and of

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* Ref. Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1925, par. 17.

† *Ibid.*, par. 24.

‡ *Ibid.*, par. 36.

fuel near each other. On the other hand, they considered that the manufacture of paper from bamboo might become a very important industry in India. They pointed out that " the supplies of bamboos are sufficient to meet the needs of all the paper mills in India and leave a surplus from which an export trade in pulp would eventually develop and that bamboo can be landed in a mill accessible by water transport from the forest at a cost low enough to make it a great deal cheaper than wood is to the European pulp manufacturer."* So far as the chemicals required for paper manufacture were concerned the Board concluded that some were available in the country and some were imported, but there was no special advantage in this respect.

Considering the second condition laid down by the Fiscal Commission, the conclusion of the Board was that the paper industry was not likely to develop without the aid of protection.

Regarding the third condition prescribed by the Fiscal Commission the Board held that, the paper industry in so far as it was dependent on the use of sabai grass, would never be able to dispense with protection. But if abundant supplies of bamboo were developed, there was a reasonable assurance that before long no protection, beyond what the existing duties gave, would be needed and there were grounds for hoping that in course of time as the world cost of wood pulp increased the industry could dispense with protection altogether.†

Recommendations of the Board.—The Board recommended a protective specific import duty of one anna a lb. for five years on all writing paper and on all printing paper other than news print containing

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* Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1925, par. 112.

† *Ibid.*, par. 131.

65 per cent. or more of mechanical pulp.* The intention of the Board was to bring the prices of the imported paper back to the level at which they would have been, had exchange remained at 1*sh.* 4*d.* The Board also advocated provision of capital to the extent of about ten lakhs by the Government to the Indian Paper Pulp Company at Naihati to enable them to increase their output and suggested that a similar concession might be justified in the case of another mill.†

Government Action.—The Government of India in September 1925 introduced a Bill in the Central Legislature increasing the import duty on paper as recommended by the Board, but they considered that the Board's recommendation for the grant of loans or subsidies would be open to grave objection.‡ They fixed the period of protection for seven years instead of five years as proposed by the Board.§ The proposed increases of duty met with some opposition but were accepted by the Legislature and embodied in the Bamboo Paper Industry (Protection) Act 1925.¶

In view of certain defects in the tariff framed in 1925, a second reference was made to the Board in 1927 and some changes in detail were made by an amending Act. (The Bamboo Paper Industry (Protection) Act, 1927.)

Further Protection.—The protection granted to the paper industry was to last for seven years. This Act was to expire on the 31st March, 1932. In view of this, the Tariff Board was asked on March 26, 1931 to conduct a fresh enquiry into the conditions of the industry with a view to ascertain how far the objects

* Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1925, Annexure (5), p. 106.

† *Ibid.*—(1), p. 106

‡ Government held that financial assistance of this sort could not be given to the industry as a whole and it would in fact place individual firms at an advantage in relation to their competitors. Furthermore the patent rights of the soda and sulphite processes also presented another difficulty.

§ Report of the Bombay Chamber of Commerce—1925, p. 138.

¶ A. G. Clow—The State and Industry, p. 123.

of the protection had been realised and recommend whether protection should be continued for a further period.

The Board considering the effect of the protective duty on the paper industry in India concluded that the manufacture of paper in India had increased between 1924-25 and 1930-31 from 27,000 tons to 39,000 tons. The share of the Indian mills in the total consumption of paper of the protected varieties increased to as much as 71.09 per cent.* There had been, however, a large increase in the use of imported wood pulp by the Indian mills.† This increase in the imports was much criticised. The first Report of the Tariff Board in 1925 recognized that the claim to protection rested entirely on the possibility of manufacturing paper from bamboo. The Board considered that the increase in the use of foreign wood pulp was partly due to the fact that the financial assistance proposed by the previous Tariff Board was not granted to the industry and partly due to the fall in price of wood pulp. The Board pointed out that the increased use of imported pulp had meant an expenditure of some Rs. 20 lakhs annually on Indian materials and labour which would otherwise have been spent on imported paper. Inspite of the present over-production of wood pulp, a shortage of timber for pulping

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* Ref. Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1931, par. 9.

† The increase of imported pulp shows the increase in the quantity of finished paper made from imported pulp between 1924-25 and 1930-31.

	1924-25	1930-31
	tons.	tons.
Titaghur Paper Mills Company	5,716	8,522
Bengal Paper Mill Company	1,725	4,801
India Paper Pulp Company	535	3,901
Upper India Couper Paper Mills Company	...	305

(Ref. Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1931—Table VII, p. 15.).

and a consequent rise in the price of pulp seemed likely but it was impossible to forecast when this might occur.* Thus in 1931, the Board had no compunction in recommending the continuance of protection to the paper industry, holding as it did that the withdrawal of protective duty would inevitably lead to the disappearance of bamboo as a paper making material and that in view of the approved possibilities of bamboo and the apprehension regarding shortage of wood pulp, the disappearance of bamboo would be a national loss.†

In order to further the development of bamboo, the Board insisted that a direct incentive for the manufacture of bamboo pulp should be offered and that the most suitable form would be a duty on imported wood pulp.‡

Recommendations of the Board.—The Board recommended the continuance of the import duty on paper at the previous level. They also recommended the imposition of a protective duty of Rs. 45 per ton on imported wood pulp.§ The duties on paper and pulp were to remain in force for a period of seven years.¶ The Board recommended that steps should be taken to develop the paper pulp section of the Forest Research Institute, Dehra Dun, with the object of co-ordinating the experimental work done by the mills.

Government Action.—Accordingly the Bamboo Paper Industry (Protection) Act was passed in 1932

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* Report of the Indian Tariff Board regarding the grant of protection to the Paper and Paper Pulp Industries—1931, p. 105.

† Ref. *Ibid.*, par. 84.

‡ Ref. *Ibid.*, par. 85.

§ *Ibid.*, par. 96.

¶ *Ibid.*, par. 99.

embodying the Board's recommendation regarding the duties on paper and pulp.*

Classification of Paper for Tariff Purposes.—One of the problems that arose in connection with the extension of protection to the paper industry related to the classification of paper for tariff purposes. There was an endless wrangle between the customs authorities and the importers as to the classes of paper which were subject to the protective duty because the various classes of paper have clearly competitive significance to one another. The Act of 1925 referred only to printing and writing paper and gave only an inadequate description of the various kinds which would be subject to, and which would be exempt from, the protective duty. The 1931 Board held that the definition of papers which might be classified as printing and writing according to trade usage, should be examined by a conference with representatives of all the interests concerned. The Government of India consulted the various interests concerned, but the views received were so divergent that it was found impossible to arrive at any definite conclusion. The Government of India, therefore, considered that under the circumstances the question should be investigated by the Tariff Board itself. The Board was accordingly asked on May 25, 1935, to examine the question of classification of paper for tariff purposes with a view to giving effect to the intention of the Legislature in granting protection to printing and writing papers under the Bamboo Paper Industry (Protection) Act, 1932.†

As a result of the Report of the Tariff Board on the classification of paper for tariff purposes the

* Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 71.
As the period of protection was to expire on the 31st March 1939, the Government of India asked the Tariff Board on the 11th December 1937 to re-examine the question of protection enjoyed by the Paper and Paper Pulp Industries and to report what protective measures (if any) should be continued after that time—For the recommendations of the Board and Government Action—*See* Appendix VI.

† Report of the Indian Tariff Board on the Classification of Paper for Tariff Purposes—1936, par. 2.

Government of India decided in May 1936 that the following types of paper should be classified as follows :—

(1) *As Writing Paper.*—Hard sized duplicator papers, hard sized white and buff or badami mechanical paper.

(2) *As Printing Paper.*—Unglazed thin news coloured (other than deep blue) of substance above 10 lbs. demy, unglazed thin news white, buff or badami of substance over 7½ lbs. demy, cover paper including machine glazed pressings and wrappings over 24 lbs. demy and cartridge paper below 24 lbs. demy, soft sized duplicator paper, soft sized white and buff or badami mechanical paper of substance above 7½ lbs. demy.* We may approve this action of the Government, which was in keeping with the intention of the Legislature to give adequate protection to the Indian paper industry.

Concluding Remarks.—The Indian paper industry is somewhat unique amongst the protected industries of India. The protection to paper may be said to be in accordance with the advocacy of protection for the purpose of fostering a new industry, for the Indian paper industry was virtually a new industry. The principal raw material used by the Indian mills for the manufacture of paper had been sabai grass, but as stated above, the Tariff Board found that the industry for the making of paper from sabai had not established a case for protection. On the other hand, they held that the manufacture of paper from bamboo might become a very important national industry in India. In this connection it may be mentioned that bamboo had been the subject of a good deal of attention from this point of view since 1875. In 1905 the possibilities in Burma were investigated by a special expert, and a pulp expert was appointed subsequently at the Forest Research Institute, Dehra Dun.†

* Report of the Bombay Chamber of Commerce—1936, p. 76.
† See G. B. Jathar and S. G. Beri—Indian Economics (Fourth Revised Edition)—Vol. II, p. 64.

As a result of the researches and the grant of protection to the industry, great expectations have been raised regarding the future of the bamboo paper pulp industry and it is believed that, if the Indian bamboo and grasses could be successfully utilized for paper pulp, India would be self-sufficient regarding paper consumption.

In 1937 there were altogether 11 paper mills at work in India; four each in Bengal and Bombay and one each in the United Provinces, Madras and Travancore. One mill in Bombay and another in Madras did not, however, work during the year. The aggregate production in all the reporting mills in India amounted to 1,076,000 cwts. in 1937-38 as compared with 971,000 cwts. in 1936-37, 962,000 cwts. in 1935-36 and 892,000 cwts. in 1934-35. Imports of wood pulp, mostly for the use of Indian paper mills, amounted to 221,000 cwts. valued at Rs. 15 lakhs as compared with 309,000 cwts. valued at Rs. 20½ lakhs in 1935-36.* In this connection we may refer to the recent steep rise in the world quotation for wood pulp as anticipated by the Tariff Board in 1931 which is expected to give additional stimulus to the paaper mills operating in India.†

II. Cement Industry

Introduction.—The cement industry, which is to-day one of the well established industries in this country, occupied an insignificant position before the War inspite of advantages such as a large home market, favourable conditions to the manufacture of cement and the national importance of the industry. Even before the War India consumed large quantity of cement, importing about 180,000 tons a year.‡ Portland Cement was first manufactured in this country in 1904 at a small factory in Madras, but it was not

* Ref. Review of the Trade of India in 1936-37, p. 69 & 1937-38, p. 98.
† *See* The Investor's India Year-Book—1936-37, p. 376.
‡ G. B. Jathar and S. B. Beri—Indian Economics (Fourth Revised Edition)—Vol. II, p. 68.

until 1912 that the foundation of the present industry was laid. In this year the Indian Cement Company at Porbandar and Katni Cement and Industrial Company at Katni began working.* The cement industry during the War proved of great assistance to the Government and towards the end of the Great War output was taken under Government control. In the post-War boom period, a number of companies were floated under the temptation of large profits. The three old companies doubled their output and seven new ones were projected and six of them started operation by 1923. Thus the development of the industry was very rapid and the total output was estimated in 1924 at 550,000 tons as compared with 945 tons in 1914.† Imports on the other hand declined from 165,733 tons in 1914 to 124,186 tons in 1924.

Claim to Protection.—The question of grant of protection to the cement industry was referred to the Tariff Board on 10th April 1924. Its claim was based on the fact that though the quality of Indian cement was quite good, there was a bias in favour of British cement among the consumers. It would take time before this prejudice against Indian cement could be removed, but in the meanwhile the industry laboured under a special handicap of a temporary kind. A second difficulty arose from the fact that, the productive capacity of the industry was larger than the demand, but so long as the imported cement was in competition, it was not possible for the Indian factories to work to their full capacity. If they were to get a chance to increase their output by temporary protection, their cost of production would go down and in course of time they would be able to stand on their own legs. The industry asked that the existing 15

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* C. N. Vakil, S. C. Bose and P. V. Deolalkar—Growth of Trade and Industry in Modern India, p. 311.

† Report of the Indian Tariff Board regarding the grant of protection to the Cement Industry—1925, par. 7.

per cent. duty on a valuation of Rs. 60, *i.e.* Rs. 9 a ton, should be raised to Rs. 25 per ton.*

Findings of the Board.—The Board after considering the natural advantages of the industry concluded that limestone of excellent quality was found in abundance in several parts of the country close to railway lines and suitable clay was also available in large quantities also close to railway lines. Gypsum was also produced in the country though it had to be transported over long distances.† As regards labour it was shown that there was no particular disadvantage. As regards supply of coal, the cement industry was, however, at a great disadvantage. Nearly all the cement works were situated away from the coal fields and therefore the freight on coal was a heavy item in the cost of production.‡ Another disadvantage from which the industry suffered was that most of the cement works were situated at a distance from the principal ports of Bombay and Calcutta, which were the principal markets for cement in India. But from one point of view this was an advantage, because imported cement had to pay a cost of about Rs. 10 per ton to reach the interior market. Thus the up-country market was a naturally protected market for the Indian cement works. But since the market of Bombay and Calcutta consumed more than half the cement required by the country and there were no cement works within 350 miles of Calcutta or 250 miles of Bombay, imported cement could get an easy access to these markets.§

As regards the second condition laid down by the Fiscal Commission the Board concluded that there was a reasonable assurance that the cement industry would

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* Report of the Indian Tariff Board regarding the grant of protection to the Cement Industry—1925, par. 3.

† Ref. *Ibid.*, par. 8.

‡ Ref. *Ibid.*, par. 10.

§ Ref. *Ibid.*, pars. 11-12.

eventually be able to meet world competition at the ports without outside assistance. As regards the third condition the Board held that "unless assistance is given, more than half the companies will have to shut down. If on the other hand, they are protected for the next four or five years, it should be possible to preserve the great majority, if not all."*

Recommendation of the Tariff Board.—The Tariff Board declined to recommend protection to the industry on the ground that it was suffering from over-production and prices were determined by internal competition among the Indian manufacturers and not by imports. The Board found that the Indian works were already capable of supplying a maximum output of 600,000 tons, where the country's annual consumption amounted only to 390,000 tons. They held, however, that conditions would become stable before long. In order to keep the mortality amongst them as low down as possible, the Board concluded that some assistance was necessary in order to enable the industry to overcome the handicap owing to the great distances of most of the factories from the coal-fields or the ports. Assistance was recommended in the form of bounties limited to cement consigned to ports where the competition of imported cement was seriously felt.† The Board proposed that (i) bounties of Rs. 8 per ton should be paid on cement consigned to and *via* Calcutta, Bombay, Madras or Karachi and the adjacent areas, (ii) the 15 per cent. *ad valorem* duty should be converted into a specific duty of Rs. 9 per ton and declared protective, (iii) if the cost of the bounty was considered high, an alternative scheme was suggested by the Board, namely a protective duty of Rs. 12 per ton and a bounty of Rs. 5 per ton.‡

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* Ref. Report of the Indian Tariff Board regarding the grant of protection to the Cement Industry—1925, par. 57.

† *See Ibid.*, par. 70.

‡ *Ibid.*, par. 84.

In order to avoid the policy of price cutting, it was suggested that the measure of protection should not come into force until the Government of India were satisfied that the price of Indian cement in ports was in such a relation to the price of the imported cement that the payment of bounties would not lead to a reduction in the price of Indian cement.* There was a difference of opinion among the members of the Board. Sir P. Ginwalla was of the opinion that the bounty should be payable as soon as the bill became law for a period of two years after which the condition referred to by the majority should be fulfilled.†

Government Decision.—The Government of India did not accept the principle of such conditional legislation and decided not to take any action on the Report. In the following year, however, when the price of imported cement showed a tendency to fall, the tariff was altered by the substitution of a specific duty for the *ad valorem* duty then in force. The change was made for the purpose of stabilising the revenue, but the new duty was based on the findings of the Tariff Board and had the effects at the time of enhancing the duty on foreign article.‡

The decision of the Government of India created great disappointment among the cement manufacturers in India. The Tariff Board was of the opinion that unless temporary assistance was given some of the existing companies were likely to close down and also pointed out that the conditions of Fiscal Commission were satisfied. Even at the risk of the threat to nearly half the cement manufacturing concerns in India, the Government of India considered unnecessary to take any action. The industry was in parlous straits. The unhelpful attitude of the Government would have probably resulted in a great disaster to

* See Report of the Indian Tariff Board regarding the grant of protection to the Cement Industry—1925, par. 82.
† *Ibid.*, par. 83.
‡ A. G. Clow—The State and Industry, p. 124.

the Indian cement industry, had not the industry devised measures to regulate output such as the establishment of a control organization of the cement manufacture in India, which is considered below.

Subsequent Developments.—In 1925, following the Tariff Board, the necessity for co-operation amongst the manufacturing companies was clearly emphasised. Those interested in the management of such companies accordingly formed a pool known as the Indian Cement Manufacturers' Association. The next progressive step was the formation in 1930 of the Cement Marketing Co. of India, Ltd. to take over control of the sales and distribution of all manufacturing companies. In 1932 the Coimbatore Cement Company, Ltd., was formed by the existing member companies and this helped to reduce the cost of cement in Southern India. The Cement Marketing Company succeeded in "eliminating internal competition, in reducing transport charges, in avoiding over-production and in increasing the demand for cement by a centralised advertising campaign as well as better service to consumers."* The member companies worked on a system of quotas. This arrangement worked satisfactorily for six years although it obviously had its own limitations. In 1935, a proposal to effect a Merger of ten manufacturing companies was drawn up by the late Sir F. E. Dinshaw (who was the pioneer in this field and father of the idea of the Merger) and was unanimously accepted by the respective shareholders. On August 1st, 1936, the Associated Cement Companies Limited and their managing agents, the Cement Agencies Limited were officially registered in Bombay. It would take several pages to describe the object of the Merger, but we may state that the Merger mainly aimed at the improvement

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* *See* Paper read by C. N. Vakil—Rationalisation of Industries at the Nineteenth Conference of Indian Economic Association—in Indian Journal of Economics, Conference No.—April 1936, p. 532.

of the industry so that it may be able to hold its area against internal as well as foreign competition.*

Progress of the Cement Industry in recent years.—The progress of the industry after the inception of the Cement Marketing Company was very remarkable as shown by the following table.

TABLE.†

Year.	Sale of Indian cement in India.	Imports into India.	Total Consumption in India.	Price per ton.
	Tons.	Tons.	Tons.	Rs.
1930-31	570,180	64,000	634,180	53.01
1931-32	582,963	58,500	641,463	51.30
1932-33	585,923	60,800	646,723	49.85
1933-34	642,269	49,400	691,669	49.74
1934-35	747,818	49,100	796,918	47.65
1935-36	886,267	42,900	927,167	45.00

The table indicates that the total demand for cement in India has very considerably increased in recent years. The table also serves to bring out the progress made by home production which has succeeded in meeting the great bulk of the demand. It is also seen that the industry has been successful in bringing down the price of cement within the reach of the consumer during a short period.

The cement industry is to-day the only well organised industry in India. The remarkable progress that has been made in a very short time has been possible only through the efforts and the genius of late Sir F. E. Dinshaw. The cement Merger is a fitting culmination of an already well-organised industry. The industry has reached the stage of

* For the object of the Merger—*see* the History of the Cement Industry in India, pp. 9-10.
† *Ibid.*, pp. 4-5.

supplying the total home demand. There is a considerable reduction in the sale prices as is evidenced from the above table. These facts lead us to the conclusion that the industry will be successful in ousting foreign cement from India without any assistance.

III. Sugar Industry

Introduction.—The fortunes of Indian sugar industry are somewhat similar to those of the cotton industry. At one time India, which was probably the original home of sugar-cane, was an exporter of large quantities of sugar and even to-day the area of sugar-cane is larger than any other country in the world. Till 1863-64, the exports from India exceeded imports. From that year the position has been quite the reverse. The first attack on the home industry came from Mauritius and later from bounty-fed beet sugar of Europe The sugar from Java also captured the Indian market. Thus the competition from abroad made the condition of sugar industry very miserable. The manufacture of sugar in modern factories began in India in the closing years of the last century. But the industry made little progress for more than three decades after its start. Upto the year 1924-25, the amount of sugar produced directly from the cane in modern factories was well below 40 thousand tons a year. Even as late as 1931-32, the total number of factories in India was only 32 producing an aggregate quantity of 158 thousand tons of sugar a year.† On the other hand the imports of sugar were very large, *e.g.* in 1929-30 India imported 1,012,000 tons of sugar of all sorts valued at Rs. 15.77 crores.

Claim to Protection.—The importance of the sugar industry in the general national interest began

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* Indian Finance Year Book—1936, p 270

† Ref. Paper read by K B. Saha—Protection to Sugar—at the Twentieth Conference of Indian Economic Association—in Indian Journal of Economics Conference No.—April 1937, p. 513.

to be realised during and after the Great War. It was recognized that India should be self-sufficient in the matter of sugar. In the year 1919, the Government of India appointed a Sugar Committee with a view to suggest improvements in the industry. The Committee produced a valuable report, but for nearly ten years it was 'pigeon-holed.' The imports of white sugar continued without a break. In 1929 the question of the Indian sugar industry loomed large in the minds of all those interested in industries in this country. The Imperial Council of Agricultural Research which was established in 1929 and the Sugar Committee attached to it, recognised the fact that India with the largest area under sugar-cane in the world was far from being self-supporting. The Government of India accepted the recommendations of the Sugar Committee of the Imperial Council and ordered a Tariff Board enquiry into the question of the claim of Indian sugar industry for protection on 20th May 1930 with the double object of protecting India against unlimited foreign competition and stimulating the indigenous sugar industry. The Report of the Board was published in March 1931.

Findings of the Board.—We shall now consider the conditions of the Fiscal Commission for the grant of protection as examined by the Tariff Board. The first condition lays down that the industry must be one possessing natural advantages such as abundant supplies of raw material, cheap power, a sufficient supply of labour and a large home market. The Board found that India had the largest area under cane, which was six times as much as that of Java. As regards power the Board stated that, "the question of cheap power is not material in this enquiry since for the manufacture of sugar practically the whole of the fuel required for generating power is provided by the bagasse."* As regards labour it was said that the

* Report of the Indian Tariff Board on the Sugar Industry—1931, par. 21.

labour was quite as efficient as that in Java and other countries The following rates given by Maxwell in his "Economic Aspects of Cane Sugar Production" indicated that with the exception of Java, the rates of wages were at a distinctly higher level than the prevailing rates in India.

Countries.	Wages per diem.	
	Sh.	*d.*
Java	0	10
Philippines	1	6
Natal	2	8
Mauritius	3	6
Cuba	5	0
Hawaii	6	0
Queensland	17	0
India		9 or 8 annas.

As regards the home market, the Board pointed out that India was one of the largest consumers of sugar in the world. The total output of the 29 factories and 14 refineries in existence at the time of the enquiry was estimated at about one lakh of tons per year. The production of sugar by an indigenous process called the Bal process amounted to about 2 lakhs of tons. As against this the imports of white sugar were estimated at about 10 lakhs of tons.* Thus the available market at home for the Indian industry was very large. The *per capita* consumption of sugar (excluding gur) in India had also been increasing from year to year, as shown by the following figures.†

Year.	Consumption. Tons.	*Per capita* Consumption.
1926-27	900,000	6.3
1927-28	951,500	6.7
1928-29	1,016,820	7.1

* Ref. Report of the Indian Tariff Board on the Sugar Industry—1931, par. 21.

† *Vide*—Indian Tariff Board—*Written Evidence*—recorded during the enquiry on the Sugar Industry—1931, p. 190.

Thus India definitely enjoyed great natural advantages and thus satisfied the first condition as laid down by Fiscal Commission.

On a review of the second condition of the Fiscal Commission the Board came to the conclusion that, " In every direction then the absence of protection would mean disaster for the Indian sugar industry and the abolition or reduction of the present revenue duty, which indirectly affords substantial protection, would be followed by an agricultural crisis of far reaching dimensions."*

With regard to the third condition, the Board held that in view of the great potentialities for cane growing in the country and of steadily increasing efficiency of the Indian sugar factories, it was highly probable that given a protective tariff over a sufficiently long period, the industry would be able to face world competition in the home market.†

The Board thus came to the conclusion that the claim of the sugar industry to protection had been fully established.

Agricultural Aspect.—While considering the claim of the Indian sugar industry to tariff protection the Board laid a great emphasis on the agricultural aspect of the case. The expansion of the sugar industry in India, they argued, was an indispensable adjunct to agricultural development.‡ " If a serious disturbance of the agricultural system in India is to be avoided and ordered development ensured, it is necessary to find an outlet for the additional production of sugar-cane which may be expected from the introduction of improved varieties. The first and most obvious

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* Report of the Indian Tariff Board on the Sugar Industry—1931, par. 24.

† Ref. *Ibid.*, par. 25

‡ *Ibid.*, par. 26.

outlet is the manufacture of white sugar."* Unless steps were taken to develop the sugar industry, a disastrous slump in the gur market was probable which would seriously affect the agricultural classes, disorganise the agricultural system and involve the abandonment of better cane cultivation in large areas. "Sugar-cane," they wrote, "occupies a definite place in the crop rotation of this country which it would be difficult to fill, if any considerable reduction in the area under cane occurred."† The Board held that the development of sugar industry would provide an outlet for the cane and would enable the maintenance of the existing acreage under sugar-cane.

Recommendations of the Board.—The Board then proceeded to recommend a scheme of protection for the industry for a period of 15 years. The Board proposed that the import duty on sugar should be fixed at Rs. 7-4-0 per cwt. for the first seven years of protection and at Rs. 6-4-0 per cwt. for the next eight years.‡ A single rate of duty should be applied to all classes of sugar including sugar candy. The Board further emphasised the need of research work in connection with sugar-cane industry as an essential condition to the success of any scheme of protection. On comparing the normal expenditure in research in India and other important sugar producing countries, they found that the expenditure on the development and research in India was very small.§ It was recognised by all authorities on sugar that no real progress was possible in the sugar industry without the development of agricultural and scientific aspects of the industry. The Board considering them vital to the success of their scheme of protection recommended

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* Report of the Indian Tariff Board on the Sugar Industry—1931, par. 43.

† *Ibid.*, par. 32.

‡ *Ibid.*, par. 81.

§ Expenditure on research per annum per acre—Annas 6 in India.
Do. do. do. do. Rs. 3-3-0 in Java and Hawaii.
(Ref Report of the Indian Tariff Board on the Sugar Industry—1931, pars 95-96).

a grant of Rs. 10 lakhs annually to the Imperial Council of Agricultural Research for carrying on researches in sugar industry. They propose that the Imperial Council of Agricultural Research should act in consultation with the Government and Legislature in constituting the machinery required for carrying out such measures as might be necessary to further the research work.*

The Board also recommended that sugar factories should be asked to supply full information as to the rates paid by individual factories for cane so that the Government might satisfy itself that the cultivator was receiving fair price and that the benefit of the protective duty was not retained by the factories alone. They held that owing to different conditions in India as regards the output of cane per acre, the cost of cultivation and the sucrose content of the cane, no direct measure can be taken to ensure a definite rate for cane. The matter was left to the good sense of factory owners, but the Board advised the owners that eventually the interests of the factory and of the cultivator were inseparably connected, and recommended adequate payment to the agriculturist for his cane. They held that the Executive should be authorized to issue rules requiring sugar factories to post, in a conspicuous place at the entrance to the factory, notices specifying such matters in connection with the rates paid for cane as might be thought fit.†

Government Action.—The Government of India accepted the recommendations of the Board regarding the increase of the sugar duty upto March 1938, and it was decided that provision should be made in the statute for a further enquiry before the end of that period. The Government of India rejected the recommendation of an annual grant of Rs. 10 lakhs, owing to the financial circumstances, but they promised that

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* Ref. Report of the Indian Tariff Board on the Sugar Industry—1931, par. 99.

† Ref. *Ibid.*, pars. 99-100.

the matter would receive their careful consideration.* Here it may be mentioned that an immediate increase in the import duty on sugar of Rs. 1-4-0 per cwt. was made in the Budget for 1931-32; thus bringing the duty to Rs. 7-4-0 as a provisional measure of securing additional revenue—(*Refer* Appendix V) pending the consideration of the recommendations of the Board. This was done on 3rd February 1932 when the Sugar Industry (Protection) Bill was introduced in the Legislative Assembly, the object of which was to give protection to the sugar industry in accordance with the decisions of the Government of India as detailed above. The Bill was referred to a Select Committee and afterwards passed by the Legislative Assembly on the 2nd April 1932 and by the Council of State on the 6th April 1932.† The protective duty which was fixed finally at Rs. 7-4-0 per cwt. was to have effect upto 31st March 1938,‡ but could be enhanced if necessary, during the currency of the Act.

Rapid Progress of the Industry under Protection.—Sheltered behind an adequate tariff wall, the Indian sugar industry has made phenomenal progress which may be easily guaged from the statistics, of imports and production of sugar in India, given below.

TABLE I.§

Imports of sugar of all kinds (excluding molasses)

	Year.	Total Tons	Value in Rs. (lakhs).
including Burma.	1929-30	939,600	15,51
	1930-31	901,200	10,54
	1931-32	516,100	6,01

*Ref Bulletins of Indian Industries & Labour—No. 57—State action in respect of Industry—1928-35, pp. 67-68.

† Ref. Report of the Bombay Chamber of Commerce—1932; pp. 127-128.

‡ *See* Appendix V.

§ Review of the Trade of India—1935-36, p. 59—1936-37, p. 76 and Monthly Survey of Business Conditions in India—March 1939, p. 768.

	Year	Total Tons	Value in Rs. (lakhs)
Including Burma.	1932-33	369,500	4,12
	1933-34	261,300	2,70
	1934-35	222,900	2,11
	1935-36	201,200	1,91
	1936-37	23,100	24
excluding Burma.	1937-38	14,300	...
	1938-39	35,800	...

TABLE II.*

Production in tons.

Year	Quantity of sugar manufactured from cane.	Quantity of sugar refined from gur	Quantity of Khandsari Production	Total Tons
1929-30	89,768	21,150	200,000	310,918
1930-31	119,589	31,791	200,000	351,650
1931-32	158,581	69,539	250,000	478,119
1932-33	290,177	80,106	275,000	645,283
1933-34	453,965	61,094	200,000	715,059
1934-35	578,115	30,103	150,000	757,218
1935-36	912,000	54,600	125,000	1,091,600
1936-37	1,128,900	18,500	100,000	1,247,000
1937-38 (Estimates)	1,025,000	15,000	100,000	1,140,000

It is thus seen that along with a rapid development in internal production there has been a sharp decline in the imports.† The enormous development, which has taken place in the industry in recent years, will be better appreciated from the table given below which shows the number of factories in operation in the various areas in each year since 1931.

* The Indian Year Book—1938-39, p. 732.
† *See*—Appendix I—Chart V.

TABLE III.*

Provinces.	Number of Factories working. 1931-32	1932-33	1933-34	1934-35	1935-36	1936-37 (Est.)
United Provinces (*a*)	14	33	59	65	68	71
Bihar	12	19	33	34	34	36
Punjab (*a*)	1	1	5	6	5	6
Madras (*a*)	2	2	4	8	9	10
Bombay (*a*)	2	1	4	5	5	7
Bengal	...	...	2	5	7	12
Indian States	...	...	4	5	9	11
Total for India	31	56	111	128	137	153

(*a*) Excluding Indian States.

It is generally recognized that India has now definitely reached a stage when she can find her requirements of sugar from internal sources. This development is attributed to the fact that amongst all the protected industries sugar stands in the most favourable position. "Here was India with biggest crop, the biggest consumption, and the largest natural advantages, and to crown all, protection was granted to the industry."† It may be mentioned here that India ranks as the largest sugar producing country in the world with having about 20.9% of the total world production to her credit.‡ It is a matter for gratification to find that India which was the birth place of sugar (as also of the textile industry) has once again continued to lead in the matter of production of sugar.

The rapidity with which the industry has grown has left room for certain weakness in its organisation. The unhealthy competition among the sugar factories,

* The Investor's Year Book—1936-37, p. 358.
† Ref. the article of S. Ganapati Rao—The Indian Sugar Tariff VII in the Mysore Economic Journal—July 1937, p. 237.
‡ Ref. Indian Finance Year Book—1936, p. 272.

has led to the necessity of a central selling organisation. With this end in view, large and representative meetings of sugar factory owners took place at Calcutta and Cawnpore on the 7th and 26th August, 1934, respectively.* The problem of marketing Indian sugar was discussed and an Indian Sugar Marketing Board has been formed. The objects of the Board are comprehensive, but it has failed to enlist the sympathies of many sugar factories. The possibilities of this Central Marketing Board beginning to function in the near future are not sanguine owing to the absence of a strong desire among manufacturers for sales of sugar through a common organization. The time may come, when a selling organisation, similar to that which has proved so successful in the cement industry, can be effectively introduced. Progress in this direction is bound to be slow because unlike cement industry the sugar industry has to face complications owing to differences in the quality of production, the larger number of producers and the extent of the market, the purchasers being the large scattered masses of consumers.†

The Indian sugar industry is now a very important national industry, giving employment to over 100,000 workers. The capital invested in the industry is variously estimated at between Rs. 25 and Rs. 30 crores.‡

Further Developments.—A further stimulus was given to the industry owing to the imposition of surcharge of 25 per cent. on all import duties in the Supplementary Budget of 1931. The surcharge, it was held, had given an unhealthy and uncertain

Excise Duty

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* Indian Finance Year Book—1936, p 273.

† Ref. Paper read by C. N. Vakil—Rationalisation of Industries at the Nineteenth Conference of Indian Economic Association—in Indian Journal of Economics, Conference No.—April 1936, p. 533.

‡ The Indian Year Book—1937-38, p. 710.

stimulus to the industry and there was a danger of over-production under the influence of excessive protection which was not originally contemplated. Moreover, there was also great fall in the revenue caused by the greatly reduced import of sugar in consequence of the grant of protection, which had been followed by a very rapid growth of the industry. With a view to checking far too rapid growth of the industry under the artificial stimulus given by the surcharge and in order to replace losses of revenue from this source, an excise duty of Rs. 1-5-0 per cwt. on factory produced sugar was imposed during the financial year 1934-35, the rate of the excise duty being 10 annas per cwt. on Khandsari sugar.* This new sugar excise duty was criticised in the country on the ground that it was inconsistent with the Government's declared policy of protecting the home industry and that its imposition within two years of protection would hamper the progress of the Indian industry.

The Sugar-cane Act.

In view of the fact that sugar protection was primarily intended to assist the agricultural classes, the question of an equitable distribution of the benefit of protection between the cane growers and the factories is of extreme importance. It was taken up by the Government at the same time when the excise duty on sugar was levied.

In his Budget Speech of 1934 Sir George Schuster expressed his considered opinion that, "It does not appear that in all cases the actual grower of cane is getting the full advantage which he was intended to receive from our policy." He further stated that, "we have decided to propose a dual policy; on the one hand the imposition of an excise duty on factory produced sugar and on the other hand the introduction of legislation by the Central Government which will

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*The Indian Year Book—1937-38, p. 710.

enable the Provincial Governments to apply schemes for enforcing a minimum price for cane to be paid by the factory to the grower."*

Accordingly Sugar-cane Act was passed in April 1934, enabling Provincial Governments to apply schemes for enforcing a minimum price for cane to be paid by the factory to the grower. The Government of India also promised to set aside an amount equivalent to 1 anna per cwt. out of the proceeds of the sugar excise duty, representing about Rs. 7 lakhs, as a fund to be distributed among the provinces where white sugar is produced for assisting the co-operative societies among cane-growers so as to help them in securing fair prices.

Effect has already been given to this Act in the United Provinces and Bihar and Orissa in 1934. The minimum price is determined by means of a sliding scale based on the price of sugar in these provinces.†

Imperial Institute of Sugar Technology.

In accordance with the promise given by the Government at the time of introducing the Bill for Sugar Protection, they have made or undertaken to make grants totalling to Rs. 20 lakhs for sugar research schemes through the Imperial Council of Agricultural Research. Several provincial schemes for the improvement of sugar-cane have been financed out of these funds by the Council which has also sanctioned grants for a chain of eight research stations in Northern India and three in the Deccan, *viz.*, one for Bombay, one for Madras and another for Mysore. The Government of India have undertaken, in addition, to finance the Central Sugar Research Institute at Cawnpore from 1936-37 to the extent of

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* Budget for 1934-35—Finance Member's Budget Speech, pp. 18-19.

† For the general formula adopted to fix the price—*see* B. N. Adarkar —The Indian Tariff Policy with special reference to Sugar Protection, pp. 101-102.

Rs. 14 lakhs spread over five years.* It is decided that the Institute should undertake research on :—

(1) Problems of Sugar Technology in general and those of the sugar factories in India in particular.

(2) The utilisation of the by-products of the industry.

(3) Detailed testing of new varieties of cane under factory conditions; and

(4) General problems of sugar engineering and chemistry.

The administration of the Institute was vested in the Imperial Council of Agricultural Research Department, Government of India. Mr. R. C. Srivastava, formerly Sugar Technologist to the Imperial Council of Agricultural Research, was appointed the first Director of the Institute.†

‡ Present Enquiry

The protection granted to the industry in 1932 will expire in March 1938. In view of this the Tariff Board has been asked to conduct a fresh enquiry under the presidentship of Sir Geoffrey Bracken into the condition of the industry.

The enquiry is now in progress. Different views are being expressed before the Tariff Board and otherwise. The Board is engaged in taking evidence.

In an interesting book entitled "Indian Tariff Policy with special reference to Sugar Protection" (1936) Mr. B. N. Adarkar, after making a survey of the present position of the sugar industry writes that there has been only a moderate improvement in efficiency since the grant of protection. During the last three years, the average extractive efficiency in India

* Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 68.

† The Indian Year Book—1937-38, p. 310.

‡ For the recommendations of the Board and the Government Action—*See* Appendix VI.

worked out at 8.80, 8.66 and 9.05 per cent. respectively. This cannot be said to be a very remarkable achievement, because it does not bear comparison with the average extractive efficiency in Java which was reported to be as high as 12.5 per cent. in 1934.* As regards modernity of equipment, he states that the Indian sugar industry's record for the last four years leaves much to be desired.† He considers that the excise duty has not sufficiently removed the danger of over-production. Factories are still multiplying and warnings are being uttered that the manufacturers should prepare themselves for a further fall in price. He thinks that the continuance of the present state of affairs would mean nothing short of disaster to the industry. Every boom has its depression and if the same state of affairs continues, it will be difficult to avoid a drastic recession of the activity in the near future. A recession of this kind involves a heavy social cost in the form of losses, liquidation, unemployment, scrapping of plant and a shock to public confidence, which must be weighed against any temporary benefit that the industrry may appear to be reaping from its present show of prosperity. He further states that it should be realised that the problems of the sugar industry are essentially problems of research, for the solution of which protection by itself can be of no material assistance and concludes that, " the industry has now reached a stage in which a more liberal expenditure by Government and industrialists on research on its agricultural and manufacturing side is likely to be of much greater benefit than the continuance of protection at its present level."‡ On the other hand another student of the sugar industry in India, Mr. S. Ganpat Rao writes that " the extent of protection required at present is Rs. 8-5-0 per cwt.

‡ Ref. B. N. Adarkar—The Indian Tariff Policy with special reference to sugar protection, pp. 119-120.

† *Ibid.*, p. 122.

‡ *Ibid.*, pp. 133-136.

The present duty (being Rs. 9-1-0 per cwt. *less* the excise duty of Rs. 1-5-0) is only Rs. 7-12-0. So it should be enhanced by about Re. 0-9-0 per cwt."* Mr. Manu Subedar giving evidence before the Tariff Board on behalf of the Indian Merchant's Chamber emphasised the need for the continuance of protection to the sugar industry, and emphasised that the benefit of protection should be passed on reasonable measure to the cultivators whose distress should not become an opportunity for the capitalist. He expressed the opinion that Government should arm themselves with power for any emergency that might arise from subsidised sugar imports or currency fluctuations.

We have already referred to the rapid growth of the industry since the grant of protection in 1931-32. It may be stated that in the absence of protection the industry would have been killed by foreign competition during the recent severe world economic depression. The industry received formal protection in 1932, and it is too early finally to judge the success or failure of the protectionist policy. The attainment of the stage of independence generally takes a long time, and during this period the continuance of protection is essential.

With regard to the present enquiry we may say that the problems deserve to be approached not in a spirit of animadversion but in one of paternal care and recommend the continuance of protection for a further reasonable period.

International Sugar Convention.

We may conclude this section of the chapter by referring to one international aspect of the sugar industry which has loomed large in the country in recent months. The International Sugar Conference, which met in London for several weeks, reached an agreement in April 1937 for the allocation of the World's

* *See* the Article of S. Ganpat Rao on Sugar Industry X—in the Mysore Economic Journal—October 1937, p. 339.

"free market" for sugar between fourteen exporting countries. "India's part in the convention is an agreement not to export sugar by sea except to Burma and should the convention be ratified the consequence will be that for the next five years India can find no possible export outlet for any potential surplus sugar production."* The Government of India announced that the International Sugar Convention would not be ratified until the subject was debated in the Central Legislature. Sir Sultan Ahmed on behalf of the Government during the course of the debate raised the plea of over-production, stressed the need of international co-operation for raising prices and urged that the "gap between India and exporting countries in regard to cost of production is so wide that there is hardly any possibility of India exporting sugar at economic price unless they had severe measures of Government control of rationalisation."† Mr. Ramsay Scott condemned the Agreement and stated that, "a positive ban on Indian export is like victimising India in order to safeguard the monopoly of exporting countries and it will aggravate the evil of accidental over-production in India."‡ The view of the Government in respect of the gap in the cost of production referred above were shown to be untenable by those engaged in the sugar industry in India. The manufacturers put the question of export to the United Kingdom in the forefront of the Indian sugar export problem. If His Majesty's Government could grant the concession of colonial rate for the admission of Indian sugar, the Indian manufacturers would be able to compete effectively in the British Market. Mr. Ramsay Scott said that, "we are today in a position to export sugar if the United Kingdom will give a quota."§ The international agreement, if ratified

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* The *Times of India*—29th July 1937.
† The *Bombay Chronicle*—28th September 1937.
‡ *Ibid.*
§ *Ibid.*

would be of a destructive nature and would have very adverse effect on the sugar industry. The Assembly therefore refused to ratify the agreement. In our opinion this was the only sensible course of action the Assembly could have taken out of self-respect. The pediment accorded to India at the International Sugar Convention is to say the least, most unfair to it. India has almost attained the state of self-sufficiency in respect of sugar and for the further expansion and continued prosperity of the industry, it should be given reasonable facilities for exports to foreign countries.

IV. Salt Industry

Introduction.—While the rest of India produce salt to meet the local demand, the Provinces of Bengal, Bihar, Orissa, Assam and Burma are unable owing to climatic reasons, to be self-sufficient and have to rely on imports of foreign salt. The principal sources of indigenous salt are: —(1) The sea-coasts of Madras with Tuticorin as the principal centre of production. Here production is in the hands of individuals and under the control of the Government. (2) The sea-coast of Bombay which abounds in salt factories which are worked under the control of the Government. About 60 per cent. of the Indian salt is thus obtained by evaporation of sea-water. (3) The salt mines of Northern India at Khewra and Warcha in the Punjab Salt Range and salt works at Sambhar, Pachbadra and Didwana in Rajputana.* Broadly, one-half of the indigenous salt is manufactured by Government Agency and the remainder under license and excise systems. In Bengal the damp climate together with the large volume of fresh water from the Ganges and Brahmaputra into the Bay of Bengal render the manufacture of sea-salt difficult.

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* Indian Finance Year Book—1934, p. 244.

Claim to Protection.—The danger of the dependence of Bengal and Burma, which was until very recently a British India province, on the import of foreign salt was realised during the War, when the stoppage of imports pushed up prices and Bengal had to endure a salt famine, as the Calcutta market was almost entirely controlled by foreign interests. The question then arose of making India self-sufficient in the matter of salt. The Taxation Enquiry Committee (1924-25) recommended that with a view to make India self-supporting in the matter of her salt supplies the question of protection to salt should be referred to the Tariff Board. The Central Board of Revenue reported that there was no *prima facie* case for reference to the Tariff Board for two reasons. First, because in their view it was neither necessary nor desirable on general economic grounds or from the point of view of ensuring the country against shortage in time of war to dispense with sea-borne salt and secondly, because there was insufficient evidence to show that enough white crushed salt could be produced in India to supply the needs of Bengal where most of the imported salt was consumed. The matter was debated in the Legislative Assembly in March, 1929, and the discussion revealed the fact that there was considerable dissatisfaction with the above view of the Government. Government accordingly reconsidered the position and referred the matter to the Tariff Board for enquiry in 1929.* The terms of reference were, "whether it is desirable in the national interests that steps should be taken to encourage the production of salt in India suitable for consumption in those markets which are at present largely supplied from abroad and if so, what measures they recommend."†

Recommendations of the Board.—The Tariff Board which reported in 1930 pointed out that given

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* Bulletins of Indian Industry and Labour—No. 57—State action in respect of Industry—1928-35, p. 71.

† Report of the Indian Tariff Board on the Salt Industry—1930, par. 6.

adequate protection, the Indian salt industry could be developed to meet India's requirements. The Board expressed the view that the whole demand of the Bengal market could be met by India and Aden (which was until recently administered as part of the Bombay Presidency) if the sources of sea-borne salt (Karachi and Okha) as well as rail-borne salt (Khewra, Sewbee and Pach Chadra) were properly developed. To this end the Board recommended the stabilization of prices at Calcutta over a long period.* This recommendation was intended to give assurance of a steady price to the Indian producers, so that they might develop Indian sources of production without fear of cut-throat competition by foreign manufacturers. The consumers would also be assured thereby of salt at a fair price and be protected against the danger of formation of rings. The Board recommended that Government should assume control of imports and further suggested the establishment of a Marketing Board which was to have a constitution similar to that of a Public Utility Company. Government were to be permanently represented on the Board of Directors and enjoy the right of veto. The function of the Board was to buy the entire output of indigenous salt both from the Government and from private manufacturers and to meet the excess requirements by the purchases from foreign importers. The aim of the Board was to be the maintenance of stability of prices at a level which would be fair to the consumer and would allow the indigenous industry a scope for economic development.† The Board considering the markets which were supplied by imported salt came to the conclusion that the best way of tackling the problem of those markets was to promote the rail-borne salt in India. because the threat of shortage in time of war, would continue if Bengal was to be supplied from Aden, Karachi and Okha though the latter centres enjoyed certain special

* Ref. Report of the Indian Tariff Board on the Salt Industry—1930, par. 73.

† *See* for detail—*Ibid.*, pars. 95-100.

natural advantages. Besides offering a guarantee against war-time shortage the extension of rail-borne salt would bring in more custom to the railways and lower prices of salt. The Board therefore recommended that inland sources of salt such as those of Khewra, Sambhar, etc. should be developed so as to produce salt of the quality required for the Calcutta market. To this end, the Tariff Board suggested that Government should undertake a thorough survey of the possibilities of the Northern India sources.*

Government Action.—In pursuance of the suggestion of the Board that a fuller investigation into the possibilities of expanding the existing sources of supply should be undertaken, the Government of India appointed the Salt Survey Committee.

The Reports of the Tariff Board and the Salt Survey Committee were examined by the Salt Industry Committee of the Legislative Assembly in March 1931. This Committee had recommended an additional temporary duty of 4½ annas per maund on all foreign salt (except that from Aden, which was to count as part of India for this purpose) in view of the serious fall in prices of imported salt and the consequent need for prompt action less complex in character than the proposed Government control over the price of salt. This recommendation was incorporated into the Salt Additional Import Duty Act, 1931, which imposed an additional duty of 4½ annas per maund on all salt (except that from Aden) imported into any port in British India subject to certain conditions in the case of salt imported from any place in India.† The life of the Act was limited to one year.

Further Developments.—An unfortunate feature of the above Act was its limitation to a period of one year only. But even this restricted measure had a marked effect in giving an impetus to the indigenous

* Report of the Indian Tariff Board on the Salt Industry—1930, pars. 74-75.

† Bulletins of Indian Industry and Labour—No. 57—State action in respect of Industries—1928-35, p 71.

industry. The position was examined again by the Salt Industry Committee in February 1932. They observed that the Act was successful in realising the particular object of stabilizing the price of white crushed salt at a level which would encourage the substitution of Indian for foreign salt, and at the same time avoiding laying on the consumer a burden larger than was necessary to secure that object. The Committee, accordingly, came to the conclusion that the additional duty on foreign salt should be continued for another period of 15 months only, as they considered that it was necessary to examine further the position as regards Aden, the imports from which source during the year of protection had gone up by leaps and bounds. The Committee, in order to fulfil the essential object of the Tariff Board's proposals, considered that some measures were necessary to prevent Aden from capturing the whole market to the exclusion of other Indian sources. They recommended that the purpose might be achieved by allotting quotas of the Indian requirements to the various sources of supply The Assembly accepted the Committee's recommendations and the life of the Act was accordingly extended upto 31st March 1933.*

The Simla Conference.—In pursuance of the above recommendation of the Salt Industry Committee a meeting of the salt manufacturing interests was convened at Simla in May 1932. The Conference failed to secure unanimity between Aden and Indian interests. Indian and Aden manufacturers ran a close race of rate-cutting for the two subsequent years, which presaged troubles for both. At last in 1935 a Salt Marketing Board was formed composed of salt manufacturers supplying the Bengal market. Its main purpose was to eliminate foreign imports and to organise Indian imports so that normal seasonal demand might be satisfied at prices approximating to the economic level fixed by Government. On the

* Indian Finance Year Book—1936, pp. 285-286.

basis of an approximate estimate of the total annual consumption of salt in Bengal and the adjacent areas, the following quotas have been assigned to different salt works :—*

Town.	Maunds	Percentage of Total supply
Aden	266,000	49.91
Bombay	20,000	3.74
Okha	65,000	12.20
Karachi	124,000	23.27
Porbunder	33,000	6.19
Morvi	25,000	4.69
Total	533,000	100.00

Further extension of the additional duty on Salt.—The additional salt import duty which was to expire on 31st March 1933 was extended from time to time till the 30th April 1938 at the reduced rate of 2½ annas from 1933.† The Salt Additional Import Duty (Extending) Act, 1936, extended the operation of the Salt (Additional Import Duty) Act, 1931, for two more years subject to a reduction of the rate of duty from 2½ annas to 1½ annas per maund.‡ The duty which originally stood at 4½ annas has thus been reduced by 3 annas per maund by successive stages since 1933. The additional duty has been resented by the representatives of Bengal on the ground that it has the effect of helping the producers of Aden at the expense of consumers in Bengal. The assignment of quotas to different salt works, and the limitation of the quota to Aden and the substantial reduction in the duty have largely met the criticism from Bengal. The additional import duty of 1½ anna per maund on salt expired on the 30th April 1938.

* Indian Finance Year Book—1936, p 286
† It should be noted that the Supplementary Finance Act of 1931 imposed a surcharge of 25 per cent. both on the Customs and Excise Duties on salt.
‡ Review of the Trade of India—1935-36, p. 14.

Conclusion.—In 1930-31, the India and Aden salt works received the first instalment of protection, which has since been renewed from time to time on a twelve-month basis. This has had the welcome result of decrease in salt imports into India. The following table shows the decline of imports of foreign salt and the increase of salt production in India since the grant of protection.

TABLE.*

	Year.	Total Quantity of Imports. Tons.	Production. Tons.
Including Burma.	1930	688,629	1,711,348
	1931	528,594	1,839,400
	1932	552,741	1,610,861
	1933	396,818	1,712,384
	1934	392,175	1,963,702
	1935	393,972	1,948,173
excluding Burma.	1936-37	300,000	1936—1,347,000
	1937-38	347,000	1937—1,492,000

The hope may be expressed that India would be fully self-sufficient in respect of its need for salt, which is an article of daily necessity for the masses, in the near future.

As Bengal is the key Province in regard to salt protection, an undertaking was given by the Central Government in 1931 that a portion of the salt import duty would be allocated to Bengal to be expended on schemes for the development of the Bengal industry. The Government of Bengal after holding up this allocation for some years agreed, in response to interpretations in 1935 in the Bengal Council, to make up lost ground. Several experimental measures are in progress to mitigate the climatic influences of Bengal on the manufacture of salt, one of which is the pan drying system in vogue in Burma.

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* Ref. The Indian Year Book—1932-33, pp. 711-712.
Do. —1934-35, pp. 719-720.
Do. —1936-36, p. 709.
Do. —1937-38, p. 672 and Review of the Trade of India in 1937-38, p. 102.

CHAPTER IX

(A) **OTHER INDUSTRIES**

(B) **REMOVAL OF TARIFF ANOMALIES**

(A) Other Industries

Scope of the Chapter.—In this chapter it is proposed to review the question of the grant of protection in the case of the following industries :—

(1) Coal Industry.

(2) Match Industry.

(3) Oil Industry.

(4) Heavy Chemical Industry.

(5) Glass Industry.

(6) Miscellaneous Industries.

(7) Tanning and Leather Industry, and

(8) Agricultural Protection—Wheat and Rice.

In the concluding portion of this chapter the question of removal of tariff anomalies would be considered.

I. Coal Industry

A short history of the Coal Industry.—The coal industry in India owes its origin to the construction of railways, which created a large demand and led to the opening up of India's coal-fields during the second half of the last century. Most of the coal raised in India comes from Raniganj and Jharia coal-fields. These two together constituted about 91 per cent. of the total production in India in 1923. In

the pre-War period coal industry in India was producing more than the local requirements and so was required to export a part of the output. Before the War, we exported about 40 lakhs of tons of coal per year.* The industry found its way into certain eastern markets such as Colombo, British Malaya and the East Indies. It witnessed a remarkable expansion during the War and early post-War years, especially during the period 1917-21. The cutting of British supplies consequent on shortage of shipping, the rise of coal prices, the demand for coal from Government upto April 1920 and the increase in internal consumption during the post-War industrial boom period were some of the factors that stimulated the growth of the industry, the only limiting factors being the shortage of wagons for carrying coal and supply of labour for mining.†

Statistics of Coal Production.—The total output of coal in India from all sources during the past ten years is given below.‡

Year.	*Tons.*
1926	20,999,167
1927	22,082,336
1928	22,542,842
1929	23,418,734
1930	23,803,048
1931	21,714,435
1932	20,153,387
1933	19,789,163
1934	22,057,447
1935	23,016,695
1936	22,600,000

(Continued.)

* C. N. Vakil, S. C. Bose and P. V. Deolalkar—Growth of Trade and Industry in Modern India, p. 232.

† See Report of the Indian Tariff Board regarding the grant of protection to the Coal Industry—1928, par. 11.

‡ The Investor's Indian Year Book—1936-37, p. 83, Review of the Trade of India in 1936-37, p. 126, in 1937-38, p. 140 and Monthly Survey of Business Conditions in India—March 1939, p. 770.

Year.	*Tons.*
1937	25,000,000
1938	25,213,000

Although the total production of coal in India is small in comparison with the vast quantities raised in countries like Great Britain and America, the rate of increase in India, barring the set-back in the years 1931-33 has been by no means insignificant as the following figures will show.*

Year.	*Tons.*
1880	1,019,793
1890	2,168,521
1900	6,118,692
1910	12,047,416
1920	17,962,214
1930	23,803,048

Claim to Protection.—In July 1920, an embargo on the export of coal was imposed in view of the internal scarcity of coal and the congestion on the railways. The embargo was finally removed in the beginning of 1923. The effect of this restriction was almost the total disappearance of the Indian coal from overseas markets. During the interval, South African exports of coal to eastern markets including India were making rapid strides. When the restrictions were removed, Indian coal was not able to regain its former position abroad,† while it experienced increasing competition in the home market itself. This

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* The Investor's Indian Year Book—1936-37, p 83

† This is brought out by the following figures relating to exports of coal from India

Year.	Total Indian exports * Tons
1920	1 224,758
1921	275,571
1922	77,111
1923	136,575
1924	206,483
1925	216,090

* Excluding bunker coal and Government stores but including coke and patent fuel.

(Report of the Coal Mining Committee—1937—Vol. I., p. 235.)

competition was particularly keen in Bombay and Karachi. The main reason, why South African coal was able to compete in the Indian market, was the special railway freights granted by the South African Railways on exports.* This import of South African coal had been the cause of a good deal of discontent and in March 1924, the Legislative Assembly passed a resolution recommending the imposition of a countervailing duty on South African coal.† As an outcome of this, the Indian Coal Committee was appointed to investigate the technical aspect of the matter before referring the question of protecting the coal industry to the Tariff Board. The Committee made various recommendations, and as the result of these, to promote improvement in the quality of Indian coal the Coal Grading Board was instituted. At the same time railway rebates on exports were also increased. The question of protection to the coal industry was referred to the Tariff Board on 30th September 1925.

Findings of the Board.—The Board concluded the enquiry in 1926 and unanimously decided against a protective duty on all imported coal. Although the majority and minority arrived at the same conclusion, the reasons given by them were different.

The majority held that although the industry satisfied the first condition of the Fiscal Commission regarding natural advantages, it failed to satisfy the second condition since protection would not result in substantial development of the industry. The depression in the industry was considered as being due not to the falling off in the demand for coal, but principally to over-rapid development during the period of high prices. Moreover, it was held that

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* C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, p. 51

† G. B. Jathar and S. G. Beri—Indian Economics (Fourth Revised Edition)—Vol. I., p 27.

although a protective duty on all imported coal would not impose a heavy burden on the manufacturing industries using coal, all measures which tended to raise the cost of fuel were prejudicial to industrial development and should not as a rule be taken unless the reasons for them were cogent and convincing.* On these grounds the majority rejected the claim for the imposition of a protective duty on all imported coal.

Mr. (now Sir) Padamjee Ginwala in his minority report stated that coal was chiefly imported in India from England, Japan, Austria and South Africa. He pointed out that a protective duty on English coal was not justifiable as it was of a kind and quality different from and superior to Indian coal which could not be expected to compete with the former. Regarding coal imported from Japan and Australia, he held that the imports from these countries were negligible. Hence there was no need for a protective duty on all imported coal.†

There was a serious difference of opinion among the members of the Board on the question of the imposition of a countervailing duty on coal imported from South Africa. Both the majority and the minority agreed that freight concessions given by the South African Railways were deliberately aimed at the development of a large export trade and that an additional duty of Rs. 1-8-0 per ton on South African coal would give Indian coal all the benefit it could derive from a duty of that kind.‡

The majority did not, however, approve of the imposition of a countervailing duty on South African coal, on the ground that the invasion of the Indian markets by South African coal was not due to the

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* Ref. Majority Report of the Indian Tariff Board regarding the grant of protection to the Coal Industry—1926, par. 52.

† Ref. Minority Report, *Ibid.*, par. 2.

‡ Ref. Majority Report, *Ibid.*, par. 72, and
Minority Report, *Ibid*, par. 31.

freight concession alone, but was also due to the unsatisfactory quality of Indian coal sent to Bombay and Sind in recent years. The duty, if levied, would not help Indian coal to recover its lost position in Ceylon and the Far East and it might provoke retaliatory measures.*

Mr. (now Sir) Padamjee Ginwala dissenting from his colleagues recommended that a countervailing duty of Rs. 1-8-0 per ton in addition to the existing duty of Rs. 1-8-0 per ton of coal should be imposed. He held that extensive damage had been done to the Indian coal industry by the competition of South African coal in India and the Eastern markets and stated that special rates on exports granted by the South African Railways were the principal cause of this damage. He concluded that the imposition of a countervailing duty was justifiable from the point of view of the policy of discriminating protection and was desirable in the national interest.†

Government Decision.—The Government of India accepted the unanimous opinion of the Board that a case for a protective duty on all imported coal had not been established. Regarding the question of imposing a duty on South African coal Government accepted the view of the majority that in the existing circumstances the imposition of a duty was inadvisable.‡

Criticism.—This unsympathetic attitude of the Government of India towards the industry was very unfortunate. The coal industry of India was in urgent need for an export market as it was producing more than the local requirements. The scope of the home market was further limited by the imports of South

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* Majority Report of the Indian Tariff Board regarding the grant of protection to the Coal Industry—1926, par. 72

† Minority Report, *Ibid.*, par. 47.

‡A. G. Clow—The State and Industry, pp. 124-125.

African coal, which were stimulated by the Government of that country. Thus the industry remained exposed to the severe competition of South African coal in the home market. This question was again raised by the Associated Chamber of Commerce, which passed a resolution at their annual meeting in 1935 to the effect that the Government should consider the advisibility of reducing the freight on coal with a view to enabling the Indian industry to compete with South African coal in certain markets like Ceylon and Sumatra and the neighbouring ports for bunker coal. The Chamber also advocated the imposition of a countervailing duty of Rs. 1-8-0 per ton on imports of South African coal in addition to the existing duty of 10 annas per ton on foreign coal.* No action on this has so far been taken by the Government. The following table† reveals the continuous decrease in the export of Indian coal in recent years.

Year	Exports of Indian coal * (in Tons) Total Indian export.
1926	617,573
1927	576,167
1928	626,343
1929	726,610
1930	461,188
1931	441,249
1932	519,483
1933	426,176
1934	330,233
1935	217,584
1936	195,836

* Excluding bunker coal and Government stores but including coke and patent fuel

The attitude of the Government towards the coal industry requires to be made more liberal with a view

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* Ref. Report of the Bombay Chamber of Commerce—1935, p 121 and —1936, p. 100.

† Report of the Coal Mining Committee—1937—Vol I, p. 235.

to enable the Indian coal industry to recover its lost foreign markets.

Further Developments.—The policy of railways to own collieries depressed the coal prices so low by 1929 that Calcutta coal-owners convened a Conference to fix minimum selling prices for the various grades. The Conference, which represented the first of a series of attempts made by the coal industry to secure co-operation between owners in the matter of selling prices, did to some extent succeed, but unfortunately the "Pact" did not cover the whole coal trade.* The depression in the industry had hit it so hard that the morale of the Conference was weakened and the result was a still further decline in the prices of coal.

Calcutta Conference.

The year 1932-33 witnessed a worsening of all the adverse feature of the coal trade, referred to earlier and the primary cause of increase of all these handicaps being the imposition of a surcharge of 15 per cent. on rail freight on coal. The practical effect of this was that Bengal coal became dearer in Western and Southern India and other places away from the coal-fields in Bengal, Bihar and Orissa. Following the various representations made by the coal trade of Bengal, Bihar and Orissa, the Government of India agreed to do something and raised the rates for the transport of coal from the collieries in the Central Provinces as from the 1st of April 1934. It was announced in January 1935 that as from the 1st of April 1935 the surcharge on the railway freight would be reduced by a cut in the basic rate from 15 per cent. to 12½ per cent. and by the imposition of Re. 1 per ton, irrespective of distance.†

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* The Investor's Indian Year Book—1936-37, p 77

† Indian Finance Year Book—1936, p. 239.

Scheme of Restrictions.

The difficulties of the coal industry of Bengal, Bihar and Orissa mounted up as a result of the unhealthy competition amongst the coal owners themselves. After protracted and delicate negotiations, the three bodies interested in the coal trade of Bengal, Bihar and Orissa, *i.e.* the Indian Mining Association, the Indian Mining Federation and the Colliery Owners Association agreed upon a scheme of restriction to raise the price levels. The scheme was forwarded to the Government of India (Department of Industries) with the request that it should be made effective by Legislation at the earliest possible date. The main features of the scheme were as follows :—

(i) The scheme was to be in force for a period of three years in the first instance, restriction being effected by control of wagon supply.

(ii) The operation of the scheme was to be restricted to collieries in British India, in Bengal, Bihar and Orissa and the Central Provinces.

(iii) The standard tonnage of all collieries was to be the average annual output of the years 1930-31-32. The lowest quota was to be 75 per cent. of the standard tonnage but the Committee was to have power to vary the quota from time to time, as they might consider necessary.

The scheme was in the hands of the Government for 14 months before any decision was reached. In February 1935, the proposals were finally turned down. Government thus lost the opportunity to place one of the country's basic trades on a firm foundation.* If the restriction scheme had been accepted there can be no doubt that there would have been an advance in the market price of coal. There was no intention

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* Ref. for the detail of the schemes—The Investor's Indian Year Book—1936-37, pp 77-78.

to exploit the consumer, but to check the dissipation of valuable reserves of coal.

Conservation of Indian coal (The Coal Mining Committee—1936.)

Before concluding the discussion of the coal industry, we may refer to the appointment of the Coal Mining Committee on the 29th October 1936. It has been a most important point of discussion amongst the geologists in India that faulty mining methods tend to waste the none too abundant resources of Indian coal. The problem of conservation of the coal resources of India was referred to the Coal Mining Committee by the Government of India on the 29th October 1936. The Committee was asked to enquire into and report on the measures which should be taken (1) to secure the safety of those employed on this work and (2) to prevent avoidable waste of coal.* Thus at last the Government decided to take steps to conserve the assets of this country.

The Committee held that legal measures of conservation should be applied to all good quality coals as a matter of public policy in the interests of the community as a whole and suggested that the best means of conservation, apart from the incidental benefit derived from measures of State control over mining method, was stowing.† They proposed the compulsory stowing of coal.‡ They suggested State limitation and intervention as the only effective remedy which was considered as overdue.§ They further recommended the establishment of a Statutory Authority to carry out their proposals.¶

In view of the warning contained in a recent official bulletin by Sir Lewis Fermor, Director of the Geologist Survey of India, regarding the possibility of complete exhaustion of India's resources of good quality

* Report of the Coal Mining Committee—1937—Vol. I, par. 1.
† *Ibid.*, par. 136.
‡ *Ibid.*, par. 176.
§ *Ibid.*, par. 198.
¶ For the principal functions of the proposed authority—*see Ibid.*, par. 273.

coal within the next hundred years, it is necessary to devise measures for the conservation of India's coal resources along the lines recommended by the Coal Committee in 1937. The introduction of such measures and State control over mining methods would, in our opinion, strengthen the case for protection of the Indian coal industry and therefore should be welcomed by the industry itself.

II. Match Industry

Introduction.—The growth of the match industry in India dates from the year 1922. Before 1922, the number of match factories in the country was inconsiderable. With the exception of the Gujarat Islam Match Factory founded in Ahmedabad in 1895, there was no successful manufacture of matches on commercial scale and the country was very largely dependent on foreign imports which amounted in 1921-22 to 13.2/3 million gross of boxes of matches valued at Rs. 204 lakhs. In March 1922, the duty on imported matches was fixed at Rs. 1-8-0 per gross for revenue purposes. This high tariff had the effect of stimulating local manufacture. There has been a considerable expansion of the industry since the imposition of high duties in 1922. It was estimated by the Tariff Board in 1928 that approximately 27 factories existed in India with an outturn capacity of 8,500 gross a day.*

Claim to Protection.—Before the War, we used to import matches from several countries. During the War, the European supply ceased and Japan had the monopoly. In the meanwhile several Swedish companies reorganised their match trade by forming a powerful Kartell which had worked out a programme

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* *See* for detail—Report of the Indian Tariff Board regarding the grant of protection to the Match Industry—1928, par. 8.

of world domination in the manufacture of matches. By 1923-24 Sweden had got about half the share of the Indian market.* With the high revenue import tariff imposed in 1922 and the consequent Indian development of match manufacture, the Swedish Trust was exposed to the risk of losing their vast market in India. This was clearly seen by the Swedish Trust and they therefore launched upon a programme of constructing their own factories in India. With the facilities afforded by the great sources at their command this was done rapidly. The Indian manufac turers foresaw the danger of conflict with the Swedish Trust. With a view to safeguarding their economic position all the manufacturers of matches in India asked for protection against the designs of the Swedish Trust.† Thereupon the matter was referred by Government to the Tariff Board on 2nd October 1926. The Report was made available in 1928.

Findings of the Board.—As regards the first condition of the Fiscal Commission, the Board held that India possessed a large home market, consumption being estimated at 17 million gross a year. The industry also commanded an adequate supply of cheap labour.‡ As regards raw materials, the supply of match wood in Indian forests was considered sufficient.§

As regards the second condition, the Board expressed the view that the need for protection arose from two causes, namely, that the Swedish Match Company were importing matches at a price below the economic level and that there existed a very marked prejudice against Indian matches. They considered that until

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* C. N. Vakil, S. C. Bose and P. V. Deolalkar—Growth of Trade and Industry in Modern India, p. 329.

† *See*—Article by Kaul D. K on the Match Industry in India in *Indian Journal of Economics*—Vol. XI, 1930-31, p. 501

‡ Report of the Indian Tariff Board regarding the grant of protection to the Match Industry—1928, par. 96.

§ *See—Ibid.*, par. 98.

these conditions were removed, the need for protection would continue.* As regards the burden on the consumer, the Board pointed out that prices of India's matches were regulated by internal competition and the consumer got them as cheap as it was possible to get them.

Regarding the possibility of the industry eventually being able to face world competition unaided, the Board held that in view of effecting future economies the industry would eventually be able to dispense with protection.†

The Board concluded that the industry satisfied all the conditions laid down by the Fiscal Commission for the grant of protection.

Recommendations of the Board.—To this end the Board recommended that the existing revenue duty of Rs. 1-8-0 per gross boxes should be maintained and should be transferred from the revenue to the protective part of the schedule.‡ This would give the necessary assurance to the industry that it would not be deprived suddenly of the protection it had enjoyed so far. They did not favour the fixing of any definite period but recommended a fresh enquiry when circumstances appeared to warrant such action.§

As regards the complaint of unfair competition made by the India industry against the Swedish Trust the Board did not recommend any measure to safeguard Indian interests for the time being. They held that so far as Indian production was concerned the allegation was not true.¶ Moreover, it was considered that the competition of the Company had reduced the

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* Report of the Indian Tariff Board regarding the grant of protection to the Match Industry, 1928, par. 95.

† *Ibid.*, par. 94.

‡ *Ibid.*, par. 119.

§ *Ibid*, par. 121.

¶ *Ibid.*, par. 139.

profits of the Indian companies (which were at one time as high as 50 to 60 per cent.) and thus benefited the consumer. It was further pointed out that the Company had been doing useful work in the expansion of the industry in India. With the help of protection it would assist in developing the Indian sources of supply of the raw material and in general in raising the standard of quality and introducing modern methods. But in view of the vast resources of the Company and the monopolistic policy pursued by them in other countries, the Board stated that the future development of the Company should be watched. No action was recommended till any untoward situation arose. The Board advised the Swedish Company to identify itself with Indian interests by registering itself in India, by inviting rupee capital in India and by admitting Indians to its Board of Directors.*

Government Action.—The Government of India accepted the recommendations of the Board and accordingly the Match Industry (Protection) Act was passed in September 1928.† It imposed a protective duty of Rs. 1-8-0 per gross on imported matches without any time limit. Government also accepted the finding that in the circumstances mentioned by the Board no action was called for against the Swedish Match Company on the ground of unfair competition.‡

Conclusion.—A considerable section of public opinion in the country including the Indian Chamber of Commerce was strongly opposed to the policy of the Tariff Board and the Government in allowing a foreign concern like the Swedish Match Company to avail itself of the advantage of protection without the statutory adoption of the usual precautions to safeguard Indian interests. Expression was given to the apprehension regarding the designs of the Swedish Trust,

* Report of the Indian Tariff Board regarding the grant of protection to the Match Industry—1928, par. 161.
† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p 72
‡ Indian Finance Year Book—1936, pp. 215-216.

which was developing a powerful menace to the indigenous enterprise. It was said that the object of the grant of protection would be defeated due to the attitude of the Tariff Board towards the foreign Trust.

The apprehension referred to above has unfortunately come to be true, because it is well known that the Swedish Company has by now so increased its activities that the local manufacturers may either be forced to close down their works or hand over control to it. The usual rate war has begun. The Federation of the Indian Chambers of Commerce at its annual session in 1931 urged the Government to take action to secure the acceptance by the Swedish Match Company of the recommendations of the Tariff Board in view of its unfair activities such as rate war with the indigenous industry. The Match Manufacturers Association sent a representation to the Government of India urging the adoption of measures for dealing with the activities of the Trust.*

The Indian match industry sheltered behind the high tariff is now able to meet India's domestic requirements and the imports of foreign matches are now insignificant. The imports in 1936-37 amounted to 55,000 gross valued at Rs. 48,000 as compared with 107,000 gross valued at Rs. 109,000 in 1935-36 and 13 million gross post-War average valued at Rs. 176 lakhs.† The country has thus become almost self-sufficient in the matter of a daily necessity like matches. The success, which has been attained by the industry, shows what could be done with protection during a short period of time. There is, however, one comment and that is with reference to the *laissez-faire* policy of the Government towards the Swedish Trust. We advocate an early reference of this matter to the

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* C. N. Vakil, S. C. Bose and P. V. Deolalkar—Growth of Trade and Industry in Modern India, p. 236.
† Ref. Review of the Trade of India—1936-37, p. 189, and
Do. do. —1935-36, p. 191.

Tariff Board with a view to finding out how far the activities of the Trust are detrimental to the indigenous industry and suggesting appropriate measures.

Match Excise Duty.—The Match (Excise duty) Act, 1934 imposed on matches made in British India and sold in boxes or booklets containing on an average not more than eighty, an excise duty of (i) Re. 1 per gross of boxes or booklet if the average number is 40 or less, (ii) Re. 1-8-0 if the average number is more than 40 but less than 60 and (iii) Rs. 2 if the average number is more than 60. The Act also revised the customs duties on imported matches in such a manner as to comprise rates which maintained the existing measure of protection to the Indian industry over and above the equivalent of the new excise duty. This excise duty was justified by the Government on the ground that it was necessary to enable the Government of India to recoup their losses caused by granting a half share in the jute export duty to the jute growing provinces (Bengal, Assam and Bihar). The Government of Bengal in particular had been suffering from successive budget deficit since 1930 and badly needed help from the Central Government. This policy, it was said, was also in accordance with the recommendation of the White Paper on Indian Constitutional Reforms (1933). The destination of this duty gave an offence to some provinces, which felt that they were being penalised for having managed their finances better than Bengal.* The staunch advocates of protection in India naturally have not approved of the policy of levying excise duties on the output of protected industries in the country. As in the case of the sugar industry, the Government of India deemed it necessary to levy an

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* Ref. K. T. Shah—Review of Indian Finance—1927-34, p. 36,
Ref. Finance Member's Budget Speech—Budget for 1934-35—Part II, pars 33-39.
G. B Jathar and S. G. Beri—Indian Economics (Fourth Revised Edition)—Vol. II, p. 541.

excise duty on match production in India with a view to making up the loss of revenue from import duties in consequence of falling imports of goods following industrial development in India under the policy of protection.

III. Oil Industry

Introduction.—There are two distinct oil-bearing areas in India—one on the east, which includes Assam, Burma (until recently part of British India) and the islands of the Arakan Coast. This belt extends to the productive oil fields of Sumatra, Java and Borneo. The other area is on the west and includes the Punjab and Baluchistan, the same belt of oil-bearing rocks being continued beyond the borders of British India to Persia. Of these two the eastern area is by far the most important and the most successful oil fields are found in the Irrawaddy Valley.* There are several companies doing the work, but the Burma Oil Company is in a predominant position.†

Claim to Protection.—The kerosene price war, which led to the appointment of the Tariff Board in 1928, may be briefly described. The Standard Oil Company of America made large purchases of oil from the Soviet Government. According to the Tariff Board, the ostensible reason for the price war was the sale of Russian oil, stated to be 'stolen oil' in India.‡ The Burma Oil Company, the premier oil company in India, made arrangements with the Royal Dutch Shell Group and the Anglo-Persian Oil Company, who were formidable rivals, to control and fix

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* The Indian Year Book—1935-36, p. 705.

† For an interesting account of the progress of the Petroleum Industry—*see* the Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928—Chap. I.

‡ Majority Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928, par. 24.

the price of oil products in India.* The Standard Oil Company, had to follow the prices fixed by the Kerosene Pool mentioned above. It was difficult for the Company to sell at a lower price in Indian market so long as prices were based on American Gulf prices. The Shell group had obtained a dominant position in India by arrangement with the local companies. The acquisition of Russian supply by the Standard Oil Company was a menace to Shell. In view of these circumstances, the Shell group threatened a price war and obtained the co-operation of the Burma Oil Company for the same. On 21st September 1927, two days before the first consignment of Russian kerosene oil was landed in India, the Burma Shell Group reduced the price by Re. 1 per 8 gallons.† The Indian petroleum industry, thereupon, applied to the Government for the grant of protection on the ground that the indigenous industry was hit hard by the kerosene oil rate war between the Standard Oil Company and the Royal Dutch-Shell Group, which had resulted in the dumping of kerosene oil in India at prices below world parity. The Government of India referred the question to the Tariff Board on 26th March 1928.‡

Findings of the Board.—The Tariff Board§ issued its Report in September 1928. There was a difference of opinion among the members of the Board. The majority of the Board held that the sale of kerosene in India below world parity as a result of the price war was established.¶ They considered the question whether it was in the national interest that protection should be given against the dumping of imported

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* Majority Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928, par. 19.

† Ref. *Ibid.*, par. 23.

‡ *Ibid.*, pars. 1-3.

§ The personnel of the Board was as follows :—
President—Mr (now Sir) P P. Ginwalla.
Members :—Mr A. E. Mathias, Dr. J. Matthai.

¶ Majority Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928, par. 36.

kerosene and concluded that the price war in kerosene, while of immediate benefit to the consumer, would neither adversely affect Government revenue, nor seriously prejudice the future production of oil in India. On the other hand the economic pressure resulting therefrom was likely to reduce the costs of production and lead to better utilization and conservation of the mineral resources of the country.* On these they held that dumping in this was not contrary to the national interest. In their opinion no case had been made out for safeguarding the Indian oil industry against the sale of imported kerosene below world parity.

Regarding the danger of price war in petrol, the majority held that foreign petrol would not be imported into India on any considerable scale within the next two years. It was considered impossible to foresee the events at the end of that period. According to them no immediate measures were called for.†

The President Mr. (now Sir) Padamjee Ginwala dissented from the views of the majority though he agreed with them that no case had been established for the grant of protection in any form either as regards kerosene or petrol.

The President held that the failure to disclose certain facts regarding the offer of compensation by the Dutch Companies for losses suffered by the Burma Oil Company and other Indian associate companies, might alone justify a summary dismissal of the application in the interest of public discipline.‡ However, he held that the allegation of dumping had not been established.§ In fact the indigenous industry

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* Majority Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928, par. 77.
† *Ibid.*, par. 84.
‡ Minority Report, *Ibid.*, par. 4.
§ Ref. *Ibid.*, par. 18.

and the importers were selling kerosene oil at prices in excess of American parity. He pointed out that up till March 1928, the price war had no adverse effect on the financial position of the British Burma Petroleum Company and the Indo-Burma Petroleum Company.* The reduction since then in their revenue so far as it was due to the price war would have no serious consequences on their future. He, therefore, held that no recommendation was required regarding the protection of kerosene industry.† As regards the question of protection to petrol, it was held that a shortage of petrol might lead to a rate war though it was difficult to predict its date or the form it might take. Until it was known, it was not thought necessary to make any recommendations.‡

Government Decision.—The Government of India agreeing with the Board declined to take any steps to protect the indigenous industry.

IV. Heavy Chemical Industry

Introduction.—The importance of the chemical industry in any country can hardly be exaggerated. The industrial growth of different countries shows that the establishment of chemical industry precedes that of other large scale enterprises, for the obvious reason that chemical industries are really the basic or key industries. " In a modern state the development of chemical industries on a scale that renders them an important factor in the economic life of the state—as they are in England, Germany and America—necessitates the provision of certain essentials at sufficiently low rates." These essentials are, at first, the fundamental heavy chemicals, especially sulphuric and hydro-chloric acids, lime, caustic soda, sodium

* Ref. Minority Report of the Indian Tariff Board regarding the grant of protection to the Oil Industry—1928, par. 24.
† *Ibid.*, par. 29.
‡ *Ibid.*, par. 45.

carbonate, nitric acid, etc.* The three main chemical industries are those relating to acid, alkali and metallurgical products of the acids, the sulphuric acid is the most important, in fact the key to all other chemical industries.

India is well endowed for the development of large-scale chemical industries, as regards both raw materials and markets† and (according to the survey made by the Indian Munitions Board‡) she may hope eventually to produce successfully various types of mineral acids, alkalis, coal-tar products, vegetables, etc. Inspite of these vast potentialities only a few heavy chemicals were manufactured in India before the War.§ During the War, a considerable stimulus was given to the Indian chemical industry and a large number of chemicals were manufactured on a commercial scale for the first time.¶

Claim to Protection.—The War as already pointed out had given a considerable stimulus to the manufacture of many of the chemical products. The industry had already been established in India, but the keen competition of powerful European syndicates threatened its existence.** The management of the Eastern Chemical Company and the Dharamsi Morarji Chemical Company requested the Government of India to extend protection to the heavy chemical industry.††

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* Indian Munitions Board—Industrial Hand Book—1919, p. 58.

† Indian Industrial Commission—1916-18—Report, par. 79-(*b*).

‡ Indian Munitions Board—Industrial Hand Book—Chemical Industries, pp 58-112.

§ Indian Industrial Commission—1916-18—Report, par. 79-(*b*).

¶ The principal chemical works in India, at the time of the Tariff Board inquiry on the question of protection in 1928, were as follows :—

The Dharamsi Morarji Chemical Company, Ltd., Ambernath.
The Eastern Chemical Company, Ltd., Bombay.
Messrs. Parry and Company's Works, Rampet.
Messrs. D Wadia and Company, Ltd., Calcutta.
The Bengal Chemical and Pharmaceutical Works, Ltd., Calcutta.

Ref. Report of the Indian Tariff Board on the Heavy Chemical Industry—1929, par. 30.)

** Ref. *Ibid.*, par. 72.

†† Ref. *Ibid.*, par. 1.

The question of protection to the heavy chemical industry was referred to the Tariff Board on 16th July 1928.

Findings of the Board.—The Tariff Board took sulphuric acid as the basis of the whole group of chemicals considered in their Report. The Board concluded that the claim of the industry for protection rested primarily on its supreme national importance. It was a key industry, whose products were used in almost all industries, it was indispensable for national defence and it provided an essential foundation for chemical research in industries and agriculture.*

The Board firstly justifying the claim for protection in the light of paragraph 106 of the Report of the Fiscal Commission, which recommended the grant of protection not on ordinary economic ground but on the ground of national safety, also pointed out that the industry substantially fulfilled the conditions laid down by the Fiscal Commission. As regards the first condition, the Board held that the market in the country was sufficiently big to warrant production on an economic scale.† The machinery required was simple and easily handled by Indian labour.‡ In respect of raw materials, though India possessed several of those required; sulphur which was the most important raw material was lacking, but its absence was not considered a bar to the grant of protection. India in this respect was at no disadvantage as compared with the two principal competing countries, Great Britain and Germany. It was further pointed out that there were alternative sources of supplies such as zinc concentrates, copper sulphide and gypsum which were in sufficient quantities and in times of war might prove

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* Ref. Report of the Indian Tariff Board on the Heavy Chemical Industry—1929, par. 28.

† Ref. *Ibid.*, par. 21.

‡ *Ibid.*, par. 22.

of great value.* The industry satisfied the first condition of the Fiscal Commission for the grant of protection.

Dealing with the second condition, the Board expressed the view that under existing circumstances it was quite certain that the industry could not possibly develop and would in the natural course cease to exist if no protection were granted.†

As regards the third condition, the Board held that in view of the prospects of further economies and increased output, the industry would eventually be able to dispense with protection.‡ The conclusion of the Board was that the chemical industry was well qualified for protection on all grounds.

Recommendations of the Board.—The Board recommended that protection should be given in the form of specific duties and proposed specific duties on different articles. In the case of epsom salt and zinc chloride the specific duties proposed were equivalent to *ad valorem* duties of 44 per cent. and 34 per cent. respectively. On other chemicals the duties represented substantially the existing revenue duties.§ No limit was fixed to the period of protection, but another enquiry was recommended after 7 years.¶ The Board, realising the close connection between the chemical industry and the manufacture of artificial fertilisers, held that the manufacture of superphosphate was a suitable industry for the grant of protection, which should take the form of a bounty.** They recommended reduction of railway freights with a view to the formation of a large scale chemical industry in India.††

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* Ref. Report of the Indian Tariff Board on the Heavy Chemical Industry, 1929, par. 137.
† *See Ibid.*, par. 47.
‡ *Ibid.*, par. 67.
§ *See* for detailed recommendations, *Ibid.*, par. 69.
¶ *Ibid.*, par. 75.
** *Ibid.*, par. 137-(16-19).
†† *Ibid.*, par. 130.

Having regard to the overproduction in Europe and manipulation of prices by powerful European Combines, the Board recommended that the Governor-General-in-Council should be empowered to impose additional duties on being satisfied that chemicals were entering India at such prices as were likely to render the protection given ineffective.*

Government Action.—After a very considerable delay, the Heavy Chemical Industry (Protection) Act, was passed on 1st October 1931. It gave effect to some of the recommendations of the Tariff Board. Magnesium chloride was removed from the free list, on this and other heavy chemicals such as acids, chlorides and sulphates of certain metals, protective duties at varying rates ranging from annas 6 per cwt. to Rs. 5-3-0 per cwt. were imposed upto 31st March 1933, except in the case of magnesium chloride, the protective duty on which was to operate upto 31st March 1939. The latter could be enhanced if necessary. These protective duties lapsed on 31st March 1933 and the chemicals protected so far became liable to the ordinary revenue duties imposed under the Tariff Act, 1894, as amended subsequently in 1934.†

Concluding Observations.—In order to put the chemical industry on a firm basis, the Tariff Board in 1929 recommended protection for a period of 7 years. The Government, however, took action as late as 1931 and the period of protection was restricted upto 31st March 1933. It would be apparent from the findings of the Board that official measure of protection was totally inadequate. In view of the statement made by the Tariff Board, *viz.*, "If India is ever to become industrialised on any considerable scale, the establishment of the chemical industry on a firm basis is clearly

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* *See* Report of the Indian Tariff Board on the Heavy Chemical Industry—1929, pars. 74 & 137.

† Bulletins of Indian Industries & Labour—No. 57—State action in respect of Industries—1928-35, p. 73.

a matter of great importance."* The need of giving security to the heavy chemical industry for a longer period could not be said to have been over-emphasised. We advocate, therefore, an early review of the present position by the Tariff Board and the prompt grant of adequate protection if the industry is able to establish its claim.

V. Glass Industry

Introduction.—Glass-making is a very ancient industry. Glass was maufactured in India centuries before the Christian era. Pliny mentions, "Indian glass made from crystals as being of superior quality."† However, no traces survive of the ancient industry. The manufacture of glass in India on modern European lines dates from the nineties of the last century, when some pioneer efforts were made in this direction. Since then a number of concerns have been started. Between 1892 and 1900 five modern factories were started, but they all were wound up sooner or later, the last of them failing in 1908. Inspite of the previous failures, sixteen new factories were established during the Swadeshi period 1906-13. Only three of these factories, however, were in operation on the eve of the War, and none of them was making a commercial profit. The outbreak of the War at once stopped the flow of imports from Germany and Austria. To supply the need thus created new factories came into existence; and it was estimated that in 1918 about twenty factories were at work.‡

In its present form the industry takes two well-defined forms—(1) the indigenous cottage industry and (2) the modern factory industry. The indigenous

* Ref. Report of the Indian Tariff Board on the Heavy Chemical Industry—1929, par. 23.
† The Indian Year Book—1937-38, p 716.
‡ Ref Report of the Indian Tariff Board on the Glass Industry—1932, pars. 1-3.

industry is spread all over India but is chiefly concentrated in Firozabad district of the United Provinces and the Belgaum district in the South. The factory industry is yet in its infancy and its production is mainly confined to the manufacture of lampware and to a less extent, of bottles and carboys.*

Claim to Protection.—The struggle against competition with imported goods including the 'silk' bangles from Japan continued till the industry received some assistance from the increase of the revenue duties from 15 to 20 per cent. in March 1931 and to 25 per cent. in September under financial stress of the Government. In the meantime the industry applied for protection originally in 1926 and subsequently in 1929.†

The Government in response referred the claim of the industry for protection to the Tariff Board on 20th October 1931. The Board submitted their Report in March 1932, but it was not released until June 1935. (See below p. 238.)

Findings of the Board.—The Board conducted an extensive investigation into the claim for protection. They examined the claim in light of the three conditions laid down by the Fiscal Commission. The first condition requires that the industry claiming protection must possess natural advantages in the form of an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market.

The raw materials used by Indian manufacturers are silica which is obtained from sand and sodium oxide which is generally introduced in the form of soda ash. The Board, considering the supply of sand, found that all the sand used in Indian glass works was

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* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition—Vol. II, p. 66.

† Report of the Indian Tariff Board on the Glass Industry—1932, par. 64.

obtained from deposits in the country.* In respect of soda ash satisfactory sources were not yet in existence in India and the industry was dependent upon imported supplies. The Board did not, however, consider that this fact in itself invalidated the claim for protection.† The majority of Indian coals were considered suitable for use in glass furnaces.‡ The glass industry was said to enjoy special advantages in regard to labour.§ In respect of market it was held that apart altogether from plate glass, scientific glassware, the best tableware and electric bulbs which the Indian industry had not yet attempted to produce, there was in India a market sufficient not only to absorb the whole of the output of the existing factories, but also to justify the establishment of new factories.¶

The glass industry thus satisfied the first of the conditions prescribed by the Fiscal Commission.

In discussing the applicability of the second and third conditions, the Board dealt with each class of glassware separately. The principal classes of articles were classified as follows :—

(1) Sheets glass, plain and figured.

(2) Blown ware and pressed ware.

(3) Bangles, beads and false pearls.

The Board held that all these three groups satisfied the second and third conditions of the Fiscal Commission.**

Recommendations of the Board.—The Board recommended the grant of protection for a period of

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* Report of the Indian Tariff Board on the Glass Industry—1932, par. 31.
† *Ibid.*, pars 39 and 42
‡ *Ibid*, par. 55
§ *Ibid*, par. 57.
¶ *Ibid.*, par. 62.
** Ref. *Ibid.*, pars. 75, 90 and 114.

ten years* and outlined proposals for protective duties on the following basis :—†

(1) Sheet and plate glass including figured and ribbed glass—Rs. 4 per 100 sq. feet or 25 per cent. *ad valorem* whichever was higher.

(2) Bangles, beads and false pearls—50 per cent. *ad valorem*.

(3) Glass and glassware of certain specified types—50 per cent *ad valorem*.

Government Decision.—Although, as previously stated, the Board presented their Report in March 1932, it was not until June 1935, that the Government of India published their decisions and released the Board's Report. The decision of the Government of India was adverse to the findings of the Tariff Board. They rejected the plea for protection on the ground that the absence of indigenous supplies of raw materials (namely soda ash) constituted a disadvantage to the industry which cannot possibly be balanced by any advantages which it possessed in other respects. They, however, postponed their final decision until the possibilities of tapping new sources of supply of soda ash were fully explored. Although the claim to protection was not accepted; concessions, valid for three years, in the shape of refunds of the entire import duty paid on soda ash of British or Colonial origin and the excess over 10 per cent. *ad valorem* in the case of non-British ash used by Indian glass manufacturers, were sanctioned by the Government.‡ At the end of three years further reference is to be made to the Tariff Board if it appears that a *prima facie* case for protection then exists.

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* Ref. Report of the Indian Tariff Board on the Glass Industry—1932, par. 121

† *Ibid.*, par. 119.

‡ Ref. Bulletins of Indian Industries & Labour—No. 57—State action in respect of Industries—1928-35, p. 73.

Conclusion.—This decision of the Government of India created great disappointment among the glass manufacturers and has been the subject of adverse criticism in general. As mentioned in this section, the Tariff Board while admitting that satisfactory sources of soda ash were not in existence in India, did not consider that this fact in itself invalidated the claim for protection advanced by the glass industry. Here we may mention that even Industrial Commission had pointed out the need for a systematic investigation into the economic possibilities of glass making as sand and lime suitable for its manufacture occurred in many parts of India * The consideration of the advantages of raw materials and natural protection due to the nature of the material, glass itself, and the disadvantages of a lack of technical skill and need of importing specialized machinery from abroad,† leads us to the conclusion that the industry under the cover protection could have made substantial progress. The Government took a very narrow view of their responsibility towards the industry. Their policy in this case has naturally given rise to the criticism that the Government of India are whittling down the policy of discriminate protection and are showing occasionally excessive Free Trade bearings by going against the unanimous findings of a Board appointed by themselves.

VI. Miscellaneous Industries

In this part of miscellaneous industries it is proposed to deal with the following industries:—

(i) Magnesium Chloride Industry,

(ii) Plywood and Tea Chest Industry and

(iii) Gold Thread Industry.

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* *See* Indian Industrial Commission—1916-18—Report, par. 58.
† Cf. J. C. Coyajee—The Indian Fiscal Problem, pp. 135-136.

(i) Magnesium Chloride Industry

Introduction.—We shall review the position of this industry when its case for protection was examined by the Tariff Board in 1924. The manufacture of magnesium chloride in India was carried on both in the Madras and in the Bombay Presidencies. In the Bombay Presidency magnesium chloride was manufactured at two places in the desert of Cutch—Kharaghoda and Kuda—both of them important salt areas In Madras the Shomtir Salt Company, Ltd., was the only important concern in this industry. But the main concern engaged in this industry in India was the Pioneer Magnesia Works at Kharaghoda, which was established in 1916. During the remaining years of the War and for three years thereafter, prices remained high and the Company was exceedingly prosperous. But in 1922 the price dropped rapidly and by the end of the year the factory was forced to close down.

First Enquiry.—The question of the grant of protection to the magnesium chloride industry was referred to the Tariff Board on 10th April 1924. The Board held that the industry satisfied the first and the second conditions as laid down by the Fiscal Commission, but failed to satisfy the third. The supplies of raw materials were considered to be enormous. The industry also possessed the advantage of cheap labour and a large home market.* The industry thus satisfied the first condition regarding natural advantages. As regards the second condition, the Board held that without protection the industry could not be carried on except at a heavy loss.†

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* Ref. Report of the Indian Tariff Board on the Magnesium Chloride Industry—1925, pars. 8 & 9.

† *Ibid.*, par. 10.

According to the third condition, the industry asking protection ought to be able to show that eventually it will be able to hold its own and face world competition without protection. The Board, after examining the facts and figures of cost of production, concluded that the applicants had failed to show that eventually the industry would be able to dispense with extraneous assistance and did not therefore fulfil the third condition as laid down by the Fiscal Commission.* On this ground the claim to protection was not held to be made good. The Government of India agreed with the conclusion of the Board and the industry thus failed to obtain protection.†

Second Enquiry.—The question of protection to the magnesium chloride industry was again considered by the Tariff Board, while examining the claim to protection of the heavy chemical industry which was referred to the Board on 16th July 1928. In the course of the previous enquiry it had been found that the first two conditions of the Fiscal Commission were fulfilled. Regarding the third condition it was held that the industry would never be in a position to stand against foreign competition unaided and therefore did not qualify for protection. It appeared in 1924 that the industry faced by severe competition from Japan would rapidly succumb. But this had not been the case. The industry under the cover of the revenue duty of 15 per cent. *ad valorem* made reductions in costs in several directions and processes. The output which was 1,300 tons in 1922 increased to 2,700 tons in 1927.‡ It appeared that the industry was on the point of being firmly established. But the removal of the revenue duty of 15 per cent. *ad valorem* from October 1927 to placate the cotton textile industry,

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* Ref. Report of the Indian Tariff Board on the Magnesium Chloride Industry—1925, par. 27.
† A. G. Clow—The State and Industry—pp. 123-124.
‡ Report of the Indian Tariff Board on the Magnesium Chloride Industry—1929, par. 3.

again reduced the industry to a precarious condition and necessitated a renewed application for protection.*

The Board endorsed the conclusions of the previous enquiry regarding the first two conditions of the Fiscal Commission. Regarding the third condition, they held that the conclusion of the previous enquiry required re-consideration, owing to the development of the industry since 1925. The Board pointed out that there were prospects for further economy in the costs of production and the expansions of market. They considered therefore that the industry would eventually be able to face foreign competition unaided, thus satisfying the third condition of protection.†

To this end the Board recommended the imposition of a specific duty of six annas and eleven pies per cwt. for a period of seven years.‡

In accordance with these recommendations an Act was passed in 1931 imposing a protective duty of annas 7 on magnesium chloride until 31st March 1939.§*

We strongly approve of the policy of the Government of India in granting protection to the magnesium chloride industry. The industry, which commenced operation during the War, was in need of protection when the first enquiry was made. At that time the industry was refused protection on the ground that it would not eventually be able to dispense with protection. A rigid enforcement of the conditions of

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* Report of the Indian Tariff Board on the Magnesium Chloride Industry—1929, p. 59.

† Ref. *Ibid.*, par. 14.

‡ *Ibid.*, par. 17.

§* Bulletins of Indian Industries & Labour—No. 57—State action in respect of Industries—1928-35, pp. 72-73.

As the period of protection was to expire on the 31st March 1939, the Government of India referred the question whether any, and if so what protective measures should be continued after that date to the Tariff Board on the 18th December 1937—For the recommendations of the Board and the action of the Government —*See* Appendix VI.

discriminate protection laid down by the Fiscal Commission would have resulted in the total extinction of the industry, but under the cover of high revenue duty, the industry made some progress. But on the removal of the duty, the industry had again to face the severe foreign competition. If at this juncture assistance had not been extended, there was the danger of the industry ceasing to exist. Thus the protection granted in 1931 may be fully justified.

(ii) Plywood and Tea Chest Industry

Introduction.—During the War, the price of imported veneer boxes rose rapidly and considerable difficulty was experienced in meeting the demands of the industry. It was obviously a matter of great national importance that the shipment of tea should be maintained and in the year 1917, at the request of the Munitions Board, the Surma Valley Saw Mills decided to undertake the manufacture of plywood and obtained a first class certificate of priority for the import of the necessary plant. In the next year, the Assam Saw Mills and Timber Company was floated and was granted a thirty years' lease for the extraction of timber from the North-east frontier tracts provided that the Company erected an up-to-date veneer factory within two years. A similar condition appeared in the lease of the Buxa Timber and Trading Company which was floated shortly after the floatation of Assam Saw Mills and Timber Company. The Surma Valley Saw Mills and the Assam Saw Mills and Trading Company went into liquidation and the works of the Buxa Timber and Trading Company were acquired by a new Company.*

Claim to Protection.—The post-War years were a period of intense competition for the tea chest

* For detail—*see* Report of the Indian Tariff Board regarding the grant of protection to the Plywood and Tea Chest Industry—1927, par. 18.

industry. Finland which held the first place among the plywood exporting countries, increased its export from about 13,000 tons in 1920 to about 44,000 tons in 1925 Esthonia, Russia and other countries exporting plywood had also increased their output. Competition in the markets of the world had been intense and prices had been reduced to the minimum.* It was impossible for the tea chest industry in this country to hold out much longer against severe foreign competition without assistance.

The question of protection to the plywood and tea chest industry was therefore referred to the Tariff Board on 26th May 1927.

Findings of the Board.—The Board examined the case in the light of the three conditions as laid down by the Fiscal Commission for the grant of protection. As regards first condition in respect of natural advantages the Board held that all the raw material for the manufacture of plywood and tea chests were available in India.† The other factors referred to in the first condition, namely, cheap power, sufficient labour and a large home market, were also satisfied.‡ The Board, however, held that the manufacture of plywood products other than tea chests, did not require any assistance.

Dealing with the second condition, the Board concluded that it would be impossible for the tea chest industry in this country to hold out much longer against foreign competition without assistance.§ If protection were granted to the industry, it would be able to face foreign competition without protection within a reasonable time. Thus all the three conditions were fulfilled.

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* Ref.—Report of the Indian Tariff Board regarding the grant of protection to the Plywood and Tea Chest Industry—1927, par. 30.
† *Ibid.*, par. 28.
‡ Ref. *Ibid.*, par. 29.
§ Ref. *Ibid.*, par. 32.

In the view of the Board the measure of protection required by the industry was 9 annas 10.6 pies per chest. Of this that (1) 2½ annas to be given by way of an *ad valorem* import duty on linings and fittings. This meant that the existing duty on linings and fittings should remain unchanged as a revenue duty. (2) The import duty on panels and battens for tea chests should be abolished and in its place an export duty of 7 annas and 4.6 pies should be imposed on each chest of tea exported, the panels of which were not of Indian manufacture.* The period of protection was fixed at five years.†

Government Action.—Government accepted the findings of the Board, but they were unable to agree that protection should be given by an export duty, which would lead to undesirable complications. They were of the opinion that the Board attached undue weight to the objections to the grant of protection by means of an import duty. The additional burden imposed on the tea industry by the duty would not be a heavy one. They therefore decided to impose a duty of 30 per cent. on all forms of plywood and on battens and corner pieces of plywood chests and abolish the drawback.‡ The 30 per rent. duty would in effect give the same amount of protection as was recommended by the Board.

Conclusion.—We approve of the action of the Government in assisting the industry, whose existence was threatened by severe foreign competition. In view of the importance of India's foreign trade in tea, it is very desirable that she should be made self-sufficient in respect of the requirements regarding the industry.

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* For detail—Ref Report of the Indian Tariff Board regarding the grant of protection to the Plywood and Tea Chest Industry—1927, par. 66.

† *Ibid.*, par. 80.

‡ Report of the Bombay Chamber of Commerce—1928, pp. 144-145.

(iii) Gold Thread Industry

Introduction.—Before the War, nearly all gold thread in India was manufactured by the hot plating process. Very crude methods of manufacture were employed and the use of machinery in the industry was much restricted. Immediately after the War, largely as a result of investigations by the Industries Department, European methods of manufacture were adopted, machinery introduced and gold plating by the electric process began to supersede to a very large extent the earlier and more expensive methods. The chief centres of gold thread industry in India are Surat and Benares. The industry is also carried on to some extent in Bombay, Poona, Patna and Madras.*

Claim to Protection.—The Indian industry held practically the entire market in Northern and Western India, but had not been able to capture the market in Southern India. In Southern India foreign manufacturers had built up trade connections extending over many years. Their goods were reliable and unvarying in quality. The Indian industry suffered from the lack of trade connections, proper standardization of quality and the competition from the sale of gold thread smuggled through Pondicherry.† The gold thread industry, in order to get an opportunity to re-organize and to prevent the foreign manufacturer from sharing in the extension of the market, applied for protection. The claim to protection of the industry was referred to the Tariff Board on 15th May, 1930.

Findings of the Board.—In the light of the three conditions of the Fiscal Commission the Board examined the claim to protection. Dealing with the first condition they held that the raw materials required by the industry, namely, gold, silver and silk existed in India. The market for gold thread in India was

* Report of the Indian Tariff Board on Gold Thread Industry—1930, par. 5.
† Ref. *Ibid.*, pars. 8-9.

considered steady and constant as the industry could be carried on in the worker's own home and commanded cheaper labour than in Europe. The power supplied by electricity in both Surat and Benares was considered not unduly high. The first condition of the Fiscal Commission was thus substantially satisfied.*

Under the cover of 38 per cent. *ad valorem* revenue duty, the Indian gold thread industry had been able to capture the market completely for all but the finest classes of gold thread. In order to secure the market for the finest classes of gold thread, it was held that the industry required some additional assistance beyond the existing revenue duty. Protection was held to be necessary for the development of the industry.†

With regard to the third condition it was held that with better machines, closer supervision and training and with the co-operation of the Industries Department, the industry would eventually be able to face world competition without protection.‡

The Board concluded that a case had been made out for the protection of the gold thread industry and recommended that the import duty should be fixed at 50 per cent. *ad valorem*, applying alike to real gold thread, lametta, manufactures from silver wire such as spirals, spangles, etc., and all colourable imitations. They further recommended that the period of protection should be fixed at 10 years.§

Government Action.—The Government accepted the findings of the Board and accordingly the Gold Thread Industry (Protection) Act, was passed in 1931.¶

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* Report of the Indian Tariff Board on Gold Thread Industry—1930, par. 10.

† Ref. *Ibid.*, par. 17.

‡ *Ibid.*, par. 18.

§ *Ibid.*, par. 27.

¶ Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 72.

Conclusion.—The action taken by the Government to assist the gold thread industry was fully justified. Inspite of the introduction of machinery and European methods, the industry has mainly remained a cottage industry. Having regard to the important place, which the cottage industries will continue to occupy in the country's economic life, we can no more afford to neglect them than we can afford to neglect agriculture, however, keen our concern for the rapid progress of modern industrialisation may be. The realisation of importance of cottage industries by the Government is none too early.

VII. Tanning and Leather Industry

So far we have reviewed those industries which received protection after the adoption of the policy of discriminate protection. In this section, we propose to deal with an industry, which received protection from the Government even before the formal adoption of the policy of discriminate protection as its new industrial policy.

There has long existed a considerable indigenous tanning industry in India under which locally available tanning materials were used for curing and tanning hides mainly to meet the local demand for inferior kinds of leather. But the most striking changes have taken in the European methods of tanning which were first introduced by the military authorities to manufacture superior leather suitable for harness and other military requirements; and tanneries usually followed the establishment of arsenals. Before the War, the important tanneries were the Cawnpore and Sion factories and Madras tanneries.*

The War brought about important changes in the Indian tanning industry and in the export trade in

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*Cf. G. B Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 55-56.

hides and skins. During the War period the tanning and leather industry underwent a remarkable transition. The Industrial Commission which made an exhaustive survey of the Indian tanning industry came to the conclusion that it was quite possible to develop the industry in the country.* The Indian Munitions Board directed its activities towards increasing the outturn and regulating the production of those kinds of leather which possessed a special value as war material. Under the stimulus thus obtained, the tanning industry made very rapid progress. The annual output of boots and shoes was twenty times bigger at the end of the War than before it. Under the system of Priority Certificates adopted by the Munitions Board, efforts were made to stimulate the manufacture of certain classes of leather goods previously imported from abroad, such as roller skins, pickerbands, leather belting and the raw hide pickers required by the textile mills.†

On the cessation of the War, when the military purchases of the Government ceased, an export duty of 15 per cent. *ad valorem* was levied on raw hides and skins in October 1919 as a measure of protection to the Indian tanning industry. There was, however, to be a rebate of 10 per cent. on hide and skins exported to other parts of the British Empire and actually tanned there. The rebate was defended on the ground that Indian tanneries could only deal with a small proportion of the total supply of hides and skins in the country and it was desirable to help the tanning industry within the Empire so as to divert the tanning of Indian hides from Germany to British Empire. The experiment, however, failed to achieve either of the two objects. The Indian tanning industry did not flourish as was expected and there was a fall in the

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* Indian Industrial Commission—1916-18—Report, p. 365.

† Industrial Hand Book of the Munitions Board, pp. 160-168.

export of hides from India and the trade again passed to Germany.*

The Fiscal Commission condemned the export duty as wrong in principle on the ground that if protection was needed by the Indian industry it should have been given through an import and not an export duty.† The Government of India, accordingly reduced the duty to 5 per cent. and abolished the 10 per cent. rebate in 1923, the partial retention of the duty being justified only as a revenue measure. The majority of the Taxation Inquiry Committee, however, advised its early abolition. The minority was opposed to the abolition on the ground that the experiment of the preceding few years was not conclusive and advocated a determined policy of protection for the Indian tanning industry. The abolition of the duty was rejected by the Assembly in March 1927 as it was held that such a course of action would be detrimental to the prosperity of the Indian industry. The Hides Cess Inquiry Committee appointed in 1929 recommended the imposition of a 1 per cent. *ad valorem* cess on the export of raw hides and skins for the improvement of the raw stock and of the tanning and other allied industries. It recommended the retention of the export duty pending its separate consideration by the Government. The 5 per cent. export duty on raw hides was abolished by the Finance Act of 1934 owing to the decline in the export trade with Germany. The export duty on raw skins was abolished by the Finance Act of 1935 in order to help the revival of the export trade of India.‡

The claim for protection of the Indian tanning and leather manufacturing industry as a key industry

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* Ref. G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 57-58.

† Ref. Report of the Indian Fiscal Commission—1921-22, par. 190.

‡ Ref. G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 58-59.

deserve to be carefully considered without delay. At the same time a sustained effort should be made to bring about speedy internal improvement with the help of a small cess on export of raw hides and skins.

VIII. Agricultural Protection

In this section it is proposed to discuss the extension of the policy of protection by the Government of India to agricultural products grown in India. Protection in India in the past years has generally been considered as being essential for the development of manufacturing industries and not for the agricultural industry. In fact there was an agitation which is by no means dead to-day for imposing restriction on the free export of raw materials and foodstuffs grown in the country. Latterly, however, conditions of international production and competition have changed and the question of granting protection to Indian agriculture has raised its head in the case of Indian wheat and rice. It may be added, however, that in both these cases the question was decided by the Government of India in consultation with the Legislative Assembly without any reference to the Tariff Board.

(1) **Wheat.**—We may firstly deal with the position of wheat. The principal wheat-producing provinces in India are the Punjab and the United Provinces. The export trade in wheat had been growing since the opening of the Suez Canal in 1870. The average export for five years before the War was 1,308,000 tons valued at Rs. 13,96 crores. Since then, especially in the post-War years, the export of wheat have fallen considerably. In 1935-36 the export amounted to about 10,000 tons valued at 9.5 lakhs rupees as compared with 20,200 tons in 1931-32 valued at 15 lakhs and the average of 237,000 tons valued at

3.7 crores for the first post-War quinquennium.* The uneconomic expansion of cultivation since the War (under shelter of subsidies and import barriers) in both the exporting and importing countries is the crux of the international wheat problem.†

In the face of keen competition and lower values in post-War years India has been forced to hold aloof from the international market.‡ In some home markets, Indian wheat had to face even the competition of imported Australian wheat which became very prominent in the years 1930 and 1931 when the effects of the world economic crisis were acutely felt in India. The imports of wheat from Australia amounted to 209,000 tons in 1930-31 which constituted 90 per cent. of the total imports.§

With a view to assisting the sale of indigenous wheat in competition with the wheat imported from Australia, an Act imposing an import duty at the rate of Rs. 2 per cwt., temporarily, on wheat and wheat flour imported into India was passed in 1931 and came into force on the 20th March.¶ This duty was extended from time to time. In 1935 and 1936 the duty was lowered. The rate of the duty was fixed at one rupee per cwt. in 1936 and its life was limited to one year.** The protective duty of one rupee per cwt. on wheat and wheat flour expired on the 31st March, 1937.††

The protection enjoyed by Indian wheat during the critical years of world economic depression may be said to have come in handy to the grower of Indian wheat, especially in the Punjab. Its absence would

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* Review of the Trade of India in 1935-36, p. 193.
† G. B. Jahar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. I. pp 173-174.
‡ For detail—*see* Review of the Trade of India—1930-31, pp. 92-94.
§ *Ibid.*, p. 98.
¶ Ref. Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35. p. 72.
** Ref. Review of the Trade of India in 1935-36, p. 15.
†† Review of the Trade of India in 1936-37, p. 31.

have resulted in a further disastrous drop in wheat prices and aggravated the agrarian crisis in the Punjab and other wheat growing provinces. Its termination is not likely to have an adverse effect on the fortunes of Indian wheat as there has been in recent years a recovery in wheat prices. The imports of wheat into India in 1936-37 were insignificant amounting only to 100 tons as against 13,100 tons in 1935-36.*

(2) **Rice.**—Rice is the leading crop of India as it is the staple food of most of the people of the country and it occupies about 30 per cent. of the whole cultivated sown area. India is the largest exporter of rice in the world.† India exported 2,326,000 tons of rice in 1929-30. The quantity exported decline mainly owing to the world economic crisis to 1,593,000 tons in 1934-35.‡ The contraction in the demand for Indian rice in foreign markets has been partially counteracted by the preference enjoyed by the Indian rice in the United Kingdom since the conclusion of the Ottawa Agreement in 1932.

In recent years imports of rice into India from Siam, French Indo-China and Japan have showed a phenomenal increase. Thus the imports in 1934-35 amounted to 394,051 tons as compared with 88,405 tons in the previous year. These imports consisted of broken rice, the by-product of the milling industry, which greatly depressed local prices.§

In order to protect the better grades of rice produced in Madras from the severe competition of the imported broken rice into India, a duty of 12 annas per Indian maund of 82.2/7 lbs. was levied in 1935.¶

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* Ref. Review of the Trade of India in 1936-37, p. 109.

† G. B Jathar and S. G Beri—Indian Economics—(Fourth Revised Edition)—Vol. I, p. 171.

‡ Review of the Trade of India in 1934-35, p. 96.

§ *Ibid.*, p. 99.

¶ Ref. *Ibid.*, p. 19.

*This duty was extended from time to time and is to be in force upto 31st March 1939.† Both the imposition of the duty on rice and its extension upto March 1939 may be welcomed as a measure of assistance to the grower of Indian rice having regard to the fact that agricultural prices have not yet fully recovered from the effects of the economic crisis. As a result of the imposition of a protective duty imports of rice, chiefly from Siam, steadily declined from 283,000 tons in 1934-35 to 90,000 tons in 1935-36 and further to 18,000 tons in 1936-37.‡

(B) **Removal of Tariff Anomalies**

Introduction.—In the concluding part of this chapter it is proposed to deal with one important aspect of the policy of discriminate protection in India, *viz.*, the removal of tariff anomalies.

In addition to the grant of substantive protection to the various industries as detailed in preceding chapters, assistance has been given to certain industries on the recommendation of the Tariff Board by the removal of import duty on raw material and the tariff anomalies. In latter cases, the duty on the raw materials required by the Indian industry was alleged to be higher than that on the finished products.

Under the Resolution of the Government of India dated 28th March 1925, the following applications were referred to the Tariff Board for the removal of tariff anomalies.

Tariff equality in respect of the manufacture of :—

(i) Camel hair, cotton and canvas ply belting.

(ii) Electric wires and cables.

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* This duty is continued for another year, *i.e.* upto March 1940.

† Review of the Trade of India in 1937-38, p. 75.

‡ Review of the Trade of India in 1936-37, p. 108.

(iii) Manila rope.

(iv) Printing type.

(v) (*a*) Carbon brushes, (*b*) Healds and Reeds.

(vi) Shuttles.

We shall firstly review the removal of import duty on sulphur and spelter and then proceed to examine the above mentioned cases of tariff inequality.

(I) Removal of Import Duty on Sulphur

The Tariff Board was asked to examine the question of the removal of the import duty on sulphur on 5th October 1923. The Board held that sulphur was not produced on a commercial scale in India and was not likely to be produced in the near future and so no domestic interest would be prejudiced by the removal of the import duty on sulphur. On the other hand, the removal of the duty would be of substantial benefit to the Indian chemical industry and to the manufacture of fertiliser, as well as to other industries. On these grounds the Board recommended that the import duty on all kinds of sulphur should be removed.*

The proposal of the Tariff Board was accepted by the Legislative Assembly in June 1924 and sulphur was exempted from the payment of import duty by executive orders. Statutory effect was given to the proposal with the passing of Act XIV of 1925 in the following March.†

We may approve the action of the Government for the removal of the import duty on sulphur. This material is used as raw material for many industries and it may be stated that such a removal is a general acceptance in protectionist countries.

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* Report of the Indian Tariff Board regarding the removal of the import duty on Sulphur—1924, par. 11.

† A. G. Clow—The State and Industry, p. 122.

(II) Spelter and Galvanized Hardware

(i) **Spelter.**—The applicant Company (Indian Galvanizing Company, Ltd.) complained that the duties on the finished articles manufactured by them were lower than those on the raw materials which they had to import. They proposed therefore that (1) "the $1\frac{3}{5}$ per cent. *ad valorem* duty on imported spelter should be abolished, (2) the 15 per cent. *ad valorem* duty on imported galvanized hardware should be increased at least 20 per cent.; and (3) the duty on all kinds of imported poles used for transmission lines, which were classed as machinery at $2\frac{1}{2}$ per cent., should be raised to 25 per cent., the rate applicable to fabricated steel."*

The Board deferred consideration of the third proposal on the ground that the question made it necessary to consider how far the advantage to industries generally of cheap machinery might be outweighed by the importance of assisting a particular industry. They held that suggestions of that kind could best be examined simultaneously and therefore deferred consideration.

As regards the question of the removal of the duty on spelter, the Board held that for a number of years, India would be importing commercial zinc (commonly known as spelter). Considerable quantity of zinc ores were produced in India from the mines of the Burma Corporation, but the ores were exported to Europe and refined there. The Burma Corporation informed the Board that they did not contemplate the manufacture of commercial spelter in India.† On a consideration of the existing position of the manufacture of spelter, the Board concluded that the duties

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* Report of the Indian Tariff Board regarding the removal of the duty on Spelter and the enhancement of the duty on imported Galvanized Hardware—1926, par. 1.

† Ref. *Ibid.*, par. 3.

on spelter were inconsistent with the policy of discriminating protection on the ground that these hindered the development of certain industries while they did not benefit any domestic industry. The galvanizing industry, manufacture of galvanized sheets, the manufacturers of brass and other alloys containing zinc were likely to benefit from the removal of the duty on spelter.* They, therefore, recommended that the revenue duty on imported zinc and spelter of all kinds should be removed.†

(ii) **Galvanized Hardware.**—The claim of the Indian Galvanized Company, which was established in 1913, was based on the fact that the Steel Industry (Protection) Act, had imposed a higher duty on steel sheet and that the competition of imported galvanized hardware had become more and more severe.‡ As it was not clear from the application whether the Company asked for substantive protection or merely for a re-adjustment of the duty, the Board drew special attention to this point in their questionnaire. From the answers received the Board found that the claim was primarily for the equality of tariff treatment rather than substantive protection.§ They considered the question from both the points of view and concluded that no case for the re-adjustment of the duties had been made out as the industry was calculated to benefit from the removal of the duty on spelter by Rs. 11,000 while the protective duty on steel sheets added about Rs. 15,000 a year. It was, therefore, held that the industry would be little if at all worse off than it was before the Steel Industry (Protection) Act was passed.¶ They also held that the industry did not fulfil the conditions laid down by the Fiscal Commission for

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* *See* for detail—Report of the Indian Tariff Board regarding the removal of the duty on Spelter and the enhancement of the duty on imported Galvanized Hardware—1926, pars. 5-8.
† *Ibid.*, par. 9.
‡ *Ibid.*, par. 10
§ *Ibid.*, par. 11.
¶ *Ibid.*, par. 12.

the grant of protection. It was considered that while the industry had certain natural advantages as its principal raw material-steel sheets were produced in India, the market for its products was very small and there was little scope for its development.* No case was, therefore, made for the imposition of a protective duty on imported galvanized hardware.

Government Action.—On 3rd July, 1926, Government issued a resolution stating that the recommendations of the Board for removing the import duty on spelter should be considered at the time of the next budget and in connection with the inquiry into further protection for the steel industry in 1927. Government accepted the Board's finding in regard to the non-imposition of a protective duty on imported galvanized iron ware.† The duty on spelter was removed as recommended by the Tariff Board, by Act III of 1927.‡

(III) Tariff Equality in respect of the manufacture of—

(1) **Camel Hair, Cotton and Canvas Ply Belting.**—In order to give equality of treatment both for Indian manufacturers and importers, the Board recommended the following measures:—

Cotton Belting

The existing 15 per cent. *ad valorem* duty on imported black proofing should be abolished and a duty of 5 per cent. *ad valorem* should be imposed on imported cotton belting.§

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* Report of the Indian Tariff Board regarding the removal of the duty on Spelter and the enhancement of the duty on imported Galvanized Hardware—1926, pars. 13 and 16.

† Indian Finance Year Book—1936, p. 210.

‡ A. G. Clow—The State and Industry, p. 124.

§ Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Camel Hair, Cotton and Canvas Ply Belting—1928, par. 6.

Hair Belting

The existing 15 per cent. *ad valorem* duty on imported black proofing should be abolished and the duty on imported camel hair yarn should be reduced from 15 per cent. to 6 per cent. *ad valorem* and a duty of 5 per cent. *ad valorem* should be imposed on the imported hair belting.*

Canvas Ply Belting

A duty of 5 per cent. *ad valorem* should be imposed on imported ply belting.† Government did not accept the Board's proposal to remove the duty on black proofing, but they agreed that the duty on cotton, camel hair and canvas ply belting should be increased. They also decided that the duty on imported camel hair yarn should be reduced from 15 per cent. to 5 per cent.‡ These changes were embodied in Act VII of 1928.§

(2) **Electric Wires and Cables.**—The claim of the Indian Cable Company, which was formed in 1920, was based on the fact that wires and cables were admitted free of duty into the country while the Company had to pay duties ranging from 5 per cent. to 30 per cent. on a large number of the raw materials used by it in the manufacture of wires and cables. The Board held that the case of tariff inequality was clear.¶ The electric wires and cables consumed in India were grouped as follows.—**

(1) Bare hard drawn copper conductors, (2) Paper insulated cables, (3) Rubber insulated cables.

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* Ref. Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Camel Hair, Cotton and Canvas Ply Belting—1928, pars. 8-9.

† *Ibid.*, par 11.

‡ Indian Finance Year Book—1936, p. 270.

§ A. G. Clow—The State and Industry, p. 124.

¶ Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Electric Wires and Cables—1928, pars. 2-3.

** *Ibid.*, par. 6.

The Indian Cable Company did not produce cables insulated with paper. With regard to the remaining two it was held that the question of tariff inequality arose only in the case of rubber insulated cables. The principal raw material required for the manufacture of bare copper conductors was "black rod." The Board recommended that the duty on electrolytic copper rod known as black rod be removed. The Indian Cable Company had been exempted from payment of duty on that material since 1923.* In respect of the rubber insulated cables, it was estimated that the extent of tariff inequality ranged from 3 per cent. to 5 per cent. on the existing selling prices. The Board held that relief should be given in the form of an import duty and recommended that duty of 5 per cent. should be imposed on all classes of rubber insulated wires and cables, other than those specified in Article 90-A.†

The Indian Tariff (Amendment) Act, 1929 imposed an *ad valorem* duty of 5 per cent. (raised to 6¼ per cent. in 1934) on certain classes of rubber insulated copper wires and cables. With regard to the removal of import duty on electric copper rod, the Government held that the removal of the duty would lead to an increased consumption of electric copper rod in place of other copper rod for other purposes. The Indian Cable Company was permitted to import its requirements of such rod free of duty under executive orders.‡

(3) **Manila Rope.**—The Indian manufacturers of manila rope had to import raw hemp from the Philippines and their principal competitors were the factories established in the Philippines. Consequently in view of the wastage of raw material and loss of

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* Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Electric Wires and Cables—1928, par. 7

† Ref. *Ibid.*, pars. 8-9.

‡ Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 74.

freight thereon, the manufacture in India of manila rope, made from hemp imported from the Philippines, could hardly be a profitable proposition. But these disadvantages were balanced by the higher freight on finished rope than on raw hemp from the Philippines and by the cheaper labour charges in India than in the Philippines.* In the light of the various proposals made by the applicant companies, the Board for the sake of convenience divided the Indian output into three groups :—†

(1) Production for local consumption other than as ship's stores.

(2) Production for supply to shipping companies.

(3) Production for export to overseas markets.

In respect of the first group, the Board held that, " on manila rope used for local consumption on which a duty of 15 per cent. *ad valorem* is payable, the Indian manufacturer is not subject to any inequality as compared with the foreign manufacturer."‡ With regard to the second group, after considering the possible loss from establishment of bonded warehouses by shipping companies, the Board recommended that the duty of 15 per cent. should be reduced to 5 per cent. for securing tariff equality.§

In order to enable the Indian manufacturer to compete on equal terms in the export markets, the Board recommended that the duty on manila hemp be entirely removed. On the ground of principles as well as of administrative conveniences, the Board thought that there was a good case for removing the duty on manila hemp.**

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* Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Manila Rope—1929, par. 4.

† *Ibid.*, par. 5.

‡ *Ibid.*, par. 6.

§ *Ibid.*, pars. 7-8.

** *Ibid.*, par. 9.

The Government of India accepted the recommendation in principle but have not so far been able to give effect to it on account of financial considerations.*

(4) **Printing Type.**—The Board considering the question of tariff inequality regarding the manufacture of printing type held that, "the Indian manufacturer is subject at present to a tariff inequality of about Rs. 3 per 100 lbs. in the case of type metal manufactured locally and Rs. 4 per 100 lbs. in the case of imported type metal.† In order to give adequate relief the Board recommended that a specific duty of one anna per pound should be levied on printing type in place of the existing duty of 2½ per cent. *ad valorem*.‡

Accordingly the Indian Tariff (Amendment) Act, 1929 imposed a specific duty on 1 anna per pound (raised to one anna three pies per pound in 1934) in the replace of the existing *ad valorem* duty of 2½ per cent.§

(5) (*a*) **Carbon Brushes,** (*b*) **Healds and Reeds.**—(*a*) **Carbon Brushes.**—The British Electric Construction Company, Ltd., Calcutta, applied for a reduction of the customs duty on imported carbon blocks, in order to remove the disability from which the manufacturer of carbon brushes suffered. The Board concluded that as, "carbon block pays a duty of 25 per cent., *ad valorem* and carbon brushes are charged only at the rate of 10 per cent. tariff inequality exists and that the duty should be reduced to 19 per cent. in order to remove such inequality."

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* Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 75.

† Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Printing Type—1929, par. 3.

‡ Ref. *Ibid.*, par. 4.

§ Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 74.

The Board recommended an even lower rate of 15 per cent. to make up for other handicaps.*

(*b*) **Healds and Reeds.**—The Board examined the application for the removal of tariff inequality in respect of healds and reeds. As regards healds, the Board held that the duty on materials, yarn and varnish paid by Indian manufacturers exceeded the duty on imported healds by 7.076 pies per 800 eyes. In order to grant relief to the industry the Board recommended that the duty should be raised to 19.88 per cent.† With regard to reeds, it was estimated that the duty on materials, wire, pitch, ribs and other materials including paper, paid by Indian industry exceeded the duty on finished product by 0.552 pies per 100 dents of reeds. The Board recommended that the duty should be fixed at 13.11 per cent. in order to grant relief to the industry.‡

On these calculations of tariff inequality, the Board proposed that the duty on both healds and reeds should be fixed at 15 per cent. *ad valorem* and suggested that these articles which were included in the Tariff under item 97/59A should be separated out into a new item as below :—

> " The following textile machinery and apparatus, by whatever power operated, namely healds and reeds. . . . 15 per cent. *ad valorem*."§

The Board considered that the materials used in the manufacture of healds and reeds being so numerous, the increase in the duty on imported healds and reeds was a very practicable method of granting relief. They also expressed the opinion that the

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* Report of the Indian Tariff Board regarding the removal of Tariff Inequality in respect of certain industries—(i) Carbon Brushes, (ii) Healds and Reeds—1934, pp. 1-4.

† *Ibid.*, p. 6.

‡ *Ibid.*, p. 7.

§ *Ibid.*, p. 7.

average increase in cost which would follow on an increase in the duties as suggested by them to the Indian cotton textile industry would be negligible.*

The Government of India accepted the conclusion of the Board regarding the carbon blocks and reduced the rate of duty from 25 per cent. to 15 per cent. *ad valorem* by notification under Section 23 of the Sea Customs Act 1878, with the approval of the Legislature in the autumn of 1935. The duties imposed thereunder, though modified have retained their protective character in the Indian Tariff Act, 1934.†

The Government of India declined to accept the conclusions of the Board on healds and reeds on the ground that the use of imported yarn for the manufacture of healds and reeds can make up for the higher cost of other raw material.‡

(6) **Shuttles.**—The Tariff Board examined the application made by Messrs. H. M. Patel & Co. for the removal of tariff inequality between imported shuttles and the wooden blocks required for their manufacture in India.§

On careful investigation the Board reported in 1935 that so far as shuttles imported from the United Kingdom and foreign countries other than Japan were concerned, there was no case for the removal of tariff inequality as the duty paid on such shuttles, was higher than or equal to, the duty paid on the materials required for their manufacture in India.¶ As regards Japanese shuttles, the Board held that, " until evidence is forthcoming that Japanese power loom shuttle has

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* Report of the Indian Tariff Board regarding the removal of Tariff Inequality in respect of certain industries—(i) Carbon Brushes, (ii) Healds and Reeds—1934, pp. 7-8.

† Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 75.

‡ Indian Finance Year Book, 1936, p. 234.

§ Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Shuttles—1935, par. 1.

¶ *Ibid.*, par. 4.

improved and can compete with the other imported shuttles," there was no reason for adopting Japanese prices as the basis for computing the relative incidence of the duty. Japanese competition they thought was " at present not much more than a fear of the future," but recommended that the situation should be watched.*

In a resolution issued simultaneously with the publication of the Board's Report, the Government of India expressed their entire agreement with the findings of the Board.†

We suggest that the import of Japanese shuttles into this country should be carefully watched, and appropriate action taken if necessary. We need hardly stress the importance of encouraging the manufacture of shuttles in the country itself.

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* Report of the Indian Tariff Board on the Question of Tariff Equality in respect of the manufacture of Shuttles—1935, par. 5.

† Report of the Millowners' Association, Bombay—1935, p. 76.

PART IV.

CRITICAL.

CHAPTER X

A CRITICAL REVIEW OF THE PRESENT POLICY OF DISCRIMINATE PROTECTION

Protection and Imperial Preference

Scope of Part IV.—In the last three chapters which comprise part IV of the thesis, it is proposed to attempt a critical review of the policy of Discriminate Protection in India and offer suggestions. In this chapter the question of Imperial Preference is examined in its bearings on the policy of Protection adopted by India.

Introduction.—We have referred in Chapter I to the development of the policy of Imperial Preference first in the British Colonies and later in the United Kingdom itself. So far as India is concerned, we have already referred to the attitude of India in Chapter IV. We may briefly state here that ever since 1903, when Lord Curzon's Government expressed themselves against India's participation in a scheme of tariff preference within the Empire on the ground that balance of advantages to India was distinctly adverse, on each successive occasion* when the question demanded attention, the spokesmen of India opposed the proposal of preferential tariffs. Despite this attitude of consistent opposition, the policy of Imperial Preference has been introduced into India by the Ottawa Agreement in 1932. Before embarking on a discussion of the issues raised by grant of Imperial Preference, we may give here a brief account of the genesis, nature, objects and limitations of

* India opposed the proposal of preferential tariffs at each of the Imperial Conferences of 1907, 1911, 1923, 1926 and 1930—*See* the Paper read by B. K. Madan—Recent Tariff Policy in India at the Twentieth Conference of the Indian Economic Association—in Indian Journal of Economics—Conference No.—April 1937, p. 413.

Imperial Preference with special reference to conditions in India.

The Principles of Imperial Preference.—In the first place we may indicate certain important provisos to which all proposals in favour of Imperial Preference are generally taken to be subject. (i) Firstly the adoption of Imperial Preference should not involve any relaxation or modification of the policy of protection which any of the countries within the Empire may have introduced to foster its own industries. India having now gained the right of protecting herself even against the United Kingdom, Imperial Preference would mean in practice higher duties on imports from foreign countries than on those from the Empire countries. (ii) Secondly the preferences to be given are to be wholly voluntary on the part of the country granting them and are not dictated either by the mother country or by binding resolutions passed at periodical Imperial Conferences, in other words, preferential treatment should not go beyond what the circumstances of each unit might reasonably permit.* Lastly, it is now generally agreed that no scheme of Imperial Preference should be such as to provoke international ill-will or exclude the possibility of friendly understanding with foreign countries.

Economic effects of preferential duties.—Turning now to the economic effects of preferential duties we may point out that in essence preference is a form of protection granted to the favoured countries. The arguments in favour of preferential duties are therefore very similar to those in favour of protective duties. In both cases the consumer is invited to suffer a temporary loss In both cases he is given the hope that when the policy succeeds the loss will terminate. The only important difference is that, under protection

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* Ref. Report of the Indian Fiscal Commission—1921-22, par. 216.

the consumer's interests are sacrificed for the direct benefit of some industry in his own country, whereas under preference the benefit of the sacrifice goes to the producers in the country favoured. The economic effects of a preferential duty are two-fold. So far we have considered the preferential duties as they effect the consumer. Like protection, preference, besides imposing a burden on the consumer, may also involve a sacrifice of Government revenues.*

Fiscal Commission's recommendations on Imperial Preference.—We now proceed to survey the recommendations of the Indian Fiscal Commission regarding the application of preferential duties to India. In this connection they examined the trade situation and analysed the Indian exports and imports. On the export side their conclusion was that India's exports were not of a kind to benefit appreciably from preference.† As regards the granting of preference to British products in Indian markets, it was admitted that though India was in a position to confer substantial advantages on British products, she could not grant anything of great value without imposing a serious burden on herself and that it would not be reasonable for India to incur such a burden.‡ The Commission, therefore, held that no general system of Imperial Preference could be introduced. The majority, however, recommended that the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board. They further held that if the above policy were to be adopted, its application should be governed by the following principles:—

" In the first place no preference should be granted on any article without the approval of the Indian

* Report of the Indian Fiscal Commission—1921-22, pars. 227-229.
† Ref. *Ibid.*, par. 233.
‡ *Ibid.*, par. 239.

Legislature. Secondly, no preference given should in any way diminish the protection required by Indian industries. Thirdly, the preference should not involve any appreciable economic loss to India after taking into account the economic gain which India derives from the preference granted her by the United Kingdom."* They further emphasised the idea that any preference which India might give to the United Kingdom should be regarded as a voluntary gift and not as part of a bargain.† In respect of the other parts of the Empire, they held that preference be granted only by agreements mutually advantageous.‡

The minority voicing Indian opinion took their stand on the political aspect of the case. They stated that they were in favour of the principle of Imperial Preference provided India could be put on the same footing of freedom as was enjoyed by the self-governing Dominions and suggested that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary and withdraw preferences as might be necessary in the interests of India in all its aspects.§ Referring to the policy of reciprocity with the Dominions suggested by the majority, the minority held that no agreements based even on reciprocity in trade matters should be entered into with any Dominions which had on its statute book any anti-Asiatic legislation applying to Indian people.¶ The minority held that the condition precedent to any agreement with a British Dominion should be the recognition of the right of the Indian people to a status of complete equality and the repeal of all anti-Asiatic laws so far as they applied to people of India.

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* Ref. Report of the Indian Fiscal Commission, 1921-22, par. 263.

† Ref. *Ibid.*, par. 254.

‡ Ref. *Ibid.*, par. 264.

§ *Ibid.*,—Minute of Dissent, par. 44.

¶ Ref. *Ibid.*, par. 42.

Indian attitude towards Imperial Preference.—We may now deal with the Indian attitude towards Imperial Preference. Since the beginning of the present century the question of Imperial Preference has loomed large in all discussions regarding India's tariff policy and has attained an ominous significance in all economic discussions. Indian people had harboured long since a deep-seated suspicion that this principle of preference would one day be imposed on India. It might be argued that as a member of the British Commonwealth, India ought to be interested in Imperial Preference in so far as its object is to increase the strength and solidarity of the Empire as a whole. She is, however, less fortunately situated in this respect than the self-governing Dominions. The Dominions having received the gift of self-government from the mother country are bound to her by ties of gratitude. As between themselves also their relations are cordial and not marred by any sense of grievance or injustice between Dominion and Dominion. "It must be frankly admitted that India's position is different. She feels that in her attempt to realize her political and economic aspirations, she has often been thwarted and depressed by England, and the anti-Indian legislation enforced by the Colonies against her has naturally embittered her feelings against them. And human nature being what it is, her will to promote the cause of Imperial Preference is bound to be largely paralyzed so long as she remains politically discontented; while to induce the Colonies to withdraw or substantially mitigate their anti-Asiatic legislation is patently a task of the greatest difficulty."* Those who are against Imperial Preference are frequently told that they are influenced by political considerations. The answer to this is that to give preference to Empire goods, simply because they are such, is an eminently political consideration

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* Ref. G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 655.

without a tinge of economic colour. The advocates of Empire unity are obviously actuated by the desire to strengthen the political unit known as the British Empire by artificial bonds of an economic nature. If political considerations should not be imported in holding views against the system of Imperial Preference for India, they should also not be imported in holding views in favour of the same system.

Economically and financially we stand to lose much and gain little or nothing by the adoption of this principle. Our import trade is mostly within the Empire, while our export trade is mainly outside it. By the adoption of the preferential policy our foreign trade will have a strong tendency to be confined within the four corners of the Empire, thus completely jettisoning the wholesome principle of buying in the cheapest market and selling in the dearest. Saint Nihal Singh writing in the *Daily Herald* says, "any one can easily realise why Indians have no use for preference. If they are to lower their tariff wall for the bulk of the imports into the country, they may just as well have no tariff wall. If Indian industries need protection, they manifestly need protection from the imports from Britain, which constitute something like three-quarters of our imports."* The increasing competition which Indian exports are meeting in foreign markets and the loss of her monopolistic or semi-monopolistic position abroad possibly furnishes one argument in favour of securing preferential treatment for Indian goods in the United Kingdom market.

It is, however, generally held in India that economically Imperial Preference would be disastrous to India and politically it is simply adding insult to

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* For the quotation—*See* the Paper read by A. J Saunders on British Imperial Economic Relations at the Seventh Indian Economic Conference—Bombay—in Proceeding of the Seventh Indian Economic Conference, p. 6.

injury. We may, therefore, conclude that a scheme of Imperial Preference for India is likely to be economically detrimental and politically inexpedient. There is little or no scope for the profitable application of this principle to India.

Grant of Preference—The Ottawa Agreement.—Even before the Ottawa Conference met in 1932 the policy of Government of India indirectly adopted the principle of discrimination in favour of British goods under India's tariff policy.

As pointed out in preceding chapters, preferential treatment to British goods has partially been extended since 1919. In 1919, while imposing an export duty of 15 per cent. on hides and skins, a rebate of 10 per cent. was provided on hides and skins exported to other parts of the Empire. The rebate was defended as a measure of help to the tanning industry within the Empire. But the experiment failed to achieve its objects and the rebate was abandoned in 1923 (see Chapter IX—Tanning and Leather Industry). Preferential treatment to British goods was also given by the Indian Iron and Steel Industry Protection Act, 1927* and the Cotton Textile Industry Protection Act, 1930.† On both these occasions delicate constitutional issues were raised and hotly debated. The Legislative Assembly on one occasion was given to understand that if it did not accept the proposed preference for British goods as suggested by the Government the whole bill providing for protection would be withdrawn. The Assembly considering that half a loaf was better than none, was forced to agree to a measure of protection which involved preference for British goods.

This created an apprehension in the country that efforts were likely to be made to secure the Indian

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* *See*—Appendix III.

† *See*—Appendix IV.

market for British industry to the prejudice of home industries. The Ottawa Agreement confirmed these apprehensions and legalised the policy of preferences for British goods. At the Imperial Economic Conference held at Ottawa during July-August 1932, a Trade Agreement was concluded and India found herself participating in just such a scheme of extensive Imperial Preferences to which she had all along shown a strong antipathy.

On the part of India, this Agreement involved the grant to the United Kingdom of a $7\frac{1}{2}$ per cent. preference on certain classes of motor vehicles and a 10 per cent. tariff preferences on certain other classes of goods, there being a special arrangement for iron and steel goods The Agreement provided for the maintenance of the preference enjoyed by the Indian goods over the foreign goods before the Import Duties Act of 1932 in the United Kingdom market. Indian goods were to be allowed free entry in respect of the new duties under the Import Duties Act of 1932.* The Ottawa Agreement was followed by the Supplementary Agreement regarding iron and steel. The Agreement provided for the free entry of Indian iron into England and provisions were made for the change of import duty in India on galvanized sheets imported from England.

As provided for by the Agreement a system of preferential duties on British goods on a large number of articles was introduced by the Indian Tariff (Ottawa Trade Agreement) Amendment Act of 1932. It made changes in Schedule II to the Indian Tariff Act, 1894 with effect from 1st January 1933. The articles subject to the preferential rates of duty are included in two new parts, VIII and IX, to Schedule II. Part

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* For the text of the Agreement—*See* Imperial Economic Conference at Ottawa 1932—Summary of the Proceedings and Copies of Trade Agreements—Appendix VI, pp. 77-89.

VIII contains all the articles, formerly dutiable at the general revenue duty of 25 per cent. *ad valorem*, but now liable to the standard rate of 30 per cent. and the preferential rate of 20 per cent. for British goods. Part IX contains all the articles on the preferential list which were formerly dutiable at special rates. The necessary preference has been provided for either by raising the previous rate all round or partly by raising and partly by lowering it, the standard rate having in no case gone beyond 50 per cent. *ad valorem*.*

The reduction of import duties on some cases has had an adverse effect on certain small industries which had come into existence in recent times chiefly due to the Swadeshi movement. It is true that any industry in India may establish its case for protection, in which event it will be withdrawn from the Preferential Scheme after due notice. But the rigid conditions of the policy of Discriminating Protection will be difficult of fulfilment by small industries which may have received a shock by the Ottawa Pact. We thus see that the Indian Delegates to Ottawa did not consider the question of small industries. They went even further and gave a novel interpretation of the existing industrial policy of India.

While dealing with the principles of Imperial Preference, we have mentioned that the adoption of Imperial Preference should not involve any relaxation or modification of the policy of protection which any of the countries within the Empire may have introduced to foster its industries. Inspite of this admission, our delegates to the Ottawa Conference committed India to a fundamental change in her industrial policy. This will be apparent from the opening speech of Sir Atul Chatterjee at the Ottawa Conference on 21st July 1932. He said, "theoretically it might seem that preference in the case of

* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 537.

protective duties would be excluded altogether, but practically the result has been different. One of the most interesting things about the Indian system of protection is that it has led directly to what has been in effect, if not in intention, a preference for Empire goods. In two very important cases, iron and steel and cotton piecegoods, it has been found that imposition of a lower rate of duty on goods made in the United Kingdom is entirely consistent with India's interests. My colleagues and I hope that an examination on similar lines of other protected industries may lead to a solution which will be in the interests of both India and of other parts of the Commonwealth."* This means that in the opinion of the Indian Delegates to the Ottawa Conference, the fiscal policy of India is Protection with Discrimination in favour of British goods, in those cases in which British manufacturers are interested. The principles of Discriminating Protection laid down by the Indian Fiscal Commission and accepted by the Indian Legislature are intended to discriminate in favour of the Indian consumer so that he may not be unduly taxed. On the other hand while the levy of some burden on the Indian taxpayer in the interest of the larger and varied industrial progress of this country was accepted, it was not the intention of any one in this country to ask the Indian taxpayer to pay in order that the British manufacturer may flourish.† This means that the industrial career of India is to be diverted into channels other than those expected by the Indian Fiscal Commission and the Indian Legislature. It was not true to say that the existence of differential duties in the case of steel and cotton is entirely consistent with India's interests, because the records of the Legislative Assembly tell a different story. We have seen in one of the preceding sections how the Bill containing preference was

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* Imperial Economic Conference at Ottawa—1932—Appendices to the Summary of Proceedings, p. 97.

† C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, p. 61.

passed. The threat of the withdrawal of the whole Bill if the Assembly did not accept the proposed preference led into acquiescence. The Assembly was thus forced to agree to a measure of protection which involved preference to British goods. There was therefore no justification for Sir Atul Chatterjee and his colleagues to express the hope that similar arrangements in other protected industries could be made.

The unsound character of the view taken by the Indian Delegates will be more apparent from a study of the Supplementary Steel Agreement which was made under the cloak of the theory of Industrial Co-operation. The idea underlying this theory is that the less industrialised Empire countries shall have the market in certain classes of goods and that the more industrialised Empire country or countries shall have the market in more specialised goods. For this purpose, the Empire market is considered as one unit.* The Steel Agreement contemplates an arrangement by which the Tata Company will send Indian steel bar manufactured by itself at Jamshedpur to England, will get it manufactured there into galvanized sheets and bring it back again to India in that form to be disposed of locally.† This means that the growth of steel industry in India will be stunted. Protection has been granted to the steel industry not only because it fulfils the conditions laid down by the Fiscal Commission, but also because it is a key industry. The Tariff Board has remarked that there is room in India for three iron works of the kind of Jamshedpur. If these facts have any meaning, the arrangement by which the growth of the steel industry in this country may be stunted, stands self-condemned, and the condemnation would be still greater if this arrangement is going to be the beginning of a policy by which

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* Ref. Imperial Economic Conference (Ottawa 1932)—Report of the Indian Delegation, par. 113.

† Ref. *Ibid.*, par. 85.

Indian manufacturers shall manufacture only semi-finished goods, which will be sent for being turned into finished articles to England and reconsigned to India for disposal. The Indian taxpayer will be perfectly justified in refusing to be a party to the development of industries of this character, because he will find himself in the awkward position pointed out above that he is being taxed in order that British manufacturers may carry on certain specialised processes of manufacture for the Indian market.

Inspite of adverse public opinion in the country, both the Agreements were ratified by the Indian Legislative Assembly in December 1932.* The Agreements could be terminated at any time after six months' notice of denunciation by either party.† The circumstances under which the Ottawa Agreement was denunciated by the Legislative Assembly in 1936 are discussed in a subsequent section.

Other Trade Agreements between India and England.—We shall now discuss other trade agreements between India and England. Firstly we shall deal with the Mody-Lees Pact which was signed in October 1933 by the representatives of the Mill-owners' Association, Bombay, then presided over by Mr. (now Sir) H. P. Mody and the British Textile Mission to India led by Sir William Clare Lees. It was to remain in operation till 31st December 1935. We have dealt with the provisions of this Agreement in Chapter VII (Cotton and other Textile Industries). We may briefly state here that the Agreement provided for the reduction of duties on cotton and artificial silk piecegoods imported into India from United

(i) Mody-Lees Pact.

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* Report of the Bombay Chamber of Commerce—1932, p. XXVIII.

† Ref. Imperial Economic Conference at Ottawa—1932—Summary of Proceedings and Copies of Trade Agreements—Appendix VI—Article 14, p. 79.

Kingdom. On the part of United Kingdom an undertaking was given to take all steps to stimulate the imports into United Kingdom from India of raw cotton. It was further provided that in so far as the Empire and other overseas markets were concerned, any advantages which might be arranged for British goods should be extended to Indian goods, and that the Manchester Chamber of Commerce should use its good offices to bring about contacts between Indian manufacturers and British houses already established in those markets.* The Indian Tariff (Textile Protection) Amendment Act, which became law on 1st May 1934, gave effect to the scale of duties which had been agreed to under the Mody-Lees Pact.

The Agreement was the subject of much criticism in India. Those in favour of the Agreement argued that it had brought about a very considerable increase in the off-take of Indian cotton by Lancashire, thus conferring much benefit on the Indian agriculturist. It had further earned "the sympathy of Lancashire for the progress of Indian constitutional reforms; and had demonstrated the way British and Indian commercial interests could line together in a spirit of friendly rivalry instead of in the old atmosphere of mutual suspicion and distrust."†

On the other hand, the critics of the Agreement argued that it had not the support of the whole Indian textile industry, and further stated that while India had granted substantial benefits in the form of reduction of duties on cotton and artificial silk piecegoods on Lancashire, the latter merely made certain provisos without any definite commitments. They held that the Agreement had meant the withdrawal of much of the protection previously enjoyed by the Indian

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* *See* for the text of the Agreement—Report of the Millowners' Association, Bombay—1933—Appendix 30.

† G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 675.

textile industry. As regards the use of Indian cotton by Lancashire mills, it was pointed out that the Agreement merely held out a vague promise and did not require Lancashire to buy a minimum quantity of Indian cotton as in the case of Japan. As regards the overseas market, it was argued that, since the Bombay mills were unable to stand unaided even in the home market, they could hardly be expected to make much headway in the overseas market even with the help and goodwill of Lancashire.

(11) Indo-British Trade Agreement.

The Bombay-Lancashire Agreement (Mody-Lees Pact) was followed up by the Indo-British Trade Agreement in 1934 which met with even greater hostility in India than its predecessors. The Agreement which was signed on 9th January 1935, was supplementary to the Ottawa Trade Agreement and was to be in force during the currency of the Ottawa Agreement. The Agreement provided that measure of protection to be afforded to an industry should only be so much, and no more than, would equate prices of imported goods to fair selling prices for similar goods produced in India. It was further agreed that when the question of the grant of substantial protection to an industy was referred to the Tariff Board, the Government of India would afford full opportunity to any industry concerned in the United Kingdom to state its case and answer cases presented by other interested parties. The Government of India also undertook that in the event of any radical change in the conditions affecting protected industries during the currency of the period of protection, they would on the request of His Majesty's Government, or of their own motion, cause an enquiry to be made as to the appropriateness of existing duties and in the case of such an enquiry full consideration would be given to any representation which might be put forward by any interested industry in the United Kingdom. On the part of Great Britain, the Agreement provided for the steps to be taken to

develop the import from India of raw and semi-manufactured materials used in the manufacture of articles which are subject to differential import duties in India and the free entry of pig iron.* They also undertook to take further steps to stimulate the use of Indian cotton for Lancashire mills. The Legislative Assembly, when called upon to take into consideration the new Agreement, passed a resolution for its termination (January 1935).

The official defence of the Agreement put forward by Sir Joseph Bhore was that, "we have done nothing more than crystallize our past fiscal practices and conventions which have been accepted or laid down either directly or indirectly by the Legislature. The Agreement was justified on the ground that while British interests did not desire to question the existing policy regarding Discriminate Protection, they wished Indian policy to be defined and clarified so that there would be no misunderstanding hereafter."† It was maintained that the Agreement conferred on India material benefits under Articles 5 and 6, regarding the increased consumption of Indian cotton and of raw and semi-raw material and the privilege of duty-free entry of Indian pig iron into the United Kingdom.‡ She was also promised a share in such facilities as might be extended to British goods by the Colonies and Protectorates.

On the other hand, the Agreement was strongly criticised by the Indian commercial sections on the ground that it whittled down valuable principles of Discriminate Protection. It was also argued that, "the Agreement enunciated principles more dangerous than any quotas or reductions in the percentage of

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* For the provisions of the Agreement—*See* G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol II, pp. 677-678.

† *Ibid.*, p. 679

‡ Cf. Review of the Trade of India—1934-35—Articles 5 and 6 of the Indo-British Trade Agreement, pp. 169-170.

duties."* It was further argued that reopening of the question of protection, when once it had been granted for a definite period, especially at the instance of the United Kingdom, was undesirable and impediment to the industrial development of India. It was also complained that there was total absence of reciprocity; while India was expected to give certain definite undertaking, the United Kingdom merely offered to consider various steps that might be taken to develop Indian raw materials. The Indo-British Agreement, containing fiscal principles of far-reaching economic importance was accepted by the Government of India inspite of the adverse vote of the Indian Legislature."† As the Agreement was supplementary to the Ottawa Trade Agreement and was to be in force during the currency of the Ottawa Agreement, automatically ceases to operate with the denunciation of the Ottawa to which we shall refer in the following section.

‡ **Denunciation of the Ottawa Agreement and Fresh Negotiations.**—While dealing with the Ottawa Agreement we have mentioned that the Agreement contained a clause providing for its termination at any time after six months' notice on either side. In March 1936, the Indian Legislative Assembly passed a motion calling upon the Government to give the requisite notice for terminating the treaty with the United Kingdom. It further recommended that Government should immediately examine the trend of the trade of India and investigate the possibility of entering into such bilateral trade treaties with them with a view to bring about expansion of the export trade of India. The Government of India accordingly

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* G. B. Jathar and S G Beri—Indian Economics—(Fourth Revised Edition)—Vol II, p. 680.

† Ref Paper read by B N. Ganguly—The Fiscal Autonomy Convention under the new constitution at the Nineteenth Conference of the Indian Economic Association—in Indian Journal of Economic Conference Number—April 1936, p 408

‡ *See* Appendix VI—for the new Indo-British Trade Agreement.

gave the six months' notice of termination of the Agreement on 13th May 1936. The Commerce Department announced on 20th October 1936 that the 1932 Agreement was to continue subject to termination at three months' notice by either party, unless it was replaced by a new agreement.* Negotiations are at present in progress for a fresh agreement. Thus we descend from the high sounding political level of Imperial Preference to the economic level of a Commercial Treaty. Considerable harm has been done to the country by the Ottawa Agreement. It opened more freely than ever before the Indian market to British goods inspite of the fact that the undeveloped Indian industries found it very difficult to compete with the highly advanced British industries. The country-wide agitation against the Agreement produced no effect and the Agreement was enforced upon the country in all its implications. As stated above the Agreement was at last denounced by the Assembly in March 1936. Sir Mahomed Zafrullah accompanied by the non-official delegation was deputed to England for fresh negotiation Indian opinion was very much against sending Indian delegates to England to negotiate a trade pact. If India enjoys fiscal autonomy, she has the right to ask those countries which want any settlement about their trade to come to India and obtain a fair deal. It is held in India that future trade pacts with India must be negotiated in India herself.

There are at present conflicting reports about the negotiations of fresh agreement with the United Kingdom. The non-official members and Sir Zafrullah Khan, the Commerce Member, recently returned from England without arriving at any conclusions regarding a fresh trade agreement. Obviously it seems that the non-official advisers remained adamant and refused to yield to official pressure. It is also obvious that the United Kingdom is trying to

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* Report of the Bombay Chamber of Commerce—1936—p. 85.

exploit political power for the purpose of securing a trade agreement with India, which will give her a favourable footing in the Indian market. A Conference is shortly going to be convened at New Delhi between the Government of India's delegate and the unofficial advisers, when the steps necessary for obtaining a fresh agreement will be discussed. As stated above the Government of India announced the continuance of the Ottawa Agreement until a fresh agreement was reached. Indian opinion is against this indefinite continuance of the Ottawa Agreement. It is contended that there must be a time limit for its continued application after the Assembly's verdict. Mr. Satyamurti has raised his voice of protest. In view of these circumstances the Government of India ought to intimate to Great Britain that the Ottawa Agreement would continue to be in force only for a limited time and that if an agreement was not reached within a fixed time, the preference which the British manufactures enjoyed all these years would automatically lapse.

In conclusion we would like to emphasise that indigenous industries should be protected against all unfair foreign competition. The non-official advisers should specially bear in mind this aspect of the matter from the point of view of Indian interests. They must not be guided by the talk of reciprocity of which a good deal was made in the case of the Ottawa Agreement of 1932. We believe that it is none too easy to reconcile the policy of protection to Indian industries with that of preferential treatment to United Kingdom whose industries being well-developed are likely to come into increasing competition with the growing industries of India.

British Interest and New Constitution.—We now propose to deal with certain provisions of the new Constitution, which are intended to prevent discrimination in India against British Commerce,

Trade and Industry and examine their bearing on the policy of protection.

Section 12 of the Government of India Act, 1935, lays down special responsibilities of the Governor-General in the exercise of his function. One of these special responsibilities relates to "the prevention of action which would subject goods of United Kingdom origin imported into India to discriminatory or penal treatment."* Under Section 12 (2) of the Act, "if and in so far as any special responsibility of the Governor General is involved, he shall in the exercise of his functions exercise his individual judgment as to the action to be taken." In case of dispute regarding interpretation of these clauses, the decision of the Governor-General in his discretion shall be final and the validity of anything done by him "shall not be called in question on the ground that he ought or ought not to have acted in his discretion or ought or ought not to have exercised his individual judgment."†

The special responsibility in regard to British imports has been conferred upon the Governor-General in accordance with the recommendation made by the Joint Select Committee in paragraph 345 of their Report. The Committee also recommended that the Governor-General's Instrument of Instructions should give him full and clear guidance in regard to the scope of this special responsibility. Perhaps the Committee felt that this would to a certain extent fetter the exercise of his individual judgment.‡ But Section 13 (2) of the Act definitely lays down that the validity of anything done by the Governor-General "shall not be called in question on the ground that it was done

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* Ref. The Government of India Act, 1935, Section 12 (*f*).

† Ref. *Ibid.*, Section 9 (3).

‡ Ref. The Paper read by D. N. Bannerjee—Some Economic and Financial Aspects of the New Indian Constitution at the Nineteenth Conference of the Indian Economic Association—in Indian Journal of Economics—Conference Number—April 1936, pp. 416-417.

otherwise than in accordance with any Instrument of Instructions issued to him."* Moreover, Section 44 of the Act has empowered the Governor-General to enact laws within the legislative competence of the Federal Legislature, if at any time it appears to him that, for the purpose of enabling him satisfactorily to discharge his functions in so far as he is by or under the Act required to exercise his individual judgment, it is essential that provision should be made by legislation.†

The Governor-General is thus empowered to intervene in matters of tariff policy or in questions relating to the negotiations or variation of tariff agreements if in his opinion the policy contemplated involves discriminatory or penal treatment to British interests. It will be for the Governor-General to determine in his discretion what is discriminatory or penal treatment.

The cumulative effect of the specific commercial safeguards referred to above regarding the question of discrimination against British imports into India will undoubtedly retard the "growth of Indian industries and commerce in this country."‡ Besides, the establishment of non-Indian industrial enterprises in India will be encouraged as the result of Section 116 of the Act§ behind the tariff wall which

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* Ref. The Government of India Act, 1935.

† *Ibid.*

‡ Ref. Paper read by D. N Bannerjee on Some Economic and Financial Aspects of the New Constitution at the Nineteenth Conference of the Indian Economic Association—in Indian Journal of Economics—Conference Number—April 1936, p. 414.

§ Section 116 of the Government of India Act, 1935, runs as follows :—

"Notwithstanding anything in any Act of the Federal Legislature or of a Provincial Legislature, companies incorporated, whether before or after the passing of this Act, by or under the laws of the United Kingdom and carrying on business in India shall be eligible for any grant, bounty or subsidy payable out of the revenue of the Federation or of a Province for the encouragement of any trade or industry to the same extent as companies incorporated by or under the laws of British India are eligible therefor."

its Legislature has gradually built up since 1924, and which is likely to maintain, for the protection and development of its indigenous industries. Thus it will be difficult for India to devise and follow a definitely national economic policy under the new Constitution.

The above discussion regarding the special responsibility conferred upon the Governor-General for the prevention of discrimination against British goods imports into India, leads us to the conclusion that the special powers of the Governor-General-in-Council constitute a menace to what is commonly known as the Fiscal Autonomy Convention.

Fiscal Autonomy Convention under New Constitution.—Fiscal autonomy implies the freedom to negotiate and conclude tariff treaties and to use the tariff, bounties and subsidies for the encouragement of trade or industry which is intended for the direct benefit of the inhabitants of the country.* We have referred in the preceding section to the safeguard against discriminatory or penal treatment of British goods. We hold that the scope of India's fiscal autonomy is thereby limited. Discriminatory or penal treatment will, in actual practice, remain a subject of economic, if not political controversy. The Fiscal Autonomy Convention is further limited by Section 116 (quoted in the foot-note to page 286) of the Act, which will encourage the establishment of non-Indian enterprises behind the tariff wall.

Conclusion.—It is not, therefore, unreasonable to conclude that as a result of the new Constitution the Fiscal Autonomy Convention, as explained above, is

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* Ref. Paper read by B. N. Ganguly—The Fiscal Autonomy Convention under the New Constitution—at the Nineteenth Conference of the Indian Economic Association—in Indian Journal of Economics—Conference Number—April 1936, p. 407.

in danger.* The commercial safeguards take away the power to use methods which have already been put into operation under the Government of India Act 1919. The position regarding the control of the industrial policy in India under the new Constitution is worse than under the former Constitution. These safeguards would considerably handicap India's progress towards industrial development and the formulation of a forward industrial policy in India. Here again we are inclined to conclude that it will be none too easy to fit in the policy of Discriminate Protection within the framework of India's new Constitution.

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* Ref. Paper read by D N Banerjee—Some Economic and Financial Aspects of the New Indian Constitution at the Nineteenth Conference of the Indian Economic Association—in Indian Journal of Economics—Conference Number—April 1936, p. 419.

CHAPTER XI

A CRITICAL REVIEW OF THE PRESENT POLICY OF DISCRIMINATE PROTECTION —*Continued*.

Conditions, Mechanism and Procedure of Protection in India.

(1) Policy

We have reviewed the circumstances which led to the change in the tariff policy of India from Free Trade to Discriminating Protection in 1923-24 in Chapters IV and V. We have also referred to the important changes that have taken place in the economic structure of the world since the War in Chapter I. The world is witnessing rapid changes in the economic sphere. A system of planned economy is slowly gaining ground. Most countries are organising their economic life on national lines. Agricultural countries are trying to be industrial and industrial countries are trying to develop their agriculture. In order to achieve this end, protection and other special measures have been adopted. Economic policy of modern states is thus tending to be intensely nationalistic and complex.

The tariff policy of India should be considered in the light of these world tendencies. The tariff has been accepted in India as an instrument for the development of industries since 1924. The question is how far the new tariff policy has served the purpose for which it has been used and in what directions changes, if any, should be introduced. Viewed in the light of recent developments in the world "the existing policy of Discriminating Protection has become out of date and needs a thorough revision."* A review of

* Ref. The Paper read by C. N. Vakil—on Tariff Policy in India at the Twentieth Conference of Indian Economic Association—in the Indian Journal of Economics—Conference Number—April 1937, p. 481.

the principal conditions of Discriminating Protection in their practical application will serve to substantiate the truth of this contention.

A Critical Review of the Conditions of Discriminate Protection—(A) Natural Advantages. —The first condition of Discriminate Protection as laid down by the Fiscal Commission is that the industry should enjoy natural advantages such as abundant supply (i) of raw materials, (ii) of labour and (iii) a large home market.

(i) Abundant Supply of Raw Materials.

As regards the condition of abundant supply of raw materials, the rigidity was soon realised by the Tariff Board and therefore it had to put a liberal interpretation on the same. For example, aspen is essential for the manufacture of matches, but is not grown in India. Sulphur is the principal raw material required by chemical industries, but India is lacking in it. In respect of the glass industry, soda ash is the principal raw material, which is not found in India. The same was the case with the worsted branch of the woollen industry. The raw material for worsted branch could be obtained only to a limited extent in India.

Inspite of the absence of raw materials in the cases mentioned above, the Tariff Board recommended the grant of protection to the industries concerned.* But the attitude of the Government of India in respect of this condition seems to have remained unchanged. Inspite of the recommendations of the Board to grant protection to the glass and woollen industries, the Government of India did not accept findings of the Board on the ground that these industries failed to satisfy the essential condition of Discriminate Protection regarding raw materials. We are strongly in favour

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* *See*—Chaps. VII and IX.

of relaxing the rigidity of the interpretation placed on this condition by the Government of India, in the interest of a more rapid development of our industries and securing them adequate protection.

(ii) Abundant Supply of Labour.

The second condition of Discriminating Protection is that there should be an abundant supply of labour. So far as unskilled labour is concerned, the supply is evidently abundant in India though it raises certain other problems of its own. The application of this condition to skilled labour, however, creates difficulties because such labour is not abundant in the country. The rigidity of this condition requires to be relaxed on the merits of each case; and arrangements have been suggested for improving the supply of skilled labour in future. The only way to do so is to train up a sufficiently large number of Indians for skilled and superior work. This can be done, partly by having suitable technological institutions and partly by training Indian apprentices in factories or by a combination of both.* There is a tendency on the part of Indian Universities to encourage technological education. The Government of India are also moving in the same direction. For example, the Imperial Institute of Sugar Technology was started at Cawnpore on 1st October 1936 to provide adequate facilities for the training of students in all branches of sugar technology.† The University of Bombay has recently established a Department of Chemical Technology. Inspite of these arrangements, progress is rather slow because Indian apprentices do not always succeed in securing

* Ref. Madon Memorial Lectures, 1936—By C. N. Vakil on the working of the Policy of Discriminating Protection—First Lecture.

† The Indian Sugar Committee of 1920 recommended the establishment of a Central Research Institute as necessary for the proper development of the sugar industry in this country. The Government of India accepted the recommendation of the Sugar Committee and started with effect from 1st October 1936, for a period of five years the Imperial Institute of Sugar Technology at Cawnpore—*See for detail*—The Indian Year Book—1937-38, p. 310.

suitable jobs. Some industries in India which are under foreign control and some which are under Indian control in which foreigners still continue to hold superior appointment, offer a limited scope for appointment of Indians to high posts. In order to make up for these defects, there should be a condition precedent to the grant of protection to an industry, as suggested by the minority of the Fiscal Commission* that it should make arrangements for the training of a suitable number of Indian apprentices. It is unfortunate that this condition has not been insisted upon in the past.

(iii) Large Home Market.

A further condition of Discriminating Protection is that the industries seeking protection should have a large home market. This condition is generally desirable. But an undue insistence on it is bound to make progress difficult. Most of the advanced industrial countries, for example Great Britain or Japan, depend on export industries and take steps to encourage them by State assistance. In view of the policy of economic nationalism, the scope for exporting our raw materials is becoming limited. The only alternative to find a market for our raw material is to devise immediate ways and means to absorb our agricultural commodities within the country, in further productive processes, that is by the development of industries. If this involves economic self-sufficiency or economic nationalism or a policy of protectionism, this is a situation which is inevitably forced upon us by changes in the outside world; and it is a position which we must be willing to face, because if we ignore it, we are bound to be faced with disaster.† It is, therefore, essential that we should be

* Report of the Indian Fiscal Commission—1921-22—Minute of Dissent, par. 51.

† Ref. Paper read by C. N. Vakil—Tariff Policy in India at the Twentieth Conference of Indian Economic Association—in the Indian Journal of Economics—Conference Number—April 1937, p. 481.

able to absorb our raw materials in our own factories, and if necessary export manufactured goods. In view of this, the condition of a large home market is bound to be a serious handicap in our progress. Here we may point out that the British industries while claiming protection, are not required to fulfil such a condition.* If Britain helps industries fed by foreign raw materials and primarily meant to meet the needs of foreign consumers, there is no reason why India should not encourage industries which can be fed by her own raw materials, irrespective of the size of the home market.

We have dealt in Chapter III with various methods by which the State can encourage the exportation of national products. We shall consider how far this has been done by the Government of India in the following chapter.

(B) **The necessity of Protection.**—The second major condition of Discriminate Protection is that the industry must be one which, without the help of protection, is either not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. The condition implies that only those industries whose development is essential in the interests of the country should be protected. This condition is very vague and there may be mistakes in the selection of the industries for the grant of protection. It is not easy to forecast the prospects of the future development of industries. The problem is very complex and a rigid enforcement of such a condition may result in great hesitation in granting protection. We may suggest that this condition should be dropped in formulating the future industrial policy of India.

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* Ref. The Madon Memorial Lectures—1936—by C. N. Vakil on the working of the Policy of Discriminating Protection—First Lecture.

(C) **Industry should be able to dispense with Protection ultimately.**—The third major condition of Discriminating Protection is that the industry should be able to dispense with protection ultimately. If this condition means that the industry should not have protection for all time, it is a desirable condition. If it is to be applied after an industry has reached its maturity, there need not be any objection. But when the condition is applied in anticipation, difficulties are bound to arise. We have mentioned in Chapter V while dealing with the conditions of Discriminating Protection recommended by the majority of the Fiscal Commission that this condition will require an omniscient Tariff Board. How can a Tariff Board, however perfect, foresee the difficulties that will arise as an industry develops, and the new processes that will be evolved in the industry in the different countries. The problem is so complex that no body of experts can forecast the possibilities of an industry to dispense with protection after a given time. What has happened thereby is that protection is given for short periods usually of three to five years at a time. This is followed by enquiries into the condition of the industry and consequently there has been uncertainty about the future. A change in the measure of protection, which is implied according to the existing interpretation of this condition, at frequent intervals is not conducive to the growth of industries. It may be further stated that there are certain industries of so great a national importance that they require to be protected at any cost. For example the application of the condition mentioned above, has to be virtually suspended in the case of industries producing ammunitions, etc., which are essential for national defence.

Conclusion.—The foregoing discussion shows that while the conditions of the policy of Discriminating Protection are in some cases liberally interpreted and slightly relaxed; in other cases these come in the way of rapid progress. This was anticipated by the

minority of the Fiscal Commission in their Minute of Dissent. They were of the opinion that the policy of Discriminating Protection was lodged in by conditions and provisos which were calculated to impair its utility. The policy of Discriminating Protection requires to be substituted by a more forward policy, without those limiting conditions which hamper the growth of industries In shaping her industrial policy, India must take into account the urgent necessity of developing industries in this country on a comprehensive basis to find suitable employment for her increasing population and to bring about a better equilibrium in her productive activities. The policy of Discriminating Protection offers but a poor relief and there is an urgent need for the adoption of a dynamic national policy for the development of industries in this country.

(2) The Cost and Incidence of Protection

It is admitted that a country seeking industrial development by protective measures must be willing to undergo certain sacrifices. The sacrifice which a society is expected to make is mainly in the form of higher prices. The objects of the policy of protection are to increase the national dividend and the standard of living of the people in the country. The society is benefited by a protective policy in the forms of diversified employment and balanced economic organisation. Protection is accepted in the belief that the advantages to the society outweigh the burden on the consumers. Inspite of the general advantages, a protective policy may involve heavy burdens on certain classes of people. In such cases, arrangements may be necessary to give relief in some way to certain sections of the population. In order to do so, it is necessary to estimate the cost of protection and the distribution thereof among the different sections of the people. There are difficulties in making such an estimate, but if adequate

statistical data are collected it is possible to make such an estimate on the lines suggested below.

In this connection the following two methods may be suggested.

(1) Firstly, the prices of the protected commodities in the protected market and in another country, where it is not protected, should be found out. The prices in both the markets should then be compared with due allowance for the cost of transportation, insurance, etc. If on a comparison, it is found that the price in the protected market is much above that in the free market, it should be concluded that the tariff imposes a substantial burden on the consumer. If at the end of a reasonable period, it is found that the production in the protected industry has been substantially enlarged, that the number of men employed has increased and that the prices of its products approach those of similar goods in free markets, it must be declared that the protective scheme has been successful without placing undue burden on consumer.

Calculations based on this method are bound to be useful, but they have their limitations. In the first place there are difficulties in finding similar commodities in foreign markets. Even if this is done, the complexities of price fixation are so great that the comparison may not be valid in all cases.

(2) We may, therefore, have recourse to another method which is more scientific. The data to be used for this method are the same as those collected by the Indian Tariff Board, but they require more elaboration and comprehension.

The Tariff Board estimates the future cost of production of the home producer, the prices at which foreign goods would be imported without duty and determines fair selling price for the home industry

before constructing a scheme of protection.* It also tries to anticipate the future course of foreign prices. If these data are verified and kept upto date in the case of each protected industry, there would be good material for measuring the burden of protection. On the basis of this information, it is easy to estimate the amount which the consumers have to spend in excess of what they would otherwise pay for the same product if imported free. But then the question arises whether it is the full amount of the duty that must be computated in the excess cost. In all cases the prices of commodities are not raised as a result of protection to the full extent of duty. Provisions shall have to be made with due consideration of the import statistics in estimating the extent to which the prices are raised by the duties. Our task would then be to ascertain the item of protective tariff and the industries covered by it. The next step is to estimate the value of the output of these industries. The burden then can be found out from these figures.†

The Indian Tariff Board has made an attempt to estimate the cost of protecting steel in their Report of 1924 which may be described as under :—

It takes (i) the different kinds of steel, (ii) their consumption at the time of levying the duty, (iii) the existing duty, (iv) the proposed duty. The difference between the (iii) and (iv) will be the increased burden of the protective duty which they recommend (v). This difference is multiplied by (ii) the value of consumption; the product of (ii) and (v) giving the

* For this method—Ref Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry—1924—Chaps. IV and VI For fuller particulars regarding the complexity of the cost analysis—*See* V G Kale—Economics of Protection in India—Chap. VI and J C. Coyajee—The Indian Fiscal Problem, pp. 36-37.

† For the detail of this method—*See*—Vakil and Munshi—Industrial Policy of India—Appendix III—For the effect of tariff on consumer Ref. Haberler Gottfried Von—The Theory of International Trade, pp. 255-256, F.N. 2.

additional price resulting from protection for each item of import considered. Their total gives the probable burden on the consumer.*

It is obvious that the method followed by the Tariff Board is somewhat crude and requires improvement on the lines discussed above.

Distribution of the Burden on the Consumer.—Having estimated the total burden of protection, we now pass on to the study of the distribution of the burden imposed on the different classes of consumers by protection. Consumers may be divided into two classes, (1) those who take the commodity for direct use and (2) those who take it for purposes of further production. We have tried to study the method of estimating the total burden resulting from all industries dependent upon protection. We shall now try to find out the probable proportion of this burden on different classes of consumers.

Here we may mention the rough estimate made by the Indian Tariff Board in the case of the steel industry in 1924. Having classified the different kinds of steel—and their cost to the consumer, the Board came to the conclusion that the burden of the protection to the steel industry would be equally divided between the (*a*) general consumer; (*b*) the industries and (*c*) the departments of the state.† Attempts should be made to improve such estimates, which will enable us to determine the amount of the incidence of protection falling on this or that class of consumers. It should then not be difficult to give relief to this or that class if it is found essential on the whole; or it may lead to readjustments in the scheme of protection.

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* Ref. Report of the Indian Tariff Board regarding the grant of protection to the Steel Industry—(2nd Report) Annexure B, p. 151 and Statement IV, p. 161.

† *Ibid.*, pp. 142-163.

Conclusion.—The foregoing discussion shows that the method of estimating "the cost of protection" and the study of "distribution of burden" are important guiding principles in granting protection. These studies enable us to be truly discriminating in administering a protective policy without being over-cautious or rash. The object of Discriminating Protection recommended by the majority of the Fiscal Commission was to safeguard the interests of the consumer. This object could be achieved in a better manner by following the methods described above, without checking industrial progress, which is so urgently required in India. The guiding principles discussed above will certainly safeguard the interests of the consumers in a forward policy of industrialisation which India is keen on adopting.

Fair Selling Price.—Attention may be drawn to what appears to be a departure from the earlier policy of Discriminate Protection. Under Article 3 of the Indo-British Trade Agreement, which we have discussed in the preceding chapter, the Government of India undertook that the measure of protection to be afforded to an industry should only be so much, and no more than, would equate the prices of imported goods to fair selling prices for similar goods produced in India. The Board was required to recommend protection equal to the amount of fair selling price. A direction to this effect was accordingly included in the terms of reference issued to the special Tariff Board appointed by the Government of India on 10th September 1935 to enquire and report on the question of protection to the Indian cotton textile industry against textile imports from United Kingdom.* The Tariff Board was, in former years, given full discretion to determine its own methods of arriving at adequate protection for an industry. Such qualified terms of reference handicap the recommendations for

* *See* the Report of the Special Tariff Board on Textile Industry—1936, par. 1 (5).

adequate protection. We may, however, suggest that it is highly undesirable for the Government of India to undertake such an obligation under any trade agreement and thus fetter the discretion of the Tariff Board and further whittle down the policy of protection in practice.

(3) The New Policy of Excise Duty

Before proceeding to suggest the proper machinery and procedure to carry out the comprehensive industrial policy stated above, we shall make some observations regarding the recent development of imposing excise duties under the fiscal policy of the Government of India. In previous chapters we have already stated that in the Budget Session of the Assembly (March 1934) two new excise duties (on Sugar and Match) were levied with effect from 1st April 1934. Here we may mention another excise duty levied on the production of steel ingots by Iron and Steel Duties Act 1934, which came in force from 1st November 1934.

These proposals of excise duties as we have seen aroused the strongest opposition from the interests concerned. It is proposed to make further observations by way of a critical estimate of this new policy.

These duties were justified on the ground of the revenue needs of the Government. As regards the Sugar Excise duty the Government advanced the further plea that the development of the sugar industry had been very rapid and there was a danger of over-production owing to the unhealthy but uncertain stimulus given by the surcharges, which were in excess of the protection required by the home industry. On the other hand, these duties were opposed on the ground that they were inconsistent with the Government's policy of protecting the home industry and were considered as a breach of faith with the industries

concerned, whose promoters believed that a reasonable margin of protection would be guaranteed. Government's emphasis on the need of revenue, or the excessive development of industry was no answer to this argument. The argument of the Government did not justify the penalising of a growing industry before it had come to maturity. It was argued further in favour of the excise duty that if the industry deemed itself to have been left without adequate protection, it might again appeal to the Tariff Board for a further dose of protection and could get it in the usual way if it could establish a case for it. This would, however, be needlessly cumbrous, not to say unfair to the industry. The Tariff Board had recommended protection; and the burden of proof about the need of protection was no longer on those engaged in the industry. It was said against the imposition of the excise duty that it was on an article of food and therefore a wholly illiberal measure that every liberal must oppose on principle. It was further suggested that if the check on over-production was necessary, a levy on differential gains might not have been as objectionable as it was in the form in which it was presented.*

The new policy of levying excise duties on the products of protected industries, does not therefore appeal to be either convincing or sound and in our opinion is bound to clash with the pursuit of the policy of protection.

We suggest, therefore, the policy of excise duties followed by the Government for revenue purposes should be abandoned. We may firmly assert that this policy of Government is inconsistent even with the policy of Discriminating Protection, which we have seen itself hampering the growth of industries. Under

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* Cf. K T. Shah—Review of Indian Finance—1927-34, pp. 27-30. Ref Finance Member's Budget Speech—Budget for 1934-35—for Sugar Excise Part II, par 26 (*d*)—for Match Excise Part II, pars. 33-39.

Discriminate Protection a period of unswerving protection is calculated to get the industry out of infancy. Nothing should be done which even indirectly is likely to adversely affect the protection required by the industry and its growth from infancy to manhood. Since we favour a more forward policy of industrial development than is contemplated by the policy of Discriminate Protection, we cannot possibly approve of the new policy of excise duties which are incompatible with true national economy.

Government ought to explore other avenues for adding to their revenues and making up for the loss of revenue under customs caused by the policy of protection.

(4) The Mechanism of Protection and the Procedure

Defects in the existing Mechanism and Procedure of the Tariff Board.—In order to carry out a comprehensive industrial policy with the least possible delay, there should be adequate machinery for ensuring protection and prompt action.

The Constitution.

The existing machinery, namely, that of the Tariff Board is not adequate and satisfactory. The Indian Tariff Board is a small body of three members, whose appointment is renewed from time to time. Moreover, it is not a permanent body and last year an apprehension was entertained that it was going to be shortly abolished. It is constituted *ad hoc* for each enquiry and thus lacks continuity. There are glaring defects in the method of appointing the Board. Members are not required to possess any definite qualification for their appointment. It is undesirable to bane full discretion to the executive in the matter of the appointments.

Procedure

There are also defects in the procedure adopted by the Government in connection with applications for protection. The Executive has unduly large powers at the initial stages, and the applications of an industry may not at all be considered if the Government think that a *prima facie* case was not made out. The Tariff Board cannot itself take initiative and has to be content with examining such cases as are referred to it by the Government of India. Even when the Board approves of the grant of protection to an industry the Government of India can altogether shelve the Report and thus withhold protection as in the case of the glass and woollen industries. In some cases there is an inordinate delay in taking action on the Report of the Tariff Board.

Before making suggestions for improvement regarding the constitution, functions and powers of a Tariff Board in India, we shall review in brief the important features of such bodies in U.S.A. and Australia, which are likely to offer us valuable guidance in solving the Indian problem.

Two Foreign Models—(A) **Tariff Commission in the U.S.A.**—The history of the American Tariff Commission goes back to 1882. The present body was, however, constituted in 1916. It consists of six members appointed by the President with the approval of the Senate. The members of the Tariff Commission have been of wide general attainment. The first Chairman was the distinguished economist, Professor F. W. Taussig.* The other members appear to be for the most part men who have distinguished themselves in law or politics. The functions of this body were defined as follows:—

(1) To investigate the administrative, fiscal and industrial effects of the customs laws of—the relation

* Report of the Indian Fiscal Commission——1921-22, par 309.

between the rates of duty on raw materials and finished or partly finished products, the effects of *ad valorem* and specific duties, and of compound specific and *ad valorem* duties, all questions relative to the arrangements of schedules and classifications of articles in the general schedules of the customs laws, and in general to investigate the operations of customs laws.

(2) The Tariff Commission was required to supply the President of the United States, the Committee of Ways and Means of the House of Representatives, and the Committee on Finance of the Senate, with information they asked for, and to make investigations when directed and submit annual reports of its work during the year.

(3) The Commission was also empowered to investigate the tariff relations between U.S.A. and foreign countries.*

(B) **The Australian Tariff Board.**—Before 1913, the task of framing tariff in Australia was done solely by the Minister of Trade and Customs and by the Commonwealth Parliament. The idea of a Tariff Board was entertained as early as 1910, but it was as late as 1921 that it took definite shape. The Board consists of three members. The Chairman is the Deputy Comptroller of Customs, and of the two members one is connected with various industrial companies and the other represents commercial interests. The Chairman represents the interests of the Government and the consumers, and the two members represent the interests respectively of the manufacturers and of the importers.† The Minister of Trade and Customs has to refer to the Board for inquiry and report matters relating to :—

(1) Classification and valuation of goods, etc.;

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* Cf Section 702, 703 and 704—Title VII of U.S A. Revenue Act of 1916—T F. G. Gregory—Tariffs—A study in Method, pp. 59-60.

† Report of the Indian Fiscal Commission—1921-22, par. 309.

(2) proposals for new increased, reduced or deferred duties;

(3) granting and effects of bounties;

(4) the Intermediate and Preferential schedules;

(5) any complaint against manufacturers abusing the state aid afforded to them by the tariff;

(6) the general effect of the working of the Customs and Excise Tariff on the industries of the country;

(7) the fiscal and industrial effects of the Customs Laws;

(8) the relative effects of the duties on raw materials and on finished goods (and partly finished goods); and

(9) any other matter affecting the encouragement of industries.*

The Board is empowered to enquire and report on its own initiative on any matter relating to subjects in (6) and (9) above.

The Indian Tariff Board.—A comparison of the constitution and the functions of these bodies in U.S.A. and Australia with those of the Indian Tariff Board shows the unsatisfactory character of the latter body. In the first place unlike the Tariff Commission in the U.S.A. and Australia which are permanent the Indian Tariff Board is temporary and secondly the scope of its functions is very limited. The Tariff Board as now constituted, does not fulfil even those limited functions which were laid down by the Fiscal Commission. The Fiscal Commission had recommended that the proposed Tariff Board, besides

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*C. N. Vakil and M. C. Munshi—Industrial Policy of India with special reference to Customs Tariff, pp. 76-77.

considering the claims for protection of various industries, should investigate questions in connection with the treatment of Indian products by foreign countries and the advisability of taking any retaliatory action, to watch generally the effects of the tariff policy on cost of living and to study the tariff systems of other countries.* Since the Tariff Board as constituted by the Government is an *ad hoc* set up for each enquiry it cannot undertake the functions mentioned above.

Nature and Functions of the Indian Tariff Board.

We now propose to make certain suggestions with a view to improving the machinery of the Tariff Board and its procedure with a view to achieving the aim of the policy advocated in this chapter. The Indian Tariff Board should be a permanent body. Its functions, qualifications, powers and the tenure should all be laid down by statute.† It should have powers to make inquiries and surveys, both on its own initiative and on the application of an interested person, regarding problems relating to the development of industries by protection or other forms of State assistance. It should make a continuous study of trade movements, tariff changes and the prices in the world, particularly those in which India is interested directly or indirectly. It should report on the working of the Indian tariffs and its results and make suggestions for suitable changes, if any required. The Board should watch the working of the existing commercial treaties with other countries and suggest new ones, if they are likely to help the industrial progress of the country. The

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* Report of the Indian Fiscal Commission—1921-22, par. 305.

† Mr. N. S. Subha Rao in his Presidential Address at the Indian Economic Conference, Allahabad, 1929, suggested that the present Tariff Board should be converted into a National Economic Board on the basis of permanent bodies like the Tariff Commission and the Federal Trade Commission in the United States which make investigations as the result of a comprehensive plan of action. (*See*—Indian Journal of Economics—Vol. X, Part III, p. 659).

form, the classification and other technical aspects of the tariff should be reviewed by the Board from time to time, with a view to improving them in the light of requirements of the trade on the one hand and of the latest improvements in other countries on the other. It should also watch the movement of foreign capital in India with a view to finding whether undue advantage of protection is being taken by foreign capital. It should further enforce schemes of training Indian apprentices by the industries benefiting by protection.

Special problems relating to tariff and industries such as alleged cases of dumping, schemes of Imperial Preference or Empire trade agreements, complaints against manufacturers abusing the protective system, should be first investigated by the Board before any action is taken.

In order to safeguard the interests of the consumer and to see that the cost of protection is not heavy on the one hand and that its incidence is evenly distributed on the other, the Board should make a study of these questions and make recommendations for necessary changes in the protective scheme or suggest other relieving measures.

The Constitution of the Tariff Board.

In order to carry out the functions mentioned above, the Tariff Board should be considerably enlarged. The number of members should be immediately raised to seven. This would also enable the Board to work through special sub-committees and thus multiply its powers of work and raise the standard of its efficiency. Its members should be recruited from persons of high qualifications such as industrial and administrative experience as also the knowledge of economic problems. In order to safeguard against the risks of temptation of submission, which is bound to come in the way of an impartial judgment on the part of the members of the Board, to the views of the Executive, on whose favour, their renewal as well as

the prospects of extra reward are dependent; and the opportunity to join industrial careers after they have finished their work as members of the Board, it may be suggested that the members of the Board should have a permanent tenure and should be debarred from promotion to other offices under the Government or Indian States and also from taking to an industrial career in any shape or form after they cease to be such members.

Power to compel parties to Information.

At present the Board has no power to compel any concern to give evidence. Cases have occurred in which the Board has been ignored by certain large sections of an industry* and in others information has been withheld. The reluctance of the industrialists to disclose confidential information will disappear if the Board is constituted on the lines suggested above. In that case the utility of the Board should be enhanced by empowering it with adequate powers to compel parties to give the information required.†

Publicity and Prompt Action.

We have already stated that the Reports of the Tariff Boards in some cases had been pigeon-holed by the Executive for a considerably long period.‡ In order to safeguard against such discretion of the Executive it should be laid down by statute that the Tariff Board Report should be published within a prescribed period of time. The Executive should make up its mind within that time and should not have power to delay matters as they have done in several

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* The Cawnpore and New Egerton Woollen Mills did not give evidence before the Tariff Board when the claim of the Woollen Industry to protection was investigated by the Board—(Ref. Chap. VII).

† Ref. The Madon Memorial Lectures, 1936—By C. N. Vakil on—The Working of the Policy of Discriminating Protection—Second Lecture.

‡ The Report of Tariff Board on Glass Industry was presented in March 1932 but it was not until June 1935 that the Government of India released it for publication and announced their decision on it—(Ref. Chap. IX).

cases. In order that the work of the Board may be above suspicion, its Reports and the proceedings should be promptly published and there should be no undue secrecy about its findings. Prompt action should be taken on the recommendation of the Board. Whenever legislation is required, a special session of the Legislature should be convened, if necessary or in the alternative, the Executive should have power to take immediate action for a sort period, pending the approval of the Legislature.

Conclusion.—In conclusion we may emphasise that the Indian Tariff Board should be an active and permanent national institution working with the sole object of bringing about a comprehensive and rapid industrial development of the country. With the personnel and the functions as described above, the Board will command the confidence of all parties. It should be a tribunal independent of the Executive, so that it could carry out its work impartially without fear or favour of the Executive. This would replace the present hurried and piecemeal investigations, and lead to an orderly economic development of our industries and facilitate the necessary economic adjustments in the country. This is all the more necessary to-day as there is a great agitation in the country in favour of the adoption of a comprehensive scheme of economic planning for the country.

CHAPTER XII

A CRITICAL REVIEW OF THE PRESENT POLICY OF DISCRIMINATE PROTECTION—Continued

Other Measures of Protection

Introduction.—In the preceding chapters we have reviewed the basis and operation of the protective Customs Tariff and Bounties in India. Although these form the principal instruments of the protective policy of a country, there are other measures which come under the purview of that policy. We have already described them in Chapter III (Methods of Protection). It is proposed now to examine how far these measures have been applied in the Indian protective policy and make suggestions regarding their application in essential directions for the industrial development of India. We shall firstly consider the positive measures that are adopted to foster national industries.

Positive Measures—(1) Railway Rates Policy.—We have examined the importance and the extensive use of the freight rate concession in the case of export of home products in fostering home industries in Chapter III (Methods of Protection). We shall now proceed to consider how far the Indian railway rates policy conforms to this object. The rates policy of the Indian railways has for many years been subjected to severe criticism by the public, the charge being freely made that the rates were made specially favourable for the export of raw materials and foodstuffs from India and import of finished commodities into the country and unfavourable to the interests of internal industries and trade.* While as a matter of national policy, specially favourable rates are offered

* D. R. Gadgil—The Industrial Evolution of India in recent times, p. 306.

in certain countries in order to encourage the growth of indigenous industries; in India the railway rates policy as mentioned above hastened the decay of indigenous industries and hampered the growth of new industries of the modern type by promoting the importation of foreign goods. Professor K. T. Shah has rightly stated that, "being originally very costly in construction and still more costly in operation (and owing), to their being constructed and maintained without reference to the economic conditions of India, the Railway Rates have been fixed without regard to the nature of the traffic and its effects upon Indian Trade and Industry."* Several complaints regarding the railway rates were put forward by witnesses before the Industrial and Fiscal Commissions. Both the Industrial and Fiscal Commissions found fault with railways on this ground and desired a revision of the rates with a view to aiding indirectly Indian industries. The Fiscal Commission, while admitting that the complaints regarding the unfair treatment meted out to Indian industries were not entirely without foundation, recommended that special rates should be granted for a term of years to new industries and even to others if they could make out a proper case for special treatment.† The Acworth Committee, which was appointed in November 1920 to examine and report on a large number of questions in respect of railways, submitted its report in 1921. A large number of important changes have been introduced in connection with the organization of Indian railways since the receipt of the report. Most of them lie outside the scope of this section, although some of them are indirectly of importance to industry. Mention may, however, be made of one measure recommended by that Committee which was directly related to the demands of Indian industrialists. In 1926 the Government of India decided

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* Ref. K. T. Shah—Trade, Tariffs and Transport in India, p. 397.

† Ref. Report of the Indian Fiscal Commission—1921-22, pars. 127-128.

to appoint a Railway Rates Advisory Committee which was empowered to investigate and make recommendations regarding various complaints relating to railway rates and other matters regarding freights.* The Committee investigated about 25 such cases during the years 1926-27 to 1934-35 and made recommendations to the Government which have been accepted in all cases except one.†

We now propose to indicate how railway rates policy could be used to encourage the national industries. We have seen in the last chapter that one result of the growth of Economic Nationalism would be the contraction of our export of raw materials. The only solution of the problem is to utilise the raw materials in home industries and secure exportation of finished products in foreign markets where possible. The freight rates will be the most important measure to achieve this aim. The concessions granted to coal traffic on the railways and at the Calcutta docks illustrate the nature of the problem and its solution.‡ We suggest that similar concessions should be granted to other industries, which will enable the home industries successfully to compete in the foreign as well as home markets. This measure has been extensively used by the various nations of the world to overcome the effects of foreign tariff protection. India should also adopt this policy to stimulate her industrial development.

(2) **Encouragement of Shipping.**—We now pass on to another equally important measure which is employed as a part of a comprehensive scheme of protection, namely, the encouragement of shipping. We

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* For details—*See* The Indian Year Book, 1935-36, p. 681.

† Bulletins of Indian Industries and Labour—No. 57—State Action in respect of Industries, 1928-35, p. 57.

‡ The Coal Grading Board Act, 1925 made it legal to grant rebates of any charges including freights and post dues in respect of certified coal and to give preference in the supply of wagons for forwarding export coal from a graded colliery—(Ref. A. G. Clow —The State and Industry, p. 132.)

have already referred to the important part played by water transport in national economy in Chapter III (Methods of Protection). Here let us now discuss the application of this measure to India.

While the leading nations of the world have been actively protecting not only their ship-building but also the shipping industry, the Government of India have adopted a very unfortunate attitude towards developing national shipping in India. In response to the persistent agitation in favour of an Indian mercantile marine, the Government appointed the Indian Mercantile Marine Committee in February 1923 to consider and report what measures were necessary for the promotion of the Indian shipping and ship-building industries.* The Committee made several important recommendations for the encouragement of Indian shipping. The Committee recommended that in order to provide both for the training and future employment of the officers, indispensable for the formation of an Indian mercantile marine, a training ship and tender should be established at Bombay by the Government. As regards the coastal trade, they proposed its reservation for ships which were to arrange for eventual Indianization as regards ownership and controlling interest. This was to be effected by the introduction of a system of licenses or permits as in Australia. They laid down certain qualifications for eligibility for a license to a shipping company.† The Committee further recommended that the question of granting navigation bounties to purely Indian shipping in respect of overseas trade to other countries should be favourably considered as soon as a sufficient number of trained Indian officers were available and Indian ship-owners had proved efficient in management and running coastal steamers. Protection was proposed

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* *See* for the terms of reference of the Committee—Report of the Indian Mercantile Marine Committee—1923-24, par. 1.

† *Ibid.*, para. 41-43.

to the ship-building industry in the form of construction bounties. The Committee recommended that Calcutta should be developed as a centre of self-propeller ship-building and that expert assistance from abroad for ship-building should be invoked to start with.*

Except for the establishment of the training ship 'Dufferin,' the Government of India have failed so far to give effect to any of the other important recommendations of the Mercantile Marine Committee. In view of this decision of the Government, Mr. Haji moved in the September Session of 1928 his Bill in the Assembly for the Reservation of the Coastal Traffic as recommended by the Mercantile Marine Committee. The Government of India declared that they could not take any steps in the matter until the whole question of discriminatory legislation and the commercial relations between India and Great Britain, which was then before the Round Table Conference, had been decided.†

Under the new Constitution (1935) it is not possible to discriminate against British steamship companies operating in coastal waters.‡ This is bound to be a handicap to the development of Indian coastal shipping. In order to encourage the growth of Indian shipping we may suggest that the recommendations made by the Mercantile Marine Committee should be put into execution without any further delay. Unless India possesses national shipping, it will not be easy for her to secure foreign markets. We cannot expect the requisite preferential freight rates treatment from foreign shipping companies whose interests naturally lie in the industrial development of the nation to which they belong. The Indian mercantile marine remained

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* *See*—Report of the Indian Mercantile Marine Committee—1923-24, pars. 56 and 59.

† Ref. G. B. Jathar and S. G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp. 231-232.

‡ Cf. Sections 113 and 115 of the Government of India Act, 1935.

to this day an urgent need for the industrial development of India.

(3) **State aid to Exports of Manufactured Goods.**—We have already reviewed in Chapter III (Methods of Protection) the measures which the Government of a country should take to encourage the export of home manufacturers. We shall now consider the measures taken by the Government of India to encourage the exportation of manufactures to foreign markets.

(i) Industrial Intelligence.

As pointed out in Chapter III (Methods of Protection) the collection, careful analysis and judicious distribution of commercial and industrial intelligence have now come to be a necessary function of Governments in civilized countries in view of the keen international competition in industry and commerce The industrial development of the leading countries of the world has been greatly promoted by the excellent system of commercial and industrial intelligence Trade commissioners and consuls are posted in foreign countries to supply useful information about foreign markets to their respective countries. India is insufficiently equipped in this respect. The Industrial Commission made several useful recommendations in this connexion, including the establishment of Indian trade agencies in other countries such as East Africa and Mesopotamia.* The position to-day is somewhat more satisfactory than it was a few years back. The Department of Commercial Intelligence and Statistics, which was reorganized in 1922 now forms a connecting link between the public and the Government of India.† The organization described above is chiefly concerned with disseminating information regarding India. We may suggest that it is equally

* Ref. Indian Industrial Commission—1916-18—Report, pars. 187 and 190.

† The Indian Year Book—1935-36, p. 726

necessary to supplement it by a similar organization for the purpose of making available information regarding foreign markets for Indian goods.

The first attempt in this direction was made on the recommendations of the Tariff Board on the Cotton Textile Industry in 1926.* A Trade Mission was accordingly deputed in 1928 to explore the potentialities of certain export markets for Indian textile goods.† The Trade Mission held that the most important markets for the Indian textile piecegoods were the Levant and South Africa and suggested the appointment of three Trade Commissioners for India to be stationed at Alexandria, Mombasa and Durban.‡ In 1930 the Government of India outlined a scheme which contemplated the appointment of six Trade Commissioners, one each at Hamburg, Milan, New York, Durban, Mombasa and Alexandria. An Indian Trade Commissioner was appointed at Hamburg in 1930 and at present Mr. Patel is in charge of it. In 1935 Mr. Ahuja was appointed as Trade Commissioner at Milan and Mr. Saxena at Osaka in 1937. Mr. Mali's appointment as Trade Commissioner for New York has recently been announced but he has not yet taken charge of his post. At present Dr. Meek is the Trade Commissioner for India in London. In the United Kingdom, through the medium of the Indian Trade Commissioner in London, who since 1926 has been assisted by the Trade Publicity Officer, opportunities as they present themselves in England for commercial publicity are utilized in India's interests.§ This has led to useful results. Since these appointments were made, arrangements have been made for the display of Indian goods at some of the important exhibitions and

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* Ref Report of the Indian Tariff Board (Cotton Textile Industry)—Vol. I—Report—1927, par. 101.

† Ref. Trade Mission to the Near East and Africa—Report—1928—Introduction.

‡ *Ibid.*, p. 250.

§ A. G. Clow—The State and Industry, p. 76.

fairs on the Continent.* The Department of Commercial Intelligence and Statistics works in close co-operation with Directors of Industries and other Government Departments in India, with the Indian Trade Commissioners in London and Hamburg, with His Majesty's Trade Commissioner in India and the Dominions and with the Consular Offices in the various parts of the world so as to stimulate the overseas demand for Indian produce and manufactures. We may suggest that Trade Missions should be deputed to various countries to explore the potentialities of export markets for Indian manufactures and on their recommendations permanent Trade Commissioners should be appointed at important foreign centres.

(ii) The Coal Grading Board

Mention may be made here of an effective measure adopted by the Government of India, namely, the establishment of Coal Grading Board in 1925 to encourage the exportation of Indian coal. While considering the question of protection to the Coal Industry in Chapter IX, we have referred to the appointment of the Indian Coal Committee to enquire and report on the measures to be taken to stimulate the export of suitable coal from Calcutta to Indian and foreign ports. The Committee after careful investigation came to the conclusion that the recovery of the export markets depended on the supply of Indian coal of definite and reliable standards at reasonable prices and their most important recommendations related to the establishment of a Coal Grading Board for the grading of Indian coal and the granting of certificate which would enable the foreign purchaser to satisfy himself regarding the quality of the coal supplied to him.† The scheme for a Coal Grading Board was approved by the industry and the Coal

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* *See*—India in 1926-27, p 209; and India in 1927-28, pp. 208-209.

† Ref. Report of the Indian Coal Committee—1925—Vol I, pars. 103-104.

Grading Board Act, 1925, which was passed by the Indian Legislature in September 1925, provided for the establishment of a Board authorized to determine the grades of coals produced by any colliery applying to it and to grant export certificate to any graded colliery *

The foregoing survey shows that cheap railway and sea freights, appointment of Trade Commissioners in foreign countries, collection and timely distribution of statistical and other information and propaganda by means of exhibitions and the guarantee of quality of exports to the foreign purchasers are some of the devices which may be used for the fostering of national industries. The Government of India have been resorting to some of these measures to some extent. There is, however, a good deal of scope for extending these positive measures for stimulating the growth of our industries.

Encouragement by Negative Measures—(1) Mechanism of Restriction.—We may now proceed to consider the negative measures for promoting home industries. We have pointed out in Chapter III (Methods of Protection) that this method has been recently introduced in the protective national policy by the Continental countries. This measure comprises of (i) quota, (ii) barter agreements and (iii) clearing agreements. The imports of foreign goods are thus checked and the home market is thereby assured to national industries. These measures are commonly employed to protect home industries against the competition of a country with a depreciated currency, where an increase of import duty is not so effective. In Chapter VII we have already shown how this measure has been employed to protect the Indian Cotton Textile Industry against the severe competition of Japan, which was mainly due to the depreciation

* Ref. A. G Clow—The State and Industry, p. 132.

of the Japanese currency. We do not propose to go into the details of the question here but merely suggest that such measures form the most effective weapon against the competition of a country with a depreciated currency, and should be widely utilised to protect home industries, including small industries which are at present suffering from severe competition especially of miscellaneous Japanese goods to which the scheme of restriction does not apply.

(2) **State Patronage—Stores Purchase Policy.** —It has been pointed out in Chapter III that the State and other public bodies are assuming increasing importance as purchasers of manufactured goods for their own requirements. It has now been definitely recognised that the State should give preference to home producers in supplying its needs.

More than forty years ago the Government of India enunciated the principle of purchasing their stores requirements, as far as practicable, in India. The rules made in this behalf were not, however, given full effect to and Indian industries did not receive the encouragement anticipated.* The Industrial Commission examined the question. In view of the failure of the indenting officers, through lack of information about sources of supply and prices and of an inspecting agency in the country, the Commission recommended the establishment of a central stores purchasing agency in India.† In accordance with the recommendations of the Industrial Commission, the Stores Purchase Committee was appointed on 5th December 1919 to work out a scheme for the establishment of the agency for the purchase of stores. They recommended the creation of an Indian Stores Department for the

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* Ref. V. G. Kale—An introduction to the study of Indian Economics —Vol I, p. 440.

† Indian Industrial Commission—1916-18—Report, par. 196.

purchase and inspection of stores in India.* The majority recommended that the Indian Department should absorb the existing organization for the purchase of stores in London and should utilize it as a branch working under the High Commissioner for India for securing of such stores as could not be purchased in India. The minority opposed the dual subordination of the organization in London to the High Commissioner and the Indian Stores Department.†

The control of the Stores Department in the India Office was transferred from October 1st, 1920 to the High Commissioner for India almost immediately after the presentation of the Committee's Report. As regards its subordination the Government of India accepted the views of the minority of the Committee. The head of this department had previously been directly responsible to the Secretary of State for India, but the change gave the Government of India, through the High Commissioner, control of the working of the Department.‡ The Government of India after consulting local Governments established the Indian Stores Department at the beginning of 1922.§ The principal officers of the Stores Department as at present constituted are a Chief Controller of Stores, a Director of Inspection, a Director of Purchase and Intelligence and a Deputy Director of Purchase (Textile).¶

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* *See* for the outline of the organization—Report of the Stores Purchase Committee—Vol I—1920, par 151 and for the outline of functions, par 147.

† Ref. *Ibid.*, par. 120.

‡A. G. Clow—The State and Industry, p 86.

§ *Ibid.*, p. 89.

¶ G. B. Jathar and S G. Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, pp 19-20.

The stores purchase rules, which laid down the policy to be followed by all agencies for the purchase of stores, were further considered with a view to meet the Indian claim that a fair opportunity, if not preferential treatment, should be given to industrialists and traders in this country in that respect. In 1924, Government issued modified rules, the main feature of which was the assertion of a more definite preference for stores produced and manufactured wholly or partly in India.* These alterations did not change the general rule that the Indian article should be purchased in India and the foreign articles purchased by the London Department. Thus all purchases of stores were, by no means, covered by the work of the newly created body and criticisms of Government's policy with respect to purchases in Europe continued. Business opinion in India wanted the centralization of all purchases in India and suggested the adoption of the system of rupee tenders for delivery in India so as to place indigenous enterprise in as favourable a position as foreign competitors. It likewise urged the rapid expansion of the scope of the work of the Indian Stores Department and the corresponding reduction of the work of the London department. The work of the new department in India has already resulted in a good deal of economy as well as encouragement to local enterprise, but the proposed expansion has not been given effect to. Further important changes in the rules took place in 1927 and 1928.

In pursuance of a resolution passed in the Legislative Assembly, the Government of India published in 1928 draft of new rules, commonly known as the Rupee Tender Rules, which after consulting public opinion, were issued in their final form in December 1929. The rules came into force on the 1st January 1931. The preamble to the rules which is reproduced

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* Ref. A. G. Clow—The State and Industry, pp. 86-87.

below sets forth the present policy of the Government in the matter of the purchase of Government stores in this country.

" The policy of the Government of India 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 and the following rules which are applicable to the purchase of stores (other than printing and stationery stores) for the Government of India and for provinces other than Governors' provinces are prescribed in accordance with this policy. These rules supersede all previous orders on the subject.

" In order to give effect to the above policy, preference in making purchases will be given in the following order :—

First, to articles which are produced in India in the form of raw materials or are manufactured in India from raw materials produced in India, provided that the quality is sufficiently good for the purpose;

Secondly, to articles wholly or partially manufactured in India from imported materials, provided that the quality is sufficiently good for the purpose;

Thirdly, to articles of foreign manufacture held in stock in India, provided that they are of suitable type and requisite quality;

Fourthly, to articles manufactured abroad which need to be specially imported.

" Departments of the Government of India or officers specially authorized in this behalf, may when they are satisfied that such a measure is justified, allow a limited degree of preference in respect of price

to articles produced or manufactured in India either wholly, or in part."*

Local purchasing branches have been created at Calcutta and Bombay and inspection agencies at Madras, Bombay, Karachi, Cawnpore and Delhi. Whereas under the old rules, purchase of imported stores in India had been the exception, the new rules provided that with certain exceptions all stores should be purchased in India and that tenders should be for supply in India and for payment in rupees.

The policy pursued by the Government for stores purchase is thus more generous than before. Whereas Government stores imported in India were valued at Rs. 7 crores in 1914-15 and Rs. 16.25 crores in 1921, their value declined to 2½ crores in 1936-37.† The new rules were calculated materially to widen the scope of operation of the Department. The total value of the orders placed by the Department during the year 1936-37 was Rs. 6,49,60,534 as compared with Rs. 5,59,04,866 in 1935-36, Rs. 4,76,36,251 in 1934-35 and Rs. 3,59,94,135 during 1933-34.‡

Although these figures reveal an increase of orders placed in India there are yet considerable imports on Government account amounting to Rs. 2½ crores. We may suggest that the Indian Stores Department should try to get all the requirements of the Government in the country itself and thus substitute supplies of indigenous manufacture wherever possible. To this end the Department should adopt the policy of collecting and disseminating industrial intelligence. We may further suggest closer co-operation with Provincial

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* Bulletins of Indian Industries and Labour—No 57—State action in respect of Industries—1928-35, pp 76-77.

† Ref G B. Jathar and S G Beri—Indian Economics—(Fourth Revised Edition)—Vol. II, p. 17 and Review of the Trade of India—1936-37, p. 127.

‡ The Indian Year Book—1937-38, p. 779 and 1938-39, p. 803.

Industries Departments and industrialists in the country. The Department should also give advice and make suggestions as to the possibilities of exploiting potential resources of the country to the industrialists of India. In short, we desire that every endeavour should be made to substitute national manufactures in place of foreign imports. A liberal policy on these lines will go a long way in extending assurance to Indian nationalists of the sympathetic attitude of the Government toward the industrial development of India.

(3) **The Swadeshi Movement.**—We have pointed out in Chapter III (Methods of Protection) how concerted popular action could be utilised to build up national industries. In view of the impossibility of inducing the Government of India to accept a policy of protective tariffs, public opinion in India as expressed by the Indian National Congress and the Industrial Conferences, strongly favoured the Swadeshi movement which may be regarded as the positive side of the agitation over the partition of Bengal (1904-5), the boycott of British goods being the negative side. This movement did not achieve notable success owing to various reasons which we have reviewed in Chapter IV. (The Protectionist Movement in India). It was vigorously revived during the Civil Disobedience Movement in 1930. Since then a strong preference for home manufactures has been developed amongst the purchasing public. The wave of Swadeshism thus considerably accelerated the development of industries in India and in particular of cotton textile industry and has thus acted as a valuable ally of protection.

In view of the present rigid conditions of Discriminate Protection, we may suggest that until we are able to get them relaxed, the Swadeshi campaign should be more vigorously carried on by national institution such as the Indian National Congress in order to accelerate industrial development of India, which

is very urgently needed to solve the economic problems of India. This will also shorten the period of protection by hastening the development of infant industries. In conclusion, we may add that the more liberal stores purchase policy of the Government of India is based on the principle of preference for Swadeshi (indigenous) manufactures.

Foreign Capital.—Before concluding the discussion of the efforts directed towards the stimulation of industrial activity in India, mention may be made of an important issue which arises in connection with the results of these efforts. Industrial enterprise in India has been to a considerable extent dependent on the supply of capital from abroad and those responsible for providing the capital have naturally secured a large measure of control. But the demand for industrialization, as indicated in preceding chapters, has been closely associated with nationalist aspirations. As Indian industry developed, apprehension has been felt in many quarters that one result of fostering industries might be the strengthening of the position of non-Indian capitalists. The national ideal has been Indian industrialism, not an industrialism in India carried on and controlled by non-Indians.

General.

With the adoption of protection, the apprehension regarding the results of the continuous inflow of foreign capital has naturally been strengthened. Protection in every country has derived its strongest support from the instinct of nationalism; and a tariff policy whose main result was the development of industry by non-nationals would be regarded by many protectionists as worse than useless. The question was discussed at some length by the Indian Fiscal Commission. We have already discussed the recommendations on this subject made by the majority and minority of the Fiscal Commission in Chapter V (Policy of Discriminate Protection). We may here briefly state that while the

majority wished to impose certain conditions in those cases where Government granted a concession or a subsidy or bounty, the minority desired to apply the conditions in all cases where protection was granted.

External Capital Committee.

The question being very important, the Government of India appointed the External Capital Committee in 1924 which was presided over by Sir Basil Blackett, the Finance Member of the Governor-General's Council and was composed of members of the Central Leglislature. The terms of reference were "to consider the question of the flow of capital into India from external sources."* The Committee, after holding a number of meetings presented its Report in 1925. Their general conclusion was that the inflow of external capital was a valuable factor in assisting the economic development of India and that general measures discriminating against it or penalizing it by way of taxation or control would be definitely injurious both to the development of Indian resources and to the interests of the Indian investor. But they emphasized the importance of stimulating the flow of capital from internal sources and recommended that in the case of loans preference should be granted to Indian investors. They also recommended that where investment carried with it the control of an undertaking, the Government when granting particular concessions to the industry of which that undertaking formed part, should exercise such control over the undertaking as would ensure that the benefits of the concessions accrued primarily to the country. But they considered that where a general concession was given, *e.g.*, by means of a tariff, it was impracticable to effect any discrimination.†

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* Report of the External Capital Committee—1925, par. 1.

† Ref. *Ibid*—Summary of Recommendations, pp. 15-16.

Criticism and Suggestion.

It is more or less generally agreed that some restrictions on foreign capital are necessary for minimizing its disadvantages and maximizing the advantages. The majority of the Fiscal Commission and the External Capital Committee held that restriction should only be imposed when a definite concession or pecuniary assistance had been granted by the Government to companies. Their general objection to the wholesale imposition of the restrictions in all circumstances was that they would be too onerous and would therefore be evaded or if not capable of being evaded, would frighten away foreign capital almost completely. The minority of the Fiscal Commission, on the other hand, argued that protection in itself constituted an important concession and that logically no distinction could be made between favouring an enterprise by definite concessions like bounties and favouring it by admission to the benefit of a general system of protection and recommended that restrictions should be applied in all cases, whether particular concessions were granted or not.*

We agree with the majority of the Fiscal Commission who admitted that for hastening the industrial development of India external capital, under the present circumstances, is necessary. Any control that we may suggest, should not hinder the object specified above. Before making any suggestion mention may be made of the constitutional safeguards for British capital. We have examined in detail the question of commercial safeguards for British interest in Chapter X. Under Section 116 of the Government of India Act of 1935, companies incorporated in the United Kingdom and carrying on business in India are to be eligible for any grant, bounty or subsidy for the encouragement of any trade and industry to the same extent as companies incorporated in British India.

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* For the recommendations of the Majority and Minority of the Fiscal Commission—*See* Chapter V.

In view of this and other provisions of the Act of 1935, discrimination against British interest is not possible.

How exactly and in what circumstances control over foreign capital should be exercised is a matter more of detail than of principle. How far the methods of regulation suggested will be effective in attaining the aim can only be decided by a process of trial and error. If a particular type of control is found in practice to be injurious, it is always possible to withdraw it or supply a corrective to it to suit the circumstances of each case. We may suggest that the control in the first instance, should be exercised on the lines suggested by the minority of the Fiscal Commission.* If they are found unsuitable, they can be changed and moderated as may be demanded by circumstances. Such restrictions should be interpreted as a sign of the whole-hearted preparation of the Government to pursue a policy of encouragement and support to Indian industries. Here we may emphasise that the greatest advantage will be realized when the country is in a position to satisfy her requirements for new capital almost entirely from internal rather than from external sources. We are in full agreement with the suggestion of the External Capital Committee that "the real solution of the problem of external capital lies in the development of India's own resources" and that in order to draw out the "vast store of dormant capital" in existence in India, "banking facilities must be increased and extended.† The strengthening of the Indian banking system following the advent of the Reserve Bank of India and the better regulation of banking companies by the recently amended Indian Companies Act may be expected to stimulate banking development in India and to ensure a fuller mobilization of the internal capital resources.

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* For the recommendations of the Minority on Foreign Capital—*See* Chapter V.

† *See* Report of the External Capital Committee—1925, p. 15.

Other Measures of State Aid to Industry.—We have reviewed the operation of protection in its various forms in the preceding chapters and in the earlier part of this chapter. It should be remembered, however, that protection alone will not convert the medieval organization of a country into an up-to-date modern organization. Even with protection, a country may remain for ever economically backward in the absence of an adequate development of the indispensable adjuncts of modern economic life such as efficient banking organization, a properly developed system of transport, a sympathetic railway and shipping rates policy, an effective marketing organization, an efficient system of commercial and industrial intelligence, adequate command of capital, etc. Although protection is expected to assist the indigenous industries in their state of infancy or weakness to compete with their foreign rivals, attempts must be simultaneously made to improve the conditions in which the industries are carried on and to bring them up to the level of the efficiency of their rivals. Here we propose to review very briefly the steps taken by the Government of India in this direction and make further suggestions for effecting speedy industrial development.

Introduction.

Organization.

The activities of the State in this direction are regulated by the Imperial Department of Industry and Labour and the various Provincial Departments of Industries controlled by Directors of Industries.*

* These Departments were started in accordance with the recommendations of the Industrial Commission—(Ref. Indian Industrial Commission—1916-18—Report, pars. 305 and 321.) Madras and the United Provinces had Industries Departments before the Commission was appointed. Directors of Industries were appointed in Bengal and Bombay in the latter half of 1917; in Bengal, however, the permanent appointment of a whole time Director dates from 1920. In Bihar and Orissa and in the Punjab Departments were created in 1920 and in Burma the Department of Industries commenced work early in 1921. (A. G. Clow—The State and Industry, p. 26.)

Technical, Industrial and Commercial Education.

In a review of the various branches of Government activity in respect of industries it is convenient to begin with technical, industrial and commercial education. Success in other direction is largely conditioned by progress in this direction and even those who are most inclined to limit Government activity recognize the provision of education for industry as a legitimate function, indeed, a duty of Government.

It has long been a commonplace of educational discussions in this country that from top to bottom our educational system is too literary and academic and that it is necessary to give a more practical bent to it. Lack of any education or of education of the proper kind not only makes the Indian workman inefficient and unreliable, but also kills in him all desire for improvement. Education will develop his wants, produce in him an incentive to work more and better in order to satisfy them and raise the whole tone of his life. One of the difficulties under which Indian industries labour, is that skilled labourers as well as supervisors and foremen have often to be imported from abroad. The men thus imported are naturally expensive and they have to be given a high scale of wages. The real solution is to start technical institutions of all grades in the country itself so as to make it possible for Indian industries to dispense with foreign labour of every kind.

For industrial progress something more than mere technical knowledge is required. Men of insight, daring and organizing ability are necessary to lead the country in its industrial march and to enable it to keep pace with other nations. The multiplication of commercial schools and colleges is likely to help in this direction.

Some attempts have been made in this direction* but considering the huge size and large requirements of the country, the present position is unsatisfactory. The provision that has been made by the Government can scarcely be called adequate. The facilities for industrial, technical and commercial education should be sufficiently enlarged for attaining speedy industrial progress. Care should, however, be taken to correlate industrial and technical education and to ensure a simultaneous progress of both. Here we may suggest that when extending protection to any industrial enterprise, the Government should insist on the grant of facilities for training apprentices and for technical and commercial education by the industry receiving protection. This would certainly accelerate the realisation of the aim which we have suggested in this section.

Research.

Great stress was laid by the Industrial Commission (1916-18) on the importance to industrial development of scientific research. Their proposals for the formation of all-India services dealing with chemistry, botany, bacteriology, zoology and entomology were designed mainly to make it possible to secure the systematic pursuit of researches likely to lead to industrial advance.† In accordance with the recommendations of the Industrial Commission, the Chemical

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* The following table shows the number of Technical, Industrial and Commercial Institutions and of the students attending them in 1935 :—

1. *Colleges.*	Institutions.	Students.	2. *Schools.*	Institutions.	Students.
Engineering	7	2,074	Engineering	10	1,728
Commercial	6	2,605	Commercial	220	8,692
			Technical & Industrial	489	27,705

(Ref. The Indian Year Book—1937-38, pp. 371-372.)

For further detail—*See* Industry Year Book and Directory—1936—Technical Institutions, pp. 536-590.

† Ref. Indian Industrial Commission—1916-18—Report, pars. 123-124.

Services Committee was appointed in September 1919 to consider whether an all-India Chemical Service was the best method of attaining the ends which the Industrial Commission had in view and to frame proposals for organization ot industrial research.* The Committee made several recommendations, including the establishment of a Central Research Institute at Dehra Dun and a series of research institutes to be instituted at the chief centres of industry in each province, aiming at the encouragement of industrial research and development.† The fate of these recommendations was very unfortunate. The services were not created as it was held that all-India services were not compatible with provincial autonomy foreshadowed by the Constitutional Reforms of 1919.‡ Thus the chain of provincial institutions has failed to materialise. Although the comprehensive and co-ordinated scheme of the Committee has not been carried out in operation, progress has been made in some directions.

At the Fifth Industrial Conference held at Simla in July 1933, it was agreed unanimously that a central authority should be set up for the co-ordination of research. Accordingly in May 1934, the Government of India decided to establish an Advisory Council and a Central Bureau for Industrial Intelligence and Research. The Bureau, now called the Industrial Research Bureau, was established in April 1933 with a research branch at Alipore. The Bureau is attached to the Indian Stores Department and has been given a grant of Rs. 5 lakhs spread over a period of three years.§ The principal functions of this Bureau are :—(i) Collection and dissemination of industrial intelligence.

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* Ref. Chemical Services Committee—1920—Report, par. 1.

† For the detail of recommendations—*See Ibid.*—Summary of Recommendations, pp. 99-104.

‡ Ref. A. G. Clow—The State and Industry, pp. 27-28.

§ *See*—For the *various Research Institutes* in India—A. G. Clow—The State and Industry—Chap. VIII and Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, Chap. VIII.

(ii) Collaboration with Provincial Directors of Industries and industrialists in all matters relating to industrial research. (iii) Assistance to industrialists in India by giving advice and making suggestions as to the directions in which research should be undertaken. (iv) Assistance to the organization of industrial exhibitions in India. (v) The publications at intervals of Bulletins relating to industrial research and other matters connected with industrial development.*

Research in industrial problems is a function of the highest importance and we may suggest that the necessary institutions for this purpose should be created and maintained without further delay. We may further suggest that when granting protection to any industry, the Government should insist on the extension of facilities for research work by the industries concerned.

The Welfare of Factory Labour.

Industrial labour in India is generally regarded as being much less efficient than that in European countries. As regards the causes of the inefficiency, their number is legion. Some of them are permanent while others are temporary or remediable. To the former class belong the climatic conditions in India which are generally adverse to high labour efficiency. As regards the causes susceptible to remedy, the Industrial Commission suggested a rise in the standard of comfort and an improvement in public health as remedies for this state of affairs. They further held that these ends could be attained only by education, improved housing and a general policy of betterment, in which an organisation for the care of public health must play a prominent part.† The facility for education of factory children will create a new generation of workers, who will learn to regard mill work as their fixed occupation.

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* *See*—The Indian Year Book—1937-38, p. 779.

† Ref. Indian Industrial Commission—1916-18—Report, par. 236.

Better housing is a most urgent necessity, especially in large congested industrial centres. Facilities for healthy amusement, shorter hours of work and other measures for economic betterment are almost equally important.

The national importance of this problem of building up an up-to-date industrial civilization in India is being understood more and more by the Government and the people. This was attested by the appointment in May 1929 of a Royal Commission on Labour presided over by the late Rt. Hon. J. H. Whitley. The Labour Commission made a variety of suggestions on the problem, but we shall mention only a few of them. They suggested that, (i) Provincial Governments should make a survey of urban and industrial areas in order to ascertain their needs with regard to housing and arrange for mutual consultations for devising practical plans of co-operation among all interested parties; (ii) the Government should lay down minimum standards in regard to cubic space, ventilation, lighting, water-supply, drainage, etc.; (iii) the provision of working class housing should be a statutory obligation on every Improvement Trust; (iv) co-operative building societies should be encouraged; (v) municipalities should revise, bring up-to-date and enforce rigorously bye-laws dealing with health, housing and sanitation.* The Commission further recommended the reduction from 60 hours a week to 54 hours a week.† The recommendation regarding the hours of work has been incorporated in the Factories Act of 1934. We do not propose here to give a detailed account of the activities in this direction, which is beyond the scope of this section. Several attempts have been made in this direction by various organizations representing the State, employers and social agencies, but the results are not satisfactory.

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* Ref. Report of the Royal Commission on Labour in India—1931—Chap. XV.
† *Ibid.*, p. 44.

It is also gratifying that the advent of Congress Ministries in various provinces in India has brightened the prospects of extension of schemes of welfare work for the benefit of industrial labour, *e.g.* the Textile Labour Committee recently appointed by the Government of Bombay. We may suggest that when granting protection to any industry the Government should insist on the provision of educational facilities, better housing and the general welfare work for the labourers engaged in that industry by the employers and other bodies concerned. Such a plan may be expected to improve the efficiency of industrial labour, which is very essential for ensuring a speedy industrial development on sound lines which is after all the principal aim of the policy of protection.

Extension of Protection.—We have reviewed the operation of the policy of Discriminate Protection in Chapters VI, VII, VIII and IX. The chief beneficiaries of the activities of the Tariff Board have been the Cotton Mill Industry and the Iron and Steel Industry. Latterly, Matches, Sugar and Salt have also come in for a substantial help by way of protection. It would be unnecessary here to detail the various steps taken to assist these industries as these have already been reviewed in the chapters mentioned above. There are, however, as we have seen before certain industries whose claim to protection has been turned down either by the Tariff Board or the Government on the ground of failure to satisfy the essential conditions of Discriminate Protection. In this connection, we have examined the rigidity of the conditions of Discriminate Protection and made suggestions for their relaxation in the preceding chapter. In view of the forward industrial policy which we have advocated we would like to put in a strong plea for the re-examination of the Glass Industry and the Woollen Industry without any further delay. We also favour a re-examination of Chemical and Coal Industries.

We also repeat the suggestion that the case for protection of the Indian Tanning and Leather Industries should be referred to the Tariff Board as early as possible and protection granted if approved by the Board.

Finally we would like to invite attention to another industry—*viz.*, the Oil-making Industry.

Oil making industry

The position of India in respect of the oil industry is peculiar. Though India produces a variety of oil-seeds, she is mainly a seed-exporting country and has not properly developed the manufacture of finished products such as refined oils and oil-seeds cakes. Much attention has recently been devoted to the problem of how to transform India into an oil and oilcake-producing and an oil-exporting from an oilseed exporting country.*

Large quantities of oil seeds are produced in India. There is also a big home market for oils and oil cakes. The whole agricultural population requires oils for food and needs oil-cakes for cattle. Vegetable oils have several important uses and play a great part in the economic life of a civilized community. The soap industry in particular will be benefited most by the development of the oil industry.† The other industries most likely to be benefited are the paints and varnish industries.

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* The quantity and value of export of oil seeds are given below.

Quantity (in thousands)
Tons

Pre-War Average	War-Average	Post-War Average	1935-36	1936-37
1,453	708	923	673	1,156

Value (in thousand of Rupees)

24,36,97	12,17,42	23,53,64	10,33,05	18,46,93

(Ref. Review of the Trade of India—1936-37, pp. 191-192.)

† Cf. Vera Anstey—The Economic Development of India, pp. 257-259.

It is both unsound and un-economic for India to export her oil-seeds instead of manufacturing the oils and oil-cakes in the country itself having regard to the high manurial value of the commodities exported to an agricultural country like India. All these considerations lead us to the conclusion that persistent effort should be made to develop the industry. We suggest that the case for protection of the industry should be immediately examined by the Tariff Board.

If our suggestions for the reconstitution of the Tariff Board are accepted (made in Chapter XI), the Board will be able on its own initiative not only to reconsider the cases of industries whose claims for protection have not so far been granted but other cases as well. This will widen the scope of protection and facilitate the progress of our industries.

General Conclusion

We have now reached the end of our review of the problem of Industrial Protection in India. With the help of the background of the development of national economic policies based on protection in the various countries of the world, we have, we believe, succeeded in presenting a strong and sound case for the adoption by India of a national policy of industrial protection conceived and carried out in a generous spirit. The aim of the forward Industrial Policy for India which we have advocated in this thesis is the attainment of the maximum industrial production in the country with a view to increasing the national dividend and raising the standard of living of Indian people. We deem it very essential to bring about a balanced economy in the country in order to solve its poverty problem. We maintain that this goal should be achieved as rapidly as possible, if India is to be lifted from its present economic stagnation.

The country has succeeded in making some progress industrially, especially since the adoption of the policy of Discriminate Protection.* But the pace has been slow, the method of protection defective and its principles very rigid. We, therefore, advocate a policy of protection, which will not be unduly hampered by restrictions. It should be a policy comprehensive in its scope and thorough-going in its operation, so as to develop industries large and small, existing and potential in the country. We must at the same time see to it that the burden of protection does not fall unduly on any one class in the country. The incidence of protection should be estimated and arrangements made for its equitable distribution, or in the alternative for granting relief where necessary. We strongly disapprove of the recent policy of Excise Duties of the Government of India and maintain that industries should receive unswerving protection during the period calculated to place them on a satisfactory footing. To implement the policy outlined above, we consider that it is necessary to set up an effective and efficient machinery. A permanent Tariff Board, with an enlarged personnel and adequate powers granted by the Indian Legislature, should be appointed without any further delay. The industrial development of India, in our view, should not be limited to the home market only, but should also aim at supplying export markets wherever we have reasonable facilities. To this end, besides adequate protection through tariff and bounties, we strongly favour the adoption of a sympathetic policy of railway and shipping rates and advocate encouragement of national shipping.

The country requires an efficient system of commercial and industrial intelligence in order successfully to tap foreign markets. We also favour the grant of prompt and adequate protection to our industries

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* *See*—Appendix I.

against unfair competition from countries with depreciated currencies.

The Stores Purchase Policy of the Government should be made more generous so as to help the growth of indigenous industries. We maintain the view that until these changes which require the consent of the Government fully materialise, the campaign of Swadeshism should be vigorously carried on so as to create a widespread preference for home products in the country.

We insist on a national outlook on the part of the industries in the country with a view to bringing about the exploitation of its resources for the benefit of the people themselves. We have suggested ways and means to ensure adequate attention being paid to the national point of view throughout.

We wish to emphasise again the urgent need of an adequate provision of technical and commercial education, industrial research and the adoption of measures to promote the welfare of factory labour, in order to stimulate the industrial development of India on sound lines.

While we have no objection in principle to a system of preferential tariffs for the Empire countries, we are afraid that the claim of Indian industries to protection especially in the initial stages of the new policy cannot be readily reconciled to that of Imperial Preference. We must in fairness to India, place protection in the foreground and Imperial Preference must wait for some time. Throughout, our policy must be Indian interests first and Empire interests afterwards.

We entertain the apprehension that the new constitution of India does not offer adequate scope for the full realisation of the policy outlined above. It is beyond the scope of this work to deal with the highly

controversial issues raised in this connection and to suggest ways and means to remove this defect in the constitution. We express the hope that the country will succeed in securing a more generous constitution in the near future which will guarantee full fiscal autonomy and freedom of economic policy to the Government and the people of this country. We feel optimistic that even within the framework of the existing Constitution, it is possible to remove many of the defects of the policy and mechanism of industrial protection in India and to adopt several other measures besides protection for ensuring industrial development so as to place the country on the high road to prosperity.



APPENDICES.

APPENDIX I.

Chart I*

Chart I shows the production of pig iron and steel in India since the grant of protection to the Iron and Steel Industry in 1924. It will be seen that the production increased till 1927. In the year—1928—production was adversely effected by strikes in the Tata Iron and Steel Works at Jamshedpur which lasted from the middle of April to the middle of September, 1928. Iron and steel production in the years 1930-32 reflects largely the economic depression prevalent throughout the world. Since 1932, there has been a tendency for the output of pig iron and steel to show a welcome increase.

* Chart is based on the data collected from the statistics given by the Coal Mining Committee—1937—on p. 239 and the Monthly Survey of Business Conditions in India—since January 1935.

Chart I
Production of Pig Iron and Steel in India

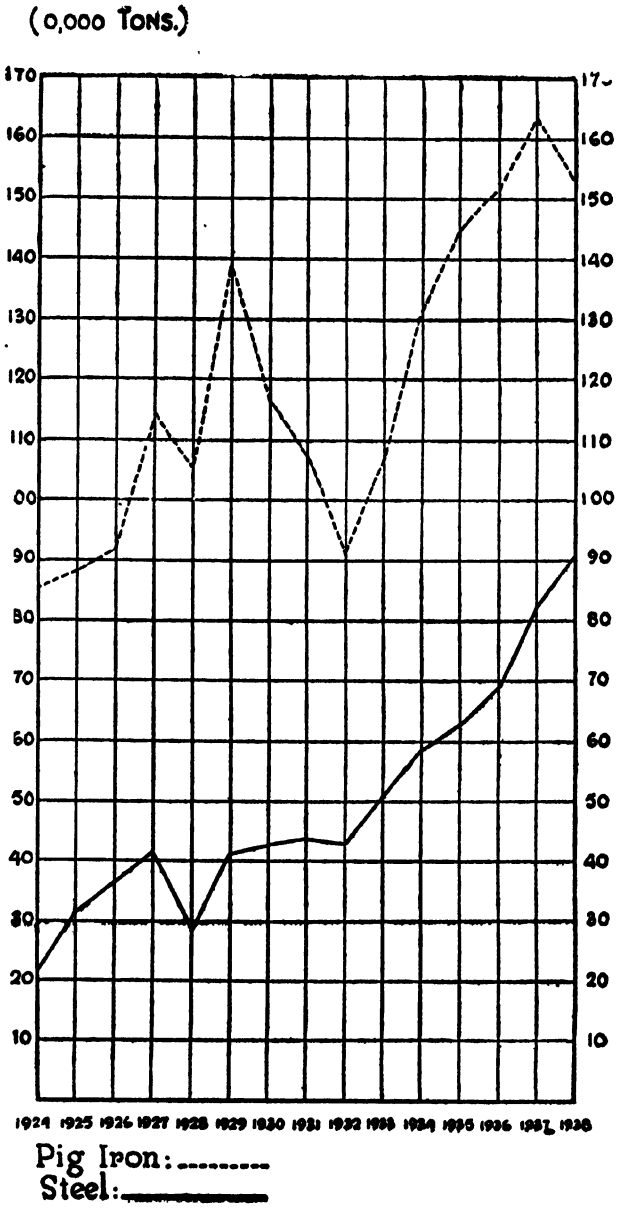


Chart II*

Chart II shows the imports of iron and steel materials into India since the grant of protection in 1924. It reveals a decline in the imports except in 1927-28. The increase in the year was mainly due to the efforts made by British steel makers to meet foreign competition and to the attempts made by France to conserve her overseas markets. Since then there has been a continuous decline in the imports of iron and steel materials. Even allowing for the effects of the world economic depression on imports, it is seen that the decrease in imports was the result, as was expected, of the grant of protection to the Iron and Steel Industry.

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* Chart is based on the statistics collected from the Review of the Trade of India since 1924-25 and the Monthly Survey of Business conditions in India.

Chart II

Imports of Iron and Steel Materials into India

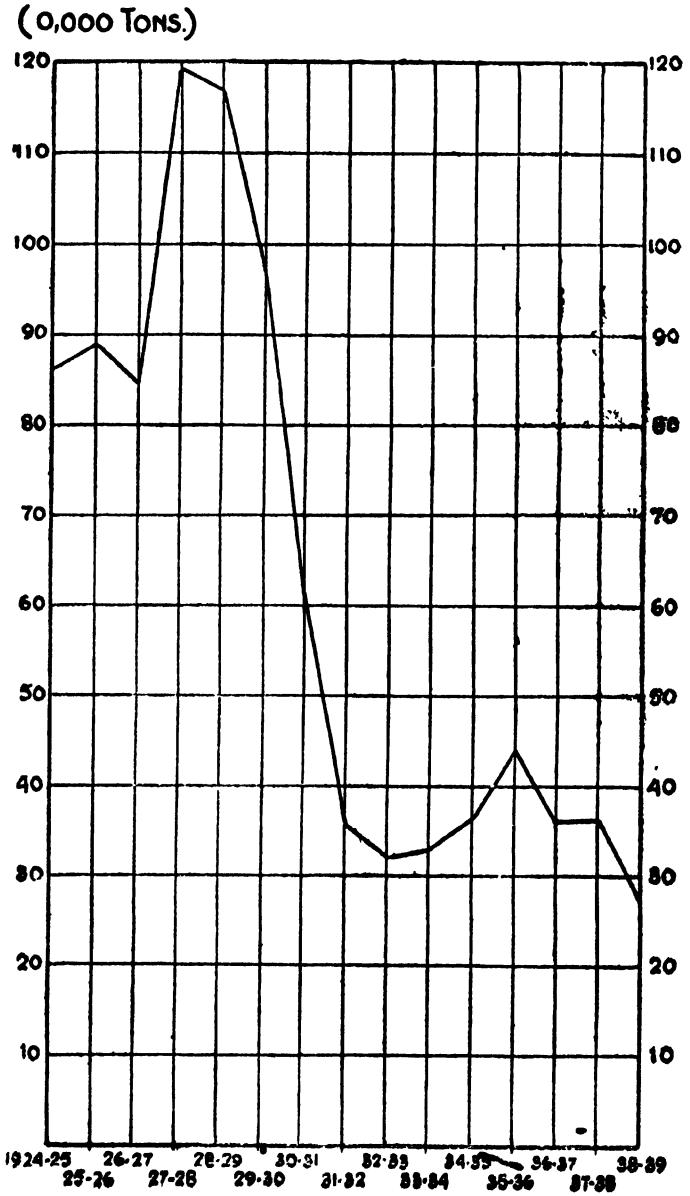


Chart III*

Chart III shows the mill and handloom production of cotton piecegoods in India. There has been an increase in the production since the grant of partial protection in 1927. The year 1928-29 witnessed a fall in the production mainly due to the prolonged labour strikes in the industry. For example the strike in the Bombay Cotton Mills started in April 1928 and lasted till October of that year. Since 1930, there has been a rapid increase in the production following the grant of substantial protection especially against Japan in that year and the spread of Swadeshi movement in India which was launched along with the Civil Disobedience movement in 1930. The increase has been uninterrupted except during the year 1933-34. The fall in the year may be attributed to unfair competition from abroad.

* Chart is based on the figures given on pp. 162-163.

Chart III

Mill and Handloom Production of Cotton Piecegoods in India

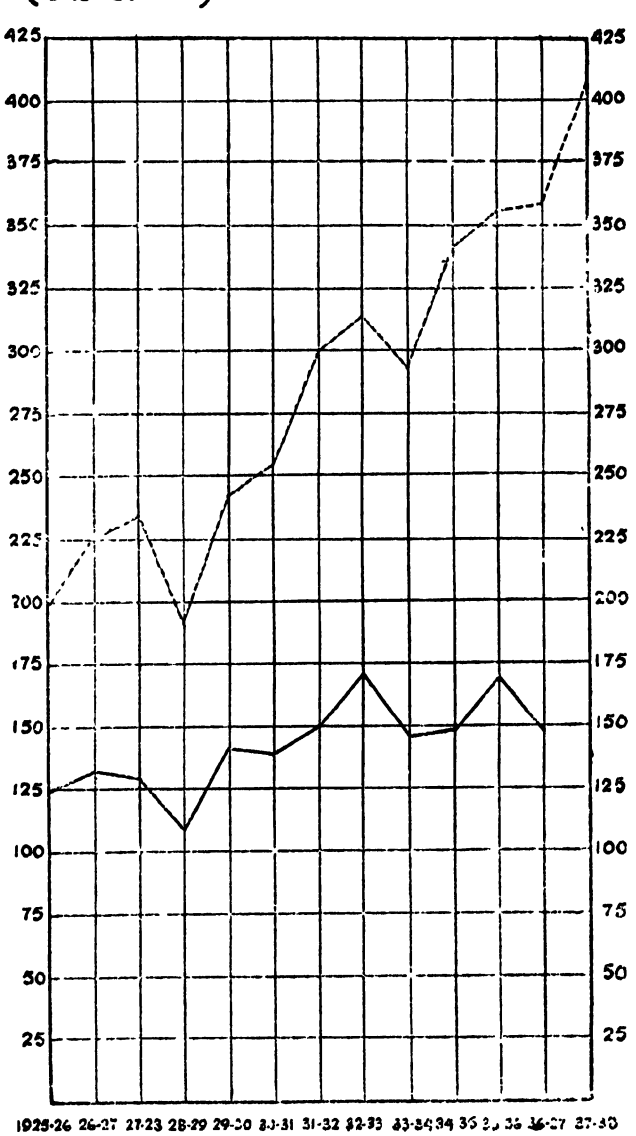


Chart IV*

Chart IV shows the imports of cotton piecegoods into India. It will be seen from the Chart that since the grant of substantial protection in 1930, imports have been declining. In 1932-33 there was a tendency for a rise due to the heavy imports from Japan stimulated by her depreciated currency. The year 1933-34 showed again a decrease in imports which may be attributed to the measures taken by the Government into India. It will be seen from the Chart that since the imports are more or less stationary.

* Chart is based on the figures given on pp 162-163.

Chart IV
Imports of Cotton Piecegoods into India

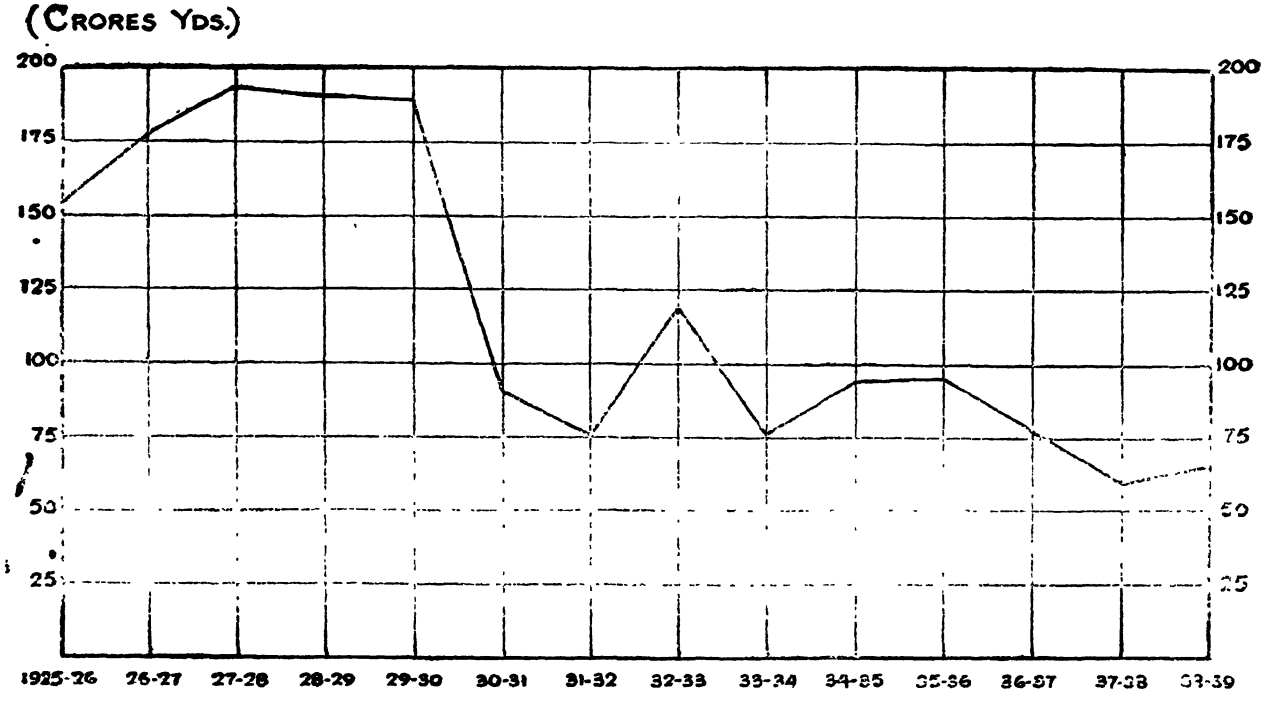


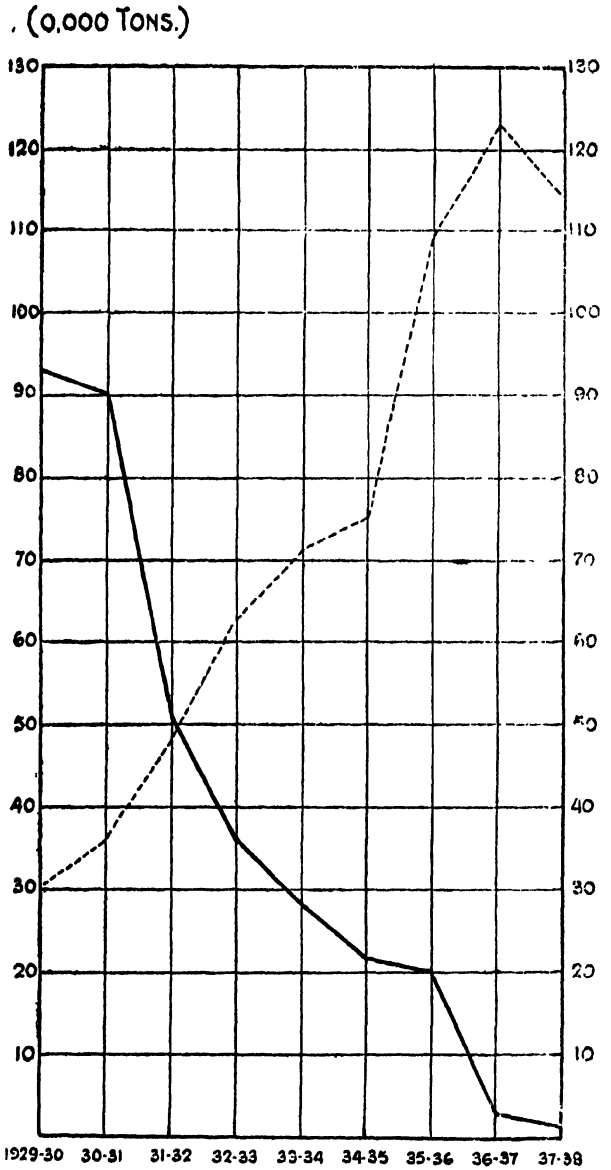
Chart V*

Chart V shows the production and imports of sugar in India. It will be evident from the Chart that since the grant of protection in 1931, production has been speeded up very rapidly and the imports at present are negligible.

* Chart is based on the figures given on pp. 195-196.

Chart V

Production and Imports of Sugar in India



APPENDIX II.

Tabular Statement of Enquiries carried out by the Tariff Board.*

Serial No.	*Date of Reference.*	*Personnel*	*Subject of Enquiry.*	*Year of Publication of the Report.*
1	July 10, 1923	President :— Mr. (now Sir) G. Rainy Members .— Mr (now Sir) P P Ginwala Prof V G Kale	Steel Industry	1924
2	Oct 5, 1923	do.	Sulphur	1924
3	April 10, 1924	do.	Paper and Paper Pulp Industries	1925
4	,,	do	Magnesium Chloride Industry	1925
5	,,	do.	Cement Industry	1925
		* Tariff Anomalies		
1	March 28, 1925	President .— Mr. (now Sir) G. Rainy. Member .— Dr. J Matthai.	Spelter and Galvanized Hardware	1926
2	,,	President .— Sir P. P Ginwala Member .— Dr. J Matthai	Electric Wires and Cables.	1928
3	,,	President :— Mr. A. E Mathias. Member — Dr. J. Matthai.	Belting	1928
4	,,	President :— Sir P. P. Ginwala Member :— Dr. J. Matthai	Printing Type	1929
5	,,	do.	Manila Rope.	1929
6	,,	President Dr. J. Matthai. Members :— Mr. G. Wiles. Mr. G. A. Nateran.	Carbon Brushes and Healds and Reeds.	1934
7	,,	President :— Mr. G. Wiles. Members :— Mr. F. I. Rahimtoola. Mr. H. R. Batheja.	Shuttles.	1935

Serial No	*Date of Reference*	*Personnel*	*Subject of Enquiry*	*Year of Publication of the Report*
6	Oct. 8, 1924	President :— Mr. (now Sir) G. Rainy. Members :— Mr. (now Sir) P. P Ginwala Prof V G Kale.	Steel Industry (Urgent Enquiry)	1924
7	June 18, 1925	do.	Steel Industry.	1925
8	,,	President :— Mr. (now Sir) G. Rainy. Members :— Mr (now Sir) P P Ginwala Dr J Matthai	Wire and Wire Nail Industry	1926
9	Sept. 10, 1925	do.	Coal Industry	1928
10	Apr 3, 1926	President :— Mr (now Sir) P. P Ginwala Members .— Mr A E. Mathias Dr J Matthai	Steel Industry (Statutory Enquiry).	1927
11	,,	President :— Mr A E Mathias Member :— Dr J Matthai	Wagon Building	1927
12	June 10, 1926	President :— Mr (now Sir) F Noyce Members — Rai Bahadur Harikisan Kaul. Mr. N S Subba Rao	Cotton Textile Industry	1927
13	Oct. 2, 1926	President :— Mr (now Sir) P P Ginwala Members — Mr A E Mathias Dr J Matthai	Match Industry	1928
14	May 19,	President :— Mr. A. E. Mathias. Member :— Dr J. Matthai	Changes in Tariff entries regarding Printing Paper	1927
15	May 26, 1927	do.	Plywood and Tea Chest Industry.	1927

Serial No.	*Date of Reference.*	*Personnel.*	*Subject of Enquiry.*	*Year of Publication of the Report.*
16	March 26, 1928	President :— Mr. (now Sir) P. P. Ginwala. Members :— Mr. A. E. Mathias Dr. J. Matthai.	Oil Industry	1928
17	July 16, 1928	President :— Sir P. P. Ginwala. Members :— Mr. A. E. Mathias. (rejoined from leave on 19th Jan., 1929). Dr. J. Matthai.	Heavy Chemical Industry.	1929
18	,,	do	Magnesium Chloride Industry.	1929
19	July 25, 1929	President :— Sir P P. Ginwala (upto 26th March, 1930). Mr A. E. Mathias (from 27th March, 1930). Members :— Mr. A. E. Mathias (upto 26th March, 1930). Dr J. Matthai.	Salt Industry.	1930
20	May 15, 1930	President :— Mr A. E Mathias Member :— Dr. J Matthai	Gold Thread Industry.	1930
21	,,	do	Railway Materials	1930
22	May 20, 1930	President :— Mr A. E Mathias. Members :— Dr. J. Matthai Mr F I Rahimtoola	Sugar Industry.	1931
23	Sept. 30, 1930	President :— Mr A. E Mathias Member :— Dr J Matthai	Additional Protection for Galvanized sheets	1930
24	Dec 1, 1930	do.	Steel Rails	1931
25	March 26, 1931	President :— Dr. J. Matthai. Members :— Mr. F. I Rahimtoola. Mr. G. T. Boag.	Paper and Paper Pulp Industries	1931

Serial No.	*Date of Reference.*	*Personnel.*	*Subject of Enquiry.*	*Year of Publication of the Report.*
26	May 11, 1931	President :— Dr. J. Matthai. Members :— Mr. F. I. Rahimtoola Mr. G. T. Boag.	Glass Industry.	1932
27	April 9, 1932	do.	Cotton Textile Industry.	1932
28	Dec. 3, 1932	President :— Mr. F. I. Rahimtoola. Members :— Mr. G. T. Boag. Mr. A. R. Batheja.	Sericultural Industry.	1934
29	Aug. 26, 1933	President :— Dr. J. Matthai. Members :— Mr. G. Wiles Mr. G. A. Natesan.	Steel Industry	1934
30	Oct. 20, 1934	President :— Mr. G. Wiles. Members :— Mr F I Rahimtoola. Mr H R Batheja.	Woollen Industry.	1935
31	May 25, 1935	President :— Mr F. I. Rahimtoola. Member :— Mr H R. Batheja.	Classification of Paper.	1936
32	Sept. 10, 1935	President :— Sir Alexander Murray. Members :— Mr. F. I Rahimtoola. Dewan Bahadur A. Ramaswamy Mudaliar.	Cotton Textile Industry.	1936
33	April 1937	President :— Sir Geoffrey Bracken. Members :— Dr. L. C. Jain. Mr. F. I. Rahimtoola.	Sugar Industry.	1938
34	Dec. 1937	do.	Paper Industry.	1938
35	,,	do.	Magnesium Chloride Industry.	1938

APPENDIX III.

Import Duties on Iron and Steel since 1924.*

Duty in Rs. per ton.

	Prior to April 1924.	1924 June.	1927		1931	1932		1934	
			British.	Non-British.		British.	Non-British.	British.	Non-British.
Galvanized sheets ..	30	45	30	30	67	30(*a*) 53(*b*)	83	15⅓ (*c*)	45⅓
Tin plate ..	40	60	48	48	48	60	60	44	65
Sheet bars ..	14	40	26	37	No change	32½	46¼	15⅙ (*c*)	44⅓ (*d*)
Black sheets ..	17·5	30	35	59	do	43¾	73¾	16⅔	37½

(*a*) If made from Indian sheet-bar.
(*b*) If made from sheet-bar other than Indian sheet-bar.
(*c*) Or 10 per cent. *ad valorem* whichever is higher.
(*d*) Or 20 per cent. *ad valorem* whichever is higher.

* Ref. A. G. Clow—The State and Industry, p. 119.

Bulletins of Indian Industries and Labour—No. 57—State action in respect of Industries—1928-35, p. 61.

APPENDIX IV.

Import Duties on Cotton Yarn and Piecegoods since 1927.*

	Prior to 1927.	1927 Sept. 22nd.		1930 April 4th.	1931 March 1st.	1931 Sept. 30th.	1932 August 30th.	1933 June 7th.	1934 January 8th.		1934 May 1st.	1936 June 25th.
	%	% As. per lb.		% As. per lb.	% As. per lb.	% As. per lb.	% As. per lb.	% As. per lb.	% As. per lb.		% As. per lb.	% As. per lb.
Cotton Yarn	5	5 or 1½				6¼ or 1⅞				Upto 50 s:—		
										British	5 or 1½	
										Foreign	6¼ or 1⅞	
										Above 50 s:—		
										British	5	
										Foreign.	6¼	
Cotton Piece-goods.	11		Plain Grey:—									
			British	15 or 3½	20 or 3½	25 or 4⅜					25 or 4⅜	20 or 3⅓
			Foreign	20 or 3½	25 or 3½	31¼ or 4⅜	50 or 5¼	75 or 6¼	50 or 5¼		50 or 5¼	
			Others:—									
			British	15	20	25					25	20
			Foreign.	20	25	31¼	50	75	50		50	

*Ref. The Indian Textile Journal—July 1936—p. 336.
Review of the Trade of India in 1936-37—p. 31.

APPENDIX V.

Import Duty on Sugar since 1916.*

Period.	*Rate.*
Before 1916.	5% *Ad Valorem.*
1916-21.	10% ,,
1921.	15% ,,
1922-25.	25% ,,
1925.	Rs. 4-8-0 per cwt.
1930.	,, 6-0-0 ,,
1931.	,, 7-4-0 ,,
1932.	,, 9-1-0 ,, (includes surcharge of Rs. 1-13-0 per cwt.)

NOTE.—The protective duty of Rs. 7-4-0 is to continue till 31st March 1938.

*B. N. Adarkar—The Indian Tariff Policy with special reference to Sugar Protection, p. 148.

APPENDIX VI.

(A) Recent Enquiries

1. **Sugar Industry**:—

We have dealt with the grant of protection to the sugar industry in 1932 in Chapter VIII. There we have mentioned the appointment of the Tariff Board to ascertain the amount of protection for the remaining period of protection. Here we will consider the recommendations of the Board and the decision of the Government on them.

Second Enquiry:—The Sugar Industry (Protection) Act of 1932, which extended protection to the industry for a period of fifteen years, required a statutory enquiry before 31st March 1938 to ascertain what degree of protection was needed by the industry for the remaining period of protection. The Tariff Board was entrusted with the enquiry under the resolution of the Government of India dated 27th March 1937.

Recommendations of the Board:—The Board submitted its Report as early as December 1937, but was released for publication after over a year and a quarter later.

In the Report the Board stated that the protection granted in 1931 had revolutionized the sugar industry in India. "From a country mainly dependent on imports of sugar, India has become the largest sugar producing country in the world with an output equal to, if not, in excess of its requirements."† It was held that the policy of protection had been successful beyond all expectations in increasing the internal production and reducing the imports of foreign sugar. The progress made in manufacturing efficiency made by the industry since 1930-31 was also considered by the Board as satisfactory.

For the purpose of deciding the extent of protection required by the industry for the remaining period of protection, the Board considered it necessary to take into account the fact that the internal production was in excess of consumption. The production of sugar in India from all processes in 1936-37 was 1,254,000 tons, *i.e.*, 53,000 tons in excess of the estimated consumption.‡ The Board further pointed out that there was

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* This Appendix is intended to bring up-to-date the account of Industrial Protection in India and to review certain important development since the thesis was submitted to the University of Bombay in December 1937.

† Report of the Indian Tariff Board on the Sugar Industry 1938, par. 13.

‡ *Ibid.*, p. 166.

no prospect for an export trade in sugar as India was debarred from exporting sugar by sea except to Burma under the International Sugar Convention,* and the export by land under the existing circumstances was impracticable. The Board held that the increase in the internal consumption would be inadequate to absorb the surplus production.

Under these circumstances an increase in imports was considered by the Board as being of most serious consequence for the industry.

Having thus established a case for protection, the Board proceeded to recommend the measures of protection. They estimated the fair selling price of Indian sugar at Rs. 7-12-0 per maund. Java Sugar could be landed at Rs. 2-7-0 per maund. So the Board concluded that the protection required was Rs. 5-5-0 per maund or Rs. 7-4-0 per cwt. for a period of eight years.†

The Board held that no special protection was necessary for the gur industry apart from the protection granted to sugar. They further made several recommendations which were intended to increase the efficiency of the industry.

Government Action:—The Government of India issued a resolution on the report on 30th March 1939. They held that the figures estimated by the Board for certain items, notably manufacturing costs and profit and for the adjustment of differences in quality were susceptible of reduction. It was further stated that the recent changes in the Indian industry itself had made the report out of date and it was not possible to fix the level of protection for the whole of the unexpired term without a further enquiry. The Government of India proposed, therefore, to fix the amount of protection for a period of two years from April 1st 1939 to March 31st 1941, pending a further inquiry to be held in 1940. For two years, the Government of India proposed to impose the present protective duty less 8 annas per cwt. A bill embodying the decision of the Government on sugar industry was introduced in the Central Legislative Assembly on the 31st March 1939. The Bill was passed by the Central Assembly on the 15th April 1939.

2. **Paper Industry**:—

The question of granting protection to the paper industry was firstly considered by the Tariff Board in 1924. The industry

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* Ref. Report of the Indian Tariff Board on the Sugar Industry, 1938, par. 10 and *see* Chap. VIII, pp. 203-204.

† *See* for detail—*Ibid.*, pars. 103-107.

was given further protection in 1932 for 7 years.* This protection was to expire on the 31st March 1939. In view of this, under the Government of India Resolution dated the 11th December 1937, the Tariff Board was asked to re-examine the question of the protection enjoyed by the paper and paper pulp industries in India and to report what protective measures (if any) should be continued after 31st March 1939.

Recommendations of the Board:—The Board's conclusion as to the availability of sufficient quantities of raw material for the industry was in agreement with that of the Tariff Boards of 1925 and 1931, that the supply of bamboo was adequate for both present and future requirements.† Thus the first condition laid down by the Fiscal Commission was fulfilled.

The Board further stated that with the assistance of protective duties Indian mills had gradually captured the greater part of the market for protected classes of writing and printing paper.‡

In the opinion of the Board the time " is not yet ripe for the withdrawal of protection to the industry."§ Although bamboo as a pulp making material had passed the experimental stage, it cannot be considered to have attained the stage of maturity. The Board further held that the withdrawal of the protective duty would be followed by serious consequences for established mills and still more serious one for new mills. Thus the withdrawal of protective duties at the present stage of development of the industry would be premature. The Board were of the opinion that this would arrest the progress of bamboo pulp manufacture and so defeat the object for which protection was first granted to the industry.

Protection for a period of seven years from April 1939 was recommended at the rate of 11 pies per pound, *i e*. 1 pie less than the old protective duty recommended by the Tariff Board of 1931. The continuance of protective duty on imported pulp was recommended at a rate of Rs. 35 per ton or 25 per cent. *ad valorem* whichever was higher.¶

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* *See* Chap. VIII for the First and the Second inquiry of the Tariff Board regarding the Paper Industry.

† Report of the Tariff Board on the Paper and Paper Pulp Industries, 1938, par. 26.

‡ *Ibid.*, par. 54.

§ *Ibid.*, par. 63.

¶ *Ibid.*, p. 76.

Government Action:—The Government of India in reviewing the Report of the Board held that the period of protection should be three years only, at the end of which the question of protection should again be referred to the Tariff Board. They further decided that the protective duty should be reduced from 11 pies per lb. to 9 pies per lb. and the duty on wood pulp should be 25 per cent. *ad valorem* only.

A Bill embodying the decision of the Government, was introduced in the Central Assembly on the 31st March 1939. It was considered by the Assembly on the 6th April 1939. The Bill was passed with three amendments. The first one converted the duty on wood pulp from a revenue to a protective duty, the second amendment fixed the duty on wood-pulp at 25 per cent. *ad valorem* or Rs. 35 per ton whichever is higher and the third amendment fixed the period of duty as up to March 31, 1942.

3. **Magnesium Chloride Industry**:—

The question of the grant of protection to the magnesium chloride industry was firstly considered by the Tariff Board in 1924. The industry failed to obtain protection at that time. The claim of the industry for protection was again considered by the Tariff Board in 1928. The industry was given protection until 31st March 1939.*

Third Enquiry:—As the period of protection afforded to the magnesium chloride industry under the Heavy Chemical Industry (Protection) Act, 1931, was to expire on the 31st March 1939, the Government of India referred the question whether any, and if so what, protective measures should be continued after the date to the Tariff Board on the 18th December 1937.

Recommendations of the Board:—The Board endorsed the conclusion of the Tariff Board of 1929 that a reasonable amount of protection to the industry was in the interest of the consumer. They further held that if protection were to be entirely withdrawn there would be the danger of the dumping of magnesium chloride from Japan or of a combination of continental producers which would kill Indian industry. If the Indian industry were to succumb to foreign competition, foreign producers would be in a position to raise prices considerably above the level prevailing in recent years.†

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* *See* Chap. IX for the First and the Second Enquiry of the Tariff Board regarding the Magnesium Chloride Industry.

† Report of the Tariff Board on Magnesium Chloride Industry, 1939, par. 15.

The Board further stated that the Pioneer Magnesia Works Company had made a progressive reduction in the cost of production at its main factory. It had also shown considerable enterprise in developing an export trade with the United Kingdom and other countries. They held that the industry would ultimately be able to stand without the aid of protection, provided measures were taken to prevent unfair competition from foreign countries in the way of dumping of magnesium chloride at unremunerative prices *

The Board recommended that the industry should be protected for a further period of seven years, but the amount of the duty should be reduced from Rs. 1-5-0 a cwt. to 15 annas per cwt †

Government Action:—The Government of India accepted the Board's recommendation in respect of the period of protection but held the rate of protective duty proposed by the Board to be unduly high. They decided to impose a protective duty of annas 12 per cwt.

A Bill embodying the decision of the Government was introduced in the Central Assembly on the 31st March 1939. It was passed by the Assembly on the 6th April 1939.

CRITICISM

The decision of the Government of India on the Reports of the Tariff Board on sugar, paper and magnesium chloride industries, has given rise to a storm of protest in the country. In the case of all these three industries, Government have differed from the recommendations of the Tariff Board. In each case the decision has been to reduce the level of protective duty recommended by the Tariff Board. The period of protection has also been curtailed by the Government. Moreover the delay in the consideration of the Tariff Board's reports and the policy whereby protection is being diminished and given for shorter periods are open to serious objection. If it is desired to protect an industry adequately, protection given should be for a sufficiently long period of time. The periodical inquiries at short interval are bound to cause uncertainty and even an apprehension in regard to the future course of protection to the industry. We highly disapprove of the policy of the Government to whittle down even such protection as is recommended after full deliberation by a Board appointed by themselves. This policy is all the less justifiable at the present juncture when there is a great enthusiasm in

* Report of the Tariff Board on Magnesium Chloride Industry, 1938, par. 16.
† *Ibid.*, par. 17.

the country for a forward policy of industrialization and industrial planning which has been advocated by the Indian National Congress. The recent action of the Government has further deepened popular distrust in " Discriminate Protection " and has given rise to a demand for unqualified protection to Indian industry

(B) Indo-British Trade Agreement

It was in March 1936 that the Indian Legislative Assembly denounced the Ottawa Pact and voted for its termination Negotiations were soon afterwards set on foot for a fresh trade agreement which, after protracted delays extending over a period of three years, have recently been completed.

The new Indo-British Trade Agreement, which is to be in force for three years, replaces the two agreements which have hitherto been in force, *viz.*, The Ottawa Trade Agreement, 1932 and The Supplementary Agreement, 1935, which have been already dealt with. (*See* Chapter X)

The Tariff Bill implementing the new agreement was considered by the Assembly on the 15th April 1939 The Assembly rejected the Agreement by fifty against thirty-seven votes, but it was approved by the Council of State and the Government of India have forthwith brought it into effect after getting the necessary legislation certified by the Governor-General.

As we are concerned here only with the protective aspects of the agreement, we shall consider the effect of the new agreement on the protected industries. Taking the Cotton Textile Industry, under the new agreement the protective import duties on British piece-goods have been reduced to 17½ per cent. ***ad valorem*** on printed textile goods, 15 per cent. ***ad valorem*** or 2 annas 7½ pies per lb . whichever is higher on grey textile goods and 15 per cent ***ad valorem*** on all others; these are to be the basic duties. India agrees to grant to the United Kingdom a minimum import quota of 350 million yards, to be secured if necessary by successive reductions of 2½ per cent. from the basic duties which, however, can be increased should the United Kingdom's export of piece-goods to India in any year exceed the maximum of 500 million yards. The basic duties will be raised or lowered according as the imports of Lancashire piece-goods exceed 500 million yards or fall short of 350 million yards. The unofficial advisers of the Government of India headed by Sir Purshotamdas Thakurdas were not willing to allow the United Kingdom a minimum import quota of more than 200 million yards rising to 400 million yards with a duty not lower than 20 per cent. on certain classes and 15 per cent. ***ad valorem*** on others.

Thus the main feature of the arrangement is the guarantee of a minimum and a maximum market for British cloth in India This guarantee is to be enforced by a reduction of the import duties as stated above If this reduction does not result in ensuring the stated minimum of British cloth, provision is made for a further reduction of the duty by 2½ per cent.

This guarantee arrangement has given rise to serious criticism in the country, especially in the case of a commodity which is being manufactured in India on a large scale and which is easy to manufacture in India The arrangement practically amounts to forcing the Indian consumer to consume a particular kind of foreign commodity Such an arrangement is unsound for an industrially growing country " The agreement as it stands at present is not in the interests of India "* The Indian Merchants' Chamber, Bombay considered it a matter of great regret that " Government, after having appointed unofficial advisers have chosen to shelve their advice and suggestions and drawn up a new Agreement with the British Government "

The high quota allotted to the United Kingdom in the Indian market would affect very prejudicially the cotton mills in India The Indian mills would be compelled to curtail their production severely The arrangement appears to be entirely against the interests of the Indian Cotton Textile Industry

Inspite of the severe criticism in the country and in the Assembly, the Indo-British Trade Agreement has been brought into force, after being certified by the Viceroy

In this connection we may mention the increase in the import duty on raw cotton from 1st March 1939 The duty has been doubled. Sir Purshotamdas Thakurdas in the course of his address to the Delhi meeting of the Federation of Indian Chambers, stated that the increase of the import duty on raw cotton, " amounted to giving an advantage of three to four per cent to Lancashire and loading the dice against India "

The new agreement coming in the wake of the doubling of import duty on cotton, will prove seriously detrimental to the interest of Indian Textile Industry, especially when the industry in Bombay was called upon to grant an increase in wages in accordance with the *interim* report of the Bombay Textile Labour Enquiry Committee The recent imposition of the 10 per cent Property Tax in Bombay and Ahmedabad in order to fill up the gap in provincial revenues caused by the policy of prohibition has to be reckoned with as constituting another handicap on the Cotton Textile Industry Having regard to all these new burdens there was no justification for the grant of special concession to Lancashire.

* Ref. The Article on the Indo-British Trade Pact by Dr V K R. U Rao.

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