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HISTORY

OF

INDIAN TARIFFS

THESIS APPROVED FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN THE UNIVERSITY OF LONDON.

BY

N. J. SHAH, B. A., Ph. D., (Econ.), London, F. S. S.

SIR RATAN TATA PROFESSOR OF INDIAN ECONOMICS,
THE HINDU UNIVERSITY, BENARES.

WITH A FOREWORD

BY

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FOREWORD.

The importance of research work in the different branches of learning is not fully appreciated in our country as yet. The reason seems to be that on the one hand there are not adequate facilities in this country either for doing research work or for publishing that which may be done, and, on the other, the number of people, who can take a real interest in such work and make use of it in the advancement of the country, is very limited.

Dr. N. J. Shah's thesis on "History of Indian Tariffs" promises to be an exception to the latter part of what is mentioned above. The subject is of great importance at present in view of the general interest in the question of the fiscal policy of the Government of India. Dr. Gregory of the University of London is of opinion that it is "a nearly first rate piece of research work which I think will be of permanent scientific value". For a person who cannot claim to judge this work from a scientific point of view, it will be certainly welcome as almost the first effort at giving a complete and authoritative account of the evolution of the fiscal policy of the British Government in India from the earliest times. It is more a history of the past than an expression of the author's opinions on the present problem, on which diametrically opposite views are held by the two commercial communities in India. I have no doubt that the public and especially the members of the Legislatures, Central and Provincial, will appreciate this work.

The Committee of Shri Mahavira Jaina Vidyalaya, Bombay, are to be congratulated on having made such a good selection as that of Dr. Shah to one of their scholarships, and the gentlemen who have rendered help to publish this work will soon have the satisfaction of seeing

the fruit thereof. But for this help, the facts and figures on this important question which are to be had in such an authoritative form would not have been available to the Indian public at such an opportune time.

Malabar Castle,
Malabar Hill,
BOMBAY, 18*th Dec.* 1924.

PURSHOTAMDAS THAKURDAS.

PREFACE.

This book is the result of the Research work done by me on the subject under the guidance of Dr. T. E. Gregory D. Sc. (Econ.) at the London School of Economics and Political Science during 1921—23 for the Ph. D. Degree of the London University in the faculty of Economics. The work has been based mainly upon the original and authoritative sources of information, such as, Official Publications of the Government of India, Parliamentary Papers and Government Records, which I could freely consult at the India Office Record Department. The standard authorities on general matters of the subject under consideration have also been freely made use of in the work. The correspondence between the Governments in India and the Home Government and some Reports, relating to the subject during the period before 1813, are unpublished. Some gaps were found even in the chronological links of the published material. By the courtesy of the head of the India Office Record Department, I was permitted to go through this manuscript material, whenever necessary.

The difficulty was not the paucity or the inaccessibility of the material to work upon but the necessity of selection. The marshalling of facts, arguments, evidence etc. in the general plan of the book has led to certain amount of unavoidable repetition. Digressions at some places are, I think, quite excusable in view of the impossibility of avoiding reference to matters of general or Indian Economic History while writing a Tariff History of India, since both are so closely related to each other. No apology is necessary for giving long but important extracts from the original Correspondence, Evidence and authoritative criticism on the subject. Lastly I solicit the indulgence on the part of the readers for the mistakes of misprints that may have been overlooked, inspite of all precautions.

I am indebted to Dr. Gregory for valuable suggestions and guidance on matters of general principles and for the constant and encouraging interest he took in my work. My special thanks are due to the Hon. Sir Purshotamdas Thakurdas for the Foreword which he kindly consented to write for this book and also for the encouraging interest he took in the publication of this book. I am also thankful to my friend, L. C. Robbins, who kindly read through the whole book in manuscript, made some corrections and helped me by critical discussion at several points. I must express here my acknowledgments to the officials from the top to the bottom in the India Office Record Department, where I usually worked, for the readiness with which they allowed me free access to all the Government Records and Publications and supplied me with necessary material and other facilities.

I am much obliged to the authorities of Shri Mahavira Jaina Vidyalaya (Bombay) who, owing to the help of some philanthropic gentlemen, have found it possible to publish my book—the first fruit of a student of that Institution. It is only because of this that my book sees the light much earlier than it would have been otherwise possible. This grateful acknowledgment of mine will be greatly appreciated by those who are aware of or have experienced the serious difficulties of "getting a book out," in the absence of enterprising professional publishers in India where this business has not yet developed to any appreciable extent.

DEPARTMENT OF ECONOMICS,
THE HINDU UNIVERSITY.
Benares, January 1924.

N. J. SHAH.

ABBREVIATIONS.

C. of D.	=	Court of Directors.
F. S.	=	Financial Statements.
H. of C.	=	House of Commons.
H. of L.	=	House of Lords.
S. of S.	=	Secretary of State.
P. P.	=	Parliamentary Paper.
C. or Cd. or Cmd.	=	Command Paper.

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INTRODUCTION.

Various considerations make the historical study of the Indian Tariff very interesting. Besides its economic importance, it supplies a clue to the constitutional development of the country; for Fiscal Autonomy is the essential step in the grant of Self-Government to the Dependencies—Fiscal Autonomy and Self-Government are almost identical terms. The determination of the future fiscal policy is a burning question in India. India is on the eve of a definite and important change in her traditional tariff policy, which will finally mark the termination of the long old period during which British interests predominated, and which will usher in a new era with high hopes and momentous consequences. The grant of domestic fiscal autonomy and the appointment, for the first time, of an Indian Fiscal Commission (1921-22) for the revision of the time-honoured tariff policy of India, according to Indian interests, have already opened new chapters in it. It is, therefore, necessary to take stock of the past before a new venture is entered upon.

Some so-called practical people may shun such an idea ; but it must not be forgotten that the past explains the present and guides the future. This work is an attempt to provide a full, continuous and, so far as possible, non-partisan history of the development of tariff policy in India and of the forces, political and economic, that have determined its course. The plan, as originally intended, was to include within the scope of this work, not only the historical survey of the Indian tariff policy but also the consideration of present problems, such as, Free Trade versus Protection and Imperial Preference, in the light of Indian conditions and of the financial and industrial needs of the country. But having entered upon the work, I realised that inadequate attention had been paid to the historical aspect of the subject and also that the mere enumeration and description of historical changes would constitute somewhat unintelligible reading, unless supplemented by constructive criticism. I, therefore ultimately decided to confine myself in this volume to a critical survey of the whole historical ground of the subject, leaving the question of the future fiscal policy for a later attempt.

No systematic and complete study of the history of Indian tariff exists. Short attempts* have been made to study the subject at different times and from different points of view; but some of them are incomplete, some are inaccurate and one-sided, and some are superficial. Consequently,

* The most important of them are as follows :—
(*a*) "Economic History of India" by Dutt.
(*b*) "Trade Relations between England and India" by Hamilton.
(*c*) "Our Fiscal Policy" by C. N. Vakil.
(*d*) "Fiscal Policy in India" by P. N. Banerjea.

exaggerated and divergent views have been expressed on the subject. There is, therefore, room and also need for a full and exhaustive study of the history of the Indian tariff policy, not only for its own intrinsic value but also for the light that it would throw on various controversial points connected with it. It is hoped that this book will meet such a necessity.

It is unnecessary to summarise here the net results of this historical survey. The conclusions that have been arrived at from this investigation have been fully set out at the end of every chapter. Those who think it unnecessary or are disinclined to go through details are well-advised to depend, for a general knowledge of the subject, upon the concluding paragraphs of every chapter. The general plan of the book, however, requires some explanation. The subject has been classified into periods according to the problems which dominated them.

As a necessary introduction to the British Period, the first chapter deals with the native customs system, especially under the Mogul Rule. Therein I have shown that customs duties at the ports did not exceed 5% *ad valorem*, and that there was also an elaborate system of inland transit duties which obstructed the trade of India—an evil which was immensely intensified by the dissolution of the Mogul Empire. It was from the *debris* of this system that the British Government built up a new customs system for British India. The second chapter, therefore, which deals with the period between 1765 and 1833, describes the British attempts at fiscal reconstruction on provincial basis. The new inland duty systems which the British evolved during this period, though representing a considerable improvement upon the chaotic conditions of the last period, were not less oppressive to the trade and industry of the people, and in certain respects were worse than the native system. Moreover, in pursuance of the British national policy a strong preference was given to British interests in India as against foreign and Indian interests by means of a complicated system of differential duties. By the middle of the 19th century Great Britain adopted a free trade policy. Accordingly, during the period between 1833 and 1857, dealt with in the third chapter, many of the most pressing reforms on similar lines had been introduced in the customs system of India. As a result there was established at the end of the period a low, simple and uniform tariff system for the whole of India. The fourth chapter sets out at length the forces—political and economic—that determined the course of the tariff history of India from 1765 to 1857, examines the utility of the actual policy that was practised and suggests a better alternative which the Government should have and could have adopted in the circumstances then existing.

Incidentally the fourth chapter will elucidate a controversial point connected with the early history of the tariff policy. On one hand, Dutt whose writings on the subject of Indian Economic History have profoundly influenced educated Indian public opinion, contends that the decline of Indian manufactures and specially the textiles, early in the 19th century was due to the selfish commercial policy of the British Parliament, which discouraged them in order to encourage similar rising manufactures of Great Britain and that the invention of the mechanical methods of production in the West, only completed this decline (Economic History of India, Vol. I. p. VIII). On the other hand Prof. C. J. Hamilton maintains that it must be explained by reference to the Industrial Revolution in Europe and not to the hostile devices of the British commercial policy, which, he thinks, did not play any important part in determining the outcome ("Trade Relations between England and India"—pp. V, VI). Both these views are one-sided and inaccurate interpretations of history. The truth lies midway between the two.

A dispassionate study of the following facts, elaborated in Chapter IV, will clear up the whole point. The foreign trade of India was regulated for the benefit of Great Britain and to the detriment of both foreign and home interests. British imports into India were either free or only nominally taxed. The staple products and manufactures of the country were heavily taxed in the home market with oppressive inland duties. Their exports to foreign countries were obstructed by heavy differential duties. Their imports into Great Britain were either heavily taxed or positively prohibited. Since the beginning of the 19th century, the Industrial Revolution in the West had menaced the flourishing state of Indian manufactures. But for many years their decline was accelerated by the unequal competition under the British Fiscal Laws, until they were finally replaced by British manufactures in both their foreign and domestic markets. These restrictions were removed too late and only when they ceased to be necessary for the original purposes. When by 1830 this process of replacement was nearly complete, the British Government gradually developed a policy in India, the main characteristics of which were:—(1) *Laissez faire* in all manufacturing industries, (2) the systematic encouragement of commercial colonisation in India and capitalistic exploitation of Indian resources by Europeans, and especially the British, and(3) the intense desire to increase continuously British Trade with India, which practically meant the exchange of Indian raw materials and food stuffs with British manufactured goods. Internally, the basis on which the whole policy was built up consisted of a wide-spread agricultural policy of improved cultivation, extension of irrigation, and improved means

of communication, in an atmosphere of general peace and order in the country. The Industrial Revolution in Europe was thus the natural cause of the early industrial decline in India. Instead of attempting to revive the old Indian manufactures or start new ones, on improved lines, under the fostering care of the State and thus remedying the evil, as done by other countries under similar circumstances, the hostile devices of the British commercial policy discouraged them and thus intensified the evil. The policy of the British Government, on whom India had become dependent, is thus responsible for what it did to the disadvantage of Indian manufactures and for what it omitted to do for them.

During the second half of the 19th century Free Trade had become the established policy of the British Parliament; and the policy which was accepted as desirable for England was also inconsiderately applied to India, because a huge market would thereby be kept open to British manufactures which were then strong enough to defy any foreign competition. Accordingly in the fifth, sixth, and seventh chapters which cover the period between 1857 and 1896 it will be noticed that, with the main object of encouraging the interests of British trade and industries, the principles of free trade were practised in India, with the utmost rigour, irrespective of all financial and industrial needs of the country, often against the strong and continuous protests of the Government of India and always against an unanimous public opinion. "Ireland and India" said Dr. Cunningham, "have been forced under compulsion to submit to Free Trade without being consulted and for the sake of English interests." ("Case against Free Trade" p. 87).

In the fifth chapter (1857-1874) only certain of the tendencies towards such a policy will be noticed. The policy reached its climax in the next period (1874-1896), treated in chapters VI and VII, which fully describe and discuss, from all points of view, the so-called "Cotton Duties Controversy" and which, it is hoped, will enable readers to form a correct judgment about the issues involved therein. Moreover, in these three chapters, the whole policy, its objects and the measures taken thereunder have been examined at length on financial and commercial grounds and in the light of some authoritative opinions on the subject; and the forces that were responsible for it have also been clearly explained and fully illustrated.

The eighth chapter has been devoted to the tariff changes between 1896 and 1922. By the end of the 19th century strong foreign competition created a reaction against Free Trade in England. In India it will be noticed that free trade principles, so rigidly enforced during the last period, were, at times, during this period, set aside when British or Imperial interests were thereby served against foreign. Otherwise, the old policy of rigid

free trade continued, until 1914. The financial stress of the war and its after-effects caused large increases in the low pre-war tariff of India. During this period, Imperial Preference became a subject of serious discussion and the Indian movements for a Protective Tariff and Fiscal Autonomy greatly developed. This chapter will also acquaint the reader with the present state of affairs.

In the ninth chapter, the subject of the freedom of internal trade both in British India and Native States, that is, the subject of "Customs Union" has been treated historically; the British policy, its objects and methods, and the existing arrangements have been stated; and the problems—constitutional and economic,—which will require attention in the future, have been introduced and briefly discussed. The existence of the numerous Native States in India is a constitutional and economic phenomenon of unparalleled importance and interest; yet, all the treatises on the subject of the Indian customs system have altogether neglected this question.

The last chapter deals with the constitutional question of fiscal autonomy. Therein, the story of the fiscal dependence of India in the past and the Indian movement for fiscal freedom has been narrated, and the recent constitutional change, *viz*: the grant of a measure of fiscal independence to India has been discussed in all its aspects, pointing out its present deficiencies and the possibilities of the future.

Apart from its historical interest, the Indian tariff has attained in recent years an unprecedented importance in the eyes of the Government. In the past, "Customs Revenue" was deliberately relegated to an insignificant position in the financial system of India, while the recurring financial stringency of the Government of India led to some inexpedient and oppressive methods for raising additional revenue. But the financial burden of the War and the post-war financial embarrassments of the Government introduced great changes in the old tariff of India. With the phenomenal increase in the foreign trade of India and with the recent enhancements in the tariff, "Customs Revenue" rose to a place of first rate importance in the Indian Budget. The present tariff, though imposed for purely revenue purposes, is not entirely free from protective effects. The existing state of affairs may be said to mark the transition from the old free trade policy to a policy of protection. In any case, there is no hope for a large scale reduction in the tariff, that is in force, in the near future. With the increasing financial necessities of the country, with Land Revenue having ceased to be a source of income to the Central Treasury, since the recent constitutional change, and with the future certainty of the discontinuance of the Provincial contributions to the Central Exchequer, the

Government of India will be compelled to place increasing reliance on "Customs Revenue" as the mainstay of Indian Finance.

From the point of view of the public, the fundamental importance of the subject lies in their growing desire to use the tariff as an instrument for the industrial progress of the country. The growth of Nationalism, the long-felt need for intense industrialisation, the distrust in the efficacy of the tariff policy actually followed by the Government, and the example of other advanced countries have given rise to a wide-spread public opinion in favour of tariff protection to Indian industries. Whether Indian industries should be protected by customs duties is a question which has been excluded from the scope of this historical study. In any case, one thing is certain that there should not remain even a shadow of doubt as to the practical freedom of India, as of the other British Dominions, to determine her own future tariff policy. Let her commit mistakes if she so chooses. Because of the past history and associations of the subject, British interference will be strongly resented, and British advice may be misunderstood. On the other hand, with the grant of a measure of fiscal independence to India, Great Britain expects that in the interests of economic unity and solidarity of the Empire the future Indian tariff system should adopt the principle of Imperial Preference. Thus the present problems of the Indian Tariff are (1) the financial needs of the Indian Treasury, (2) Protection to Indian Industries, and (3) Imperial Preference.

The need of revising the fiscal policy of India for the purposes both of revenue and protection to home industries had long been felt in India. The public demand for it was as strong and wide-spread as it was persistent and pressing. This continuous and insistent demand had its root in the growing desire for the intense industrial development of India. In 1916, in response to the unanimous Indian opinion for the State encouragement of Indian industries, the Government appointed a Commission to investigate the suitable and adequate measures for that purpose. But the consideration of the future fiscal policy was, for Imperial reasons, excluded from the scope of the inquiry. The authors of the Report on Indian Constitutional Reforms strongly emphasised the need of hastening the Industrial development of India and recommended the Government of India to abandon their time-honoured *Laissez faire* policy in favour of an active encouragement. The Reformed Constitution recognised and appreciated the educated Indian opinion on the subject and granted some freedom of action to the Government of India in determining their own fiscal policy.

Accordingly, on 19th Feb. 1920 the Government of India appointed a Committee* "To examine the trade statistics and to consider and report

* Proceedings of the Council, 19th Feb. 1920, pp. 785-798.

to the Governor-General-in-Council (1) whether or not it is advisable to apply to the Indian Customs Tariff a system of preference in favour of goods of Empire origin and (2) as to the best methods of considering the future fiscal policy of India." With some provisional suggestions, the Committee recommended the appointment of a strong and representative Commission to examine the whole question of the future fiscal policy of India.*

Consequently, in 1921 the Government of India announced the appointment of a Fiscal Commission with powers "to 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 recommendation."

The Report of the Commission, which was published in 1922, recommended, with other supplementary measures, a policy of Protection to be applied with discrimination on the lines suggested therein. The minority in the Commission who signed the Report, subject to a minute of dissent, considered that the principal recommendation of the majority "has been hedged in by conditions and provisos which are calculated to impair its utility" and that "the language employed in the Report is half hearted and apologitic." They, therefore, recommended that "there should be an unqualified pronouncement that the fiscal policy best suited for India is protection."

The Report of the Indian Fiscal Commission was considered by the Indian Legislature in 1923. On 16th Feb. 1923, in a resolution which was accepted by the Assembly after a good deal of discussion, the Government of India declared, as their future tariff policy, that they accepted "in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India," that this principle of protection must be applied with discrimination and proper safeguards and with due regard to the financial needs of the country and to the general well-being of the Community, and that in order to give effect to this policy a Tariff Board would be provided as a purely advisory and investigating body. Except for this change of principle, no alteration has been made by the Budget of 1923 in the actual tariff.

With the appointment of the Indian Fiscal Commission, we reach a convenient point for bringing a historical study of the Indian Tariff to a close. A critical study of the Report of the Commission raises problems regarding the future fiscal policy of India, which should properly be excluded from the scope of this work.

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* Supplement to the Gazette of India April 17, 1920. C. 907.

HISTORY OF INDIAN TARIFFS.

CHAPTER I.

CUSTOMS SYSTEM OF THE PRE-BRITISH PERIOD.

The year 1765 witnessed the grant of Diwani* in Bengal, Behar and Orissa by the Mogul Emperor to the East India Company. Since then the power which formerly belonged to the Governor of these provinces was in fact totally vested in the East India Company. Nothing remained to him except the name and shadow of authority. The important point which specially deserves notice here is the right, which was conferred on the Company, of imposing duties on all articles of merchandise imported into or exported from these provinces. In the same year the Mogul Emperor ceded to the Company the Northern Circars without any payment in return. The Company was thus endowed with considerable territorial possessions in the province of Madras with full powers of sovereignty over them. The year 1765, therefore, found the Company assuming the rights and responsibilities connected with the fiscal policy of British India at the time. Consequently, the task of organising a new working customs system from the then existing customs fell upon the British administrators.

* Under the Mahomedan Governments the word Diwan meant "the head financial Minister, whether of the State or of a province, charged in the latter with the collection of the revenue, the remittance of it, to the Imperial treasury, and invested with extensive judicial powers in all civil and financial causes". (Wilson). It was in this sense that the grant of this right called Diwani to the E. I. Company in 1765 became the foundation of the British Empire in India. (Hobson-Jobson Glossary of Anglo-Indian words, p. 309).

In order clearly to understand the customs system at the period when the East India Company began its rule and its subsequent development, it will not be a waste of time if we begin with a brief summary of customs and transit dues of the period under the Mogul Rule and later, down to 1765.

Sea Customs.

For this purpose we may select the period from Akbar to Aurangzeb (1556-1707) which has been considered by historians to be quite a normal period, chiefly characterised by the attempts at consolidation and reforms. The attitude of the Mogul Emperors was generally favourable to foreign trade. Many of the imports which were arbitrary, troublesome and vexatious were reduced or remitted by Akbar. "His Majesty Akbar, from the excess of his beneficence had remitted duties in this department that equalled the revenues of a kingdom. Nothing is now exacted upon exports and imports except a trifle taken at the ports which never exceeded two and a half per cent and this demand is so inconsiderable that the merchants account this reduction a perfect remission."*

In the reign of Jahangir, by an agreement with the local governor, the English got a settlement at Surat and by an Imperial Firman (order) from the Mogul Emperor in 1613 they got the freedom of trade at the port. The English goods were to pay a duty of 3½† per cent. In 1616 the Embassy‡ of Sir Thomas Roe got the old Firman reaffirmed with certain additional privileges for all the dominions belonging to Jahangir. The rate of duty was 3½ per cent. In 1649 a new charter was given to the

* Gladwin's "Ain-i-Akbari", Vol. I, p. 233. (Edition of 1800.)

† General duty at ports seems to be 2½ per cent in the reign of Jehangir, cf. Elliot's History of India, Vol. VI, pp. 354, 494.

‡ "Embassy of Sir T. Roe" by W. Foster, Vol. II, pp. 557-561.

East India Company by Shah Jahan by which the English goods had to pay 2* per cent. on the prime cost or sale value of the goods at the place of importation. This duty was later increased to 3½ per cent. by Aurangzeb, but after the attack on Surat by Shivaji it was permanently reduced to 2 per cent. in 1667 in return for the services of the English at the time.† At this time, owing to Aurangazeb's religious fanaticism, the commercial goods of the Mahomedans were free from customs duty at ports. But afterwards some dishonesty having been found on their part, it was promulgated ‡ by the Emperor that they should pay 2½ per cent., while the Hindu merchants should pay 5§ per cent, Thus the position in relation to customs just after the death of Aurangzeb stood as follows :—

(1) The English||—the duty from the English was commuted to Rs. 10,000 as yearly payment and no other imposts.

(2) The Dutch, ,, French, ,, Portuguese } 2½ per cent plus 6 annas discount per Rs. 100.

(3) The Mahomedans—2½ per cent., plus all other imposts (transit duties, etc.)

(4) ,, Armenians.—3½ per cent. do.

(5) ,, Hindus.—5 per cent. do.

This little summary is quite sufficient to give a general idea of the sea-customs of the period under review and to show that the customs duties were distinctly moderate.

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* Macgregor "Commercial Tariffs" India, p. 56.

† Bruce's Annals, Vol. II, p. 216.

‡ "History of India as told by its own Historians", by H. M. Elliot, Vol. VII, p. 293.

§ "Tavernier's Travels in India", Vol. I, p. 8. His travels extended over a large part of the 17th century. "Private individuals pay as much as 4 per cent. and 5 per cent. duty on all their goods but as for the English Company and the Dutch Company they pay less."

|| India Office Factory Records Miscellaneous. Vol. 10, Documents.

Transit Duties.

The method of raising revenue by transit duties and tolls formed part of the revenue system in India from ancient times * and was transmitted from age to age. It was even recognised by the Codes of Manu and of other great law givers of India. Transit duties were constantly levied by the Hindu kings and were accepted as a tax under the Mahomedan administration. As it will be seen later on, this tax was continued in different form as a part of the Indian tax system till the middle of the 19th century and in Native States even up to the last quarter of the 19th century.

In the Mogul period, besides the land tax, there were other sources of revenue, such as, customs, transit duties, house fees, market tax and a variety of other such taxes, which were generally from their nature burdensome and vexatious. " In every country such demands are troublesome and vexatious to the people. His Majesty (Akbar) in his wise statesmanship and benevolence of rule, carefully examined the subject and abolished all arbitrary taxation, disapproving that these oppressions should become established by custom."† Many such imposts amounting to a big sum were remitted by Akbar.‡

Jehangir in the first year of his reign established twelve ordinances to be observed as the common rule of practice throughout his empire, one of which was the

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* Mill's History of British India, Vol. I, p. 171.

† Jerret's Ain-i-Akbar, Vol. II, p. 58.

‡ Imposts on manufacture of reputable kinds are called Jihatzakat (customs) and the remainder (sair jihat) commonly called "sayer" (miscellaneous).

"In its original purport, the word (sayer) signifies moving, walking, or the remainder; from the latter it came to denote the remaining or all other sources of revenue in addition to the land tax, from a variety of imposts, as customs, transit dues, house fees, market etc. in which sense it is current throughout India." (Jerret's Ain-i-Akbar, Vol. II, p. 58). "All those imposts which the native of Hindostan include under the term (sair jihat) were remitted". Ibid, p. 67.

prohibition of cesses (zakat). "I forbade the levy of duties.....which the jagirdars (grantees) of every suba (province) and sarkar (district) had been in the habit of exacting for their own benefit." * This ordinance reveals the fact that the prohibition order of Akbar had not been completely carried out in actual practice. The local officers habitually appropriated the revenue for themselves; hence the necessity of issuing another order. Such actions of the Emperors show that they were at any rate alive to the natural evils of such imposts and the abuses arising out of their mismanagement. Nobody can doubt their anxiety to relieve the people even at the sacrifice of a large sum of revenue. Aurangzeb, for example, finding that there was a famine in his dominions issued strict orders for the remission of many such imposts throughout his Empire.†

It is interesting to note some of the reasons why these Imperial orders, from the time of Akbar to that of Aurangzeb (1556-1707), were not actually carried out. The failure is proved by the fact they had to be repeated at different times and by different Emperors. They might have produced temporary effects; but their permanence was by no means secured. Commenting upon the ordinance of Jehangir, Sir H. M. Elliot says :—"This cast an ungenerous reflection on the administration of his father who had been equally stringent in his prohibitions," ‡ while in the footnote it is remarked by Prof. Dowson, who edited the book:—"These perpetual repetitions of the same edicts show either the very weak authority of the original promulgators or the vainglory of their descendants in assuming to themselves credit to which they were not entitled." The remark of the editor requires further explanation, while the latter part of it is unwarranted.

* Elliot's History of India, Vol. VI, p. 284.

† Ibid Vol. VII, pp. 246-247.

‡ Ibid. Vol. VI, p. 493.

Having regard to their benevolent motives and the circumstances in which theseprohibitions and remissions were ordered, one cannot say that it was their sense of vainglory that induced the Emperors to do so. The fact that the orders had to be repeated by successive Emperors is capable of more plausible explanation. In the absence of a statutory duration to these prohibitions, it is possible that they may not have been meant for more than a temporary* period; or if they were meant to have a permanent duration their failure must be due to administrative weakness. But even if the orders were intended to be temporary, they may not have been rigidly and uniformly carried out. In any case the transit duties continued to be charged by local customs officers and collectors on the spot.†

Such a state of affairs was due to the weakness of the central authority. The degree of obedience to the Imperial Firmans (orders) depended upon the extent to which the Imperial authority could make its will effective upon the provincial governors. The Mogul Empire was divided for administrative purposes into provinces whose number varied under different Emperors. Each one of them was in the charge of a Collector called *Suba* invested with all civil and military authority. Side by side with the outward expansion of the Empire caused by new annexations, attempts were made to consolidate and develop administration in the old provinces by bringing them more under control of the central authority.‡. Efforts were also made to centralise and systematise

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* cf. Moreland's "India and the Death of Akbar", p. 49.

† Prof. J. N. Sarkar. "Several of these (cesses) had been abolished by Firuz Shah Taghlaq as early as the 14th century and by Akbar about a hundred years before Aurangazeb, but they had evidently been re-imposed by later rulers or had crept in through the illegal greed of the revenue underlings and local officials and landlords". "History of Aurangazeb," Vol. III., p. 90.

‡ Prof. J. N. Sarkar "India of Aurangazeb", Chap. II, pp. xxv-xxvii.

the administration by making subdivision of the territories more minutely developed. The chief characteristic of the organisation of the Mogul Empire was the relation between the collection of revenue and provision of troops to the central army. These two functions were entrusted to all provincial and district officers, who were of two types: salaried officers, and jageerdars (grantees) who paid only a fixed sum, appropriated the rest of the revenue for their own benefit and provided a force to the Imperial authority. Lands were often granted to highest bidders or favourites or nobles of the Court. So long as the grantees sent regularly their shares of revenues and force to the central authority, they were practically free to collect whatever amount they liked in their territories. The weakness of the Imperial government must have therefore afforded an opportunity for heavy exactions.* Imperial orders were applicable to every province and were expected, as far as humanly possible, to be habitually and uniformly carried out. The Imperial army, however, was the only instrument of enforcing obedience. It was thus in theory a national system equally applicable to all provinces; but in practice it depended upon how far the Emperor's command was faithfully obeyed. In form the Empire was consolidated; in practice the difficulties that stood in the way of uniformity were: absence of voluntary loyalty on the part of the provincial governors, the vast extent of the Empire, and difficulties in quick transport and communication. As a result, the governors in distant places were virtually independent and asserted their independence whenever they got an opportunity. As the policy laid down by the Imperial orders was intended to be uniform throughout the Empire, so also it would appear, from the point of view of customs, that the whole Empire was considered to be one economic unit and that the tariff policy—if it can

* Moreland, "India at the death of Akbar", pp. 31-32.

be called a policy at all—was homogenous. But actually it depended upon the power of the central authority to command general obedience. As Mr. Vincent Smith* says: "The benevolent intentions of the autocrat were commonly defeated by distant governors enjoying practical independence during their term of office."†

Thus we see that in India in mediaeval times, as in all other countries, transit duties were recognised as a part of the method of raising revenue, that whenever anything vexatious and oppressive in their incidence was seriously brought to the notice of the Emperors, they were reduced or remitted and that sometimes in the remote districts orders were not strictly and uniformly carried out. Having regard to this last circumstance, it is not improbable that the authorised scales of sea customs and regulations for transit duties were sometimes not of much help to merchants who in practice depended upon the discretion of local customs officers.‡ In some cases illegal and arbitrary exactions must have taken place. Accounts of travellers such as Tavernier and Niccolao Manucci testify to this. Even under strong administration transit duties prove a burden upon trade, while under an administration having few effective

* "Akbar, the Great Mogul", p. 377.

† A contemporary Mahomedan Historian called Kafi Khan writing on the subject of remission of taxes by Aurangazeb remarked: "But although his generous and beneficent majesty in 1659 remitted these taxes and issued strict orders prohibiting their collection, the avaricious propensities of the men prevailed so that with the exception of the Pandari, which being mostly obtained from the Capital and chief cities felt the force of the abolition, the royal prohibitions had no effect, and faujdars (district officers) and jageerdars (grantees) in remote places did not withhold their hands from those exactions, firstly because throughout the Imperial dominions in the reign of Aurangazeb no fear or dread of punishment remained in the hearts of the jageerdars (grantees), faujdars (district officers) and zamindars (land-holders); secondly, because the revenue officers, through inattention or want of consideration or with an eye to profit contrary to what was intended" prepared fraudulent accounts. "So the regulations for the abolition of most of the imposts had no effect". Elliot's History, Vol. VII pp. 247 & 248.

‡ cf. Moreland's "India at the death of Akbar," p. 48.

means of commanding general obedience to its will, they certainly afford an opportunity for various acts of petty tyranny and extortion on the part of those who actually collect them.

Things became worse, however, just about the death of Aurangazeb (1707). In 1707 he returned defeated, exhausted, disgusted and disgraced from his Deccan Wars and died leaving after him a scene of quarrels, disorganisation and dissensions. The Imperial authority now relaxed greatly. The powers of provincial governors and local officers had been developing fast—a tendency which was greatly aggravated by the lack of quick transport facilities. The management of customs* became worse day by day. Local officers, jageerdars (grantees) zamindars

* The conditions of customs that existed at this time are well described in the following quotations—one from the contemporary Mahomedan Historian and another from an English Governor.

Thus Khafi Khan:—"The Rahdari (road cess) in particular is considered by righteous and just men as a most vexatious impost and oppressive to travellers, but a large sum is raised by it. In most parts of the Imperial territory the faujdars, jageerdars by force and tyranny now exact more than ever from the traders and poor necessitous travellers. The zamindars also seeing that no enquiries are made extort more on roads within their boundaries than is collected on roads under royal officers. By degrees matters have come to such a pass that between the time of leaving the factory or port and reaching their destination goods and merchandise pay double their cost price in tolls. Through the villainy and oppression of the tax-collectors and the zamindars the property, the honour, and the lives of thousands of travellers and peaceful wayfarers are frittered away." Elliot's "History of India". Vol. VII. p. 248.

And describing the situation at the time Governor Thomas Pitt in his letter of complaints dated 5th January 1708 to the Mogul Government at Delhi says:—

"I must also acquaint you that notwithstanding the royal grants above mentioned, we have met with there of late years great abuses and obstructions to our trade more particularly as to our goods. Every little Government having created all along rivers chowky (toll houses) who extort custom and what they please and will pay no reverence to the royal authority.....Then at Surat the merchant is unhappy, that trades to that port, and this I write from experience.....No better as to their goods where by the King's order they pay 3½ per cent. according to the value of the goods which they generally rate 50 per cent or double the worth in the bazar and accordingly make up the custom." Home Miscellaneous, Vol. 69. app. p. 4.

(land-holders) to whom various local taxes on traders and manufacturers were farmed, usurped the power of collecting many more duties.

It is quite obvious that under the relaxation of administration, multifarious acts of tyranny and bribery and heavy burden on the inland and transit trade of the country must have been the inevitable results. Hence it is that the freedom from transit duties and from the vexatious interference of the local officers became a matter of greater importance to foreign nations than the slight preference which they could get by way of lower duties at ports. We have seen that they enjoyed preferential treatment in matters of sea customs. They were also exempted from transit duties and were given all other trade facilities. But the privileges given to them were to a certain extent neutralised by payments in other forms and by the illegal exactions of the local customs officers.*

The reasons why the Mogul Emperors accorded to foreign nations such favourable commercial treatment in comparison to native merchants† seem to have been their desire to encourage the foreign trade of India in order to stimulate the export trade in native manufactures and to get in return the precious metals, precious stones, metals, horses and some articles of luxury‡ and their desire to get help from the European nations like the Dutch and the English against Portuguese aggression § and defend the coastal trade against certain European piracies.

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* Tavernier's Travels in India, Vol. I, page 8. Edited by V. Ball. "But I believe that taking into account what it costs them (foreign nations) in deputations and in presents which they are obliged to make every year at the Court, the goods cost them scarcely less than they do private persons."

† Who were subject to both greater sea customs and transit duties.

‡ cf. Moreland. p. 197.

§ First privilege of freedom of trade given to the English company by the local Governor at Surat in 1613 illustrates the remarks.

So long as the Imperial Government had some effective power and authority, they kept a watchful eye upon the activities of the foreign nations to whom trade privileges were accorded. Whenever the interests of the country were seriously injured by these privileges remedial measures were promptly taken. Illustrations for this are to be found in Aurangazeb's dealings with the East India Company. But later on after the break-up of the Mogul Empire, under the weak and practically nominal authority which remained, such privileges, even if prejudicial to the interests of the country, were considered as inviolable and sacrosant rights by the East India Company*; and its servants tried to reserve them exclusively for themselves even against native merchants†

But the whole of India was not under the direct control of the Mogul Emperors. Practically the whole of the Deccan area was governed by numerous independent Mahomedan and Hindu princes and feudal Chiefs. The European trading companies had to deal with them quite separately. The condition of the customs duties

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* Trevelyan's Report, pp. 1, 159. Also Select Committee 1773, 3rd Report, p. 314; Select Committee 1783, 9th Report, p. 24.

† In Bengal, Behar, and Orissa the East India Company obtained exemption from transit duties by the Great Charter of the Emperor Furrukshyar in 1717. For a long time after 1717 it was the primary object of the Company to protect that right and even to keep it as a monopoly to itself and if possible to extend it to its private servants for inland trade. This the servants of the Compnay were successful in asserting and maintaining by force when the Company became more powerful in their political connection with the Nabob of Bengal. They began to enrich themselves under the exemption granted to the Company by indulging in the inland trade of the country without the payment of customs, transit duties and such other charges to which the native merchants were still liable. When this forcible assertion of the right became almost intolerable, the Nabob of Bengal took the wise step for the internal trade and the only possible step in the circumstances in abolishing transit duties altogether, putting the English and the native merchants on the footing of equality. This loss of preference over the native merchants among other causes brought the Company and its servants into collision and war with the Nabob. He was defeated and deposed and another was set up in his place, when in the treaty entered into with him it was stipulated that the transit duties should be levied on all except the English merchants.

here was even worse. Goods were subject to frequent and exorbitant charges of various kinds. But here also, as in the case of the Mogul Empire, the Dutch and the English, by their policy of friendship and good-will, obtained from the Native* Rulers commercial privileges upon payment of an annual sum, in lieu of customs duties, or on paying 2 or 2½ per cent. *ad valorem.* In fact, all Indian rulers in those days tried to attract European merchants to their dominions by granting them favourable terms with regard to sea-customs, inland duties, transit duties, security of person and property and other trade facilities. Whatever might have been said in those days in favour of encouraging foreign nations to trade with India, the action of the Indian Rulers in granting to the foreign trading companies commercial privileges and facilities which were denied to Indian merchants certainly betrays their lack of foresight and statesmanship and their poor appreciation of the interests of the country over which they ruled.

Methods of Assessing and Collecting Sea Customs and Transit† Duties.

Duties at Ports. Duties at ports were generally *ad valorem* levied on the prime cost of goods, as given in the original invoices, or on the value realised on sale of those goods at the places of importation, that is, market price at ports. Actually it depended very much on the discretion of the customs officers. Complaints with regard to over-valuation by them were often made to the government.‡

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* (*a*) Bruce's Annals, Vol. I, p. 269 & 327.
(*b*) Milburn's "Oriental Commerce," Vol. I, p. 10.

† (*a*) Trevelyan's Report on Customs of Bengal 1835, pp. 2, 27, 28,
(*b*) Customs Committee's Report 1836, pp. 8, 9.

‡ References to this will be found in some of the passages quoted in this chapter.

Transit Duties. The native system of transit duties was more of the nature of a toll levied in every subdivision of a district on each load of goods or produce passing through it or imported for consumption therein or exported therefrom to other subdivisions. Each sub-division was taken as a unit. The goods moving within it were free from duties until they reached the frontier.

The toll duty was computed sometimes with reference to the value of the articles. As the traffic was carried on by caravans, carts and boats, it was generally charged on well-defined and easily understood quantities, such as, ox-load or bullock-load or cart-load or camel-load etc. with reference to the kinds and not the value of the loaded goods. It was of the nature of a specific duty. A book of rates officially fixed was kept, prescribing the duties to be collected on the goods classified according to convenience. For each class a different duty was prescribed. The bullock-load seems to have been taken as the standard and a ratio was fixed between the various loads on the basis of the standard. No distinction seems to have been made in the rates according to the quality of goods.

The duty at a particular toll-house was generally very light. The lightness of the duty rendered smuggling or evasion of it less necessary. So there was no pretext for search on the part of the customs officers. No "pass" was required for further transit. After paying the necessary toll, the owner or the driver of the vehicles could proceed on his way without any let or hindrance. No vexation in collecting the duty seems to be possibe. Toll houses had been located at certain distances so that goods were subject to duties in proportion to the distance they were carried.

Transit duty thus levied under a strong administration is simple and light in its amount and not so vexatious

as might be expected. Of course, it is in the nature of an impediment to trade, but it had been traditionally recognised by Indian rulers as a part of their revenue system. When complaint was made of any particular duty, such a duty was strictly prohibited. How far it was actually abolished is another matter. When collected in the manner described above the duty falls upon the articles of general trade and consumption. To quote Trevelyan* "Internal duties therefore, to be productive must be extremely light—a principle which if we may judge from their practice the native governments perfectly understand.....The duties levied by them at any one place were very light and the sum total went on increasing by the addition of successive payments in proportion to the distance the goods had to be conveyed." It is this special characteristic of the transit duty system which distinguished it from the inland duty system, established later on by the British administrators in the Presidencies of Madras and Bengal and called the consolidated duty system.

The burden of transit duties depended upon the distance which the goods were to be carried. Inland trade was generally of the nature of barter, in which commodities of general consumption were exchanged between the neighbouring districts. So except upon consignments for very distant destinations the burden of transit duties was not very oppressive. Naturally they must have operated as a burden upon articles of foreign trade which had to cross a good deal of territory; but even then the method of assessing and collecting them was very simple and easy.

That is how the transit duty system would actually work under a well-regulated administration. Even under a weak government, the system would work out in the

* Trevelyan's Report, p. 71.

same way, except that it would be more burdensome and vexatious owing to the increase in successive payments, illegal exactions and other abuses that would creep* in.

Summary of the main features.

It will be better at this stage to summarise the main features of the policy and administration of customs and transit dues under the Mogul Rule.

(1) There was a low general import and export duty on articles of foreign trade which did not exceed 5 per cent *ad valorem.* There was also an elaborate system of transit and inland duties, which obstructed the general trade of India.

(2) The low import duty assumes that there was no attempt to protect the native manufactures by trariffs, and in fact, there being no outside competition they required no protection.

(3) On the contrary, that every possible attempt was made to encourage the foreign trade of India is proved by the low duties, preference in sea-customs, exemption from transit duties, and other trade facilities enjoyed by the Europeans—especially the English—over the Asiatics.

(4) Among the Asiatics the Mahomedan merchants enjoyed preference.

(5) Sea customs and transit duties were levied for revenue purposes only. Foreign merchants were exempted from transit duties, or at times from both, while native merchants were liable to both.

(6) Under a strong administration transit duties, in so far as they worked well, were, from their nature,

* Conditions after the break-up of the Mogul Empire illustrate the remarks.

light in amount and simple in collection; but under a weak or nominal authority their frequency and arbitrary character turned them into serious impediments upon the trade of the country. This becomes more conspicuous in the latter period of the Mogul Rule.

(7) In spite of repeated prohibitions by the Rulers, transit duties were levied by local officers and Zamindars in distant provinces, who often disregarded the authorised scales and regulations relating to customs and who appropriated a part or the whole of the revenue realised for their own benefit. The system of farming out various sources of revenue greatly aggrevated the evil. It is likely, therefore, that the privileges enjoyed by foreign merchants must have been counterbalanced to a certain extent by the payments in one form or other to such customs officers in order to preserve their rights.

(8) At ports, duties were *ad valorem* levied on the bona fide value of the invoices or according to the sale price of the goods at the places of importation.

(9) Transit duties were generally levied on cart-loads, ox-loads, or camel-loads, etc. of articles and varied according to the kinds of the loaded articles.

State of Customs after the break-up of the Mogul Empire.

These were the chief features of sea and land customs during the Mogul period. The next section, dealing with the period from the death of Aurangazeb to the beginning of the Company rule, will briefly describe the great political changes in India and their effects upon the customs administration just described.

From the beginning of the 18th century two political factors of far-reaching importance for India began to appear. (1) The gradual break-up of the Mogul Empire After the death of Aurangazeb disintegrating tendencies

developed in the Empire. The inherent characteristic of the Mogul administration, namely, the relation between the collection of revenue and provision of troops must have operated as a powerful factor, because the final collapse of the Empire meant that the provincial governors and district officers, to whom these functions were entrusted, stopped sending revenue and troops to the weak central authority and became virtually independent. Seething with rival factions the country was given up to civil wars. The provincial governors became practically independent of the weak Emperors that followed and asserted their own authority over their respective provinces. They also entertained designs of conquering the neighbouring territories by the help of the mercenary troops wandering at will throughout the country. To every man of ambition and daring nature there was presented an opportunity of getting power and profit for his own advantage. Thus the once more or less consolidated Empire broke up into various rival and independent principalities. One of the results of this was that the uniform fiscal system of the Empire broke up into innumerable fiscal units with their own arbitrary rules and regulations.

(2) The second outstanding feature was the rise and development of the East India Company as a political power. The East India Company was in the beginning simply a commercial corporation trading in India with privileges that depended upon the friendship and goodwill of Indian Rulers of the time. But in its struggle with other European trading companies, there arose conviction on the part of those connected with the management of the Company that they should assume, for the defence of their trade, a political power with a certain extent of territory subject to their jurisdiction and defended by their fortifications and troops. " During the anarchy which followed (the break-up of the Mogul Empire) the

British patiently built up a new power out of the wreck of the Mogul Empire." *

Without tracing the course of political events or the Company's wars leading to the grant of Diwani, it will be sufficient for our purpose to note briefly the state of customs at the time when the Company assumed fiscal rights and responsibilities, not because of its intrinsic importance, but for the fact that out of such disorders the British attempts at fiscal reconstruction arose.

During this period of disorder, the rulers of provinces, the tax farmers, and the Imperial tax collectors usurped the unrestricted right of managing and collecting the revenue. Transit duties, originally meant for great thoroughfares of trade, were now levied upon petty traffic in articles of general consumption and of village-to-village trade. The vexation of this levy was greatly aggrevated by a host of petty and unauthorised exactions on the part of the numerous agents employed in its collection. The burden of this levy differed at different places and even varied at the same place according to the disposition of the collectors. The duties were levied upon almost every article of life and they were collected either at customs houses or at the markets.†

This levy of numerous imposts goes by various names, the popular one of which is "Sayer." The Finance Committee ‡ of March 1809, Bengal, classified the prodigious variety of collections that come under "Sayer" as follows:— (1) duties collected on the transit of goods at numerous toll houses; (2) duties collected on the vend of commodities at Hauts (fairs), bazaars, markettolls, etc.; (3) duties collected at Gunges (store-house)

* Sir W. Hunter "The Indian Empire," p. 374.

† 4th Report of Parlimentary Committee of Secrecy 1773, p. 95

‡ Report, Paras 432-457. Report is not published but can be had in manuscript at the India Office Record Dept.

on the sale of commodities; (4) taxes of the nature of land rent; (5) personal taxes on professions; (6) duties on pilgrims; (7) miscellaneous taxes.

This term "Sayer" in 18th century was specially applied to a variety of local and arbitrary charges levied by zamindars (land-holders) and other local officers on all goods passing through their territories by land or water or sold at markets established by them.* Owing to their multiplicity, frequency, intricacy, uncertainty and inequality, the sayer collections were found vexatious, and oppressive to traders and manufacturers. Nothing better than Mill's observations in this connection. He said :—"In India as under most uncivilised governments, the transit of goods within the country was made subject to duties, and upon all the roads and navigable rivers, toll-houses or custom-houses were erected which had power of stopping the goods till the duties were levied. By the rude and oppressive nature of the government, these custom-houses were exceedingly multiplied and in long carriages the inconvenience of numerous stoppages and payments was very severe. As in all other departments, so in this, there was nothing regular and fixed, the duties varied at different times and different places, and a wide avenue was always open for the extortion of the collectors. The internal trade of the country was by these causes subject to ruinous obstructions."†

Now it becomes clear that during the political and economic disorders that followed the disappearance of a consolidating authority and the inability of any other power to secure an efficient administration in the country, there came into existence different govering authorities. Each one of them asserted in various degrees the power of independent taxation, exercised in such a way as to

* Hobson-Jobson Glossary of colloquial Anglo-Indian words, p. 798.

† Mill's History. Book IV. Chap. 5, pp. 193-194.

obstruct the freedom of trade to the extent of making any exchange of commodities impossible. The result was that the old nominal but approximately uniform system of national economy of the Mogul Empire gave place to distinctly rival provincial and local systems.

The inconvenience of numerous customs barriers proved a great impediment to the inland trade and manufacture. The expense of maintaining a multitude of customs officers to prevent smuggling and to secure the taxes must be enormous in proportion to the revenue collected. The moral effect resulting from the acts of petty tyranny and corruption due to the absence of any systematically organised customs administration was at the same time exceedingly pernicious. There was, therefore, an urgent need of centralizing authority able to make itself really effective in the work of revivification. It would not be wrong to say that the conditions of customs existing in India at the time were approximately the same as those in several small States of Germany before they entered into the German Zoll-Verein. But in Germany, unlike India, there was no political disorder. All States having well-established internal governments could easily and profitably enter into such a custom union. In India it became the work of gradual evolution and fell upon a power which later on could make itself an effective political power in the country. As a matter of fact, such a unifying power arose in the growing political authority and influence of the East India Company, with its increasing territorial acquisitions and annexations after 1765.

When the Company assumed the fiscal rights and responsibilities of British India it had authority over the three Presidencies of Fort St. William, Fort St. George and Bombay and the territories subordinate thereto. But the work of reorganising customs administration on a definite and regular basis was entrusted to the authority

in charge of each Presidency separately. Thus each province was administered separately rather than as part of an economic whole. It can be said, therefore, that the customs system of British India began on a provincial rather than on a national basis. Hence, it will be natural to follow in the next chapter the developments that took place in the Customs Regulations of each Presidency separately.

APPENDIX TO CHAPTER I.

NOTE ON TRANSIT DUTIES AND TOLLS.

No tax of whatever nature in the world is liked by the people. But taxes have to be levied by the State for meeting administrative expenditure. The general principle guiding any form of taxation, from the viewpoint of both the State and the subjects, is the realisation of maximum revenue with minimum vexation and burden. Generally the public services of various kinds for which such taxes are used justify their levy. Such was the idea of taxation in the past and it is so even at present. Of course, the nature and the burden of taxes depend very much upon the good or bad intentions of the rulers. Transit duties, tolls and such other taxes on trade and manufactures formed part of the revenue system of ancient times. Not only were they levied in India but also in modern industrial countries like France, Germany until the 19th century.

It is very difficult to say exactly what is the origin of transit duties, tolls and such other taxes; whether they represent the arbitrary use of feudal powers or the proper return of certain public services. Dr. Plehn considers that: "Such charges are fees for the ostensible or real service of the Government in keeping up roads and allowing transit."* Bastable does not consider them to be fees but a kind of customs duties.† However both these authorities agree on their theoretical justification that these dues were charged for certain services to be rendered to commerce. In practice "the collection of tolls was however far more regular than the performance of the corresponding services."‡ The services for which they were collected were often left undone; or if such services were rendered, an extra charge might have been levied.

In mediaeval times, the levy of transit duties and tolls was also customary in India and in Europe. But now they were not earmarked for any particular purpose as in ancient times. They formed a regular part of

* Introduction to Public Finance, p. 144.

† Public Finance, pp. 551-2.

‡ Ibid.

the revenue system of the Mogul period. During the British rule in India, inland duties before their abolition also formed a regular part of the revenue system.

The character of the great bulk of trade in ancient times being local, the burden of these duties could not have been so oppressive as might be expected. But as the character of trade in course of time changed from local to national and later on from national to international, these duties would certainly be indefensible on economic and administrative grounds. Therefore, the first efforts were directed towards abolishing these vexatious dues by all modern countries before their industrial development. At present these dues, under modified form, are confined to payments for actual services done. There is now in every country the system of levying octroi duties as a small charge on the articles brought to a city or a town for local consumption. Transit duties and tolls have ceased to be a part of State taxation but under different forms constitute a part of municipal taxation for the actual services rendered to the public in various ways.

CHAPTER II.

PERIOD OF RECONSTRUCTION AND PROVINCIAL ECONOMY 1765-1833.

From the time the East India Company assumed the fiscal responsibility to 1833, the three Presidencies of Bengal, Bombay, and Madras were considered three separate units for customs and trade regulations. Each Presidency had sole legislative and administrative control over customs within its own territory, with the result that it had its own separate tariff and tariff regulations. 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 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 regulations of the three Presidencies varied according to differences in local circumstances until they were finally assimilated after 1833. The process of assimilation will be considered in the next chapter.

In the present chapter the modifications and developments in the customs regulations of the three important Presidencies only will be summarised. These were the chief centres of the Company's trade and administration, and the general spirit, if not the actual details, of their customs regulations was applied to the organisation of newly-conquered areas. Detailed descriptions of the other systems would, therefore, be unnecessary. With regard to foreign trade, Bombay, Madras and Calcutta were the only important centres of exportation and importation and of distribution of the goods inside the territory.

It should be borne in mind that, in virtue of its factorial rights, the East India Company collected customs at its trading centres, Bombay, Calcutta, and Madras, even before it became a ruling power and that when it assumed territorial sovereignty, it developed another set of customs, in virtue of its Governmental rights, and that for a considerable time after 1765 both kinds of customs, called the " Company's Customs " and the " Government Customs," continued to operate side by side.

We shall first deal with the Bengal Presidency, for the simple reason that it was the first territorial and administrative acquisition of the East India Company.

LAND CUSTOMS.

Bengal.

From the preceding chapter it should be clear that, owing to the disorderly and chaotic conditions prevailing throughout India at the period previous to the British Rule, there were no fixed and regular laws in the administration of customs. " Our researches and enquiries into the state of the Customs from 1765 to 1773 have not furnished light sufficient to state with accuracy the mode in which the Government customs were collected or how they were accounted for, nor what were their amounts."* There was a sort of political and economic anarchy. Not only did the conditions vary in different provinces but also in different parts of the same province. The Inland Customs of that period can be described as vexatious from their multiplicity and intricacy, as oppressive from the frequency and uncertainty of their exactions, and hence as discouraging to the commerce of the country and as depressing to the industry of the people.

* Manuscript "Bengal Government Customs" upto 1782. Report p. 4. Home Miscellaneous. No. 216.

These were the conditions in which the first Indian province which came under the British Rule was found. The task before the British administrators appeared to be so great and complicated that for a considerable period of time nothing or very little was done by them by way of changing the old system of taxation.*

In the year 1773, however, was commenced the work of evolving a working, uniform and improved customs administration to replace the corrupt and oppressive system that existed in Bengal before and just after 1765. The reorganisation of the customs administration proceeded on the following lines:—(*a*) abolition of the petty and unauthorised customs-houses and the chokies (tollhouses) of the zamindars (land-lords) of most vexatious and obstructive nature, (*b*) resumption of the imposition and collection of all duties under the direct administration of the Government, (*c*) fixing of the rates, (*d*) ascertaining the species of goods subject to the payments of the Government customs, and (*e*) establishing the Government customs houses at various places and fixing the "chokies" or checks to prevent smuggling or the avoidance of payment.

In 1771, the Court of Directors positively directed† the Bengal Government to free the people and the internal traffic of Bengal from the oppressive duties of the zamindars (land-lords) and petty tyrants under whom they had so long been allowed to suffer. In obedience to this, the Board of Trade abolished many of the petty Zamindary chokeys.‡ But nothing was done as regards many of the collections which came under "Sayer."

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* 6th Report of the Committee of Secrecy 1782, p. 301.

† The Despatch of the Court of Directors to Bengal dated 10th April 1771.

‡ Bengal Govt. Customs upto 1782. Report p. 13. Home Miscellaneous No. 216.

In a Revenue letter of 7th. February 1773, the Board of Trade attributed their delay in carrying out the Directors' orders in detail to the difficulty of obtaining the necessary information and some other practical difficulties, one of which was the expected decrease in the revenue. However, the Board proceeded to form a working system in 1773. While communicating this arrangement to the Court of Directors, the Bengal Government observed in a Bengal Revenue letter of 25th March 1773, that its main achievements were the uniform low standard rate of duty, without any discrimination or preference, on foreign as well as on inland trade and the abolition of inferior chokeys (toll-houses) and road duties, other "Sayer" collections being continued. This arrangement was in operation until it was revised in 1781, when the general rate of duty was increased. The revision was expected to yield two great advantages, *viz.* "total suspension of the unlicensed exactions and the other an equal and certain rate of customs" in direct contrast to arbitrary and unknown method of the zamindars (land-lords.)

In spite of such revisions and their expected results, complaint after complaint was made against the still oppressive system of inland customs and their collection.* The Court of Directors in their letter of 13th. January 1783, signified their dissatisfaction with the above arrangement on the grounds of high and excessive transit and inland duties on certain articles of important manufactures and advised the government to frame a system "not so much by the desire of increasing the customs as of promoting the internal commerce of the provinces by the removal of restrictions and oppressions." Nevertheless, these exactions went on much as before in defiance of the repeated orders of the Government. The chief reason was that the actual collection of those oppressive

* Bengal Customs Report 1782. pp. 102-4. Home Misc. No. 216.

impositions was left to the zamindars, while the Government contented themselves with the general regulations for the prevention of undue exactions or for the abolition or modification of certain existing imposts. In 1788, having experienced the failure of their prohibitory orders to prevent oppression, the Government determined to take away from the zamindars the power of imposing and collecting duties altogether and to manage them directly and exclusively on their own behalf. The consequences expected from such a measure were the effectual abolition of many vexatious taxes on articles of internal commerce and consumption as well as on exports and imports, hence assistance to commerce and general relief to inhabitants, and the future opportunity for increasing public revenue.* In pursuance of the above determination, unauthorised imposts of any denomination and their collection were strictly prohibited and only such taxes as authorised by the Government were to be collected by officers duly appointed by the proper authority.†

But, on the actual resumption of this duty, it was found that, owing to the unsound principles on which they were imposed and to various administrative inconveniences, those taxes could not be managed in a way productive of revenue and conducive to commerce and industry of the people. Consequently on 28th. July 1790, all "Sayer" customs ‡ with certain specified exemptions were abolished throughout Bengal, Behar, and Orissa, retaining only a Customs House at Manjee at the Behar frontier and a town duty at Calcutta and leaving for future consideration what internal duties or taxes should be imposed in lieu thereof.§ This arrangement

* Regulation XXXVII 1790 preamble.

† Ibid. Sec. 1.

‡ From 1788, all inland customs on traders and manufacturers were collected by the Government. It must be remembered that no private customs were collected in 1790.

§ Reg. XXVII of 1793, preamble.

practically meant internal free movement of trade within the Presidency of Bengal with customs at the frontiers—sea and land. But these Land Customs were not abolished for ever. The Court of Directors in a letter to Bengal, 19th September 1792, while approving of the abolition of the internal duties, said that the action should be considered as a suspension rather than extinction of the financial principle of internal duty, so that they may be revived in a modified degree in times of financial contingency without the danger of such abuses as existed before.

Owing to certain inconveniences, the town duty which was retained at Calcutta was abolished in 1795* and the Government custom was revived at the port.

In 1801, there came a sudden change of policy. The Governor General, Lord Wellesley, in a letter from Bengal of 31st. July 1801, acquainted the Court of Directors with his opinion that "in the flourishing and prosperous state of the British Dominions in Bengal, town duty, the extension of a similar system of taxation to the cities of Patna, Dacca, Moorsheedabad and Benares, and the restoration of the Government customs with certain modifications before levied in the interior of the country would constitute a productive source of revenue without affecting the commerce or industry of the country. In framing the Regulations for the collection of these duties it has been the object of the Governor General in Council as far as was practicable to render them in effect taxes on consumption and to prevent any injury to the foreign import and export trade of the country." Consequently in 1801† Inland duties, in the form of town duties and Government customs, were re-established at selected places including Calcutta, each at the rate of 3 to 4 per cent, for

* Reg. XXXIX of 1795.

† Regulations V, X, XI of 1801.

revenue purposes. Only those articles which were supposed to be productive of revenue, like articles of general consumption, were selected for taxation.

The principal object of these measures was revenue. The Government paid sufficient attention to the effects of the re-establishment of inland customs upon the British trade with the Presidency of Bengal. Lord Wellesley in his same letter to the Court of Directors (31st July 1801) said : " Your Honourable Court will observe that the goods, the produce or manufacture of the British territories in Bengal which may be exported by sea, and goods imported into those territories from England and afterwards exported inland to any place without those territories will not be subjected by that Regulation to any additional duty beyond that to which they are now liable." Articles of foreign import and export trade were largely protected against the operation of this new system of inland duties. But serious consideration does not seem to have been given to the inherent evil effects of any general inland duties upon the internal trade and industry of the people.

When the above arrangement was in force in the Presidency of Bengal separate duties were levied at various rates in Benares and the native system was still prevalent in the ceded and the conquered districts subordinate to this Presidency. The customs system was reorganised in these districts* on the same line as in the main territory.

These various plans were reduced to one uniform system by Reg. IX of 1810, based upon the important Report by the Finance Committee of 1809 which was instituted for the complete revision of the Land and Sea customs. The primary object of this revision was two-fold :—to improve the resources of Government and to

* Cf. Regulations XXXVIII of 1803 and Reg. XI of 1804.

relieve the trade and inhabitants of the Presidency of Bengal from the burden of the unproductive and impolitic imposts. The defects in the actual working of the then existing arrangement have been well described by the Report* which can be thus summarised :— (1) deficiency in simplicity and clearness. Intricacy, obscurity and uncertainty ; (2) a complex system of multiplied taxes levied on the same articles at the same place under the distinct heads of different denominations of charges like " Government customs," town duty, stamps, Rowanna fee (pass)an d custom master's commission ; (3) hence a great total charge ; (4) successive duties on the same article at different places within the Company's territory ; (5) unequal distribution of the burden of taxation in different provinces and absence of fair competition ; (6) great number of custom-houses and chokeys with a large number of lower officers whose maintenance was burdensome and whose conduct was fraudulent towards the Government and oppressive to the people. High cost of collection ; (7) duties falling on great variety of articles of too little value and in too small quantities to be productive ; (8) illegal collections.

After looking at the exposition of the defects of the arrangement of 1801, one is rather at a loss to find out how far it is superior to the native system of Sayer collections that existed in 1765 when the Company Rule began. The only difference is that the inland customs and transit duties in 1765 under the denomination of the " Sayer " collections were unauthorised and arbitrary, while those under the system organised by the British after 1765 were authorised and managed under the direct Government control. Their evil effects and the abuses in their management and collection only differed in degrees. This

* (Manuscript) Finance Committee Report 1809, paras 11 to 21. Bengal Public Consultations Range XCIX, Vol. 33.

difference can be explained by the different political conditions under which they existed.*

On the other hand, it clearly brings out one fundamental fact that under any Government either strong or weak the evil effects of the inland duties do not change their nature; though they may differ only in degrees under different political conditions. In spite of this fact, the Committee† went on to enunciate certain principles in order to mend rather than to end the system. They were as follows:—(1) equalisation of burden on different Provinces; (2) consolidation of various customs dues and other fees into one tax; (3) commodities having once paid the consolidated duty to be allowed to pass free throughout the territories subject to the Presidency; (4) goods imported by sea to be allowed free transit inside the country; (5) in general, goods subject to duties either on importation or transit not to be liable to town or consumption duties; (6) town duties to be levied on some selected articles of general consumption, only when imported into principal towns and cities for local consumption; (7) enumeration of all dutiable articles, exemption of articles too little in value, too small in quantity, and unproductive of revenue; (8) reduction of the number of Customs Houses and Customs Stations (Chokeys) to the lowest possible limit; (9) fixed valuations rather than *ad valorem*.

Upon these principles, Regulations IX and X of 1810 were based and to put these regulations in force so as to realise the consolidated duty, once for all, on the whole trade of the Presidency, Customs-houses were established at various selected places and the principal

* The comparative study of the defects exposed by the Committee of 1809 with the description of the "Sayer Collections" at the end of the last chapter will substantiate the above remark.

† Report. Para 33.

marts were surrounded with cordons of Custom Stations. A tariff schedule was provided which fixed the export and import duties on inland and sea trade at ordinarily 7½ per cent. in some cases at 5 per cent. and in others at 10 per cent. to be assessed at officially-fixed valuations. Town duty was fixed at 5 per cent. on the specified articles of general consumption entering but not passing through the towns. The general characteristic of this system was that the burden of the consolidated duty was equal upon the articles of home production and the similar ones imported from foreign countries.

By adhering to these principles the committee considered that the public revenue would be greatly increased, that the burden would be impartially equalised upon the products, home and foreign, without injuring the resources of the Government, that the collection of the customs would be simplified and regulated and that the existing system would be relieved of successive interruptions of several collections fraught with the possibilities of inequality, corruption and annoyance. Let us see how far the results expected by the Committee were realised in the actual working of this system.*

Rate of Duty. The principle on which the system of 1810 was founded was to abolish all different tolls, transit duties and customs and to take the consolidated duty at one place only and provide the merchants with a pass exempting them from further payments to the end of their journey. Under the Native system,† as seen in the first chapter, the duty at a particular place was very light and it was increased by the addition of further duties in proportion to the distance to which goods

* This system has been exhaustively discussed and its evils and abuses have been fully exposed by Trevelyan in his famous Report of 1835, by Frederick John Shore in his "Notes on Indian Affairs" Vol. II and also in the 1st Report of the Customs Committee of 1835.

† 1st Report of the Committee on Customs of 1835, pp. 17 & 23.

were carried. But under the new system the rate of the consolidated duty was fixed on the basis of the aggregate of all the imposts formerly levied upon goods proceeding to the largest distance, with the result that a great increase was made in the rate of the duty at a particular place. Consequently, commercial intercourse between neighbouring places was seriously impeded by the high rate of duty, which, on the other hand, left no difference in prices so as to enable merchants to carry goods to distant markets in the territory. The elastic element of the Native System of levying taxation in proportion to distance was abolished. But there was one advantage of the consolidated duty system, at least in theory, that it was free from successive collections and their vexations. As will be seen presently, the case in practice was different. On the whole, the consolidated duty system of 1810, though advantageous to long distance trade and also to foreign trade, proved extremely burdensome to trade over short distances. Foreign trade was thus unduly encouraged at the expense of local trade.

In its actual working, the whole system* with its various administrative expedients caused great inconvenience, delay, expense and loss to merchants and resulted in great annoyance, and obstruction to free sale, and heavy illegal exactions—all forming strong impediments to inland natural commerce. These evils had been greatly aggravated by the chokeys (checks) which were empowered to stop and search the goods of the merchants in order to prevent smuggling and to compare the goods with the description of the pass. The establishment of such chokeys (checks) was widespread and they were conducted by low-salaried customs officers—the fact which made the temptation to extortion and dishonesty a great possibility. In consequence,

* Trevelyan's Report, pp. 12-13 ; also refer to 1st Report of the Customs Committee of 1835, pp. 18-21.

there arose successive stoppages instead of successive collections. " This right of search entrusted to the chokey officers is quite useless to the State but in their hands it forms a powerful instrument of extortion."* People were at the mercy of the chokey officers. To avoid delay and loss, bribery was often a better method than resistance. " The legal power with which these customs officers are invested is so extraordinary that the utter annihilation of the whole trade of the country would be the result of enforcing it † ;" while " the universal power of search and detention constitutes a universal tax upon every person and everything which moves from place to place in the country."‡

The articles liable to duty were also too numerous. One of the principles of Reg. IX of 1810 was that the articles of too small or trifling value and in small quantity should be exempt from taxation. But still no less than 566 articles were liable to duties, while the general denominations under which the goods were classed were intricate and incomprehensible. The amount realised hardly compensated the expenses of collection and the inconvenience and obstruction imposed upon trade and industry.§

On the revenue side, the system was found to be very expensive and less productive. Owing to the high rate of duty and the vicious machinery of collection described above, " the great bulk of inland trade is carried on in

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* Trevelyan's Report p. 32.

† Frederick John Shore, *ut supra* Vol. II, p. 301.

‡ Trevelyan's Report, p. 46.

§ " It is very difficult to find any indication in the present tariff of the slightest regard to the principles of economic science. The necessaries and luxuries of life, articles of immediate consumption, the materials of manufacture, things productive and unproductive of revenue, things which may be subjected to taxation without much inconvenience to the public and the things the nature of which is such that the interference of the custom house officers respecting them gives rise to the most serious inconvenience—are all indiscriminately included." Trevelyan's Report, p.62.

defiance of law and by sufferance of the chokey officers." * The inland trade deviated from its natural channels, smuggling or corruption of the officers increased and naturally so much revenue was lost to the public treasury from this state of confusion.

Writing about the effects of this inland customs system upon the production of the country, Trevelyan says :—" As far as the interests of the productive class are concerned the presidency is virtually dismembered and placed in the condition of the petty German States which being shut in on every side by cordons of customs houses, offer a very limited scope for the extension and improvement of agricultural and manufacturing industries."† Merchants with small capital were driven out of the field by the oppressive system of taxation. Many articles of home manufacture, from their raw stage to their final consumption, had to pay double or treble duty. Manufactures inevitably tended to restrict themselves to local needs. " If it were desired to depress the productive powers of Indian industry to the greatest possible extent could any such scheme be devised more effectual than this?" ‡

Town duties, because of their limited operation, were less injurious than transit duties. They did not interrupt the general course of trade. But they seriously interfered with the freedom of local trade and manufactures which naturally tended to migrate to neighbouring places free from such local taxes. Smuggling took place on a large scale. The revenue derived from Town duties was therefore insignificant when compared to the

* Customs Committee 1835, 1st Report, para. 148; also Trevelyan's Report, pp. 149-150.

† Trevelyan's Report, p. 4.

‡ Ibid, p. 5.

inconvenience they actually caused to the inhabitants of the towns.*

From this description, it can clearly be seen how far the expectations of the Committee of 1809 were realised and how far the original defects found by the committee were remedied. There was one consolidated rate of duty in place of successive duties, but the system of Rowannah (pass) and chokeys (checks) gave rise to successive stoppages instead of successive collections, not to speak of great evils and abuses arising out of the power of search and detention.† Consequently the interests of commerce, industry and revenue heavily suffered as before.

The Bengal inland duty system established in 1810 continued till 1836 when it was ultimately abandoned. The reasons that led to its final abolition will be considered in the next Chapter.

Bombay Presidency.

The provinces subject to the Presidency of Bombay were for the most part of later acquisition than those of the Presidency of Bengal. If the territorial acquisitions of this Presidency at different times from the beginning of the 19th century were followed geographically, one fact would be clear that they were far from making a compact body of territory. Some of them were circumscribed and some were intercepted by the territories not belonging to the British. In these respects, the Presidency of Bombay differs from those of Bengal and Madras which had compact territories to deal with‡ It was these circumstances that presented great obstacles to a consolidated system of customs management and that chiefly

* Customs Committee of 1835. 1st Report, pp. 24-25.

† Cf. Frederick John Shore "Notes on Indian Affairs," Vol. II p. 306.

‡ Customs Committee 1835, Report I., pp. 7 & 8.

contributed to the maintenance of some of the features of the native toll system even under the British rule. All the worst features of the native transit duty system described in the last chapter existed in the territories of Bombay, when the British commenced their attempts at reform.

Owing to the geographical conditions of the provinces subject to this Presidency, no plan of general application for improving the inland customs was possible; but attempts were made here and there at the cities and towns directly under the British Government. Regulation IX of 1800 at Surat and Regulation I of 1803 at Bombay illustrate the attempts. The town duty at Bombay was abolished in 1805 and reimposed in 1810.

Even in the twenties, the whole machinery of transit duties was considered to be prejudicial to the improvement of the country and to the interests of the revenue. A regulation for the entire abolition of all transit duties throughout the Presidency was therefore submitted * to the Home authorities and formally sanctioned by them in 1827. The execution of the proposal was, however, postponed, owing to financial difficulties. But in 1831 the Government thought it possible to improve the system so as to free it from its glaring abuses and evils without destroying the transit duties as a source of revenue. Accordingly they instructed the customs officers † (1) to abolish all internal duties of a subdivision or pargana (subdivision of a district)—(The duty was to be levied on the frontier only, thus changing the character of the duty from general inland duty to a transit duty.) (2) to decrease the number of Customs Stations (The result of these two instructions would be the general internal free movement of trade in that subdivision); (3) to reduce the

* Ibid. p. 11.
† Ibid. p. 12.

transit duties in number ; (4) to abolish all exactions in addition to the regular transit duty ; and (5) to abolish all transit duties upon all petty articles of domestic use, implements used in agriculture or manufacture, &c.

It seems from the summary that the intention of the Government was to continue transit duty on articles of general commerce and consumption only under their proper and authorised management. The transit duty system as existed at the beginning of the British Rule had thus been relieved of the abuses arising from its degraded form under the previous period of disorder. Still nothing had been done for the inherent evils of the transit duty system as continuous impediments to general inland trade of the Presidency, which could not be remedied except by its entire abolition.

The position of the transit duty system in the Presidency of Bombay has been described * as follows. Besides the sea customs, in every subdivision of a district recognised as a unit of reorganisation under the above arrangement, " transit duty is still levied upon all commodities (except cotton which had been relieved from transit duty throughout the Presidency) going to the sea-ports, upon all goods going inland from the sea-ports and upon all the trade passing through the Presidency without ever touching the coast." The system of inland duty at the Presidency of Bombay was thus quite different from that at Bengal. It was more akin to the native system stripped of its abuses under misrule. The adoption of the consolidated duty system of Bengal was made impossible by certain local peculiarities. Therefore, the measures of the Government only intended to regulate the transit duty system so as to relieve it from its vexatious character ; but they fell much short of giving substantial

* Ibid. p. 14.

relief to the internal trade of the Presidency. Besides transit duties, there* were town or consumption duties levied at principal towns and cities of the Presidency; but the evil effects of these duties were on the whole not so serious as in other Presidencies.

Madras Presidency.

Unlike the Presidency of Bombay, the territory of this Presidency was consolidated and compact, so that here the organisation of inland customs on a uniform basis of management was quite possible. Previously to 1803 the native transit duty system with all its evils and abuses prevailed in the territories subject to the Presidency of Madras. As will be seen later, the system that developed here in the process of reorganisation under the British was quite peculiar to this Presidency.

In a letter of 24th August 1788 and subsequently the Court of Directors advised the Government of Madras to reform or abolish, if necessary, the land customs in their Presidency; but no important steps were taken, except that certain fees levied by customs officers from mercants were abolished. Later on in 1801 the Directors instructed the Government of Madras to take over the charge of the "Sayer" collections from the zamindars (land-lords) and manage them exactly on the lines established by the Government of Bengal in 1801. Accordingly, in 1803† all the duties of the native system were abolished and in their place were substituted (1) a general duty of 6 per cent. at ports; (2) a general duty of 6 per cent. on goods crossing the land frontiers of the Madras Presidency; and (3) a general town duty of 6 per cent. on goods imported into, or produced or manufactured within the limits of Madras and other provincial towns. All the three duties

* Ibid, pp. 14-16.

† Regulations IX, X, XI, XII.

were to be collected on the same article once only. Duties were generally assessed at officially-fixed valuations. For realising these duties, Government Customs Houses and chokeys were established at various places. Let us look at the result of this change.

Of course, the new arrangement was free from some of the evils of the old one. But the substitution of such a high *ad valorem* duty for a small toll or transit duty gave no relief to external and internal commerce of the Presidency. The total of these duties—18 per cent.—was of course more than the external commerce could bear. The town duty fell heavily upon the traders and manufacturers of the towns, who gradually emigrated to villages where there was no ready market for them. This resulted* in a good deal of local unemployment and decline in public revenue.

The decline in the revenue led the Government in 1808 to modify the operation of the above system, with the result that the town duty was restricted to goods imported into the town, while the goods having paid the frontier duty were exempted from the town duty and *vice versa.*

These changes did not much improve the productiveness of the inland duties. † A Committee appointed in 1809 to revise them stated :—" The subordinate chokeys at many of the nominal town duty stations had been so extended as to embrace the trade of a considerable tract of country and thus produce all the effects of a transit duty. This is clearly a deviation from the strict letter of the existing regulation but in many parts of the country it was the only means of rendering the customs at all productive." The same Committee, therefore,

* Customs Committee, 1835, Report I., p. 26, para. 181.

† Ibid para. 183.

recommended the government to "legalise and render general" the irregular system. To this end Regulations I and III of 1812 were passed.*

The preamble of Regulation I of 1812 runs as follows :— "The provision of Regulation XII of 1803 having been found insufficient for the purpose for which they were enacted it has been deemed expedient to rescind the same, and in lieu of the town and frontier duty therein prescribed to re-establish a general inland duty on the import by land, transit or sale of certain articles within the territories subject to this Presidency." A general inland duty of 5 per cent. was established, which was to be levied once only either in transit or on importation from the neighbouring countries. The foreign goods having once paid the sea customs duty, were charged no inland duty.

In addition to the general inland duty, there were levied "large duties on certain articles of general consumption" either imported into or sold within Madras and other important towns in the interior.† Thus, generally stated, the situation was that with the exception of cotton, grain and a few other things the whole inland trade of the Presidency of Madras was liable to a duty of 5 per cent. at fixed valuations and that in addition to this a high town duty was levied at the prinicipal towns on selected articles of general consumption. The articles liable to duty and the valuations according to which the duty was levied varied in different districts, making the situation still more complicated. Writing about the inland duty system thus established at Madras the Court of Directors observed :—"As it appears the system of the territories of Fort St. George (Madras) is essentially different

* Ibid, para. 184.

† Reg. III of 1812.

from that which after elaborate investigation has been introduced in Bengal particularly in reference to the multiplicity of articles of consumption among the natives which in the former are subject to duties."*

The duties collected under the Regulation of 1812 practically approximated to excise duties on general consumption rather than to transit duties.† The phrase "sold within," the interpretation of which was left to customs officers, "extended its operation to the petty traffic of every village to the retail transactions of the poorest native shop." This vague phrase placed in the hands of the customs officers an unlimited power of oppression.

Such a system of inland duties required the establishment of a large number of chokeys all over the country in order to make the tax productive. But the multiplication of such chokeys was a great grievance to merchants and at the same time consumed the greater part of the revenue. In 1818 the Board of Revenue in a letter to the Government dated 23rd February said that the oppression of the people was not the chief evil to be remedied, but "the grand and enormous abuse is that a large portion of the duties actually levied never reaches the Treasury of the State and that the trader and the public officers mutually combined to defraud the Government." In view of this fact, the Board recommended the system of renting the land customs, because that would at least secure to the Government a fixed sum of revenue. Accordingly, in 1821 the inland duties hitherto collected by the servants of the Government were farmed out to the highest bidder for collection.‡ What were the results?

* Despatch to Bengal, 28th December 1814.

† Committee, 1835. Report I, page 36.

‡ Reg. V. 1821.

It can be seen from the general testimony of the Madras Collectors submitted to the Customs Committee of 1835* that the evils of the previous system namely, endless vexation, illegal exactions and constant impediments to the inland commerce existed even under the farming system, though it is true that a fixed revenue was secured to the Government. "A system of universal excise if administered by Government servants will always be a system of universal fraud on the revenue and exactions on the people; and if administrated by farmers, a system of grinding oppression, under which the payment of legal duties will form the lightest part of the burden."†

In short, the inland duty system of the Madras Presidency practically resembled an all-pervading excise or consumption duty, falling directly on all classes of community whether ryots or merchants, and on all kinds of goods without discrimination, whether in transit or on sale even in a small village. The customs rents paid to the Government largely proceeded from the illegal and oppressive extortions by the renters and formed the lightest part of the total burden of taxation on merchants and the community at large. It was from the abuse itself that a very large portion of revenue was collected. The question is whether, in order to relieve the country from that intolerable evil, the revenue derived from such a system ought not to have been sacrificed much earlier than it was (1844).

SEA CUSTOMS.

Bengal.

In the pre-British period, a duty of $2\frac{1}{2}$ per cent. was usually levied on all goods passing through the seaports of Bengal. When the East India Company assumed

* pp. 33, 34.
† Report, para. 202.

territorial sovereignty of the country, the custom of 2½ per cent. was continued. In addition, a town duty was also levied at Calcutta in virtue of the Company's factorial rights. In 1781 a town duty of 4 per cent. on the Calcutta price and a Government custom of 2½ per cent. according to the Book of Rates were levied at Calcutta on all foreign goods passing through the port. The Government custom having been abolished before 1793 by Lord Cornwallis, there was only a town duty* of 4 per cent. at Calcutta in 1793. The duty on the merchandise imported under foreign colours was to be assessed upon the aggregate of the price in the sworn manifest and an increase of 60 per cent. on the prime cost. Raw silk and indigo, when exported to England on the ships of the company, were entitled to complete drawback† Owing to its inconvenience, the town duty was abolished in 1795 and the Government custom of 2½ per cent. re-established.‡

By Regulation I of 1797 the general export and import duty was increased from 2½ per cent. to 3½ per cent. and the goods hitherto exempted were made subject to a duty of 1 per cent. In 1800§ this extra duty was abolished and the general duty was kept up at 3½ per cent. In conformity with a treaty between the United States of America and His Majesty's Government, American vessels were given the treatment accorded to British vessels. By Regulation V of 1801 a town duty of 4 per cent. previously abolished was revived, in addition to the existing Government customs at Calcutta. By Regulation VII of 1802 certain foreign articles, having once paid the usual import duty, were declared free from

* Reg. XLII 1793.

† Ibid. Sec. LIX.

‡ Reg. XXXIX 1795.

§ Reg. XI.

any further town or transit duty with the two-fold object of giving relief to all Europeans and encouraging the importation of such articles into Bengal. While the articles of home manufacture were subject to the specified town and transit duties, such a change would naturally encourage the import trade from foreign countries by giving them preferential treatment.

Until 1810 the duties on exports and imports of Bengal were 3½ per cent. Government custom and 4 per cent. town duty. Besides, there were other payments like Customs Master's Commission and fee &c. At ports like Chittagong and Hugly, there being no town duty, the imports paid only 4 per cent. After paying the import duty, most of the articles of imports by sea, specified in Regulation VII of 1802, were liable to no further duty on their inland transit. The preferential treatment was accorded to the British vessels in the method of assessing the duties as against other nations. Lastly, the company's goods paid no import duty but were charged only when purchased and imported inland by individuals.*

This system was revised by the Financial Committee of 1809. Regulation IX of 1810, based upon the Committee's recommendations, equalised the burden of taxation on both inland and foreign trade, with the result that inland duties were considerably increased. Rates of import and export duties varied from 5 per cent. to 10 per cent. No distinction was made in the rate of duty, with regard to foreign and British ships, nor were the rates affected by the consideration of the origin of goods. But the differential treatment in the mode of assessing the duty was still continued. Goods having once paid the import duty were not liable to further taxation in their inland transit. The export duty and the inland transit duty

* Courtnely's Report, 1814. p. 3. Home Miscellaneous. No. 523.

were similarly adjusted. Duties were levied sometimes according to invoice valuation, sometimes *ad valorem* and at others according to fixed valuations. Besides some special cases, all goods imported for re-exportation were entitled to a draw-back amounting to two-thirds of the duty paid. The customs regulations of Calcutta were applied to other ports in the Presidency.

The first essential change in the sea-customs regulation thus established was introduced by Regulation III of 1811, the primary object of which was to give preference to British over foreign shipping by imposing higher duties on goods carried by the latter and by securing the carrying trade of India to the former. The Directors in their despatch of 6th. November 1807 to Bengal observed :— " The permission given by our Government to the resort of foreign flags who had not national establishments of their own in India was grounded upon the just policy of encouraging the trade of our possessions, but it would have been better if that permission had been accorded with a more cautious regard to future consequences and with greater discrimination between the subjects of this country (England) and strangers." The reasons* for such an observation were that the previous commercial treaty entered into with America placed her in respect to duties in India on the footing of equality with the British subjects, that this gave her greater and decisive advantages over the Company and the British private merchants in the Indian commerce during the Napoleonic war and that much of the British trade with India was lost to neutral countries during the war. So they recommended that foreigners should be subjected to double the duties paid by the British subjects on imports and exports. Nothing was done untill 1811, when, by Regulation III of the same year, the principle of discrimination with reference to

* Despatch to Bengal, 3rd August 1808.

nationality of ships was introduced in the Customs Regulations of Bengal. The principle, whose object was that the foreigners should be twice as badly off as the British, was followed up in regard to imports and exports; and the schedule of import and export duties and draw-backs was arranged accordingly. Foreign vessels were strictly excluded from the coastal trade of India. Similar principle was adopted in the Customs Regulations of Bombay in 1813 and of Madras in 1812. In Bengal the system of levying duties according to fixed valuation was set aside in 1812* in favour of the *ad valorem* system.

In 1813 an important change of far reaching effects took place in the British trade with India. From its beginning till 1813, the trade of England with India was the sole monopoly of the East India Company. After a good deal of controversy about the monopoly or Free Trade with India, it was decided in 1813 to deprive the Company of its monopoly in trade with India and to allow the private merchants to trade with India freely. In 1813 an Act was passed to incorporate this change, prescribing at the same time certain principles for the Customs Regulations of British India. Section 24 subjected the commerce of the Company to the payment of the like duties and customs as that carried on by private traders. Section 25 directed that no new or additional duty or tax upon the import or export or transit of any goods or merchandise whatsoever shall be valid in India until sanctioned by the Court of Directors with the approbation of the Board of Commissioners acting on behalf of the British Cabinet.

In pursuance of the power conferred upon them by the above Act, the Directors began with the process of reducing the existing import, export and transit duties for the purpose of giving every facility to British trade with

*Reg. I & XIX.

India and sent the following directions to the Governments of Bengal, Bombay and Madras in the important despatch of 29th July 1814 :—

(1) To allow free entry to certain manufactures from Great Britain carried on British registered or Indian built ships.

(2) To reduce import duty on other articles from Great Britain shipped in the same way.

(3) Having paid the import duty at one port, the articles to be exempted from any further duty in their coastwise movements from port to port.

(4) Double duty to be charged on foreign goods.

(5) Full refunds of all duties to be allowed to Indigo, Cotton, Hemp, only if exported to the United Kingdom; and on all other articles of export a draw-back was to be allowed so as to leave the duty not exceeding 2½ per cent.

(6) The double duty principle applied with reference to shipping was to be continued.

(7) Positive injunction to keep the inland duties regulations as they were in force. No significant change in inland duties except that inland duty on cotton wool to be so modified as not to exceed 5 per cent *ad valorem.*

(8) No higher export or import duties to be levied at Bombay and Madras than those at Bengal. The Bengal rates to be considered maximum. They may have lower rates.

As result of these instructions, Regulation IV of 1815 of Bengal and similar Regulations at Bombay and Madras

were passed. With a view to encouraging the exportation of the staples and marine stores of Great Britain, all articles of woollen and metal manufactures, and canvas, cordage and marine stores, all of British origin, which hitherto had paid the duties from 5 per cent.to 10 per cent, were declared free when imported into British India, provided they were brought in British or Indian-built ships ; and the existing duties on all other articles of British origin and similarly imported were reduced to 2½ per cent. The export duties on articles, being the produce or manufacture of British India and sent to the United Kingdom in British or Indian-built ships, were similarly abolished in some cases and reduced to 2½ per cent. in others. Other features of the Regulations were the same as outlined in the despath of the Court of Directors.

Now the rates of duties on foreign trade of British India were determined by two considerations: (1) the origin of the imports and the destination of the exports ; (2) nationality of ships in which the goods were carried ; in each case the double duty principle was applied. The following illustration will clear the point :—

Imports into British India.

Names of articles,	Imports from the U. K.		Imports from Foreign Nations.	
	In British Ships.	In Foreign Ships.	In British Ships.	In Foreign Ships.
X	2½% or nil.	Not Possible owing to British Navigation Laws.	5%	10%

Same was the case with exports.

Regulation XXI* of 1817 carried the principle established by the Regulation of 1815 still further in its

* Similar Regulations were also passed in other Presidencies.

scope. "With a view to further encouragement of British Commerce," the free list was increased, including this time wrought and unwrought metals of British manufacture and extending the application of the "Marine Stores" clause to more articles. Section IV of the Regulation introduced into the customs system a new principle that British goods, imported into any British India port and afterwards re-exported to any other port or place in other Presidencies, were entitled to free entry at the latter on producing a certificate to the effect that the import duty had been paid at the original port. Thus the inter-Presidential trade in British goods was practically made free by the introduction of this certificate system, which, however, was not made applicable to the inter-Presidential trade in Indian goods.

The customs system of 1810 thus underwent serious changes, which disturbed its balance and uniformity and caused taxation to operate with a very unequal pressure on inland and foreign trade. The effect of the modifications in the scheme of 1810 was to reduce the taxation on the British trade with India to rates, the maximum of which was $2\frac{1}{2}$ per cent. Interests of British commerce and industry were thus encouraged and the objects of British national policy served. But in this intense anxiety to promote British interests, the harmful effects of such changes on the interests of Indian industry and trade were wholly overlooked. The produce and manufactures of India suffering under the oppressive and heavy inland duty system were undoubtedly placed in an unfavourable position in competition with free and lightly-taxed machine-made goods imported from Great Britain. Besides this inequality of burden, the changes caused a loss of revenue and "dried up some considerable sources of revenue."* It is interesting to note here that the Government thus

* Customs Committee of 1835. Report 1. p. 56.

sacrificed an important source of revenue; while on the other hand the entire abolition of all inland and transit duties, whose evils were quite intolerable, was postponed on the sole and simple ground of the loss of revenue.

A result of this inequality and partiality of taxation was a serious injury to the trade and manufacture of piece-goods in India. This fact drew attention of the Court of Directors who sent a despatch to Bengal, 11th. June 1823, which discussed the situation and suggested a remedy that "no impediment should be interposed by your fiscal regulations in the way of any portion of that prosperity which such branch of industry (piece-goods) would otherwise enjoy." Accordingly, by Regulation V of 1823, the inland or transit duty upon piecegoods of British India was reduced from $7\frac{1}{2}$ per cent. to $2\frac{1}{2}$ per cent. Such goods having once paid the inland duty were to be exported freely if sent to Europe on British ships, were to be charged an export duty of $2\frac{1}{2}$ per cent. if exported to Europe in foreign ships, and were liable to an export duty of $2\frac{1}{2}$ or $7\frac{1}{2}$ per cent. according to British or foreign ships if exported to places not in Europe.

The relief, such as it was, came too late to do any service to the depressed Indian industry. Besides, it was only partial. There still remained the inequality of taxation on other Indian articles which were heavily taxed; while similar articles of British origin were free or lightly taxed. The general inland trade in Indian produce was still under the burden of inland duty, which was not only heavier than the duty imposed upon the British trade but even more than the duty borne by goods of foreign Europe imported into India. This fact will be clearly brought out, if the tariff schedules of 1815 and 1817 are examined in comparison with the tariff schedule of 1810. No important change had been made in the

customs system thus established during the period under review.

A general examination of the Sea Customs Regulations of other Presidencies will convince anybody that no useful purpose will be served by summarising them in detail. The important changes and their tendencies were the same in all the three Presidencies, because after all they were based upon the principles commonly laid down for all by the Home authority. There were, no doubt, some slight differences in rates, dutiable articles and also in the administrative provisions of the Customs Regulations of different Presidencies; but this fact does not vitiate our conclusions.

To conclude, the following are the outstanding features of the Customs Regulations during this period:—

(1) Each Presidency was treated as a separate customs unit rather than a part of an economic whole. The trade between one Presidency and another was in no way less subject to duty than with foreign countries. Each Presidency had its own tariff and tariff regulations under its own legislative and administrative control. But the fact that they were based upon the common principles laid down by the Court of Directors and the Board of Control and that they were subject to their final approval helped to introduce some unity of policy, though not uniformity, into the tariff systems of different Presidencies.

(2) The British inherited the native transit duty system in its worst form as a legacy of the Native Rule. Reconstruction of Land Customs was carried on the lines of codification, consolidation and simplification, with a view to bring them under proper Government control and to make this source of revenue adequately productive. Systems resulting from this process of reorganisation were, owing to the different local circumstnces, different

at the principal Presidencies. The system established at Bombay was based upon the old transit duty system, stripped of its abuses under misrule ; yet, it was operating as a universal tax on the general trade of that Presidency. In Bengal a consolidated inland duty system was established with a highly elaborate machinery, the evils and abuses of which were extremely serious. But the distinctive evils of the toll-system of Bombay and of the consolidated duty system of Bengal had combined in the inland duty system of Madras. In effect, the inland duty at Madras resembled more a universal excise on consumption than a tax on trade.

(3) As for the productive interests of each Presidency, the inland duty system dismembered the area into small units surrounded by cordons of customs stations, restricted the commercial intercourse between the adjoining districts and thus prevented the natural distribution of the resources of the territory to the most profitable employments.

(4) After the resumption of the land customs under the direct Government control, every measure for improving them proved a mere palliative. All the arrangements that had been successively tried had, one and all, intended to produce a maximum of revenue with a minimum of vexation and obstruction to the trade and industry of the people. Yet, all yielded a minimum of revenue and caused a maximum of inconvenience to the trade and industry of the people. This fact indicated that nothing short of an entire eradication of inland duties could remove the evil. The evils of the inland duty system were often recognised by authorities at Home and in India; but every time the loss of revenue stood in the way of its entire abolition, though, on the other hand, the Government did sacrifice a considerable source of revenue by greatly reducing the taxation on British trade with India.

(5) Articles imported by Sea after paying the import duty were allowed free transit inside the territory. As for exports, the difference between the inland duty and the export duty was so adjusted as ultimately to retain the prescribed export duty. The inland duty was wholly refunded on articles freely exported to Great Britain. The inland duty system, therefore, did not affect the foreign trade of India which was largely British. But though favourable to foreign trade, it proved exceedingly obstructive to local trade and industry. Foreign trade was, in consequence, unduly encouraged at the expense of local trade.

(6) 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. Strong preference was given to British shipping by charging foreign vessels double the duty paid by British vessels and by excluding the former from the carrying and coastal trade of India which was reserved to the latter. Also strong preference was given to British commerce and manufactures by charging foreign goods with double the duty paid by British imports. Thus foreign goods brought to India in foreign vessels paid four times the duties levied upon British goods imported in British ships. This system of discrimination was closely applied to the export, import and draw-back schedules of British India.

(7) This preference to British imports turned not only against the interests of foreign nations but also against those of home manufactures. Most of the imports from Great Britain were admitted free, and others paid a nominal duty of 2½ per cent; while the generality of Indian produce and manufactures were suffering under

the inland duty of $7\frac{1}{2}$ per cent. and the oppressive system of collection. The heavily taxed produce and manufactures of India were, in consequence, placed in an unfavourable and unfair position in competition with the lightly taxed or free machine-made goods from Great Britain. Interests of British commerce and industry and objects of British national policy were thus encouraged at the expense of Indian trade and industry. In addition, this preferential measure sacrificed a considerable source of public revenue.

(8) In pursuance of the same policy, the export of Indian raw produce like Silk, Indigo, Cotton, Hemp, &c. to Great Britain was encouraged by relieving them from any export duty and by fully refunding any inland or transit duty paid by them. With these exceptions, exports of British India generally paid at least an export duty of $2\frac{1}{2}$ per cent., paid more according to destination and still more if carried in foreign vessels; while similar British goods were exported freely from British India, if freely imported, or were allowed on re-exportation a substantial draw-back of the import duty of $2\frac{1}{2}$ per cent. paid by them. Here also a preference was thus given to British over Indian interests. On the other hand, strict restrictions on Indian exports in foreign vessels could not have failed to injure the interests of Indian produce and manufactures.

(9) The joint operation of the inland duty system and the sea customs system and the taxation of goods not only according to flag but also according to the origin of imports and destination of exports produced unparalleled perplexity, inextricable confusion, endless vexation and inadequate revenue.

(10) Till 1813, customs duties were levied only upon a part of the foreign trade of British India. The

greater part of the trade was carried on by the Company and was therefore exempted from any taxation. After the deprivation of its monopoly in 1813, the Company's trade was taxed in the same manner as that of private British merchants.

(11) Lastly, from the beginning of the British Rule India was not considered as distinct in her fiscal relations and interests from the United Kingdom. The regulation of the foreign trade of India was strictly a matter for decision by the authority in England, which was accustomed to balance the British trade interests with those of other European and foreign powers with which they were closely entangled. In Customs and Trade Regulations a preference was always given to British over not only foreign but Indian interests as well.

CHAPTER III.

PERIOD OF REFORMS 1833 TO 1857.

Prior to the renewal of the East India Company's Charter in 1833, each Presidency had a Legislature of its own. So there were different sets of Government Regulations in force in the Indian Empire. The Charter Act of 1833 vested the legislative power of the Indian Government for the whole of British India exclusively in the Governor-General-in-Council, assisted by one Law Member. The Presidential Governments had simply to submit to the Governor-General-in-Council "drafts or project of any laws or regulations which they might think expedient" for their consideration as the Supreme Legislative Council of British India. But so much inconvenience was felt from the Local Governments not being represented that when by the Act of 1853 a separate Legislative Council was established as distinct from the Executive, it was provided that each Presidency should have a representative in the Council. The power of legislation, of which the Provincial Governments were deprived in 1833, was restored to them by the Parliamentary Act of 1861, but "Customs" among many other items was reserved as a subject for the Central Legislature's decision. Hence, in relation to Customs, British India had from 1833 a common source of legislation.

The period that has been selected as the subject of this Chapter witnessed a series of reforms in the Customs Regulations of 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 19th

century, which was specially characterised by similar reforms in relation to Trade, Tariff and Shipping restrictions.*

Abolition of Inland Duties.

In the last Chapter we have tried to summarise briefly the important developments in the Land Customs Regulations. Here we shall first try to recapitulate the situation of the inland duty systems prevailing in British India before their final abolition. The inland customs system in Madras and Bengal, called the Consolidated Duty System, was more oppressive and injurious both in rates and in the method of collection than that in Bombay. It was not so much the amount of the rates as the operation of the checks upon the evasion of the duty, carried on by ill-paid and corrupt officers, that was considered to constitute the real grievance of the system. Delays, detentions and illegal exactions,—the inevitable consequences of the system—operated as a heavy tax upon trade, which none of the staple commodities could escape. Again, the system proving, as it did, a serious hindrance to freedom of commerce between neighbouring districts obstructed the natural distribution of industries according to natural powers of the land and the ability of the people and limited the employment of improved means of production. The benefits derived by industries from the freedom of so extensive a home market as that of British India were thus destroyed by inland duties. The industry and trade of British India were as much oppressed by the inland duty regulations as if they were prey to the conflicting claims and jealousies of numerous independent states. In return for these evils, the net profits to the state were very inadequate in comparison with the extent of the trade and of the

* "Industrial and Commercial Revolution, etc." by Dr. Knowles, p. 110.

population over which the system prevailed. In Madras the evils were still worse, because there the inland duty system worked not only as a tax on trade but also as a general consumption duty; and the system of farming adopted in this Presidency rendered the evils similar to those of the " Sayer Collections " of the native system described before. Generally, though the articles of foreign trade were free from inland duties, successive delays, detentions and illegal exactions must have acted in effect as a heavy tax even on them. In short, the whole inland duty system divided, by various artificial barriers, the different provinces from one another and was, moreover, inadequately productive to the state, oppressive and vexatious to merchants, injurious to the people at large and depressive to trade and industry of the people.*

It is very curious to notice that the general question of inland duties in India was not seriously considered earlier than it was. We have seen that since the abolition, after 1814, of the equality of charges on foreign trade and inland trade, only the question of Indian piece-goods being taxed more heavily—(in fact the whole inland trade was so taxed)—than those from foreign countries, drew, in 1823, the attention of the authorities at Home and in India. The Governor-General in his minute of May 22nd 1823 on the question did not desire to discuss the general question of inland duties. He feared

* How far trade and industry were adversely affected by inland duties cannot be measured with any statistical exactness, as no statistics of inland trade of that period are available. Perhaps, they do not exist. Trevelyan in his famous report clearly points out the various ways in which the system must have operated in depressing the productive powers of Indian manufacturing and agricultural industries. For this refer to Chap. IV also. All authorities who have written on the topic of inland duties in India from their personal experience agree with the above description: Trevelyan; F. J. Shore; Mackenzie; 1835 Customs Committee Report 1; Col. Sleeman's Rambles in India.

losing revenue, even though he recognised the benefits which would accrue from their abolition.*

The only serious and scientific attempt made, however, for the first time to get rid of all inland duties was one by Mr. Mackenzie in 1825. He, having full personal experience of "Customs" in India, prepared a memorandum† in which he advocated the policy of a radical change in the customs system by abolishing all inland duties and by making extensive modifications in the sea customs regulations. He proposed to make up the deficit by increased revenue from foreign trade, which was calculated by him to be the principal potential source of additional revenue. But his efforts were not materially fruitful. The Government of Bengal, admitting all the evils described by him, did not accept the recommendations on the ground of their inability to sacrifice revenue at the time.‡ However, the efforts of Mr. Mackenzie had the effect of eliciting from the Governor-General-in-Council and the Court of Directors, a very decided condemnation of the policy of raising money by inland duties.§ In 1830 the Court of Directors asked definitely the Governor-General-in-Council to consider the expediency of abolishing inland duties altogether.||

As a happy coincidence, Lord William Bentinck went out to India in 1828 as a Governor General. In India he took up the matter very seriously and appointed Sir Charles Trevelyan to make an enquiry and submit a report on inland duties. The report is a masterly exposition of all the evils of the system and suggested a reformed plan, similar to that recommended by Mr. Mackenzie

* Letter from Bengal 29th May 1823. Minute, paras. 69 70 71 72.

† P. P. 735. 111. H. of C. 1832, appendix 146, pp. 713-722.

‡ Letter from Bengal, 31st May 1827.

§ Despatch of the C. of D. 10th June 1829.

|| Despatch of the C. of D. 27th January 1830.

in 1825. In England the question was taken up by Lord Ellenborough of the India Board, who in his letter of 18th March 1835 to the Chairman of the East India Company pointed out in a very forcible and concise language the evils of the system.* Having regard to the evils described, it is no wonder that the subject of inland duties became a matter of close enquiry before the Select Committees of Parliament in England from 1830 to 1832.

The publication of Trevelyan's Report produced a stirring effect in India, with the result that the solution of the question was thought urgently necessary. Consequently, a Committee was appointed by Lord Bentinck in 1835 for the purpose of improving the system of customs revenue. As for inland duties, the Committee was asked to remove their obvious evils without sacrificing the revenue or to find out a less objectionable substitute.† Out of the voluminous reports and correspondence between the Government of India and the Court of Directors on the question of the abolition of inland duties in the three Presidencies, we shall select such points as will suffice to give us a complete insight into their nature.

While the Committee was pursuing the course of their enquiries, the Governor of Agra abolished, without the sanction of the Government of India, all inland duties in his province.‡ The Governor-General-in-Council was induced, by this action and on representations from certain Commercial bodies, to abolish all inland and town duties except those on the Western frontier in the Presidency of Bengal and the territories subordinate thereto.§

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* P. P. 202 H. of C. 1840, pp. 107-109.

† Letter from the Government of India, 2nd. Sept. 1835.

‡ Letter from India, 2nd March 1836.

§ Letter from India, 4th January 1837.

The Committee immediately considered the means of realising an equivalent revenue. Sea custom duty was thought to be one of them. By the Act XIV of 1836 all inland duties were abolished in Bengal except those on the frontiers. Import duties were increased on many articles. Articles of export and imports, previously free, were charged a low duty. The free list was greatly reduced. The revenue derived from this revised tariff was more than had been estimated.*

After this, the Committee was asked to consider the applicability of the revised tariff of Bengal to the Sea-borne commerce of Bombay and Madras, in case the inland duties were abolished there. For Bombay the Committee proposed three sources of income to make up the loss, *viz.* adoption of the sea customs regulation of Bengal, increased duties on salt, and town duties in the large cities in the form of municipal taxes for local improvements.†

The fifth report on the whole strongly recommended the abolition of the inland duties of Madras and Bombay and expressed their opinion favourably to the application of the Bengal Act XIV of 1836 to Bombay and Madras on commercial and financial grounds, with the hope that financial loss would, in the end, be compensated by the increased commercial prosperity under the operation of the new system‡. Accordingly, the Act I of 1838 abolished the inland duties in Bombay, except those on frontiers and municipal taxes such as town duties, tolls, etc. The sea customs tariff was similar to that of Bengal.

The Madras Government did not accept the Committee's recommendation on the strong financial ground that it would involve a loss of revenue in times of

* Letter from India, 4th January 1837.
† Ibid.
‡ P. P. 666 H. of C. 1851, para. 17.

emergency. The Committee was then asked to recommend measures of partial relief. From 1836 three schemes were under consideration for Madras:—(1) entire abolition, (2) gradual relief locally by freeing district after district from inland duties or (3) partial relief by abolishing only the most generally vexatious duties. The Committee, in their sixth report submitted in November 1836, recommended the second scheme, with the hope that the system of partial relief would be extended to complete freedom as soon as financial circumstances would admit.* But this scheme was not accepted by the Government of India and the Court of Directors who in 1837 recommended the third scheme.† Accordingly, in 1837 only 36 articles remained subject to inland duties in Madras.‡ The measure of relief was confined to certain vexatious and unproductive duties. This step was only a step in advance towards the desired assimilation to the state of things in Bengal and Bombay. It may be noted here that the entire abolition of inland duties in Madras had to be postponed till 1844, owing to the financial difficulties arising out of the Afghan War and the failure of the opium monopoly.§ Ultimately in 1844|| the levy of inland duties in Madras was abolished except those on the frontiers and the sea customs tariff of Bengal was adopted.

One important fact worthy of comment that comes out of the history of inland duties in India under the British rule is that their abolition had been frequently postponed on the sole ground of the loss of revenue, in spite

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* P. P. 666 H. of C. 1851. p. 73. para. 47.

† Despatch of the C. of D. 7th. June 1837.

‡ The Madras Gazette, 17th July 1837.

§ Trevelyan's evidence before the Select Committee of 1840. P.P. 527 H. of C. 1840, p. 77.

|| Act VI of 1844.

of the fact that their evils had been recognised every time. It may be questioned whether there was a sufficient reason for the prolongation of this intolerable evil.

Generally speaking, any form of taxation is to be judged by the following considerations. (1) If a tax is progressively productive, it justifies its levy and the rate at which it is fixed and it is even capable of further developments in times of emergency.(2) If it is stationary, its levy at that rate is doubtful; (3) but if the produce from it is declining, it proves that the tax is excessive. In other words, the people or the commodities which are taxed ought to be competent not only to bear the burden but to rise under it. If this improvement both in the produce of the tax and in those that are taxed is clearly and progressively exhibited, it indicates the possibility for a further increase in the rate, and if not, it may be taken that the burden impedes the improvement and progress and hence requires reduction or abolition. Moreover, in the declining state of those that are taxed, it is only necessary that they should be relieved of the burden.

These remarks are no less true in the case of inland duties on trade and manufactures. Not only the immense injury caused to trade and manufactures of the country by the system of internal duty in India had been proved by Trevelyan and others, but also its unproductiveness. From the very beginning, the question of inland duties ought to have been tackled with a spirit of sacrifice in the hope that the deficit from their abolition would be compensated by means of the impetus which the withdrawal of the vexatious and harassing restrictions must give to general commerce and industry of the people. That is the spirit in which the whole question was tackled by Trevelyan and others and by the Customs Committee of 1835.

The question was whether the deficiency in revenue could not have been made up from the general commerce of the country in a different and less objectionable way. In this connection the following points are worthy of serious consideration. Firstly, the trade of the East India Company, which formed the greater part of India's foreign trade, was free from any taxation from 1765 to 1813. The East India Company itself being the ruler did not like to tax its own commercial interests. But the fiscal interests of British India, for which it accepted the responsibilities of a ruler, demanded that its trade also ought to have been taxed. The reduction of taxation on British trade with India certainly sacrificed a considerable source of legitimate revenue. "We determined to abandon (especially at the present juncture of financial stringency) so considerable a revenue as under the operation of these regulations must be relinquished."* The Customs Committee of 1835 remarked : " Not only were a large class of articles which were looked upon as legitimate objects of taxation and were regarded as likely to be productive entirely exempted from duty both on import and export, but the rates of duty to be levied on import and the amount to be retained on export were with respect to a vast number and variety of articles lowered. We shall remark that the alterations disturbed the uniformity of the system and that they caused taxation to operate with a very unequal pressure, at the same time they dried up some very considerable sources of revenue."†

A considerable amount of revenue could have been realised from the foreign trade of India without any serious injury. The rate of import duty was onlv 2½ per cent *ad valorem*. In fact, many articles were absolutely

* Letter from Bengal, 10th Oct. 1817.

† P. P. 151. H. C. 1851. 1st Report, pp. 55-56.

free from duty. The import* trade of India was continuously increasing. Under these conditions, attempts ought to have been made to tax the import trade of India as far as it could bear. Moreover, at that time foreign goods were largely used by the wealthy classes of India. They could have borne the burden, while the increased revenue could have been used in relieving the poor masses and the declining home industries from the universally condemned inland duty system. In the same way, Indian raw materials being in great demand by the manufactures in the West would have yielded a sufficiently large income from a moderate revenue duty on their exportation from India without preference to any country. For these reasons, foreign trade of India ought to have been looked upon as a legitimate source of additional revenue. The only reason for not doing so was the intense anxiety of the British Government to promote the interests of British manufactures and British trade in India, especially at the time of trade depression (1815-1830) after the Napoleonic war, by admitting them freely into the great market of India. No one has ever disputed the justice of taxing foreign imports, when similar articles of home manufacture are already taxed under an excise or an inland duty system. To allow foreign imports to enter free of duty while native ones are

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* Export of merchandise from Great Britain to India for selected years :—

1800	£1,428,659.	1820	£2,990,996.
1802	1,739,859.	1822	3,163,047.
1805	1,693,025.	1827	3,662,012.
1807	2,042,658.	1828	3,470,663.
1808	2,283,597.	1830	3,340,948.
1810	2,038,251.	1835	3,192,692.
1811	1,973,580.	1836	4,285,829.
1815	2,153,120.	1837	3,612,975.
1816	2,162,152.	1839	4,748,607.
1817	3,034,505.	1840	6,023,192.
1818	3,093,892.		

Prepared from Macgregor "Commercial Tariffs" India, Ceylon, etc. Part XXIII, p. 147.

heavily taxed would at once reduce and divert the normal course of industry.*

If, as an alternative to the entire abolition of inland duties, it was the question of selecting between greater and lesser evils, the idea of raising revenue by the old native transit duty system described in the first chapter, as distinguished from the consolidated duty system of the British period, should have been seriously considered. Authorities like Trevelyan and the Committee of 1835 were agreed as to the fact that, in certain points such as the rate of duty and the method of collecting it, the native transit duty system under well regulated and systematic government was decidedly superior to the British system of a consolidated duty.† The Hon. Frederick John Shore definitely supported this alternative.‡ The fact that in the Bombay Presidency, where the native transit duty system was continued in a modified form, the evils of inland duties were less serious than in Madras and Bengal, justified the trial of such a proposal.

The reason, why this alternative was not tried, apparently lies in the difference between the effects of the two systems upon the foreign trade of India. The great mass of inland trade at this time consisting of transactions between neighbouring districts and between parts of the same district would be lightly taxed by the native transit duty system; while upon the articles of foreign trade, the accumulation of successive

* Bastable " Public Finance, " p. 555.

† 1st Report of the Committee of 1835, p.23; also Trevelyan's Report, pp. 2, 27, 28, 71.

‡ " Should Governmet not be willing to adopt his view (Travelyan's recommendation for entire abolition) I can suggest an infinitely better system than that which now exists, and that is, simply to revert to the old native system of frequent moderate tolls. I am convinced that a similar sum or nearly so might be raised by a much better system than that of the present internal customs and town duties. " "Notes on indian affairs", Vol. 2, p. 307.

transit duties would greatly augment the burden. But the consolidated duty system would have quite the reverse effects upon inland and foreign trade. Between the two, the latter system which encouraged foreign trade of India, a subject of greater concern to the British Government, was naturally adopted.

Out of all these alternatives for raising revenue equivalent to the loss from the abolition of inland duties, none was tried by the Government. Therefore, the consideration of revenue does not seem to be the adequate reason for continuing them so long as they did. It can only be explained by the indifference on the part of the British Government towards the interests of local trade and industry of the people of India and by their pre-occupation with their policy of encouraging the interests of British trade and industry in India.

The subject of inland duties had not been paid, until 1825, as much attention as that of Sea Customs and whatever attention had been paid by the East India Company government was largely from the financial point of view. The oppressive inland duty system and the inequality of taxation on local and foreign trade, which were seriously injurious to the vital interests of inland trade and industry of India, were never the subjects of any anxious inquiry. "The trade with England which is in the hands of our countrymen is an object of daily attention but as we have not had any concern with the internal commerce of the country for many years past nobody has thought of making it his study."* The despatch of 29th July 1814 from the Court of Directors, while directing the Government of Bengal and similarly other Presidencies to reduce taxation on British trade with India, sent them a positive injunction

* Trevelyan's Report, p. 174; also Mr. Mackenzie. P. P. 735 III H. of C. 1832, p. 714.

not to make any change in the inland duties in force, for which the despatch does not give any reason. But from the Customs Report* of Mr. Courtney of the India Board on which the despatch was based, it can be seen that the main subject of interest to the Home Government was British trade with India and not the conditions of local trade and manufactures of India.

But, fortunately for India, various reasons forced the authorities at Home and in India to attend to the subject which was so long ignored. Unjust inequality of burden upon external and internal trade, vexatious and oppressive methods of collecting inland duties and the consequent depressing effects upon trade and industry of the people, though by themselves constituting a powerful indictment, were insufficient to carry conviction to them about the utter futility of the whole system, until it was discovered that British trade with India was greatly affected in an indirect way by the inland duty system. Although it was directly free from any actual inland duty, delay and illicit exactions under the system formed a heavy tax upon it.† "Who can say to what extent the sale of British

* In the Report drawn up by Mr. Courtney on Export, Import and Transit duties in India in 1814 and upon which the despatch of the C. of D. of 29th July 1814 was based, the main trend of the recommendations is that the duties on external trade were to be reduced or abolished, while inland duties were to be kept as they were in force. He tried to justify this action in three ways (Report pp. 123 to 129 Home Miscellaneous 523):— (*a*) " In regard to the internal duties operating upon the consumption of the natives, the interference of the Board (of Control) is the less necessary .....They are not affected by the new system of external commerce, nor are any other interests immediately connected with them" than the revenue. Foreign trade being generally free from transit duties was supposed to be affected in no way by their retention.(*b*)He justified these duties as a tax on consumption for fiscal purposes, on the principle of charging the internal trade as far as it could bear. But the interesting point about this argument is that he recognised this principle in taxing the internal trade, while in the part of the report devoted to external commerce he was against charging even a very moderate duty for revenue purposes according to that principle, simply for the reason of benefiting British commerce and manufacture. (*c*) He thought it was hardly necessary to try an experiment of abolishing inland duties altogether.

† Select Committee of 1832, P. P. 734, H. of C. 1832, p. 72.

manufactures is obstructed by this truly barbarous system? In general what are supposed to be the peculiar interests of English trade and manufactures are favoured even at the expense of the just rights of this country (India) by the admission of English either free or at a disproportionately low rate of duty; but in the present instance (of 'this truly barbarous system') the interest of England and India are alike sacrificed at the shrine of the inland system."* Moreover, it was found out that British trade with India was also affected by the fact that the demand for British manufactures in India depended largely upon what the people could give in return for the manufactured goods. This required necessarily a prosperous condition of the industry of the people, namely Agriculture, which was greatly hampered by the operation of inland duties.† Consequently, when the authorities were convinced of the evil effects of inland duties upon British trade with India, they took the matter under serious consideration. For the same reason, the nature and operation of the inland duties became one of the subjects of close enquiry by the Select Committees‡ of Lords and Commons from 1830 to 1832. The Trevelyan Report brought the movement to a climax and the Committee of 1835-37 brought it to a successful termination. The question of transit duties in Native States will be considered in a later Chapter.§

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* Trevelyan's report p. 46.

† P. P. 734. H. of C. 1832, p. 61; also Trevelyan, p. 159.

‡ For the subject of "Transit Duties in India" one should refer to the Report of the Select Committee of 1832 (P. P. 734. H. C. 1832, pp. 71-72) and also to the commercial appendix (735 11-H. C. 1832). Why were they abolished? The general demand before the Committee was that they must be abolished, because they indirectly restricted British Trade (import and export) with India.

§ Refer to Chapter IX.

Assimilation of the Tariffs of all Presidencies.

From the beginning of the British Rule in India, the general rate of duty at ports like Calcutta, Bombay, and Madras was 2½ per cent. Later on, there arose some difference in rates at these ports, owing to certain local circumstances. In spite of the repeated efforts in 1794* and 1814† in the direction of the equalisation of rates at the different Presidencies, local circumstances persisted in creating difference not only in rates of export and import duties but also in the administrative provisions of the Customs Regulations. No reform with a view to form a simple and uniform customs system applicable to the whole of India could be effected until very much later. The question had to be postponed until the general revision of Inland and Sea Customs in 1835.

As time went on, the foreign trade of India increased and the question of assimilating the tariff rates and regulations of all provinces in India became urgent on account of the great inconvenience that arose out of regulating the commerce of India by a variety of laws. In their letter to the Court of Directors the Customs Committee of 1835 said : "By the tenor of instructions they were bound to regard the whole of India in the light of one Empire, the interests of all parts of which were to be considered not with the view of applying separate remedial measures to each and leaving the line of demarcation which partitions each Presidency into a distinct country whose fiscal systems had reference to it alone as strongly definded as ever but with the intent of blending and reconciling them so as if possible to reduce the customs laws of all Presidencies into something like simplicity and uniformity without losing sight of the financial interests of the state." The means by which they intended

* Despatch to Bengal, 19th Feb. 1794.

† Despatch to Bengal, 29th July 1814.

to do this were the abolition of inland duties and the substitution of a uniform schedule of export and import duties.* In 1836 Bengal† was the first Province to put these measures into practice. Bombay‡ followed the example of Bengal in 1838 and Madras§ completed the reform in 1844. Thus we see that in 1844 India had a uniform customs system. It is from this time that India should be regarded as a single economic country with a common external tariff. ||

Abolition of Preference to British Shipping in Indian Trade.

Preference to British trade with India was the direct result of the application of the British Navigation Laws to Indian trade. We shall briefly go through some important stages from their application to their abolition.

In 1660 an Act for encouraging and increasing the shipping and navigation of England was passed. Therein it was enacted that thenceforward no goods or commodities should be imported into or exported from any territory belonging to His Majesty or which might thereafter belong to His Majesty or his Heirs or Successors in Asia, Africa, or America, in any other than English built and English manned ships.¶

The Navigation Act was passed with two sets of objects, *viz.*, political and economic. The political aim can be described as the preservation of National

* The Committee's letter to the C. of D. 12th March 1836.

† Act XIV of 1836.

‡ Act I of 1838.

§ Act VI of 1844.

|| Though rates and regulations of the three Presidencies were equalized and assimilated, the values according to which the *od valorem* duties were assessed were not equal and uniform until 1860 at all the ports

¶ 12. Charles II, cap. 18. This Act was further amplified and extended in 1663, 1672, and 1696,

Independence. The main economic aims were (1) to reserve the colonial trade for English shipping against the Dutch, who at that time monopolized a good deal of the carrying trade; (2) to render England an emporium for the trade of the whole world and (3) thus to encourage and increase English shipping generally. With these objects, the Acts prohibited or restricted foreign ships in certain lines of trade. The colonial and coasting trade was reserved for English shipping; certain enumerated articles from foreign countries were reserved for English shipping; and in those cases where foreign ships were allowed, the goods brought by them were charged with additional duties.*

This Act was automatically applied to the territorial possessions of the East India Company in India. In England hardly any modification was made in the Act until 1776.† The Industrial Revolution and the agricultural changes caused an important expansion of English Commerce after 1776. The improvements in manufactures gave an impetus to English export trade, while England began to become more and more dependent upon other countries and colonies for her food stuffs and raw materials. Consequently, there developed a new characteristic in her foreign trade.‡ The American Colonies constituted a good source for the supply of cotton and food to England. After the war of Independence, England did not like to lose this source of supply, whose value was fully recognised during the Napoleonic War. These facts forced England to modify the Navigation Act in 1796. Again, "by the end of the 18th century

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* Dr. Knowles, "Industrial & Commercial Revolution" p. 294.

† Cunningham "Growth of English Industries and Commerce," Vol. II. p. 292.

‡ Ibid. p. 508.

the English position was so strong that she could afford to consider making some modifications in her system"*

Dr. Knowles' classification of the period from the first change in the Navigation Act to its final abolition will be adopted here. This period is divided into three parts:—(a) the period of minor relaxations 1796-1822; (b) the change from Monopoly to Reciprocity 1822-1840; (c) abolition of the Navigation Act 1849-1854.†

(*a*) Period of minor Relaxations 1796-1822.

The first change occurred in 1796, when the ships of the United States of America were allowed to trade with Great Britain and her possessions under certain conditions. The thirteenth article of the Treaty of Commerce, Navigation and Amity between Great Britain and the United States of America, of 19th November 1794, gave freedom to the American ships to trade with British possessions in India subject to the customs regulations of the territory. Accordingly, the Act 37 George III, cap. 117 (1797) empowered the Court of Directors of the East India Company to frame, with the approbation of the Board of Commissioners for the affairs of India, "such regulations for carrying on the trade to and from the British Possessions in the East Indies and the countries in amity with His Majesty as shall seem to them most conducive to the interests and prosperity of the said possessions in India and of the British Empire," provided that it was not lawful for the Court of Directors to frame any regulation for the conduct of that trade which would be inconsistent with the Imperial Treaties of Commerce or any Act of Parliament.

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* Dr. Knowles, "Industrial & Commercial Revolution" p 296.

† Ibid. p. 235.

Being thus empowered, the Court of Directors laid down in 1807-8 a general principal to regulate the trade of the foreign nations in amity with His Majesty with British ports in India. In their despatch of 6th November 1807 to Bengal, the Court of Directors instructed thus:—The ships of any nations **having settlements** in the East Indies and being in amity with His Majesty should be given hospitable reception and liberty to trade at the British ports in India subject to the established regulations in any case whether they might come directly from their own countries or from any of the ports and harbours of the East Indies. They should also be allowed to clear out for any port in the East Indies but when they cleared out for Europe or America they should be cleared out directly for their own country. The ships of the nations being in amity with His Majesty but **having no settlements** in the East Indies were to be given the same treatment except that they were not allowed to proceed to or come from any harbour or any foreign settlement in the East Indies.* The general principle of the whole despatch was that only the direct trade with India was to be allowed to foreign nations, while no coasting or general carrying trade was to be allowed to them. Another despatch of 3rd. August 1808, in continuation of the above subject, laid down the principle that the goods in foreign ships should be charged double the duty charged on those in British ships. The Regulations IV of 1812 in Madras, X of 1813 in Bombay and III of 1811 in Bengal followed the above instructions.

After 1814 foreign goods, in consideration of their origin, were also charged double the duty paid by British

* The exception was removed after 1830. Regulations XV of 1830, Bombay, II of 1830, Bengal, and VII of 1831, Madras, allowed the ships of any nation being in amity with his His Majesty but having no settlement in the East Indies to come from and clear for any harbours in the East Indies. But even then no coasting trade or general carrying trade of India was allowed to them. Only direct trade was kept open to all foreign nations in amity with His Majesty.

goods. Foreign goods carried in foreign ships had thus to pay four times the duty on British goods carried in British ships.

In 1816 the Government of Madras suggested to the Court of Directors the reduction of the duties on the trade of foreign nations. The Court of Directors replied as follows: (para 7) "Should you be of opinion that it is advisable to reduce the present rates of duties levied on foreign trade, you will bear in mind that whilst it is expedient that the duties shall not be so high as to occasion a change in the course of that trade; it is desirable with a view to the interests of our revenue as well as to guard against a competition unfavourable to British Commerce and Shipping that they should not be reduced to a lower scale than is absolutely necessary to prevent the foreign trade which has been hitherto carried on with our settlements in India from being diverted into other channels."

Para 9. "The foregoing observations and instructions are applicable exclusively to the foreign exports from our settlements in India. The same considerations do not appear to apply to the foreign import trade, on the contrary it is desirable that the duties laid on goods the produce of other countries and particularly on wines imported on foreign bottoms into our settlements in India should be continued on a high scale, otherwise it is to be apprehended that this branch of trade will pass into the hands of foreigners under the superior advantages which they possess in carrying it on."*

(*b*) Period of Reciprocity 1822-1840.

"In the Twenties foreign nations were beginning to resent the British dominance of the carrying trade and

* Despatch to Bengal, 18th June 1817.

threatened to retaliate by Navigation Laws of their own."* Therefore, the old policy had to be modified. In 1823 the Crown was empowered by Parliament to negotiate with foreign powers treaties of reciprocity in relation to shipping.† Accordingly, between 1825 and 1843 reciprocity treaties were entered into with various foreign powers. The Navigation Acts were still further modified between 1822 and 1825 in the direction of removing the restrictions on the colonial trade. On the whole, the lines of the coastal trade and the inter-Imperial trade were still reserved for British Ships. By these modifications the danger of retaliation by foreign powers was averted,‡ and "as British shipping was much larger than that of foreign nations if concessions were made to get concessions Great Britain stood to gain by this arrangement."§

India was not to share the advantages secured by the Reciprocity Treaties with foreign nations; even though she was made to confer certain privileges upon them at her ports. To illustrate this, let us take one case. In 1815 a convention of commerce based upon the principle of reciprocity was signed between Great Britain and the United States of America and was renewed in 1818 and 1827. Article III of this convention regulated the trade of the United States of America with Calcutta, Bombay, and Madras and prescribed that the treatment, accorded to the most favoured nation of Europe, should be applied to the vessels of the United States of America at the above ports|| On the British side, all the reciprocal advantages derived from the treaty were

* Dr. Knowles, *ut supra* p. 296.

† 4 George IV C. 77.

‡ "Industrial Revolution" Cunningham, p. 831.

§ Dr. Knowles, *ut supra* p. 297.

|| "Handbook on Treaties relating to Commerce and Navigation" by Bernhardt, 1908 Edition, pp. 959 to 962.

to be enjoyed by the commerce of the British possessions in Europe only. There was no advantage whatsoever to the trade between India and the United States of America in favour of India in return for the concessions which she was made to accord to the United States of America. This shows that the almost monopolistic control of Great Britain over the Indian Trade under the Navigation Acts was used in negotiating reciprocity treaties with foreign nations in the interests of British trade and that the interests of the trade of India with those nations were not safeguarded at all. How the interests of the trade of India with foreign nations must have suffered can be illustrated by the following fact. The trade of America with India was favourably treated by the Government of India in obedience to the British reciprocity treaty of 1815. How was the trade of India with America treated by the American Government? "Prior to the year 1816 much the greater part of the imports from the British East Indies consisted of low-priced cotton goods. During the years 1802, 1803 and 1804 the value of these white cotton goods imported into the United States of America was estimated on an average at about 2,950,000 dollars. But by the tariff of 1816 the minimum price of cotton goods was fixed for the purpose of excluding entirely from the American market the low-priced Indian goods to protect the American planter and manufacturer."* Similar treaties were concluded with other foreign nations by Great Britain after 1824, by which, in return for the advantages to British trade from them, they were granted Most Favoured Nation treatment at the British ports in India. There was no provision in the treaties as to the treatment which these nations were required to give to the imports of Indian produce into their countries. In fact, their regulations prohibiting or restricting the

* "Commercial Tariffs" Macgregor, Vol. III, p. 814.

importation of Indian manufactures into their countries are well-known. Was it not desirable, at the time of the Industrial depression in India, to have secured by these treaties some concessions from foreign nations to Indian manufactures and trade in return for the favourable treatment granted to them by the Customs and Trade Regulations of India ?

In 1828 Mr. Bruce from the Bombay Government represented to the Court of Directors " the expediency of relieving the foreign trade of Bombay from the discriminating duties on the ground that such duties appeared to be not only opposed to the present commercial policy of the Mother Country (England) but particularly inapplicable in every respect to the port of Bombay." To this the Court of Directors gave the following reply :—

Para 10. " It is sufficiently certain in the first place as the extension of trade is a benefit to all parties that the resort of foreigners to your ports and market should be encouraged by all means which do not imply a sacrifice of some greater interests. (*i.e.* British interests.)

Para 11. "In the next place it is obviously desirable that the different foreign states resorting to your ports should be placed as nearly as possible on the same line in respect to advantages.

Para 12. "If any exception is admitted to this rule it should be in favour of those states which grant peculiar advantages to the British traders."*

The Court of Directors thus recognised the advantages to the trade of Bombay from the abolition of the principle of discrimination. But they were not prepared to sanction its abolition for the fear of sacrificing " some greater interests" which, they thought, would be served by

* Despatch to Bombay, 10th Sept. 1828.

gradually relaxing the principle of discrimination " in favour of those states which grant peculiar advantages to British Traders". The further proof of this follows below.

In 1837, the Act XIV empowered the Government of India to treat any states of Africa or Asia on the same terms on which the British ships were treated at the territories of the East India Company, if that state treated the British vessels visiting its territory as it would treat the ships of its own country. It is clear from this that if the conditions were fulfilled, the preference to British shipping as against the ships of that country would be abolished in India. In the same year, the Bombay Government again on the suggestion of Mr. Bruce recommended the Government of India to extend the same principle to the vessels of European and American nations. The Government of India replied that they were not competent to entertain such a proposal for the reasons that the trade of foreign nations with India was a matter of treaty arrangements between Great Britain and those foreign states and that, therefore, the regulation of that trade was not within the competency of the Government of India. Then follows this paragraph —

Para 43. "Without discussing the undeniable truths to which Mr. Bruce drew attention as to the effect of discriminating duties upon the conflicting interests of shipping and commerce and the operation of the Navigation Laws in obstructing foreign trade, which discussion would have reference as well to questions of international policy as to the encouragement of commerce and to objects of local fiscal regulations properly before the Government; it was remarked that the adoption by this Government of measures for at once introducing reciprocity with any European nation would separate the policy of India from that of the Empire at large..... and might even prejudice negotiations pending in Europe for obtaining the mutual relaxation of injurious legal

provisions.....The code of French Commerce, for instance, is in many respects even more unsocial than that of Great Britain.....When such restrictions exist there may be advantage in maintaining strictness on one side until there be exhibited some disposition to concessions on the other."* The Government of India further remarked that Great Britain had already entered into treaty relations with other powers binding herself to give them the Most-Favoured-Nation treatment and that, therefore, if any local advantage was given to any nation, the Most-Favoured-Nation clause would at once operate in all cases without any material advantage to British traders. Thus one can clearly see that the trade of India was used as a means of compelling the concessions of some advantage in favour of British Merchants without any material advantage to India and that the interests of India were subordinated to British interests, in spite of the fact that the operation of the Navigation Acts was calculated to obstruct the foreign trade and specially the export trade of India.

(c) Abolition of the Navigation Acts.

By 1840, the movement for free trade was in full swing in England. After a good deal of controversy, the free traders had their day and the Navigation Acts were repealed in 1849, while the coasting trade was thrown open in 1853.† The abolition of the Navigation Acts meant the absolute freedom of trade in the United Kingdom and its colonies and dependencies. Foreign ships were freely admitted not only in foreign trade but in inter-Imperial trade also. With the abolition of the Navigation Laws disappeared all the remnants of the restrictions of the old Colonial System.

The commercial policy of India being regulated in sympathy with that of the United Kingdom, similar

* Letter from India to the Court of Directors, 15th Nov. 1837.

† Dr. Knowles, *ut supra* p. 298.

changes were also made in the commercial regulations of India. In 1846 the Court of Directors asked the Government of India to abolish the discrimination in favour of British shipping.* In 1848 the duties on goods imported or exported on foreign and British ships were equalised.†

Freedom of Port-to-Port and Inter-Provincial Trade.

In 1848 the duties on all goods, except salt and opium, carried from port to port in the territories subject to the Government of the East India Company were abolished. Thus from 1848 the inter-provincial or port-to-port trade was absolutely free.‡

Freedom of Coasting Trade.

In 1850, the coasting trade of India was thrown open to foreign ships, which were now subjected to the same regulations as were provided for British ships or Indian built ships.§

General Survey of the Period.

It may be as well at this stage to try to arrive at a comprehensive view of the whole period under review. In the beginning of this period, the whole customs system was characterised by vexatious inefficiency and severity and was unsound both in commercial as well as in fiscal principles. 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 at the Bengal Council. In a minute recorded by him at the time, Sir Charles MetCalfe (later on Lord MetCalfe) laid down the following principles‖ for the regulation of the customs policy of India :—(1) It was right to turn the attention of the Government towards any practicable and unobjectionable increase of revenue for pressing expenditure. (2) The

* Despatch to India, 22nd April 1846.
† Act VI of 1848, Secs. 1, 2.
‡ Act VI of 1848, Sec. III.
§ Act V of 1850.
‖ Letter from Bengal, 1st Oct. 1830.

custom revenue of the port of Calcutta offered a source of increase under new regulations. (3) India had a right to a fair and reasonable customs revenue from her ports. (4) The best rules generally to be adopted in raising the custom revenue of this port (Calcutta) would be freedom of trade and equality of duties for every country and every flag. (5) The duties should be such as would produce the highest revenue without impeding consumption. He agreed generally with the sentiments of the Council for the abolition of inland duties and the equalization of tariffs of the different Presidencies.

The abolition of inland duties and the general revision, equalisation and assimilation of the tariffs of the different Presidencies were accomplished between 1836 and 1844. The main characteristics of the Customs Act of 1844 which was common to all ports of British India* were :—(1) inland duties in all Presidencies and their subordinate territories were abolished, except those on land frontiers adjoining either Native States or the Foreign Settlements ; (2) general import duty of $3\frac{1}{2}$ per cent. *ad valorem* on all unenumerated goods. Free list was greatly reduced and now only contained some unimportant items ; (3) $3\frac{1}{2}$ per cent. *ad valorem* general export duty, free list being the same as in imports ; (4) cotton wool exported to the United States of America, Europe or the United Kingdom in British ships free of export duty and to receive draw-back on the frontier duty ; (5) metals and marine stores 3 per cent; (6) some articles of luxury etc. 9 to 10 per cent ; (7) the principle of a preference to British goods and shipping by charging a doubled duty on foreign was continued; (8) port-to-port or inter-Presidential trade within the whole of British India was not free; (9) foreign ships were prohibited from the coasting trade of British

* Act XIV of 1836, Bengal, Act I of 1838, Bombay, and Act VI of 1844, Madras, are identical.

India; (10) seven-eighths of the duty to be drawn back on re-exportation; (11) imports from and exports to Foreign Settlements in India to be charged on the double duty principle.

In 1844 the Court of Directors* suggested that the rates of sea customs in India should be increased for additional revenue, as they were generally very moderate. This change was incorporated in Act IX of 1845. Export Tariff was kept as it was. The general import duty was increased to 5 per cent. Only cotton thread, twist and yarn were charged $3\frac{1}{2}$ per cent. Duties on articles of luxury were greatly increased, other characteristics being the same as before. In the same year, the Government of India notified in the Calcutta Gazette that the importation of machinery into India both for the improvement of the communications and for the development of the commercial resources of the country being desirable, all duties levied upon it should be abolished in British India.†

Export Duties in India.

In 1846 the Court of Directors instructed‡ the Government of India to carry out :

(1) the abolition of all export duties except on Indigo ;

(2) the abolition of the double duty principle applied to foreign shipping on the ground that it restricted the trade of foreign nations with India and limited the market for Indian produce ;

(3) the abolition of duty on port-to-port trade except on salt and opium ; and

(4) to increase import duties which were then very moderate.

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* Despatch to India, 3rd July 1844.

† Calcutta Gazette, 5 July 1845.

‡ Despatch to India, 22nd April 1846.

We shall briefly note down some of the arguments advanced in favour of the abolition of export duties in India as revealed from the despatch and the discussion that followed upon it at the council table of the Government of India.

(1) The argument on which all agreed was the desirability of giving encouragement to the production and the export of the staple products of India by removing export duties, except on articles of which India had a virtual monopoly.

(2) Another argument was that exports of India should be encouraged to exceed imports because of the nature of the connection of India with England which called upon India to furnish an annual tribute to England as "Home Charges." At least exports must exceed imports by the amount of "Home Charges."*

The despatch was discussed by the Legislative Department of the Government of India. Practically all suggestions except the abolition of export duties were agreed to. Between 1848 and 1850, foreign ships were placed on footing of equality with British ships in all lines of trade connected with British India and also the freedom of the port-to-port trade was established. As regards export duties, certain members recorded their opinion that looking to the state of finance their general abolition involving the loss of 36 lacs of Rs., though desirable in itself, should be postponed.† But they consented to abolishing the export duty on cotton immediately, as it was thought to be a pressing necessity. The Court of Directors approved of the above proceedings of the Government of India.‡ In

* P. P. 511. H. of C. 1848 p. 147. Minute by Sir H. Maddock, 23rd June 1846, at the Council Table of the Government of India Legislative Department.

† Ibid, pp, 467-472.

‡ Despatch to India, 31st Dec. 1847.

1847 cotton was exempted from export duty throughout India when exported to any country.*

Conclusions.

Thus, by the end of the first half of the 19th century, many of the most pressing reforms in those commercial regulations which had violated all sound economic principles had been completed. The whole complicated customs system was reduced to simplicity. Inland and town duties, which were most injurious both to the interests of the people and those of the public revenue, had been abolished. The existence of different sea customs regulations and the system of taxing the inter-provincial trade, both of which separated one province economically from another, had been removed. Since then, British India became one economic unit with internal freedom of trade and a common policy for her external trade, the unmixed effects of which on her commercial development cannot be ignored. The restrictions of the Navigation Laws on Indian trade and the system of charging a doubled duty on the goods carried on foreign ships, which could not have failed to increase the cost of Indian produce in foreign markets and thereby limit the demand for them, had been finally abandoned when they ceased to be necessary for the purposes which originally recommended them. But their mischief, among other causes, on the production and export of Indian products to foreign markets had been so marked that the Court of Directors and the local Governments in India had to consider the expediency of abolishing export duties levied on them. Generally speaking, these reforms proceeded in accordance with the development of the *Laissez-faire* policy in shipping and trade in Great Britain. In none of these reforms did the individual interests of India as such carry conviction to the authorities

* There had been no export duty on cotton when exported to Europe, U. S. A., or any British possession, in Bengal, Bombay and Madras since 1836, 1838 and 1844 respectively.

about their utility and adoptability. Many of the reforms in the Commercial Regulations of British India were intended, indeed, to benefit the British trade, but their result to India was nevertheless favourable and beneficial. The cumulative effects of these measures along with other circumstances on the commercial development of India were remarkable,* as exhibited in the trade figures.† But like the previous customs and commercial regulations of British India, adopted to suit the objects of the British commercial policy of that period, the measures of this period which reformed them were also inspired by the same spirit of promoting the general interests of British shipping, British trade and British industries.

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* As a result, the customs revenue also greatly increased. As for example in Bengal the customs revenue in 1837-38 was Rs. 31,95,127 which rose in 1851-52 to Rs. 1,44,08,472 without any great change in the rates of the duties.

† Value of Imports of Merchandise into British India. 1834-1859 Quinquennial average.

Years.	From United Kingdom.	From other countries.	Total.
1834—39	Rs. 3,27,29,459	Rs. 169,76,725	Rs. 4,97,06,184
1839—44	5,48,91,288	2,20,22,997	7,69,14,285
1844—49	6,43,01,131	2,70,57,130	9,13,61,262
1849—54	8,11,88,286	2,63,73,053	10,75,61,340
1854—59	12,09,06,513	3,27,53,420	15,36,59,934

Value of Exports of Merchandise from British India. 1834-1859. Quinquennial average.

Years.	To United Kingdom.	To other countries.	Total.
1834—39	Rs. 4,16,29,456	Rs. 6,90,85,840	Rs. 11,07,15,298
1839—44	6,74,52,365	7,04,45,333	13,78,97,698
1844—49	6,45,74,071	9,21,76,373	15,67,50,444
1849—54	6,78,21,528	8,11,74,412	14,89,95,940
1851—59	8,78,23,998	1,34,05,365	22,18,77,362

Wilson's first Financial Statement 1860. P. P. 339. H. of C. 1860. p.102.

There is one element in the commercial regulations after these reforms which may be mentioned here. The principle of giving preference in India to British manufactures by charging a doubled duty on foreign manufactures was still continued. The abolition of export duties generally had been postponed for reasons of finance. The Tariff thus established remained substantially unchanged till 1859.

CHAPTER IV.

GENERAL CONSIDERATIONS AND CIRCUMSTANCES THAT INFLUENCED THE BROAD CHANGES IN, AND THE FORMATION OF, THE CUSTOMS POLICY OF BRITISH INDIA, 1765—1857.

The last two chapters have been devoted to a short sketch of the modifications that had been effected from time to time in the customs system of British India from 1765 to 1857. It is intended in this chapter to bring out the broad influences that were responsible for shaping the customs policy of British India, the main characteristics of which have been given in the preceding chapters. Side by side it will be necessary to consider whether the policy adopted was a right one in the circumstances then existing. As a necessary corollary, an attempt to suggest a right policy with special attention to the interests of India will be made if the one that was practised was not right. Moreover, certain broad changes which throw light on the subject as a whole will also be discussed. Certain necessary digressions and repetitions need no apology.

One fact requires to be made clear. It will not be wrong for our purpose to use the word "India" instead of "British India" specially with reference to the customs policy. Strictly speaking, the Customs Regulations were applicable only to the ports of British India. But, from the beginning of the 19th century, the whole sea-line* of India, except a few foreign ports of little commercial importance, was under British authority. Calcutta, Bombay and Madras possessing the advantage of being convenient harbours had become the centres of the general foreign trade of the whole of India. Internally, owing to the

* "British Dominions in India," by Lyall, p. 303; also refer to Chapter IX.

particular political relations of the East India Company with Native States, the whole of India was in fact the British "sphere of influence".

The Early Commercial and Colonial Policy of England.

A short summary of the important characteristics of the English commercial and colonial policy during the 17th and 18th centuries will form a helpful introduction to the subject under consideration.

The commercial policy of England as of other European countries during the 17th and 18th centuries was governed by mercantalist principles (1) that the wealth of a nation consisted in gold and silver (2) and that these metals could be brought into a country by the favourable balance of trade. The great engines for carrying out the policy were (1) strict restrictions upon importations and (2) encouragement to exportations. Foreign imports were checked in some cases by high import duties and in others by absolute prohibition. Exports were encouraged by (1) draw-backs, (2) bounties, (3) advantageous commercial treaties, and (4) establishment of colonies in distant countries.* But mercantalism and protectionalism ran together. The mercantile policy had a politico-economic object, reflected in that fundamental idea of developing a strong national power. This aim was achieved through various devices, such as, (1) encouragement of national industries, (2) increase of commerce, (3) encouragement of shipping, and (4) protection of agriculture for self-sufficiency. The idea of planting or promoting industries at home was worked out by restricting the importation of foreign manufactures and the exportation of raw materials and by stimulating the importation of raw materials from other countries through

* Adam Smith "Wealth of Nations," Vol. II. Bk. IV. Chap. I. p. 23-24. Rogers Edition.

various devices, such as, bounties and draw-backs.* Agriculture was protected by Corn Laws; while shipping and commerce were encouraged by a series of Navigation and Trade Acts.

One of the means of carrying out the above policy was the establishment of colonies. They were considered useful for providing raw materials and market for English manufactures. In an age when there was an intense rivalry among the European nations for political and commercial supremacy, colonies were contemplated as a ready market for manufactures and a reliable source of getting raw materials. The *raison d'etre* of colonies was to benefit commerce and industries of the mother country. These interests dictated the policy of the mother country towards her colonies.

There was a close connection between the commercial policy of England and her colonial policy. The main features of her old colonial† policy were the following restrictions on the freedom of the colonial trade. (1) The general foreign trade of colonies was to be carried on either in Colonial or in English shipping. (2) The colonial exports were to a great extent confined to the English market. (3) The colonial market was either partly or wholly reserved for English goods. (4) In return, the colonial products received a preferential treatment in England. (5) Colonies were prohibited from starting or developing their manufactures even for home consumption. These restrictions were carried out by (1) giving the monopoly of trade of a territory exclusively to a chartered company, *e.g.* the East India Company; (2) and by the Navigation and Trade Acts, as in the case of the American Colonies. Of course, the territory under a chartered company came under the operation of the

* Ibid. Chap. VIII, p. 226.

† "Origin and Growth of English Colonies," by Egerton, p. 112,

Navigation Acts. On the whole, all the regulations which England made with regard to her colonies "had always in view to secure to herself the monopoly of their commerce, to confine their market and to enlarge her own at their expense and consequently rather to damp and discourage than to quicken and forward the course of their prosperity."*

It is the considered opinion of authorities,† such as, Cunningham and Day that the advantage from the policy was not one-sided, though a greater and more substantial advantage was secured to England. Colonies benefited from the stimulation of ship-building and from the preference to their produce in the English market. Moreover, the policy was not peculiar to England alone. In fact, it was a particular manifestation of the general European movement known as the Mercantile System. On the whole, the English colonial policy has been considered less illiberal and oppressive than those of other European countries; still, it involved the subordination of the colonial interests to those of England.

Such a colonial policy continued till it was discredited by the revolt of the American Colonies and sapped at its roots by the new doctrine of Free Trade. The policy changed from monopoly to reciprocity with regard to the trade of foreign nations and to inter-Imperial preference with regard to colonial trade. The policy thus relaxed had to be finally abandoned with the final triumph of Free Trade principles and was followed by freedom of colonial trade and the granting of self-government to Colonies. In its place, there gradually developed, on a systematic and scientific basis, a new policy known as

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* Adam Smith. Vol. II. Bk. IV. Chap. VII, p. 170.

† (*a*) Ibid, p. 162; (*b*) Cunningham "Mercantile System," pp.479, 483; (*c*) "History of Commerce" by Clive Day, p. 171. (*d*) "History of British Colonial policy" by Egerton, p. 2.

commercial colonisation and capitalistic exploitation of tropical regions.

Taking all the early colonies and dependencies of England, they have been, for economic purposes*, divided into four kinds:—(1) Factories, they were trading stations and not regular colonial settlements, *e.g.* Bombay, Calcutta and Madras of the East India Company and others; (2) Provinces, the example of this is India governed by Great Britain which "develops and administers the resources of the country"; (3) Plantations—settlements of capital—(colonies de exloitation) *e.g.* the West Indies; (4) Colonies proper, primarily settlements occupied, largely governed and developed by bodies of emigrants, *e.g.* the American Colonies. Dr. Knowles classifies them as follows. "The old colonial system envisaged two types of colonial possessions—a trading empire based on the production of staple tropical products and a colonial empire which gave opportunity for the extension of the race in new and unoccupied countries. Of the two, the former was considered by far the most important. This Empire consisted in the 17th century of trading posts in India, of trading posts in west Africa and some of the West Indian Islands."†

In the first place, India was not a colony in the technical sense of the word. Owing to the climatic conditions and the overwhelmingly large Indian population already in possession of landed property, both colonisation and permanent habitation of India by Europeans were impossible. The East India Company began with some trading stations and then ultimately got possession of a considerable portion of the territory. From trading stations in India there grew up a "Trading Empire" dependent

* (*a*) "Origin and Growth of English Colonies," Egerton, p. 3.
(*b*) "British Commerce and Colonies," by Gibbins, p. 24.

† Dr. Knowles, "Industrial and Commercial Revolutions etc", p. 318.

upon Great Britain, the commercial importance of which consisted in this that if India was owned by another European power or by an Indian ruler, British trade with her would not have so largely developed as it did or would have been seriously crippled by hostile tariffs. If the word "colony" be used in a general sense meaning a dependency, it could be applied to the territories of the East India Company. But this distinction in the kinds of colonies, so long as they were not self-governing, did not involve any material distinction in the general commercial aspects and aims of the policy which England followed towards them. The ultimate object in having a colony in any sense was to increase the trade and manufactures of the mother country; and trade between the mother country and her colony consisted in an exchange of the raw materials of the latter for the manufactured goods of the former. How far this tendency developed in the trade relations with India we shall see in the following pages.

Period of Monopoly and Other Restrictions on the Foreign Trade of India.

In the 16th, 17th and 18th centuries there was a general European struggle for the monopoly of trade with the East. As for England, the East India Company got the sole monopoly of trading with the East Indies. The chief rivals were the Portuguese, the French, and the Dutch. The Portuguese were defeated and practically out of the field by the 17th century.* After 1700 the Dutch East India Company began to decline in competition and after a hard struggle had to be dissolved in 1798.† There were three collisions between the French and the English upon Indian soil for territorial

* "History of Commerce" by Clive Day, p. 185.

† Ibid, p. 197.

and commercial supremacy. By 1763, the date of the Peace of Paris, the French withdrew as a serious rival of the English in commerce and conquest in India*. The East India Company was thus left the supreme master of the field. There were some French and Dutch minor stations in India but they were extremely ineffective in commercial competition, leaving a practical monopoly of the trade of India to the East India Company.†

At home, the financial embarrassments of the Company, the disclosures of the conduct and malpractices of the Company's servants in India and other commercial and political considerations combined to arouse a public indignation which found expression in various Parliamentary inquiries. The Parliamentary Act‡ of 1784 vested full and final authority over all civil, military and revenue affairs of the East India Company and its territories in a Board of Commissioners appointed by the Crown. Thus, on one hand the East India Company obtained a practical control over the trade of India; on the other hand, the final authority in the exercise of the power then acquired in India was vested in the Crown and its Ministers who, thenceforward, dictated practically all important policies relating to India.

We shall now turn to outline some of the restrictions upon the foreign trade of India resulting from the English commercial and colonial policy. It must be remembered that the avowed intention in granting the monopoly rights and privileges to Trading Companies was to stimulate the foreign trade of the country in a way beneficial to the general interests of the State and subservient to the interests of home industries. From the beginning, the East India Company was confronted with a strong criticism on

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* "British Dominions in India" by Lyall, pp. 121-122.

† 1st Report of the Select Committee appointed by the C. of D. in 1793, p. 12.

‡ 24th. George III. c 25; also refer to Chapter X.

account of its exportation of bullion. A stronger objection lay in the fact that the trade of the East India Company did not benefit home industries by opening foreign markets and supplying them with necessary raw materials; while its trade in textile goods was considered to bring competition to bear upon similar home industries.* The Act of 1663 allowed the exportation of bullion, but the Company was obliged by way of helping home industries to export English goods to the value of £100,000† every year. Agitation against the imports by the Company grew fiercely in the beginning of the 18th century. This resulted in various Parliamentary Acts,‡ which restricted the import of some and prohibited the use and wear of other kinds of silk and cotton goods from East India in order to encourage the similar home industries. They were, of course, allowed to be imported for re-exportation to the markets of Europe. These Acts remained in force until 1825. Those textiles which were allowed to be imported for home consumption paid an import duty of about 45 per cent. *ad valorem* in 1765, which was, however, greatly increased during the Napoleonic war. The period of high duties on imports from India lasted from about 1797 to 1824. In short, the English commercial policy was at the time characterised by protective and prohibitive measures against Indian goods, as also against continental goods. These measures greatly reduced the English market for Indian goods. The objectwhich England had in the re-exportation of Indian competitive goods was to encourage thereby her mercantile shipping. Imports of raw materials from

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* "Mercantile System", Cunningham, pp. 258, 263, 264.

† By IX George III. C. 24. (1768) the Company was obliged to export every year £380,000 worth of goods from England.

‡ II William III. Cap 3; II William III Cap.10; VI George I, Cap.7 1700, 1720).

India like raw silk, cotton wool, indigo, were charged lower duties.

After the defeat of other European powers in India, practically the whole of the coasting trade was in the hands of the East India Company and the licensed commanders and officers of the Company's ships. Foreign nations were not allowed to take part in the coasting trade of India.

The whole of the general carrying trade of India could not be monopolised by the East India Company, nor was the foreign trade of India restricted to direct trade between India and England in all cases. Of course, the trade between India and England was carried on only by the East India Company. Until the first relaxation in the Navigation Laws in 1794 for America, and in 1797 generally, nations having no settlements in India could not trade with the British territories in India and the trade with such nations was confined to the direct trade between India and England whence articles were re-exported to them. But certain nations had their trading stations in India and as long as they were at peace with England they enjoyed the right of direct trading not only with their settlements but also with other Indian ports, subject to the customs regulations in force. After 1797 (as we have seen in the third chapter) the right of trading directly with the ports of the East India Company was extended to the nations having no settlements in India but at peace with England. But none of the foreign nations had the right of carrying the general trade or the coastal trade of India. These lines of trade were reserved for British ships, and customs regulations were adjusted accordingly.

Below we give another circumstance which had a large influence on the formation of the customs system at the Indian ports of the East India Company. There

was a constant agitation directed against the East India Company's trade in England. It was alleged by the opponents that it was not beneficial but competitive to home industries. It is a well-known phenomenon in the history of the East India Company that whenever, at the time of its financial embarrassments or the renewal of its charter, it had to apply to the British Parliament, the occasion was exploited by the influential mercantile community to render its trade serviceable to home industries. To silence the rising storm, the company took upon itself at every time the obligation of increasing the export of British manufactures, of extending their consumption in India and elsewhere and of importing necessary raw materials. The Select Committee* of 1793 appointed by the Court of Directors will aptly illustrate the remark. The subjects of inquiry were (1) the export trade of Great Britain to the East Indies, and (2) cotton manufactures of Great Britain. Before the year of the renewal of the charter (1793), the manufacturers and merchants of Great Britain began to clamour against the East India Company on the usual grounds. They recommended that the interests of British commerce and industries would be better served, if they were allowed to share in the trade with India. The whole opposition was mainly directed against the trade monopoly of the East India Company. The matter was taken up by the Committee of the Privy Council for Trade and the reports were the result of the enquiry directed by them. The Court of Directors in their reports and memorials answered the charges of the opposition and put themselves under three obligations, *viz*, (1) increasing importation of raw materials, (2) increasing exportation of British goods to India, and (3) no interference with British manufacturers from their trade. Every possible

* India Office Record Department. Parliamentary Branch, Collection. No. 28 contains all reports and appendices.

effort* was made by the East India Company to increase the sale and consumption of British goods in India; and the political power which the Company obtained over certain territories in India made it increasingly possible to render the service, which it was under obligation to perform, more conducive to home industries. This consideration must have certainly operated as a great factor in the formation of the customs system at the Indian ports of the East India Company.

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* Endeavours made by the Company to increase the consumption of British manufactures in India:

P. 7. "There will be no difficulty in adducing numerous instances to show that the Company have ever paid the utmost attention to the export of British produce and manufactures.....Further instructions for the purpose above mentioned were likewise sent at a later period and accompanied with strong recommendations to all the Presidencies to use every possible endeavour in promoting and extending the sale of European goods, particularly the manufacture and produce of Great Britain; at the same time patterns were sent of the different manufactures of Manchester, Norwich, and Halifax; the Presidencies were directed to examine the whole, to call for the best information and assistance that could be obtained and to acquaint the Court of Directors of the result of their endeavours."

P. 8. "It appears from the correspondence that all the Boards of Trade (in India) have conducted themselves with alacrity and ability, for the purpose of fulfilling the wishes of the Court; they have not only endeavoured to promote a sale for export goods at several Presidencies but extended their views to foreign countries either contiguous or where a communication could be opened for this laudable purpose" (including Native States). The Court of Directors, despatch to Bombay, 21st April 1790, Appendix. 10 is typical –(Ibid).

The following despatches may be referred to as typical of urging the expediency and necessity of increasing in India the sale of the manufactured goods of England.

Commercial Despatches to Bengal from the Court of Directors:—

12th April 1786 -paras 97-101.
27th March 1787- -para 216.
19th March 1790- -para 3.
25th March 1791 -para 86.
20th December 1992 para 1.
25th June 1793—para 159.
23rd May 1798—para 16.
13th March 1805—para 6.
12th Feb. 1806—para 7.
21st November 1806- para 93.
7th April 1807—para 13.
23rd September 1807—para 10.
29th September 1809.

On the whole, the foreign trade of India was not so much restricted in the second half of the 18th century by her local customs regulations as by the monopoly of the East India Company, the operation of the English Navigation and Trade Acts and the protectionist and prohibitory measures of England and other European countries. The forces that influenced directly or indirectly the customs system of British India during the second half of the 18th century were various. On the one hand, the trade of the East India Company must be serviceable to home industries by opening or extending markets for their products and supplying them with necessary raw materials. On the other hand, when the East India Company became a ruling body in India (1765), it had a double character—political and commercial. These two functions were combined and entrusted to men who were not free from an irresistible temptation to govern the territories of the Company for the benefit of their trade and profits.* So naturally "the Company have hitherto in executing the power of imposing taxes blended their character of sovereign and merchants,"† and exempted their trade from customs at Indian ports. The chief interest of this commercial body was to preserve the monopoly of trade and make as much profit as possible out of it. Consideration of raising revenue led the company to tax the foreign trade carried on by its commanders and officers or private merchants licensed to trade and by foreign nations. However, there was no definite customs policy in the Company's territories in India. In fact, the period from 1765 to 1793 was a period‡ of economic disorders and unsettled conditions when the trading instincts of the Company's servants in India predominated over any other consideration in the execution of the duties

* Cf. Dutt. "Economic History of India," Vol. I, p. 79.

† Courtney's "Report on Customs." Home Miscellaneous 523, para. 4.

‡ Hamilton "Trade Relations between England and India" p. 112.

of a ruler. There was merely a drift, which developed into a definite policy in the Customs Regulations of British India from the beginning of the 19th century.

To resume our narrative, under successive charters of exclusive privilege the trade between England and India and China was in the strictest sense vested in the East India Company before the Act of 1793. But the Court of Directors, having experienced great difficulty in providing capital for Company's investments, had permitted long before the staff in India and also the officers and commanders of the Company's ships to carry on a certain amount of private trade. As a result of an agitation by private merchants, an important step was taken in the direction of modifying the Company's monopoly. The Act* of 1793 allowed under certain conditions any British merchant to trade with India in ships provided by the East India Company. Thus there were after 1793 three kinds of British trade with India:—(1) Trade by the East India Company; (2) Private trade by officers and commanders of the company licensed to trade; and (3) Privileged Trade allowed by the Act of 1793.†

Abolition of the Monopoly Trade in 1813.

The relaxation of the Navigation Acts in 1797‡ gave greater and decisive advantages to the United States of America and other neutral countries over the East India Company and British individuals in Indian commerce during the Napoleonic war.§ This and the rise of the Privilege Trade allowed by the Company greatly strengthened the case of the mercantile community in England in demanding the abolition of the Company's trade

* 33 George. III. Cap. 52.

† 4th Report of the Select Committee 1808-12. P. P. 148. H. C. 1812. pp. 442-443.

‡ 37 George. III. Cap. 117.

§ Despatch to Bengal from the Court of Directors, 3rd Aug. 1808.

monopoly. This time the agitation grew too powerful and too intense to be neglected. It assailed the principle of monopoly of the East India Company, condemned its whole career, ascribed narrow motives of selfishness to the Directors and advocated, in the name of the best interests of the nation, the abstract right of all British subjects to a participation in every branch of external commerce. The Court of Directors struggled equally hard to maintain the monopoly of the Company. The negotiations for the renewal of the Company's privileges commenced from the year 1808 and continued till 1813. Arguments in favour of the abolition were chiefly these: (1) that it would prevent the diversion of trade with India from England to European countries or America; (2) that the Company's shipping was insufficient for the growing trade, while the privilege trade in Company's ships was very costly; (3) that it would bring substantial benefits to the great interests of commerce and industries of the United Kingdom ;(4) and in particular, cheap imports of Indian raw produce into England. Against these, the arguments of the Court of Directors were based upon the practical difficulties which, they thought, would obstruct any extension of British trade with India rather than upon any principle of commerce. H. H. Wilson, M.A., F.R.S., having digested all the voluminous reports, correspondence and Parliamentary discussion on the question of renewing the charter of the East India Company in 1813, summarised the controversy as follows:—"The exigencies of the commerce of Great Britain probably weighed more with the Ministers than the arguments and assertions of either party. Excluded from the continent by the Decrees of Napoleon, the merchants and manufacturers were labouring under alarming difficulties, the country was menaced by severe distress unless some new vent for the issue of its industrial products could be discovered, some new hopes could be held out to

animate the drooping energies of manufacture and trade. To this great necessity the interests of a single corporation (East India Company) were bound to yield."* The vitally important commercial interests of the country as a whole triumphed over the vested interests of the monopoly, which, with regard to India, was abolished in 1813.†

What did this change mean to India? It is true that the interested and monopolistic restrictions of the East India Company were removed. This was an advantage in itself. But was it of a philanthropic nature as it was then claimed? Free merchants represented that the object of their policy was to benefit directly and greatly the people of India by increasing their produce and export trade and by supplying them with cheap goods. Any impartial observer will see that the supply of cheap goods was not the urgent problem. In fact, the real problem of vital importance then to the people of India was industrial depression from the beginning of the 19th century, owing to which they lost one of the principal sources of income. The immediate effect of the supply of cheap goods from outside was to precipitate the internal depression. Moreover, one fails to understand how the interests of the people of India were to be promoted when some of the chief exports of India were either prohibited or heavily taxed in the English market. Had these British free-traders a genuine and benevolent intention of doing good to the people of India, they ought to have better removed the restrictions‡

* "History of India" (Continuation of Mill's History of India) by Wilson, Vol. I, p. 516; also Dutt "Economic History of India," Vol. I. pp. 266-269.

† 53 George. III. c. 155.

‡ "Among the arguments in favour of the benefits that were to accrue to the people of India from a free trade he had never heard it proposed to allow one manufacture of India to be freely imported into Great Britain. It was true that they would allow cotton-twist but their having found that they could weave by means of machinery cheaper than the Indians, they

Continued on next page.

on Indian imports into Great Britain and made the advantages from free trade between India and Great Britain mutually beneficial. This they did not propose to do, lest their own industries should be harmed.

The cry for free trade with India did not mean, and was not intended to mean, free trade between England and India. It was a selfish and interested cry directed against the monopoly of the East India Company. After all, what was the general trend of the enquiry by the Select Committees* of 1812-13. The main problem of inquiry amounted to finding out the possibilities of pushing the sale of British goods in the Indian market. Indian industries and manufactures were declining at the time; and yet one goes, in vain, through the voluminous evidence before the Committees to discover any question as to the means of reviving or improving those great declining sources of income to the people of India. It was not in the interests of free merchants that they should concern themselves with the improvement and welfare of Indian manufactures. Their sole interest was to increase the British trade with India, by which they practically meant the increasing exchange of British manufactured goods with Indian raw produce. From the extension of such a trade they expected to realise the benefits

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said to them 'Leave off weaving, supply us with raw material and we will weave for you.' Now, although this was a natural principle enough for merchants and manufacturers it was rather too much to talk of the philanthropy of it or to rank the supporters of it as in a peculiar degree the friends of India. If instead of calling themselves the friends of that country they should profess themselves its enemies, what more could they do than advise the endeavour to crush all Indian manufactures? What would be said of the E. I. Company if they were to show as decided a preference to the manufactures of the natives of India under their protection as we do to the manufactures of England?.....He would defy any one to point out anything like the good of India being the object of any of the Resolutions." Summary of the Speech of Mr. Tierney, 2nd June 1813 in Parliament at the time of the discussion on the renewal of the charter in 1813. Quoted from "History of India," Wilson, Vol. I. pp. 538-539.

* P. P. H. L. 10 (1812-13) and P. P. H. C. 122 (1812-13).

of the profits of freight, agency, commission, insurance, and manufacture. The Committee also investigated the methods by which the general foreign trade of India could be more and more secured to British ships as against those of other nations. Thus, the benefits from the abolition of the monopoly trade were more on the side of British merchants than of the people of India and the arguments with regard to benefits to the latter were purely inspired by the selfish interests of the former.

Period of Preference to British Shipping and Manufactures in British India 1811—1857.

The Parliamentary* Acts of 1707 and 1813 established a rigid authority of the Board of Control, acting on behalf of the British Cabinet, over the customs policy of British India in both its foreign and domestic aspects.

To insure the advantages against foreign nations which had been earlier sought through prohibitions, monopolies or other restrictions, there was now substituted a system of differential tariff duties in the customs policy of British India, first with regard to the shipping after 1811, and then with regard to the origin of imports and destination of exports after 1814. Another alteration that was made after 1814 was the reduction or remission of import duties on British imports into India and of export duties on Indian produce exported to the United Kingdom, retaining at the same time the existing inland duties on similar articles of Indian manufacture.

Before we proceed further, some gleanings from the Report drawn by Mr. Courtney in 1814, upon which the Despatch† of the Court of Directors was based, will be enlightening. While arguing in favour of the existing

* Refer to Chapter X.

† 29th July 1814.

taxation on the foreign commerce of India (from 5 per cent. to 10 per cent. *ad valorem*) and against any reduction of duties, Mr. Thornton, the Chairman* of the East India Company, said that the English merchants complained of the magnitude and severity of the duties in a time of war and when commerce of England had lost its usual alacrity, but that it was evident that the maritime commerce of Bengal had on the contrary increased since the commencement of war in 1793. "Were it otherwise", he added, "does not a state of war occasion an increase of expense to Government and therefore of taxes on the people of every country"? In India the taxation on consumption was, in the absence of direct taxation, an important source of revenue. Lastly, commercial policy between India and Great Britain must be mutually beneficial and therefore the Government of India should not be deprived of the fiscal benefit they might derive from foreign commerce. The answer which Mr. Courtney gave in his report was this:—"That additional burthen has not diminished the consumption is a good argument as against the European residents but it is more in regard to the Natives among whom the question is not of retaining or extending but of creating a trade,"† and he added "let us not fall into the error which pervades Mr. Thornton's argument that of looking too much to the individuals concerned in the trade or even in the consumption—a trade which consists in the transport of manufactures from one part of the empire to another is to a country like England a national interest and carried on by navigation it is a concern of State policy. To encourage such trade is to encourage British industry, British shipping and British finance."‡

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* Courtney "Report on Customs," pp. 82-89. Home Miscellaneous 523.

† Ibid, p. 102.

‡ Ibid, p. 104.

Speaking more particularly of British imports into India, he said :—"In regard however to one branch of imports—the British manufactures, the observations that have already been made add another consideration to those that are generally applicable. The experiment to be tried in a measure of encouragement to the importation of those articles into India is not simply an experiment upon the capacity or with a view to the advantage of India but an experiment also the success of which would be beneficial to the commerce and industry of Britain. It is therefore peculiarly a question for decision in this country"* (Great Britain). Lastly, recommending the reduction of duties on British goods, he remarked :—"That any considerable or perhaps that any advantage would accrue from a reduction or abrogation of the duties upon the imports of European goods is not probable, it may perhaps even be taken for granted that advantage would accrue. But as the trade in question is one which has excited a great deal of attention and still more as the rate of those duties has in fact been recently raised it might perhaps be not an inexpedient method of affording some encouragement as is in the power of the Government to the hopes which have been entertained to direct the reduction of these duties."†

With regard to the reduction or abolition of export duties on certain articles sent to the United Kingdom, it was convenient for him to emphasize the interests of Indian producers as against the fiscal interests of the Government.‡ This advocacy of the interests of Indian producers is absolutely inconsistent with the imposition of a doubled or quadrupled duty on the exportation of their produce to foreign nations and a high duty on their

* Ibid, p. 130.

† Ibid, p. 131.

‡ Ibid, pp. 106-115.

importation into Great Britain. The real policy was as follows:—"It has already been observed that a question somewhat different arises as to the unenumerated goods and especially the materials for manufactures—articles some of which far from interfering with the manufactures of this country (Great Britain) are a great assistance to them. Among them it is desirable to select saltpetre, indigo, raw cotton" and hemp,* and therefore he suggested that a full draw-back of all duties should be allowed on them when exported to the United Kingdom.†

A fundamental fact now becomes clear that the main purpose of the innovations introduced into the customs system of British India after 1811 was to encourage, as a matter of systematic policy, the interests of British shipping, British commerce and British industries.

As pointed out before, the reduction of taxation on British Trade with India after 1814 unnecessarily sacrificed a considerable source of legitimate revenue which could have been better utilised in relieving the country from the oppressive inland duty system. As for the commerce of the country, the burden on the trade of foreign nations with India increased in geometrical progression. The duty was doubled if it was carried on in British ships and was quadrupled if in foreign ships. No discrimination was shown to the nature of the articles of trade. Nothing could have been more destructive to commerce and revenue than this arbitrary kind of legislation. The greatest injury, which such a system of taxing the trade of foreign nations with India did, was to restrict to a considerable extent the foreign market for Indian produce, which required at the time a strong

* Ibid, p. 138.

† Ibid, pp. 139-141.

stimulus by an increasing market. "The result of that has been that trade in foreign ships with non-favoured countries has almost entirely ceased and India has been deprived of several valuable branches of commerce which were formerly carried on."*

We have pointed out in the third chapter that these restrictions were removed only when such a change was thought convenient and serviceable to British interests, in response to the general overhauling of the British commercial policy at home in the middle of the 19th century.

Was the Policy Reciprocally Advantageous?

Putting aside for the present the question as to whether an independent policy for India was necessary and if necessary, possible, we turn to the consideration as to whether the policy actually practised (*viz.* Preference) by Great Britain in India was reciprocally beneficial. It is not enough to prove that it was unavoidable for Imperial or British interests. It must be further shown that it was advantageous to India also. But, in fact, the advantages from the trade relations between England and India were not mutual.† On one hand, there was unrestricted admission of British goods into the ports

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* Trevelyan's Report, p. 138.

† Cf. H. H. Wilson, M. A., F. R. S. "History of India" Vol. II, p. 559. Referring to the financial situation of the Government of India after 1814 he said: "The customs had somewhat declined but this arose from a measure adopted shortly after the renewal of the charter by which in consequence of orders from home, the duties were generally lowered and a variety of articles the produce or manufactures of Great Britain wholly exempted from any charge upon their being imported into India. As similar immunities were not granted to the manufactures or products of India in the ports of the United Kingdom this was a piece of selfish legislation in which the interests of the dominant country were alone consulted and those of the subordinate dependency deliberately injured, the latter being not only deprived of a legitimate source of revenue but being exposed to an unequal competition under which native industry was already rapidly decaying."

of India; on the other, imports of Indian staples* into England were either prohibited or heavily taxed, because they competed with similar home manufactures. Raw materials were less heavily taxed, because they were necessary for manufactures; not to mention a large number of drugs, spices and vegetable oils which were exorbitantly taxed. The period of prohibition came to an end in 1826. After that date the duties on Indian goods were lowered.

* Duties on important Indian manufactures and other produce in Great Britain. (P. P. 735 II. H. C. 1832, pp. 592 to 606.)

Articles.	1812.	1824.	1832.
Ornamental cane work. ..	71 p.c.	50 p.c.	30 p.c
Muslins	27 1/3	37½ ,,	10 ,,
Calicoes.	71 2/3	67½ ,,	10 ,,
Other cotton manufactures	27 1/3	50 ,,	20 ,,
Prohibited do.	prohibited.	prohibited	10 ,,
Goats'wool shawls	71 p.c.	67½ p.c.	30 ,,
Lacquered ware	71 ,,	62½ ,,	30 ,,
Mats	68½ ,,	50 ,,	20 ,,
Raw silk.	£2/13/4 ad. valorem plus 4/per lb	4 s. per lb.	1d. per lb.
Prohibited silk manufactures.	prohibted	prohibited	20 per cent.
Taffaties or plain and figured Silks.	do.	do.	30 ,,
Sugar.	£1/13 per cwt.	£2 per cwt.	£1/12 p.cwt.
Spirits	1 s. per gallon plus 19/1½ excise.	2 s.per gallon plus 17 s.½ d excise.	15 s.per gallon
Cotton Wool.	16 s. 11d.per 100 lbs.	6 p.c.	20 p.c.
Tobacco per 100 lbs	£ 3/3/9	12/	9/
Indigo ,, ...	14/4 plus £2/13/4 additional per cent on value.	5d.	3d.

(*a*) Not to mention various spices, oils, drugs and other miscellaneous things the duties on which were specific and amounted to from about 100 to 400 p. c. *ad valorem*.

(*b*) General import duty on:

Articles.	1812.	1824.	1832.
(*a*) Manufactured goods. ..	68 1/3%	50%	20%
(*b*) Non-manufactured goods not mentioned in the tariff.	29 1/3%	20%	5%

After 1822 "a revised tariff embodied the principle of giving preference to colonial products in the English market."* But the important products of India did not receive a preference in the English market.† They were generally treated as foreign products. Raw silk of Bengal enjoyed a preference uptill 1823‡ when duty on silk was brought down to a uniform rate of 1d. per lb. Sugar from India was taxed at a higher rate than the produce of the West Indies, with a view to give encouragement to these sugar plantations. In 1836 both were placed on an equal footing. A measure of preference was extended to Indian silk manufactures in 1829 and to Indian cotton manufactures in 1842 in the English market as against foreign nations. But it was too late for them to take advantage of it.

There was an important debate in the House of Commons on the question of the duties on Indian produce

* Cunningham "Industrial Revolution," p. 831.

† Duties in England, 1832, on selected articles.

Articles.	India.	B. Colonies.	Foreign Countries
1. Cinnamon per lb.	0-1-0	0-0-6	0-1-0
2. Cloves ,, ,, ...	0-3-0	0-2-0	0-3-0
3. Coffee ,, ,, ...	0-1-0	0-0-6	0-1-3
4. Cotton Manufactures ..	10 p.c	10. p.c	10 p.c
5. Ginger per cwt.	2-13-0	0-11-6	2-13-0
6. Hemp ,, lb.	0-0-1	0-0-0	0-0-1
7. Silk Manufactures	20 to 30%	30%	30%
8. Raw Silk per lb.	0-0-1	0-0-1	0-0-1
9. Hides	0-1-8	0-2-4	0-4-8
10. Indigo per lb.	0-0-1	0-0-3	0-0-4
11. Sugar per cwt.	1-12-0	1-4-0	3-3-0
12. Tobacco per lb.	0-9-0	0-9-0	0-9-0
13. Cotton Wool per cwt... ..	0-0-4	0 0-4	0-5-1
14. Spirits (rum per gallon). ..	1-2-6	0-9-0	1-2-0

There are numerous articles, out of which only few have been selected to illustrate the point. P. P. 735. H. H. C. 1832, a general schedule of duties pp. 591-607.

‡ Duty on Bengal silk 4/- lb., on foreign silk 5/6d per lb.

in Great Britain. On 15th May 1827 Mr. Wolryche Whitmore moved for the appointment of a Select Committee to inquire into the trade between Great Britain and India. He pointed out the general commercial advantages to be derived from an extension of the trade of Great Britain with India. Incidentally he referred to the reduction of duties in Great Britain on certain Indian produce like sugar. Others also laid stress upon the expediency of repealing the high duties. Mr. Huskisson, on behalf of the Government, stated :—"It was the interest and duty of a commercial country like this to endeavour to open new channels and to afford new increased facilities to those that were already open; but it was its duty likewise, in giving encouragement to individual enterprise and to new commercial speculations, to be cautious not to sanction any measure which might endanger or destroy established interests and rising institutions, especially institutions of our own creation, connected with our interests and especially entitled to our protection. It would readily be allowed that all extensive changes were attended with great difficulty and should be proceeded in with circumspection and a due regard to other general interests already widely established and that therefore whatever new measures or new systems were introduced they should be regulated in such a manner as that in endeavouring to effect improvements for some, no sacrifice of essential import should be required from others."*

In 1840 Select† Committees of both Houses were appointed to consider the petition of the East India Company, which complained of restrictions on the importation of Indian produce into Great Britain and prayed

* "Supplement to the analysis of the Constitution of the E. I. Company," by Auber. p. 155-156. Various petitions were presented at this time to the House for reducing and equalising duties on East and West India produce.

† (*a*) P. P. 43 H. L, 1840; (*b*) P. P. 527 H. C, 1840.

for relief. Complaints were of three kinds:—(1) extremely high duties on certain articles; (2) inequality of duties on Indian and colonial goods in favour of the latter; (3) great difference between the duties charged by Great Britain on certain Indian goods and those charged by India on similar British goods, the inequality being in favour of British manufactures. The articles in question were spirits, tobacco, cotton goods, silk goods, drugs and spices, tea, sugar and coffee. The Select Committee of Lords, after advising the most favourable and indulgent hearing to the petition, said: "That it will be a subject of regret if circumstances of temporary pressure in other dependencies of the Crown or general views of policy embracing the whole Empire should render it necessary to decline complying with any part of the claims which have been so strongly urged upon its consideration."* Subject to these two exceptions concerning the matters of policy, the Committee recommended that the petition should be granted. Accordingly, rum was made an exception and the inequality of duties on colonial and Indian rum in favour of the former was continued. As regards silk manufactures, it was represented that the diminution in duties would enable the extension of their sale in the market of the United Kingdom; but the Committee said that the policy of the country being to foster its own silk manufactures, it would not recommend the lowering of the duty which was 20 per cent. *ad valorem*, since that would result in the displacement of the home industry. With these important exceptions, the request of the petition was granted and the principle of "justice and equality" applied, because the action did not interfere with the special interests of the colonies or home industries. For example, the reduction of duty on Indian cotton goods

* P. P. 43. H. of L. 1840, p. XIX.

was readily granted, because, as the Committee said, the inequality or high duty served no special purpose.*

The commercial relations between England and India were thus not mutually beneficial. Not only the British but the Colonial interests were encouraged at the expense of India in the British market; for Colonial products were admitted into Great Britain at considerably lower rates than those levied on the similar products of India, which were treated almost as foreign.

Industrial Depression.

Let us now pass on to the industrial aspect of the whole question. One of the important features of the Economic History of India from the beginning of the 19th century was the gradual depression† of Indian industries and specially the textiles. Its effects were visible

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* Ibid, pp. XVIII, XXI.

A committee of the House of Commons also investigated the complaints but did not produce a report. There was some important evidence before the Committee from Melvill Trevelyan, Martin and Larpent who strongly and unconditionally recommended at least an equal and a just treatment to the Indian produce in question. The attitude of the representatives of the British manufacturing class had been summed up in the following sentence: "It would be more desirable that India should produce the raw material and this country should show its skill in perfecting the raw material," (Question 2771, P. P. 527 H. of C. 1840 Refer to the evidence of Thomas Cope, Joseph Tucker, John Francis, John Prout and such others.)

† Dr. Francis Buchanan at the direction of the E.I. Company made an economic survey of Southern and Northern India regarding the conditions of the people, which lasted from 1800 to 1814. Summary of the enquiry has been produced by R. C. Dutt in "Economic History of India" Vol. I. pp. 197-255. The general observation on the condition of Indian industries at that time is this: "What threatened, however, the sources of the income of the people was the declining state of their industries and manufactures. The hardship was already felt in many places visited by Dr. Buchanan and grew more severe later on." p. 255. "It will appear from the facts stated in the last two chapters (Summary) that large portions of Indian population were engaged in various industries down to the first decade of the 19th century. Weaving was still the national industry of the people, millions of women eked out the family income by their earnings from spinning; and dyeing, tanning and working in metals also gave employment to millions." p 256.

at first in the decrease of their exports. The causes of the depression were various in character.* (1) the natural cause was the Industrial Revolution marked by the advent of machinery, which brought about a great transformation in the methods of production in the West, while in India they remained unaffected, (2) the restrictions which England and other nations in Europe and America—important customers of Indian goods—imposed, for giving protection to their manufactures, upon imports from India by heavy duties or absolute prohibitions, (3) the strong competition of the machine-made goods of Great Britain, the first to benefit from the improved methods of production, in foreign as well as British markets. Having thus lost the foreign market, the manufactures of India were not secure even in the home market for the following reasons:—(1) the systematic policy of Great Britain to extend the sale and consumption of British manufactured goods in India through the governments of the East India Company and in every possible way, such as, exemption from transit duties, reduction or remission of import duties, strong preference as against foreign goods and even against Indian goods in Indian market; (2) the manifold burden of inland duties on home manufactures in India from their state of raw material to finished articles; (3) the ultimate success of British goods in Indian market over Indian goods owing to the cheapness of the former and the deterioration in quality and

* Refer to the following very important papers in which the causes have been elaborately stated:

(*a*) Select Committee of 1808-12. 1st Report, P. P. 261 H. C. 1808, p. 63. appendix 12. Statements by Robert Brown and Sir Robert Peel; (*b*) The Court of Directors' despatch to Bengal, 11th June 1823; (*c*) The Court of Directors' Despatch to Bengal, 3rd Sept. 1828 deals specially with depression in cotton manufactures and its causes and effects; (*d*) The Court of Directors' Financial Despatch to Madras, 2nd Nov. 1831 deals with the same subject; (*e*) In June 1827 the Board of Trade of Bengal had prepared a report for the C.of D. on the industrial depression, specially in piece-goods and its causes. It is unfortunate that the report is not available. After close inquiry and search at the India Office Record Department, it has been found out that the report has been destroyed.

production of the latter; (4) the lack of sympathy and encouragement on the part of the Government and the wealthy classes in India. Out of all these, the Industrial Revolution in the West was the more general and natural cause of the industrial depression in India; yet it is undeniable that all had their respective share in it. If the Industrial Revolution was the root cause of it, other causes accelerated it.

The immediate cause which hastened the decline was the direct and deliberate encouragement given to British imports in India by fiscal regulations and by retaining at the same time heavy inland duties on Indian manufactures. That was absolutely unfair and unequal competition.* The Governor-General wrote in 1823 to the Court of Directors:—"How far the tax (Inland duty) has operated to check the manufacture I cannot attempt to define. It must however have a considerable effect and the imputation of injustice to which the system exposes the Government is a very important consideration. Assuredly the trade of England requires not to be propped, and it cannot be necessary to say anything against a scheme of things which subjects the industry of our own subjects to a duty thrice the amount charged on the manufactures of foreign states."† The natural result of the operation of this double force was the sudden aggravation of the industrial depression in India, which

* 1st Report of the Customs Committee of 1835, P. P. 151. H. of C. 1851, pp. 56-57. Referring to this unequal competition the Committee said: "In these alternations the same anxiety to promote British interests which characterised the provisions of Reg. IV of 1815 (Bengal) is observable, but both in that Regulation and in this the effect of such changes on the interests of India seems to have been overlooked or at least partially adverted to .....The introduction of modifications having for their object the especial advantage of one class was calculated not only to reproduce the inconveniences of the inequality and partiality but it must have tended to work the much more serious injury of depressing one class of interests without benefiting the other to a countervailing extent."

† Minute by the Governor-General dated 22-5-1823 attached to the letter from Bengal of 29-5-1823. para 47.

otherwise would have been spread over a long period with slow and imperceptible effects or with the results* possibly different from what they were, if sympathetic and proper measures had been taken in time to check that tendency.

The problem of the inequality of duty on British imports into India and the inland duty on Indian manufactures has been stated and discussed by Trevelyan thus:—(Report p. 8). "When this change (reduction in Import duty) took place justice required that corresponding reduction should have been made in the rates of inland duty. This however was not done and hence arose the anomaly of foreign goods enjoying preference in the home market over the produce of the native industry of from 2½ per cent. to 10 per cent."

P. 9. "When the accumulation of internal duties levied upon the same article in the different stages of its progress towards completion is taken into account, the difference in favour of the produce of foreign countries is much greater."

"By comparing the following lists showing the annual exportation of Indian piece-goods and the annual importation of English and foreign piece-goods and twist, since the opening of the trade in 1814, it will be seen that the present is not the time for encouraging English by the sacrifice of native manufactures. From the statement it

* "We have for years been vaunting the splendid triumph of English skill and capital in carrying cotton from India to England and after manufacturing it there bringing the cloth to India and underselling the natives. Is this any way surprising under such an intolerable system as is above described, (Inland duty system) and while the staples of India are almost proscribed at home ? In fact if this be continued much longer India will ere long produce nothing but food just sufficient for the population, a few coarse earthenware pots to cook it in and a few coarse cloths. Only remove this incubus and the table will be turned." "Notes on Indian Affairs" by the Hon. Frederick John Shore, Vol. II, p. 309.

appears that Bengal piece-goods have been displaced in the foreign market and in the home market."

P. 10. "In the course of this short period of twenty years (1813-1833) cotton piece-goods which had been the great export staple of India from the earliest times have been almost entirely superseded in the market of the world by the produce of our own looms and now they seem to be on the point of sinking before the unequal competition even in the market of their own country."

P. 11. "One thing at least we have it in our power to do—not to aggravate the inequality by oppressing the manufacturing industry of India by burthens and restrictions from which that of our native country (England) is happily exempt. When they are both regarded with equal favour, as far as the Regulations of Government are concerned, the demands of justice and humanity will have been fulfilled and the reproach taken from our nation of hastening the national decay of Indian manufactures from a selfish regard to our own interests."

The natural consequences of the depression were (1) that many industrious people were thrown out of employment and reduced to distress and (2) that there was the increasing dependence of the population upon agriculture, because with the loss of manufacturing industries it had become virtually the sole means of subsistence for them.

Now let us consider the immediate remedy proposed to diminish the distress of those unfortunate workers, spinners and weavers. The Court of Directors* proposed to abolish all duties and specially inland transit duties on all piece-goods. The inland duty was reduced in 1823 from $7\frac{1}{2}$ per cent. to $2\frac{1}{2}$ per cent. on piece-goods, which was the duty levied on imports of British piece-goods. It

* Despatch to Bengal, 11th June 1823.

was not abolished altogether for the reason* that such an action would give Indian piece-goods protection of 2½ per cent as against British goods and that therefore it would be inconsistent with "justice and equality". It is simply ridiculous to suppose that without that duty Indian piece-goods from handlooms would have seriously competed with British goods from powerlooms; but this at the same time exhibits the keen interest the Government took in the encouragement of British trade with India. Was it not desirable and expedient, at least from the humanitarian point of view, to abolish, at the time of serious depression in the textile industry of India, the whole inland duty levied upon it ? If the abolition of the inland duty on Indian piece-goods was not an act of "justice and equality," was it just to retain the general inland duty on other Indian goods which was far heavier than that charged on British trade with India ?

How far was the reduction of the inland duty on piece-goods helpful ? It was too late to be of any service, for the whole mischief was done beyond the possibility of any recovery. Besides, Indian piece-goods still paid an export duty varying from 2½ per cent. to 7½ per cent., according to foreign or British ships and destinations. "The object of these provisions (referring to the above change) apparently was to place the piece-goods of India on the same footing with those of Great Britain, the latter having been favoured by the Customs Laws to a degree which might have enabled them to drive the former out of their own market, even had the influence of British machinery been less overwhelming than it was. This act of consideration for the manufacturers of Indian piece-goods came too late to do them much service, but the relief, such as it was, was only partial, for there still remained the crying

* Minute by the Governor-General attached to the Letter from Bengal of 29th May 1823.

inequality of Indian copper, steel, quicksilver, etc. taxed at the rate of 10 per cent. while those of Great Britain were free and the generality of Indian produce and manufactures bearing a burthen not only more than double that imposed on the bulk of British imports but heavier even than that borne by the goods of foreign nations."*

This opens another important question whether all inland duties levied upon Indian manufactures should not have been abolished long ago. When it was known that they were in a declining state, there remained no justification whatever for taxing them. On the contrary, they were then entitled to the removal of every obstacle in their way imposed by any fiscal regulation, if not an active encouragement. Anything contrary to it was suicidal.

Since there was industrial depression in India, what was the character, important for our purpose, of the Parliamentary inquiries held from 1830 to 1832 concerning India affairs? Before 1830, the immediate interests of British trade with India consisted in extending the use of British goods in India through every possible means the Governments of the East India Company could command, in exporting from India raw materials necessary for British industries and the products of Indian manufactures for foreign countries and in restricting the trade of foreign nations with India by the Navigation and Trade Acts. By 1830, British manufactures largely replaced the Indian in foreign as well as the Indian markets. The second part of the export trade of India having ceased to be profitable became insignificant and was subsequently given up by the East India Company. The problem then arose as to how to provide returns

* 1st Report of the Customs Committee of 1835. P. P. 151. H. C. 1851. p. 57.

for the increasing British imports into India. It was aggravated by the fact that the Government of India had to make payments annually in England, known as, "Home Charges," which then averaged about* 3 m. £, and which were ordinarily remitted through the funds realised from the Company's Indian export and China trade. When the East India Company was asked in 1833 to cease trading both in India and in China, the difficulty arose as to the method of transferring "Home Charges" to England. Thirdly, the bad quality of the agricultural products of India owing to inefficient methods of cultivation made them less suitable for foreign commerce in face of the highly cultivated American products. This threefold problem was investigated by the Select Committee of 1832 which remarked:—

"Evidence has likewise been received as to the means of extending the trade with Asia, the Navigation by Steam, and the capacity of India to produce articles of leading importance in commerce, such as cotton, sugar, tea, coffee, rice, tobacco, silk.

"The difficulty of providing returns and the bad quality of the products of India appear to be considered the chief obstacles to an extension of Trade (*i. e.* British Trade). The chief remedies which have been suggested by various individuals are:—(1) a reduction† of duties in England on the importation of Indian produce, (2) the removal‡ of transit duties in India, (3) the relaxation of the existing restrictions against the Europeans proceeding to India and residing and holding lands there, (4) a more efficient protection of person and property in India, (5) opening of the trade with China, (6) complete

* P. P. 527 H. C. 1840, app. 60, p. 622.

† This will partly explain the removal or the relaxations of the restrictions on the importation of Indian produce into the United Kingdom.

‡ This will partly account for the abolition of transit duties in India from 1836.

withdrawal from Trade on the part of the Government of India."* Accordingly, all these suggestions were gradually put into practice. The solution of the problem, to put it shortly, was that the export of Indian produce should be so increased as to exceed the total import trade of India at least by the amount of "Home Charges".

The question as to the modification in the restrictions upon the trade of foreign nations with India was also investigated for the same reason. The general purpot of the evidence on the question was that no such change could be made to the benefit of India without prejudicing the special interests of the United Kingdom. A liberal policy was recommended, provided the special interests of British shipping and trade were not interfered with.† The Committee, therefore, did not recommend any change in the regulations regarding the trade of foreign nations with India.

Three different Select Committees‡ were appointed in 1830, 1831 and 1832 respectively. Evidence on all branches of Indian administration was recorded, with which we have no concern. A good deal of evidence oral and written on the trade and products of India was collected especially by the Committees of 1830 and 1832. It is really copious and valuable. But of what use is it to the solution of the problem of industrial depression in India? The questions,§ concerning our subject, that were investigated were these:—how can British Trade with

* P. P. 734, H. C. 1832, pp. 60-61.

† P. P. 735, II, H. C. 1832. pp. 554-569.

‡ P. P. 646, H. C. 1830; P. P. 655, H. C. 1830; P. P. 65. and 320A H. C. 1831; P. P. 734, H. C. 1832; P. P. 735. II. H. C. 1832.

§ P. P. 735. II. H. C. 1832. Commercial App. No. IV. pp. 504-550. One might profitably refer to the list of the questions proposed by the Board of Control relating to British Trade with India to various commercial bodies and people interested in it and their answers. They allude to the facilities already afforded by the Government of India and to those that were necessary for further extending it.

India be increased ? What has been done ? What requires to be done ? Conditions of agricultural produce which the people of India can exchange for British goods; production of raw materials in which British capital had been employed or could be profitably employed;—everything that was thought to stand in the way of increasing the volume of British Trade with India was investigated; and as Dutt rightly said, "To foster the indigenous trade or industries of the people of India was not the object of the inquiries made either in 1813 or in 1832."* Obviously their conception of British Trade with India was that the people of India should consume British manufactures and in return for what Great Britain supplied should pay in the products of the soil, namely, raw materials and food stuffs.

Commercial Colonisation and Capitalistic Exploitation.

Instead of fostering Indian industries or of investigating a scheme for the revival of the decaying industries of India, the British Government actually practised a policy which, while discouraging in its effect to the interests of products and manufactures of India, gave active encouragement to British manufactures in India. Its professed attitude, however, towards Indian manufactures was one of complete *Laissez-faire.* We may now turn to another general tendency which developed as a part of the policy and which influenced the formation of the sea-customs policy of British India.

The Directors† of the East India Company had undertaken to render its trade serviceable to home industries.

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* R. C. Dutt "Economic History of India," Vol. I, p. 271.

† Report of the Select Committee of 1793 appointed by the C. of D. on "Cotton Manufactures in Great Britain." The Directors had to respond thus: "The Directors do not hesitate to own that they hold it to be indispensable duty on the Company under the exclusive privilege they enjoy, to afford every assistance in their power to the Home Manufactures by the importation of raw materials whenever such imports can be made without material loss." (p.8) *continued on next page.*

The main object of the Company being to trade in anything that was demanded and was profitable, it naturally resorted to getting suitable raw materials from India to supply English industries. Accordingly, after 1765 the East India Company, with the help of power and public revenue, started factories itself or through the agency of its servants to produce better qualities of silk and indigo, and made strenuous efforts to cultivate improved cotton in India, with the object that they might suit the necessity of British manufactures and might be able to compete with foreign articles in the English market. The immediate result of this method was to induce the artisans to give up manufactures and to take to producing raw materials, especially silk in the Company's factories.*

In the beginning of the 19th century, there developed in Great Britain altogether a new idea of European colonisation in India, under the influence of which the question of producing better raw materials in India takes a different turn. It was thought to be an inevitable consequence of Free Trade with India. The history of European colonisation either in the Eastern or the Western

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(P. 9.) "They are willing and ready to consult and advise on the most effective means of bringing into this kingdom any raw material that may contribute to the interest of the country." (Appendix: Memorial of the C. of D. in 1788). The Reports reveal the following points concering the service which the Directors were required to perform to home industries. (1) Importation of raw materials, (2) Exportation of British goods; (3) No inconvenience from their trade to British Manufactures.

* Referring to this the Select Committee of 1783 said: "With that view (of allaying the clamour of the English public against the scandalous conduct of the Company's servants in Bengal after 1765) and to furnish a cheap supply of raw materials to the manufactures of England, they formed a scheme which tended to destroy or at least essentially to impair the whole manufacturing interest of Bengal. A policy of that sort could not fail of being highly popular, when the company submtted itself as an instrument for the improvement of British manufactures instead of being their most dangerous rivals as hitherto they had been always represented." 9th Report of the Select Committee of 1783 commonly called the Burke Report, p. 28. See specially those sections which deal with "Trade."

Hemisphere is characterised by two features with regard to the treatment of native races: (1) either they were exterminated or (2) they were practically enslaved by the settlers. But neither of these was possible in India, owing to the vastness of the Indian population. Other reasons—political and climatic—also stood in the way of European colonisation in India in the technical sense.* The underlying idea in the colonisation of India was this:—"It is needless to say that what is meant by the colonisation of India is something different from the colonisation of Canada as the emancipation of the Irish Catholics differs from the emancipation of the Greeks. It never was imagined that any part of the redundant labouring population of England or Ireland could find relief by emigrating to India; but that British land-lords, farmers, traders, and artisans of every description would rapidly and indefinitely advance the agricultural and commercial interests of India."†

The question was discussed before the Select Committees‡ of 1812-13. The East India Company opposed it on the ground that oppression, tyranny and sense of superiority on the part of the settlers, the discontent and degradation of the natives and the forcible deprivation of their land would result from the unrestricted immigration and residence of Europeans in India. On the other hand, the free merchants argued that free trade with free resort of the British settlers to India would open an unbounded field for British manufactures, capital, skill and enterprise. A compromise was brought about by the Act of 1813,§ by which Europeans were

* Martin "Anglo-Eastern Empire," pp. 210-211.

† "Further inquiry into the expediency of applying the principles of colonial policy to India." By an Anonymous Author of the "Original Inquiry" in the same subject. Preface pp. 10-11.

‡ P. P. H. of L. 40 (1812-13). P. P. H. C. 122 (1812-13).

§ 53 George III, Cap. 155 Sec. XXXIII.

allowed to proceed to India under a strict license system, but they could not hold land in India.

As the time for the next renewal of the Charter approached, the question of colonisation was opened in a new form. We have seen that one of the hindrances to the extension of British trade with India was the difficulty of providing articles for the export trade of India, which could only be removed by the improvement in quality and quantity of Indian agricultural products. The question of improving Indian manufactures was out of order not on the ground of its impossibility or impracticability but of its undesirability. So, from this time, instead of an industrial policy, the British Government introduced an agricultural policy in India. In this way, with the idea of colonisation, gradually there came into existence the policy of exploitation, which meant the development of the resources of India by the employment of European capital, skill and enterprise with the assistance of Indian labour for the purpose of using them in the manufacturing processes in the West and thus turning them to industrial account not in the country itself but in foreign countries. The evidence before the Select Committee of 1830 (House of Lords)* strongly recommended the policy of extending and improving the production of cotton, silk, indigo tobacco, sugar, tea and coffee in India by the application of British capital, skill and enterprise. The first thing to be done in this direction, it suggested, was to facilitate the increasing settlement of Europeans with capital in India. The Committee observed :—" The chief manufactures of India having been supplanted to a great extent by the manufactures of England, not only in the market of this country (England) but in that of India itself, it has become an object of the deepest

* P. P. 646, H. of C. 1830.

interest to improve the productions of the soil. The Committee, therefore, instituted a full enquiry into the quality of the silk and of the cotton of India and into the measures which might be adopted for their improvements; they likewise made inquires as to sugar, tobacco, and other articles of Indian produce."*

The subject was first introduced by the Committee of Privy Council for Trade to the Board of Control for Indian affairs in 1828, when the mode of cultivation of Indian produce being thought very defective and deterioated, the expediency of improving their culture by a judicious application of British skill and capital was suggested. The Board was asked to communicate with the East India Company in order to extend the facilities to those British subjects with capital who were disposed to settle in India.† This was duly communicated to the Court of Directors, who instructed the Governments in India to take every possible step to improve the quality and quantity of the Indian produce and advised them to allow British and European subjects with capital and skill to settle in India.‡

The principal objects of this policy, as revealed from the written evidence, correspondence, etc.,§ can be gathered thus: (1) rendering the produce of India fit for use in British manufacturing processes, (2) rendering Great Britain independent of foreign sources of supply of raw materials for her manufactures, particularly of the United States of America, (3) improvement and extension of the agricultural resources of India, (4) agricultural products of India would thereby successfully compete

* Ibid, p. 4.

† Ibid. Appendix p. 733. Letter, 26th July 1828, Whitehall.

‡ The C. of D. Despatches to Bombay, 17th, Feb. 1829, to Bengal, 8th July 1829.

§ P. P. 646. H. C. 1830. Appendix pp. 731-744.

with similar articles of foreign countries in foreign markets, (5) agricultural prosperity would mean more land revenue to the State, (6) the general agricultural improvements of India would tend to increase her consumption of British articles, and (7) the process of increasing remittances known as "Home Charges" would be greatly facilitated.

The Select Committee of 1832* strongly recommended the above policy and advised the Indian Government to remove the difficulties to free admission of the British settlers and to their holding lands in India. The main trend of the evidence before the Committee was that the British settlers had in India all the inducements that a rich and fertile country with abundance of cheap labour can offer to skill, capital and enterprise. The great Anglo-Indian Administrators like Lord William Bentinck and Lord Metcalfe strongly approved of the policy.

Accordingly, after 1833 the right of holding land was granted to European settlers in India. Various Parliamentary inquiries† were instituted and reports were called for in order to ascertain the progress and to demonstrate further prospects under this policy for British capital and skill.

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* P. P. 734, H. C. 1832. Report pp. 60, 61, 26-27. Appendix. pp. 254-378 (Important documents) P.P. 735,II. H.C. 1832.App. (Commercial) No. IV. pp. 504-590, specially pp. 573-590.

† It is neither possible nor relevant to our purpose to enter into the detailed consideration of this subject. The main intention in introducing the subject in these pages is to state the general tendency in order to show in what direction the wind was blowing. For the special study of this subject, the following papers contain the most valuable and exhaustive informations. Each product has been investigated separately. The Reports with evidences and appendices acquaint the readers with all the means that had then already been employed, either by the East India Company Governments or private European or British agency for the improvement of the cultivation of Indian produce, the further steps suggested, the full correspondence, the Government of India's Regulations, Resolutions and Proceedings, the question of policy and the expected advantages from it to all concerned, etc.

Continued on next page.

We shall only give here some extracts of general bearing on the subject. The Despatch of the Court of Directors to the Government of India, 12th. April 1837:—

'It is imperative on us not only to watch narrowly the interests of the Native population but to use every means and embrace every opportunity of improving those interests and ameliorating the general conditions of the people. European enterprise and European capital are ever ready to secure the advantages which any change in state policy, commercial or financial, may seem to hold out: and that it is not our desire to check. At the same time it behoves us to be something more than quiescent with regard to our Native subjects who having the skill and industry may want the enterprise and capital of the Europeans and occasionally to lead and assist them in the line of improvement. This we consider to be the true policy of a liberal Government, ruling over a people not possessing the knowledge or means of developing all the resources of their native land." (the despatch implied the agricultural development and not that of manufactures.)

Continued from previous page.

(*i*) Reports of the Select Committees. of 1830, 1831, 1832, referred to before.

(*ii*) "Cultivation of Cotton in India," papers showing the steps taken till 1847. P. P. 439. 1847 H. of C.

(*iii*) "Growth of Cotton in India," report of the Select Committee of H of C. P. P. 511, H. C. 1848.

(*iv*) "Cultivation of cotton in India." Papers showing the steps taken since 1847. P. P. 296. H. of C. 1857.

(*v*) Sugar and Coffee planting in Her Majesty's East and West Indian possessions, etc.

P. P's. 123, 137, 167, 184, 206, 230, 245, 361, H. of C. 1848.

(*vi*) Select Committees 1858-59 on Colonisation and Settlement in India.

P. P.'s. 261, 326, 415, 461, H. of C. 1858.

P. P's. 198, 171, H. of C. 1859.

"Select Committees of 1858-59 appointed to enquire into the progress, prospects and the best means to be adopted for the promotion of European colonisation and settlement in India especially in the Hilly districts and healthier climate of that country as well for the extension of our commerce with Central Asia."

These papers only deal with the beginnings of the subject and its progress till 1860.

Later on, the Select Committee of 1858 on the general subject of European Colonisation and Settlement in India, said: "Your Committee think it proper to commence this Report by a restriction obvious almost to everyone, of the sense in which colonisation must be applied to India. Though sanctioned in its application to that country (India) by modern usuage and by such high authority as that of Lord Metcalfe, the term colonisation must in the first instance clearly be limited to a class of superior settlers who may by their enterprise, capital and science set in motion the labour and develop the resources of India. The inducements to a settlement of the working classes of the British Isles are not generally to be found in India."* The Committee then went on to examine critically the products in which settlers would be interested like cotton, wheat, tea, hemp, flax, sugar, iron, coal, etc., and recommended the necessary facilities, which the Government of India was called upon to provide.

Dutt's epigrammatic observations on these Select Committees on the subject will not be out of place here. "In England the contest between the landed classes who wished to keep up the price of corn and the manufacturing and working classes who wanted cheap bread was decided by the repeal of the Corn Laws in 1846. A great impetus was thus given to British manufactures and the vague dream of a self-contained Empire dawned on the minds of the people. Was it possible to obtain her own supplies from her dependencies? India tea was slowly replacing China tea; was it possible to produce the necessary supply of coffee? Sugar plantations in the West India had declined after the emancipation of slaves; was it possible for India to supply sugar for the consumption to Great Britain? American cotton fed the looms of Lancashire; was it possible for India to supply that raw

* P. P. 171. II. II. H. of C. 1859, p. III.

material to the extent required ?"* Parliamentary inquiries were made into all these subjects.

The means of carrying out this policy of commercial colonisation and capitalistic exploitation depended largely for their success upon internal peace and order, good irrigation, and sufficiency of communications and transportations. All the Select Committees† appointed for the subject, after 1840, strongly recommended the urgent necessity of supplying adequate means of internal communication by the construction of railways and roads from the great centres of export and import into the interior of the country. These were gradually provided by the Government.

India, at the time, was in a situation in which all her manufactures had practically declined, and in which her agricultural products, defectively cultivated and attacked by a strong competition in foreign markets, were the only articles to be exchanged for imports, whilst there was not a single outstanding manufacturing industry started on improved methods which would consume them in a large quantity. It was absolutely necessary in these circumstances to abolish all export duties in India, except on those articles in the production of which India could have been regarded as possessing a practical monopoly. Free and unfettered export of such articles is, no doubt, advantageous to the exporting country. But the customs system of British India was regulated according to British rather than Indian interests or any economic principle. Accordingly, under the system of discriminating duties in favour of British commerce and shipping, Indian produce when exported to foreign nations in foreign ships were charged exorbitantly high duties, while

* Dutt "Economic History of India," Vol,, II, pp. 124-125.

† Vide P. P 511. H. C. 1848, pp. VIII, IX, also P. P. 171. II, H. C 1859, p. VI.

certain articles when exported to the United Kingdom were allowed full draw-backs of all duties. The obvious reason for doing this was to secure the advantage of Indian raw materials to British against foreign industries. In order that they might be supplied as cheaply as possible the export duty levied on them in India must be abolished. This will sufficiently explain the idea of abolishing all export duties contemplated in 1846 and after, as referred to in the third chapter.

From the review of this Chapter, three great outstanding tendencies, which were largely, if not solely, shaping the early customs policy of British India are prominently discernible:—(1) the gradual creation and extension of the use of British manufactures by Indians, strongly encouraged by the Government of the East India Company through every possible expedient; (2) the inevitable corollary from the first, namely, the encouragement of the production of agricultural and other raw materials in India for the double purpose of supplying them to British industries and of increasing the productivity and hence the prosperity and capacity of the people of India to consume more British goods;* (3) the application of the English Navigation and Trade Acts to British India with the object of encouraging the interests of British commerce and British shipping as against those of foreign nations. These objects of the British commercial policy were encouraged even at the expense of Indian agricultural and manufacturing interests. The natural consequence of this policy was: "Long before 1858 when the East India Company's rule ended, India had ceased to be a great manufacturing country. Agriculture had virtually become the remaining source of the nation's subsistence."†

* Dutt's observation on the policy. "The production of raw materials in India for British Industries and the Consumption of British manufactures in India were the two-fold objects of the early commercial policy of England." "Economic History of India," Vol. II, preface p. 7.

† Ibid, preface page 8.

Examination of the Actual Policy and Suggestion of an Alternative Policy from an Indian Stand-point.

It would now be proper to proceed a step further and consider the expediency and suitability of the policy described above from the point of view of Indian interests. There are different angles of looking at the early customs policy imposed upon British India. The Parliamentary Committees referred to above and the British manufacturing and mercantile community had their own way of approaching the subject under discussion. Unfortunately, their interests were not identical with those of India. We shall try to see whether a different policy was necessary, and if necessary, possible. The early tariff policy of British India was formed to promote certain British interests. We wish to develop in the following pages a line of argument that the tariff policy of India ought to have been framed with the sole intention of encouraging Indian indigenous industries and trade which then stood so much in need of the fostering care of the state. It is not intended and even useless to prepare a scheme in detail for the encouragement of Indian manufactures. The main point is to indicate some general lines of a policy that ought to have been practiced in order to solve the problem of Indian manufactures, menaced by the Industrial Revolution in the West and by the restrictive commercial policies of various European and American nations.

In the Reports of all the Select Committees of British Parliament appointed during the period under discussion, one neither finds any reason given against the revival of Indian manufactures on improved lines, nor any attempt in that direction. They are silent on these points. One would certainly like to know and consider the pros and cons of the problem as actually stated at that time and not as they may at present be

imagined. The silence seems to be significant. It was not the problem in which these committees were interested.

Incidentally, one fact may be noted here. As late as 1857 there was no talk of starting manufactures in India before any Select Committee. Inquiries were hitherto concentrated upon the scientific cultivation of certain agricultural products. The Select Committees of 1858 and 1859, appointed to inquire into the progress and prospects of European colonisation and settlement in India, investigated among other things the best ways of employing European capital and skill in India. The evidence of Major G. Wingate,* long connected with the Government of the Bombay Presidency, supplies sufficient and minute information on the question. He said that, besides agriculture, European capital and skill could with excellent prospects of success be employed in certain manufacturing processes producing goods suitable for home consumption. The Committee heckled him on this point and asked: "In point of fact, what you would say is that it is more to their (India's) interest to produce the raw commodity than the manufactured article ?"† He answered: "No, that is not my impression at all; I think that future wealth of India will depend upon the development of the manufacturing power of India." He tried‡ to prove that manufactures with agriculture would produce more profits to the people of India. He considered that the low cost of labour, raw material on the spot, and large home market, with the help of European appliances, machinery, capital and skill, would enable the manufactures to be carried on more profitably in India than anywhere and thus to compete successfully with those from outside. The Committee apparently did not like

* P. P. 461, H. C. 1858. Question 7689.
† Ibid, Questions 7922, 7923.
‡ Ibid. p. 94. Questions 8134-8143.

the idea of starting manufactures in India which would compete with British trade and therefore persisted in the view that agricultural pursuits were best suited for the people of India.

As for the general administration of the country, the Reports of the Select Committees of 1783 and Pitt's Bill of 1784 clearly demonstrated that "there was a sincere desire to improve the administration of India and relieve the people from that oppression and misgovernment under which they had suffered during the first period of British Rule. The Directors of the Company themselves wished to put their house in order" and accordingly sent out men of "high character and generous instincts as Governor-Generals."* In 1813 the East India Company was deprived of its trading monopoly and in 1833 it altogether ceased to be a mercantile body, with the result that as a purely administrative body it began to take more serious and enlarged views of its governmental duties and responsibilities in India.† Consequently, one meets with a period of peace, retrenchment, and reform in the history of British Administration in India, during which the great civil reforms connected with the names of Munro, Elphinstone and Bentinck took place, and in which wars and annexations were few and the least important characteristics.‡ With regard to internal peace in India and security of the British government, one can say without the least hesitation that the position of British Rule was by that time, that is, 1820 strongly settled in India and that internal peace and order was restored.§ The first and the most important condition for any reform and progress is internal peace and order coupled with security of person and property, and British Rule had given India peace and security.

* Dutt. *ut supra*, Vol. I. p. 8.
† Kaye, "Administration of the East India Company," pp. 134-135.
‡ Dutt, *ut supra*, Vol.I, pp. 13-14.
§ Lyall, "British Dominion in India," pp. 302-303.

After taking note of these facts, we shall proceed to suggest broadly what the British Government could have done pertaining to the problem in question, if there was the will to do so. The subject of industrial reorganisation in India in the beginning of the 19th century opens, like all such historical problems, a vista for close inquiry and wide speculation.

It does by no means follow that India did not gain from the improved cultivation of agriculture, which it was the policy of the British Government in India to encourage on scientific methods. Truly, there was increasing improvement in the methods of cultivation, the price of land increased, the distress of the unemployed weavers and spinners and other artisans must have been lessened to a certain extent, agricultural produce received international commercial importance, cultivation increased under the peace and order secured under British Rule, and so on. The policy of encouraging better and improved cultivation was, no doubt, right and essential; but when practiced to the exclusion of manufactures it is simply imperfect and at times risky. A state of things in which agriculture is practically the only means of livelihood to a great majority of the people of a country is as questionable as it is unsatisfactory. Agriculture as the exclusive source of income is risky, because the employment in it is seasonal and liable to intermissions; while the possibilities of recurring famines, under certain circumstances, are more serious. Agriculture as the only national industry of a country, therefore, creates, like the action of putting all one's eggs into one basket, a situation in which the absence of any other source to fall back upon results, at the time of the failure of the only source of income, in helplessness and distress.

On the contrary, the real interests of agriculture will be greatly advanced by the harmonious combination

of agriculture and manufactures. "The foregoing considerations seem sufficient to establish as general proposition, that it is the interest of nations to diversify the industrious pursuits of the individuals who compose them, that the establishment of manufactures is calculated not only to increase the general stock of useful and productive labour, but even to improve the state of agriculture in particular; certainly to advance the interests of those who are engaged in it."* The considerations that led Alexander Hamilton to this proposition can be thus summarised:— manufactures supply comparatively constant and regular employment, open a wider field for mental and physical labour, increase the total mass of useful produce, facilitate the operation of the principle of division of labour, extend the use of machinery, create additional employments, diversify industries suitable to the diversity of talents and disposition of people, augment the field for capital and enterprise and secure a comparatively steady market or create a new demand for the agricultural and other products of the soil in the country itself.† These are certainly the weighty considerations which strengthen the expediency of encouraging manufactures side by side with agriculture.

We have seen the causes of the industrial depression in India. From the very beginning, when the effects of this depression were perceptible, attempts ought to have been made to remove the causes of it. It was within the power of the Government to remove all internal obstacles in the way. The inland duties ought to have been abolished earlier. The attempts on the part of the Government to encourage the importation of British manufactures should have been given up. Indian exports, specially to foreign nations and in foreign ships, ought to have been

* Alexander Hamilton "Report on Manufactures"(U. S. A). Taussing "State Papers and Speeches on Tariff"(America) p. 25.

† Ibid, pp. 1—25.

free from restrictions, imposed in the interests of British shipping and British commerce. Consequently, there could have been no preference to British interests in Indian Tariff Regulations. Trade relations between Great Britain and India ought to have been made mutually equal. Thus, having been free from the artificially encouraged competition of British manufactures, restrictions of the British commercial policy and the dead weight of inland* duties, the Indian manufactures could have preserved their productive powers. The spirit of industry could have been maintained and extended by the home demand. "The home demand of a large country like India is so extensive as to admit, if it only be left free, of great improvement in its agriculture and manufactures. The spur given to industry by the united home demands leads to the increased employment of capital and machinery, and turns the attention of manufacturers to subdivide and otherwise to improve the productive powers of labour to an extent which could never have taken place if the home market had been originally contracted by local restrictions.....When by the opening of the home market, capitalists shall be induced to establish manufactories on a large scale and with all the advantages of European machinery, we (Government of India) may fairly expect that our sugar, our cloths, and many other manufactures will be improved, if not in an equal, at any rate, in a considerable degree. No comparison can be made between the encouragement afforded to industry and enterprise by the entire market of a whole country and that which can be given to it by the limited market of a district or a single town. The freedom of the home market

* Writing about these measures Trevelyan said: "If it were desired to depress the productive powers of Indian industry to the greatest possible extent, could any scheme be devised for the purpose more effectual than this?" Report p. 5.

"If the effect which these restrictions have in depressing its productive powers were properly understood, people would no longer wonder at the low state of Indian manufacturing industry," Report, p. 6.

is the first step to improvement and is indispensably necessary for the rise and progress both of agriculture and manufacturing industry."*

As regards the trade of India with foreign nations, suitable commercial treaties of reciprocity ought to have been contracted with them, not with a view of encouraging Imperial or British interests, but with a difinite intention of obtaining reciprocal advantages in foreign markets to products and manufactures of India, which, as we have seen in the third chapter, did not derive any benefit from the British reciprocity treaties with other countries.

One of the great instruments which set Industry and Trade in motion is the improved means of transportation, so constructed as to suit the needs of both. As seen before, the foreign trade of India, that is, trade to and from ports was encouraged at the expense of local trade, which practically meant an encouragement to the export of raw materials and the import of manufactured goods to the detriment of Indian manufactures. The same consideration influenced the policy regarding the construction and rates of the Railways, which tended to stimulate these movements of trade. The railways were constructed from the great centres of export and import into the interior of the country; while the system of railway rates has always been thought to favour traffic to and from the ports at the expense of internal traffic. It has been a long-standing complaint that the policy of the Indian Railways does not encourage the development of manufacturing industries in India by sufficiently favourable treatment and that it operates to their disadvantage, owing to its preferential treatment to foreign trade; not to mention the constant complaints about

* Ibid, pp. 7-8.

the inadequacy of the transport facilities to internal commerce.*

Sir Charles Trevelyan's general attitude towards the improvement in Indian manufactures was perfectly the policy of *Laissez faire*, that is, neither encouraging them nor discouraging them by fiscal regulations. In his Report (pages 3 to 10) he dwells at length on these three points: (1) facility for free exchange of goods and its advantages, (2) abolition of inland duties and its stimulating effect upon agriculture and manufactures, and (3) abolition of direct or indirect preference to British as against Indian industries. He concluded with the remark that "After freedom (from fiscal restrictions) has been restored, the industry of the two countries (England and India) will adjust itself according to the relative advantages possessed by each."† All that he had to say on these points would have been more appropriate and useful, had it been said much earlier than in 1835 when the whole mischief was completely done and the tables had already been turned. His general remedy‡ for the unemployment problem was to encourage the diversion of the people to agricultural pursuits. He did not exclude the possibility of improving Indian manufactures; but he did not suggest any scheme to that effect. He satisfied himself, in common with all, with the recommendation of improving agricultural products. After 1835, a policy of *Laissez faire* on the part of the Government in Indian manufactures and of free exchange of goods with England would result only in an increasing interchange of

* Refer to (*a*) Report of the Industrial Commission (1916-18) Cmd. 51 of 1919, Chapter XIX.

(*b*) Report of the Railway Committee 1919-20, Cmd. 1512, pp. 50 & 75.

(*c*) Report of the Indian Fiscal Commission (1921-22), Cmd. 1764 pp. 73-74.

† Trevelyan's Report, p. 10.

‡ Ibid, p. 9.

Indian raw materials with British manufactured goods. From the point of view of the reorganisation and development of Indian manufactures, his recommendations, late and inadequate as they were, would have left the whole situation unrelieved even if they were completely carried out, for although they would have remedied all the artificial disabilities imposed by the British fiscal laws, yet they left untouched a natural and permanent cause of the industrial depression in India, *viz.*, the Industrial Revolution in the methods of production in the West, which could have been removed not by a policy of *Laissez faire* but of an active encouragement of manufactures on improved lines in India. Prof. Taussig rightly said: "Economic history shows that the spread of the various trades and manufactures in different countries has taken place by no 'natural' process, and that 'artificial' factors, such as governmental encouragement, the emigration of skilled artisans, the social and political organisation of a country, have been of large, often dominant, effect. It would be absurd to apply to the conditions of Mediaeval and early Modern times a theory of natural advantages and of settled differences in comparative costs."*

As to whether the people of India possessed certain necessary qualities for success in industrial and commercial pursuits, the testimony of some contemporary authorities is very instructive. The evidence of two great early Anglo-Indian administrators, Sir John Malcolm and Thomas Munro, before the Select‡ Committees of 1812-13 throws considerable light upon the question. Sir John Malcolm considered the people of India very industrious, ingenious and extremely prompt in learning any trade and art if taught and if found useful and profitable. Thomas Munro had a high opinion of the excellence of the Indian

* "Principles of Economics, Vol. I, pp. 529-530.

† P. P. H. L. 40. (1812-13) P. P. H. C. 122 (1812-13).

manufacturing skill. "If the means of gain and advantage open to them, the natural habits and dispositions of the people of India are such as would lead them to engage with great zeal and ardour as well in commercial pursuits as in others. They are as much a nation of shop-keepers as we ourselves." He also spoke favourably about their trading dispositions, superior habits of economy and diligence and capacity for manufacture. The Seclect* Committee of 1848 on Cotton expressed its entire disbelief in the existence of any insuperable obstacles to improvement in customs and habits of the Indian population and was convinced of its aptness to learn the trades practised by Europeans, if there was a fair promise of success and security of reward. Major G. Wingate before the Select† Committee of 1858 on Colonisation strongly emphasised the fact that the people of India were ready to adopt improved European methods of production and considered them to be patient, docile, and intelligent with great aptitude for the mechanical arts. Evidence like this, which can be multiplied, leads us to believe that the social habits and customs of the people of India were no strong obstacles to improvements, that they would have surely adapted themselves to circumstances and that the attempts, from the very beginning, for the introduction and popularisation of the improved methods of manufacture would not have failed. General hereditary manufacturing skill and intelligence and commercial and industrial aptitude were in no way wanting. What was wanted was not the will but the opportunity and the security against initial difficulties of unfamiliar undertakings.

The general internal peace and order, security of private person and property, the favourable disposition of the Government of the East India Company after

* P. P. 511. H. C. 1848, p. IX.

† P. P. 461. H. C. 1858. Question 7731.

1813 inspired by the genuine sense of governing rather than trading, the general manufacturing and commercial skill and aptitude, readiness of the people to learn new methods and adaptability of their habits and customs tempt us to suggest that the British Government in India ought to have given up its professed *Laissez faire* policy in Indian Manufactures in favour of an active encouragement to them under the fostering care of the State. It is true that legislative and administrative action cannot industrialise a country where no possibilities exist; but this does not mean that the state cannot provide important facilities to industries. State action may not be a necessary condition for the industrialisation of a country, but it is an important facility under certain circumstances. The British Government left no stone unturned in its policy of imrproving agriculture in India. Herculean efforts were made for the better cultivation of agricultural produce and specially Cotton by way of experimental and demonstrative farming; improvements in the conditions of tenure; irrigation works; introduction of better and new seeds; suitable machinery; hearty Government co-operation and investment; application of the European methods of organisation and British skill and capital; popularisation of the improved methods and the scientific knowledge of cultivation; investigation and inquiries about the natural resources, progress and possible developments under the policy; improved means of communication and transport; educative and informative propaganda; removal of all other obstacles, etc.

The Government could have adopted similar measures for the encouragement of manufacturing industries in India. Instead of investigating how British trade with India could be increased and how British capital and skill could be employed in the production of raw materials in India, inquiries ought to have been instituted for the revival and encouragement of manufactures in

India and for finding out natural resources of the country for the benefit of India rather than the enlightenment of English capitalists. Lack of experience in new methods, influence of habit, natural reluctance and hesitation in changing old occupations and methods, apprehension of failure in new enterprises, inequality of competition because of a late start, intrinsic difficulties of new enterprises and all other temporary and initial obstacles connected with the transition from old to new methods provided a sufficient necessity for Government interference and patronage.

What did other countries do in similar circumstances?* The Industrial Revolution was achieved first by England, the effect of which was adversely felt by all other countries. The handicraft industries of the European countries were menaced by the cheap English goods. The consequence was the general distress of the artisans and the peasants who lost their by-employment. Industrial organisation was primitive. Large enterprises were exceedingly rare. When home industries were thus menaced, State intervened and special efforts were made to learn new methods of production from England. Experienced English artisans were employed. Special Government institutions were created for the popularisation of the new methods of production. Experiments, demonstration and industrial education were undertaken at state expense. Enterprise, arts, agriculture, manufacture, discoveries and inventions were stimulated by prizes, rewards, etc. New industries were subsidised. Serfdom was abolished, privileges suppressed and economic freedom established. Inquiries were instituted and reports were called for, with plans for the encouragement and promotion of manufactures and also for marking the progress and

* The sketch has been drawn from (i) Clapham "Economic Development of Germany & France" pp. 53-102; (ii) Ashley "Modern Tariff History;" (iii) Hamilton "Report on Manufactures," America.

demonstrating further prospects. There were various difficulties:—scarcity of capital and raw materials, timidity in starting new individual enterprises on a large scale, want of technical skill, absence of good roads and railways, internal customs and tolls, different provincial laws and internal economic disunity. Various efforts were made to remove these difficulties, innumerable tolls and internal customs abolished, economic unity with common external tariff established, roads improved and railways introduced and tariff barriers raised to secure the home market for home industries. Thus, in every Western country, the natural excellence in certain industrial arts, craftsman's skill, railways and improved roads, internal freedom of home market, economic freedom and natural resources, coupled with "English technique of mass production and factory organisation," gave a powerful stimulus to industrial enterprises and prepared the way for large scale manufacturing industries, which grew out of all these natural possibilities, assisted in some degrees by all possible devices of their governments.

Three necessary conditions for a manufacturing industry always existed in India:—(1) abundant supply of raw materials, (2) an immensely large home market, and (3) abundant supply of labour. But there were some serious difficulties, for instance, unskilled labour, absence of technical knowledge, and lack of capital, machinery, and efficient organisation. The technical skill in labour and organisation can be acquired by the people through constant and steady practice, if they only possessed natural commercial and industrial aptitude. The governments of other countries imported skilled artisans from England and encouraged the introduction of the methods of machine production. In India also these difficulties could have been removed by State support on similar lines. The strong impetus to enterprise, consequent upon the commercial

and industrial activities on new lines initiated under state patronage, would have certainly attracted private capital for the successful prosecution of any industry which was likely to prove truly and ultimately profitable. The introduction of Banks and the judicious application of foreign capital to manufacturing processes and productive purposes would have solved the difficulty about capital in its initial stage. "It is the familiar economic sequence—capital accumulated in commerce goes to supply the needs of large scale industry."* Besides, how can new enterprises be started on private account in face of the forces against them, viz., (1) active government encouragement to the importation of machine-made and cheap British goods; (2) an oppressive inland duty system and other restrictions of the British fiscal regulations; (3) and consequent unequal competition with British goods? The subject is no doubt highly speculative. However, one can rightly assume that although these difficulties were not insignificant, yet they were not insurmountable.

One is thus led to agree with Dutt when he said:— "Throughout the century just expired (1765-1865) there was no thought of fostering the weaving industry in India or of introducing the people to manufacture for themselves by means of the power loom or of improving their old loom. A truly national Government, one working for the good of the nation would have sought to preserve the old national industry of India by introducing new and improved methods; and the patient, industrious and skilful artisans of India would undoubtedly have learnt the lesson and preserved their old industry under new methods."†

It was argued and argued not quite disinterestedly that India was supplied with the cheapest articles in the

* Clapham "Economic development of France and Germany," p. 90.
† Dutt. *op. cit.* Vol. II, . 163.

world by British trade. The question of vital importance at that time with which she was confronted was not one of getting cheap articles, which was a temporary gain, but of permanent improvements in the productive powers of her industries which would have recovered the declining sources of income or created new ones.*

Supposing the Government of India had done to encourage and foster Indian industries all the things that a state can legitimately do and that other countries did during that period, there still remained one more problem. International freedom of trade is mutually beneficial if mutually practiced by all nations. But on the contrary, all nations in Europe and America, with which India had commercial intercourse, threw serious obstructions in the way of her principal staples either by heavy import duty or by prohibition. Also they were seriously menaced in their home market by the free importation of cheap goods from Great Britain.Under such circumstances the Government of India ought to have seriously considered the necessity of securing and enlarging the sphere of the domestic market for home industries. Apart from the advantage, which the huge market of India could have conferred upon home industries, such an action could have helped in obtaining reduction in the restrictions on Indian goods in foreign countries by Reciprocity Treaties; and we have seen that

* "It might be argued that India benefited by the reduced price of the commodities imported from Great Britain in proportion to the amount of the duty remitted. But this was disadvantageous in another respect as it rendered the articles of domestic production still less able to compete with foreign articles in the market and further discouraged industry. The competition was unfair. India was young in the process of manufacture and was never likely to improve if her manufactures were to be crushed in their infancy. Could time have been allowed for the acquisition of experience and the introduction of machinery, her cotton fabrics and her metals would probably have been saleable in her own markets for a less cost than those of Europe. A native sovereign would undoubtedly have given India a chance by the imposition of protective duties." H. H. Wilson "History of India" Vol. II. Footnote on p. 559.

it was the want of reciprocity that was partly responsible for the industrial depression in India. It is, no doubt, true that tariff protection is no panacea or substitute for industrial development; but it would have served as an important aid to a general scheme of industrial revival on improved lines in India just at a time when the effect of the Industrial Revolution was first felt by her industries. It is perfectly safe to assume that such a scheme would not have been out of accord with the general spirit of the commercial and industrial policy of almost all the countries of Europe including England and of the United States of America in the beginning of the 19th century.

In reality, one has to recognise the grim fact that not only was there no such attempt to revive and foster the indigenous industries of India on improved methods of production, but also that the British fiscal policy relating to India was so framed as to discourage them. India was faced, in the early part of the 19th. century, with the industrial depression "hardly to be paralleled in the History of Commerce." Yet, in the Indian as well as the British markets the products and manufactures of India were suffering from unequal competition under the British fiscal laws, which conferred positive benefits upon those of Great Britain. The restrictions on imports from India in the British market and the heavy differential export duties on Indian exports were relaxed or abolished only when they ceased to be necessary for the objects which they were intended to serve. Inland duties in British India were abandoned only when it was discovered that the general interests of British trade with India were seriously injured by their existence. Moreover, both these measures were adopted long after the time in which they could have been beneficial.

Conclusions.

To conclude:—From the trading stations of the East India Company there grew a trading Empire in India, dependent upon Great Britain. The ultimate authority that determined the customs policy of India was vested in the British Cabinet. The policy, therefore, must be either subordinate or supplementary to the British commercial policy of the age. The main interest in trading with India was to encourage the exchange of British manufactured articles for Indian raw materials in British shipping. India was thus considered as a source of raw materials for British industries and a ready market for their products. The interests of British shipping consisted in securing to it as large a share in the general carrying trade of India as possible. Consequently, the regulation of the customs and commercial policy of India was influenced by the desire to encourage the interests of British industries, British trade and British shipping. This policy of preference was directed not only against foreign nations trading with India but also against the interests of products and manufactures of India. British industries were protected against Indian competition by heavy import duties or positive prohibitions in the British market. The products of the Colonies were admitted into Great Britain at considerably lower duties than those levied on the similar products of India, most of which were treated as foreign. On the other hand, British goods were admitted into India practically free or were only nominally taxed; while similar products and manufactures of the country were burdened with oppressive inland duties. The inland duty system favoured trade to and from ports at the expense of local trade. The heavy differential export duties hindered Indian exports to foreign nations and in foreign ships. The advantages from this preferential system were thus one-sided and not reciprocal. In spite of the

special political relations between Great Britain and India, one would at least expect that, in all measures of commercial relations between them, the interests of both the countries should have been reciprocally attended to. Truly, this partiality was "a melancholy instance of the wrong done to India by the country on which she had become dependent."

Since the beginning of the 19th century, the Industrial Revolution in the West had menaced the prosperity of Indian manufactures. Their decline was accelerated by the unequal competition under the British fiscal laws, until they were largely replaced by British manufactures in their foreign as well as in their domestic markets. The abolition of the restrictions on them in the British and the domestic markets came too late and was effected only when they ceased to be necessary for the purposes which recommended them. When, in 1830, the process was nearly complete and Indian manufactures were completely supplanted by British, the policy of commercial colonisation and capitalistic exploitation of Indian agricultural and other resources was introduced and encouraged by the British Government in India. No efforts were made for reviving the old manufactures or starting new ones. This question was thought out of order, not on the ground of its impossibility or impracticability but of its undesirability and unsuitability to particular interests in view. The tariff policy actually practised prevented, by its preferential treatment to British interests, the growth and development of manufacturing industries in India, for which various possibilities and natural advantages existed, such as, easy access and abundance of raw materials, extensive home market, potential supply of cheap labour in abundance, adequate sources of power, and hereditary manufacturing skill, business aptitude and commercial capacity of the people. What was wanted was technical skill, knowledge of improved methods of

production, and stimulus to enterprise on large scale. The difficulties though serious were not insurmountable. There was a way, if only there was a will. The expediency of encouraging manufactures side by side with agriculture is unquestionable. In India, as in scientific agriculture, so in improved manufactures, Government sympathy and encouragement in various ways were necessary, in their initial stage. The policy, which preferred and encouraged foreign industries as against home industries, was certainly anomalous and suicidal owing to the inversion of the natural order. The beginning of the 19th century was the crucial point in the Industrial History of India. It was possible that improvement and progress in the Indian manufactures would have naturally followed a sympathetic change of attitude and angle of vision on the part of the governing authority, consequent upon a settled policy which intended to serve Indian rather than British or Imperial interests, and the subsequent disappearance of the dead weight which accelerated the Indian industrial depression. It is also possible to conceive that an enlightened Government, accustomed to look to the advancement of national industries, would have not only saved them from utter depression but also encouraged them by all possible expedients. But this was hardly possible in the case of the Government of India, which was merely a tool of the Government of Great Britain working with an eye to the promotion of British interests in India. In the commercial relations between India and Great Britain, nothing that would have benefited the former had been undertaken if that was found inconsistent with certain Imperial or British interests. The subordination of Indian to British or Imperial interests was, therefore, the chief characteristic of the tariff policy framed for India.

CHAPTER V.

TENDENCIES TOWARDS THE ESTABLISHMENT OF FREE TRADE IN INDIA—1857 TO 1874.

The preceding chapters dealt with the historical evolution of the tariff policy of India from 1765 to 1857. Therein we described the important changes in the customs and commercial legislation and the main considerations that inspired them. At the same time we considered the actual utility of this policy to the interests of Indian industries and trade. The history of the Indian Tariff after 1857 will be taken up in this chapter from the point where we left it in the third chapter, explaining and illustrating the forces that were constantly modifying and moulding the customs system of India. The convenient point to end this chapter will be 1874, because it is from that time that the famous "Cotton Duties Controversy" really begins in its active form, which should form the subject matter of a separate chapter. By 1850 most of the restrictions of the British commercial policy on trade and industry of India had been abolished. In this period we shall come across the development of certain distinct tendencies towards the adoption of Free Trade policy for India.

The Mutiny of 1857 rang the death-knell of the East India Company. In 1858 the East India Company ceased to rule in 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. The Act declared that India was to be governed directly by and in the name of the Crown and through a Secretary of State and that all the powers† then exercised by the

* 21 & 22 Victoria C. 106.
† Ibid. Sec. 3.

company or the Board of Control were to be transferred to and administered by him in concert with a Council. The important point to be noticed for our purpose is that the fiscal control so long held by the British Cabinet through the Board of Control was now to be exercised through a Secretary of State who was to be one of its members. A strict financial control of the British Parliament was established over India through various devices mentioned* in this Act. From an economic point of view, the constitutional change of 1858 has no great significance. The same British policy of encouraging the commercial and agricultural development and of *Laissez faire* in manufacturing industries in India, which was inaugurated and developed during the first half of the 19th century, was continued after the Mutiny. All the Financial Statements from 1860 loudly emphasized this policy.

Another point worthy of notice is the non-representative and irresponsible character of the Government of India and of the Indian Legislative Council, consisting chiefly of the executive members and some additional non-official members nominated by the Government to represent certain interests. This Council discussed and passed all Bills before they became Acts.

Having taken note of these points, we shall take up our thread of history. In order to preserve continuity, we shall briefly mention here some points from the tariff history of the last period. The principles on which the customs duties in India were to be regulated thenceforward were discussed by the Court of Directors in their despatch to India of 22nd April 1846, after consulting the mercantile community interested in Indian Trade. They were: (1) the abolition of the export duties in India on all staple commodities with the exception of Indigo,

* Ibid. Sections 44 to 45; also refer to Chapter X.

(2) the abolition of the duties on the port-to-port and the inter-provincial trade and (3) the equalisation of the duties on merchandise exported or imported in British and foreign ships.

The last two measures were carried into full effect soon after 1846. At the end of the third chapter we remarked that the abolition of the export duties could not be effected owing to financial difficulties and that another reform of equally vital importance, namely, the abolition of the discriminative duties on British and foreign goods in favour of the former, was purposely neglected.

Nothing worthy of notice took place until 1857, when the principles of regulating the customs duties in India were reviewed by the Government of India under Lord Canning. In their letter* of the same year they asked the Court of Directors to consider certain proposals made by them as a result of the correspondence and the discussion with the European Chambers of Commerce in India, and to state their general views regarding customs duties in India. The letter also solicited their permission to revise and prepare a general scheme of customs duties for all India in consultation with the several local governments. The following were the proposals referred to in the letter : (1) equalisation of the duties on British and foreign goods imported into India, (2) and on manufactured and unmanufactured goods ; (3) exemption from duties of all articles producing inconsiderable revenue ; (4) abolition of the export duties ; (5) augmentation of import duties, for the purpose of increasing revenue (this was strongly recommended) ; and (6) establishment of a general and uniform customs tariff for all India.†

* 23rd February 1857.

† The rates and regulations were by this time equal and uniform at all ports but the valuations for ad valorem duties varied widely at different places. Their equalisation at all ports was necessary to complete the reform which intended to establish one general uniform customs tariff for all India.

Just after the communication of these suggestions the Mutiny of 1857-58 broke out. Consequently, all further discussion of the subject was suspended until 1859, when the whole financial situation of India after the Mutiny was reviewed, in view of the embarrassment caused by the expenditure involved in that event.

James Wilson, the first Finance Member of India, on whom fell the duty and to whom belonged the credit of organising the finances of the Government of India on a systematic basis in 1860, reviewing the financial situation of India from 1854, said: "The normal state of Indian Finance may be said to be deficiency of income and addition to debt."* This situation was greatly intensified by heavy financial pressure caused by the Mutiny. The difficult problem, taxing the ingenuity of the Finance Member, was the restoration of equilibrium in the national finances of India. In consequence of this difficulty, Lord Stanley then Secretary of State for India addressed an important despatch† in 1859 to the Government of India, pointing out the urgency of equalising income and expenditure either by the reduction of expenditure or by the increase of revenue and recommending the expediency of increasing revenue either by improving the existing sources of income or by creating new ones—the alternative of reducing expenditure being then thought "problematic." The despatch contemplated the revision of the "Customs administration," with a view to obtaining some additional revenue. The Secretary of State generally directed the Government of India not to undertake any reform or measure that would result in a diminished revenue from "Customs."

Referring to the proposals submitted by the Government of India in their letter‡ in 1857, Lord Stanley directed

* P. P. 339 H. C. 1860, p. 79. First Financial Statement.
† 7th April 1859. P. P. 81. Session II. H. C. 1859, pp. 3 to 8.
‡ 23rd Feb. 1857.

that the system of giving preference to British manufactures in India by differential tariff rates should be given up, because there was no necessity for such a discrimination and because it had already disappeared from the tariff policy of Great Britain and that the equalisation of duties should be effected by raising the duties on British goods to the extent of those levied on foreign goods. Secondly, he laid it down that the difference between the duties on manufactured and unmanufactured goods should be maintained for the reason that an increase in the duty on the latter would obstruct the small native industries which used them as raw materials. The articles in question were cotton twist and yarn used by the handloom weavers in India. Thirdly, the proposal of exempting from duties all articles producing small revenues was negatived on the ground that as the duties were levied on invoices there was no great inconvenience in collecting them and that therefore there was no sufficient justification for sacrificing even a small revenue. Fourthly, the proposition to abolish the export duties in India was also set aside, because "without defending them in theory they are already so low, and India has so great an advantage over other countries in the production of the articles on which they are chiefly levied, that they cannot be believed to offer any impediment to exportation."* The same consideration led Lord Stanley to authorise some increase in the export duties on all articles except Rum, Sugar, Opium, and Cotton—the last, because of "the paramount importance of obtaining the widest and most unrestricted field for its supply to this country† (England)" Export duties were to be permanently increased upon certain articles such as Indigo, Lac, Dye, Saltpetre, Shellac, Borax, and other minor articles, of which India was believed to possess an actual or a virtual

* Para. 18 of the Despatch.

† Ibid. Para 19.

monopoly; while upon others the increase was suggested as a temporary measure. Fifthly, with regard to the augmentation of import duties, the despatch pointed out that a moderate and in some cases a considerable increase could be effected in the existing rates without any serious impediment to the general commerce of the country.* Sixthly, with regard to the proposal of a uniform tariff schedule for all India, the expediency of the system of specific duties in certain cases and of substituting a plan of fixed valuations for *ad valorem* duties was recommended. These are merely the general points of the despatch of the Secretary of State to India in 1859.

Before this despatch reached India, the Tariff Act VII of 1859 had already become law. The rates of the import duties in the Act coincided very nearly with those suggested in the despatch. A letter† from the Government of India of 25th May 1859 to the Secretary of State for India, while acknowledging the receipt of the above despatch, pointed out the cases in which his instructions were not carried out. The most prominent case was that of Cotton Twist and Yarn, which were charged a duty of 5% instead of a duty of 7½% as suggested. Tobacco, beer, and spices were charged a higher export duty than that proposed by the Secretary of State. As regards export duties, there was a greater diversity between the measures adopted by the Government of India and the views communicated by the Secretary of State. With the exception of grain, no increase was effected in the

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Articles.	Original Rates.	New rates suggested.
Unmanufactured or semi-manufactured goods.....	3½%	7% *ad. val.*
Manufactured Goods.....	5%	10% *ad. val.*
Articles of luxury.....	5 to 10%	20% *ad. val.*

† P. P. 81 Session II, H. C. 1859, pp. 17-18.

export duties on the contrary, the export duties on tobacco and raw silk were abolished.

The general features of Act VII of 1859 were as follows: (1) abolition of the system of differential duties; (2) general import duty of 10% *ad valorem*, cotton twist only being subject to 5%; (3) luxuries subjected to 20% *ad valorem*; (4) general export duty of 3%; (5) with the exception of grain, no increase in the export duties. Tobacco and raw silk added to the Free List; (6) a very limited number of articles of export and import constituted free lists.

The Act was disliked by certain interested parties, viz., the European Chambers of Commerce in India. Memorials were addressed to the Secretary of State, of which that of the Bombay Chamber* of Commerce was typical. Their complaints were (1) that the new scale of duties would practically fall upon the importers and consumers;(2) that it was impolitic to place further burdens upon British trade with India;(3) that it would check the British trade so valuable to England and her shipping interests;(4)that it would stimulate the competition already commenced in the cotton industry;(5) and that the lower duty on the import of cotton yarn would promote the Indian cotton industry with a corresponding detriment to the British industry. Thus alleging the impolicy, the injustice and the evils involved in the measure, the memorial concluded: "In conclusion your memorialists would venture respectfully to express a hope that the commercial policy of Her Majesty's Government in India will not be inaugurated by a departure from those principles of Free Trade which are now recognised in England as the basis of commercial prosperity."†

* P. P. 81. Session II H. C. 1859, pp. 10 to 15.

† Ibid. p. 12.

In 1860 when Mr. Wilson went out to India as the first Finance Member and adviser to the Government of India, the Tariff was again revised. Sir Charles Wood (later on Lord Halifax) was the Secretary of State for India. He instructed* the Government of India to meet particularly the objections and irritation caused among the European Mercantile Community in India by the Tariff Act of 1859. The result was the Customs Act X of 1860. The Act reduced the import duty of 20% *ad valorem* to 10% and the duty on cotton twist and yarn was raised from 5% to 10%. The import tariff now consisted of a single uniform rate of 10% *ad valorem*, with special specific rates for wines, beers, spirits, and tobacco. The free list was greatly reduced. The general export duty was 3% *ad valorem*. Wool, Hides, Jute, Flax, Tea were added to the free list. Indigo, Saltpetre,† Lac dye, Shellac, Grain, were the only important articles subject to special export duties. Many of the chief exports were in the Free List.

The Tariff of 1859 represents the high water-mark in the Tariff History of India during the 19th century. From 1860 began the process by which the customs duties in India were reduced in their extent and magnitude.

In 1860 the discrepancies in the tariff valuations, according to which the *ad valorem* duties were levied in the three Presidencies, led the Government of India to appoint a committee to fix a uniform tariff of valuations for all India. Subsequently, a uniform price-list was established. Since that period, there has been completely uniform practice in the Customs Administration throughout the country.

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* Despatch to India, 17th May 1860.

† The export duty on saltpetre proved to be very heavy in actual operation. The natural result was that it stimulated the artificial production of the article in foreign countries. Consequently trade declined and it was too late when attempts were made to neutralize the evil effects by reducing the duty in 1865, Act XVII and in 1866, Act XVIII. This duty was finally abandoned in 1867, Act XVII.

In 1861 the duty on cotton yarn was reduced* to 5%. It was further reduced to 3½% in 1862 and the import duty on cotton goods was brought down to† 5% in the same year. In 1863, the duty upon Iron‡ (not iron-mongery, cutlery &c.,) was lowered to 1%. Next year the general§ rate of import duty was reduced from 10% to 7½%. In 1865, on the advice of Sir Charles Trevelyan, then Finance Member, Tea,|| Coffee, Wool and Jute, were charged with an export duty of 3% and Raw Hides, Sugar and Silk 2% *ad valorem*. This measure was at once vetoed¶ by the Secretary of State for India. The Act XXV of the same year cancelled this change, reverting to the export schedule of 1864.

In 1867 an important change was introduced in the constitution. of the tariff schedules. In consequence of the recommendations of the Tariff Committee of 1867, the original practice of enumerating free articles and prescribing a general rate of duty for all unenumerated articles was abandoned** in favour of a schedule which mentioned only the dutiable articles and assumed all unenumerated ones as free from duties. The effect of this revision was to exempt more than 40 articles from import duties and 88 from export duties. The tariff of valuations was also revised to meet the changes in prices since the last revision of 1860. The official tariff values of cotton goods were reduced. Thus the tariff schedules were largely simplified and the duties on many articles of import and export were abolished. This was a distinct move in the direction of Free Trade.

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* Financial Statement 1861-1862.

† Act XI of 1862.

‡ Act XXVI of 1863.

§ Act XXIII of 1864.

|| Act XVII of 1865.

¶ P. P. 351. H. C. 1873, p. 84. Trevelyan's evidence before the Finance Committee of 1873.

** Act XVII of 1867.

There was no important change in the rates of the duties from 1864 to 1874. The official tariff values of cotton goods and the principal metals were reduced by 15%. The general tariff values were revised in 1871. The Tariff* Act XIII of 1871 consolidated various laws and government notifications relating to customs duties and represents fairly the situation as it stood in 1874, with the exception of the export duties on Wheat and Lac Dye which were removed in 1873 and 1874 respectively.

This is in short the narrative of the important changes in the customs legislation during the period from 1857 to 1874. Certain points arise out of this brief review. Firstly, there was a distinct and striking reduction of the general import duty and particularly of the import duties on piece-goods and yarns. Secondly, the standing problem of the export duties excited, as can be seen from the frequent changes in the export schedule, a good deal of attention during the period. Thirdly, the general tendency of the customs legislation was in the direction of reducing the export and import duties. It now remains to examine the various considerations which influenced the above changes. Along with this, it is intended to study the financial and commercial results of the whole fiscal legislation during the period.

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* The analysis of the schedule is as follows:—

Import Schedule :

(1) General Import duty for enumerated (60 to 65) articles 7½%
(2) Piece goods 5%.
(3) Yarns, Twist, etc. 3½%.
(4) Railway materials 1%.
(5) Machinery free.
(6) Ironware 1%.
(7) Tobacco 10%.
(8) Special duties for Wines, Spirits, etc.

Export Schedule :

(1) Cotton goods of Indian manufacture 3%.
(2) Hides, (3) Lack, (4) Oils, (5) Seeds, (6) Spices, all 3%.
(7) Indigo 3 Rs. per maund (82 lbs.)
(8) Grains. 3 Annas per maund (82 lbs.)

Import Duties.

First we shall revert to the question of the import duties. In 1859, in order to cover the great deficiency caused by the ~~Mutiny~~, the general rate was raised to 10% and on a variety of luxuries as high as 20%. This caused great dissatisfaction on the part of certain interested bodies like the European Chambers of Commerce. Their memorials to the Secretary of State had some effect. The Finance Member, James Wilson, was specially instructed by the Secretary of State to meet their complaints. The opposition was too powerful to be neglected. In order to allay their discontent, the duties on piece-goods and yarn were equalised at 10%. A general uniform rate of 10% was established for all imports in 1860, while the tariff values were revised and reduced. The import duty on luxuries was reduced from 20% to 10%, because of the decline in their trade.

The reason why that difference between the duties on cotton yarn and piece-goods was maintained in the Customs Law of 1859 is given in the following quotation: Lord Canning, while introducing the Tariff Bill of 1859 in the Legislative Council, said in his address:—"An exception has been made in favour of cotton yarn. That was only a half manufactured article, but it was an article which tended to the promotion of Native industry (generally the handlooms industry).....He thought the government would act wisely in fixing the duty upon it at no higher figure than 5%."* (instead of 10% as on piece goods). This view was supported by Lord Stanley in his despatch of 7th April 1859 referred to above. While removing this difference in 1860, James Wilson said: "I must own that after due consideration we could discover no good reason why cotton yarn and twist should

* P. P. 81. Session II. H.C. 1859, p. 12.

be imported at a lower rate of duty than cotton piece-goods.....If we are to have an average duty it should be average throughout; nor do I attach much importance to the argument that a low duty on yarn and higher duty on cloth encourages native weaving."* The "good reason" which he failed to discover had been given by Lord Canning and Lord Stanley in 1859. If he did not attach much importance to it, he ought to have stated his reasons, which are nowhere to be found in his Financial Statement. Uniformity is an administrative convenience; but it does not supply any economic justification for his action. Frankly his arguments fail to convince us of the reasonableness of increasing the import duty on cotton yarn. They seem to have been advanced in order to hide the fact that he was influenced† in his tariff measures chiefly by the idea of satisfying as far as he could the British merchants whose trade and industries were adversely affected by the tariff changes of 1859. It was not so much the change that is really interesting to us as the influence of the interested parties to which the Finance Member in India was compelled by the force of circumstances to yield in making such changes. If the measure was bad, the method was still worse.

In 1861 the import duty on Twist and Yarn was reduced from 10% to 5%, even though there was a deficit of 6 M. £ which made an increase in the salt duty necessary. In his budget speech of that year the Finance Member, Mr. Samuel Laing, stated two reasons for this change: (1) that the revenue realised was half the amount estimated by Wilson and (2) that "no one can doubt that it is a duty which ought not to be maintained at a rate which might stimulate the growth of a protected interest.'‡ Wilson's action in 1860 amounted to abolishing even a little

* P. P. 339. H. C. 1860. Financial Statement, p. 87.
† Cf. Sir Charles Trevelyan. P. P. 339. H. C. 1860, p. 112.
‡ Financial Statement 1861-62.

advantage which Indian handloom weaving had from the lower import duty on cotton yarn and twist. When spinning mills began to grow in India, the import duty of 10% was thought to give protection to Indian mill production. So the duty was reduced to 5% by Mr. Laing.* He then laid down the following general principle: "The Principle of Free Trade is to impose taxes for the purposes of revenue only and if yarn be a fit subject for taxation there ought to be an excise on the manufacture equal to the custom duty on the imported article unless the latter be so small in amount that it would be palpably not worth while to establish a countervailing system of excise."† He considered an excise duty of 5% on Indian yarns to be such a case. He also showed his intention to lower the import duty of 10% on piece-goods to 5% as soon as the financial situation enabled him to sacrifice so much revenue. "But that is no reason why I should not deal with the yarn where the amount is small and the failure of the high duty palpable and the case urgent, because parties are actually building and importing machinery on the strength of the high duty."‡

The financial situation of 1862-63 gave him, as he believed, an opportunity to carry out his intention of the last year. Consequently, he reduced the import duties on piece-goods and on yarn and twist from 10% and 5% to the pre-mutiny rates of 5% and 3½% respectively. The Lieut-Governor of Bengal recorded his opinion "that a 10% duty on imported manufactures is one of the legitimate sources of revenue we have."§ But the finance member was in favour of reducing it for the following

* No doubt the reduction of the duty on yarns, etc. was an advantage to Indian handlooms; but that was not the consideration which influenced the Finance Member in his measure.

† F. S. by Mr. Laing 1861-62.

‡ Ibid.

§ F. S. 1862-63.

"very plain and obvious reasons*":—(1) the duty injuriously affected the interests of British manufactures and commerce; (2) Great Britain has a claim to unrestricted trade with India; (3) "the extension of commerce is the most direct and palpable advantage derived by England from the possession of India." (4) the determination of the fiscal policy of India depended upon England: thus a tax in India injurious in operation toBritish interests has not the slightest chance of being tolerated; (5) high duty means high prices to the consumers; (6) the duty was protective unless counterbalanced by an excise duty which in practice was thought inexpedient; (7) and lastly, "I confess that in the present state of things in Lancashire (trade depression owing to the American Civil War) I should be very unwilling to postpone for a single day any benefit they may get from reduction." On financial grounds, he did not favour the proposal for removing all import duties generally. Also he did not like to reduce the general import duty, because "The same arguments for reduction as in the case of piece-goods do not apply to other articles of tariff which are not extensively produced in India as well as imported. A moderate duty such as 10% on such articles is not an objectionable mode of raising revenue."† The argument that other articles not extensively imported should be taxed 10% duty, while the cotton goods constituting the largest part of the import trade and universally consumed should be charged, if they were to be taxed at all, a much lower duty was absolutely against the interests of public revenue, for, taxation, if it is to be productive, must be levied on articles in general use. If he thought it possible to raise revenue by a moderate duty of 10% from the former class, *a fortiori* it is much more possible to do the same in the case of the latter class.

* Ibid.

† Ibid.

From the review of the tariff measures of Messrs. Wilson and Laing (1860 to 1863) and the various circumstances and considerations connected with them, an impartial observer can clearly feel the beginning of a policy of the British Government in India by which under the disguise of Free Trade principles they encouraged the interests of the English cotton industry as against the Indian.* Of course, it is the continuation of the old policy of encouraging wherever possible British interests in India. They practically identified themselves with the interests which the British manufacturers and the European Chambers of Commerce in India sought to serve in their memorials.

There was a serious depression in the cotton industry of Great Britain on account of the American Civil War. The cotton manufacturers of Great Britain continued their demand for the abolition of the cotton duties altogether. Sir Charles Trevelyan as a Finance Member of India thus replied in his Budget speech of 1863-64. "The duty of 5% *ad valorem* is charged on a valuation which was fixed when the prices were about half of what they now are, it really amounts to only $2\frac{1}{2}\%$.....The so-called protective duty on the manufacture has utterly failed to afford protection."(2) He also clearly proved that the nominal duty of 5% had nothing to do with the depression in the British cotton trade, which was solely due to other temporary causes.

In 1864 the general rate of the import duty was reduced from 10% to $7\frac{1}{2}\%$. There was no special reason given in the Financial Statement of 1864-65 for the change. In 1867 the tariff valuations for cotton duties were revised and reduced and many articles were exempted from import and export duties. In 1868 the Finance Member,

* Cf. Prof. C. N. Vakil "Our Fiscal Policy," p. 7.
† F. S. 1863-64.

Mr. W. N. Massey, gave a warning in his budget speech* against sacrificing customs revenue in India. He thought that the customs duties in India were the lightest of any country in the world and had been adjusted in accordance with the spirit of the policy of Sir Robert Peel and Gladstone.

In spite of this timely warning, the demand for the establishment of complete Free Trade in India went on developing. In the discussion in the Legislative Council of the Governor General on the Tariff Consolidation Act XIII of 1871, Major General Richard Strachey strongly expressed his views in favour of abolishing all duties in India. He pressed upon the government his view that as soon as the finance of India would permit, complete free trade would be the best policy for them to pursue in India, because of its wonderful results in England. Speaking about the Manchester influence he said : " I reject entirely the doctrine that we do well to maintain a high rate of duty on the piece-goods imports. (He considered 5 % a high rate.) Whether Manchester be selfish or not, and no doubt it has been loudly asserted, it is not for me to say ; but this I know, that the men of Manchester gave England Free Trade and understand the real requirements of commerce and progress.....I say, then, that those who ask for a reduction of the duty on piece-goods may at all events possibly and to my mind actually, have a substantial ground on which to base their argument quite apart from mere personal interest, though no doubt this is one of the motives of those who object to high duties and a motive which is a perfectly proper one."†

Export Duties.

Having pointed out the general tendency of import duties and the forces affecting them, we shall turn to

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* F. S. 1868-69.

† P. P. 326. H. C. 1847, p. 39.

the problem of export duties. We have noticed in the preceding chapters the circumstances under which the problem of the abolition of export duties arose in India. The Court of Directors ordered their abolition in 1846* on all the staple commodities of India except Indigo. In 1859† Lord Stanley did not approve of their abolition. He went further and recommended a temporary increase in the export duties on some articles and a permanent increase upon others, of which India possessed an actual or a virtual monopoly. He strongly believed that Indian products owing to various circumstances were capable of bearing a moderate duty. These instructions though sanctioned by the Secretary of State on reasonable grounds were not carried out by the Government of India.

In 1860 Mr. Wilson abolished the export duties on Wool, Hides, Hemp, Jute, Flax, and Tea. These together with the articles already free meant that he proposed to release "from export duty almost all articles which constitute the raw materials of our manufacturing industry at home (England) and which as such have to struggle against the competition of other countries."‡ His general argument§ advanced against the system of export duties in India was that they checked the production and commerce of the staple commodities which attracted "British capital and skill to direct Native labour."

Admitting the theoretical validity of the arguments against the system of export duties in general, there are certain circumstances under which export duties are perfectly justifiable and supply an excellent form of taxation.

* The C. of D's. despatch 22/1/1846.

† Despatch 7th April 1859 (Quoted in this chapter).

‡ F. S. P. P. 339, H. C. 1860, p. 88.

§ Ibid. pp. 85, 86, 87, 88.

They are the cases in which (1) the export duty is very low, (2) the country has many advantages over other countries in producing the commodities that are taxed, (3) the foreign demand for these commodities is constant and widespread, and (4) the country that levies the export duties is the largest source of supplying the world demand and as such the chief determinant of their prices. The magnitude of the duty will depend upon the extent to which the country possesses the actual monopoly of production So far as the Indian products possess the monopoly of the foreign markets or a decided superiority over all other countries taken together, an export duty might fall on the foreign countries. So far as they meet with an effective competition in the foreign market, the duty will be paid by the producers. But Mr. Wilson himself admitted in his Financial Statement that " Almost everything she (India) produces is in constant and boundless demand in Europe and almost every article of importance required in Europe is to be found increasing in India; so varied are her products. There is no fear of the want of a market."* This view was supported by Lord Stanley and Sir Charles Trevelyan. Again, the articles of Indian exports are the food stuffs and raw materials of the great manufactures of Europe. Unless substitutes were found out, they could not afford to give up this large Indian source of supply, even if the prices were to rise to a certain extent. We do not here advocate a large export duty. The only important question to be considered was whether a moderate duty for the benefit of revenue would or would not interfere with the trade and prduction of the articles that were taxed. If the duty proved excessive and hence injurious in practice, it is quite clear that it is more an argument against the unduly heavy export duties than against all export duties in general.

* Ibid p. 81.

In view of these considerations, a moderate export duty, with due discrimination according to the circumstances of the individual articles, cannot be believed to offer any serious impediment to production and commerce of these articles. So one fails to understand the expediency of Mr. Wilson's policy of the general abolition of export duties in India. Strictly, from the revenue point of view, it seems to be an unnecessary sacrifice of legitimate revenue. The great and laudable object, which Mr. Wilson so often emphasized in his statement, of encouraging and developing those great articles of raw produce would not have been frustrated by a low export duty judiciously and discriminately imposed upon them. But there was a stronger force working in the tariff changes introduced by Mr. Wilson than the purely financial and commercial considerations. Sir Charles Trevelyan as a Governor of Madras in 1860, in his famous minute on the financial measures of Mr. Wilson, clearly stated that " The reduction from 20% to 10% on the principal articles of European consumption in this country (India) and the transfer to the free list of the principal raw materials of our home manufactures (English manufactures) have made the budget popular with the ruling class, which represents what we call public opinion. In both points of view, the arrangement is singularly advantageous to the European mercantile interests in this country (India)."*

In 1865 Lord Lawrence as a Viceroy of India tried to levy, on the recommendation of Sir Charles Trevelyan as his Finance Minister, an export duty of 3 % on Jute, Wool, Tea, and Coffee, and of 2 % on Hides, Sugar and Silk in order to obtain additional revenue. Sir Charles

* Ibid p. 112.

Trevelyan considered these duties to be very harmless* and the proper way of raising additional revenue. But the British interests proved too strong for Lord Lawrence. In the same year the Secretary of State for India had to veto this measure. Lord Lawrence† very reluctantly expressed before the East India Finance Committee of 1873 his painful impressions of the influence of British interests over the fiscal policy of India. His view was that an export duty was not possible, because of the great opposition it was likely to create in England. In 1867 the export duties on 88 articles were abolished. The export schedule consisted of only 9 classes of articles. In 1871 the number was reduced to 8. In 1874 only 6 articles were dutiable.

Commercial and Revenue results.‡

We shall now consider the revenue results from customs duties in India in the light of her commercial development during the period to which the preceding narrative of

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* "The old policy of the E. I Company was to levy low rates of duty both upon exports and imports. However contrary this practice may have been to some revered maxims of political economy it was suited to the circumstances of the country: for owing partly to the abundance and richness of the productions of India, and partly to the simple habits of the people the exports of merchandise have always greatly exceeded the imports and our Indian exports have in general such a hold upon foreign markets that they can bear some duty without being seriously checked." F. S. 1865-66.

† His Lordship's evidence on this point has been quoted later on in this chapter, pp. 186 187.

‡ There is a very useful memorandum drawn up by Mr. H. Waterfield on the fiscal legislation in India and its results from 1857-1874. Moral and Material Progress report 1873-74. pp. 31-66. The memorandum besides summarizing the customs legislation closely analyses the foreign trade of India from 1857 to 1874. Attached to it is an appendix containing very valuable tables of figures showing the quantity, value and the rate of duty, and the revenue realised in the case of each of the important articles of export and import. Also another memorandum on the same subject to be found in C. 1515 of 1876, pp. 14-25.

customs legislation refers. The tables* below give the figures of sea custom's revenue, foreign trade and the general total revenue of India.

The imports of merchandise increased from 14.20 M. £. in 1856-57 to 32.60 M. £. in 1873-74 and the exports from 25.33 M. £. in 1856-57 to 54.96 M. £. in 1873-74. The exports and imports have more than doubled during

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* TABLE No. I.

Quinquennial averages of Imports and Exports of Merchandise.

Year.	Imports.	Exports.
1854-55 to 1858-59 ..	M.£.15.58	M.£.24.92
1859-60 to 1863-64 ..	23.98	42.15
1864-65 to 1868-69 ..	31.70	55.86
1869-70 to 1873-74 ..	32.30	56.23

TABLE No. II.

Year.	Sea Customs revenue (Gross).	General Total Gross Revenue.
1856-57	M. £ .98	M. £30.82
1857-58	1.03	31.70
1858-59	1.50	31.71
1859-60	2.64	36.0
1860-61	3.02	39.71
1861-62	2.50	42.90
1862-63	2.15	43.83
1863-64	2.07	45.14
1864-65	2.00	44.61
1865-66	1.98	45.65
1866-67	1.84	48.53
1867-68	2.35	48.94
1868-69	2.50	49.26
1869-70	2.23	50.90
1870-71	2.40	51.41
1871-72	2.34	50.11
1872-73	2.45	50.22
1873-74	2.40	49.50

Moral and Material Progress Report 1873-74, pp. 48-49.

the period. Foreign trade was constantly and steadily growing. Occasionally the progress was rapid. The slow progress in trade figures of the last quinquennial period was partly due to the reduction of the tariff values effected in 1867, 1869 and 1871.

The revenue receipts from sea customs amounted to about £ 980,000 in 1856-57 and to £ 1,500,000 in 1858-59. Under the revised tariff of 1859-60 the sea customs yielded £ 2,640,000 and in 1860-61 more than £ 3,000,000. That is the highest point reached during the period, after which there was a general fall in the revenue till it was 1.84 M. £. in 1866-67. From 1867-74 it varied between 2¼ M. £. and 2½ M. £. The fall in the customs revenue after 1860 was largely accounted for by the constant reductions in the rates effected between 1861 and 1865, and also by the repeal of the export duties on many staple articles of export trade. It was also due to a certain extent to a temporary depression in the cotton import trade, which resulted from the derangement of the Lancashire cotton industry by the American Civil War and from the enormous speculative shipments of cotton goods to India in the previous years.*

Making allowances for special circumstances connected with the trade in particular commodities, the general foreign trade was on the whole constantly and rapidly increasing. It increased in spite of the alterations made in the tariff during the period—the natural tendencies in that direction were so strong. There was rather a less rapid rise in the import trade in the beginning, largely on account of the effects of the American Civil War. In the years of the American Civil War, the export trade and especially the export of raw cotton from India enormously

* Refer to the Financial Statements from 1861 to 1865 by Mr Samuel Laing and Sir Charles Trevelyan.

increased. This abnormal rise subsided to the normal level after the war.

The import of cotton goods yielded nearly* half the amount of the revenue realised from the total import trade. It is interesting to note that even though there was temporarily a little stagnation or depression in the cotton trade after 1861 in comparison with the previous years, the quinquennial averages of the cotton imports† into India during the period 1856 to 1874 show a steady growth. Also Sir Charles Trevelyan had clearly pointed out in his Financial Statement of 1863-64 that the import duty had nothing to do with the depression in the cotton trade, which was largely due to special and temporary causes. Then, from the purely fiscal point of view, there was obviously no reason for reducing permanently the cotton import duties on piece-goods from 10% to 5% and on Twist and Yarn from 10% to $3\frac{1}{2}$% ; and as the cotton import trade went on increasing after 1863 the reduction of the duties wrongly and unnecessarily sacrificed so much prospective revenue.

It is very important to note here that the sea customs‡ revenue was very stagnant and inadequate in view of the incessantly increasing foreign trade on the whole and was very insignificant when compared to the total general revenue of India. 2 M. £ average revenue from sea customs in 45 M. £ average total revenue is merely nominal. On one side, the Finance Members, having been confronted with the pressing problem of equalizing the ways and means of the Government of India, had to increase the existing sources of income, and maintain the already oppressive taxes and the License

* F. S. by Sir Charles Trevelyan 1863-64.

† Memorandum, p. 49.

‡ Refer to the last tables.

Tax on all sorts of trades and professions.* On the other hand, the customs duties were gradually reduced. The cotton import duties were considerably decreased, while in the same year the salt duty was increased.† No sacrifice of revenue, that could have been properly realised from the foreign trade of India by moderate import and export duties,could be justified on fiscal grounds, when we remember that the strenuous efforts had to be made to restore equilibrium in the finances of India. Under such circumstances customs ought to have been looked upon as a definite and potential source of revenue.

From the revenue point of view, the general 10 % duty of 1859 and 1860 ought to have been continued and given a fairly long trial before its revenue and commercial results could be adequately judged. In 1860 Mr. Wilson himself was satisfied with the 10 % duty and its results. "Sir, upon the whole the changes in the tariff of last year have proved most successful. The trade has continued to rapidly increase and a large revenue has been received."‡

Moderate duties levied on articles selected according to the circumstances of the country for revenue purposes are hardly objectionable. The precise rate of duty which will produce the largest amount of revenue is a matter which cannot be decided on abstract principles but can

* Prof. C. N. Vakil, M. Sc. "Our Fiscal Policy," pp. 8-9. "After the mutiny and during the whole of this period (1861-74), the Government were in want of fresh sources of revenue. Customs duties contribute a large percentage to the income of all modern states.....When the land tax was kept at a high level, when salt contributed 14 per cent to the revenue, when the administration of justice had to be made dear, and when the hated income tax proved a bitter failure, the expediency of adding to the resources of the state by an increase in the import duties could not be seriously considered because the Free Trade conscience of Manchester began to quiver. Without going so high as France or the U. S. or many other countries, India could, by a moderate increase in import duties, have doubled her customs revenue."

† F. S. of Mr. Laing 1862-63.

‡ F. S. 1860 ; P. P. 339. H. C. 1860, p. 85.

only be determined by experiments and experience. The rate of duty may be so low that its reduction or abolition will not lead to any increased consumption and trade. Or it may be so high that any increase in it would check the trade or reduce it or would induce substitution. Of course, for fiscal purposes both these extremes must be avoided. If the first is the case, it is better to try the experiment of raising the duty. In India it was the case. The duties were very low. Under the condition of constantly increasing trade, an increase in the duties to a limited extent will certainly yield a larger income The limitation is the maximum capacity of the articles to bear the duty. In view of this, an increase in the nominal import duties in India ($3\frac{1}{2}$ to $7\frac{1}{2}$ %), which were termed the lightest in the world by various Finance Members, or even the continuation of the general rate of 10%, which in its commercial as well as financial results satisfied Mr. Wilson, would have supplied the Government with the best possible mode of raising more revenue so badly needed. Suppose, a sudden increase in the duty temporarily discourages the consumption and to that extent injures the revenue. If the trade has a strong natural tendency to increase annually under normal conditions —as the foreign trade of India had—it is likely that in the course of a few succeeding years the growth in the volume of trade would follow that temporary stagnation or depression. Eventually the revenue would increase. So the absence of any attempt to raise the duty for additional revenue for fear of immediate loss of a small revenue is a lack of foresight and an unnecessary sacrifice of a prospective revenue.

But the duties in India were not properly considered on their own merits. They were constantly subjected to attacks from certain powerful interests in England. They therefore existed on quite a precarious tenure. The policy,

which the Government of India was compelled to adopt, had been to diminish their magnitude and extent rather than to increase, even if such an increase was both possible and necessary. Consequently, it became a usual practice that whenever they could manipulate a surplus in any item in the budget, customs duties were given the first chance of reduction or remission. They tried to achieve their object by reducing the number of dutiable articles and by lowering the rates of duties. But there was in England a strong public opinion expressed through the Manchester School of Free Traders for the establishment of complete Free Trade in India,irrespective of the financial consequences. It was not satisfied with even the lowest possible duties in India and grew impatient at what was considered the long and tedious process the Government of India was following. To them Mr. W. N. Massey, the Finance Member 1866 to 1869, addressed the following warning in his Financial Statement of 1868-69 :—

" Again it may be asked why not repeal your customs duties ? My answer is that our customs duties are the lightest of any country in the world. Every objectionable duty has either been abolished or reduced and I have not heard of any complaint worthy of a moment's notice as against those which remain. The Government will always be prepared to remove or lighten any duty which in any perceptible degree checks the prosperity or interferes with the interests of commerce. But do not sacrifice your customs duties to the idea that you are imitating when you would be only mimicking the policy of Sir Robert Peel and Mr. Gladstone. The customs duties of India are adjusted on principles strictly in accord with that policy." But unfortunately this warning was given in vain and as we shall see in the next chapter, the duties were abolished and complete Free Trade was ultimately established in 1882.

The revision of the customs tariff in 1867 is worthy of a passing consideration here. The repeal of the duties on many articles of export and import might have simplified the tariff schedule; but what other advantages did it secure in return for the sacrifice of revenue? The articles were relieved of the burden of the duties; but that they were very light is admitted on all hands. As the custom houses were still there, all the dutiable and free articles were alike subject to inspection and interference. Again, the Custom House expenditure was not to be in the least diminished. All the articles that were freed collectively yielded a substantial revenue, although each of them individually was of insignificant value. Sir Charles Trevelyan* was opposed to a plan of confining the customs duties in India to a limited number of articles. Under the peculiar circumstances of India he advocated a policy which would levy a widespread and moderate duty both on exports and imports for revenue purposes. Lord Stanley supported this view in 1859. From the revenue point of view this was the right policy for the Government of India to pursue. It was quite consistent with the true and general spirit of free trade ideas. In England the great bulk of the customs revenue is derived from Wine, Spirits, Tobacco, Tea, Coffee, etc., because of their general consumption. In

* "I have carefully considered whether the plan which has been adopted of late years in England, of confining customs duties to a limited number of principal articles of import might with advantage be extended to India. Whether duty be levied on many articles or few, all must undergo the usual examination, partly for statistical purposes but chiefly because unless all were verified it would be impossible to know which were liable. Nothing therefore is gained by limiting duties to a few articles either in saving expenses of collection or in exempting the trade from interference. The customs duties of India are collected in a manner which scarcely admits of simplification and no complaints are heard. India is such a vast and imperfectly developed country that articles which hardly appear in one part exist in abundance in another, and entirely new staples occasionally spring into life in answer to some unexpected demand or discovery. Under such circumstances our policy should be to levy a widespread but moderate duty." F. S. 1863-64.

India the articles possessing the same characteristics could not be found. Therefore, instead of high revenue duties on a few selected articles as in England, a system of general moderate duties on a large possible number of articles would have been the possible and proper way of raising a considerably large revenue from "customs."

Sir Richard Temple in his Financial Statement of 1869-70 prided himself on the fact that the customs revenue had recovered despite the repeal of some and the reduction of other duties. But there was nothing in it to be proud of. It was due to the enormous increase in the foreign trade of India during his term of office. Had the former uniform rate of 10 % duty been levied on a larger number of articles, it would have undoubtedly yielded an appreciably larger sum of revenue without any serious hindrance to commerce.

Views of some high Financial Authorities on Customs Duties in India.

Very important and valuable evidence was collected on the revenue aspect of the customs duties in India by the Select Committees appointed by Parliament during the period from 1871 to 1874 "to inquire into the Finance and Finance Administration of India." Prof. Fawcett, as a member on these committees, took a very enthusiastic and energetic part in all their proceedings. The evidence of Sir Henry Bartle Edward Frere, an ex-Governor of Bombay and long connected with the Revenue Department of India, provided the Committee* of 1871 with an exhaustive source of information on "Customs" in India

Except certain necessary reforms, Sir Henry Bartle Edward Frere was not in favour of abolishing customs duties in India. Total abolition "seemed to him rather

* P. P. 363. H. C. 1871, pp. 260 to 266.

a millenial sort of reform which would be very desirable in itself but was not to be practically considered."* Speaking about the existing rates of the import duties, he said : "It seems to me that the rates of the present tariff are almost as low as you could have them, if you intend to get any revenue at all from customs."† His opinion on the cotton import duty in India was that "as a mere matter of revenue it is one of the best duties you can have because it reaches such a large proportion of your population and consequently it is so productive."‡ When asked as to the possibility of raising more revenue from "Customs," he replied : "There is this difficulty, that the interests of India and England on that point seem rather at variance. No doubt some considerable increase of revenue might be realised by increasing the import duties, say, upon piece-goods and yarns, but the direct result would be to diminish consumption and stimulate production on the spot."§

On the other hand, Walter Cassels‖ a merchant in Bombay argued that all duties of whatever amount were objectionable and pressed for their abolition on all conceivable theoretical grounds. But when asked to produce a plan to make up for the loss of revenue involved in his suggestion, he failed to point out any substitute that could convince the committee.¶ Having failed to prove his case when cross-examined by the Committee, he revealed his underlying motive in attacking the Indian cotton

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* Ibid, p. 262.

† Ibid, p. 264.

‡ Ibid p. 265. Other witnesses, William Maitland, a merchant (Q. 8163). James Geddes (Q. 9939-42) long connected with the Bengal Civil Service and John Natt Bullen who sat on the Tariff Committee of 1860 (pp. 289 to 293) strongly supported the view expressed by Sir Henry Bartle.

§ Ibid, p. 262.

‖ Ibid, pp. 371-381.

¶ Ibid. Qs. 7897-7910.

import duties. "I say they are protective duties. I do not advocate their abolition solely on that reason. I do not know whether you are aware, for instance, in the Bombay Presidency there are twelve mills and there is a tendency to multiply."* The attitude of the Committee, as can be seen from the examination of the above witnesses, was that, taking all the existing and prospective financial difficulties into view, it was not judicious and advisable for the Government of India to abolish a revenue of £ 2,500,000 from Customs.

The evidence of Mr. Samuel Laing, the Finance Member of India for 1861 and 1862, before the Select Committee of 1872† throws a very clear light on the possibility of raising a considerably larger revenue from import duties than was actually done. He took an uncompromising attitude in favour of the expediency of indirect in preference to direct taxation in India.

"7475. I look on the question of import duties only in this way," he said, "as supplying an argument perhaps why we should be tender in this country in forcing unpopular systems of direct taxation upon India, because, no doubt, there is now a rapidly growing opinion in India, which demands that in financial matters India should be treated with reference to her own interests and as if she were an independent country. Now, if India were an independent country there cannot, I think, be a moment's doubt in the mind of anyone acquainted with the circumstances, that in preference to imposing an income tax she would increase her import duties.

"7476. But do you think that the import duties put upon articles of consumption could be largely increased without at the same time imposing corresponding excise

* Ibid. Q. 7962.

† P. P. 327. H. C. 1872.

duties? I do not say largely; but I have no doubt that India could, perhaps, double her present revenue from customs or import duties by what still would be a comparatively moderate rate of taxation, without going so high, for instance, as France or the United States or many other countries. I should think, if India had import duties averaging 15 or 20 per cent *ad valorem* (which would not be an excessive rate, having regard to a great many other countries), she could get the additional one to two millions which might be required from the income tax.

"7477. In speaking of this percentage, are you speaking of import duties upon what are always spoken of as manufactured goods, such as textile fabrics and the metal manufactures, or are you speaking of articles of consumption, such as spirituous drinks and other matters that are highly taxed when imported into this country? I should think that if India were an independent country, and were driven on by any great financial difficulty, she would probably increase her import duties upon manufactures as well as upon articles of consumption. I should like it to be understood that I am not at all advocating this measure myself: on the contrary, I think the sort of tacit bargain is a very good one, and a very advantageous one for both sides, 'If you let British manufactures in almost free, you shall have the advantage of British connection, and especially that of raising money at 4 or 4½ per cent instead of paying six or seven per cent for it.' Therefore I do not advocate the measure; I only point out that, with a native public opinion growing up, it is a reason why you should be tender in enforcing unpopular taxation by mandates from home adverse to Indian public opinion; that they have the retort against you, 'If you leave us to ourselves, and act on Indian interests we can get the money that you want by taxing Manchester manufactures.'

"7479. I want to know whether you considered when in India, or have considered since, that a charge of 15% additional upon textile fabrics and other manufactures of an analogous character would operate as in any way a protective duty to foster manufactures in India, or whether it would be in the nature of a mere enhancement of price, not having that operation? Of course all import duties must have a protective effect where there are native manufactures of the same article, all I say is that if it were a mere question of 10 per cent or thereabouts, I think it is very probable, if India were an independent country, India would do it rather than submit to income tax.

"7492. You cannot tell what the financial result was of duties of that kind being imposed upon British manufactures?* No.

"7493. You do not recollect any period that can give you a practical illustration of what the result to the trade of India would be of duties of that kind being imposed? No. I find, generally, that the customs duties in India have remained very stationary for the last 10 or 12 years, while most other branches of revenue have largely increased; and I have very little doubt, from my general financial experience in other countries, that if it were absolutely necessary to get some increase of revenue by increasing import duties, it could be done. I do not say that it would be a good thing but that it would be a possible thing.

"7602. Again, would not a moderate import duty upon British goods tend to restore and to develop native manufactures which have been nearly extinguished under the present system? I do not believe much in a

* In 1859-60, the general import duty was 10% uniform on a large number of articles. The trade increased continuously and a large revenue was received. He seems to have forgotten this.

protectionist policy myself ; at the same time, there is no doubt that if India were governed by a native parliament, you would have a certain amount of protectionist argument for that, and it might make that view more popular."*

So Mr. Samuel Laing considered the raising of more revenue by increasing import duties a practical and fruitful measure ; but he would not himself advocate it as a good thing to do, because he wanted to see the free entry of British goods into India. This he clearly stated in his Financial Statement of the year 1862-63 :—

" The duty (Import duty) applies almost exclusively to British manufactures. Now, as long as England and India remains parts of one great Empire, it is impossible to apply precisely the same rules as if they were separate and independent countries. I have opposed, as stoutly as any one, any attempt to ease English finance unduly at the expense of India ; but I cannot deny that England, having founded the Indian Empire, and being ready to sustain it, and having given up all pretentions to exact a tribute, as Holland does from Java or Spain from Cuba and all claim on a monopoly of the India market and carrying trade, may, with some reasons, ask India so to levy the necessary revenue as not to interfere injuriously with trade between the two countries.

" In fact, so completely has England given up those claims which other countries have enforced, on their dependencies, that speculative reasoners have even argued that the parent State would be better without its Foreign and Colonial Empire.

" That is an opinion which no practical Statesman will for a moment entertain : but it cannot be denied that,

* P. P. 327. H. C. 1872, pp. 389, 390, 391, 399.

apart from moral and political considerations, the extension of commerce is the most direct and palpable advantage derived by England from the possession of India.

"A heavy import duty, therefore, on trade between England and India, comes very near in principle to a transit duty between different parts of the same Empire, and what is more important than any theory, it is a tax, which in practice, is not likely to be permanently maintained.

"To those who argue this point on abstract grounds, and overlook the practical considerations arising from our actual position with regard to England, I would simply put two questions—do you believe that if Ireland found it more convenient to tax Manchester goods than to levy a poor rate, she would be allowed to do so? or do you believe that if it were found that 25 % would give India a better revenue than 10 % we could raise the duty to that amount with the slightest chance of retaining it?"

On the question of export duties in India the evidence of Lord Lawrence and Sir Charles Trevelyan before the Finance Committee* of 1873 is very informative. Lord Lawrence advised† the Committee to levy all round low export duties which, he thought, would yield a substantial revenue. But His Lordship frankly confessed the impracticability of the measure, because of the great opposition it was likely to give rise to in England. The following quotation is illustrative.

Prof. Fawcett. "5580. Then again, with reference to export duties, if an attempt was made to increase the export duties, to put an export duty, for instance upon cotton or upon jute, it would *pro-tanto* place the trade of

* P. P. 351. H. C. 1873.

† Ibid Q. 5569.

India in a comparatively speaking unfavourable position, and would bring to bear against the Government of India the very powerful pressure of the commercial classes in England, would it not? That is quite true.

"5581. Do you think considering that India is scarcely represented at all in this House, that it is only indirectly represented in the House and that the commercial classes of England are powerfully represented in it, that any Government would, for one moment, be likely to resist an opposition brought to bear upon them from people who have votes against putting on such export duty? I think not.

"5582. Therefore, considering how India is governed, that India is governed by the House of Commons, and that India is governed by the Secretary of State, who after all is a member of a Cabinet whose existence depends upon the votes of the House of Commons, you cannot rely upon the imposition of an export duty as giving you an increase of revenue in India, can you? I am afraid not."*

The evidence of Sir Charles Trevelyan was very exhaustive on all points relating to the export duties in India and clearly and adequately stated the case in favour of levying low or high export duties, according to the circumstances of the articles in question. Also, he strongly deprecated the ridiculous inadequacy of the total customs revenue from the enormously increasing trade of India. We shall only quote here some selected passages illustrating the points referred to above from his lengthy evidence on the question. Referring to the customs revenue he said:—

"923. I would call attention to their total inadequacy. In 1860 Mr. Wilson stated in his budget speech

* P. P. 354. H. C. 1873, p. 444.

"Upon the whole the customs of the present year are expected to yield £ 3,430,000 as compared with £ 2,073,000 the year preceding"; thus an increase was provided for of a good deal more than a million in one year, while Sir Richard Temple took only £ 2,416,500 for customs in his budget estimate for 1870-71. So it is Mr. Wilson's three millions and a half to Sir Richard Temple's £ 2,400,000. So that although the trade of India increased in those 10 years from £ 60,000,000 to £ 106,000,000 the customs yielded £ 1,013,500 less. If customs duties are a legitimate source of revenue so small an amount as £ 2,400,000 for the whole of India is simply ridiculous."*

With reference to the general customs policy he said: 'Then I would remark upon the customs policy prescribed by th peculiar conditions of the Indian trade, and first the course followed by the Company. There are two modes of levying duties upon trade; one, which has been generally adopted in Europe, of exacting a high rate of duty upon imports, leaving exports entirely free; and the other, which was in use in India, of levying low rates of duty both upon imports and exports. The Indian practice was adapted to the special circumstances of the trade."†

With regard to the possibility of raising revenue from moderate export duties, his case was as follows: "Such is the abundance and richness of the productions of India, that, without absolutely possessing the monopoly of any article except jute India has in respect to many articles such a decided superiority over all other nations taken together, that they can easily bear a moderate export duty without checking the demand for them."‡ He examined the operation of the export duties on indigo

* Ibid. p. 74.
† Ibid, p. 75, Q. 925.
‡ Ibid.

jute, lac dye, shellac, rice, oilseeds and other unenumerated articles, with the conclusion that there was no perceptibly injurious effect either upon their production or upon the demand for them. He admitted that in the case of saltpetre the injurious consequences had resulted from an export duty; but "this is an argument not against export duties in general, but against unduly high export duties. There is no reason to believe that if the rate has remained at three per cent. any such effect would have been produced."* He further remarked,† "I beg leave to put in a letter from Mr. McCullock to me. I often used to discuss this subject with the late Mr. McCulloch and when I was appointed to the charge of the financial department in India, I requested him to give me his opinion in writing, which he did in the following letter:— 'Stationery Office, 27th, January 1859. Dear Sir Charles, I know of no book in which you will find a summary statement of the objections to duties on exports.' (I had asked him to refer to some place where I could find the objections stated fully). 'And in truth there is no general objection to them; for in their case everything depends on circumstances, and though, in general, duties on exports are objectionable, there are many cases in which they are about the best that can be imposed. In all cases in which substitutes for exported articles may easily be found, or in which the exporting country has no very peculiar advantages of production, duties on exports would be highly objectionable, and would, in fact, endanger the whole of the foreign trade of the country which had recourse to them. But when a country has any very decided natural or acquired advantages of production on her side, then I think that moderate duties on exports may advantageously be resorted to. They would not endanger the branches of

* Ibid. Q. 326.

† Ibid. Q. 927.

industry which they affect, and they would be paid by the foreigner.' I think in India they would be divided between the foreigner and landowners, who are extremely well off and have profited more by our government than any other class whatever both in Bengal and everywhere else. ..... This, therefore, you will see is not a question of principle, but of circumstances. Duties on exports should not be rashly imposed; but neither, on the other hand, should they be uniformly rejected. Cases are every now and then occurring in which their imposition would be highly expedient. .....In fact it is a deep politico-economical prejudice of the present day to object to export duties on principle as export duties.* ..... The point at which we have arrived, therefore, is that India is in a far more independent position than she formerly was as regards the staples of her export trade. The demand for them is greater than the supply; so that even if one or more of them fell off, as saltpetre has done, the void would quickly be filled by at least an equal development of other articles."†

There is one important fact noted in his evidence which is relevant to the changes in the export duties during this period. He said: "In 1865 the Government of India on my recommendation.....reimposed the normal duty of 3 per cent. upon jute, wool, tea and coffee, reimposed the export duty upon hides, sugar and silk to the extent of 2 per cent. and raised the export duty on rice and other grain from 2 annas to 3 annas a maund. .....The export duties imposed at my recommendation were disallowed by the Secretary of State, but two years after the additional anna upon grain was reimposed at Mr. Massey's recommendation, and was sanctioned

* Ibid. Q. 931, p. 76.

† Ibid. Q. 933, p. 77.

by the Secretary of State. Although the Secretary of State objected in 1865 to an export duty of 3 per cent. being levied on Indian coffee for the benefit of the Indian exchequer, a duty of 45 per cent. was levied on this same coffee in England for the benefit of the English exchequer. This was neither just nor generous ". He concluded with the plea that " The tabular statement..... showing how the principle articles of export have increased from 1862 to 1871 clearly indicates that the time has arrived for dealing with this question in a practical way."

Conclusions.

We shall conclude by a brief summary of the main features of the chapter. Firstly, in this period the system of giving preference to British trade in India by differential duties was finally abandoned, because of the radical change in the tariff policy of Great Britain. The trade of all nations was placed on the footing of equality. But it should be noted that by this time Great Britain had secured the largest possible share in the trade of India and hence the measure was considered expedient and advantageous to the interests of British trade and industries. Secondly, the period witnessed the completion of the process of establishing a uniform tariff for all India by effecting an assimilation of the tariff valuations which till then varied widely in various provinces. Since then, there has been complete uniformity of practice throughout the customs administration of the whole country. Thirdly, there was an important change in the constitution of the tariff schedule by which the old system of enumerating free articles only and of assuming the unenumerated as dutiable was given up in favour of the one which enumerated the dutiable articles and left out those that were free. The change involved the exemption of many articles from export and import duties. But this neither saved the expenses of collection nor relieved the free articles

from the Customs House inspection and interference, while in view of the strong tendency of the trade to increase, it sacrificed the actual as well as the prospective revenue. Fourthly, besides the striking reduction in the number of dutiable articles, the rates of the duties themselves were gradually reduced from 10% to 7½% general rate, 5% on piece-goods and 3½% on yarns, etc.

Considered from purely fiscal reasons, these reductions and exemptions had no justification. The general duty of 10 % *ad valorem* in 1859-60 yielded satisfactory commercial and revenue results and thus vindicated its levy and existence. It should have been properly continued and given a long trial. The general foreign trade was on the whole constantly and steadily increasing, owing to certain natural causes. Viewed from this enormously increasing foreign trade, the total customs revenue was simply inadequate. It also formed a very insignificant portion of the general total revenue of India. When the Government of India was in constant search of new sources of income for additional revenue, customs duties as a source of revenue ought to have been fully developed and thoroughly exploited. Strictly for revenue purposes moderate import and export duties were, in the peculiar circumstances of the country, considered by great authorities on Indian Finance during the period to be the least objectionable and the proper policy if any revenue were to be collected from "Customs" at all. The duties in India were already low and there was every possibility of realising more than double the revenue actually obtained by increasing them without going so far as other modern protectionist countries. Any independent and sympathetic government would have certainly tried to raise them at the time of their financial difficulties. Also the import duty on cotton goods if properly developed was an excellent source of large revenue, because of its universal consumption.

But the policy suggested above, though possible and proper, could not be practised thoroughly and successfully by the Government of India, owing to the irresistible opposition it was likely to create on the part of the interested manufacturers of Great Britain. The final authority which settled the matters of policy for India was vested in the British Parliament in which the interests of the British manufacturing and commercial classes were powerfully represented. No government could afford to neglect their votes. On the other hand, the people of India had no direct and efficient voice in the determination and administration of the policy formulated for them. It is too much to expect of human nature, if we think that the policy thus fixed by the British Government was entirely free from interested motives. Our investigations confirm us in the view that the policy was largely influenced by the motive of encouraging British interests in India. The Finance Members openly declared this in their statements. We have seen the extreme jealousy of the British manufacturers and merchants towards the old Indian domestic industries. After their decline, their began to grow as private enterprise on improved lines certain industries such as the cotton industry. Again those interested classes turned their watchful eyes towards India. They still watched and influenced the Indian tariff policy after 1858. Through various constitutional means or frequent memorials, the British manufacturing and commercial classes could bring to bear upon the Government of India a powerful pressure which it could neither resist nor neglect. The extension of British trade was (and still is) the most direct advantage that could be derived by England from her possession of India. Therefore, any duty, however desirable and proper for revenue purposes but injurious to British trade, had not the slightest chance of being tolerated in India. In this respect the interests of England and India were

at great variance. Thus, for the distinct purpose of facilitating British trade with India, the duties were either reduced or abolished without any revenue considerations.

We can well perceive during this period the development of certain distinct tendencies towards the establishment of complete free trade in India. But, owing to the financial difficulties of the Government of India, the total abolition of the duties was an impracticable proposition. However, in order to relieve the strong pressure often exerted on them, the Government of India had to adopt the only possible course of gradually reducing the duties in their extent and magnitude, whenever their manipulations of Indian finances could enable them to show some surplus either by new taxes or by switching up the old ones like the salt duty. This course involved a perpetual sacrifice of a legitimate source of revenue. Free trade principles, when reasonably followed in their true spirit and not in mere form, do not conflict with revenue duties. But the revenue duties in India were supposed to conflict with the interests of British manufacturing and commercial classes; and so the discussion on the Indian tariff system was really a tussle between these interests and the exigencies of Indian Finance and not one of Free Trade versus Protection—a tussle in which British interests always succeeded.

Before closing this chapter, certain bare facts relevant to the study of the next period may be incidentally mentioned here even at the risk of repetition, lest we forget them. The existing rates of the import duties, 7½% general, 5% on piece-goods, 3½% on yarn, were considered the lowest possible and unobjectionable rates for revenue purposes, if "Customs" were to be looked upon as a legitimate source of revenue. They were not protective duties properly so called. They were adjusted in accordance with the spirit of the policy of Sir Robert Peel

and Gladstone. Their total abolition was "a millennial sort of reform" and, in view of the actual and prospective financial difficulties, was absolutely impossible. A moderate cotton import duty was one of the best duties for revenue purposes, because of the large consumption of the article. The cotton import duties of 5% on piece-goods and 3½% on yarns were considered so low that it was both unnecessary and inexpedient to establish an excise machinery for levying a trifling countervailing duty. "Customs" was a necessary source of revenue. General moderate duties on exports and imports were thought by high financial authorities to be a wise policy for revenue purposes, and according to the testimony of Mr. Samuel Laing, India could have at least doubled her customs revenue by increasing to 15 % the import duties which were then simply nominal. On the authority of Lord Lawrence and Sir Charles Trevelyan, the Government of India could have realised a substantial revenue by an all-round moderate export duty. Lastly, in view of the enormously increasing foreign trade of India the total revenue was ridiculously inadequate.

CHAPTER VI.

COTTON DUTIES CONTROVERSY" PART I AND THE ESTABLISHMENT OF FREE TRADE SYSTEM (1874-1882).

The subject of this chapter and the following is the Tariff History of India from 1874 to 1896. The whole period was occupied by a very acute controversy generally on the import duties and particularly on the cotton import duties in India. There are three landmarks in this period, corresponding to the three stages through which the controversy passed. The first stage ended with the establishment of complete Free Trade in India in 1882. The second stage coincided with the period from 1882 to 1894 (an absolutely uneventful period), during which the system of Free Trade was in full operation, with only one exception. The third stage was distinguished by the reimposition of the import duties with necessary countervailing excise duties during the period from 1894 to 1896, which closed the "cotton controversy" at least for the 19th century.

To anticipate, two distinct problems will emerge out of this long and exhaustive controversy. One is the history of the Tariff changes during the period, which will be described and considered in its economic, financial, and commercial aspects as well as in the light of various circumstances and considerations instrumental to the introduction of these changes. This will be dealt with in this chapter and the following. Second is the constitutional aspect of the whole controversy, which will be dealt with in a later Chapter.*

In order to understand certain interesting incidents of this controversy and the channel through which certain

* Refer to Chapter X.

external influences exerted themselves to originate the Tariff changes in India, it will be enough to know that in the machinery for governing India the British Cabinet, through a Secretary of State, had the final authority in determining all matters of policy for India and that the Secretary of State for India as a member of the Cabinet was responsible to Parliament, in which the powerful interests of Great Britain were fully represented.

Having thus prefaced this chapter, we shall carry on the course of history from the point where we left it in the last chapter. Before closing the last chapter, we emphasised, among other things, that the rates of the import duties in force, namely, 7½ % general, 5 % on piece-goods, 3½ % on yarns, were the lowest possible and unobjectionable rates for revenue purposes, that they were not specifically protective, that their total abolition was "a millennial sort of reform," that the cotton import duty was one of the most convenient duties for revenue and that, in view of the uncertainties and inelasticity of Indian finances, a policy of moderate import and export duties was to be looked upon as a necessary and positive source of revenue. In this connection, we must remember that Mr. Samuel Laing, Finance Minister (1861-1862), laid down the following general principle :—

"Free trade does not mean that there shall be no taxes but that taxes shall be levied solely with a view to revenue and not partly for revenue and partly for protection.

"That every customs duty on an imported article should have a corresponding excise duty on similar articles produced at home, has therefore become an axiom, and it only admits of one exception, where the amount of import duty is so moderate, that it does not seriously affect trade, while it makes it obviously inexpedient to establish an excise machinery for the sake of levying a trifling

duty."* He was convinced that the case of the cotton import duties was such an exception.

The Lancashire manufacturers watched with alarm the growth of the cotton industry of India, which they believed was protected by the Indian cotton import duties. They opened their new and direct attack against these duties in 1874. The time was opportune. Parliament was dissolved in 1874. A general election campaign was in full swing. No Government could afford to neglect the Manchester and Lancashire votes and yet survive in office. At this right moment the Manchester Chamber of Commerce addressed a memorial (1874) to the Secretary of State for India, complaining that the tariff values, according to which the import duties on British cotton manufactures were assessed, were much higher than the actual prices, that the duties were found to be absolutely prohibitory to the trade in yarn and cloth of the coarse and low-priced sorts, that it was intended to import into India American and Egyptian raw cotton in order to manufacture the finer yarns and cloth to the disadvantage of Great Britain and that the duties increased the cost to the poor consumers and fostered the Indian cotton industry.† During the course of the year, in another memorial, the Secretary of State was reminded by the Chamber that "they had only incidentally referred to valuations and that their main object and prayer was the total and immediate repeal of the duties themselves," because "a large number of new mills are now being projected."‡

These memorials were forwarded to the Government of India, who in November 1874 appointed a Tariff Committee for revising the Tariff rates and valuations, for examining

* F. S. 1862-63.

† P. P. 56 H. C. 1876, p. 38.

‡ Ibid

the articles subject to export and import duties and particularly for enquiring into 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. They advised the Government to reduce the tariff valuations. The Committee, after a careful enquiry into the operation of the cotton duties,‡ conclusively proved that the duties were not the sole cause of the displacement§ of the Manchester coarse goods by the Indian manufacture; that India possessed natural advantages over Manchester for producing coarse goods, irrespective of the existence or otherwise of the import duties; that the revenue realised on the coarse goods was hardly Rs. 400,000 out of the total revenue of Rs. 8,000,000 from the cotton goods trade, or only Rs. 200,000 at Bombay, where alone there was any considerable local manufacture; that the prospects of any enterprise to produce in India finer kinds of yarn and cloth with profit or success were notoriously remote; that there was no serious competition between the Indian and the English cotton

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* P. P. 56 H. C. 1876, p. 38.

† Ibid, p. 39.

‡ Ibid, pp. 56, 57.

§ The Committee also pointed out that the extent of the injury to the English coarse goods should not be judged by the growth of Indian manufacture for two reasons, that the Indian goods were then largely exported and that they first displaced the productions of the surviving handlooms in certain localities in India which Manchester goods had not yet been able to reach. In fact, the competition of the Indian mills was largely felt by the Indian handloom weavers, because both produced coarse cloth, rather than by the English who manufactured chiefly the finer goods. So Manchester could have no serious ground of complaint.

industries, because of their different spheres of production and that, therefore, the Manchester demand for the "total and immediate repeal" of the cotton duties in India, when 1/40th of the total import of the British cotton goods was immediately affected by a local competition, was unjustifiable and unreasonable; while to enquire whether the Indian finances could afford such a remission was, in their opinion, unnecessary. The alternative scheme of removing the duty on coarse goods only, though reasonable in theory, was found difficult and unworkable in practice. The proposal for an excise duty on Indian mills was pronounced, on the authority of Mr. Samuel Laing (1861-1862 F. S.), as unnecessary, cumbersome and expensive. The Committee rejected the proposal to exempt all unimportant articles from taxation on the ground that the revenue as a total could not be spared, although the items composing it were insignificant.* The majority of the Committee recommended the abolition of the export duties on all articles except indigo, rice and lac. The minority in the Committee represented by the President, Mr. Alonzo Money, opposed the last proposal on the very important grounds that the permanent abolition instead of a reduction of the export duties on articles, the trade in which declined owing to temporary causes, was unnecessary and short-sighted, that the substituted taxes, such as, the increase in the salt duties or the reimposition of the income tax in their place would have far weightier objections than any existing import or export duties, and that "between the pressure from England against all import duties and the constant appeal in this country to the stock arguments against export duties the revenue derived from customs is in some danger."†

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* P. P. 56 H. C. 1876, p. 53.

† Ibid, pp. 63, 64. The whole Report with the minute, P. P. 56 H. C. 1876, pp. 48 to 64.

After mature consideration of the Committee's report and with certain additions of their own to the Committee's recommendations, the Government of India prepared a Bill which became law in 1875.* Briefly stated the changes incorporated into this Act were as follows :—(1) export duties† except on indigo, rice, and lac abolished; (2) general rate of import duty reduced from 7½% to 5 % (3) general Tariff valuations revised; (4) no alteration in the cotton duties, 5 % on goods, 3½% on yarns &c., tariff valuations for cotton goods reduced to the extent of diminishiug the duty by £ 88,000 ; (5) 5% duty imposed on the import of raw cotton ; (6) special duties for spirits, wines, arms, ammunition, &c. The financial result of these changes was estimated as the net loss of £ 308,000.‡ The Act also empowered the Governor-General in Council to exempt by Gazette notification any article from duty or cancel any such exemption.

The proceedings relating to the Act in the Legislative Council are voluminous. We shall only extract certain salient points. The Government was, of course, courageous in deciding against either the total or a partial repeal of the cotton duties, which they considered the " lightest in the world " for revenue purposes and immune from any protective character. But they did not forget the interests of Manchester altogether. In order " to prevent what little evil might be thought to exist from

* Act XVI of 1875.

† Up to 1875 there was maintained a great injustice to the Indian cotton industry in the tariff laws of India. The Indian cotton goods were subject to severe foreign competition in the foreign markets of Asia and Africa. Still their export paid a duty of 3 per cent. These goods were to a certain extent made from imported yarn which paid a duty of 3½%. So the total burden came to 6½%. But the British goods imported into India when re-exported to Asiatic or African markets received ⅞ drawback of the import duty originally paid. Thus, in competition with the British cotton goods, the Indian cotton goods were at a great disadvantage. P. P. 56 H. C. 1876, p. 20.

‡ Ibid, pp. 4, 5.

assuming, through their neglect, undue proportion " and " in order to place the Indian manufacturer upon the same footing as the importer " (of English cotton goods), the Government of India, anxious to avoid any complaint as to their "total indifference to the interests of Manchester," took a " precautionary measure " in imposing a duty of 5% on the import of Egyptian and American cotton, which the Bombay mills might be tempted to import* and use for producing finer qualities of cotton goods in competition with Manchester. But the Government's anxiety to satisfy Manchester did not stop here. In addition to the import duty on raw cotton, they assured their readiness to raise the import duty on yarn from 3½% to 5 % as on piece-goods, if Manchester thought that this difference of 1½% gave an encouragement to Indian mills to make the finer cloths. As if Manchester was not yet convinced of their sincerity and sympathy, and satisfied with these concessions, the Government further declared:—" If in spite of such precautions the Indian Mill manufactures should assume more important dimensions than at present, then there appeared no doubt that the proper course would be not a repeal of the import duty with its concomitant resort to more objectionable taxation, but the imposition of an excise duty. Home and imported goods would thus be put on an absolute equality and the revenue, unobjectionable, derived from clothing would be preserved."†

The distinct‡ object, in taxing the import of long-stapled raw cotton and in holding out threats of an increase in the import duty on yarn and of an excise duty in addition, was to practically prevent Indian mills from getting that raw material and from producing fine goods that

* Ibid, pp. 19 and 44.

† Ibid, p. 19.

‡ Ibid, pp. 17-21. The Government statement on the Tariff measure of 1875 gives us without disguise the objects of the measure,

would compete with the products of Manchester. This was to be done, not because the Government thought it right or wise, but because they thought that Manchester would thereby be satisfied; and in order to justify their action, they took shelter behind the theory of absolute free trade. The measure was a sop to Manchester in order to silence further agitation on her part against the Indian cotton duties. But Manchester was shrewd enough to detect that the Government of India had granted what it had never asked for and denied what it had been longing for. On the other hand, such measures and such threats to the Indian cotton industry show how sedulously the interests of the Lancashire cotton industry were looked after when Indian tariffs were framed. The whole step was injurious to the vital interests of the cotton industry of India and mischievous in so far as was actuated by the motive to help the foreign industry. Would the Government of any other country take such a suicidal course of drawing a knife across their own throat in mere deference to a theory or in order to satisfy foreign competitors?

The measure gave rise to a considerable agitation in India.* There was unanimity among the European and Indian commercial communities in their protest against the duty on raw cotton, stigmatising it as a deliberate attempt to injure the progress of the young cotton industry of India.

In the Council discussion, Sir William Muir, the Finance Member, made a very important and far reaching observation on the revenue aspect of the Indian Tariff system. "No doubt the argument is theoretically correct that where a commodity is produced at home, we should either free the import of that commodity or excise its production to an extent

* Refer to the pages of "The Times of India" 1875.

equivalent to the import duty or altogether prohibit its production. But if honourable members will cast their eyes down the import schedule, they will find hardly any article which in consequence of the vast area and varying conditions of our soil and climate cannot be more or less produced in some part of our dominions. The argument however perfect in theory would prove too much in practice, for I presume no one will contend that in deference to mere theory we should surrender our whole revenue on imports of £ 1,700,000; and in point of fact, the duty is so low that it cannot perceptibly affect the trade. The argument (of Mr. Laing quoted before) is sound and on the present occasion most pertinent. The trade flourishes under the duty and the imports indeed were higher last year than ever, even though burdened with an excessive valuation."*

His Excellency Lord Northbrooke, as the President of the Council, strongly disapproved of the charge that the Indian import duty of 5 % was a protective duty. Comparing the English and the Indian Tariffs, he truly said that the simple English Tariff which imposed duties on a few main articles of universal consumption, such as, tea, coffee, sugar, wine,tobacco, etc. could not be realised in India, because of the large variety of her products which supplied all the necessaries and luxuries of life, and because of the impossibility of raising a large revenue in a poor country like India from a few articles as in England, and that therefore, in order to obtain a substantial revenue from customs, the Government were forced to impose all-round moderate import duties, for revenue purposes only, on articles which might be produced in India. The choice before the Government was that either they should give up all duties as objectionable in principle or retain them as they were. The former course was impracticable,

* P. P. 56 H. C. 1876. p. 26.

because "there is but little choice of new sources of taxation." He most emphatically declared: "I have no hesitation in asserting that the political evil of giving up our customs duties or a large part of them and of imposing fresh taxes in their place, would be great. Whatever may be the objections to customs duties they possess the advantage of being collected easily and paid without pressure. These advantages are of peculiar importance in India, where new taxes are particularly liable to occasion popular discontent. To substitute direct txes or new excise duties for the customs duties which are now imposed upon foreign goods seems to me to be a policy which would be contrary to the interests of the people of India and which no statesman with a knowledge of India and a sense of responsibility could be found to propose."* Surely from a practical point of view, there cannot be a better reply to theoretical free traders who wanted the abolition of all customs duties in India, irrespective of any revenue consideration, than what Sir William Muir and Lord Northbrooke said.

In their Financial Resolution of 1875 the Government of Indian† repeatedly emphasised that the import duties had never been imposed in India with the object of protecting Indian manufactures or produce but solely for revenue purposes, that the duty of 5 % on cotton goods did not practically operate as a protection to the Indian manufacture, that the imports of cotton manufactures were mainly composed of the higher qualities of goods, that the coarser fabrics had always been largely manufactured in India, that in spite of the competition in the lower classes of goods and in spite of the cotton import duties, the import of English cotton goods had immensely increased in the past and was steadily increasing and that

* Ibid, p. 29.

† Ibid, pp. 37 to 48.

the growth of the Indian cotton industry was not primarily due to the cotton duties.

Lord Salisbury succeeded the Duke of Argyll as the Secretary of State for India in the General Election of 1874. On 15th July 1875 he sent a despatch to the Viceroy, which reached India after the Tariff Bill of 1875 had become a law. It mainly dealt with the subject* of the cotton duties in India. Having described the growth of the cotton industry in India and having attributed it to certain natural advantages, Lord Salisbury wrote: "IN THE PRESENCE OF INFLUENCES (CERTAIN ADVANTAGES) SO POWERFUL THE EFFECT OF THE 5 % DUTY IS PROBABLY INSIGNIFICANT. An importance however which I think is exaggerated has been attached to it by the cotton manufacturers both in England and India.....If it were true that this duty is the means of excluding English competition and thereby raising the price of a necessary of life to the vast mass of Indian consumers, it is unnecessary for me to remark that it would be open to economical objections of the gravest kind. I DO NOT ATTRIBUTE TO IT ANY SUCH EFFECT BUT I CANNOT BE INSENSIBLE TO THE POLITICAL EVILS." There was thus no economic objection against the duties. But he attacked them on the ground of political evils, by which he meant that they would create, if continued longer, much bitterness and feeling of animosity on both sides during the agitation preceding their abolition. Again, these duties, having been thought inconsistent with the system of Free Trade adopted by England, would not have been tolerated by Parliament. Their permanence was, therefore, insecure. With these political considerations, he dictated to the Government of India "the policy of removing at as early a period as the state of your finances permits this subject of dangerous contention."

* Ibid, pp. 3, 4.

Before the despatch reached him, the Viceroy telegraphed to the Secretary of State the provisions of the Tariff Act of 1875. The Secretary of State raised objections* in his reply by telegram. Then followed a very unpleasant correspondence between the Viceroy, Lord Northbrooke, and the Secretary of State for India, Lord Salisbury, on the question of the cotton duties. As soon as the Secretary of State received the actual Tariff Act and the Council proceedings on it, he hastened to express by cable (30th September 1875) his disapproval of the new import duty on raw cotton and the import duties on cotton goods. Sir E. Perry and Sir H. Montgomery and G. Clark, members of the Secretary of State's Council, recorded their minutes† of dissent from the telegram for its improper and unusual procedure and peremptory character, which, in their opinion, were more likely to promote than prevent the crisis.

The telegram was followed by a despatch tc India‡ dated 11th November 1875, in which the Secretary of State reiterated the demand of Her Majesty's Government for the abolition of the cotton duties on political grounds and added: "This abolition should be gradual. The paramount importance of guarding the Indian Treasury from financial embarrassment must be borne in mind. The entire removal of the duty should, however, not be adjourned for an indefinite period but provision should be made for it within a **fixed term of years.**" He refused to sanction the import duty on raw cotton as objectionable in principle and detrimental to the Indian manufacture, and also because it appeared to him "that **the claims of the English**

* We shall omit altogether as irrelevant to our immediate purpose the discussion relating to the Secretary of State's allegations namely, suddenness, secrecy, and breach of constitutional practice which he thought characterised the passing of the Tariff Act of 1875.

† P. P. 216. H. C. 1876.

‡ P. P. 56. 1876 pp. 69, 70.

manufacturer will be more legitimately met by dealing with the duty on cotton goods." He also intimated to the Government of India that, owing to the importance and urgency of the subject, the Under Secretary of State, Sir Lewis Mallet, bearing the views of Her Majesty's Government, had been sent to India for the purpose of discovering a *modus vivendi* between Calcutta and Downing Street, which would give effect to his wishes regarding the cotton import duties. It is clear enough that the scope of the discussion was thus limited. But the whole attempt proved abortive, owing to the illness of Sir Lewis Mallet* who returned soon after.

Minutes of dissent to the above despatch were recorded† again by Sir E. Perry and Sir H. Montgomery, who declaring themselves anti-protectionist strongly expressed the view that the course adopted by the Government of India, with the exception of the import duty on raw cotton, was wise, that the abolition of the cotton import duties would involve a permanent loss of revenue of about £ 900,000 annually, not easily reparable except by a new tax (most probably the income tax which proved both obnoxious and utterly unproductive in India), and that the small duty of 5% imposed for revenue purposes only, should not be remitted as implied in the despatch of 11th November 1875, until the condition that the remission should be permitted by the state of Indian finances was satisfactorily fulfilled. In reply to the dissentients, Lord Salisbury pointed out in a minute recorded on the same day that he did emphasize the condition under which the duties were to be abolished and that he did not suggest any new tax. What he desired to impress upon the Government of India was " that **in applying the reduction of taxation the cotton duties,** as weighing on an article

* P. P. C. 1515, 1876 pp. 13-14.

† P. P. 70 H. C. 1876.

of first necessity to the inhabitants of India, as being contrary to the general policy of the Empire, and as being on political grounds highly inexpedient, **stand first for remissions.**"

The Government of India replied to the last two despatches of the Secretary of State by a lengthy and important letter* dated 25th February 1878, the gist of which is as follows :—The cotton import duties, although protective in theory, are not so in practice. They are purely revenue duties. They are therefore not injurious like a high protective duty, nor contrary to Imperial policy. The Government of India are by no means insensible to the advantages of reducing the cotton duties, if their financial conditions allowed such a reduction. The duties must be considered on their own merits. They are levied with a small cost and without inconvenience to the people. They yield a revenue of about £ 900,000 which cannot be spared. Regarded as purely fiscal duties, they constitute a more convenient and expedient tax than any substitute. They cannot be revoked without new taxes, which are strongly to be deprecated, as likely to create irritation and serious discontent in India. It is not possible and even inexpedient to remove the cotton duties, the strongest source of customs revenue, by raising some other customs duties, which are in themselves too weak to bear the whole burden. Half of the total revenue from imports was derived from cotton goods, the trade in which in spite of the duties was steadily increasing. The recent fall in the price of silver has introduced an element of uncertainty and danger in the finances of India, which would not justify any sacrifice of permanent revenue. Moreover, in view of the constant fluctuations in the revenue of India, the steadily increasing expenditure and the probability of a permanent depreciation in the value of silver with all

* P. P. 1515, 1876, pp. 3—21.

its concomitant consequences, the policy of committing the Government of India by a declaration, as demanded by the Secretary of State, to the entire abolition of the cotton duties (which yield £ 900,000) within a fixed term of years is, for the safety of Indian finances, open to serious objections. By so doing, either the succeeding government, if the finances failed, will be compelled to impose new taxes for fulfilling the pledge, or if their finances showed some surplus, they are committed to remove the cotton duties when the remission of some other taxes might prove more necessary for political as well as financial reasons. So the Secretary of State's directions, that provision should be made for the entire abolition of the cotton duties within a fixed term of years and that the paramount importance of guarding the Indian treasury from financial embarrassment should be borne in mind, are mutually inconsistent. Lastly, "It is our duty to consider the subject with regard to the interests of India; we do not consider that the removal of the import duty upon cotton manufactures is consistent with those interests." The Government of India only agreed to repealing the import duty on raw cotton.

Soon after sending the above letter Lord Northbrooke resigned his Viceroyalty of India, owing to serious differences of opinion between him and the Home Government on certain questions, including obviously the cotton import duties. The resignation helped to clear the way for Lord Salisbury. Before a deputation from Manchester which waited upon him soon before he left for India, the new Viceroy, Lord Lytton, cautiously declared his view in favour of abolishing the cotton duties in India as soon as the financial conditions permitted. In short, he committed himself to Lord Salisbury's policy.

Lord Salisbury replied to the letter of the Government of India of 25th February 1876 by an equally

long despatch of 31st May 1876,* in which, even after recognising the force of the discouraging financial anticipations of the Government of India, he remained unconvinced and further pressed imperatively upon the new Viceroy, who was disposed more to listen to him, the intense importance and the urgency of dealing with the cotton duties, according to the views expressed in his previous despatches. The "political reasons" were the "weightiest arguments" in favour of the course urged above. Moreover, he pointed out that it was not so much the actual competition of the Indian cotton manufactures, which was of course insignificant, nor the fact that the English goods were not excluded from India, as the prospective extension of the competition in finer goods in no distant future, that was to be seriously considered in connection with the question of the cotton import duties in India. He summarised his attitude as follows:—"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 effect and self-destructive in its operation." Regarding the mode in which the policy of Her Majesty's Government was to be carried out, he directed that the cotton duties should have priority over every other form of fiscal relief if any available surplus were found to exist, and that both on political and commercial grounds the policy of gradual remission of the cotton duties—which, he said, must be completed by 1878-79—should be adopted, with the expressed assurance to the interests concerned that all intention of retaining the cotton duties as a permanent part of the fiscal system of India had been deliberately abandoned. The result would be that he would then feel assured as to **"the satisfaction of legitimate claims on the part of a most important British industry."**

* P. P. C. 1515, 1876, pp. 32 to 42.

Three members of the Secretary of State's Council voted against the despatch. They were Sir F. Halliday, Sir B. H. Ellis, and Sir E. Perry, two of whom recorded very important minutes of dissent.* The general trend of their argument is this :—the main aim of the despatch is to direct the early and total abolition of the cotton duties, whether protective or non-protective. That they are not wholly protective is admitted on all sides. The duties on the import of finer goods which constitute the main part of the cotton import trade are not protective, except only to a very insignificant part of the trade. Whether the Indian manufacturers will shortly be able to compete in a better class of goods as claimed by the Secretary of State is disputable and immaterial, as long as it is not so now. Therefore, instead of directing their entire abolition, the right instructions should be that the duties should be withdrawn **only as far as they are actually protective and hereafter to such extent and to such extent only, as they may become protective.**" There is no reason why a valuable and legitimate source of needful revenue should be given up, if it is productive and non-protective. Lastly, the duties upon the superior Manchester goods generally fall upon the well-to-do class who can afford to buy them.

The above correspondence clearly indicates that the policy had been decided upon and dictated to the Government of India by Her Majesty's Government. No room whatsoever was left for further discussion. The condition, and the really important condition if rightly interpreted, for the remission of the cotton duties was compromised by fixing the period during which the measure was to be carried out. The dissenting minutes of certain members of the Secretary of State's Council and the powerful arguments based on the exigencies of the finance of the Government of India were of no avail.

* P. P. 333. H. C. 1876, pp. 1 to 3..

It would not be out of place incidentally to take note of certain circumstances affecting the course which the Secretary of State took. It is a well-known fact that British manufacturers ever since the beginning of British rule in India closely watched the course of Indian manufactures. By 1870, the Indian cotton industry had largely replaced the British trade in coarse goods in India, owing to certain natural advantages which it possessed in this field. The British cotton manufacturers attributed the effect to the cotton import duties. They, therefore, started an agitation for their abolition. The election of 1874 followed, with various "Election promises." A Conservative Government was returnd with Lord Salisbury as the Secretary of State for India. The pilgrimage of Manchester to India Office began. Believing the cotton duties in India to be detrimental to the interests of the English industry, Manchester organised a strong public agitation for their immediate repeal and made strenuous efforts for pressing their demand by frequent deputations and memorials to the Secretary of State for India and by Parliamentary and political pressure exerted on the Government of India through the Secretary of State. The agitation through its manifold channels continued until the duties were finally repealed in 1882.

The early memorials have been referred to before. A Manchester deputation* in March 1874 urged upon the Secretary of State the importance of selecting certain members of his Council from the mercantile community to guard the interests of their trade with India. The Secretary of State sympathised with their demands and did accordingly.† An address‡ was presented to Lord Salisbury by the Manchester Chamber of Commerce on 22nd January 1875, on the subject of the cotton duties.

* "The Times" 16th March 1874.
† "The Times" 29th April 1874.
‡ "The Times" 25th January 1875.

He assured the Chamber: "I have a strong conviction that the duty ought to go. We will do our best to get rid of it." Another "very large and influential deputation"* of cotton employers and workmen of Lancashire waited upon the Secretary of State to urge the abolition of the duties on 24th February 1876. The Secretary of State reaffirmed his pledge and promised "that the import duty has the first claim upon the Indian finance for abolition. The precise instructions will be sent to India sufficient to accomplish all they wanted which he had no doubt Indian Government would obey." The instructions were accordingly sent to India in his despatch of 31st May 1876 referred to before.

On 14th March† 1876 a debate took place in the House of Lords on the correspondence that passed between the Secretary of States and the Viceroy in 1875. Viscount Halifax (previously Sir Charles Wood as an ex-Secretary of State for India) vigorously denounced the policy of Lord Salisbury, taking the same view as the Government of India on the subject. The Duke of Argyll,‡ another ex-Secretary of State for India, whom Lord Salisbury succeeded, attacked the policy of the Secretary of State on the ground that he singled out of the extensive system of taxation one tax alone and thus excluded the Government of India from considering the comparative claims of other taxes to remission in favour of that one tax *viz.*, the cotton duties, the objections against which were to a large extent delusive, and that the real explanation of the singular attitude of the Secretary of State was his pledge to Manchester. Earl Grey was convinced that the policy of the Government of India was sound and that of Lord Salisbury was high-handed, unwise and calculated to do infinite mischief. Lord Salisbury, while defending

* "The Times" 25th February 1876.
† Hansard Vol. 227, pp. 1947 to 2117.
‡ Ibid, pp. 1979 to 1990.

himself on his usual grounds fully laid out in his despatches, made certain suggestive remarks: "It is surprising to find the interests of English manufacturers treated (in the debate) as matters of small account."* Referring probably to those Anglo-Indian officials who strongly opposed his policy, he said "I believe there is no object of more importance in the eyes of the Indian statesman than the removal of the grounds of difference and contention between the White Rulers and those vast millions of subject races who, while they (White Rulers) are united, will undoubtedly submit to us, but whose allegiance may be doubtful if the ruling English race were riven in two by some deep and dangerous difference on Policy. If there is a danger to the English rule in India, it will not be from any resistance from the subject races but from dissessions in the race which rules."†

The new Viceroy had already agreed to the policy of the Secretary of State. In 1877 the appointment of Sir John Strachey as the Finance Member, with whom absolute Free Trade in India was a "life-long conviction," helped to make smoother the way of the Secretary of State. Differences of opinion on the subject of the Indian Tariff between the Government of India and the Home Government suddenly disappeared; and as will be seen from what follows, the new Viceroy and the new Finance Member actually vied with the Secretary of State in hastening the abolition of not only the cotton duties but all import duties in general as well. They were even convinced of moving faster than required by the Home Government.

In his Financial Statement of 1877-78‡ Sir John Strachey said that he did not wish to re-open the discussion

* Ibid, p. 1964.

† Ibid, p. 1966.

‡ P. P. 241 H. C. 1879, pp. 3-4.

on the policy finally decided by Her Majesty's Government and regretted that, owing to the financial difficulties arising out of the depreciation of silver and a serious famine, he was unable " to carry out the orders of Her Majesty's Government to which this Government owes a loyal and unhesitating obedience." Then he made the following remarks, which are both interesting and suggestive for our purpose. " We are often told that it is the duty of the Government of India to think of Indian interests alone, and that if the interests of Manchester suffer it is no affair of ours. For my part I utterly repudiate such doctrines ; I have not ceased to be an Englishman because I have spent the greater of my life in India and have become a member of the Indian Government. The interests of Manchester at which foolish people sneer are the interests not only of the great and intelligent population engaged directly in the trade in cotton, but of millions of Englishmen. I am not ashamed to say that while I hope that I feel as strongly as any man the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country. I believe that our countrymen at home have a real and very serious grievance and that it is no imaginary injury against which they complain. I know that your Excellency has resolved that the Government of India shall not shirk this business and there need be no fear that it will be regarded in any half-hearted spirit. Your Excellency took the earliest opportunity which could be found, after you had assumed the office of Viceroy, to declare publicly your views upon this subject.....For myself personally if I had not confidently expected to take part in this great reform I doubt whether anything would have induced me to accept my present office, and I trust that I may still have a share in the performance of a task which I look upon as one of the most important which this Government has before it." The above quotation

provides the main reason for remitting the cotton duties, which were otherwise found unobjectionable in principle, unoppressive in practice, convenient as a tax and yielding a revenue which could neither be spared nor substituted. As regards the import duties generally, he somewhat sophistically argued :—The import duties on cotton goods supply the main source of customs revenue. When they are removed, there will remain few export duties and import duties on a multitude of objectionable and unimportant articles. But nobody can be expected to maintain customs houses for collecting a small remnant of revenue. So " the time is not distant when the ports of India will be thrown open freely to the commerce of the world." Thus, even though at that moment he could not precipitate the death of all import duties including the cotton duties, at least he rang their death-knell.

Half the members of the Viceroy's Executive Council expressed their dissent* from the policy of the Government of India as declared above, for the reasons that there was deficit instead of surplus income and no chance for any surplus for at least two years or more to come, that it would embarrass the government by unnecessary promises and pledges, that in case of any surplus the claims of other oppressive taxes for remission or reduction like the salt and sugar duties were greater and more urgent than those of the cotton duties, and that any preference to the latter would give rise to great suspicion, dislike and irritation in India.

In a despatch to the Government of India dated 7th. June 1877 the Secretary of State pointed out in detail the propriety of excluding from the tariff shedule items that were unproductive of revenue.

* Ibid. pp. 4-5. Dissenting members were Sir Arthur Hobhouse, Sir E. C. Bayley and Sir N. W. Norman.

The British manufacturers, however, grew impatient at what they considered an unnecessary delay of the Government of India in abolishing the cotton duties. On 10th July 1877* Mr. Birley, a Member for Manchester, supported by many other Members from the cotton manufacturing districts, moved in the House of Commons a resolution for the immediate and total abolition of the cotton duties in India. The substance of their arguments is this :—the duties were protective, wrong in principle, inconsistent with the commercial policy of Great Britain, strongly injurious both to British commerce and industry and to poor Indian consumers and likely to encourage the Indian production in goods of finer quality, with a corresponding damage to the British cotton trade and consequent unemployment and distress. They looked upon any condition attached to their abolition with suspicion, as giving an opening to the Government of India for delay. They demanded that in the interests of the British cotton manufactures, which must be first attended to in the Indian Tariff, the urgency of the measure was so great that money must be provided somehow so as to make it a practical possibility.† The main purpose the Resolution was intended to serve was declared by the Member who seconded it as follows : " If this House would by a decisive vote strengthen the hands of Lord Salisbury, he, with his great ability and energy, would soon find a way out of the difficulty. He would soon give free trade with regard to these goods (cotton goods) between England and India, and a question of an irritating and unfortunate kind would at length be set at rest."‡

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* Hansard, Vol. 235.

† One of the supporters of the Resolution said : "The repeal of these duties is fast becoming a great a burning question and if not accomplished before the next General Election I shall be greatly surprised if Hon. gentlemen are not then, at all events, made fully alive to its importance." Hansard Vol. 235, p. 1115.

‡ Hansard Vol. 235, p. 1091.

The opposition to the Resolution was conducted by Prof. Fawcett, Sir George* Campbell, and Sir George† Balfour, who argued, on the grounds of the exigencies of Indian finance, that the resolution was inopportune and hopelessly impracticable, that the duties were not imposed for avowedly protective purposes as in some other countries, that they were insignificantly small, the protective character of which, if there be any, was only accidental, that they fell largely upon the middle and upper classes, that in selecting a tax for repeal its advantages and disadvantages as compared with other taxes must be considered, that the question of the remission of the cotton duties involved the remission of all import and export duties because of the predominant part played by the former, and that the Government of India could not spare the customs revenue, when they were borrowing year after year to supply an ever-recurring deficit, when they were compelled to impose fresh taxation and when there was a terrible famine in certain parts of India. Professor Fawcett very aptly said during the debate "Frequent reference has been made in that debate to the principles of political economy, but if the House were to take the abstract principles of that science and apply them cut and dry, without considering the social and political circumstances of the case, they would act more like pedants than like politicians." ‡

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* Sir George Campbell moved the following amendment to the main Resolution but withdrew it later in favour of that of Lord George Hamilton. It very briefly stated the financial aspect of the whole question. "That in the present condition of the finances of India it is not possible to abandon the greater part of the import duties without an extensive readjustment of the financial system, and a fair consideration of other claims to remission of taxation." Hansard Vol. 235, p. 1091.

† He rightly said: "If the duties on English cotton manufactures were reduced or abolished, then in justice to India corresponding relief ought to be afforded to the duties which they (Great Britain) imposed on the Indian products of tea and coffee."

‡ Hansard Vol. 235, p. 1122

Lord George Hamilton, the Under Secretary of State for India, proposed on behalf of the Government an amendment which was believed to take the sting out of the main resolution. The resolution as amended and passed reads as follows :- "That in the opinion of this House, the duties that were levied upon cotton manufactures imported into India being protective in their nature are contrary to sound commercial policy, and ought to be repealed without delay as soon as the financial condition of India will permit."* But again Prof. Fawcett rightly said: "He could not presume to say what interpretation the Government would place on the words 'as soon as the financial condition of India will permit,' but it seemed to him that the words were very elastic and capable of a wide interpretation." † From the Under Secretary of State's reply couched in vague generalities, one can hardly say that the amended resolution improved upon the policy of Lord Salisbury‡ laid down in his despatches of 1875 and 1876. It is clear that the spirit of both is the same, while the former, as intended, strengthened the hands of the Secretary of State and his supporters in the Government of India to hasten the repeal of the cotton duties.

On 23rd August a despatch from the Secretary of State forwarded to India a copy of a very able memorial from the Council of the East India Association§ against the remission of the cotton duties and a reply thereto by

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* Hansard Vol. 235, p. 1126.

† Hansard Vol. 235, p. 1122.

‡ Cf. Dutt's observation on the Resolution. "The last clause of the Resolution has no meaning. The financial condition of India, since the Mutiny, has never permitted the repeal of any source of revenue. Local cesses had been imposed on land, severe and cruel in their operation, to secure a surplus; and these should have been repealed before the finances of India repealed any other source of revenue. But this was not how the resolution was understood or was meant to be understood." "Economic History of India" Vol. 2, p. 411.

§ The Gazette of India, 23rd March 1878, Part I, pp. 208 to 211.

Mr. Raynsford Jackson on behalf of the British cotton industry. In this despatch the Secretary of State again reminded the Government of India of the great importance attached by Her Majesty's Government to the gradual reduction of those duties at the earliest moment.

While forwarding the Resolution of the House of Commons to the Government of India, Lord Salisbury in a despatch* of 30th August 1877 insisted that in case of their inability to give effect to it at once, the following two measures should no longer be delayed, *viz.*, (1) the repeal of the import duty on raw cotton and (2) the exemption from import duty of the lower qualities of cotton goods "upon which the present tax is incontestably protective not only in principle but in fact and the value of which for revenue purposes is wholly insignificant."

Effect was given to the above instructions of the Secretary of State in March 1878.† Although it was "not at present possible to sacrifice any important part of our existing revenue," the Government of India thought that "something should be done" as a first step towards complying with the instructions of the Secretary of State. The import duty on raw cotton was removed. A large number of articles which immediately yielded insignificant revenue were transferred to the free list. The coarse cotton goods, which were exempted from the import duties, were (1) grey cotton piece-goods, including T cloths under 18 reed, jeans, domestics, sheetings and drills which contained no yarn of a higher number than 30s. and (2) yarns of the qualities known as Mule No. 32, Water No. 20 and lower number.

In the same Financial Statement, Sir John Strachey enunciated‡ the principles of customs legislation

* P. P. 241 H. C. 1879, pp. 6, 7.
† F. S. 1878-79. P. P. 241 H. C. 1879, pp. 9-13.
‡ Ibid, p. 10.

practised by Great Britain and dictated by the Secretary of State to the Government of India. They are :—

(1) "That no duty should exist which affords protection to native industry, and as a corollary, that no duty should be applied to any article which can be produced at home, without an equivalent duty of excise on the home production ; also that no duty should be levied except for purely fiscal purposes.

(2) "That as far as possible the raw materials of industry and articles contributing to production should be exempt from customs taxation.

(3) "That the duties should be applied only to articles which yield a revenue of sufficient importance to justify the interference with trade involved by that machinery of collection.

"As regards exports : the duties should be levied on those commodities only in which the exporting country has practically a monopoly of production."

Regarding the proposal to excise the Indian manufacture, he said* that it would be impossible to excise the product of all handlooms and the production in Native States, that to excise the machine-made goods only would not only be unjust and inadequate but would obstruct the development of the industry of India and that the policy desired by Her Majesty's Government was to abolish all import duties instead of countervailing them by excise duties.

In a way characteristic of him, Sir John Strachey argued that since India could produce every article in general use, all import duties involved the evils of protection unless countervailed by excise duties, which were

* Ibid, p. 12.

objectionable, costly, vexatious, inconvenient, and impracticable and that therefore they must soon be abolished. It is interesting to remember here that Lord Northbrooke and Sir William Muir drew in 1875 quite the opposite, conclusion from the circumstances noted above.* Thus from 1878 the Government of India embarked upon a policy of reducing or remitting the customs duties with a view to their final and complete abolition as soon as possible.

The partial relief thus granted in 1878 failed to satisfy the Manchester Chamber† of Commerce. Their complaint was that the exemption did not go far enough. They asked that all goods made from yarns finer than 30s. and all yarns up to 26s. water and 42s. mule must be exempted. Subsequently a Tariff Commission‡ was appointed to ascertain the exact nature and bearing of the objections raised by the chamber and to recommend the way in which the limits of exemption could be enlarged. The Commission after careful enquiry recommended§ the maintenance of the limit of exemption at 30s. for all grey cotton goods however designated and the original limits for yarns. By a Gazette Notification on March 15th 1879 effect was given to the above recommendations. It was believed by the Commission that this exemption went beyond what was necessary for removing the element of direct and actual protection from the duties and that if it was an error it was on the safe side. But there still remained indirect protection which might enable Indian coarse goods to displace by their quality, cheapness and durability the imported finer goods. The Commission found it impossible to deal with it without abolishing|| the duties on practically all cotton

* Cf. P. P. 56 H. C. 1876. p. 29.
† P. P. 241 H. C. 1879. pp. 14-15. Resolution of the Chamber.
‡ P. P. 241 H. C. 1879 Report, pp. 15 to 29.
§ Ibid, p. 21.
|| Ibid, p. 21.

goods and financial considerations rendered such a course impossible. Tariff valuations were revised and reduced and henceforward were to be revised annually.

The estimate of the loss of revenue involved in the measure was £200,000. The Government of India accepted* the loss, notwithstanding a deficit, the Afghan war, the diversion of the ear-marked Famine Insurance Fund to general purposes, fall in exchange, and the after effects of the terrible famine of 1877. These emergencies did not furnish them with strong reasons for postponing this measure. The only satisfaction they had was the mighty accomplishment of a great measure of reform, which would remove the "political evils," fulfill the pledges repeatedly given by the Secretary of State and obey the Resolution of the House of Commons in 1877. Of course, they did not forget to mention their sincere belief "that it is required by the true interests of the people of India."

A majority of the Viceroy's Council strongly opposed this measure, while the Viceroy, Lord Lytton, and his Finance Member, Sir John Strachey, were intensely keen on it. In exercise of the discretionary and emergency powers vested in him by the Act 33 Victoria Cap. 3Sec.5 for safeguarding "the safety, tranquillity or interests of British India," Lord Lytton overruled his Council and passed this measure after setting aside the opinion of the majority of his Council. It is difficult to understand the justification for the unwarranted use of this extraordinary power. It seems that he made a mountain of a molecule. The objections of the dissenting members were mainly based upon financial and political considerations. There cannot be a stronger condemnation of the policy of the tariff measure of 1879 in the official literature on the subject of Indian Tariffs than in the important minutes of

* P. P. 241 H. C. 1879, p. 36.

dissent* recorded by (1) the Hon. W. Stokes, (2) the Hon. A.R. Thompson, afterwards Lieutenant-Governor of Bengal, (3) Sir A. J. Arbuthnot, (4) and Sir Andrew Clarke. We can do nothing better than reproduce the whole minute by the Hon. W. Stokes, which briefly summarised all objections against the policy.

Minute by the Honourable W. Stokes, dated 13th March 1879:—

"I dissent from the proposal to exempt from import duty cotton goods containing no yarn of a higher number than thirties :—

"Firstly, because the financial condition of this country is so deplorably bad that we cannot afford to lose even twenty lakhs a year, which sum is said to be about the annual cost of the proposed exemption. We have spent our Famine Insurance Fund, or what was intended to be such. We are carrying on a costly war with Afghanistan. We may any day have to begin one with the King of Burma. Our estimates show a deficit. We have now to borrow five crores of rupees in India, and we are begging for two millions sterling from England. Our income is almost stationary. Our opium revenue is precarious. And our difficulties arising from the depreciation of silver seem, for some years at all events, likely to increase rather than diminish. We have exhausted all gainful sources of indirect taxation, and for every tax we surrender we must, therefore, impose a direct tax. Knowing as I do, the horror (in my opinion the reasonable horror) of new direct taxation, which is felt by the natives of India, I cannot think it wise to do anything which must lead to its imposition. It is painfully clear that the time has not arrived for even a partial fulfilment of the undertaking that the import duty on cotton goods should be repealed as soon as the financial condition of India permitted.

* P. P. 188. H. C. 1879. An interesting quotation from the minute of Sir J. J. Arbuthnot has been placed as an appendix to this chapter.

"Secondly, because the surrender* of duty now proposed will inevitably lead to the surrender at no great distance of time, of the import duty on all other cotton goods, that is to say, of about sixty-five lakhs a year. The powerful Lancashire manufacturers will be encouraged by their second victory to new attacks on our revenue. It will be said that the retention of the duty on the finer cloths enabled the Indian-made coarse goods to displace the finer goods imported, and thus operates as an indirect protection. The argument seems to me fallacious; but it will be none the less effective in the mouths of those that will use it against the helpless people of India. If ever we have any true surplus, we should, in my opinion, lessen some of our direct taxes rather than abolish any of our moderate import duties.

"Thirdly, because, apart from the trifle we obtain as tributes and nazranas from the native states, the only way in which we can get those states to pay anything towards their proper share of our expenditure in keeping the peace of India and protecting it from invasion is by taxing their consumption of salt, and by levying import duties on the cotton goods which are landed at our ports and pass through our territories into theirs. To give up any part of those duties, therefore, amounts to a relinquishment *pro tanto* of the means of making the native states contribute, as they clearly ought, to the expenditure above mentioned.

* To those who said that the sacrifice of the duties involved only a slight loss of actual revenue Sir A. J. Arbuthnot replied: "The argument that because our difficulties are so great it will therefore do no harm to add to them to the extent of £200,000 is the sort of argument that I should not have been surprised to hear from the lips of an embarrassed spendthrift, but which seems to me to be utterly out of place in a resolution dealing with the finances of an empire. It betrays, in my opinion, a disregard of the first principles of financial economy, which is equally certain to lead to disaster, whether it be applied to the fortunes of an individual or to the finances of a State, and which cannot be too emphatically condemned." He showed further that this partial remission will soon lead to the total abolition of all cotton duties which involved the loss not of £200,000 but of £815,000.

" Fourthly, because the present duty on cotton goods is not, as far as I know, complained of by anyone except the Manchester manufacturers and the merchants in India who are interested in importing Manchester goods. When we have got a tax to which the people who pay it are accustomed, and of which they do not complain, it surely is unwise to give up that tax, and replace it, as we must, by some new and odious burden. I fully admit the danger of keeping open between the people of India and the manufacturers of England an irritating controversy, but it seems to have been forgotten that this controversy must be closed by the latter relinquishing their attack on the Indian fiscal system, as well as by the former surrendering a portion of their scanty revenues.

" Fifthly, because the free admission of cotton goods would probably destroy a promising and useful local industry, and, in the absence of competition, the Manchester manufacturers would practically compel the people of India to buy cotton cloths adulterated if possible, more shamefully, than such goods are at present. The cost of the clothing of the people would thus be increased rather than lessened, and the arguments founded on the injurious effect of an imaginary protection would lose the little force that they ever possessed.

" Sixthly, because nothing will ever induce the people of India to believe that the proposed exemption, if made, has been made, as no doubt we shall say it has, solely in their interest. They will be convinced by their newspapers (which are aloud in every bazaar) that it has been made solely in the interest of Manchester and for the benefit of the Conservative party, who are, it is alleged, anxious to obtain the Lancashire vote at the coming election. **Of course the people of India will be wrong ; they always must be wrong when they impute selfish motives to the**

ruling race.* Nevertheless, the evil political results likely to follow from this popular conviction should not be ignored, and should, if possible, be avoided.

"Lastly, I object to the way in which the proposed change in the law is to be effected. The Viceroy, as I understand, intends to overrule the majority of his Council and to make the proposed exemption by Executive order, in the Revenue Department, under Section 23 of the Sea Customs Act. Such an order is, no doubt, authorised by the terms of that section. But the Indian Legislature, in conferring the Executive power to make such exemptions, never intended that it should be exercised so as to make suddenly a vast change in our law, affecting not only the importers and consumers of the particular class of goods dealt with, but the taxpayers of India in general—a change that will not only seriously diminish our present revenue, but force the hand of the Legislative Council by compelling them to impose new direct taxation. The power to exempt goods from Customs duties was originally conferred by Act XVIII of 1870, and was merely intended to relieve the Executive from the useless and troublesome formality of coming from time to time to the Indian Legislature to make in the tariff petty alterations which that Legislature, if applied to, would have made at once. The change now proposed is of a very different character. I have reason to think that it would never be sanctioned by the Legislative Council, unless, indeed, arguments were brought forward far more cogent than those that I have heard. **The proposed exemption of cotton, if made by a mere Executive order, will thus resemble what lawyers call a fraud on the power; and there is, unfortunately, no court of equity to relieve the people of India against it.**"

* Dutt's comment on this passage:—"The keen satire of the last sentence is not excelled by anything I have ever read in Indian official literature." "Economic History of India", Vol. II. p. 413.

A similar event happened in the Council of the Secretary of State for India. It is needless to mention that Her Majesty's Secretary of State* for India was only too willing to approve of the measure and the method of Lord Lytton. When the accounts of the proceedings of the Viceroy's Council on the measure were placed before the Secretary of State's Council for discussion and approval, half the members voted against the action of the Government of India. It was only by his casting† vote that the Secretary of State carried the approval of the measure adopted by the Viceroy. The opposing members‡ recorded as usual their minutes§ of dissent on financial and political grounds similar to those stated in the minutes of the Viceroy's Council. In a Financial Despatch to India dated 17th July 1879 the Secretary of State, after sanctioning the partial remission of the cotton duties, insisted that the Government of India should bear in mind the necessity of taking further measures in that direction.‖

With regard to the time and circumstances of the measure of 1879, Gadstone's observation in the House of Commons soon after the event may be read with interest. In a debate on Revenue Accounts he said : "With regard to the remission of the import duties, there seems to me to be something distinctly repugnant in the way it has been done in the time of India's distress and difficulty

* Viscount Cranbrook now replaced Lord Salisbury as the Secretary of State for India.

† P. 392 H. C. 1879, pp. 2. 3.

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For :	Against :
(1) Secretary of State.	(1) Mr. Dalyell.
(2) Mr. Cassels.	(2) Sir B. Ellis.
(3) General Foster.	(3) Sir F. Halliday.
(4) Sir Henry Maine.	(4) Sir R. Montgomery
(5) Sir H. Rawlinson.	(5) Sir W. Muir.
(6) General Strachey.	(6) Sir H. Norman.
(7) Sir W. Mereweather.	(7) Sir E. Perry.

§P. P. 392 H. C. 1879, pp. 3-8.

‖ Ibid, p. 2.

by the government of a Party, which has done all in its power to retain every protective duty in this country, and which, from year to year, as the occasion arises, advises the Crown to assent to Colonial Acts imposing fresh duties upon British manufactures. What an invidious, almost odious, picture of inequality to exhibit to the millions of India. The Free Trade doctrines that we hold so dear, that we apply against the feeling of the Indian people in their utmost rigour and without a grain of mercy, disappear in a moment when it is a question dealing with those interests and opinions we cannot lightly tamper with—namely the free Colonists of the Empire. The Governor General says that he cannot see that financial difficulty can in any way be pleaded against what he calls fiscal reform. If that be a true principle of government, it has been discovered for the first time by the present Viceroy. There has not been a Free Trade Government in this or any other country which has not freely admitted that the state of the revenue is an essential element in the consideration of the application even of the best principles of Free Trade."*

Indian finance was surrounded by an unusual number of risks and difficulties. The only important condition accepted unanimously by all for the removal of the cotton duties was the favourable position of Indian finance. But the time, circumstances, and method of repealing the cotton import duties form a curious commentary on the last clause of the Resolution of the House of Commons of 1877. In view of the serious financial situation, the measure taken in 1879 was at great variance† with the condition prescribed by the Resolution. That it had

* Hansard Vol. 246, June 12 1879, pp. 1745-46.

† Cf. Dutt "Economic History of India", Vol. II, p. 416. "If the House of Commons exerted an undue pressure on India by passing its resolution in 1877, the Indian Government was guilty of a weak betrayal of trust in carrying out that Resolution in 1879".

not been fulfilled has been clearly proved by Prof. Fawcett in his valuable survey of the salient features of the financial situation of India from 1877 to 1880. The following extracts from his book* describe briefly the actual conditions and his observations :-

"On the 10th of July 1877, a motion was brought forward demanding the immediate repeal of the cotton duties. The Government resisted it, on the ground that India could not at that time afford such a sacrifice of revenue ; and the truth of this was so generally recognised that, without one dissentient voice, it was affirmed that the repeal of these duties should be postponed until the financial condition of India became more satisfactory. Is it possible to point out one single circumstance, which would justify the conclusion that the finances of India are in a more satisfactory state now than they were two years since, and that India can now afford a sacrifice of revenue which she could not afford then?" (pp. 85-86)

His reply is this :-

"With a comparatively stationary revenue of this amount, a rapidly increasing expenditure had to be met. All available sources of taxation had been so nearly exhausted that large loans had each year to be raised to meet the deficits which were regularly accruing. Constant borrowing had consequently become the normal condition of Indian finance, and her indebtedness was rapidly and steadily growing. The budget for 1879-80, which was introduced soon after this Essay published, strikingly corroborated the conclusions which were thus sought to be established. During this year the finances of India were prejudicially affected by various adverse

* "Indian Finance" by Prof. Fawcett, pp. 2, 3, 4, 19, 28, 29, 36, 37, 55, 56, 75, 76, 77, 79, 83, 84. In and out of Parliament he made a very thorough study and had been a strict and watchful critic of Indian finance. He served on various committees on East India Finance.

circumstances. The cost of the Afghan war had to be met; an increasing loss by exchange, produced by the depreciation of the value of silver, put severe strain upon her resources; various public works which involved a heavy outlay had already been sanctioned; the diminished revenue returns yielded in certain districts showed that in some parts of the country the effects of the recent famines were still severely felt; and the financial situation was further aggravated by an increase in the military and other branches of expenditure. From the budget arrangements of the year it at once became evident that all the worst anticipations as to the financial exigencies of India were to receive a practical corroboration.....But serious as was the state of things disclosed by these exceptionally large borrowing operations, the outlook for the future became worse when it was seen that in the midst of this embarrassment the Government of India were surrounded by influences which compelled them, in the administration of her finances, to sacrifice her interests to the interests of England. Simultaneously with the announcement of the large loan operations which were about to be undertaken, it was stated that the revenue of India, which was admitted to be inadequate to meet the cost of government, was not to be maintained but that £ 200,000 of this revenue was to be sacrificed by a partial repeal of the cotton duties. It need scarcely be remarked that nothing can be more indefensible than to reduce taxes when there is a deficit, and when, consequently, every shilling of the taxation remitted necessitates a corresponding addition to the debt." (pp. 2-3-4.)

"No one for a moment will even pretend to say that, in the present state of Indian finance, the idea would have been entertained of remitting these duties if the finances of India were administered in the interest of that country alone." (p. 75)

" Greatly as the remission of cotton duties is, for the reasons just adduced, to be deprecated, there are other objections of a much more weighty kind to be urged against this needless sacrifice of revenue. The most prominent failure of the Indian Budget of 1878 was the formation of what was described as a famine fund. The present finance minister, Sir John Strachey, came to the conclusion, after a careful and exhaustive review of Indian finance, that the ordinary revenue of the country being barely sufficient to meet its ordinary expenditure, there was no margin left from which any provision could be made for such contingencies as war and famine." (pp.79-80)

" But whatever conclusion may be adopted as to the precise manner in which the money intended to create a famine fund has been spent, there can be no question that not a fraction of the new taxation which was imposed for famine purposes had been devoted to this object. The pledge which was made to the Indian people had been alike broken, whether the money which they had been called upon to contribute has been expended for military purposes, or has been spent in enabling the Government in part to satisfy the demands which have been so persistently pressed upon them by the cotton-manufacturing interest in England."* (pp. 83-84.)

When the financial difficulties were thus sufficiently grave and when the revenue raised by special taxation† for special purposes (The Famine Insurance Fund) had been diverted to general purposes, the plea that no new taxation had been imposed that year in order to facilitate the reduction of the cotton duties was simply

* Cf. On the whole point Dutt's Economic History, Vol. II, p. 416.

† For creating a Famine Insurance Fund new taxes were imposed in 1877-78. (a) License tax on trade to be levied throughout British India; (b) Local rates on Land in Northern India and Bengal; (c) Salt tax increased in the Madras and Bombay Presidencies (Gazette of India, 23rd March 1878, Part I, pp. 142–151, Financial Resolution of 18th March 1878).

meaningless and misleading. But the impropriety and viciousness of the measure have to be tested, not only by the circumstances under which it was passed, but also by certain evil consequences that were likely to follow from it later on. It introduced into the customs system of India a very disruptive element which inevitably shattered and brought the entire structure down. The abolition of the cotton duties virtually pulled out the key-stone of customs revenue in India, or to use another metaphor, it stabbed the customs revenue to its heart and consequently the whole body collapsed. That this partial measure of relief would be soon followed by the total abolition of the cotton duties had been cautiously foretold by the Tariff Commission of 1879; and without the support of the cotton duties, other customs duties could not exist. The measure was therefore the beginning of the end of the whole customs revenue.

The Government had said a good deal about the advantages of Free Trade in general on this occasion. But they had signally failed to show either that India was able at that time to give up any portion of her revenue, or that if revenue could be sacrificed, all the comparative claims of other taxes to remission had been properly considered. One cannot understand the alleged claims of the cotton duties to any priority or preference in the reduction of taxation or the general importance of the measure which was required to be carried out in face of a strong opposition and the serious financial difficulties. But beneath their whole defence, there lay an implied admission that the cotton duties had been taken off with an eye more to the interests of Lancashire than to those of India.

Just before their abolition, Manchester and Lancashire deputations* had pressed the whole matter heavily

* "The Times", 5th & 6th February 1879.

upon the Secretary of State, Viscount Crankbrooke. This supplied a clue to the Government of India's action at the time of the gloomy and desperate conditions of Indian finances. It was alleged that as the general election approached, the consideration of the exigencies of Indian finances was thrown to the wind and the partial remission of the cotton duties was given away as a sop to Manchester and Lancashire votes.

All the leading journals* in England and in India condemned the policy of the measure, not only for financial reasons, but also on the ground that in abolishing the cotton duties the interests of India were being sacrificed to win over the Lancashire votes for party purposes in England.† We have seen that the action of the Government had been strongly criticised by nearly all the officials in the Government of India on financial and political grounds. The great body of the official hierarchy throughout India also joined in the same criticism. It is quite easy to understand that it was strongly condemned by the entire Indian community, besides the Indian mill-owners. Nor was the public opposition confined to the Indian community alone. It was strengthened by the force of the European mercantile community which also shared the general feeling of resentment. But even this unanimous protest was unavailing.

Encouraged by its partial victory, the Lancashire agitation grew stronger, and increased its attempt to obtain the complete remission of the cotton duties. Deputations on behalf of the Manchester Chamber of Commerce and Lancashire Manufacturers waited upon the Secretary of State, Viscount Cranbrooke, and demanded the total repeal‡ of the duties. But they had also

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* "The Times" and The "Times of India" may be taken as typical.

† But this sacrifice to party politics did not secure its end. The Conservative party lost the election of 1880.

‡ "The Times", 7th February 1880.

resorted to another effective means, namely Parliament. On 4th April 1879 a debate took place* in the House of Commons on cotton duties in India. The same old arguments were advanced on both sides. The resolution as amended and agreed to ran as follows :—

"That the Indian import duties on cotton goods being unjust alike to the Indian consumer and the English producer ought to be abolished and this House accepts the recent reduction in these duties as a step towards their total abolition to which Her Majesty's Government are pledged."† Thus the House approved of the measure so widely condemned and renewed its demands for a complete measure of that kind.

As anticipated by the Government and the Commission, fresh difficulties ‡ and anomalies soon arose in the working of the exemption limit of the cotton duties. The immediate consequence of the exemption was to give a strong inducement to English manufacturers to supplant, in the course of trade, finer by coarser classes of goods. Some classes of English goods were favoured by the exemption in comparison with other classes of English goods. Thus,even though there was no competition between Lancashire and Indian mills, a competition grew among Lancashire manufacturers themselves to secure the full benefit of the Government of India's measure of exemption. Sir John Strachey admitted that the state of things was simply anomalous and objectionable. The trade in the dutiable goods decreased with the concomitant rise in that of the exempted goods. The originally estimated loss of revenue consequently increased from £ 200,000 to £ 250,000 for 1880-81. But nothing could be done to remove the anomaly, except by removing the cotton duties

* Hansard, Vol. 245, pp. 375 to 436.

† Ibid, p. 436.

‡ F. S. 1880-1881, paras 73 to 76,

in toto, which the Government of India for financial* reasons could not do. But Sir John Strachey looked forward, with fervent hope and religious faith, for a time, not hopelessly distant, when his lifelong vision of complete free trade in India would be realised and "when the ports of India will be thrown open freely to the commerce of the world." He rightly observed that the cotton duties were virtually dead and that as an inevitable consequence other import duties should follow them. He turned down with contempt the suggestion that according to the principle of reciprocity, England must give up her duty on Indian tea and coffee and India must admit all British goods free. He considered it as unsound in theory, because the free trade policy was good for India whether other countries admitted Indian goods freely or not, and as impracticable, because England would be required to surrender the greater part of her customs revenue† which she would not do. The export duty on indigo was abolished,‡ owing to danger of competition of chemically prepared substitutes. The export duty on lac yielded an insignificant revenue and hence was abolished. Rice was the only article thenceforward subject to an export duty.

In 1881 and 1882 the financial situation of India improved. India was not in a state of chronic deficit. The actual financial condition was prosperous. But the Finance Member of 1881-82 said: "However encouraging may be the aspect of the present, the possibilities of the future are at all events sufficiently grave."§ However, on the existing basis of taxation a surplus of more than three million pounds was estimated for 1882-83. This supplied a long-awaited opportunity to the Government

* Ibid, para 76.
† Ibid, paras 80-81.
‡ Ibid, paras 82 to 88.
§ F. S. 1881-82, Major Baring, p. 16.

of India for the thorough-going reform in the Tariff system of India to which they were already pledged. The Finance Member, Major Baring, (afterwards Lord Cromer) seized it and introduced several fiscal reforms in 1882.

We have referred to the anomalies and difficulties produced by the changes in the cotton duties in 1879. There were other considerations against the cotton duties.* A great administrative inconvenience arose out of the difficulty of distinguishing between dutiable and free cotton goods and between intentionally fraudulent and accidental evasions. The arbitrary line of exemption encouraged one class of Manchester goods against the other. More than that, certain duty-free Manchester goods were protected against Indian goods, because the former contained some finer yarns which, when imported by Indian mills, paid a duty. The injustice of taxing white and coloured goods when the grey goods were exempted was obvious. All these practical considerations led Major Baring to abolish the cotton duties *in toto*.

As regards the general import duties,† all of them were looked upon as protective, because all articles of import were more or less produced in India. Also "while harassing to the importer, they yielded a revenue so insignificant as hardly to cover the cost of collection, when the larger sources of revenue (*i. e.* the cotton duties) are removed." Moreover, they taxed certain raw materials. So the natural conclusion was that the general import duties must also go with the cotton duties, except the special duties on wines, spirits, arms, ammunition, salt and opium.

Having thus decided to abolish all import duties in India, the Finance Member pointed out that the great

* F. S. 1882-83, pp. 44-45.

† F. S. 1882-83, pp. 46-47.

merit of his measure was that he could accomplish it without imposing any new tax* upon the people of India. The finance of India provided a surplus which made a remission of taxation possible. What form the remission should take was the question. The Government decided in favour of abolishing† all import duties to which they were long pledged and for which they had a golden opportunity. The net loss of revenue which this measure involved was £ 1,108,000.

The general importance of the measure‡ according to the Finance Member lay in his belief that it would finally set at rest the angry controversy and that it would be "most beneficial to India." He concluded§ with the remark:—"As an incident of her connection with England India has a right to profit from English experience and English economic history. That experience and that history show that by the adoption of free trade a country benefits indeed all the world, but more specially benefits itself."‖

One of the natural consequences of this measure was that a number of infant industries, that were beginning their chequered life on private initiative and without any state support or encouragement and that were struggling for existence against all odds, were completely exposed to competition with the highly developed industries of other European countries, especially England. The Hon. Mr. Inglis during the Council discussion on the measure said:—"Nevertheless it might be doubted whether this

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* F. S. 1882-83, para 226.

† Act XI of 1882.

‡ F. S. 1882-83, pp. 48-49.

§ Ibid, p. 48.

‖ The following remarks of Dr. Banerjee on the above passage are very appropriate:—"If there be people who would feel inclined to read English history in a different light and refuse to accept the dictum of the Indian Finance Member (Major Baring) they would of course deserve the severest censure for their perversity", "Fiscal Policy in India", p. 87.

bold measure of free trade had not come somewhat too soon for the permanent good of the country. There were many industries at the present moment struggling for existence which it was to be feared would be most seriously affected by the removal of the duties. To these the effect would be much the same as that produced in a child unable to swim, who was thrown suddenly into the water and left to sink or swim as best he might. It was hoped these children might learn to swim, but the fear was many of these would sink in the process."*

Supposing for the sake of argument that the cotton duties were to remain as the integral part of the customs revenue, the question is whether the sacrifice of a customs revenue of more than a million was justified under the actual burden of other taxes. No doubt the Government had a surplus. But the Government does not seem to have considered the comparative claims of other taxes to remission or reduction at all. In fact, there was no room for such a discussion. The Viceroy in his speech on the measure † admitted that the policy of 1879 and its anomalous results absolutely compelled the Government to seize the earliest opportunity to deal with the customs duties finally and thus to fulfil the pledge given by his predecessor's Government. The salt duty was still pressing heavily upon the people of India. The evils of the License‡ Tax were already admitted by the Finance Member. The Land cesses were pressing heavily upon

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* P. P. 181 H. C. 1882, p. 105.

Cf. Prof. C. N. Vakil, "Our Fiscal Policy", p. 26. "The triumph of free trade principles was never more complete. The ports of agricultural India were more open to the industries of the world than the free ports of England herself. The competition of manufactured goods had by this time killed the village industries of India. The village craftsman was forced to become an agricultural labourer. The few 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."

† P. P. 181 H. C. 1882, pp. 123-24.

‡ F. S. 1882-83, pp. 50, 51, 52.

the land which was already subject to a heavy Land* Tax. Besides these considerations, the Government had dimly anticipated the exchange troubles from silver and on the whole had considered the financial possibilities of the future sufficiently grave. Under these circumstances, it was wrong to sacrifice a legitimate source of revenue, while the excuse that no new tax had this year been imposed for that purpose had no meaning. In view of future financial uncertainties, a temporary surplus cannot be a justification for a permanent sacrifice of a strong and reliable source of revenue.

Thus was closed an important chapter in the tariff history of India. Out of this long discussion one fundamental point arises. Were the cotton duties really as objectionable as they were represented to be by their opponents? The main economic objection briefly stated was that the cotton duties were protective and as such was wrong in principle and injurious both to English producer and Indian consumer. As pointed in this chapter, no one, including Lord Salisbury, had been able to prove a large extent of direct and actual competition between English and Indian cotton goods. Those in favour of retaining the duties have conclusively proved the contrary. Lord Salisbury himself admitted the fact that there was no direct competition. But it was represented by Manchester that because of these protective cotton import duties, the British trade in coarse goods was displaced by the Indian manufacture. This was challenged by the Government of India under Lord Northbrooke and other supporters, who pointed out that the growth of the Indian cotton manufactures was largely due to various natural advantages, irrespective of the 5 per cent. import duty. The Indian cotton industry

* Cf. (*a*) Prof. C. N. Vakil "Our Fiscal Policy", p. 26, (*b*) Dutt, "Economic History of India", Vol. II, p. 537.

developed, not because of this small duty but in spite of it. The influence of the duty was simply exaggerated by Manchester. This was also frequently accepted by Lord Salisbury* in his despatches and public utterances. Certainly there is a world of difference between the duty which is specially imposed for revenue purposes but is accidentally protective to a slight extent and the one which is actually prohibitive or highly protective.

When dislodged from this position, the opponents of the cotton duties raised the cry of indirect protection and the prospective development of the Indian cotton industry in the field of finer goods under the influence of the duties. They pointed out that the coarse cotton goods of Indian mills had, owing to their quality, cheapness, durability and popularity with the people, begun to invade the field of British finer goods. Looking to the rate of progress of the Indian manufacture in the field of coarse goods, they were very much afraid of the future of the British cotton industry. The other side replied that these light duties mainly imposed for revenue purposes should be progressively remitted, as they became actually protective. It was pointed out that the anticipations of Manchester about the future development of the Indian manufacture in the field of finer goods were groundless, because of certain serious difficulties in the field. It was also proved with reference to figures that notwithstanding the displacement of the Manchester trade in lower classes of goods, the demand for the English finer goods had steadily progressed and that it would continue to progress. The arguments of the opposition were, therefore, unnecessarily exaggerated.

If it could be proved to be a fact that all kinds of cotton goods could be produced in India as in Lancasire, then the

* P. P. C. 1515. 1876. p. 38. Hansard's Vol. 227. p. 1963 and Vol. 235, p. 1126.

import duties on cotton goods were really protective and as such may be objectionable. But such was not the fact. The cotton goods which India imported were not of the same kind as those which her mills produced. Indian mills could not and in fact did not produce the better qualities of cotton goods which were supplied by Lancashire mills. The cotton duties were, therefore, not protective in their actual operation. They did not exclude English competition and thus did not artificially raise the prices of cotton goods to Indian consumers. If the growth and development of the Indian cotton industry inflicted any injury upon the British cotton industry, it was natural and inevitable. So the whole agitation started by Lancashire manufacturers rested upon no other foundation than their selfish desire to obtain the abolition of the cotton duties in India, whether protective or non-protective, on every variety of goods, under the cover of the advocacy of free trade principle and of the interests of poor consumers of India.

If the cotton duties were not wrong in principle, they must then be considered upon their own merits, as a tax for revenue purposes.* They were very moderate and

*The practical importance and justification of the cotton duties have been clearly demonstrated by Prof. Fawcett in the following passages:—

(1) "The partial remission of these duties has been defended on the ground that they are protective in their character and that it is wrong for free-trade England to sanction, in any form, the continuance of a protective duty. It is not, I believe, difficult to show that these duties are much less protective than is ordinarily supposed. It is important to bear in mind that in the Bombay mills, which are said to enjoy protection at the expense of Lancashire, the manufacture is almost entirely confined to the coarser sorts of cotton goods, upon which, when imported, no duty is imposed. But even if it is admitted that the import duties on cotton goods are as protective as they are alleged to be by the representatives of manufacturing interest in England, it would be necessary, in order to justify the repeal of these duties, to show either that India could spare the revenue which they yield, or that it could be obtained in some other less objectionable form. When it is remembered that not a single year passes without a most serious addition being made to the indebtedness of India, it at once becomes evident that, as India has no surplus, she cannot surrender

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constituted a suitable tax, collected easily with small cost and without much inconvenience to people. Because of the wide-spread consumption of cotton goods, the incidence of the tax was extensive. They thus fell widely and lightly

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a single shilling of revenue without an equivalent amount being added to her debt. As long, therefore, as the state of Indian finance is such that she not only has no surplus, but has annually to borrow in order to make good a heavy deficit, it is impossible to justify any remission of taxation, unless the sacrifice of revenue which such a remission involves is to be compensated for from some other source. No one, so far as I am aware, has suggested new taxation, by which it would be practicable to obtain the revenue which is yielded by these cotton duties. In considering questions of taxation nothing can be more unwise than to conclude that that particular tax must be the best which is most in accord with the principles of economic science. The tastes, the habits, and the wishes of the people on whom the tax is to be imposed ought to be most carefully considered, and I believe it will not be denied that of all the taxes which are levied in India, there are none to which the people of that country feel so little objection as the import duties on cotton goods. It is, moreover, particularly worthy of remark, that the repeal of these duties must certainly tend to create greater inequality in the incidence of taxation in India. It will be generally admitted that, owing to the difficulty of imposing taxes which reach the wealthy classes, an unduly large part of the revenue in India is contributed by those who are extremely poor. As the cotton duties are now almost entirely imposed on the finer sorts of goods, which are chiefly consumed by the rich, it is obvious that the repeal of those duties would reduce the amount of taxation paid by the wealthy, and would consequently still further increase the inequality in the taxation borne by the poor." (Indian Finance, pp. 75-77).

(2) "A more serious error can scarcely be committed than to impose taxation on a people regardless of their feelings and sentiments. The most equitable system of taxation which it is possible to devise for one country, may be altogether unsuited to other countries. Many financiers of authority who consider that the income-tax ought to be permanently maintained in England, are of opinion that in consequence of the many abuses which are inseparably associated with the collection of the income-tax in India, nothing but extreme necessity could justify its re-imposition in that country. In deciding whether the duties now imposed on cotton goods imported into India ought at once to be repealed, it is of the first importance to bear in mind the peculiar and critical position of Indian finance. The great mass of the people of that country are so poor, and live with such extreme frugality, that with the exception on salt there is no article of consumption which it is possible to tax; and the duty on salt has been strained to its utmost point, being one of the heaviest duties ever imposed on a first necessity of life. As therefore there remains no article of general consumption which can be taxed, it is obvious that the resources of taxation are extremely small in India; for it is scarcely necessary to remark that the taxation which is most productive is that which is levied on some article in universal use, to which therefore the whole nation has to contribute." (Free Trade and Protection, pp. 171-172).

and were borne willingly by the people. Cotton goods formed by far the most important part of total imports into India. The very fact that half of the revenue from total imports into India was derived from cotton goods proved the importance of the duties. The cotton duties as a tax could hardly be described as very burdensome. They yielded a revenue which could neither be spared nor substituted by a better tax. New taxes in India were difficult to devise. Income tax had been tried and proved a failure. The dangers of direct taxation were then widely acknowledged. In the absence of direct taxation, the import duties on British cotton goods supplied to the Government a convenient means of taxing the rich and the middle classes of population in India who were lightly taxed and who largely used the imported goods. This would restore a sort of balance in the incidence of general taxation between the well-to-do classes and the poor classes on whom the salt duties were already pressing heavily. Also it was frequently pointed out that the cotton duties supplied one of the few means of taxing the population of Native States for the manifold services rendered to them by the Government of British India.

The argument, that the import duty on cotton goods was a tax, which, from a revenue point of view, was self-destructive in operation, was misleading, because it was based upon the false notion that the duty was protective. Of course, it is possible to argue that a highly protective duty becomes after a time an unimportant item of revenue. The length of the time depends upon the height of the duty. In India the duty was only 5 %. Supposing the duty was protective both in principle and practice, even then it is quite plain that this destructive process would have been very gradual and drawn over a long time and that the duty was thus likely to remain highly productive for a long time to come. But the cotton duty in India was not protective even in principle and in effect. British

trade in finer goods had increased considerably and was likely to grow further. There was no prospect that the Indian mills would be able to produce cotton goods of better quality. So the fear that the duty would defeat its own end was groundless. It had already justified its existence and levy by yielding the largest part of the Indian customs revenue. Consequently, from what has preceded, one can clearly realise that Lord Salisbury's attack on the Indian cotton duties expressed in the aphorism that the tax on cotton trade was wrong in principle, injurious in practice and self-destructive in its operation was absolutely unjustifiable. The abolition of the cotton duties based upon these grounds was therefore unreasonable; and the question whether the Indian finances could afford such a sacrifice of revenue was unnecessary. The tax was so proper from every point of view that its abolition under normal circumstances was nothing short of a folly and the more so under the severe pressure on Indian finances. This tax should only have been abolished, when a better substitute had been discovered or when in case of a surplus, all the claims of other oppressive taxes like Salt Duty, License Tax, Land Tax, Land Cesses and the like had been properly considered. We have seen that nothing of the kind was done and that the tax was abolished at a time of a crisis in Indian finance.

When once the cotton duties are thus recognised as unobjectionable in principle and justifiable in practice, then the whole sophistical and vicious line of argument advanced by Sir John Strachey in favour of abolishing all customs duties in India falls to the ground. The general import duties were not dying a natural death as argued by their opponents. The measure of 1882 was the logical outcome of tampering with the cotton duties in 1879. The abolition of the cotton duties was taken as a *fait accompli*. The remission of the other import duties was then simply a corollary. But the cotton duties were in no

way wrong and inexpedient as a tax for revenue purposes. Consequently, the main argument against other import duties vanishes. Provided the cotton duties continued to exist, the abrogation of other duties was ill-advised.

But it was also said that all import duties were protective and hence objectionable in principle, because all articles of import were either prduced or were capable of being produced in India. It was simply the height of absurdity to say that the small handicraft industries that survived here and there in India competed with the highly developed manufactures of Great Britain and other foreign countries and that the 5 % general import duty operated as a protective duty. The absurdity of the argument is too obvious to need any serious refutation.

But this whole argument was related to the fiscal principles enunciated by Sir John Strachey in his Financial Statement of 1878-79 (quoted in this Chapter). They were based upon English fiscal policy, which for revenue purposes taxed only a few main articles of universal consumption with an equivalent excise duty. But this principle was absolutely impossible of realisation in India. The economic and social conditions of India and England differed widely. It was a serious mistake to have disregarded this difference. The reason why such simplicity was found practicable in the English system is that the wealth of the country had increased sufficiently to enable the Government to introduce direct taxation and to raise a large revenue from a few articles of wide consumption, which made it possible for the Government to dispense with other duties. India is a poor country with little choice of new sources of taxation. Direct taxation was tried and found inexpedient and impossible. Wine, spirits, tea, coffee, etc., were not universally consumed. Except the cotton goods, it was very difficult to obtain for

taxation articles that were in universal demand in India. Moreover, there was hardly any article imported from abroad which could not be produced in India on a small scale for local consumption. In India, therefore, a simple tariff based on the English model was impracticable ; and the Government, in order to obtain a substantial revenue from duties on imports, was forced to tax a large number of articles, many of which might be locally produced in India. To that extent the import duties might be theoretically protective. But to say that these small revenue duties actually protected the small, unorganised and undeveloped handicraft industries against the highly efficient and skilled industries of European countries is simply ridiculous. The argument, however perfect in theory, has no relation to facts and is unpractical, because nobody except fanatical and extreme free traders would be so nonsensical as to suggest that in mere deference to theory the whole customs revenue of about 2½ M. £. derived from such small duties should be surrendered.*

Truly speaking, the establishment of free trade in India did not mean the abolition of a really effective protection but of all duties whether protective or not. Only unpractical doctrinaires would look upon every duty with abomination and horror. Free trade does not mean, and was never intended to mean, anything so absurd as the absence of any duty. The real meaning of it is that there shall be duties only for revenue purposes and not for any artificial protection to home industries. A moderate duty that does not seriously affect the trade is unobjectionable, while the revenue it yields is a net gain to the Public Treasury. It is not inconsistent with the spirit of free trade policy. Its abolition is the result simply of a theoretical and rigid application of free trade principles.

* Finance Members who preceded Sir John Strachey supported this view.

It is not practical finance. But Lord Salisbury and Sir John Strachey delivered their lectures on the theories of free trade and protection to India who practised free trade in the most general sense long before England adopted it for herself. Never was a duty levied in India on her foreign trade for the specific purpose of protecting any Indian industry. Whatever restrictions existed in the commercial regulations of India were all introduced by the British Government for the protection and encouragement of the interests of British trade and British industries.

But the customs duties in India were as indispensable as they were unobjectionable for revenue purposes. It has been rightly said by Gladstone, in a speech that we have already quoted, that the state of finance is the essential consideration in the application of even the best principles of commercial policy. The state of Indian finance during this period briefly described was this :— repeatedly recurring deficits, additional taxation, constantly multiplying national debt, an extremely gloomy future, standing contingencies of war, famine and fall in exchange from silver fluctuations, inelastic revenue, and increasing expenditure. It need scarcely be remarked that under the severe financial pressure nothing can be more indefensible than to give up any permanent source of substantial revenue such as "customs." It was an unnecessary sacrifice of a much-needed revenue.

Moreover, the "customs" as an indispensable source of revenue ought to have been fully developed and thoroughly exploited. The traditional attitude of the Government of India, as pointed out in the last chapter, towards the customs duties was to let them continue on sufferance. Their total repeal involved a loss which the Government could not afford. So they went on reducing them under one pretext or the other in magnitude

and extent of operation, whenever they could manipulate a surplus in their budget. From the revenue point of view it was a negative attitude. The Government of India under Lord Northbrooke opposed their abolition more on the grounds of financial inability than on positive economic grounds. The position of the Government of India was peculiar. The scope for the exercise of their own judgment in matters of raising revenue according to their financial necessities was limited by the control of the Home Government. The result was that the customs revenue was in constant danger of a pressure from the Home Government influenced by certain powerful interests in England against the customs duties in India.*

The opponents of the import duty in India did not show to what extent this small duty of 5 % actually

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* The following passage from Prof. Fawcett's book on Indian Finance, pp. 36, 37, may be read with interest:-

"With regard to the last three branches of revenue- excise, customs and stamps—little need be said. The present aggregate net revenue obtained from customs and excise does not amount to more than £5,000,000 a year; and the policy of government in recent years has been rather to diminish than to increase these duties. Moreover, one of the most important items in the receipt from customs, namely that derived from the import duty now imposed on cotton goods, must be regarded as existing on a somewhat precarious tenure. The repeal of this duty has been earnestly demanded by the cotton manufacturing interests in England; and the Government entered into an undertaking that the duty should be repealed as soon as the financial condition of India permitted. It is somewhat difficult to define the exact interpretation to be given to this promise; but it is evident that its fulfilment will be persistently, and possibly successfully, urged. For when it was recently affirmed on the authority of the Secretary of State that India possessed a balance from which the expenses of the Afghan war could be defrayed, it was immediately said by the manufacturing interest in Lancashire that if such a balance really existed its appropriation has been beforehand pledged to the repeal of the import duty on cotton goods. As, therefore, this important item of receipt in the customs duties of India will be liable to constant attack from persons possessing great power and political influence in England, and as there is no new excise duty which it has been suggested could be imposed, I think no other conclusion can be arrived at than that not only is there little chance of obtaining additional revenue from customs and excise but, on the contrary, the Indian Government may, in face of the promises they have made about the cotton duties, find it difficult to maintain the revenue which they now receive."

depressed the import trade and thus encouraged the home industries. It can be proved that the duty had no effect of that kind. From the tables* given below, certain important facts emerge. The abolition of all export and import duties did not cause the development of the foreign trade of India to be more rapid than it was before. After the remission of the cotton duties, the import

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* **TABLE I.**

	Years.	Merchandise. Imports	Merchandise. Exports.	Import of cotton goods chiefly British.	Gross Customs Revenue	Customs revenue from cotton goods.
		M. £	M. £	M. £	M. £	£
Years in which duties were levied.	1870-71	33.31	55.31	19.05	2.61	
	1871-72	30.81	63.19	17.49	2.58	
	1872-73	30.48	55.23	17.23	2.65	
	1873-74	31.63	55.00	17.78	2.63	842,398
	1874-75	34.65	56.31	19.39	2.64	905,632
	1875-76	37.11	58.04	19.25	2.73	873,021
	1876-77	35.37	61.00	18.73	2.49	832,822
	1877-78	39.33	65.19	21.70	2.63	942,543
	1878-79	36.56	60.89	16.90	2.33	772,045
	1879-80	39.74	67.17	19.66	2.33	682,394
	1880-81	50.31	74.33	26.60	2.54	732,884
	1881-82	47.00	82.00	24.00	2.36	574,915
	1882-83	50.00	83.40	24.80	1.29	185
Free Trade Period.	1883-84	52.70	88.12	25.11	1.19	Nil.
	1884-85	53.15	83.20	21.56	1.03	,,
	1885-86	51.81	83.82	24.28	1.20	,,
	1886-87	58.66	88.13	29.16	1.25	,,
	1887-88	62.38	90.47	27.51	1.35	,,
	1888-89	66.57	96.98	31.50	1.33 *	,,
	1889-90	66.56	103.40	29.87	1.51	,,
	1890-91	69.04	100.14	31.00	1.74	,,
	1891-92	66.59	108.36	28.68	1.70	,,
	1892-93	62.60	106.53	25.62	1.61	,,
	1893-94	73.95	106.45	32.36	1.68	,,

(Prepared from Annual Statements of the Trade of British India).

* This revenue was raised from spirits, wines, arms, ammunition, and rice.

Continued on next page.

trade in cotton goods* did not increase more rapidly than it did before. It is important to notice that in view of the incessantly increasing trade of India, the customs revenue was merely a trifle. These facts confirm our view that as regards the volume of trade was concerned, duties were so low as to be ineffective and that therefore in giving up these duties there was an unnecessary sacrifice of legitimate actual and potential revenue from the constantly growing trade of India. The policy, which practically meant that the greater the financial difficulties of India, the less she would be able to depend upon her customs revenue, was not free trade but folly. The relief, which, it was supposed, the remission of the customs duties might afford to British trade or to a particular branch of it, was no sufficient justification for the sacrifice of the customs revenue under normal times and much less when the financial situation was so serious as described before. If the duties were so low as not to affect the trade of India, where was the guarantee that their repeal profited the Indian customers? It was very likely that its effect was to increase the profits of foreign producers, while it sacrificed the Indian revenue to no purpose.

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TABLE II.

	Rise in 1st Decade.	Rise in 2nd Decade.	Rise in 1st Decade.	Rise in 2nd Decade.
Imports.. ..	66%	46%	M. £ 20	M. £ 21
Exports.. ..	58%	28%	,, 30	,, 20
Cotton Imports ..	41%	33%	,, 7	,, 7

The period of fall in general prices covers the whole period (1870-1894) under discussion. Hence it does not affect our conclusions from these trade figures.

* In a despatch to India of 31-5-1894 the S. of S. for India wrote: "The increase of importations of piece-goods was much more rapid during the last ten years of the existence of the duty (1873-83) than it was during the 10 years after the duty was abolished." (1883-93) C. 7602 of 1895, p. 4.

On the other hand, the removal of the cotton import duties did not make the expansion* of the Indian cotton industry less rapid than before. This, however, proves that the growth of the cotton industry of India was due to certain natural advantages and not to the revenue duty of 5 %. In every respect, the industry stood unassailable in its own field. Neither the Government of India nor the Indian mill-owners pressed, in those days, for any real tariff protection to the Indian industry. Their part in the controversy was mainly defensive. The Government of Indian under Lord Northbrooke opposed the abolition of the duty on chiefly financial grounds. The agitation on the part of the Indian public including mill-owners largely consisted in opposing the measures, such as, the import duty on long stapled raw cotton, which might injure the interests of the Indian cotton industry, or the measures like an excise duty which might have been adopted under the special influence of Manchester. The import duty of 5 % had no other value than as a revenue duty.

Conclusions.

From the course of this discussion, it has been plain not only that the actual arguments advanced against the duties in India do not stand close examination but that the duties in themselves were defensible both on financial and economic grounds and in their practical effects. In the

* **Growth in the Cotton Mill Industry.**

Years.	Number of Spindles at work.	Number of Looms at work.	Export of Indian Cotton Cloth.	Export of Indian Yarns etc.
1877—78	1,289,706	10,533	RX. 442,351	RX. 700,38
1882—83	1,654,108	15,116	730,730	1,847,653
1887—88	2,375,739	18,840	1,115,928	4,112,001
1892—93	3,378,303	26,317	1,274,569	6,826,008

P. P. C. 7602 of 1895, p. 5.

light of all the theoretical and practical considerations discussed before, all the eulogy and invocation of "Free Trade" and its advantages, often repeated by the opponents of the customs duties in India, were as out of place as they were meaningless. They had no relation to actual facts of the Indian Tariff, designed chiefly for revenue purposes. The real question was one of revenue and the arguments founded upon the sanctity of free trade principles were beside the mark.

But under the cover of these extreme free trade principles the English manufacturers and their supporters pushed forward their real aims. It is impossible to attribute the whole Manchester agitation to a disinterested and philanthropic zeal for the people of India. The regard for their own industry was the beginning and end of all their efforts. The development of the Indian cotton industry was to them an alarming fact. The exaggerated fear of an injury to the Lancashire trade was the origin of the Manchester agitation against the Indian cotton duties. But for this, busy Lancashire would have hardly troubled herself about the cost of clothing to the people of India. They took no pains to consider comparatively the oppressive effects of other taxes but attacked only the cotton duties in which they were interested. Their bad faith in free trade was demonstrated by the fact that they wanted to remove the duties, not as far as they were actually protective, but the whole duties, whether protective or non-protective. The spirit of their agitation can be realised from the following passage from a speech at a meeting near Manchester. The speaker after describing in detail "the extraordinary growth of the Indian cotton industry" said: "If these manufacturers were to go on they would have the entire trade (of India) in their own hands. Well, what we and the rest want is to nip it in the bud."* That was

* The "Times of India", 28th February, 1876.

frankly and honestly stated and the cry of free trade was raised solely with that view.

With their selfish object in view, the Lancashire manufacturers exerted through their political vote a continued pressure on the British Cabinet to force the Government of India to give up the cotton duties. This vote no cabinet could afford to neglect. The Secretary of State for India had therefore to adopt an attitude of an uncompromising free trader. Having denounced the duties before the people of Manchester and Lancashire at the time of the General Election of 1874 and later on before various Manchester deputations that waited upon him, Lord Salisbury had no other course but to force the Indian Government to provide for the repeal of the duties in as short a time as possible, irrespective of their financial interests. It is impossible to reconcile his condition that the duties were to be remitted only when permitted by surplus revenue with his peremptory order at the same time to the Viceroy of India that provision should be made for the entire abolition within a fixed term of years. The Viceroy of India, Lord Lytton, carried out this policy, under unfavourable circumstances and by an unwarranted and high-handed method.

The success of the Manchester agitation and the importance attached by Lord Salisbury and Sir John Strachey to the "claims of the English manufacturers" as an element to be regarded in dealing with the Indian Tariff supplied a justification for the suspicion of the people of India as to the bona fide character of the advocacy of free trade. It was freely and widely asserted in India as well as in England that the interests of India had been sacrificed to Manchester by the English Government for political considerations and party gains. Whatever it may be, it can be said with perfect accuracy that the particular choice in abolishing the cotton duties, at a time of severe financial pressure, was inspired by regard

to the interests of Manchester first and to the interests of India afterwards and that generally the interests of British trade in India were effective in shaping the Tariff policy of India. The remarks in the following passage state clearly the fundamental factor that governed the tariff policy imposed upon India.

Sir Henry Maine as a member of the Secretary of State's Council wrote in a minute recorded by him in justification of Lord Lytton's action relating to the cotton duties in 1879 as follows :—

"But after all the one solid, tangible, material interest which Great Britain has in India is its interest in India trade. The importance of the trade has greatly increased. As market after market is blocked or closed by the reviving protectionalism of the world, the Indian market becomes increasingly of value. If then this trade languishes and withers under the influence of the duties dealt with by Lord Lytton the interests of this country (England) no doubt suffer." He further remarked, "As to the railing accusation that the Governor General was influenced by the clamour of the Lancashire cotton interest I contend that the opinion of the North of England was a legitimate element in the question before Lord Lytton.....There could be no worse result of Indian financial policy than that the opinion of the North of England should become indifferent to topics of Indian Government"*

Thus was closed an important chapter in the Tariff History of India. The cotton duties and with them other customs duties were abolished and the controversy was concluded by heart-felt thanks† from 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.

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* P. P. 392, H. C. 1879. pp. 9. 10.

† "The Times" April 3rd 1882.

APPENDIX TO CHAPTER VI.

On the political aspect of the reduction of the cotton duties in India in 1879, Sir A. J. Arbuthnot wrote in his minute as follows (P. P. 188 H. C. 1879) : –

"In the preceding remarks I have dealt almost exclusively with the financial aspect of the question, but the question has a political aspect as well, which, in my opinion, is not less important than the financial one. There can be no doubt that the people of India attribute the action which has been taken by Her Majesty's Government in this matter to the influences which have been brought to bear upon it by persons interested in the English cotton trade or in other words by the manufacturers of Lancashire. It is notorious that this impression has prevailed throughout India from the time, just four years ago, when the Marquis of Salisbury informed a large body of Manchester manufacturers that the Government of India would be instructed to provide for the gradual abolition of the import duties on cotton goods. When Lord Northbrooke's Government a few months afterwards adopted the very moderate measure of imposing an import duty on raw cotton not the produce of continental Asia or Ceylon, and of lowering the tariff valuations on cotton goods, the native press was full of reclamations against the new principle, which, it was alleged, was being introduced into the Government of India, of conducting that Government for the benefit of a practicular section of the people of England without reference to the interests of the people of India. This feeling was greatly strengthened by the language used in Lord Salisbury's despatch of the 11th November 1875, wherein (paragraph 10) he referred to the duty on cotton goods as placing the manufacturers and those of India in a position of political hostility to each other, and in subsequent passages put forward 'the claims of the English manufacturers.' in order to propose that they should be satisfied by the abolition of the duty on cotton manufactures. The same feeling has very recently found expression in the address presented to His Excellency the Governor General by the British India Association—an address which I am bound to say appears to me to contain a correct enunciation of the principles which ought to guide the Government of India in this matter. Nor is this feeling limited to the native community. From communications which have been received from the Chambers of Commerce at Madras and Calcutta, it is evident that the feeling is shared by the leading representatives of the European mercantile community in those cities. In a letter which forms one of the appendices to the Budget resolution, the Madras Chamber state their opinion that "the present is a most

unsuitable time for thinking of sacrificing any of the state's resources under pressure from interested and imperfectly informed foreign manufacturers," and a more recent letter which the Calcutta chamber addressed to the Governer-General on the 10th instant concludes with the following paragraph :—

'It has hitherto been proclaimed by the Home Government that taxation of India would be levied and that the administration of the country would be conducted, not in the interests of England—for less a section of it —but in the interests of India itself. It will be a source of mortification and disappointment if it be now shown that the opinions and wants of sections of the people of England have more influence in determining the character of the financial legislation in India than the interests and expressed wishes of the people under the government of Your Excellency.'

"10. Nor is the impression to which I allude confined to the unofficial classes. It is equally shared by the great body of the official hierarchy throughout India. I am convinced that I do not overstate the case when I affirm my belief that there are not at the present time a dozen officials in India who do not regard the policy which has been adopted in this matter as a policy which has been adopted, not in the interests of India, not even in the interests of England, but in the interests, or the supposed interests of a political party, the leaders of which deem it necessary at any cost to retain the political support of the cotton manufacturers in Lancashire. This, it appears to me, is a most unfortunate state of things. It is very undesirable that an impression should exist, which, if it were well founded, would go far to justify the forebodings of those who deprecated the transfer of the direct government of India from the East India Company to the Crown, on the ground that India would be sacrificed to the exigencies of political parties in Parliament. For many years after that transfer took place, the propriety, and indeed the necessity, of treating Indian questions, and especially questions connected with the internal administration of India, as a thing apart from parliamentary politics, was recognised by both the great parties in the state. By a tacit, but well understood, compact, India was excluded from the arena of party politics in the House of Commons. Now for the first time there is a prevalent belief that this understanding has been departed from. A measure seriously affecting the finances of India has been, and is being, pressed upon Parliament by a powerful section of the English mercantile community, and the general opinion is that that pressure has so far produced an effect, that at a juncture of the gravest financial difficulty and anxiety the Government of India has been impelled to incur a sacrifice of revenue which the most ordinary considerations of financial prudence should have led it to retain, with the certainty

that the present concession will only encourage further pressure until the whole of the particular branch of the state revenue which has been the subject of attack shall have been abandoned. And this has been done at a time when we are engaged in war; when we have recently emerged from a calamitous famine; when we have in consequence re-imposed direct taxation of a notoriously unpopular, and in its practical working, often of an oppressive description, which having been raised for a special purpose, (Famine Insurance Fund) we are forced to divert to other purposes."

CHAPTER VII.

THE "COTTON DUTIES CONTROVERSY" PART II.

(*a*) Period of Complete Free Trade 1882-1894.

(*b*) Reimposition of the Import Duties with a Countervailing Cotton Excise Duty 1894-1896.

The cotton duties and even other import duties, as we have seen, were not protective duties properly so called. They yielded a substantial revenue. As a tax they fell lightly and widely upon all classes of population. Neither did they depress trade nor did their abolition affect the rapidity of the growth of the foreign trade of India. They supplied to the Government one of the most unobjectionable and suitable sources of revenue. Yet they were abandoned in the face of a strong and unanimous opposition from all communities in India and protests by several members of the Government. They were rashly taken off. The people of India in no way benefited from their repeal. The sacrifice deprived India of a source of revenue yielding about £ 1,500,000 annually, on the basis of the then existing volume of trade and the rates of the duties. Undoubtedly it was neither a wise nor a farsighted financial policy. In 1877-1879 there were severe financial difficulties. In 1882 in spite of a temporary surplus revenue, it was foreseen that owing to certain emergencies which the Government could dimly see on the financial horizon, the future financial prospects were sufficiently grave and gloomy. The repeal of the customs duties in 1882 was received by extreme free traders as a great triumph amidst loud trumpetings. There was a good deal of disinterested talk about the import duty pressing upon the people of India and the invocation of Free Trade. The finances of India were represented to

be strong enough to bear that sacrifice. But disillusion came soon enough. The so-called surpluses evaporated. The financial history of India clearly points out the danger of relying upon such surpluses, because they too often and too soon passed away only to be succeeded by fresh emergencies and fresh taxation. The increased military expenditure beyond the frontiers, the military expedition to Burmah and the falling exchange, together with "the reckless haste in the construction of Public Works"* disturbed the financial equilibrium of India. A deficit occurred in the Budget of 1884 and several other deficits followed in subsequent years. These recurring deficits compelled the Government to go in search for new sources of revenue.

In 1886 the Income Tax was reimposed to cover the deficit of the budget of 1885-86. On that occasion† certain non-official members in the Council pointed out the expediency of reviving the customs duties. But the idea of violating the sanctity of the customs duties and especially the cotton duties was to the Government simply a horror.

But the Government were hardly able to make both ends meet with the help of this new tax, when they were again face to face with another deficit in 1888, owing to the increasing military expenditure on the North West Frontier, the expenditure in connection with the occupation of Burmah, the continuous fall in the value of silver and the failure of the opium revenue.‡ The Government suspended the appropriation of revenue to the Famine Insurance Fund and to Railway Construction and also diminished the amount of revenue assigned to Provincial

* Prof. C. N. Vakil, "Our Fiscal Policy," p. 26.

† Legislative Council Proceedings, 11th January 1886. Rao Sahib V. N. Mandlik.

‡ F. S. 1888-89, p. 10.

Governments.* Loans were also raised. But still the deficiency could not be tided over without further taxation. They were driven, therefore, to seek new sources of revenue as remedial measures. The measures adopted were (1) an increase in salt duty, and (2) an import duty on Petroleum.

The following was the justification for this Petroleum duty: "I have only to say that we want money and that whatever may be the case regarding other imports petroleum is an article in respect of which most of the theoretical objections to an import duty disappear."† But the Government's argument against imposing a countervailing duty on oil produced in India was that it was a mere nascent industry, having no chance or strength of competing with imported oils from Russia or America.‡ The remarks of Sir John Strachey on this duty are very interesting in the light of his exposition and practice of the free trade theory in India. In defence of this duty he said: "The duty imposed was not sufficiently high to be protective as was proved by the continuous increase in the imports. It was also not open to the objection that it directly affected any British industry."§ The arguments used here are inconsistent with the views he expressed when he was a Finance Member of the Government of India. This argument invalidates his defence of the indefensible policy of his "great fiscal reform" which he inaugurated in 1878-79. We have clearly demonstrated, with reference to figures, in the last chapter that the duties were not "sufficiently high to be protective as was proved by the continuous increase in the imports." Then the only inference that one can draw

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* Ibid.

† F. S. 1888-89, p. 15.

‡ Ibid, p. 16.

§ "India," pp. 198-199.

from his reasoning above is that any duty however unobjectionable on fiscal grounds was not to be tolerated in India if it affected or was supposed to affect any British industry. All the theoretical objections against a duty disappear, as they did in the case of the Petroleum duty, if it did not affect any British industry. This is an exposition of the interests of British trade and industry and not of real free trade principles. It strengthens our suspicion as to whether this curious and rigorous enforcement of free trade principles on India was really the result of a genuine belief in the advantages the application of such principles would bring to India. It is becoming increasingly clear that in this convenient and strictly rigid application of theory ito India, totally independent of other far more important practical considerations, there was only one motive, that of encouraging the interests of British trade and British industries.

To return to the Petroleum duty. In the council the criticism was directed against the selection of this duty, which touched even the poorest classes of population, in preference to other import duties, specially the cotton duties.* But again the question of reimposing the import duties which were rashly taken off was turned down by the Government as a closed chapter and as outside the range of practical politics and a specific import duty on Petroleum was imposed by Act II of 1888 which when reckoned came to about 8 % *ad valorem*.

This constantly increasing financial embarrassment from war, silver and opium necessitated new taxes, after all other sources of increasing revenue had been exhausted. The Government imposed new taxes " not without great reluctance " and yet they maintained, with admirable though ill-advised obstinacy, their neutrality in regard to

(1) Vide Proceedings, F. S. 1888-89, pp. 17- 33.

customs duties during twelve odd years of hard financial stress and anxieties.

The income tax was reimposed. The salt duty had been considerably increased. A petroleum duty was introduced. Construction of productive works stopped. The Famine Grant was absorbed. The revenue assigned to Provincial Governments was curtailed. Yet the Government could not make two ends meet. In 1894 the Government was again faced with a big deficit of Rs. 3½ crores, due to the fall in the value of the Rupee, which increased the burden of their sterling payments. Having exhausted all other available sources of increasing revenue, they were compelled to impose further taxation to fill the yawning gulf in the budget.

The Herschell Committee on Indian Currency, who inquired among other things into the possibilities of further taxation in India, recommended : - "Of all the suggested methods of adding to the revenue, the reimposition of import duties would, according to the evidence before us, excite the least opposition ; indeed, it is said that it would even be popular. The duties on cotton goods have, however, only recently been abolished. They were the subject of vehement attack in this country (England). Any attempt to reimpose them would meet with great opposition. And it cannot be denied that the reimposition of such duties would provoke a demand for a countervailing excise upon all cotton goods manufactured in India. Although such an excise duty might be collected without serious difficulty in respect of goods manufactured in the cotton mills of Bombay and elsewhere, it is alleged that it would be wholly impracticable to enforce it generally in view of the extent to which the manufacture of cotton goods on a small scale prevails throughout India*

* P. P. 143 H. L. 1894, Part I, p. 11, para. 39.

The Government of India welcomed this opinion on the revival of the import duties, which opened to them not only an additional revenue but an additional source of revenue in their prolonged struggle with the falling rupee. In order to meet the deficit in part, they proposed to levy a general import duty of 5 % except on cotton goods, because Her Majesty's Government were "not prepared at present to sanction the inclusion of Cotton Yarns or Cotton Fabrics among the articles declared liable to duty."* The old petroleum duty which was reckoned at about 8 % *ad valorem* was doubled. The total estimated revenue from all import duties except cotton duties amounted to nearly Rs. 1½ crores.

The Bill to this effect was introduced into the Legislative Council on 1st March 1894. The Finance Member, Sir James Westland, justified this small import duty on the basis of the past policy of the Government of India, followed by his predecessors except Sir John Strachey and Major Baring. Then he said: "We want the money which those statesmen (Strachey and Baring) did not and we cannot help taking a different view from that in which the duties presented themselves to Finance Members who were longing for a time when the ports of India might be thrown open to Free Trade."†

The Bill was vigorously opposed in the Council‡ on the ground of the exclusion of the cotton duties, which

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* Ibid, p. 11.

There seems to have passed between the Government of India and the Secretary of State a very important correspondence on this measure before it was finally adopted by the former. The Government of India opposed the exclusion of the cotton duties from the schedule. The Secretary of State ruled out this opposition and the Government of India owing to their constitutional subordination to the Secretary of State had to submit to his ruling. The correspondence being considered very secret was not published and is still withheld from the public on the same ground.

† Ibid, p. 16.

‡ Ibid, pp. 26-55.

was considered absolutely unjust and scandalous, economically indefensible, politically unwise, and financially ruinous and lamentable. The reimposition of the import duties with the sole exception of the cotton duties which played the most important part resembles a performance of the play of "Hamlet" from which the part of Hamlet himself is altogether omitted.* In the Council the cotton duties for revenue purposes were defended exactly on the same grounds on which we did in the last chapter. The Bill on the whole was described as "inequitable in action as well as inadequate in result."

It is interesting to note that this exemption of the cotton goods was not only opposed by all non-official members—Indians and Europeans—but was sharply criticised even by almost all official members of the Executive. They expressed their strong protests against the inadequacy and unfairness of the Bill, which they contended was prepared only according to the instructions of the Home Government. Practically they washed their hands off any moral responsibility of their own for the measure. They sympathised with the opposition and considered that in the interests of India it was desirable that the cotton duties ought to have been imposed. Even the Viceroy, Lord Elgin, observed, as far as his position could allow, that the grounds of the opposition were perfectly legitimate. But the official members voted for the Bill for the following reasons. British opinion was strongly against the cotton duties. It was a factor in the decisions on Indian Tariffs. But it was an adverse factor and at the same time a powerful factor. So it would not be prudent on their part to insist upon a measure which was not sanctioned by Her

* It must be remembered that from 1878 to 1882 Strachey and Baring argued for the abolition of all customs duties in India that when the cotton duties which yielded the largest part of the customs revenue were remitted, it was both objectionable and impossible to continue large customs establishments for the purpose of levying the small remnant of revenue from the surviving customs duties.

Majesty's Government and which,if passed by the Council, the Secretary of State had the right to disallow. It would also be unconstitutional for them to vote against the orders of Her Majesty's Government, who have wider interests to look to than those of India alone. Moreover, it was equally inconceivable that the Secretary of State for India would sanction any measure however desirable which he could not defend successfully in Parliament.

The following remarks from the concluding speech of Sir James Westland,* the Finance Member, throw a goods deal of light on the subject under discussion :—

" I have listened with instruction to the arguments in favour of cotton duties put forward by the mover of the amendment. If the matter were left to my discretion, I daresay I would incline in the direction of the Honourable Member's amendment.†.....

" Every consideration would induce me, personally, to support the proposal to fill my treasuries with the duties levied on cotton. But I admit there are arguments on the other side. Like any other question of Imperial policy, the matter is one for the decision of Her Majesty's Government.....

" I am anxious to clear up one misapprehension as to my meaning on 1st. March. I was desirous to explain exactly what the fiscal question in my opinion was, and I referred to the difficulties of imposing a countervailing excise duty in India. It seems to have been thought that I wished to urge that his difficulty was a reason, either to my mind or in the opinion of the Secretary of State, for refusing to impose these duties. I do not know how far these considerations may weigh with the authorities at home. But, speaking for myself, I do not admit the

* P. P. 143 H. L. 1894, part I, pp. 47-51.
† Ibid, p. 49.

validity of the objection made to the duties on the ground of their protecting an Indian industry against a foreign one. I shall not enter upon the question whether that course of procedure, if it were adopted, would be so wicked a course after all. I need only say that India as a manufacturing country is not yet out of her tutelage, and if any industry in the world deserves protection, it is the cotton industry of India, the only real indigenous industry which has sprung up in this country—an industry, moreover, on which our present currency difficulties have compelled us, in the interests, as we believe, of the country generally, to inflict a certain amount of injury. But, however we may admire free trade as a goal to be aimed at, we must not, when we are driven to the imposition of import duties, be too ready to raise the cry of protection. As Sir John Strachey said in 1878, India, by the extent and favourable conditions of its territory, is capable of producing almost every article required for the use of man. He argued thence that any import tariff in India must be actually and potentially protective, and that, as countervailing excise duties were generally costly, vexatious, and inconvenient, and in India in most cases impracticable, it was a hopeless task to construct a tariff for India which would be theoretically free from the protective objection. If, therefore, we require the money (as is the case at present), and are compelled to have recourse to import duties in order to raise it, we must not set up for ourselves an impossible standard, and regard the possibility of protective action as an argument against the validity of the tariff.*

"I do not admit that the Manchester trade is so reduced in the world that it can no longer fight a fair fight. In respect of most of the Manchester products India cannot compete; the finer goods which Manchester

* Ibid, p. 50.

mainly sends out to this country are beyond the power—at present at least—of Indian manufacture. India in fact cannot produce the cotton requisite for their manufacture ; the climate, too, as I understand, is in some cases unsuited to the processes involved. The provinces of Indian manufacture and of Manchester manufacture to a certain extent overlap, but the area which Manchester occupies, and must continue to occupy, without competition, is very wide and comprehensive. I would appeal to the Manchester manufacturers themselves to be content with the unrivalled position which their manufactures occupy, and must continue to occupy, in this country, and not to think that their maintenance depends upon their enjoying exemptions and privileges in India which they would never dream of asking for in any other British dependency.

" When, therefore, I stated my opinion that an excise duty involved in India very considerable difficulties, I stated it merely by way of clearing the issues that arise in the case. If the question of the cotton duties comes up again, as I presume it will if our finances do not improve, it is quite possible, in my opinion, to discuss its admissibility apart from any question of countervailing excise ; for I do not hold that a tax of the kind is such a necessary support to a moderate import duty that the inadvisability, or even impracticability, of an excise duty is proof of the impossibility of a customs duty.

" And now, my Lord, with reference to my own vote upon the question, I have to bear in mind that the Government of India itself is a creation of an Act of Parliament, invested with definite powers, and subjected to certain restrictions. We have done our duty in laying the question before Her Majesty's Secretary of State, who, I believe, is fully informed on the subject, and we have taken his decision. That decision he has the constitutional power

to communicate to us, and to enforce upon us, even if we do not admit the validity of the arguments which have commended it to him. My duty is to support the decision thus constitutionally arrived, especially seeing that it has reference only to the question of present finance, and I shall vote against the amendment before the council."*

The decision to exempt the cotton goods from the import duty was arrived at by the Secretary of State,† not only in opposition to the views of the Governor-General-in-Council but also to the unanimous vote of his own Council. ‡ Six of the members of the Secretary of State's Council recorded their strong minutes of dissent from this decision,§ which in their opinion was open to serious objections both on financial and political grounds. Sir Alexander J. Arbuthnot, after describing the grave financial crisis of India, remarked that the decision "practically announces to the people of India that, however great may be their needs, no measures for their relief will be sanctioned which may be likely to offend any powerful English interest. In 1894 as in 1879, the interests of India are to be sacrificed to what the people of India regard as Parliamentary considerations."‖ Sir Charles Lyall having defended the cotton duties both on financial and economic grounds said: "The only ground for this special reservation in favour of cotton is that very powerful manfacturing interests in England are opposed to laying on even a 5% duty."¶

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* Ibid, p. 51.

† A Liberal Government was in power and the S. of S. for India was the Earl of Kimberley in the beginning. He was soon succeeded by Sir Henry Fowler.

‡ Ibid. p. 56.

§ Ibid. pp. 56 and 58.

‖ Ibid, p. 56.

¶ Ibid, p. 57.

As soon as the Bill was published, deep and universal feelings of regret, surprise and even unqualified indignation were loudly expressed throughout India at the exclusion of the cotton duties from the tariff schedule. Various public bodies* representing both Indian and European communities were unanimous in protesting against this exclusion. The impression was gaining ground that India was being sacrificed to English interests to meet the exigencies of party politics in England.†

In spite of this universal condemnation, the Bill became law‡ in the form in which it was first introduced.

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* P. P. 202 H. C. 1895 contains copies of their representations to the Government.

† (*a*) The English cotton manufacturers were of course vigilant all the while. Just before this measure an influential Lancashire Deputation waited upon the Earl of Kimberley and urged upon him the inexpediency of allowing the Government of India to tax the imported cotton goods. In this connection the following remarks of the Hon. Sir Griffith Evans may be read with interest. "My Lord, on reading the account of the Lancashire Deputation, one feels that the position of the Secretary of State was not a pleasant one. After a few stock phrases about disinterested concern for the poor Indian, they showed their teeth, and gave him to understand very plainly that they would do their best to turn out any Ministry that opposed what they considered the interest of the trade and pointed out that Lancashire was strong enough to win any fight she went into in earnest. His answer in effect was that he had decided to yield for the present." P. P. 143, H. L. 1894, part II, discussion on the F. S. of 1894 95. pp. 100-101.

(*b*) House of Lords. 20th July 1894—Hansard pp. 520-521.

While justifying his action of overruling his Council and the Government of India for excluding the cotton duties in Feb. 1894, Lord Kimberley, the ex-Secretary of State for India, said: "There was another point which weighed very much with me. I may have over-estimated, but I do not think I did, the opposition which would be met with in this country. The noble Marquis (of Lansdowne) alluded to the deputation which waited upon me. He said that the deputation received my announcement (of omitting the cotton duties) with loud cheering. It was a deputation of the most influential kind that Lancashire could send up, and they did receive it with loud cheering. But there was something more. They told me in explicit terms—and I have always believed that the words of Lancashire men meant deeds—that without distinction of party there was not a man among them, or, they believed in Lancashire, who was interested in these manufactures who would not use every possible means at his disposal to agitate against and destroy any such measure on the part of the Government."

‡ Act VIII of 1894.

It reimposed practically the tariff schedule of 1875 with the most important exception of the cotton duties. The measure was calculated to yield about 1½ crores of Rs. There still remained the deficit of 2 crores. If the cotton duties were reimposed, about 1½ crores would have been realised from them on the basis of existing trade and the deficit would have been reduced to only ½ crore of Rs.* Instead of this, the Government of India were compelled to resort to some objectionable devices.† They suspended the "Famine Grant" and called for contributions from the Provincial Governments, who had either to cut down or suspend the spending of revenue pledged to local improvements and other administrative and civil works. Even then the Government could not bridge the gulf in the Budget. The Finance Member further made a serious confession that "our financial position in the immediate future depends upon circumstances absolutely outside our control."‡ Even with these unprecedented financial troubles and anxieties, the Government of India could not reimpose the cotton duties, because such an attempt would meet with great and powerful opposition in England and because they were constitutionally powerless against the decision of the Secretary of State. But at the end of the Council discussion on the Tariff Bill the Viceroy made the following announcement:—

"I think I can assure you that the views entertained in this country to which public expression has been given both before and since the introduction of this Bill have been communicated to the Secretary of State, and fully considered by Her Majesty's Government; and I am able further to state that if after an interval sufficient to judge of the position as affected by the Tariff Act, the course of Exchange, and other circumstances, there is no

* P. P. 143. H. L. 1894, Part I, p. 19.

† F. S. 1894-95, p. 10.

‡ P. P. 143, H. L. 1894. Part I, p. 48.

improvement Her Majesty's Government will be prepared to receive further representation on the subject."* This intimation of the possibility of reconsideration hinted that the measure was not final.

The financial difficulties of the Government of India were not yet over. The further fall in the gold value of silver upset the estimate of the last Budget. A deficit of about 1½ crores of Rs. was again expected. In view of this fact, on 31st. May 1894, the Secretary of State communicated to the Government of India the following instructions :—

" If however your Government should be forced again to consider the question of imposing duties on cotton manufactures, it will be requisite to ascertain what classes of imported goods come into competition with Indian manufactures of the same kind. Among imported cotton goods, there will probably be some classes of goods which directly compete with goods produced in India, some which partly compete, and some which practically do not compete at all. It would be for your Government, after full inquiry, to decide how far you could distinguish between these three classes of imported cotton goods, and then to consider by what measures you could deprive any duties, that might be imposed, of a protective character. This object could be attained either by exempting from duty those classes of goods which clearly and directly compete with Indian manufactures, or by levying on the latter an excise duty equivalent to the import duty on corresponding goods from abroad."† With this strict condition, he sanctioned the reimposition of the cotton duties.

Accordingly the Finance Member (Sir James Westland) personally made a careful and detailed inquiry into

* Ibid, pp. 54-55.

† P. P. C. 7602, 1895. p. 6.

the circumstances of the Indian cotton industry and the extent of its competition with the British cotton goods and came to the following conclusions :—

" (1) Of the manufactures of India 94 per cent is absolutely outside the range of any competition with Manchester, being the coarser quality of goods (24s and under) which Manchester cannot pretend to supply so cheaply as India.

" (2) Manchester has an absolute monopoly of the finer qualities of goods, but the bulk of its trade consists in piece-goods of about 30s, and in yarns somewhat finer.

" (3) Of goods of the counts of 26 and over, India can produce them under difficulties and in small quantities, and to the extent to which it preduces them it is in direct, but obviously somewhat unequal competition with Manchester."*

The difficulties of the Indian Mills to which he referred lay in getting fine cotton, efficient and skilled labour, coal and machinery, in all of which the English industry was favourably situated. Besides, the English industry had a long start with a great advantage of suitable climate over India.†

As a result of this investigation, he recommended that the import duties should be imposed at a rate of (a) 5 % *ad valorem* on all cotton piece-goods ; (b) 3½ % *ad valorem* on all cotton yarns of counts above 24 ; (c) and that an excise duty of 3½ % *ad valorem* should be levied on all machine made cotton yarns of counts above 24 produced in India.‡

* Ibid, p. 11.

† Ibid, pp. 8-9-10

‡ Ibid, p. 14.

On 7th August 1894,* the Government of India communicated these conclusions and recommendations to the Secretary of State and requested that the plan suggested by the Finance Minister which fulfilled the conditions prescribed by Her Majesty's Government should be sanctioned as the basis of legislation if it should be found necessary for raisng additional revenue during the course of the year.

In the meantime the Secretary of State, Sir Henry Fowler, when questioned in the House of Commons† had reaffirmed his pledges that he would not sanction the imposition of the cotton import duties without ensuring beyond question that they had not even a shadow of protective character. Notwithstanding the convincing evidence on the subject brought to light by Sir James Westland, the ghost of protection still haunted the mind of the Secretary of State. In a despatch on 13th. December 1894‡ he reviewed the scheme of the Government of India and expressed his doubt as to whether a 3½ % duty on yarns used in Indian fabrics might not to some extent protect Indian manufacturers against imported goods of the same description paying a 5 % duty. So he suggested that the excise and import duties on yarns must be 5%. Secondly, he was not satisfied as to whether the counts of 24 furnish without doubt the right line at which the duty on yarns should begin. He had no more information to doubt it; but in order to prevent any possibility of the duties being protective, he considered that the limit of exemption for yarns should be fixed at 20s. instead of 24s. He further observed that the Government of India should reserve in the Act a power to raise the limit by executive action, with the consent of Her Majesty's Government, if experience proved it to be

* Ibid. p 7.
† 16th Aug. 1894.
‡ P. P. C. 7602 of 1895, pp. 14-15.

unnecessarily low. He concluded with a remark to the effect that these two modifications would meet the conditions prescribed in various pledges of Her Majesty's Government to Parliament.

A Bill to give effect to this scheme as modified by the Secretary of State was soon after introduced into the Legislative Council. The Finance Member at the very outset cleared the position of the Government of India with regard to this Bill. "I would not be dealing straightforwardly with the Council if I pretended that this measure was recommended by the Government of India on its own merits. No Government would desire, except under the most extreme stress of financial necessity, to impose an duty upon an industry so deserving of any fostering care which the Government can bestow upon it, as the cotton manufacturing industry of India. The proposal I make is therefore not made on its own merits."*

He further said: "I cannot help thinking that the Government is placed in some difficulty in defending the provisions of a Bill which they have professedly brought forward as imposed upon them by conditions required by the Secretary of State and not by conditions which they themselves entirely, or independently, approve of. Our projected legislation was based upon our financial necessities, and our financial necessities are met by the imposition of duties upon imported yarns. So far as we were concerned, and so far as the object with which we impose these duties was concerned, we would have been satisfied with these duties on imported cottons. I freely admit that it is because the Secretary of State, or rather Her Majesty's Ministers, have laid upon us the condition accompanying that measure with a measure for excise duties, that we have brought forward this Bill; and as I stated

* Ibid, p. 19.

last Monday, I did not discuss it then on its merits, but simply stated that the decision was that of the Secretary of State; and I promised to lay, and did lay, upon the Council table the discussions of the subject which had passed between us and the Secretary of State. I am therefore of necessity obliged to state to the Council that this measure is recommended to us by superior orders which we are obliged to obey."*

The Finance Member also pointed out that this excise duty could not be justified as a tax by the amount of revenue it was likely to bring.†

The Bill excluded the yarns produced by the cottage industry from the operation of the excise duty, since such production did not practically compete with the products of mill industry. The excise duty was to be refunded, when the Indian cotton goods were exported. The products of cotton mills in certain parts outside British India were, when imported into British India, subject to the ordinary import duty levied at ports; but actually, by arrangements with Native States, they were to be excised in their territories on the same basis as in British India.‡

The Bill was criticised in the Council on two distinct lines: (1) the principle and the policy of the Bill and (2) certain important details. To take the first line of criticism. Sir Griffith Evans after going through the

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* Ibid, p. 30.

† Ibid, p. 21.

‡ By the Act XVI of 1894 certain administrative changes were introduced into the tariff schedule. Owing to various difficulties and doubts in distinguishing the dutiable from non-dutiable articles, the method of 1867 which enumerated the dutiable articles only in the schedule was abandoned. By the new method all free and dutiable goods were carefully defined and specified and all articles not mentioned either in one or the other class had to pay the general duty. Valuations were also revised. (Act XVI of 1894 reimposed the cotton duties. Act XVII provided for the imposition of the excise duty on certain Indian goods.)

results of the inquiry by Sir James Westland came to the conclusion that " no sufficient case has been made out for the imposition of the excise duty."* Mr. Playfair considered the excise duty to be pernicious, harassing, unproductive of revenue, and provocative of the feeling that " India is not to be allowed to develop any industrial enterprise if that enterprise is likely to compete with an English industry."† Sir Phirozshah Mehta remarked that the principle and the policy underlying the Bill " are that the infant industries of India shall be strangled in their birth if there is the remotest suspicion of their competing with English manufactures..... I protest against such a policy not only in its present immediate operation but as establishing a most pernicious precedent.‡.....The mill industry of India deserves a better treatment than this at the hands of Government."§ Mr. Stevens, an official member, said, " It certainly appears at first sight to be driving the doctrine of free trade rather hard to invite the legislature of a country to impose a somewhat troublesome and unproductive tax within that country, in order that its own manufactures may be free from any suspicion of advantage, however slight, over imported goods."‖

As regards the details of the Bill, Sir Fazulbhai Vishram moved an amendment to the effect that the exemption limit should be fixed at 24s. instead of 20s. It was an accepted fact that only 6 % of the total production of Indian mills competed with the imported goods. 94 % of the manufactures of India being the coarser quality of goods of 24s. or under was absolutely outside the range of any competition with Manchester. In fact,

* P. P. C. 7602 of 1895, p. 24.
† Ibid. p. 27.
‡ Ibid, p. 47.
§ Ibid, p. 48.
‖ Ibid, p. 48.

the proportion of yarns imported below 28s. was so small that the Government of India thought it proper to draw the line at 24s. But " in order to ensure that the duty shall not be protective " the Secretry of State ordered to fix the limit, pending a further expert inquiry, at 20s. instead of 24s. with the result that 20 per cent of Indian production that did not compete with Manchester at all was unnecessarily taxed by an excise duty.* It was generally criticised as a wrong procedure for the Secretary of State to follow. Instead of waiting till the facts were fully ascertained, he hastened to order a harassing tax on the Indian cotton industry which on the information before the Government of India did not appear to be necessary. Sir Griffith Evans rightly pointed out :— " It is as though the prosecution in a criminal trial asked the jury to convict on admittedly insufficient evidence on the ground that the Secretary of State desired it and had promised to hold a further inquiry, and if he found that the prisoner was innocent to pardon him."† Mr. Chitnavis made a very searching remark when he said : In case of any doubt, " I cannot see the justice of making the Indian mill industry suffer for that simple reason. I cannot see why the presumption should be rather in favour of Manchester than ours."‡ The right course would have been to fix the limit at 24s. and should a further enquiry prove it unfair, to bring it down to 20s. thereafter.

The Bill, as originally introduced, was passed by the official majority. All non-official members voted against it. Some of the official members expressed their personal views against it. In fact, the whole of the Government of India voted for it against their own inclination

* Ibid, p. 40

† Ibid, p. 42.

‡ Ibid, p. 46.

and considered judgment. They simply carried out the instructions of the Home Government, since it was the only way to obtain the reimposition of the cotton import duties, the revenue from which was urgently required to balance the budget.

In general, the whole point of contention was this. There was in fact no actual competition between Manchester and India except to the very limited extent of 6% of Indian production. The only danger to Manchester arose from her anticipation that a further development in skill and enterprise and the 5 % import duty might enable the Indian cotton manufacturers to invade and oust her from her natural sphere of manufacture, *viz.*, finer goods. So as an insurance against such a tendency, the Secretary of State imposed upon the Government of India " the condition of non-protection," which subjected to a countervailing excise duty the classes of goods which the Indian manufacturer primarily did not produce but might be tempted to produce. But in this precautionary measure, he went further and taxed nearly 20% of Indian production which did not compete with imported goods at all.

On the other side, the Government of India and the Mill-owners' Association* of Bombay contested this position and maintained that not only was there no actual competition between India and Manchester but that the chances for the Indian manufacturer to produce finer goods were, owing to certain serious natural difficulties, for which 5 % import duty was no equivalent, very remote and uncertain. The anticipations of Manchester and the Secretary of State about the Indian cotton industry were simply exaggerated. It was argued that the 5 % duty would not operate as a protective duty, because there was no reason to believe, and actual experience was against

* Refer to the Memorial of the Mill-owners Association addressed to the Viceroy on 10th Sept. 1894.

any such belief, that a moderate import duty without a countervailing excise duty would enable the Indian manufacturer to make finer goods in which Lancashire was able to defy competition. Then the imposition of the excise duty to cover that infinitesimal portion of the entire production that offered any competition was, of course, an unjustifiable burden, interference and irritation to the Indian manufacturer. Besides, it would tend to induce the Indian mills to confine themselves to counts below the fixed limit of taxation and thus check the growing industry.

However, the measure* was passed in obedience to the orders from the Home Government, before whom the unanimous protest of the officials, the non-officials and the public of India was unavailing. The financial necessity for the imposition of the cotton duties was imperative. The levy of these duties depended upon the condition of a countervailing excise duty. In consideration of the facts that were revealed and stood uncontradicted and the admitted circumstances of production of cotton goods in India and in Lancashire, there was no sufficient case for an excise duty, the evils of which were as obvious as they were serious. The object of the excise duty was not avowedly to raise more revenue but to place a countervailing duty on Indian production as against English. The actual protective element in the import duties was indisputably trifling. "The excise duty was rather in the nature of a sacrifice to principle than a measure demanded for the purpose of removing a practical evil."† In its practical effect, the gain to the old and firmly established Lancashire industry was insignificant, while it was a troublesome interference to the rising cotton industry of India. The following remarks of Mr. Playfair in the Council discussion

* Act XVII of 1894.

† Hamilton: "Trade Relations between England and India," p. 251.

were quite appropriate: " It (the excise duty on yarns of 20s and above) will be prejudicial to the industry in so far as it will prevent the development of trade in the higher classes of fabrics.....Taxation of the better class yarns ranging between 20s and 24s means, first, interference with an industry which the Government has every interest to encourage in order to reduce pauperism, second, an enchancement of the cost of a necessity to the poor throughout India.....Each of these objections is weighty in itself but taken together they form a menace to an industry that at all events is deserving of consideration, if it is not entitled, as the Hon. Mr. Westland has admitted, to the fostering care of the Government of India. It is one of those industries to which the members of the Finance (Famine?) Commission referred as helping towards a solution of the difficulties that must arise with the recurrence of times of famine if the people of this country continue to be wholly or even principally dependent upon agricultural pursuits."*

This concession and surrender did not silence the clamour of the Lancashire manufacturers. The Secretary of State could not please them, since they denounced the import duty wholly and declared that the countervailing excise duty was inadequate and useless. The concession instead of satisfying them encouraged their unqualified demands. They again raised a cry in the House of Commons. A debate† took place on the Indian cotton duties on 21st February 1895. Their main objections, supported by the stock arguments expressed in stock phrases, were that the duties violated the sacred principles of free trade and imposed a heavy burden on the Lancashire trade and that the excise duty was

* P. P C. 7602. 1895, p. 45.

† Hansard, 21st Feb. 1895, pp. 1286 to 1360.

inadequate for the purpose of preventing protection. They threatened a strong agitation, if their demands were not complied with, for they were "fearful of a time perhaps not far remote when the streets of busy Lancashire towns may be deserted, when mills may be closed and looms silent, and when they will search in vain for means to earn their daily bread," because of the Indian import duty of 5 % which was also countervailed by an excise duty. The Secretary of State, Sir Henry Fowler, even though he disproved the above contentions and dispelled their fears which were either imaginary or much exaggerated, held out the following pledge :— "If they (the Lancashire Manufacturers) can show that this limit (20 counts) works with injustice to them and is in any way protective I am equally pledged to remedy it. If you will prove that there is any injustice done to you, I will do my best to remedy that injustice. Her Majesty's Government will in concert with that of India consider the matter with a view to carrying out loyally their declared intention to avoid protection injustice."

In response to this invitation, the Secretary of State was again inundated with frequent memorials from Manchester and Lancashire.* Two influential deputations, one on 25th February 1895 and the other on 27th May 1895, waited upon him. Their complaints (†) may be briefly stated as follows :—(1) Certain Scotch manufacturers and dyers exported to Burmah a large quantity of cotton yarns of low counts which had to pay an import duty of 5 % ; while the similar competing yarns from Bombay and Calcutta paid no excise duty if of number 20 and under, and entered Burmah free of duty.(2) The system of imposing an excise duty on the grey yarn value gave a clear and in some cases a large fiscal advantage

* C. 8078 of 1896, pp. 7 and 8.

† Ibid, pp. 5 and 6.

to Indian bleached, woven, and printed goods over imported goods of similar descriptions, which had to pay a duty of 5 % on the value of the finished products which was greater. (3) The Indian woven goods made from yarns just below the excise line could and would compete with and be substituted for the imported woven goods of finer qualities liable to a 5% duty. (4) The experience of the measure of 1879 indicated that any attempt to draw an artificial dividing line at any count for the purpose of charging a duty must break down or must result in fiscal inequalities and anomalies and administrative difficulties.

Reminding the Secretary of State of his pledges in the House of Commons,they pressed upon him the removal of these disadvantages to British goods in the Indian Tariff. The Secretary of State asked them to drop all their threats about general election, influence in Parliament, agitation and public feeling and to produce the statement of actual facts and figures bearing on the question, if they wanted to advance their case.* The statement was accordingly submitted.

In the meantime the Liberal Government fell in June 1895. The Conservatives were returned to power with Lord George Hamilton as the Secretary of State for India. Of course, as usual, pledges and semi-pledges were made to the Lancashire voters during the election campaign.

On September 5th. 1895 the new Secretary of State communicated these representations† to the Government of India and asked them to remove the complaints and so re-arrange the duties as not to " infringe the pledges that had been given or afford ground for continued complaint and attack."

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* Ibid, p. 27.

† Ibid, p. 5 to 7.

As the end of the year approached, Manchester and Lancashire grew impatient. They expressed their "strong feeling of disappointment and dissatisfaction with the extraordinary delay" in replying to their previous memorials. On 11th. December 1895 a large and influential deputation consisting of M. P's., Employers, Operatives, Mayors and representatives of all professions interested in the cotton trade waited upon Lord Hamilton* He reaffirmed his determination to establish "perfect equality of treatment" and reassured them that "Whatever conclusions we may arrive at may, in some way, contribute towards the establishment of the prosperity of your industry."

In the beginning of 1896 a telegraphic correspondence between the Secretary of State and the Viceroy* settled the basis of the new tariff legislation which would be necessary to meet the complaints. The chief features of the proposed legislation were :—(1) that only woven goods both imported and manufactured in India were to be taxed at the uniform rate of 3½% instead of 5% and (2) that all yarns imported or manufactured in India were to be free. Manchester and Lancashire approved of this solution, "so long as the duties were financially necessary," but emphasised that nothing short of their entire abolition would be the perfect solution.

Two Bills to give effect to the above changes were introduced into the Legislative Council on 23rd. January 1896. Sir James Westland, the Finance Member, in his "statement of objects and reasons"‡ made it clear that upon examination the greater part of the "Manchester Case" was as exaggerated as it was beside the point. But he persuaded himself to feel that there were two matters

* Ibid, pp. 19-23.
† Ibid, pp. 24-25.
‡ Ibid, pp. 25-32.

in which* "the treatment of Indian and of Manchester goods is not quite on the same level." (1) First was the effect of the exemption line at 20s. Admittedly, the amount of imported cotton goods below that line was absolutely insignificant; but it could not be said to be non-existent. Manchester claimed that the exemption of the coarse goods created a difference in price between the coarser and the finer which tended to divert the course of consumption from the finer to the coarser, that there was not a marked difference between the goods above the line and the goods below the line which would prevent the latter from displacing the former and that the Lancashire Manufacturers could spin and weave counts of 20 just as easily as higher counts if they would and if they were not prevented by the Indian cotton duties. Although the Finance Member challenged this last claim of "probability" on the grounds of practical considerations, he admitted that "Manchester may justly object to being prevented from trying the experiment" by a duty from which the Indian manufacturer had been exempted. In short, he said that there was no actual protection and that the objections of Manchester were directed against the element of indirect protection, which so far as it operated was considered to violate the principles and pledges of Her Majesty's Government. (2) Second was the allegation that the excise duty levied upon Indian yarns which were afterwards woven into cloths was *pro tanto* a lighter tax than the import duty levied upon the imported finished goods. Here again the Finance Member conceded that there was at least a difference in the rates of the duties, even though he proved that the actual amount of this difference was, owing to duties on imported mill stores and other materials, very much less than what it appeared and what Manchester asserted it to be.

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* Ibid, pp. 27-28.

But his justification of these concessions to the somewhat doubtful claims of Manchester is still more interesting. He said :—" If Lancashire trade were in a flourishing condition, I cannot help thinking that **these differences would have been considered to be more theoretical than practical**.....But we cannot conceal from ourselves the fact that Lancashire trade has recently been in a depressed condition although we certainly contend that the circumstances out of which this depression arises have nothing to do with Indian cotton duties. (this was even approved by the Secretary of State.) Strenuous competition all the world over is taking away from Lancashire what used to be almost its monopoly of the piece-goods markets."*

All these considerations led the Government of India to assimilate the methods of taxing the imported and the Indian cotton goods by a uniform system which would operate in precisely the same way and to precisely the same degree on both sides.† The results aimed at were:— (1) perfect equality of treatment, (2) closing of this long controversy on the best terms obtainable for India, and (3) the removal of any real or supposed unequal treatment to the Lancashire industry in the Indian Tariff.

The Bills‡ were passed by the official majority in the teeth of the non-official opposition in the Council and of universal protest and indignation throughout India. A direct countervailing excise duty was imposed upon the cotton piece-goods woven by the Indian mills at the same rate as the import duty on the imported cotton piece-goods. All yarns either imported or manufactured in India were free. The rate of the cotton import duty was reduced

* Ibid, p. 28.

† Ibid, p. 29.

‡ Acts II and III of 1896.

from 5% to 3½%. The estimated loss of revenue on the whole was ½ crore of Rs., which, the Finance Member believed, was permitted by the improvement in the financial situation of India.*

The Mill-owners Association,† various European Chambers of Commerce, some Provincial Governments and other public bodies recommended an alternative plan that yarns of 20s and under and piece-goods made from such yarns should be exempted from the import duty and that the excise duty on the Indian manufactures should be levied on the value of the finished goods made from yarns above 20s instead of on the value of yarns only. This exemption was considered to be more than what Lancashire could fairly claim, looking to the fact that the Indian mills were still burdened with the import duty on mill stores, etc. The Government also admitted this. The other merit of the scheme was that it would not involve any loss of revenue, because the exempted goods were not imported at all and were not even likely to be imported. This was also acknowledged by the Government.‡ But they rejected it, because of the difficulties of working it, as revealed by the experience of the measure of 1879. The supporters of the scheme did not hold this objection to be insuperable and said that it was wrong to abandon the scheme without a trial.

The Viceroy in this concluding speech§ pointed out the value of the alternative proposal and supplied the real reason why it was rejected. He said : "**I regret it was**

* C. 8078 of 1896, p. 31.

† For technical details and minute discussion on the subject, one should refer to the very able and thorough papers and memorials drawn up by various commercial bodies in India and specially by the Mill-owners Association in response to the Government enquiries. C. 8078, 1896, pp. 98 to 203.

‡ Ibid, p. 30.

§ Ibid, p. 72.

not in our power to act upon the suggestion which those interested in the cotton goods in Bombay and Calcutta made to us, and I join with my Honourable colleague in recognising the ability, liaberality, and fairness of mind which are apparent in the papers in which they embodied their views. There were no doubt advantages to be gained by that proposal."

The opposition* to the Bills brought out the following points. No information was produced by Manchester to prove that the cotton goods manufactured in India entered into direct commercial competition with the goods imported from the United Kingdom. In reality, no actual competition existed in goods made from yarns below 24 counts. If the Lancashire manufacturers claimed that they could, which in fact they did not, spin and weave 20s as easily as higher counts, or as cheaply as India, the imported goods of 20s and below ought to have been exempted from the duty. This would undoubtedly have removed even a shared of protection against them. Moreover, if Lancashire could pretend to produce coarse cotton goods as cheaply as India,the abolition of the Indian cotton import duties (from 1879 to 1894), which were supposed to obstruct her trade in that field, provided her with an opportunity for a successful competition with the Indian industry in India. But, in fact, the field of the Indian cotton industry remained uninvaded. One of the effects of the new legislation was a remission of taxation of 51½ lakhs of Rs. (or 37%) on Manchester goods and an increase of 11 lakhs of Rs. (or 300%) of taxation on Indian goods which were mainly used by the poorer classes of India. The action meant a transfer of taxation from the rich to the poorer classes of the community. If a remission of taxation was admissible,the reduction of the iniquitous income tax and the oppressive salt tax had the prior and

* *Vide* Council proceedings, Ibid, pp. 37 to 60.

decidedly better claim than the reduction of the cotton duty from 5% to 3½. With the spectre of famine and the uncertainty of Exchange, it was inadvisable to part with the revenue of ½ crore of Rs. which was raised without any injury to trade and from the well-to-do classes of the population. Besides, revenue was badly wanted for the development of the country. The excise duty imposed upon the Indian piece-goods which did not actually compete with the imported goods was injurious both to the important Indian industry and the poor consumers of India, while the revenue expected from it was negligible and the relief to any foreign manufacture was nil. Mr. Stevens, one of the official members, said: "I fear that it must be owned that the measure has not received the support of the public as a whole. For this there are two main reasons: First, the suspicion existing in some quarters that it has been called for by the exigencies of party politics in England rather than by the wants of India; secondly, that the trade will be disturbed to the disadvantage of important industries and of poor consumers in this country (India), while the relief of taxation is not to be given in the best way."*

When the matter came before the Council of the Secretary of State for discussion, two of its members, namely, Sir James Peile and Sir Alexander Arbuthnot, strongly objected to the measure passed by the Government of India and recorded their emphatic minutes of dissent.†

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* Ibid, p. 57.

† P. P. 229 H. C. 1896.

The minute of Sir J. Peile, in which Sir A. Arbuthnot entirely concurred, is precise in stating the objections. The following extracts are very interesting:

"I have never been able to admit that the circumstances justify what is the substance of this measure, namely, the subjection of the whole Indian mill cloth to excise. The excise is no longer "countervailing," for the Indian mill cloth co-exists but does not compete with the Lancashire fine goods.....

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Stripped of all unrealities and exaggerations, the actual case of Manchester rested solely upon the Theory of Substitution and possible competition thereunder. When all attempts failed to prove any direct and practical competition between India and Lancashire, it was argued, for the first time during the whole controversy, that the exemption of the Indian coarse cotton goods from a countervailing excise duty would enable them to be substituted for the imported finer goods of Lancashire paying a duty of 5 %. Theoretically such a result may be possible. In practice the following considerations can be urged against it. (1) It would be a strain on imagination to think that a 5 % duty would be so strong as to work such a revolution. The influence of a light tax is not analogous to the effects of heavy duties on high-priced articles of luxury where the law of substitution generally operates. (2) The experience of the past

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"The Lancashire fine goods manufacturer casts an unfriendly eye on the Indian coarse goods manufacture, and it says, That industry is obnoxious to us in one or two ways; if we are taxed, that industry should not go free, and accordingly it does not go free. That is to say the whole of the Indian mill cloth, which co-exists but does not compete with the Lancashire fine cloth, is subjected to excise.....

"Sir James Westland has discovered two points in which he thinks that Lancashire has some colour for complaining of unequal treatment. The first point has to do with the Indian manufacture of coarse cloth, and one thing he says is this: 'I believe with the Indian mill-owners that Lancashire cannot (except in the case of a few exceptional goods such as drills) lay down in India woven goods of the coarser kinds at prices that can at all compete with those of Indian produced goods. But I admit that Manchester may justly object to being prevented from trying the experiment by our insisting in interposing in the way of it a duty to which we do not subject the goods of Indian manufacture.' That is to say, we are to put a tax at once on a most important Indian manufacture, one of the chief of those on which we rely as an alternative to agriculture, in order that the way may be cleared for an outsider to come in and compete with it if at any time he should think of doing so. What would America say to such a method of encouraging a home industry? Would it not have been more natural to say to Lancashire. 'If you ever want to import coarse goods, and we do not believe you can import them at a profit, we will let them come in free.' And this was the course actually proposed by Indian Chambers, and rejected.

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indicated that neither the cotton import duty without an equivalent excise duty curtailed the consumption of Lancashire goods in India, nor that its abolition resulted in a more rapid development in it than usual. The absence or the presence of the duty did not actually produce results which would otherwise be theoretically possible. This alleged grievance of Lancashire was, therefore, unduly exaggerated. On the other hand, there was no serious economic objection against the Indian cotton import duty of 5%, except that it taxed the people. But as a tax it was collected easily and cheaply, fell lightly and could not be spared. Therefore, this argument of Manchester also derived its support from the apprehension

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"Another thing which Sir James Westland says is, that 'the exemption of the coarser goods creates a difference in price between the coarser and the finer which tends to divert the course of consumption from the finer to the coarser'. Now, in another speech, Sir James Westland, devotes great pains to proving that the difference in price caused by a $3\frac{1}{2}\%$ duty is infinitesimal. He says it comes to from a halfpenny to a fraction of a farthing per head per annum on consumers of different degrees.....

"The whole measure has been described and justified in broad and vague terms as making things equal all round and putting the same duty on both sides. The formula is, tax all cloth and free all yarn. This looks plausible, but there is a fallacy in it. For what does taxing all cloth mean? The Act puts an excise on all the coarse cloth manufacture of the Indian mills. On what similar manufacture does it put a duty on the other, the Lancashire, side. On none whatever. For there is none. There is no important trade of coarse goods from Lancashire, so that "tax all cloth" means "tax Indian cloth." And "free all yarn"? But Indian yarn has always been free. It is Lancashire yarn which is freed. So that the formula really means: 'Tax Indian cloth and free Lancashire yarn.".....

"It is an awkward thing to tell a defendant that there is next to nothing in the plaintiff's case, and then to give a verdict for the plaintiff with rather heavy damages. After hearing Sir James Westland's premises it might seem natural if he ended by saying to Lancashire, 'There is really next to nothing in your complaints, and we cannot alter our fiscal arrangements with adequate cause.' But I do not say that he should have done that. I fully recognise the force of the pressure brought to bear by a declining industry looking about for something to attack, and attacking the most defenceless, although the most innocent of its supposed rivals. What I say is that there were the proposals of the Indian Chambers which might have been adopted.....

"I desire to relieve myself from all responsibility for leaving to their operation Acts which I regard as not logically defensible, and therefore politically unwise.".....

of a probable injury to the Lancashire industry and not from any actually very harmful effect of the duty on India herself. Such a grievance, even if real, of any country, no less than that of Lancashire, against the Indian Tariff, is entitled to a sympathetic consideration only in so far as it is consistent with national interests and never to the extent of burdening the home industry with a troublesome and injurious excise duty in order that it may be freed from any suspicion of a slightest advantage over its foreign rivals.

The Manchester Case when examined by the Finance Member was found somewhat unreal, much exaggerated and to a great extent beside the point. The only two objections with which he reluctantly agreed were cases of probability and rather theoretical than practical. He further pointed out that they were urged rather against indirect protection than against actual or direct protection. Having thus failed to make out an actual case, he fell back upon the misfortunes of the Lancashire industry, which he thought deserved some consideration at his hands. Here again he acknowledged that the depression in the industry had nothing to do with the Indian cotton duties and that it was solely due to the strenuous competition all the world over. But Lancashire attached an exaggerated and undue importance to the operation of the Indian cotton duties. In her state of desperation Lancashire jealously scrutinized all the advantages which her rivals might possess. But in attacking the Indian duties she attacked "the most defenceless, although the most innocent of its supposed rivals."

In order to remove this sense of injury and probable misfortunes, the Government of India helplessly made extravagant concessions. They were compelled to excise the non-competing production of the Indian mills in order that Lancashire may be enabled to make doubtful experiments in that class of goods which she neither made

before nor ever thought of as a practical possibility. It was undoubtedly injurious both to the only important rising industry which deserved a better treatment and to the poor consumers of Indian goods. In its sacrifice of Indian interests, this measure outrivalled all its predecessors of 1879, 1882, and 1894. "In 1879 cotton duties were surrendered. In 1882 all import duties except on salt and liquors were repealed. In 1894 import duties were reimposed and an excise duty was imposed on such Indian goods as competed with Lancashire goods. But the surrender of 1896 went further and deeper. It imposed an excise duty on all cotton goods produced in India. It taxed the coarse Indian fabrics with which Manchester had never competed and never could compete. It threw a burden on Indian mills which competed with no mills in Europe. It raised the price of the poor man's clothing in India without the pretext of relieving the poor man of Lancashire."*

Lord George Hamilton† pooh-poohed the charge that the excise duty burdened the Indian mill industry and increased the taxation on the poorer classes by saying that this additional taxation of 3½% would bring about such an infinitesimally small increase in the cost of production or in the prices to the consumers that they could easily bear it. Be it as it may, the statement demolished the argument frequently used by Lancashire and her supporters that the import duty of 3½% to 5% was oppressive to the Indian consumers of British goods. It is an illustration of the selfish inconsistency‡ underlying

* Dutt, *op. cit.* Vol. II. p. 543.

† House of Commons 18th May 1896.

‡ The "Economist," November 10, 1894, p. 1369. "Manchester and the Indian Import Duties."

"The Manchester Chamber of Commerce is, we fear, in danger of acquiring for itself an unenviable reputation for selfish inconsistency. Some four or five years ago it passed, at the instance of the Fair-traders, a resolution to the effect that all imported goods of a kind we ourselves produce should

Continued on next page.

the whole Manchester agitation, which attacked the revenue import duty in the so-called interests of Indian consumers, but was satisfied when the duty was more than countervailed by an excise duty which was against their real interests. The import duty did not fall on the poorer classes whose interests Manchester loudly emphasised but on the well-to-do classes; but the excise duty which she accepted was distinctly paid by the former.

An excise duty is indefensible, if the import duty is practically non-protective. The true and liberal exposition of the principles of free trade is as follows: Free trade does not mean the pulling down of Customs Houses. It means the abolition of all duties protective in effect.

Continued from previous page

be charged with duties equivalent to the local and Imperial taxes which the home producers have to bear. And at the time we took the liberty of pointing out that in adopting this resolution it stultified its former opposition to the Indian cotton duties, for if its contention that imported goods should be made to contribute by means of import duties to internal taxation was sound, then obviously the exemption of Manchester products from Indian taxation was indefensible. And now that it has been proposed to again subject the Indian imports of Lancashire goods to a small duty, the Chamber, turning its back on itself once more, is loud in its protests. At a meeting held on Monday last it adopted a resolution declaring that "in view of the continued pressure which is being brought to bear from many quarters upon the Government of India to reimpose the import duties on cotton goods and yarns, the Chamber feels bound to protest against the policy of such duties as an injurious interference with trade even though a countervailing excise duty should be placed upon similar goods in India." Here, then we have the self-same body that a few yars ago pronounced in favour of import duties in this country, denouncing such duties in India as an unwarrantable interference with trade. Or rather we should say, their denunciation is reserved for any import duty that may affect themselves. It is not against import duties in general, but only against a duty on cotton goods, that the resolution is launched. What they demand is immunity for their goods from a tax which is already levied upon all other imports. As Sir William Houldsworth bluntly put it, what the Chamber is asking for by this resolution is special exemptions and privileges for the cotton trade. The Chamber's theory in regard to import duties, as expressed in its several resolutions, come therefore to this—that these are good if they are imposed in the interests of Lancashire, permissible if Lancashire goods are specially exempted, but intolerable if the cotton trade is subjected to them in the same way as other industries. And the pitch of inconsistency is surely reached when, after indulging in such vagaries the Chamber compliments itself upon the firm stand it has always taken upon the question of Free Trade."

It does not mean that there shall be no duties, but that they should be imposed *bona fide* for the purposes of revenue and not for deliberately protecting any home industry. In case of an import duty being so moderate and small in amount that it does not seriously affect trade, a countervailing excise duty is indefensible and an unnecessary interference to home industries, while the revenue derived from such a duty is a distinct gain to the public treasury. Also it is obviously inexpedient to establish an irritating excise machinery for the sake of levying a trifling duty. The import duties in India were quite consistent with this exposition of the principles of free trade. Besides, there was enough room for a considerable increase in the rates of the duties within these fiscal limits. But the affection of the Rulers for these principles degenerated into mere dogmatism which practically precluded India from raising possible revenue from "Customs duties." They went far beyond this rigid application of the theory of free trade and taxed the Indian cotton industry which did not actually compete with the British industry. The impolicy and the injustice of the excise duty were thus clearly manifest.

From the review of this chapter and the preceding one, it will be realised that during the whole controversy the real question at issue was neither one of Protection versus Free Trade, nor a real conflict of interests between Indian and Manchester manuafacturers. In fact their interests did not collide,because both produced goods which supplied practically distinct kinds of maket. But the natural development of the Indian cotton industry was to Lancashire simply an alarming fact, even though manifold disadvantages rendered the prospect of Indian mills competing successfully with her in finer goods a matter of doubt and uncertainty. Manchester exaggerated the influence of the Indian cotton duty and started an agitation for its repeal. Therefore, there was actually a

conflict between the supposed interests of Manchester and the real interests of the Indian Treasury.

The methods of the Home Government in dealing with this supposed conflict provoked rather than prevented the controversy, as intended. They drew a wrong practical conclusion that the conflict would be removed by practically yielding to Manchester. The proper course would have been to send back the Lancashire and Manchester agitators with their complaints corrected. The controversy could have been settled as well by asking Manchester to relinquish her unjust attack on the Indian Tariff system as by compelling India to surrender her financial and industrial interests. But they had not enough courage and strength to offend the Lancashire vote.

Conclusions.

To conclude: The measure of 1879 was the beginning of the end of customs revenue in India. The end was secured by the Act of 1882. The duties were rashly taken off. The repeal of the import duties was not followed by a more rapid growth of the trade of India. The favourable financial anticipations failed. Deficits became the normal condition of the finances of India. All available sources of increasing the revenue having been exhausted, additional taxation proved an imperative necessity. The opinion of the Government and the people of India if left to themselves was in favour of customs duties on imports. Evidently the Home Government did not permit this course, because the British public was against it. But the Home Government could not permanently compel the Government of India to avoid the customs duties. The pressure of a hard financial necessity induced them to sanction the general import duties, except the cotton duties which constituted the largest source of customs revenue. The cotton goods used by the middle and upper

classes were exempted, while the duties on kerosine oil and salt used by the poorer classes were greatly increased. The Famine Insurance Fund to be spent upon public and productive works was suspended but the products of Lancashire mills were considered sacrosant. It could not be argued that the cotton duty violated the free trade principles, when other duties were sanctioned. The only reason for its exclusion was that Her Majesty's Government were not prepared to sanction it against the powerful and adverse factor, viz., the political pressure of Manchester and Lancashire. When it was found that in their struggle against the falling Exchange nothing short of a miracle could procure even an approach to a financial equilibrium, the cotton duty was permitted. Lest this small duty of 5% might possess a shadow of protection, a countervailing excise duty was ordered to be imposed upon the Indian cotton goods **to the extent to which they entered into competition with the imported goods**. In this the Indian Government and the Indian mill-owners helplessly acquiesced. It is clear that the Manchester theories of "Substitution" and "Indirect Protection" had no sanction in the condition prescribed by Sir Henry Fowler. Moreover, the effects of the cotton import duty according to these theories were largely theoretical and much exaggerated. But in order to guard against any probable mishaps to Lancashire, the Government went beyond the necessities of the case and taxed the non-competing Indian piece-goods with an excise duty of $3\frac{1}{2}\%$ and reduced the import duty from 5% to $3\frac{1}{2}\%$ This arrangement relieved the rich and taxed the poor. It taxed the rising cotton industry in order that Lancashire might build up a new industry on which hitherto she had not thought worth while to embark. The excise duty was rather a sacrifice to principle than a remedy for any practical evil about the Indian cotton import duty. It was both mischievous and suicidal, since it burdened the

important home industry at the instigation of its rival. It is possible that the excise duty did not actually prevent the steady growth of the Indian cotton industry ; but it established a wrong principle and a bad precedent.

The controversy came to an end,only when Manchester was satisfied by seeing that the Legislature of India had been forced to excise their own industry by a troublesome and unproductive tax, in order to ensure against any doubt of even a little advantage over the Lancashire goods. All civilised Governments encourage their own industries by various devices. The beginning and end of fiscal legislation in every modern country is to secure national interests first. But the ultimate aim of Indian fiscal legislation was to encourage British interests often against those of India. The interests of Indian revenue were practically sacrificed. The Indian cotton manufactures, which did not compete with foreign goods, were burdened with an excise duty, which would obstruct legitimate and desirable development of the industry. However great may be the financial and industrial needs of the country, no fiscal measures that were likely to offend any powerful interests in England could be adopted in India. No duty however unobjectionable on fiscal grounds could be levied in India, if it was even supposed to affect any British industry. Infant industries of India, at least deserving of help and encouragement, if not entitled to the fostering care of the state,in order to reduce pauperism, were to be obstructed by an excise duty, if they possessed the remotest chance of competing with British manufactures. In short, the fiscal policy of India, during this period as before, was regulated not in the interests of Indian manufactures but in those of British manufactures. As usual, Indian interests were subordinated to British or Imperial interests.

Curiously enough, Manchester gave up from 1894 her disguise of "Free Trade" and frankly and solely

pressed the interests of her own industry on the British Government. It is impossible to overlook this hard and hideous fact that the political pressure of Manchester was above all the main factor as before in influencing the tariff changes of 1894 and 1896. When we continuously observe how political pressure from Manchester and Lancashire was from time to time brought to bear upon the Home Government or the Government of India, sometimes in the guise of humanity, sometimes in avowed selfishness, sometimes under the cover of a certain theory, but always in the direction of advancing their own interests to the detriment of those of India and when we realise that their demands thus pressed were practically being carried out, we are naturally tempted to establish a causal connection between them. Manchester at every point has been treated with an unjustifiable excess of consideration. Yet every time she assumed an air of injured innocence, complained of unequal treatment and practically demanded that the fiscal policy of India should be regulated with a sole eye to her particular interests and desires. Many of her demands were as preposterous and unreasonable as the concessions granted by the Government of India to her were extravagant. She could never have dreamt of asking for such concessions from other foreign countries which she extorted from India. In short, against these strong powerful influences in England equity and reason in the Indian Tariff legislation counted for nothing.

The decisions on the tariff changes of 1894 and 1896 were the Cabinet decisions, which every time overruled the practical and important suggestions of the Government of India. The Government of India, owing to their constitutional subordination, had to accept the dictation of the Home Government sometimes without protest and sometimes with apparent resistance. The tariff measures were therefore passed often against the reasons

and convictions of the Government of India and always against the indignant protest of the enlightened Indian and European public opinion in India. Finally, without prejudicing the question of the political connection between England and India, one can boldly state that but for the Parliamentary influence of Manchester and Lancashire, we should never have heard of this " Cotton Duties Controversy " in the Tariff History of India.

CHAPTER VIII.

TARIFF HISTORY 1896—1922.

(*a*) Deviations from the rigid Free Trade Policy of the last Period.

(*b*) The Emergence of New Problems.

With the beginning of the twentieth century, new problems had arisen in the Indian Tariff, affecting both India and Great Britain. In Great Britain, owing to foreign competition, the Free Trade wave of the second half of the 19th century was succeeded by a large wave of reaction against Free Trade, manifesting itself in the Tariff Reform movement. A considerable section of the British public opinion was gradually drifting towards a Fair-trade or Protectionist policy. Schemes of an Imperial Economic Union against foreign commercial rivals seriously engaged the minds of some important British statesmen. Imperial Preference became a subject of frequent discussions between Great Britain and her Dominions and Dependencies. Though this reaction did not succeed for a considerable time until the Great War in introducing any fundamental change in the old fiscal policy of Great Britain, it could not refrain from influencing the tariff system in India. Consequently, during the course of this period we shall notice almost an abandonment of free trade principles and an enthusiastic reception to protectionist principles in cases where any Imperial or British interests were served against foreign. Ever since 1903, the question of Imperial Preference attracted the attention of the Government and the people of India, and is still under consideration. On the other hand, the growth of nationalism, the Indian desire for Industrial development, and their distrust of the British free trade policy gave rise to domestic problems,

such as, the problems of Tariff Protection and Fiscal Autonomy for India. The War accentuated the importance of these domestic problems as well as the Imperial problem as affecting India. Besides, the increasing financial necessities of the Government of India specially during and after the War brought into forefront the long-felt and long-postponed need of developing "Customs" as an important source for additional revenue, with the result that considerable increases and wide breaches have been made in the pre-war tariff of India. Out of the two problems that emerged during the last two or three decades, that of Fiscal Autonomy was partly solved by the Constitutional Reforms of 1919-20. A wide-spread Indian public opinion in favour of Tariff Protection for the encouragement of Indian Industries still exists. With the grant of domestic fiscal autonomy to India, there is a strong expectation in Great Britain for a preference to Imperial or British goods in the future Indian tariff. At the same time the need of the Indian Treasury for more and more revenue is daily increasing. It is this three-cornered problem of the Indian tariff that confronted the Indian Fiscal Commission of 1922, which was a culminating point in the Indian movement for Tariff Reform.

Countervailing Sugar Duties.

Until 1910 no important changes were made in the tariff established in 1896, except a countervailing or an anti-bounty duty on sugar in 1899. Ever since 1890, there were exceptionally large imports of bounty-fed sugar from European countries, such as, Germany and Austria-Hungary. The main features* of the Continental Bounty System were: (1) bounty on exports, (2) an internal tax on the home industry to provide the bounties or to recoup them, and (3) a prohibitive import duty to exclude

* F. S. 1906-7, p. 22.

foreign competition. In 1897 the United States of America took the lead in dealing with the problem and passed an act which imposed a countervailing import duty on the bounty-fed sugar equivalent to the amount of the bounty given by the exporting countries. This partial closing of the American market helped to divert the export of this sugar to India, where it found its market immediately and abundantly.

Before 1890 by far the largest portion of the imported sugar in India came from Mauritius. After 1890, although the importation from Mauritius continued, the importation from Germany and Austria suddenly and vastly increased.* The market of India was of the greatest importance to the sugar industry of the West India Islands. The bounty-fed sugar created a great menace to this industry. The attention of Her Majesty's Government was, therefore, drawn to it by the interests concerned. Sir David Barbour and Sir Henry Norman, ex-members of the Indian Executive, were sent to inquire into the subject. They reported that the sugar industry of the West India Islands was in an extremely critical state, owing to the continental bounty system.† Thereupon, the British Government called a conference of various European powers in order to consider the whole question of bounties. The Conference in which India was also represented took place at Brussels in 1898. The proposal to abolish the Bounty System was opposed, for various reasons of national interests, mainly by France and Russia. The conference came to no practical conclusion and the attempt to save the Mauritius sugar industry failed.

In India, various European Chambers of Commerce‡ and firms, who were connected with the trade in Mauritius

* C. 9287 of 1899, p. 92.

† Ibid.

‡ Paper to be found in C. 9287 of 1899.

sugar, had proposed in their representations to the Government of India that, in case the Brussels Conference failed, they should at once impose a countervailing duty to check the unrestricted importation of the bounty-fed sugar which, they thought, injured seriously the interests of the native producers of sugar canes and manufacturers of sugar in India, besides causing a loss of revenue to the Government. It is interesting to notice that no Indian public bodies made such complaints.

On 5th May 1898 the Government of India under Lord Elgin informed* Lord George Hamilton, the Secretary of State for India, that they were not prepared to levy a countervailing duty on sugar imported into India, because after inquiry they found that the competition of the bounty-fed sugar might have affected the refining industry but not the producers of sugar canes who mainly depended upon the demand for unrefined sugar which constituted seven-eights of the local trade.

After the failure of the conference, the only means open to the British Government to enforce the abolition of the bounty system was the levy of a countervailing duty on beet-root sugar in India. On 27th May 1898 the Governor of Mauritius † pointed out to the Colonial Secretary, Joseph Chamberlain, that the principal market, *viz.* India, of the Mauritius sugar industry had been seriously endangered by the bounty-fed beet-root sugar and urged him to impress upon the Secretary of State for India the importance of discouraging the importation of such sugar into India by a countervailing duty. On November 12th 1898 an influential petition was addressed by the Colony‡ to the Government of India for the same purpose. While forwarding these representations to the

* C. 9287 of 1899, p. 3. Letter to the Secretary of State.

† C. 9287 of 1899, p. 21.

‡ Ibid, p. 23.

Secretary of State for India, Joseph Chamberlain strongly emphasised the possible mishaps to their industry and the importance of their demands and hoped for a favourable consideration.* He remarked: "If the Indian Government.....were to see fit to penalise or to countervail bounty-fed sugar or to give preference to the honestly grown cane sugar of the British Colonies, he would welcome the step as likely to strengthen the opposition to bounties and to hasten the collapse of a mischievous and unsound device for ruining an important British industry." All these papers were forwarded to the Government of India.

On 26th January 1899 Lord George Hamilton† directed the Government of India to take immediate steps for dealing with the important problem of saving the colonial sugar industry from ruin and distress. He hastened to sanction beforehand any measure they might adopt in that direction. In anticipation, he even sent a copy of the anti-bounty legislation of the United States to guide them. Besides, for the first time in the Tariff History of India a Secretary of State was "prepared to attach much weight to the opinions held by the people of India regarding a fiscal change."

Fortunately for the colony, Lord Curzon had succeeded Lord Elgin as Viceroy of India. On 26th January 1899 Lord Curzon sent a letter‡ to the Secretary of State in which "taking (the) Indian standpoint" he arrived at a conclusion "favourable to (the) recommendation of Colonial Office."

Accordingly on 10th March 1899, a Bill similar to the American model to levy a countervailing duty on the import of bounty-fed sugar was introduced into the

* Ibid, pp. 23 to 27.

† Ibid, pp. 22-23.

‡ Ibid, p. 27-30.

Legislative Council. The professed reason* for the Bill was that the important sugar industries of India were seriously menaced, since many of the refineries had already ceased to work and others were on the verge of being closed. Its object was to protect them by a countervailing duty.

The Government of India had instituted an inquiry into the effects of the competition of foreign sugar on the sugar industry of India. Numerous papers on the subject were submitted† by Provincial Governments to the Central Government. They tried to show that the sugar cultivation had decreased by 13%, that there was a wide-spread closing of the refineries, that the enormous increase of the bounty-fed sugar was the sole cause of this phenomenon and that the only remedy was the countervailing duty.

The arguments advanced in favour of the Bill by Sir James Westland, the Finance Member, and Lord Curzon were both interesting and important. Sir James Westland said: "It is well known that the effects of bounties is two-fold. It affects in two entirely opposite directions the interests of the consumer and the producer. So far as regards the consumer it brings the article of consumption to the market at a cheaper price than would otherwise be available to him. In that respect he receives benefit. But the producer looks at it from a different point of view. It supplants in the market the produce which he would otherwise bring to it by a competitive produce which has attached to it an artificial advantage. England, of course, is, as regards sugar, a nation of consumers. No project for the impostition of countervailing duties has there been made; but India, on the other hand, is to

* Ibid, p. 90.

† Ibid, pp. 33 to 89.

a very large extent, a nation of producers, and the productive interests of the country in respect of sugar are, as I hope to satisfy the Council, extremely important, and ought to be safeguarded by any measures that we can take.*

He added: "We might say that the benefit which India as a whole derives from any lowering of the price of sugar due to the operation of the bounty system is too dearly purchased by the injury which that system imposes on one class, namely, the agricultural population which is dependent on the sugar industry of the country."†

He further added: "I think therefore the Council may take it as proved that we are in the presence of a real danger to an important industry; and I trust they are sufficiently convinced that the time has come when, if we are to protect our sugar industry in this country, which is extremely important, it is necessary for us to take measures against bounty-fed importations. Of course we might wait a little longer; we might wait till our refineries are still further closed, and till the raiyats are so impoverished as to give up cultivation altogether; but it is better in these matters, I think, to take protective measures beforehand, because it is far more easy to revive and encourage an existing industry than to restore one which has been by adverse circumstances extinguished."‡

In reply to the objection that the countervailing duties are inconsistent with Free Trade principles, Lord Curzon said: "I do not think we need pay much attention, therefore, to the mutterings of the high priests at free trade shrines. Their oracles do not stand precisely at their original premium. This is not a question of economic orthodoxy or heterodoxy; it is a question of re-establishing

* C. 9287 of 1899, p. 90.
† Ibid, p. 92.
‡ Ibid, p. 94.

a fiscal balance which has been deflected for their own advantage and to our injury by certain of our foreign competitors."* Lastly His Lordship dwelt on the interests of Indian manufactures and on the importance of encouraging and stimulating them and said to the effect that the Government would view with disapproval any influence which would tend to discourage the growth of manufacturing industries in a purely agricultural country like India.†

The Bill was unanimously passed.‡ Certain members went to the length of considering it to mark a very important departure in the fiscal policy of India.§ But amidst the enthusiastic supporters there was one sceptic, *viz.* Sir Phirozshah Mehta, who critically observed: "It is true that a number of sugar refineries in the country have been stopped, but I am not quite sure that the facts placed before us necessarily point to the importation of bounty-fed sugar as the sole or main cause of that result."|| He pressed for further inquiry into the subject. The point was not answered by the Government, who swept it aside before the urgency and importance of the proposed measure.

The Act of 1899 did not prove effective in checking importations of bounty-fed sugar.¶ In addition to the direct bounty system, the export of sugar was encouraged by preferential railway and shipping rates. Besides, the development of certain sugar combinations known as Cartels gave a fresh stimulus to the export of the bounty-fed sugar. In order to check this indirect bounty

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* Ibid, p. 103.

† Ibid, pp. 103. 104.

‡ Act XIV of 1899.

§ C. 9287 of 1899, p. 96.

|| Ibid, p. 97.

¶ F. S. 1902-3, p. 18.

system, special import duties were imposed on sugar in certain cases in 1902.*

In 1902 there had also assembled a second 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. A convention was drawn up to give effect to this decision. In 1903 the Brussels convention was formally ratified by all the powers who joined it. Consequently, the countervailing duties were abolished† in the same year by the countries that had adhered to the convention. The only duties that actually remained in force were those relating to Denmark, Russia, Chili and the Argentine Republic, from which the imports into India were practically nil.‡

The duties that remained in force were subsequently repealed, as the menace of the bounty-fed sugar had passed away. But the general power invested in the Governor-General-in-Council to levy countervailing or anti-bounty duties under certain conditions was extended, continued indefinitely, and is still in force.

The results of this anti-bounty legislation in India were very interesting. In 1903 Sir Edward Law§ proved that the importation of the bounty-fed sugar from Germany and Austria-Hungary had almost practically ceased because of the convention, while the increase in imports of cane sugar from the United Kingdom, Java and Mauritius had been remarkable. In 1906-7 Sir Edward Baker pointed out|| that as regards its effect on the cultivation of sugar-canes in India, the experiment had proved "a disappointing failure." He proved, with reference to

* Act VIII of 1902.

† Act XIII of 1903.

‡ F. S. 1906-7, p. 22.

§ F. S. 1903-4, p. 14.

|| F. S. 1906-7, pp. 22 to 25.

figures, that it did not arrest the progressive decline in the acreage under sugar-cane cultivation. To the Government the result of "more permanent importance" was "the fact that the Indian Legislation of 1899, and the knowledge that we were about to proceed to the further measure adopted in May 1902 had an appreciable effect in bringing to a successful conclusion the Brussels Conference of 1901-2". The place of the bounty-fed beet-root sugar in India was taken by the cane sugar which was mainly imported from Mauritius and Java.

The important effect of this sugar legislation was to avert the serious danger to the Mauritius sugar industry. Thus an Imperial interest was served.* The Indian sugar industries, the protection of which, from the agricultural and industrial point of view, was the professed object of the legislation, gained nothing at all. The Government closely inquired into the effects of the competition of the bounty-fed beet-root sugar upon the Indian sugar industries, but they did not care to inquire into the effects of the importation of the cane sugar from Mauritius. The acreage of sugar-cane cultivation was progressively declining in India; the imports of the bounty-fed sugar had almost ceased; and the import of cane sugar from Mauritius was greatly increasing. These facts lead to the conclusion that the Mauritius sugar was encroaching upon the Indian sugar industries as seriously as the bounty-fed beet-root sugar. Then, the Protectionist arguments so passionately and enthusiastically used by Lord Curzon and Sir James Westland in 1899 in favour of "protecting, encouraging and stimulating" native manufactures were in no way less applicable

* It was argued that the protection of the Mauritius Sugar Industry against the Continental bounty-fed sugar was an Indian interest, because of the Indian labour employed by the industry. This argument, which is quite typical of Imperialists, was an attempt to disguise the real aim of the anti-bounty sugar legislation in India and hence requires no serious refutation.

in the case of the former than of the latter. If the principle of Tariff Protection was accepted, the case for protecting the Indian sugar industries was as strong in relation to the Mauritius sugar as in relation to the European sugar. But this point was not considered at all and was conveniently neglected. Besides, a similar case can be made out for many other industries. Were the Government prepared to follow the newly accepted principle logically? Obviously they were not.

From the summary of the events connected with the anti-bounty legislation in India, it is perfectly clear that the real aim of the Government was more to save the Mauritius sugar industry from ruin than to protect the Indian sugar industries. The idea of protecting the latter was merely accidental or incidental. The underlying motive was to protect the Indian market for the Mauritius sugar industry against the European sugar. The whole problem was rather Imperial than Indian. The initiative in dealing with the problem was taken by the Imperial Government, who enjoined upon the Government of India their anti-bounty policy with a sole eye to Imperial interests. It is even possible to think that the Imperial Government thereby intended to strike a blow at the economic policy of some of their powerful continental rivals. As long as their interests were served, the Imperial Government had no objection against any departure from free trade policy, so long rigidly enforced upon the Government of India. The British Government gave up in this particular case any pretence of FreeTrade of by-gone days and considered it as purely a "question of policy and expediency". But it was a mistake to suppose that the action of the Government in 1899 inaugurated an important era in the fiscal legislation of India or that it was an epoch-making change in the fiscal policy of India. Of course, it was a departure in the fiscal legislation of the country, but it was

a convenient and interested move, inspired by the Imperial Government. It was also an illustration of the selfish inconsistency that characterised the fiscal policy pursued by them in India. In it the Government of India simply made out an "Indian stand-point" in order to enable them to come to a decision "favourable to the recommendation of Colonial Office."

The foregoing remarks will be borne out by the following incident which tested the consistency and the sincerity of the loudly professed object of the anti-bounty legislation of 1899. In spite of the countervailing sugar duty, there was a progressive decline in the acreage under sugar cultivation in India. The menace of the bounty-fed sugar had disappeared. Its place was taken by cane sugar from Java and Mauritius. The sugar industries of India were exposed to danger as much from this sugar as from the bounty-fed beet-root sugar which was replaced by it. On 9th March 1911 the Hon. Pundit Madan Mohan Malaviya moved a resolution* in the Legislative Council of India "that the duty on imported sugar be so raised as to make it possible for the indigenous sugar industry to survive the competition to which it is at present exposed." The amendment moved by the Hon. Mr. Gokhle was to the effect that an enquiry by a committee of experts should be made into the conditions of the industry and into the means the state could take to save the industry from the threatened ruin. Both the resolution and the amendment were defeated by the official majority.

The objects and reasons underlying this resolution were the same as those advanced by Lord Curzon and Sir James Westland in connection with the sugar duty legislation of 1899. It was proved now in 1911, as before in 1899, that the imports of the foreign sugar had increased

* Vide Proceedings Vol. XLIX, pp. 415 to 431.

with "alarming rapidity" and that the cultivation of sugar-cane had greatly declined all over the country. "The competition of foreign sugar is the one constant and progressive factor that accounts for the general decline in cane cultivation."* The extreme importance of the sugar industries in India, from the agricultural and economic point of view, was fully demonstrated by the Government in 1899. The object of this resolution was, as in 1899, to protect and preserve the sugar industries of India from the threatening calamity. The Government had recognised in 1899 the expediency of the principle of protecting this industry. All the arguments based upon the Free Trade principles were then thrown to the winds. The interests of consumers were then subordinated to those of producers. But curiously they were not ready in 1911 to take similar measures under similar circumstances. More than that, they even refused to appoint a committee of inquiry such as the Hon. Mr. Gokhle had proposed.

Imperial Preference.

After the countervailing sugar duty, the question of Imperial Preference came before the Government of India for consideration. At the end of the 19th century and in the beginning of the present century, the "Tariff Reform" movement was in full swing in England. 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

* The inquiry by Mr. Noel Paton into the sugar industry of India at that time is very instructive. See his excellent book "Notes on Sugar in India."

† Cd. 3523 of 1907. p. VII.

Resolution implied any change in the fiscal system of the United Kingdom, His Majesty's Government did not give their assent to it. It must be remembered that any implication as to the complete freedom of trade within the Empire was deliberately excluded from the resolution.

India had no share in passing the Imperial Preference Resolution of 1902. However, on 7th August 1903 Lord George Hamilton intimated to the Government of India his desire to receive from them any observations and suggestions which they might like to make on the question of Imperial Preference from the point of view of Indian interests.

Lord Curzon's dispatch* of 22nd October 1903 and the memorandum attached to it contain the complete reply to the Home Government on the question. The Government of India, he said, could conceive two possible schemes for the adoption of the principle of Imperial Preference in India.

The first scheme would be to accept the principle on exactly the same footing as any of the self-governing colonies and to impose if required the protective duties even against the imports from the United Kingdom and other parts of the Empire. With this privilege, India as far as her circumstances permitted should give a preferential treatment to the products and manufactures of the United Kingdom and the Empire. With regard to this alternative the Government of India observed: "This alternative is not, so far as we can judge, within the sphere of practical politics. All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration. It has

* Cd. 1931 of 1904,

already been shown in paragraph 3 above that our imports from the United Kingdom alone are more than 2½ times as great as those from all foreign countries taken together. If colonial imports are included, the total is more than three times as great. If Indian industries are in need of, or should now desire a measure of protection, protective measures would necessarily seriously affect imports from the United Kingdom, and would only in a secondary degree affect those from foreign countries. We cannot imagine that the merchants of Lancashire or Dundee, to mention two interests alone, would be likely to acquiesce in such a course even though it were accompanied by still higher duties against foreigner, or that it would be accepted by the Home Government. We therefore dismiss this alternative as beyond the range of the present discussion."

In the second scheme India would maintain her existing low revenue duties but lower the duties on British and Colonial goods so as to give them a preference of 25 per cent. over foreign goods.

After a critical discussion of the conditions of foreign trade and finance of India and of the possible effects of any such scheme on them, the Government of India came to the following conclusions:—

"Firstly, that without any such system, India already enjoys a large, probably an exceptionally large, measure of the advantages of the free exchange of imports and exports.

"Secondly, that if the matter is regarded exclusively from an economic stand-point, India has something, but not perhaps very much, to offer to the Empire; that she has very little to gain in return; and that she has a great deal to lose or to risk.

"Thirdly, that in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually

unsuccessful, is so serious and their result would be so disastrous, that we should not be justified in embarking on any new policy of the kind unless assured of benefits greater and more certain than any which have, so far, presented themselves to our mind."*

The whole question in so far as it was related to India was dropped for the time being. In 1907 another Colonial Conference was held. The resolution of 1902 on Preferential Trade was reaffirmed in 1907. The India Office was represented in the conference by Sir James Mackay† (now Lord Inchcape). The India Office also submitted a memorandum‡ on Preferential Tariff in its practical application to India and its possible results. The main line of arguments and the important conclusions were similar to those of 1903. The memorandum also emphasised the following point:—"It is doubtful how the measure would commend itself to public opinion in India, and its adoption would be likely to give rise to demands for other changes in the fiscal system of the country which would be difficult to refuse, and injurious to prominent industries in the United Kingdom to grant. There is a considerable amount of feeling in India in favour of affording protection to the industries of the country by means of the tariff—a feeling which is encouraged by the example of the self-governing colonies, and finds expression in recurring agitation for the repeal of the excise duty on cotton manufactures of Indian mills. Hitherto it has been possible to reply to proposals of this nature that India is definitely committed to the policy of the greatest possible freedom in its foreign trade, as being on the whole most favourable to the industrial development of the country. If, however, the principle of differential treatment of British imports for the

* Cd. 1931. of 1904. Lord Curzon's despatch to the Secretary of State dated 22-10-1903. p. 9, and also compare the conclusions of Sir Edward Law on the question, pp. 29-30.

† Cd. 3523 of 1907, pp. 298 to 303. Speech of Sir James Mackay.

‡ Cd. 3524 of 1907, pp. 453 to 457.

benefit of the United Kingdom and other members of the Empire is introduced, with its concomitant risks and sacrifices, into the Indian tariff system, the change might be regarded as implying the abandonment of a tariff for revenue purposes only. The claim would probably be made that if India is to fall in line with the Colonies in this matter it should also be allowed to imitate their example in developing its own industries by the imposition of protective duties, such as are levied by self-governing colonies, on goods imported from the United Kingdom."*

One fact in this discussion deserves a passing comment. In 1903 and 1907 it was suggested that India might accept the Imperial Preference scheme exactly on the footing of equality with the Colonies. From the Imperial Preference Resolution of 1902 a general system of complete free trade within the Empire was specifically excluded as incompatible with the circumstances of the Colonies. Accordingly, like the other Colonies, India would be at liberty to impose, if need be, duties for the purpose of protecting her industries even against imports from the United Kingdom and other parts of the British Empire. With this privilege, she should give a substantial preference to the manufactures and products of the Empire in so far as it would be consistent with her circumstances and interests. Liberty of action to regulate tariffs according to the needs of the country and Imperial Preference with reciprocal advantages would thus be the twin characteristics of the fiscal policy of India.

The essential reasons why this alternative was rejected are significant. The policy of encouraging the interests of British trade and industries or Imperial interests governed to a rigorous extent the fiscal system of India, often under the guise of rigidly interpreted principles of Free Trade,and

* Cd. 3524 of 1907 pp. 456-457, also compare the speech of Sir James Mackay in the Conference on this point Cd. 3523 of 1907, p. 301

sometimes even in their open defiance. Very lately there had developed in India a strong feeling in favour of Tariff Protection to Indian industries. It was encouraged by the example of the self-governing Colonies. If the preferential system was adopted by the United Kingdom and India, India would logically and certainly claim the same freedom of action to impose protective duties for developing her industries as the Colonies. It would then be difficult to resist the demand with any appearance of logical consistency. If the strict free trade policy was relaxed or given up, the whole underlying policy of encouraging or protecting British interests would have to be abandoned. Fiscal freedom to India would be the logical outcome with protective duties at her ports. They would mainly affect the imports from the United Kingdom, since they constituted the largest part of the Import trade of India. In a measure which would be seriously injurious to the interests of British trade and industries,the powerful organisations of British manufacturers and merchants were not likely to acquiesce. This scheme, which had a reasonable chance of being accepted by India, was, therefore, dismissed as impracticable from the point of view of British interests. The adverse effect of a preferential scheme on British interests in India was then a main factor in the rejection by the British Government on behalf of India of a scheme based on fiscal freedom and footing of equality with the Colonies.

Tariff Changes, 1910-14.

Until 1910 no important change had taken place in the customs tariff of India. The situation as it stood in 1910 was briefly this. The Indian tariff system consisted of duties for revenue purposes only. It was entirely free from any trace of preference or from any protective intention. Except special rates for articles like wines,spirits, etc., the general rate of import duty was 5% *ad valorem.*

The import duty on cotton piece-goods was 3½% which was counterbalanced by an excise duty of 3½% on the products of Indian mills. Duty on iron and steel was 1 %. Coal, railway materials, and cotton twist and yarn were important in the free list which was not extensive. There was an export duty on rice. These duties were so low as to be merely nominal. They did not materially check the consumption of the imported articles, while they yielded a revenue unfelt and unresented.

In 1909 the International Opium Conference at Shanghai passed several resolutions regarding the use, manufacture, sale and export of opium. Accordingly, the British Government entered into an agreement with China for the gradual suppression of the export of opium from India. It introduced an element of constant and progressive decline in the opium revenue of India which amounted to 5 to 6 million pounds. Consequently there was a deficit in 1910 which compelled the Government to impose fresh taxation. The Government proposed to raise the bulk of additional revenue by increasing the existing customs duties on liquors, tobaccos, silver and petroleum.* The Finance Member, Sir Guy Fleetwood Wilson, quickly pointed out† :— "We have held fast by the general principle that our tariff is a revenue, and not a protective tariff.....I hope I shall not be charged with framing a Swadeshi budget (Budget encouraging Home industries)..... I would emphasise the fact that the enhanced customs duties are attributable solely to the imperative necessity of raising additional revenue. There is not the slightest inclination towards a protective customs tariff."‡ This apologia of Sir G. F. Wilson illustrates how the Finance

* F. S. 1910-11, p. 9.

† Ibid, p. 9.

‡ Ibid, p. 10.

Member of India was in constant dread of attack from certain interests in the United Kingdom while framing his budget.

In the Council discussion* on this measure, serious objections were raised by non-official members against the duties on petroleum and silver. The duty on petroleum would necessarily hit the poorer classes. The import duty on silver would damage the Indian trade with silver-using countries and especially the cotton trade of India with China at a time when the Indian cotton mill industry was passing through a difficult crisis. The Hon. Mr. Gokhle† pointed out some less objectionable ways of raising additional revenue, such as, enhanced import duty on sugar, small export duties on jute, raw hides, and oil seeds or an all-round necessary increase in the general customs duties. They were not accepted by the Government and the original Bill was passed.‡ It is interesting to note that the changes proposed by Mr. Gokhle have been carried out since.

The new import duties on tobacco did not produce the expected revenue. It was considered that somewhat lower duties would probably be more productive. So the tobacco duties were reduced in 1911.§ A very strong and vigorous agitation developed in England immediately after the Tariff Act of 1910 against the Tobacco duties in India. In the Council|| certain non-official members expressed a strong suspicion to the effect that in reducing theses duties the Government were influenced by some powerful interests in Great Britain. The suspicion was confirmed¶ by the studied silence of the Finance Member on the point when he was challanged to contradict it.

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* F.S. 1910-11, pp. 158 to 178.
† F. S. 1910-11, p. 159.
‡ Act VIII of 1910.
§ Act VI of 1911.
|| F. S. 1911-12, p. 41
¶ Ibid, p. 45.

On 9th March 1911 the Hon. Mr. Dadabhoy moved a resolution* in the Legislative Council for the abolition of the countervailing excise duty on cotton piece-goods manufactured in India. His reasons for the resolution may be thus briefly stated:— There were universal feelings of dissatisfaction, injustice and injury about the excise duty in India. There was acute and abnormal depression in the Indian cotton industry, which therefore deserved indulgent treatment at the hands of the Government. The encouragement of the industry must seriously concern the Government, as therein lay a solution of the problem of Indian pauperism. The imposition of the cotton excise duty was both unjust and unnecessary. The Bombay mill-owners who had never been extravagant or unreasonable during the whole "cotton controversy" felt that the excise duty was in effect a "clog to their industry." The cotton import duties were not protective and the cotton excise duty countervailed nothing; for the Indian and Manchester goods co-existed but did not actually compete. The repeal of the excise duty therefore did not violate Free Trade principles. Hence, the argument that the abolition of the excise duty must be followed by that of the cotton import duty was pointless. The repeal of the cotton import duties in 1878-79 and their subsequent reimposition in 1896 with an equivalent excise duty did not affect the cotton import trade to any appreciable extent. The loss of revenue which the proposal involved (£30,000) was inconsiderable and could be made up from other duties.

Other speakers emphasised the point that in the cotton excise duty the interests of both the Indian consumers and producers were sacrificed to those of Lancashire manufacturers. The Hon. Mr. Gokhle† contended that the

* Proceedings Vol. XLIX, pp. 385 to 414.

† Ibid, p. 398 to 401.

main burden of the excise duty on Indian cotton goods fell on the poorest classes of the country. He suggested that the non-competing Indian goods should be exempted from the excise duty by fixing the limit at 30 counts and that the import duty and the excise duty should be raised from $3\frac{1}{2}\%$ to $5\frac{1}{2}\%$ to provide for the loss of revenue.

The government acknowledged that "no one had a good word to say for the unfortunate impost",* but remained unconvinced of the reasonableness of the demand. The resolution was strongly supported by all non-official members but was rejected by the official majority.

On 17th March 1913 the Hon. Sir Gangadhar Chitnavis moved in the Legislative Council† "That this Council recommends to the Governor-General-in-Council the desirability in view of the loss of opium revenue of considering financial measures for strengthening resources of the government with special reference to the possibility of increasing the revenue under a system of preferential tariffs with the United Kingdom and the Colonies."

The opium policy of the British Government had driven a breach in Indian Finance. Fresh taxation was a necessity. It was better to settle the policy and principle of additional taxation in advance. He considered "Customs" under a system of preferential tariffs as a proper source for raising more revenue. For the heavy loss entailed upon India by the Imperial Opium Policy, he wanted fiscal autonomy in order that India would be free to raise her import duties for both revenue and protective purposes. Failing this, his alternative which, he thought, might be acceptable to England was a system of preferential tariffs. It was not quite clear whether he included fiscal freedom for India in his scheme of Imperial

* Ibid, p. 410.

† Proceedings Vol. LI, pp. 453 to 471.

preference. If he did not, his main purpose of moving this resolution, namely, raising more revenue from "Customs", was defeated: for the largest part of the import trade of India belonged to the United Kingdom on which she could not increase her import duties, while it was impossible to realise 5 to 6 M.£, the loss of opium revenue, from the duties on nearly a quarter of the total import trade which belonged to foreign countries.

His scheme for the compensation of opium revenue was more of the nature of a bargain. He did not properly discuss the economic advantages and disadvantages of a preferential scheme to India. In proposing this resolution he was more influenced by the financial aspect of the whole question. Unfortunately, he raised many issues at a time, *viz.* loss of opium revenue, fiscal autonomy, protection of indigenous industries, and Imperial Preference, which ought to have been discussed separately. What sources of revenue should be tapped to meet the loss of opium revenue was a problem that could have been satisfactorily solved without mixing it with other issues which are of a different nature. The resolution was widely opposed and was ultimately withdrawn.

On the same day another effort* to raise the duty on imported sugar from 5% to 10% *ad valorem* for the double purpose of raising more revenue and giving some relief to indigenous sugar industries failed.

Tariff Changes During and After the War.

The immediate effects of the War on the economic and financial position of Indian caused some difficulties in the Indian Budget. In 1914-15 and 1915-16 the Government did not resort to fresh taxation to meet the Budget deficits. In 1916 they found that as the war continued they could not go on with "uncovered deficits".

* Ibid, pp. 471 to 481.

Increase of revenue resources was then an imperative necessity. The total deficit was about 2.6 M.£. The Government proposed to raise a sum of about 2.1 M.£. by new and enhanced customs duties in the following manner.*

The general rate of import duty was increased from 5% to 7½% *ad valorem*. The import duty on sugar was raised from 5% to 10% *ad valorem*. The free list was materially curtailed. Important items in the reduced free list were (1) certain essential raw materials, (2) agricultural implements and requisites, (3) cotton yarn and twist, spinning and weaving machinery and other mill stores. Other kinds of machinery, railway materials, and iron and steel were to be charged a duty of 2½%. In the case of articles subject to special rates like arms, liquors, tobacco and silver manufactures the duties were considerably enhanced. The duty on petroleum (1½ annas a gallon) reckoned at about 20% *ad valorem* was left unaltered. The export duty on rice was kept at the original rate. New export duties were imposed upon tea and jute, because of their monopolistic character and prosperity in trade.

Other forms which the additional taxation took were (1) increase in the Salt Duty, and (2) increase in Income Tax.†

In the above list of changes, cotton manufactures were conspicuous by their absence. Referring to them the Finance Member, Sir William Meyer, made the following statement,‡ which among other things contained a pathetic admission of the helplessness of the Government of India.

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* F. S. 1916-17, pp. 10 to 14.

† Ibid, p. 17.

‡ Financial Statement 1916-17, pp. 13 to 14 and para 46.

"The only important item in the existing tariff on which I have not yet touched is cotton manufactures. For the last 20 years the position has been that cotton twists and yarns of all kinds are free of duty, while a duty at the rate of $3\frac{1}{2}\%$ is imposed on woven goods of all kinds, whether imported or manufactured in Indian mills. We propose to leave the position here as it stands.

The Council will naturally ask why, at a time when fiscal necessities compel us to make a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties, while the cotton excise, which has formed the subject of such wide-spread criticism in this country, should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider stand-point, felt that the raising of the question at the present time would be unfortunate, as it would provoke a revival of old controversies at a time when they specially desired to avoid all contentious questions both here and in England, and might prejudice the ultimate settlement of the larger issues raised by the war. His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and the rest of the world must be reconsidered after the war, and they desire to leave the question raised by the cotton duties to be considered then, in connection with the general fiscal policy which may be thought best for the Empire, and the share, military and financial, that has been taken by India in the present struggle. His Majesty's Government are aware of the great interest taken in this question in India and of the impossibility of avoiding some reference to it when new taxation has to be raised,but they are confident that their

decision is in the best interests of India and that premature discussion of this particular issue should only be harmful. We fully realise the force of these arguments at the present juncture, and consequently we are reluctantly compelled not to propose any modification in respect of the cotton duties."

The Bill to give effect to these changes* was on the whole welcomed as a concession to Indian public opinion, which was unanimous about raising a considerably larger revenue from "Customs" than was actually done and which had repeatedly suggested them before. The unfortunate omission of the cotton goods from the revised Tariff Schedule was viewed with keen disappointment, which was, however, relieved to a certain extent by the announcement of the Government regarding the reconsideration of the whole question after the war. In view of the explanation of the Government on the point, the Council did not want to embarrass, at the time of the war crisis, the Government of India, who had already pressed the Indian case on the Home Government with all the force of their position and authority.

The Hon. Sir Ibrahim Rahimtoola moved† an amendment to raise the cotton import duty from $3\frac{1}{2}\%$ to 6%. His main contention was that with this change the whole deficit would be tided over and that the increase in the Salt Duty and Income Tax would be made unnecessary. He remarked: "My present object is to offer to the Government in the shape of this duty additional revenue from the source. Sir, it appears to me that it is rather hard that when the Government of India want the revenue, when the country is willing to agree to give them that additional revenue from a source which is agreeable to themselves that they should be debarred from doing so

* Discussion F. S. 1916-17, pp. 91 to 119.
† F. S. 1916-17 pp. 111 to 117

and in that way necessitate the proposal for the increased salt tax."*

The Government replied thus:† "The Council know that the Government of India would have been glad had they been able to increase the import duty on cotton goods; but His Majesty's Government, for reasons of Imperial policy, have said that it is not desirable to do this at present. Obviously, however much the Hon. Sir Ibrahim Rahimtoola may object to it we in India are, in political and Imperial matters, subordinate to His Majesty's Govenment at home. We must look at facts as they are, not as he might wish them to be. We cannot, therefore, accept an amendment which involves practically going against the views expressed by His Majesty's Government." The amendment was then negatived by the official majority and the original Bill was unanimously passed.‡

The Government of India were thus pathetically helpless in regulating their own affairs according to their own conception of the best interests of India. Now, as before, the official and non-official Indian and European opinion was unanimous about the inquity of the excise duty. About the sufficiency of the Government explanation a difference of opinion was permissible. The Home Government were afraid of the dangers of a controversy which a change in the cotton duties might lead to at the time of War. But in their anxiety to "avoid" a controversy between Lancashire and India, the Home Government struck obviously at the politically weak point, *viz.* India by refusing a reasonable demand.

Apart from the question of policy, the Tariff changes of 1916 marked on the whole a decided and a permanent

* Ibid, p. 111.
† Ibid, p. 114.
‡ Act IV of 1916.

change in the attitude of the Government of India towards "Customs" as a source of revenue. Having considered "Customs" as one of the most productive and indispensable sources of income to the state, they now embarked upon a policy of fully developing and exploiting it. It opened up a fresh and perfectly legitimate source of revenue to the Indian Exchequer, and as such it was a welcome departure.

In 1917-18, in addition to the military assistance, the Government of India proposed to make a financial contribution to the Imperial expenditure of the War. On behalf of India they placed "her credit and her taxable capacity at the disposal of His Majesty's Government."* A free and special gift of 100 M. £ was offered to and accepted by the Home Government. In order to meet the consequent recurring liabilities, additional taxation was necessary. The ordinary income tax was supplemented by a super tax on large incomes. A surcharge was imposed on railway goods traffic. In view of India's monopoly of jute production, the export duties on jute and jute manufactures were doubled. In 1916-17 the Government of India requested the Home Government to allow them to raise the cotton import duty, leaving the excise duty at the old rate of $3\frac{1}{2}\%$. This request was not granted on Imperial grounds. In 1917-18 in view of the taxation required for special War Contribution, the Home Government permitted the Government of India to raise the cotton import duty from $3\frac{1}{2}\%$ to $7\frac{1}{2}\%$.† The excise duty was left unaltered.‡ The measure was welcomed as a "wholesome departure in the fiscal policy of the Government" and was unanimously passed by the Council.

* F. S. 1917-18, p. 15.

† F. S. 1917-18, pp. 20, 21.

‡ Act VI of 1917.

As expected, a strong agitation* developed in Lancashire against this increase in the cotton duties. The same old stock-arguments were again advanced. The pilgrimages of Lancashire to the India Office once more revived. Parliamentary tactics were also employed. Debates on the question took place in both Houses of Parliament on 14th March 1917. Austen Chamberlain, then Secretary of State for India, demolished the usual economic arguments of the opposition and defended the measure on the ground of Imperial necessity. To him it was both indecent and ungrateful to accept the free gift of 100 M. £. from India and to deny her the ways which she conceived proper for raising the necessary additional revenue for that purpose. The excise duty had been lately subject to wide-spread and strong criticism in and outside the Council in India. It was impossible to secure the free gift of 100 M. £. from India with the good-will of the Indian public, if an attempt was made to increase the excise duty whose abolition was vehemently demanded with complete unanimity in India.

The point of Imperial War necessity disarmed the Lancashire agitation which was by itself unreal. The following remarks of " The Times " on the revival of the Lancashire agitation were quite appropriate :—

" The Indian cotton excise duty has always been politically, economically and above all morally indefensible. Opposition to it unites every class in India, from the official member of the Government to all grades of the Indian communities. It has made a grave breach in the moral basis of the British control of India. It was deeply resented from the outset and has remained an open sore. India considers that the excise was imposed out of fear for the Lancashire vote, and no one can say

* Refer to Parliamentary Proceedings of March 1917 and also files of the " Times " March 1917.

that India is wrong in her belief. The Indian case rests less upon the disabilities inflicted upon indigenous industries than on the spirit in which the impost was levied. In the sacred name of Free Trade Lancashire cotton goods were given what was believed to be a measure of pure and simple protection as against the products of India. The most absurd feature of the excise duty has been that Lancashire never required this benefit. The Indian mills produce coarse fabrics, while Lancashire chiefly sends cloths of finer qualities to India. This is being admitted in Lancashire to-day and the admission stamps the revived agitation as unreal.....The plea that 'the poor Hindu' will have to pay more for his clothing is merely nonsensical. At the bidding of Lancashire the Hindu peasant has had to pay more for his clothing for twenty years because although it is made in his own country it is subject to an excise duty. The better classes who wear Lancashire products have gained the benefit because until now the cotton duties have been unduly low.....We have repeatedly sought to warn both Lancashire and past Governments that India where public opinion is now awake and alert would not for ever tolerate a tariff dictated by English considerations."*

In 1918 the question regarding the export of raw hides and skins from India excited a good deal of interest in Parliament.† Before the war the export of raw hides and skins was practically a German monopoly. The war destroyed the German trade. The export trade in raw hides and skins was then practically controlled by the Governemnt of India through British or Indian firms. The Secretary of State for India was questioned in Parliament by various interests concerned

* "The Times," 5th March 1917, p. 9.

† Refer to series of questions to the Secretary of State for India on 10th, 15th and 17th July 1918.

as to " what measures have been taken or are being taken, by the Government of India or the Home Government to prevent the possibility of the German monopoly ever being re-established and to ensure that in future the industry shall be wholly British and Indian." He replied to the effect that , as a measure of post-war policy, the future regulation of this trade was under consideration.*

Accordingly, in September 1919 a Bill was passed † by the Legislative Council of India to impose an export duty of 15% on hides and skins with a rebate of 10%‡ (⅔rds of the export duty) on those exported to other parts of the Empire and their protected or mandatory territories and tanned there.

The object of the measure was twofold.§ Firstly it was intended to protect the Indian tanning industry which was created, fostered and stimulated by military requirements during the war; otherwise the Government feared that it would " dwindle and disappear with the diminution of military requirements." Tariff protection in this case was therefore " justifiable and ought to be effective." Secondly, " though Indian tanneries have enormously increased in number during the past three years, they can only deal with a comparatively small proportion of the raw hides and skins which India produces and it is to the advantage of India and the security of the Empire generally that this large surplus, so far as possible, be tanned within the Emire, and with this

* The Imperial War Conference of 1918 unanimously agreed to the necessity of securing control of raw materials produced within the Empire and of taking all possible and expedient steps in that direction. All Governments of the Empire including India were instructed accordingly (Cd. 9177 of 1918 pp. 4, 9. Resolutions III, IV, & XXIII.)

† Act XIX of 1919.

‡ In 1923 the state of the trade in hides and skins necessitated the abolition of this rebate and the reduction of the export duty from 15% to 5% all round.

§ Proceedings of the Council, 11th, Sept. 1919. Speech by Sir George Barnes, Minister of Commerce and Agriculture.

end in view the Bill proposes a 10 per cent rebate in respect of hides and skins exported to any place within the Empire." Briefly, the measure was an attempt to ensure that the raw hides and skins instead of being exported to foreign countries would be tanned and manufactured into articles either in India or in other parts of the Empire.

The first proposal of the Bill, namely, the protection of the Indian industry was unanimously welcomed. The other proposal regarding preference was widely criticised. The amendments moved by the Hon. Mr. B. N. Sarma* to remove the element of preference from the Bill, and failing that, to increase the margin of protection to the Indian industry either by reducing the extent of preference or by increasing the export duty from 15% to 20% were defeated. Mr. Sarma pointed out that the second proposal of the Bill directly or indirectly raised that general and important question of Imperial preference, which ought not to have been tackled in a piecemeal fashion. But he was at once assured† by the Government that the measure was not a part of any general scheme of Imperial preference and that it would not commit them to any such principle. However, the fact is that in this particular case a substantial preference was given to other parts of the British Empire. The Government repeatedly emphasised that both the export duty itself and the rebate were mainly in the interests of India.

One cannot understand how the rebate was given "primarily in the interests of India." Obviously, the Indian tanning industry would hardly benefit from a measure which encouraged a similar industry outside India. But the Government said that it was entirely to the

* Council Proceedings, 17th Sept. 1919, pp. 253-267.
† Ibid, p. 259.

advantage of India that the surplus hides and skins should be sent to other parts of the Empire only. The supposed advantage was perhaps the Imperial market. But the Indian hides and skins were never in want of a market. In the absence of discrimination the world market would have been open to them. To the extent of discrimination the measure was injurious to the export trade in hides and skin. Moreover, the Government had acknowledged* that the supply of hides and skins was practically unlimited, that the world demand for them was enormous, that India had almost a monopoly of skins, and that the world would never do without Indian hides. Under these circumstances, there was no risk of any serious injury being done to the export trade by a uniform export duty, while it would have given the desired relief to the Indian tanning industry. If the export duty adversely affected the export trade in the long run, it could have been lowered. Consequently, there was no justification for any preference to Imperial market. The supposed advantage to India was unreal. The proposal involved an unnecessary loss of revenue. The sacrifice of revenue was made solely in the interests of British tanners.†

It was an Imperial interest to develop after the war experience the tanning and leather goods industry as a "key industry" in the Empire in competition with Germany and Austria. Two questions arise at this stage. Was there no chance of developing the same industry in India? How was the Bill as such to protect the Indian tanning industry? "The great possibilities for the tanning industry in India" and the need for "keeping the industry alive" and for encouraging it were recognised on all hands in the Council debates. The following

* Council Proceedings. 11th Sept. 1919, p. 96.

† An important correspondence passed between the Secretary of State for India and British tanners which was forwarded to the Government of India. It was not published but Pundit Malaviya referred to it. He was privileged to see it as a member of the Industrial Commission.

practical suggestions were almost unanimously made by the Council, *viz* : supply of expert tanners, and expert training to Indians in Government experimental tanneries and every other possible state assistance in the enterprise on a large scale. The following remarks of Pundit Malaviya in the council* were quite to the point :—

" We produce a large quantity of hides and skins, but having all those hides and skins available to us, having all the tanning barks available to us, having most of the chemicals available or procurable, if I may say so, in this country, having an unlimited supply of labour, having a large market at home and having the whole world to export our manufactures to, it seems a tragedy that the Government of India, with its mighty resources for starting a large tannery in this country, should allow the bulk of the hides of the country to go out, and should allow a rebate to certain countries which will import them. My Lord, I think with the resources the Government possesses it is high time the Government of India made up its mind to establish large tanneries in this country and to establish also large factories for manufacturing leather of the highest kind. "

If the Government were really and seriously determined upon building a great leather industry in India, they ought to have accepted these important recommendations which they did not and paused before they agreed to a policy of a rebate.

The attempt of the Government to protect and encourage the Indian industry even by a tariff measure was inadequate and half-hearted. They had accepted the principle of Protection. The " Infant Industry " argument of Mill was freely used in support of the Bill. But the practical effect of the Bill was to restrict the

* Proceedings, 11th Sept. 1919. pp. 101 & 105.

competition from one quarter, *viz.*, foreign countries and to encourage it from the other, *viz.*, the United Kingdom and its Dominions and Colonies. If the protectionist policy was once accepted, it should have been properly worked out against any foreign competition. In this connection the Hon. Mr. Sarma rightly said*: "I have already said that even a ten per cent duty would hardly help the Indian tanneries to struggle with their small resources as against the capitalist countries both within the British Empire as well as elsewhere. I hope the Government and Honourable Members will not forget that our concerns are very small; that they are struggling and that they are slowly rising in importance, and the Government have felt it incumbent upon them to protect them. If they are to be protected, by all means protect them properly, give them effectual protection, and not merely nominal protection."

In short,India had no real interest in giving a rebate on the export of raw hides and skins to other parts of the Empire. The real objects underlying it were to encourage the tanning industry in the United Kingdom and other parts of the Empire and to prevent Germany from recapturing after the war her former monopoly of Indian hides and skins. The former was incompatible with the interests of the Indian tanning industry and the latter with those of the export trade in Indian hides and skins. There were enormous possibilities for a large tanning and leather industry in India; the Government professed to protect and encourage it; and yet the measures which they took for this purpose were completely inadequate, while the measure to serve the Imperial interests was quite substantial. It is possible to think, therefore, that out of the two main objects of the Bill mentioned by Sir George Barnes in his speech the second,

* Council Proceedings, 17th Sept. 1919, p. 263.

namely, the Imperial object was more important to the Government.

In 1920-21 the machinery of governing India was reformed by the Parliamentary Act of 1919, which introduced various constitutional changes in the direction of progressive realisation of Responsible Government for India. The Budget for 1921-22 was presented before a newly reformed Legislature with increased strength, powers and responsibility. A heavy deficit and additional taxation were some of the important features of the Budget. The deficits of 1918-19 and 1919-20 had accumulated. The financial year 1920-21 also resulted* in a large deficit, mainly due to losses in various heads of revenue, exchange troubles, and excessive military expenditure. These deficits were met "either by increasing our floating debt, *i. e.*, by issuing fresh treasury Bills to the public or by issuing fresh currency notes against the security of treasury Bills created *ad hoc.*, *i.e.* against our own *I. O. U's.*"† After all efforts to secure economy, the Government estimated on the basis of existing taxation a deficit of 19 Crores of Rupees for 1921-22.‡ They found it impossible to finance this deficit, without impairing India's credit, by the expedients mentioned above. Additional taxation was, therefore, necessary.

The Finance Member, Sir W. M. Hailey, said :— "The first additional source of revenue available is Customs. I think the House will agree that the existing tariff heads are such that in the case of most articles, both trade and the consumer can undoubtedly bear some increase."§

His tariff proposals were as follows‖ :—(1) The general *ad valorem* duty of 7½% was increased to 11%.

* F. S. 1921-22, pp. 8-9.
† Ibid, p. 10.
‡ Ibid, p. 12.
§ Ibid, P. 16.
‖ Ibid, pp. 16-18.

The duty of cotton manufactures was also raised from 7½% to 11%, leaving the excise duty as before at 3½%. In view of this large margin between the import duty and the excise duty on cotton manufactures, the Government proposed to impose an import duty of 2½% on mill machinery and stores used in spinning and weaving, which were till then admitted free of any duty. No change was made in the class of articles which already paid a duty of 2½%. (2) A specific import duty greater than the original *ad valorem* duty was proposed on matches. (3) Duties on imported liquors were increased. (4) The import duty in the case of certain articles of luxury, such as, motor cars, cycles and tyres, silk, piece-goods, clocks and watches, musical instruments, cinematograph films, etc., was extended from 7½% to 20%. (5) The import duty on sugar was enhanced from 10% to 15%. (6) Lastly, the import duty on manufactured tobacco, cigars and cigarettes were considerably increased. All these changes were estimated to yield 8 crores of Rs. The rest of the deficit was covered* by fresh revenue from increased railway rates on goods traffic, increased postal rates and increases in Income Tax and Super Tax.

Except in details, there was very little opposition in the Legislative Assembly and the Council of State against the proposed increase in customs duties in general. After a lengthy debate largely of a higgle-haggling nature, the tariff proposals of the Government were passed by both Houses of Indian Legislature.†

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* Ibid, pp. 18-20.

† Important amendments which proposed to (1) impose a new export duty on myrobalans; (2) abolish the export duties on tea, hides and skins; (3) exempt the mill stores and machinery from the proposed import duty; (4) transfer cotton twist and yarn from the free list to the class subject to the general import duty of 11%; (5) raise the import duty on sugar from the proposed rate of 15% to 25%; and (6) increase the general import duty from the rate of 11% to 12½%, were either withdrawn or defeated.

With regard to the enchanced cotton import duty, the Finance Minister, Sir W. M. Hailey, made the following remarks*:— "In view of the previous discussion upon this matter, which must be well-known to all Honourable Members, we felt it our duty to make a previous reference on the subject to His Majesty's Government.

We did not, indeed, anticipate that there would be any question of vetoing our proposals, in view of what the Secretary of State said in the House of Commons, when the Government of India Bill was under discussion, and also of the recommendation made in the Joint Select Committee's report, that in fiscal measures such as this the views of the Government of India, if they succeed in carrying with them the approval of the Indian Legislature, should be entitled to prevail. We felt, however, that in view of the very great trade depression in England, which is far worse than anything which now obtains in India, it would not only be desirable, but our duty, to make clear to His Majesty's Government, on behalf of India that our proposals for increasing the import duty on cotton goods, among other articles subject to the general tariff, had the sole object of producing additional revenue and had no ulterior motive of a protective or any other kind.....We made it clear therefore, that it is solely our financial necessities, and no new departure of fiscal policy which have obliged us to propose to the Legislature this particular measure. We trust our fellow subjects in the United Kingdom will appreciate this and will acquit the Indian Government and Legislature of any desire to injure the country which only a year ago conferred that liberty upon them. It would indeed be manifestly impossible for this Government to initiate any fundamental departure in fiscal policy at the present juncture. At present our tariff is purely a revenue

* F. S. 1921-22, p. 16.

producing tariff which, whatever may be its effects here and there on any particular trade, is admittedly not devised with any object other than that of revenue. We feel confident, that not only this House but also the country at large would hesitate, and very properly hesitate, to commit themselves to any fundamental departure until the whole question of India's fiscal policy has been thoroughly and exhaustively examined by a competent and impartial body."*

The increase in the cotton import duty without an equivalent rise in the excise duty was again followed by a strong agitation in Lancashire. In the House of Commons† and before the interested deputations,‡ Mr. E.S. Montagu, then Secretary of State for India, taking his stand on the recommendation of the Joint Select Committee of Parliament, 1919, and on the British Government's promises,§ boldly and courageously declined to interfere with the newly conferred right of the Government of India to consider the interests of India first, so long as they were in agreement with their Legislature on the subject.

The following remarks of "The Times," March 12th 1921, will not be out of place: "Now that India seeks again to raise her general import duty including that on cotton goods to 11 per cent, Lancashire demands that instead she should raise the cotton excise duty to 7½%. In other words, Lancashire continues to suggest that India should tax her own manufacturers instead of those of Lancashire.....Mr. Austen Chamberlain showed in 1917 that the effective competition of Indian

* Then the Government announced the appointment of an Indian Fiscal Commission to examine the whole question of India's future tariff policy.

† Vide Hansard, March 1921.

‡ Vide "The Times," March 1921.

§ Refer to Chapter X.

mills with Lancashire only ranged over about 2 per cent of the whole Lancashire trade. In high grade goods Lancashire should always hold her own.....The Figures of the Indian Budget are unanswerable. The new increase is due to a genuine need for revenue, but in any case the British nation cannot give India an implied liberty to make her own tariff arrangements and then withdraw it as soon as it is exercised."

In 1922 the Government of India were again confronted with an unprecedented deficit. In spite of fresh taxation more than sufficient to balance the Budget, the fiscal year 1921-22 resulted in a large deficit* of 34 crores, owing to a great fall in the anticipated revenues, the excessive military expenditure and exchange difficulties. The financial history of the last four years was a story of successive deficits† amounting to 90 crores of Rs. For 1922-23 the deficit estimated on the existing basis of taxation was nearly 32 crores of Rs. It was impracticable and dangerous to leave the deficit uncovered. To continue living on credit was impossible. After examining the possibilities of a reduction in expenditure, the Government fell upon the alternative of increasing revenue by additional taxation.

Sir W. M. Hailey, the Finance Minister said: "When additional revenues are required, the first head to which one's thought naturally turns is Customs."‡ Details of customs proposals§ were as follows: (1) The general import duties were increased from 11% to 15% including that on cotton manufactures, with a corresponding rise

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* F. S. 1922-23, p. 3.

† 1918-19. 6 Crores of Rs.
1919-20. 24 ,, ,,
1920-21. 26 ,, ,,
1921-22. 34 ,, ,,
90 (Ibid, pp. 3-4.)

‡ Ibid, p. 11.

§ Ibid, pp. 11-12.

in the excise duty from 3½% to 7½%. The Finance Member took care to point out that it was the stern financial necessity and not any purpose of counterbalancing the rise in the import duty that lead him to raise the cotton excise duty. (2) Yarns and twist were removed, from the free list and charged an import duty of 5%. (3) The import duty on machinery, iron and steel, and railway materials was raised from 2½% to 10%. (4) The duty on imported sugar was increased from 15% to 25%. (5) The specific duty on imported boxes of matches was doubled. (6) The import duty on kerosine was increased with a corresponding new excise duty. (7) The duty on imported articles of luxury was enhanced from 20% to 30%. (8) Specific duties on alcoholic liquors except wines were increased by 20 per cent. The total additional revenue from "Customs" was estimated at nearly 15 crores—nearly half of the estimated deficit.

With regard to the incidence of the new taxation, Sir W. M. Hailey observed:—"The burden which the country is now invited to shoulder is a heavy one; we have done our best to distribute as equitably as possible and to see that all classes of the community shall contribute, each according to its capacity."* He also made it clear that without prejudicing in any way the pending decisions of the Fiscal Commission then sitting, the Government had come to "the conclusion that the pressure of financial necessity must in any case inevitably involve the raising of our customs duties purely for revenue producing purposes, irrespective of what the effect may be in the case of any particular tariff head in the direction of protection, Imperial preference, or free trade;" and that "we have endeavoured to limit our proposals in such a way as not to involve any important change in the existing fiscal arrangements."

* F. S. 1922-23, p. 11.

In a lengthy but informative debate that followed in the Legislative Assembly, three important changes were made in the Government proposals. The proposed increase in the cotton excise duty was defeated by a large majority. The increase in the cotton excise duty had been a part of the combined scheme of new taxation, *viz.*, the increased taxation on the consumption of both the imported and Indian cotton goods. As it was defeated, the Government were unwilling to support the increase in the cotton import duty, which was consequently defeated. The proposed additional duty on imported machinery was also rejected by the Assembly. As a result of the debate, the cotton import and excise duties remained at the original rates of 11% and $3\frac{1}{2}$%, and the duty on machinery was also kept at the old rate of $2\frac{1}{2}$%. All other amendments covering a wide range of duties in detail were either withdrawn or negatived.

The revenue results of the tariff changes during this period can be seen from the table of annual sea customs revenue given below.* There was a steady rise in the customs revenue, until a marked decline in 1914 and 1915, which was mainly due to the sudden dislocation of trade

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* Sea Customs Revenue (Gross).

1896/7	4.33	M.R.X.	1910/11	6.29	M £.
1897/8	4.47	,,	1911/12	6.08	,,
1898/9	4.62	,,	1912/13	6.77	,,
1899/1900	3.01	M.£.	1913/14	7.14	,,
1900/1	3.26	,,	1914/15	5.96	,,
1901/2	3.68	,,	1915/16	5.48	,,
1902/3	3.82	,,	1916/17	8.30	,,
1903/4	3.78	,,	1917/18	10.28	,,
1904/5	4.16	,,	1918/19	10.90	,,
1905/6	4.13	,,	1919/20	15.00	,,
1906/7	4.12	,,	*1920/21	$31\frac{3}{4}$	Crores of Rs.
1907/8	4.73	,,	1921/22	$34\frac{1}{3}$	,,
1908/9	4.55	,,	1922/23	$46\frac{1}{3}$	,,
1909/10	4.65	,,	(Budget	Estimate)	

* Owing to exceptionally heavy imports during this year of trade boom.

After 1900 the rates of exchange for converting rupees into pounds was 15 Rs. to £1.

since the beginning of the war. Owing both to the gradual revival of the trade of India after the Peace, followed by a general trade boom, and to large increases in the tariffs during and after the war, there has been a rapid rise in the customs revenue of India since 1916-17. Since 1920 "Customs Revenue" dislodged "Land Revenue" from the traditionally first rank which it held in the Indian Budget. From the subordinate and insignificant position to which it was deliberately relegated during the previous years, "Customs Revenue" was gradually promoted till it occupied the first and the important place in the Budget. In all the recent financial emergencies, the Finance Member of the Government of India first fell upon "Customs" as a substantial source of additional revenue, which in the past was the last and the most unwelcome resource to turn to on such occasions. The proportion in which the customs revenue stood to the total revenue of the Government of India has also increased considerably. Before 1900 it was about 5 per cent. It increased to about 10 per cent before the war. In 1921-22 nearly 32 per cent of the total revenue of the Government of India was derived from "Customs."

Conclusions.

To conclude:—during this period (1896-1922) until the inauguration of the era of the Montagu-Chelmsford Reforms, the same old British policy of encouraging and protecting British or Imperial interests in India consistently continued to regulate the tariff system imposed upon India, sometimes under the plea of Free Trade and sometimes in open defiance of its fundamental principles. The countervailing sugar duty and the export duty on hides and skins with a substantial rebate for the Imperial market are the cases in point. They were really meant to protect pure and simple Imperial interests, for which purpose the World Champion of Free Trade (Great Britain) was not

loth to accept Protectionist principles in India. But the whole episode reached its anti-climax, when the Government strangely but quite enthusiastically maintained that those regulations were necessary purely and solely in Indian interests. Whatever relief they might have given to Indian industries in question, it was simply incidental or accidental. There was no real or genuine desire on the part of the Government to encourage the interests of Indian industries, of which they made so much on those occasions. From the point of view of Indian interests, there was, therefore, no radical or welcome change or departure in the time-honoured British fiscal policy as practised in India. The scheme of Imperial Preference, based upon fiscal freedom for India, as in the case of otherBritish Dominions, and possessing a reasonable chance of being accepted by India, was rejected by the British Government on her behalf, owing to the apprehension that it would injure certain British interests in India. Another scheme, which would give preference to the Empire in the existing tariff without any other change in the traditional fiscal policy of India, was rejected by the Government of India on very serious financial and economic grounds. Since then, no important step has been taken in this direction and the Government of India have not till 1922 committed themselves to any such policy in general, except in a solitary case of the export duty on hides and skins.

Until the War, there was a very low general rate of import duties purely for revenue purposes, with special rates for selected articles and an export duty on Rice. After 1914, the financial burden of the war, and after the Peace, the unprecedented financial difficulties of the Government of India with the consequent need for more revenue, made large increases in the number and

magnitude of customs duties in India necessary.* The Tariff of 1922 travelled quite a long way from its pre-war predecessor. In spite of the repeated assurance of the Finance Members, it is now difficult to maintain that the tariff, which contains different grades of duties varying from 2½% to 30%, with 15% as the general rate of import duty, and which covers a large variety of articles both necessaries and luxuries, is free from protective effects, even though it is free from any protective intention. Effects other than those on revenue cannot fail to intrude into the operation of such a tariff. Still there was no important change in principle in the customary fiscal policy of India. This anomaly certainly required the whole subject to be investigated and decided one way or the other.

The stern reality of the War and the post-war financial difficulties taught the Government of India and the Secretary of State to depend more and more upon "Customs" for additional revenue. They had to abandon

* Table of changes in the Indian Tariffs during the last seven or eight years.

Articles	Before 1916	1916/17	1917/18	1921/22	1922/23
(1) General Tariff. ..	5%	7½%	7½%	11%	15%
(2) Cotton Piece-goods ..	3½%	3½%	7½%	11%	11%
(3) Cotton Twist & Yarns	Free	Free	Free	Free	5%
(4) Machinery, etc. (except agricultural)..	Free	2½%	2½%	2½%	2½%
(5) Iron and Steel.. ..	1%	2½%	2½%	2½%	10%
(6) Railway Materials ..	Free	2½%	2½%	2½%	10%
(7) Sugar	5%	10%	10%	15%	25%
(8) Luxury articles ..	5%	7½%	7½%	20%	30%
(9) Mill machinery	Free	Free	Free	2½%	2½%
(10) Cotton Excise duty ..	3½%	3½%	3½%	3½%	3½%

There was also a large increase in the taxation on articles of daily necessaries subject to special rates and on articles like Liquors, Wines, Tobacco, etc. subject to specific rates. Fresh export duties were imposed on Jute, Tea, and Raw Hides and Skins. Free list was greatly curtailed.

their traditional attitude towards "Customs" and embark upon a policy of developing and exploiting it to its fullest extent. This welcome departure opened up a new and perfectly legitimate source of fresh revenue to the Indian Exchequer. "Customs" was raised from its subordinate and insignificant position to which it was purposely chained in the past to the place of first rate importance in the Indian Budget. There was, therefore, a tendency in the direction of increasing reliance on "Customs" revenue in times of financial emergencies. The rapidly increasing revenue from customs and the increasing proportion which it bears to the total revenue, besides illustrating the enormous productive capacity of the foreign trade of India, make it evident that had "Customs" as a source of revenue been properly developed and thoroughly exploited and had it not been deprived of its proper place in the fiscal system of India, many of the past financial difficulties and anxieties would have been easily minimised and the recourse to some more objectionable devices and oppressive additional taxation, like the salt duty etc., would have been avoided. It is impossible to imagine whether the present tariff* is capable of admitting further increases for revenue purposes. In any case, the increasing financial necessities of the Government of India preclude any possibility for a general reduction in the existing customs duties.

Until 1917, the Government of India were utterly helpless in regulating their tariff according to their own conception of the best interests of India. In 1916 they were not allowed by the Home Government to raise the

* The revised Customs revenue for 1922-23 was 3 crores less than the figure budgeted for. This loss was largely due to fall in prices, specially of sugar. Sir Basil Blackett stated in his Financial Statement of 1923-24 that on the whole "there is certainly no case at present for any alteration of the Schedule." For 1923-24 he estimated that, on the existing basis of taxation, the loss of 3 crores would be made up, that is, the budget figure of 1922-23, namely, 46 crores will be realised, in spite of the revised tariff valuations and the reduction of the export duty on hides and skins to 5% all round.

cotton import duty along with the increase in the general import duty. In 1917, in view of the Indian contribution of 100 M. £. to the general cost of the war, the Home Government granted the request of the Government of India to raise the cotton duty from $3\frac{1}{2}\%$ to $7\frac{1}{2}\%$ without a similar rise in the excise duty, notwithstanding the stiff fight which Lancashire made against it in the House of Commons and outside. Since 1920 a convention has been established as a result of the Montagu-Chelmsford Reforms that the Secretary of State should not interfere with the Tariff measure of the Government of India if they are in agreement with their Legislature on the subject. It is for the first time in the Tariff History of India that the Secretary of State for India (Mr. Montagu) in conformity with this convention categorically refused, before the interested attacks against the recent enhancements of the Indian cotton duty, to interfere with the newly conferred right of the Government of India to consider the interests of India first. The War services which India rendered to Great Britain by men and money and the intensity of the Indian public opinion which developed through the last two or three decades and which strongly resented any undue and unjust interference of the Home Government with the Government of India were thus appreciated and acknowledged by the authors of the Indian Constitutional Reforms and the Joint Select Committee of Parliament. The Government of India is thus practically left free to a limited extent to do in tariff matters what they thought best in the interests of India.* With this partial fiscal autonomy, India has now been seriously confronted for the first time with a very important problem of determining her future fiscal policy with a sole eye to her own interests.

* This subject has been elaborately treated in Chapter X.

CHAPTER IX.

FREEDOM OF INLAND TRADE AND THE SUBORDINATE CO-OPERATION OF NATIVE STATES.

"India is in fact as well as by legal definition* one Geographical whole."† In international and foreign relations India is one political unit. For all external purposes the map of India is red. Yet, for the purposes of internal administration the terms, British India, and India, are not identical. India as a whole consists of the territories collectively known as British India and of numerous small and big Native States, not within the British Dominions in India, yet under British Suzerainty. The total number of such Native States is about 700 and "they occupy considerably more than a third of the total area of India and contain between a quarter and a fifth of the total population."‡

The subjects of the Native States and those under the British Government are closely related by history, religion, language, race, social customs and the geographical distribution of economic and natural resources, which constitute bonds of union among the people of India, The problems of both are inextricably connected not only in political but also in social and economic matters, Since they are common to the whole country, nor can arbitrary political divisions disentangle them. It is these growing common interests that make the existence of the numerous Native States a political and economic phenomenon of unparalleled interest and importance.

A glance at the map of India will clearly show the geographical position of the States and the British territories. The British possess nearly the whole coast line

* The Interpretation Act of 1889, 52 & 53 Victoria, cap. 63, Sec. 18.
† The Montagu-Chelmsford Reforms Report, para 296.
‡ The Fifth Decennial Report, 1911-12, p. 14.

of India. All the important ports are under their control. The foreign trade of India has become practically concentrated at the five ports which belong to the British, *viz.* Calcutta, Bombay, Madras, Karanchi, and Rangoon. As a result, the British Government practically controls nearly the whole of the sea-borne trade of India. Inside the country, the big coastal ring of British territory has enclosed the Native States in the centre. There are five big solid blocks (yellow colour) of Native States in the interior of India, in addition to a large number of small states engulfed as enclaves in the various British provinces. All these States possess various degrees of internal jurisdiction. Consequently, there are as many frontiers as there are states, barring the route from one province of India to another. In the absence of any fiscal arrangement, the recognition of so many different jurisdictions gives rise to serious impediments to the internal trade of India, which really ought to be one natural economic unit under one uniform system. As far as the economic interests of the country are concerned, India is split up into a large number of states of varying size and thus resembles the situation that existed in Germany before the Zollverein, with Prussia, like the British territory in India, as a dominant factor.

We shall now proceed to inquire as to how this problem of the multiplicity of frontiers in the interior was solved to the advantage of commerce and other general interests common to the whole country. This will take us back to the history of the whole subject, which will be divided into two parts: one referring to the British territories in India and the other dealing with Native States.

Free Trade within British India.

Before British Rule, a system of vexatious and oppressive transit duties and inland customs levied on almost

every article at short intervals along the trade routes was a phenomenon universal throughout India.* The British Government reconstructed and reformed† the whole system in its own territories. But the reformed system called the Consolidated Inland Duty System required elaborate customs arrangements equally full of evils and abuses, involved no less intolerable hindrance to trade and communication, and was actually found to depress not only the inland trade but also indirectly British trade with India. This consideration led to the final abolition, during the period between 1836 and 1844,‡ of all inland and town duties in the territories under the British control. The sea customs Regulations, Rates and Valuations were subsequently assimilated and equalised for the whole of British India, rather for all India, since by that time nearly the whole sea coast of India was under the British Government. In 1848 the inter-Presidential and port-to-port trade was made free. Thus by the middle of the 19th century British India became one economic unit with freedom of internal trade and a common policy for her foreign trade.

Various territorial annexations and acquisitions which the British made in India during the 18th and 19th centuries have built up the British Empire in India as we know it to-day. One after another they had been incorporated in the Empire, brought under one common administration and linked together in the common customs system indicated above.

After the abolition of the inland duties in the British territories, there remained the question of Frontier Duties on the British side. There are certain Portuguese

* Refer to Chapter I.

† Refer to Chapter II.

‡ Refer to Chapter III.

and French coastal settlements* within the Presidencies of Madras and Bombay. According to the recommendations of the Customs Committee of 1835, which overhauled the whole inland and sea customs system of British India, strong preventive customs lines were established round these foreign European settlements and the trade crossing their frontiers was charged with the highest rates imposed on the trade of foreign nations with India in the sea customs schedule.† With regard to the frontiers of inland Native States, the Committee said :— "Our attention has been particularly directed to the expediency of levying customs duties on the frontiers of foreign native states. The wide extent of these frontiers, their open character affording no facilities for the establishment of a preventive line and above all the insignificant amount of the trade crossing them, *i. e.*, insignificant with reference to the cost of collecting a frontier duty, render it impossible to maintain effective lines on the frontiers of Mysore and the Nizam's territories which would anything like pay their expenses.....We would therefore recommend that goods should be allowed to pass free across the frontier of every inland Native State.‡" With regard to the Native States on the sea coast, like Travancore, the Committee advised: "It would, we conceive, be expedient to put them on the same footing as that of foreign European settlements in order to prevent their interfering with the trade of the neighbouring British ports by establishing lower duties.§" Such states are very few in number, their ports,

* By a treaty between Great Britain and Netherland in 1824 the Dutch settlements and by a treaty between Denmark and Great. Britain in 1845 the Danish settlements in India were made over to the British Government in whose possession they have since remained. (Vol. I "Treaties etc." Aitchison.)

† 5th Report of the Committee, P. P. 666 H. C. 1851, p. 30

‡ Ibid, pp. 30-31.

§ Ibid, p. 31.

such as they are, are unimportant and their foreign trade is probably nil or insignificant. The principles thus established were closely followed in all the Frontier Customs Regulations of the Government of India and they are still in force at present.

The story of the inland customs lines in the British territories is not yet complete. The general abolition of the inland duties achieved throughout the British territories by 1844 left untouched those on salt and sugar. The loss of revenue involved in this reform was partly made up by increasing salt duties in various Provinces. The circumstances and the system under which, and the rates at which, these salt duties were levied varied widely in different provinces.* Again, some important salt sources were situated outside the British territories. In order to prevent the importation of untaxed salt from Native States and the ingress of lightly taxed salt to provinces where it was highly taxed, the Government found it necessary† to form a stringent preventive Inland Customs line on the frontier of the North-West Provinces‡ in 1843, extending for nearly 2,500 miles from Attock in the extreme North-West right across the continent of India to a point near Cuttack in the extreme South-East. Similar preventive lines were also established for some hundreds of miles in the Bombay Presidency, to prevent the untaxed salt of Native States. All these elaborate Inland Customs lines if placed one after another "would stretch from London to Constantinople."

The preventive line, guarded by an elaborate system of patrolling, formed an impenetrable barrier which caused vexatious interference with all trade and traffic passing across. All trade crossing it was subject to

* F. S. 1877-78, pp. 156-157.

† F. S. 1877-78, p. 157.

‡ Act XIV of 1843.

detention and minute investigation.* Its primary object was to levy a duty on salt, but it was also incidentally used to tax sugar.

The principal reason for this barrier was the difference between the salt duties in different parts of the country. The Government considered the salt duty to be a proper and indispensable tax in India;† and yet it wanted to abolish the pernicious preventive lines. It was practically impossible to dispense‡ with them, so long as the salt tax was levied at different rates in different provinces and so long as the British Government had no control over the manufacture and taxation of salt produced in Native States.

It was Lord Mayo who first realised in 1869 the impolicy of the whole system and set himself to reform the salt administration. Accordingly, negotiations were opened with the Native States with the object of obtaining, by agreements, the British Control over the manufacture of salt at the places of production in their territories. In 1878 they were brought to a successful conclusion with regard to all important salt sources outside British India.§ Meanwhile, arrangements were made for a uniform rate of salt duty in British India and subsequently throughout India. Following these agreements and arrangements, the Inland Customs lines were gradually reduced and practically abandoned in 1879.‖ Thus the old pernicious customs lines which separated one province from another and strangled the trade between British India and Native States were for ever abolished.

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* Gazette of India, 15th March 1879, pp. 167-168—Financial Resolution.

† F. S. 1877-78, pp. 155-6.

‡ F. S. 1877-78, p. 158.

§ F. S. 1878-79, p. 9.

‖ The Gazette of India, 15th March 1879, The Financial Resolution, p. 168.

In short, perfect freedom of inland trade has been established within British India. No customs lines are maintained on the British side of the frontiers of the inland Native States bordering on the British territories. Strong preventive customs lines continue on the frontiers of the foreign European settlements on the sea coast and of any coastal Native State, if necessary. Lastly, there is one uniform sea customs system for all India under the absolute guidance of the British Government.

Attempts at Economic Union with Native States.

While directing the Court of Directors of the East India Company to abolish the inland customs and transit duties in British India, Lord Ellenborough as the President of the Board of Control in 1835 wrote:—"By the influence of our example we shall induce the neighbouring states within and beyond the Indus to adopt similar measures. I look forward, sanguinely, perhaps, but yet confidently,to the time when the whole Peninsula of India will, without detriment to the independence of any state within its limits, be, as regards the commercial intercourse of its population, one great Empire."* We shall next see how this vision of Lord Ellenborough was actually realised, that is, we shall now describe and discuss the stages and the character of the arrangements by which free trade with, through and between Native States was accomplished.

For this, it is not only one treaty or agreement common to all, that one can turn to, but a multiplicity of different Treaties, Engagements, Sanads (Charters) and, above all, customs and usages, which must be read in connection with the chief political events and British policy in different periods during the evolution of the relations

* P. P. 202. H. C. 1840, p. 109. Letter to the East India Company dated 18th March 1835.

between the British Government and Native States. The history of these relations and treaties falls into three more or less distinct periods, each of which has left its own marks on their character and objects.

The first period (1757-1813) has been described by Sir William Lee-Warner as one of the British policy of "Ring-fence" and "Non-intervention." "Up to the year 1813, which may be fixed as the closing year of the first period, the pressure of Parliament and the prudence of the Merchant Company operated in the direction of a policy of non-intervention. The Company was barely struggling for its existence and it recoiled from the expense and danger of extending its treaties of alliance and self-defence beyond the ring-fence of its own territorial acquisitions."*

The treaties which the East India Company concluded with Indian Princes during the period were generally of the nature of alliances, which treated the allies as if they were equal and independent nations according to the principles of international law.† Reciprocity was until the end of the 18th century the leading spirit in the terms and forms of negotiations.‡

The commercial negotiations during this period were also based generally upon the same principle. Treaties were concluded by the British Government with some Native States for the reciprocal reductions of customs duties on the commerce between their territories and with some for special privileges and freedom to British Trade. In his evidence before the Select Committee of 1840 on East India Produce, Mr. R. M. Martin said: "I have made extracts from those treaties from the period

* "Protected Princes of India" by Sir William Lee-Warner, p. 42.
† Ibid, p. 58.
‡ Ibid, p. 85.

of 1739 to that of 1802; they relate to commerce with different states, and throughout the whole of them it appears that our object in going to India was to obtain freedom of trade; that freedom of trade, it will be seen by the extracts from these treaties, was conceded to us by the various states, with whom we made mercantile arrangements.....The different treaties with the various states show that the object was to secure reciprocity of trade between those states and England."* Such treaties were, of course, not universal. The problem of general transit duties prevalent throughout India was not touched. The British Government could not proceed to advise Native States to reform their system of customs and transit duties, so long as the inland customs and transit duties continued to be levied in British India.

The reciprocal commercial arrangements, it should be noted, existed only between the British territories in India and the contracting Native States and not between Great Britain and those States, for serious restrictions were placed in Great Britain on some important imports from India, which, of course, included the produce of those States. This is a curious commentary on the so-called reciprocity treaties concluded by Great Britain with some of the Native States of India. It is not difficult to understand that the principal object of these treaties† was the development of British trade in the interior of Native India, that is, to open the interior of the country for the development of markets and the supply of raw materials for British industries.

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* P. P. 527. H. C. 1840, p. 288. On pages 616-617 are given the extracts from some thirty Commercial treaties with various native states which illustrated the general principles. Some of the states were Hyderabad (1802), Nepal (1792), Assam (1793), Oudh (1788), the Peshwa (1782).

† 1st Report of the Select Committee appointed by the Court of Directors 1793, pp. 8-10.

The second period of the British relations with Native States, which extended over the first half of the 19th century, has been described by Sir William Lee-Warner as one of the British policy of "subordinate isolation," "non-intervention" in their internal affairs and of "annexation." Towards the end of the 18th century the spirit and the form of the British relations with Native States underwent a gradual change, when the policy of "subordinate isolation" under the Subsidiary Alliance system was introduced, though not universally asserted. "In the next period," says Lee-Warner, "which lasted from 1814 to the Mutiny of 1857 larger schemes of Empire dawned upon its (E. I. Company's) horizon and dominated the policy of its Governor-Generals. The exclusion of any states from the protectorate was proved by experience to be both impolitic and cowardly. Empire was forced upon the British Rulers of India, and the bitter fruits of a policy of leaving the States unprotected were gathered in the Pindari war, in the revival of schemes of conquest in the minds of the Maharatha Chiefs and in the humiliation of the Rajput Houses. Surrounded on all sides by the country princes, the Company's officers saw that no alternative remained except annexation which they wished to avoid, or a thorough political settlement of the Empire step by step with the extension of their direct rule. Without order on their frontier peace in their own territories was impossible; and the only prospect of order amongst the Native States was to undertake arbitration in all their disputes with each other and to deprive all alike of the right to make war, or to enter into any unauthorized conventions with each other. The policy of the period was one of isolating the Native States, and subordinating them to the political ascendancy of the British power. The expressions of 'mutual alliance' and 'reciprocal agreement' are exchanged for the phrases 'subordinate alliance,' 'protection,' and

'subordinate co-operation.' But whilst the states are deprived of all control over their external relations, the traditional policy of non-interference is still for a while preserved in their internal affairs. Here the phrases of international law maintain their last stronghold, and it is deemed inconsistent with a sovereignty to introduce a foreign agency for effecting any reforms. No remedy for continued misrule is yet known except a declaration of war, or, at a later date, annexation. "*

During this period, the territory directly under the British Government had been very greatly enlarged and the British supremacy was established almost over the whole of India. Native States were subordinated to British Suzerainty, were isolated from any foreign or inter-statal relations and were required to help and co-operate, under the British control, in the common defence of the country. In the internal administration of the States non-intervention was the general rule. But these treaty relations with the Protected Princes of India were profoundly modified by customs and usuages, " the logic of facts, " and the subsequent declarations of policy on the part of the British Government. In spite of the policy of non-intervention in their domestic affairs, the questions, such as, gross misrule, intolerable and inhuman practices, succession disputes, religious intolerance, things provocative of disorders and embarrassment and matters of policy, necessitated British interference in, and sometimes annexation of, their territories. Of course, the exact limits of this right of intervention for internal good government were and are never susceptible of precise definition. Besides, in the case of a large number of petty chieftains with very small territories and unable to

* "Protected Princes of India," by Sir William Lee-Warner, pp. 42-43.

administer full internal jurisdiction, the British interference was in practice constant and substantial.*

With this political background, we proceed to state the commercial relations of the British Government with Native States of India during this period. The problem, the possible line of solution and the objects and reasons of the British policy have been stated by Sir Charles Trevelyan as follows :—

1347. "Do you think it would be desirable to include the whole of India under one customs system, and do you think it would be practicable? I think it is very desirable, and I think it would be very practicable; in the first place, it is desirable, because we have possession of all the sea-ports of the country; nearly all the export and import sea-borne trade is in our hands, and we levy duties on it,and therefore it is desirable to draw as much trade as possible from the interior; in the next place it is desirable because our territories and the territories of the native states are very much intermixed; so much so, that when we came to form our arrangements for levying duties on the frontier trade after the abolition of the internal duties, we were obliged to cut off districts of British territory equal in size to Scotland and Ireland together; it is also desirable, because the whole of India forms one body politic, and the different states form a confederation, which differs in no essential particulars from the confederations of Germany, of Switzerland, and the United States of America, and the well or ill being of any one part is immediately felt in every part; and it is also desirable, because the native states furnish a market for British manufactures just as much as the portions of India belonging to England; I conceive that it will be practicable to effect it by degrees by pointing

* Imperial Gazetteer of India, Vol. IV, pp. 79-81.

out to the native states the advantage of having only one customs system, in the same way as it has been done in Germany by the states of the Prussian confederation ; I hear that one state, Suttarah, has already come into that plan."*

Thus the object in view was the freedom of internal trade throughout the country. The beginning was made by abolishing almost all inland customs and transit duties in the territories then directly under the British Government and in those that were later on acquired or annexed by them. The extension of this reform to the territories of Native States was fraught with some difficulties. The old commercial relations based on reciprocity treaties were revolutionised by the subsequent political changes. The treaties were not for many years observed on either side and had been ultimately forgotten and obsolete.† Strictly speaking, the new treaties with the Protected Princes of India gave the British Government no right to interfere in the internal management of their revenues.‡ Without a distinct treaty or a mutual understanding, the British could not arbitrarily deprive them of the revenues which they derived from transit duties and inland customs. The Court of Directors also expressed similar sentiments in a despatch to Bengal as early as 1826.§

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* His evidence before the Select Committee of 1840, P.P. 527 House of Commons. 1840 pp. 73-74.

† Ibid, p. 90.

‡ Evidence of Mr. Holt Mackenzie before the Select Committee of 1832, p. 70.

§ Para 28 "We observe with pleasure that you are exerting your influence with the petty dependent chiefs in this part of India to obtain the abolition of transit duties within their territories."

Para. 33. "We concur in your opinion that our engagements with the Sikh Chiefs do not warrant us in calling upon them to abolish or modify the transit duties levied in their territories. These duties are, however, on so many accounts objectionable that whatever you can do in the way of persuasion towards obtaining their abolition as well in the Sikh states as in other parts of India would be a service rendered to the inhabitants both of their territories and of ours— it being strictly understood by the different chiefs that it is optional with them either to comply or not with the proposition." Political Despatch to Bengal 10th Nov. 1826.

When arbitrary interference and peremptory dictation were thought impossible and even impolitic, the only practical methods left were (1) to persuade the states to willingly abolish transit duties and other customs in their territories by explaining the evils of these restrictions and the benefits of free trade or (2) to buy off their rights by giving them adequate compensation. Accordingly, some petty chiefs and chieftains were prevailed upon to abandon their rights of transit duties and inland customs. In States subject to the temporary management of the British Government these objectionable taxes were at once abolished (The typical case was Mysore). Successful attempts were also made to buy off such rights wherever possible. "Besides these formal arrangements, instances are very numerous in which the supreme Government has exercised its influence to check unusual or excessive exactions."* The Government of India from the times of Lord William Bentinck (1828-34) had been constantly trying to induce the Native Governments to abolish them, to point out to them the impolicy of the whole system and to induce them to join the movement for the general abolition of these inland duties. In some cases where they were abolished special agreements were made and some cases were without such agreements.

With regard to the practical operation of the British political influence in the progress of this reform in Native States, the following analysis† of the situation by Sir Charles Trevelyan is very instructive.

"When....asked....as to the extent of our (the British) interference at different times for the promotion of commerce in India, and the grounds of that interference."

* Evidence of Sir Charles Trevelyan before the Select Committee of 1840 P. P. 527 House of Commons 1840, p. 90.

† Ibid. pp. 89-91.

he said:—"The whole of India within the Indus ought, as soon as possible, to be treated in all matters relating to commerce, as one empire; it is, in fact, one empire; 'British India' really includes the dependent native states as well as the various territories immediately subject to our Government. The former are united to us in the closest of subsidiary alliance, furnishing regular contributions either in troops or money, to the general expenses of the empire, and receiving directions from us in all matters relating to the common weal, whether the letter of our treaties with them provide for it or not. The duties inseparable from our position as the supreme power in India oblige us, and the necessity the native governments are constantly under of securing our countenance and good will enables us, to enforce all those measures which are required for the general good, but which cannot be effected without the co-operation of all the states into which India is divided. Thus, besides always preserving peace between the different states, we interfered to put down the plundering Pindaree hordes and the execrable Thug associations, and we have vigorously exerted our influence to extirpate suttee and infanticide, besides suppressing many internal rebellions in the native states raised by the turbulence of powerful chiefs, and correcting numberless acts of oppression on the part of the native governments by sharp remonstrances, which, if they had not been attended to, these governments well knew would have been followed by the withdrawal of our countenance and the consequent disorganization or destruction of their power. Among other means of promoting the general good, we have, from time to time, interfered to reduce exorbitant rates of duty, and to clear particular routes of trade from obstructions; although our proceedings in this respect have not been very consistent, or well sustained, and till lately we were embarrassed by the existence in our own territories of a customs system worse than that of any Native

State.....When I was asked whether our treaties with the native states provided for our interfering in matters relating to the general trade of India, I answered that they did not, but that they pointed that way; by which I meant that, in a confederacy like that of India, a power must exist somewhere of remedying the common evil, and promoting the common good; that the treaties with the native states all, more or less, recognize that power as being vested in the British Government; and that we have been repeatedly forced to exercise it, not only in the cases expressly provided for by treaty, but also in new cases, as they from time to time arose".

However, the result of the policy during this period was not great. The intended reform, *viz.*, the entire eradication of these objectionable duties from the whole country was very far from being completely successful. There were* still numerous and large territories, outside the reformed system introduced by the British Government, which could neither persuade them to adopt it nor afford to buy off their rights.

With the beginning of the third period† after the Mutiny(1857),the relations between the British Government and the Native States assumed a different complexion. The British Government followed a policy known as "the policy of subordinate union and co-operation". After the suppression of the Mutiny the British Government obtained the unchallenged supremacy over all India. The policy of annexation was abandoned. All the Indian Princes and Chiefs that survived were assured their territorial possessions and the perpetuation of their line, and were raised to a somewhat higher position of responsibility

* Refer to the Report of the Select Committee on Colonisation etc. in India. 1859. P.P. 171. H. House of Commons 1859, p. VII.

† "Protected Princes of India" by Sir William Lee-Warner, pp. 43, 151-152.

and honour. The Queen's Proclamation struck a new note on the attainment, with their help and co-operation, of moral and material progress throughout India. Instead of the former policy of isolation, distrust, and jealousy, the keynote now was co-operation and union of Native States with the Paramount Power (the British Government) in its general schemes of promoting the welfare of the country as a whole. Negotiations and mutual arrangements with the States now formed a method to achieve this object which in the past was attained by annexing the territory which threatened an unfriendly action. Advice was now preferable and expedient to annexation. This new policy did not affect the existing rights of the British Government and the corresponding obligations of Native States, with regard to foreign and interstatal affairs, common defence of the country and internal good government; but it developed on altogether new lines connected with internal matters of common welfare.

Treaties, agreements, conventions and engagements with Native States during this period were no longer made on the footing of equality. They all breathed the spirit of "subordinate co-operation" on their part with the British Government in measures relating to Railways, Posts, Telegraphs, Canals, other Public Works, suppression of smuggling, freedom of trade, Imperial sources of revenue like opium and salt, Currency, preservation of forests, extradition of criminals, Famine-Relief and other objects of common interests and benefits.* These obligations, it is said, of the States to the British Government are not so binding as those which fall under the categories of foreign and interstatal relations, common defence and internal good Government. The Imperial Gazetteer says: "There are, on the other hand, many objects of common welfare

* (*a*) "Protected Princes of India," p. 176-177.
(*b*) Imperial Gazetteer, Vol. IV, p. 82.

in which the Paramount Power presses for co-operation and tenders advice, but in regard to which it waits for the willing co-operation of the Native Princes,"* but it does not say what would the British Government do if they did not consent to any important arrangement. The original treaties do not explain this. Such relations are better tacitly understood. Charles Lewis Tupper† thinks that there is no general ruling on the point; but he is of the opinion that the breach of these obligations would amount to a breach of amity, that they would be generally accepted and readily acted upon as matters of friendship and courtesy and that, therefore, there would be no need for any insistent and authoritative regulation. Sir William Lee-Warner maintains that by the logic of certain obvious facts relating to the paramount position of the British Government and its corresponding duties, it has the indefinable right to enforce these obligations and also British interests like Railways, Free Trade, etc.‡ The question might properly be called a mystery of high politics. It is difficult to perceive a line of separation between persuasion and compulsion in the relations between a supreme power and its subordinates who lives upon the goodwill of the former.

In the light of this general discussion, we proceed to record the history of the reform relating to the general abolition of the inland duties in India. The old policy of persuasion in this matter still continued and at times some more chiefs were induced to give them up with or without any formal engagements. Until the years (1875-79) of the reform of salt duties, little advantage was gained by introducing a reform of this kind in small states, while large states declined to join the movement.

The question was discussed before the Select Committees on East India Finance of 1872-73. The evidence

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* Vol. IV, p. 88.
† "Our Indian Protectorate," pp. 358 & 375.
‡ "Protected Princes of India," pp.206-207, 270-275, 298-300, and 369-370.

of Sir Charles Trevelyan and W. N. Massey, ex-Finance Members of the Government of India, throws a light on the future course of the subject under consideration. Mr. Massey* said that the Government of India had made various efforts, with no satisfactory result, to get rid of inland duties levied by the Indian Princes; that it would be merely an act of power to deprive them arbitrarily of this source of revenue without equitable treaties and adequate compensation and that any general scheme on the basis of the German Customs Union would be the scientific and satisfactory solution, though it would be extremely difficult to prepare a treaty to which all States will agree. Trevelyan† said that Native States possessed the right of collecting import and export duties at their frontiers and accepted the principles of the Zollverein as a solution of the problem of inland duties. But he did not agree to sharing the Customs Revenue of India with the States on the ground that the expense of providing military protection for the whole of India including Native States fell on British India alone. This view seems to have ultimately prevailed.

While the arrangements with Native States regarding the transfer of the sources of salt manufacture in their territories to the British control were in progress, negotiations were also opened for the abolition of their inland and transit duties, with the result that only a few more agreed to abolish them and that a large number of them still did not. The situation regarding this question, as it stood in 1879, has been stated by the Government as follows:—

"When these negotiations were begun, there was some hope that arrangements might be concerted whereby the

* Evidence before the Select Committee on East India Finance 1872. P. P. 327. House of Commons 1872. pp. 472-473.

† Evidence before the Select Committee on East India Finance 1873. P. P. 351. House of Commons 1873 pp. 142-143.

funds realised from the taxation of salt in these States might be employed in redeeming all the transit, export and import duties, so that free trade might be established throughout. But although some progress was made in this direction, and four of the minor States agreed to the plan, yet the obstacles to a general redemption of all local duties were soon found to be serious. The preliminary impediment lay in the reluctance expressed by a large majority of the Chiefs to accede to an arrangement whereby they exchanged revenues raised by themselves for assignments from the Government, and submitted to a perceptible disturbance of their revenue system In the second place, it proved to be very doubtful whether the proceeds of the salt-duties in these States would suffice to redeem the local customs duties, upon any valuation which the Chiefs would willingly accept. And in the third place, it was necessary to remember that the transit duties are likely to diminish year by year. Whenever railways run through a State, the transit duties, which are universal and often onerous throughout the Native States, are perforce relinquished, to the great relief of the people. The political officers were therefore instructed to refrain from any pressure in negotiation for the general redemption of the transit duties, and to confine arrangements to points essentially connected with the main object —the removal of the Island Customs Line".*

Negotiations relating to transit duties still proceeded. One by one the States agreed to surrender this privilege, the revenue importance of which was daily diminishing by the construction and extension of railways through their territories. The movement reached its climax at the time of the Jubilee Celebration of the Queen in 1887 when transit duties and other oppressive taxes were

* Financial Resolution by the Government of India, 13th March 1879. Gazette of India 15/3/1879, p. 171, para. 90.

altogether abolished* by all Native States who had yet continued to levy them.

Thus by 1887 the reform regarding the abolition of general transit duties in India came to a successful conclusion. Some of the States had also given up their frontier customs, but many of them still collect import duties on their side of the frontiers and very few of them impose export duties.† Reference to the administration reports of these states points out that of their own accord and for their own benefits they have often revised and reformed their customs tariffs, with the result that at present the frontier customs are collected at nominal rates on a few selected articles at few selected places. The table of customs revenue given below of the four principal and great Native States will convey a general idea of the nature of their customs.‡

The frontier customs of the States, such as they are, are not believed to be harassing to trade, though the general tendency seems to be in the direction of their total abolition. The only difficulty seems to be the reluctance of the Native Governments to sacrifice the revenue. However, one can safely generalise that, with unimportant exceptions, free trade is the rule throughout the vast Peninsula of India.

There are some States whose territories are situated on the coast line of India. In the beginning of the 19th

* Moral and Material Progress Report, 1886-87, p. 111.

† The Imperial Gazetteer Vol. III. p. 261.

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States.	Area	Customs revenue	Years.
Hyderabad ..	81,607 sq. miles	£500,000	1920-21
Kashmir ..	80,000 ,,	£90,000	1917-18
Mysore ..	21,793 ,,	No Customs	
Baroda ..	8,570 ,,	£16,000	1920-21

century it was the systematic policy* of the British Government to obtain from Native States their sea-coast territories and maritime ports in order to prevent them from any intercourse with foreign nations. Thus, nearly the whole sea-coast of India with practically the whole sea-borne trade of India was brought under the British control. Yet, certain territories of minor importance and belonging to some Indian Rulers had survived on the coast. The policy with regard to these territories was to establish, if necessary, preventive customs lines around them. But attempts were also made by negotiations and agreements either to buy off from them their rights of collecting sea-customs or to induce them to adopt the tariff schedule and customs laws of British India. To mention some typical cases : In 1838 the chief of Sawantware (a coastal state) transferred to the British Government, in return for a fixed annual sum, his right to levy land and sea customs in his territory.† In 1865, a treaty was concluded with the coastal states of Travancore and Cochin for the removal of fiscal restrictions on trade between British India and these states and for the adoption of the British India tariff and tariff valuations at their ports.‡ In 1885, a treaty was made with the Nawab of Cambay, a coastal territory, for the introduction of the British India customs tariff and regulations at his port and the removal of all restrictions on free trade in his territory.§ Illustrations such as these, which can be multiplied, indicate the general trend of the policy in this matter. Thus, it can be safely

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* (*a*) "Indian Protectorate" by Tupper, p. 12.

(*b*) Evidence of R. M. Martin before the Select Committee of 1840, P. P. 527, House of Commons 1840, p. 288.

† "Treaties etc., of India," Vol. VII by Aitchison, p. 316.

‡ Ibid, Vol. X, p. 140.

§ A preventive customs line had been formed round Kathiawar—a coastal territory, composed of many small native states—at Viramgam. It was abolished in 1918 (Bombay Administration Report 1918-19) probably because there was no need for it. It was a great source of harassment and irritation to passengers rather than to trade. It was notorious for its evils and abuses.

said that, with some few exceptions of foreign settlements on the coast which are hemmed in by preventive lines, there is one uniform sea-customs tariff, under the absolute British control, for the whole of India.

From a general examination* of the treaty system under which this state of affairs has come about, it will be seen that the various agreements, engagements etc., of which it is composed, fall into the following classes: At one end stands a group of earlier, but now obsolete, treaties for commercial reciprocity and privileges to British trade; and at the other a group of treaties typical of which is the treaty with the Kolhapur State in 1886. By the treaty, the Raja of Kolhapur as an act of comity agreed to abolish all export, import and transit duties in his State and his feudatory states; he also undertook to persuade the adjoining states of the Southern Mahratta Country to adopt an identical policy. The whole of the Southern Mahratta Country as well as the State of Kolhapur were thus ultimately incorporated into the customs system of British India. Between these two types of treaties stands a large variety of complex treaties and engagements, all of which tend more or less to the same direction, namely, the ultimate and eventual establishment of complete free trade throughout the country.

Critique of the Present System.

India has at present freedom of internal trade, practically throughout the country and a common external tariff. The advantages of such an arrangement† are patent enough. Prosperity of internal commerce and partly

* It is impossible to refer to all treaties with different states. For details, reference should be made to the collection of all treaties, engagements, and Sanads (Charters) of India, prepared by Sir Charles Aitchinson in some XIII volumes.

† Refer to Dr Gregory's Book "Tariffs, a Study in Method," Chapter I, for a very instructive and informative discussion on the general questions connected with the subject of "Customs Union."

of external commerce depends upon the absence of tolls, transit and inland customs duties and other oppressive local taxes, which by their multiplicity, frequency, failure to discriminate between grades of commodities and faulty methods of collection and all the evils and abuses which accompany them tend to obstruct the trade at every point. The general advantages can be summed up as follows:*— (1) the exploitation of the advantages —industrial and commercial—of a larger economic area, (2) the lessening of dependence on outside markets, with an approximation to the ideal of "self-sufficing economic areas," (3) increased ease and strength of commercial bargaining with foreign states. The question of the actual benefits to India from this arrangement must be considered in connection with the traditional British policy of promoting the interests of British trade and British industries in India. Trevelyan rightly said, in the passage quoted before, that it was desirable to bring the whole of India under the customs system of British India, because "the native states furnish a market for British manufactures just as much as the portions of India belonging to England." All the economic advantages, as enumerated above, that can be derived from an arrangement like this had been turned by the Paramount Power (the British Government) to the account of the interests it wanted to encourage. The principal object of the British movement for the abolition of transit and inland duties in India was the encouragement of British commercial and industrial interests. India can be said to have benefited from it only in so far as the policy of developing a market and a supply of raw materials in India for British manufactures was advantageous to her. Freedom of internal trade would have been a great instrument of immense importance in the alternative policy of a better kind outlined in the

* Dr. Gregory "Tariffs, a Study in Method," pp. 13-14.

fourth chapter, *viz.*, the State policy of encouraging all round industrial development in India, for which it is as well a necessary condition as it is an important facility. However, whatever may be its underlying motive, the removal of internal duties, that is, freedom of inland trade is a great general benefit conferred upon India by the British Government—the only political power which, in the circumstances, could have achieved this sort of unification.

The arrangement as it exists can be properly called "Subordinate Union." It is not a union of really independent states based on the principle of equality, but a sort of co-operation of the subordinate states with the policy of the dominant power.* The control over the external tariff on India rests solely with the British Government. The Native States have neither any voice in the determination of the tariff policy of India nor a share in the sea customs revenue; even though they are affected by both. Here, the political supremacy of the British hepled to form this kind of union of Native States of India with the Paramount Power. The political influence of the British Government persuaded them to surrender their rights of inland duties; yet it is incredible that they would have sacrificed their revenue from these duties entirely voluntarily except under political force. As regards the absence of any arrangement for the distribution of the customs revenue from foreign trade, it is quite possible that the question did not arise, because the external tariff was dominated by free trade ideas, while the revenue actually derived from it was very unimportant for any such division. Like the policy

* There is a very interesting illustration of this subordinate co-operation. When the British Government adopted the policy of excising the mill production of cotton piece-goods in British India in 1896, the Native States had to adopt the same policy with regard to Cotton Mills situated in their own territories.

of Prussia,* the policy of the British Government was to take absolute control of any customs or commercial union that might be formed in India. In Germany other states clung to their independence and did not agree to any such arrangement, while in India the States were politically subordinate to the British Government, which, therefore, could enforce any arrangement over them to protect Imperial interests.

The Sea Customs Revenue is wholly appropriated by British India, even though a part of it is paid by the subjects of Native India. Foreign goods whether ordered by British India or by Native India when imported pay the duties at the ports of British India. Properly speaking, the goods ordered by and for sale and consumption in Native India are said to be in transit, until they reach their destination. Therefore, either the duty paid at ports of British India should be refunded at land frontiers or the sea-customs revenue must be shared, on some agreed basis, with the States. But neither of the two is done. This anomalous situation had, in the past, been defended on the grounds that the total customs revenue was very small in amount for any division, that the charges for military protection of the whole of India including Native India against internal and external aggression fell on British India alone and that, therefore, these claims cancelled out each other. It was also pointed out that, in case of refunding the duty, the customs houses would have to be established on the frontiers, which would be a great hindrance to trade between Native India and British India.

The first part of the defence loses much of its validity at present when the Customs Revenue has increased from the old sum of 3 crores of Rs. to 45 to 50 crores of Rs. with

* "Modern Tariff History," Ashley, p. 6.

an upward tendency. The States can now very reasonably claim their due share in the customs revenue of India; and, in fact, all important States have become conscious of this point. The Indian Customs Tariff, though exclusively regulated by British India, is a matter of concern to all States, who will possibly claim their proper share in its determination. On the other hand, the second part of the defence of the existing arrangement, *viz.*, the military expenditure, gains more strength. The Indian military expenditure borne only by British India has greatly increased. It will, therefore, be necessary to examine and compare the claims of the States to a proper share in the Customs Revenue of India and those of British India to proper contributions from the States to the general military expenditure of India. None of the past treaties and engagements provide for the claims of either side, and yet they are too reasonable and too serious to be neglected. These problems will persistently press for solution in near future. The existing arrangement and the general relations with the Native States are the result of the variations in the past policy of the British Government towards them. In the changing circumstances the re-examination and the readjustment of these relations should not be long postponed.

The alternative of refunding the duties, which would necessitate the re-establishment of the preventive customs lines at the frontiers of every state and which would enable it to levy its own duties, must at any cost be avoided for ever. The existing common fiscal system with unity of external tariff and freedom of internal trade, which avoided inter-state tariff wars and the expensive and oppressive customs lines, must continue to be the cardinal principles of any union that might be formed on the basis of equality in India.

The complexities of the situation are increased by the large multiplicity of States to deal with. Some of these

enjoy more or less full autonomy over their internal affairs; while in the case of others with limited or nominal jurisdiction, the British Government exercises a substantial and living control over their internal affairs. It will, therefore, be imperative to cut the knot somehow by drawing a definite line which would separate the Rulers of comparatively large and compact territories with full powers of internal administration from the others. The States of the former class will then have direct relations with the Central Government of India and the remaining should be left with the Provincial Governments, in whose territories they will ultimately be absorbed and thus will eventually lose their present distinct identities.

However, under the conditions of existing relations with the States the solution of the problems which we raised above is as difficult as it is impossible, for it raises larger political questions which must be tackled first. Whatever temporary devices may be found out, their ultimate solution depends upon the future political and constitutional developments both in British and Native India. With the development of Self-Government in British India, the position of Native India is bound to be affected. In matters of policy, which will now be increasingly decided by purely Indian instead of British interests as in the past, the States will legitimately desire to have their voice. Points of contact have been constantly increasing, matters of common interests are daily growing and persistent influences are at work to increase the solidarity between British India and Native India. There is no reason why the States should not participate in the decisions concerning matters of general policy or of common concern. Consequently, there must develop some constitutional machinery which will ensure constant consultation and co-operation on their part on the basis of equality. It is quite possible that the circumstances and

the needs of the time will compel all important states—remaining after the process of elimination—to combine with the Provinces of British India to form a sort of federation. "Looking ahead," says the Montagu-Chelmsford Constitutional Report, "to the future we can picture India to ourselves only as presenting the external semblance of some form of 'Federation.' The provinces will ultimately become self-governing units, held together by the Central Government which will deal solely with matters of common concern to all of them. But the matters common to the British provinces are also to a great extent those in which the Native States are interested—defence, tariffs, exchange, opium, salt, railways, posts, and telegraphs. The gradual concentration of the Government of India upon such matters will therefore make it easier for the States, while retaining the autonomy they cherish in internal matters, to enter into closer association with the Central Government if they wish to do so."*

If the constitutional development proceeded on the federal lines as indicated above, Tariffs will continue to be one of the subjects of the Central Administration, readjustment of the sources of taxation and the items of expenditure between the Central Government and the federating states will follow and the division of the income from Customs will ultimately be avoided. The federating states then will have to abandon even the nominal customs duties which some of them still continue to collect at their frontiers. Consequently, instead of the existing arrangement dominated by the Imperialist policy of the British Government which desires "to control and not to share control," there will be in India a properly national Customs Union based upon the fundamental principles of a common external tariff, uniformity of customs laws, complete freedom of internal trade and common control.

* Montagu-Chelmsford Constitutional Report, pp. 240-241, para 300.

Conclusions.

To summarise :—India is, in fact, one geographical and economic whole, which is politically divided into two parts, British India and Native States. There are about 700 Native States with widely different characteristics and varying size. All of them whether large or small acknowledge the suzerainty of the British Government but differ from each other in their rights and obligations as much as they do in size of their territories. The existing relations with the States are the result of variations in the British policy in the past. The British Government, whose authority over these states flows through numberless different channels, like treaties, engagements, tacit consent, or usages, has imposed upon them numerous restrictions, controlling not only their external and inter-state relations but also to a certain extent their internal administration. The restraints on their internal jurisdiction, which of course depend upon the nature and importance of the objects of interference, take sometimes the form of friendly advice, sometimes that of earnest remonstrance and at others of peremptory command.

The vast territories of Native States in the interior have been surrounded by the coastal chain of British dominion. The British Government obtained by a systematic policy a practically complete control over the coast line, the sea-borne trade and eventually the foreign tariff policy of all India. Numerous frontiers of the Native States in the interior gave rise to problems concerning inland and transit duties which restricted inland local as well as through trade. Before the British Rule the system of collecting transit duties and inland customs was prevalent in its worst form throughout India. Freedom of internal trade and a uniform external tariff had been introduced by 1850 in British India, as the first step in the process of unifying the whole of India by a sort

of customs or commercial union, under the absolute control of the British. The extension of this reform to the territories of the States had to proceed with all proper considerations of their rights and feelings. Arbitrary deprivation of their sources of revenue was both impossible and impolitic ; while their reluctance to sacrifice revenue was quite natural. Hence, very little progress was made in the beginning. Persistent efforts were made by the British Government to get rid of this objectionable form of taxation in Native India by persuasion, friendly advice, treaties, and finally by the use of its political influence. The progress of the movement was facilitated by the reform of salt duties and was greatly furthered by the construction and extension of railways in Native India which daily reduced the value of transit duties. As the result of separate treaties, correspondence, and negotiations with separate states, all of them, one by one, surrendered all inland duties in their territories. Consequently, since 1887, with some unimportant exceptions, there has been complete free trade throughout the vast continent of India. Along with this, successful attempts were also made by the British Government to obtain practical authority over the sea customs of some of the few remaining Indian territories of any importance on the coast for the purpose of bringing about uniformity of external tariff and tariff laws on the basis of British India.

For nearly a century of British Rule, there was no unity of economic life in India. Provinces under the British were widely separated from each other by the territories of Indian Rulers with considerable internal jurisdiction and were even treated as separate fiscal units. India was thus virtually dismembered into a number of distinct economic areas, closed in on every side by customs lines. This situation continued in British India down to the middle of the 19th century, when freedom of internal trade and uniformity of external tariff were

practically established. However, the real economic unity can be said to have existed in India after 1860, when under the dominant leadership of the British Government a closer union and co-operation was gradually brought about between British and Native India in measures of common welfare and common interests, such as, Railways, Irrigation, Posts, Telegraphs, Canals, Freedom of internal trade, Currency, Weights and Measures, Famine-relief, and uniform taxes such as salt, liquors, opium and other excise duties. The consolidation of India into a single economic nation is still in a state of evolution.

On the whole, India has at present freedom of internal trade and a common external tariff under the absolute control of the British Government. The historical object of this arrangement was the encouragement of British commercial and industrial interests by the exploitation of a huge economic area like India. Its ultimate benefits to India, however, cannot be gainsaid. The existing order should be called "Subordinate Union," dominated by the Imperialistic policy of the British Government. The Native States neither play any part in decisions regarding external tariffs of India, nor have any share in the sea customs revenue which is wholly appropriated by British India. Under existing conditions any immediate solution of this anomalous position seems to be impossible. The changing circumstances will, in no distant future, make the need for revising the whole arrangement unavoidable. The ultimate solution depends upon the future political and constitutional developments in both British and Native India. With the general development of Self-Government in India and with points of contact, matters of common policy and interests of common concern between them daily increasing, there will possibly emerge, and there should emerge, on federal basis a constitution for the whole of India, which will create in place of the present "Subordinate Union" a really national union with common policy and common control.

CHAPTER X.

THE PROBLEM OF FISCAL AUTONOMY.

It is a matter of fact that since the time of her conquest by the East India Company and the commencement of the period of its territorial sovereignty, India has been dependent upon Great Britain for fiscal as well as for political purposes. We shall briefly narrate below the important Parliamentary Statutes which constitutionally effected this fiscal dependence and also describe the gradual development of the Indian movement for fiscal autonomy and the results that it has obtained.

Fiscal Dependence and Important Parliamentary Statutes.

In 1765 the East India Company was granted by the Mogul Emperor, Shah Alam, the Diwani or the right of fiscal administration of Bengal, Behar and Orissa, which was believed to have established the sovereignty of the Company over these territories. Since then, a claim was made on the part of the public of England to the beneficial control over these territorial acquisitions and the revenue derived therefrom. The disclosures about the scandalous conduct of the servants of the East India Company in India and the pecuniary difficulties of the Company helped the English public to realise their claim. Parliamentary intervention was imperatively demanded. Accordingly, various negotiations and agreements to that effect took place between the Company and the British Government. Various attempts* were made on behalf of the Crown to secure effective control over the manifold affairs of the East India Company, with the result that its undoubted sovereignty over the territories of the Company was ultimately established.

* Acts of 1767, 1768, 1769 and the Regulating Act of 1773.

"Previous to 1781, the affairs of India were administered by the East India Company without any direct control on the part of His Majesty's Government."*

By a clause in the Charter Act of 1781,† one of the Secretaries of State was invested with a controlling authority over the Company's affairs. It was enacted "that the Court of Directors shall deliver to the Lords of the Treasury copies of all letters and orders relating to the revenues of the company and to one of His Majesty's Secretaries of State copies of all letters and orders relating to the Civil and Military Government and affairs of the company or of their servants in India, also that the Court shall be bound by such instructions as they might receive from His Majesty, through one of his Secretaries of State, so far as related to the conduct and transactions of the company and their servants with the country powers in India as well as to the levying war as to making peace."

Such a method of controlling the affairs of the East India Company continued till it was superseded by a new one under the Act of 1784.‡ By this Act a Board of Commissioners, popularly known as the Board of Control, was constituted to superintend, direct and control the Civil, Military and Revenue affairs and policy of the East India Company and its territories. The Board was composed of six Privy Councillors, including one of the Secretaries of State and the Chancellor of the Exchequer. Subject to the final, direct and permanent superintendence of the Board of Control, the Court of Directors conducted their affairs in India. The Act thus vested the supreme authority over the territories of the East India Company in the British Government. The central idea and the main purpose of instituting such a Board of Control continued

* "Constitution of the East India Company" by Auber, p. 60.

† 21 George III. C. 65. Sec. 34.

‡ 24 George III. C. 5.

to be dominant, even though its constitution and the nature and the extent of its powers were amended by subsequent enactments.

The Act of 1797* regulated the trade of foreign nations with India. The preamble after reciting the old Navigation Act of 1660† said: "It is expedient that the ships and vessels of countries and states in amity with His Majesty should be allowed to import goods and commodities into and to export the same from the British Territories in India subject to certain restrictions and regulations" of the East India Company. The Directors of the Company were, therefore, empowered to frame such regulations for this trade "as shall seem to them most conducive to the interest and prosperity of the said British possessions in India and of the British Empire.....provided always that it shall not be lawful for the Directors of the said united Company to frame any regulation for the conduct of the said trade which shall be inconsistent with any treaty or treaties which shall have been or may be entered into by His Majesty, His heirs and successors, and any Country or State at amity with His Majesty or which may be inconsistent with any act or acts of Parliament which have been passed for the regulation of the Trade and Commerce of the said British Territories in India."

Sec. II. "And be it further enacted, that all such Regulations, as shall be framed by the said Court of Directors for carrying on the Trade to and from the British possessions in India and the Countries and States in amity with His Majesty, shall be and they are hereby directed to be subject to the superintendence, direction and control of the Board of Commissioners for the affairs of India in the same manner as all acts, operations and concerns

* 37 George. III Cap. 117.

† 18 Charles II Cap. 18.

which anywise relate to or concern the Civil and Military governments and revenues of the British Territories and acquisitions in the East Indies now are."

Sec. III. "And be it further enacted, that it shall not be lawful for any general Court of Proprietors to alter, or change or to direct or order, or authorize, the altering or changing of any Resolution of the Court of Directors or to rescind, revoke, suspend, or vary the same, in so far as the same relates to the intercourse of foreign nations in amity with His Majesty and the British Territories in India."

The Act thus made the regulation of the trade of foreign nations with India a matter of Imperial or British concern.

The Charter Act of 1813* introduced still stricter control over the customs system of British India.

Sec. XXV. "And be it further enacted that no new or additional imposition of any duty or tax upon the export, import or transit of any goods, wares or merchandize whatsoever made or to be made by authority of the Governor-General or Governor-in-Council of any of the said Company's Presidencies or settlements in the East Indies, or parts aforesaid, shall be valid or effectual until the same shall have been sanctioned by the Court of Directors of the said Company, United Company, with the approbation of the said Board of Commissioners."

By the Sec. XCVIII the Governor-General and Governors of other Presidencies were authorized to levy customs duties and taxes in their respective territories, subject to the above restriction. The Sec. XCIX empowered them to prepare the necessary rules and regulations for the customs administration in their respective territories.

* 53 George III. Cap. 155.

The several Provincial Governments in India were thus empowered to prepare necessary regulations for the imposition of duties on the export, import and inland trade of India. But they were concerned with the administrative side rather than with the matters of policy, which were reserved for the Imperial authority. Again their regulations were not valid, until sanctioned by the Court of Directors with the approbation of the Board of Control. Only after the necessary sanction could they be promulgated in India.

The last two Acts jointly invested the final authority of controlling and regulating the Customs and Commercial policy of India in the Board of Control and through it in the British Cabinet and thus caused the fiscal dependence of India on Great Britain. The economic subordination of India inevitably followed from her political subordination to Great Britain.

The Charter Act of 1833* made no important change in the power exercised by the Board of Control over the Government of India. The Governor-General-in-Council was empowered† to make Laws and Regulations for the whole of India. Such laws were subject to the sanction of the Court of Directors, acting under the Board of Control. It was also expressly provided that the British Parliament had the "full, complete, and constantly existing right and power" to legislate for India and to repeal Indian Acts at any time. Therefore, the extension of the Legislative powers of the Government of India by the Charter Act of 1833 did in no way relax the control of the British Cabinet exercised through the Board of Control over the commerce and customs tariff of India.‡

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* 3rd & 4th William IV. Cap. 85. Secs. XIX to XXV.

† Ibid, Sec. XLIII to LIII.

‡ In 1837 the Government of India wrote to the Court of Directors as follows:—"The Regulation of the Commerce of British India with the

Continued on next page.

On the whole, therefore, the Government of India was powerless to regulate the trade of foreign nations with India and also to negotiate independent commercial treaties with them, which, however, were strictly matters for decision by the British Cabinet. Secondly, it was strictly prohibited to the Government of India to raise the customs duties in India without the sanction of the Court of Directors, acting under the Board of Control—practically a tool of the British Cabinet.

There were two points in connection with the trade and tariff of India in which the British Government was mainly interested, *viz.* (1) constant increase of British trade with India, and (2) restrictions on the trade of foreign nations with India in order to protect and promote the interests of British shipping, British trade and British industries. How the control, thus obtained by Great Britain over the commerce and customs tariff of India, was utilised in encouraging these main objects, how the interests of India were neglected or allowed to suffer, how the Indian interests were subordinated to British or Imperial, and how, since the Parliamentary control of Indian affairs, British manufacturers and merchants constantly influenced the commercial and the tariff policies practised in India, of which the reports of and evidence before the Select Committees of 1782 (9th Burke Report) 1793, 1808-13, 1830-33, and 1840 are the everstanding

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Continued from previous page.

States of Europe and America is not altogether within the competency of the Governor General in Council. In many respects it is a matter of Treaty between His Majesty and those States. And the Parliament of England by an Act passed in 1797 has specifically left the passing of regulations for the trade of Foreign European Nations with India to your Honourable Court (the Court of Directors). The Laws at present in force in respect to this trade and orders for levying double duties upon European Foreign vessels and Americans have emanated from your Honourable Court, and it is doubtful whether the more extended powers of legislation conferred by the 3rd and 4th William IV (Act of 1833) can be considered as having superseded the specific law above referred to." Letter to the Court of Directors, 15th Nov. 1837, P. P. 292. H. C. 1840, p. 87.

monuments,—all these have been clearly and exhaustively demonstrated in Chapters III & IV. In the middle of the 19th century the British fiscal policy was radically altered. Consequently, the whole scheme of preferential treatment to British interests was wiped out of the Indian Commercial and Customs Regulations during the period between 1848 and 1860.

"The Mutiny of 1857 gave the death blow to the system of 'double Government' with its division of powers and responsibilities"* between the Board of Control and the East India Company. The Parliamentary Act of 1858† transferred the territories under the Government of the East India Company to the Crown and declared that India was to be governed henceforth directly by and in the name of the Crown, acting through a Secretary of State, to whom were to be transferred all the powers formerly exercised by the East India Company or the Board of Control. The Secretary of State was to be assisted by a Council in transacting the affairs of India in England, whom, except in certain matters including the expenditure of the revenues of India, he could overrule in all other matters,‡ and to whom in cases of urgency and secrecy he might not even refer.§ The expenditure of the Indian revenue in India or elsewhere was by law subject to the sanction of a majority of votes at a meeting of his Council.‖ But in matters of expenditure where Imperial questions and Cabinet decisions were involved, the Council could not effectively exercise this constitutional check on the powers of the Secretary of State. In Imperial questions affecting India the decisions of the Cabinet must always prevail.¶

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* Ilbert "The Government of India", p. 91.
† 21 & 22 Victoria Cap. 106, Sections I, II & III.
‡ Ibid. Secs. VII to XVIII.
§ Ibid. Sec. XXV.
‖ Ibid. Sec. XXVI.
¶ Ilbert. "The Government of India", pp. 110 & 160-161.

The finances of India were made subject to the close scrutiny of Parliament. All the revenues and expenditure in India were declared subject to the control of the Secretary of State in Council. The accounts* of the Indian revenues and expenditure were to be laid annually before Parliament and the accounts† of the Secretary of State in Council were to be audited by an auditor appointed by the Crown. Money on behalf of India was borrowed only in Great Britain by the Secretary of State in Council with the sanction of Parliament.

The Parliamentary Act of 1861‡ (Indian Councils Act) extended the legislative powers of the Government of India but made no change in the relations which subsisted between the Imperial Government and the Government of India. For purposes of legislation, the Act of 1861 reinforced the Viceroy's Council by 6 to 12 additional nominated members of whom not less that one-half were to be non-official. The function of this new Legislative Council was the consideration and enactment of legislative measures, which practically meant the registration of the Executive Acts; for its discussion was limited and advisory and its voting non-effective. The Indian Councils Act of 1892 (55 & 56 Vic. C. 14) only enlarged the size and the functions of the Legislative Council established in 1861. Its power of discussion was still limited and ineffective.

Now, instead of the Board of Control, there was a Secretary of State through whom the British Cabinet exercised its authority over India. He was responsible to Parliament and British public opinion and changed with the Government of whom he was a member. The Government of India was for all matters of policy constitutionally subordinate to the Secretary of State, whose

* 21 & 22 Vic. Cap. 106. Sec. LIII.

† Ibid. Sec. LII.

‡ 24 & 25. Victoria, Cap. 67.

orders it was required to obey and who had full authority to disallow any Indian Act. " But of course, the relations between the Secretary of State and the Government of India are now regulated by Constitutional usage,"* and depended very much upon their personality and views and the spirit in which they conducted discussions. The extent of initiative and discretion left to the Government of India and the extent of the practical control of the Secretary of State in actual administration were matters of the unwritten constitution. Disputes arose where extreme claims were put forward on one side or extreme rights were enforced on the other. In such disputes the Secretary of State used to ultimately silence† the Government of India by reminding them of the seat of ultimate authority whose instructions they were bound to obey.

Constitutional Law and Practice of the Fiscal Relations between the Government of India and the Secretary of State.

We proceed, therefore, to describe at length the legal and constitutional principle and practice in the relations between the Secretary of State and the Government of India, with reference to an important correspondence that passed between them which finally settled the whole question.

In 1859 Lord Stanley,‡ the first Secretary of State for India, wrote to the Government of India as follows : " It is most desirable that all questions regarding fiscal legislation in commercial matters should be disposed of with the least possible delay ; and I have to convey to you, on the part of His Majesty's Government, their full

* "The Government of India" by Ilbert p. 117.

† Refer to the dispute of 1864 on the Government of India's proposal to amend the Penal Code. In 1865 the Secretary of State disallowed the Act of the Government of India regarding certain new export duties.

‡ Separate Revenue despatch to the Government of India (No. 4) dated 7th April 1859, P. P. 81, C. H. C. 1859, p. 7.

authority to settle the future administration of the Customs revenue, so far as it is within the competence of your Lordship's Government without further reference to this country" (England).

In 1869, a very interesting question of constitutional principle and practice arose, when the Secretary of State, the Duke of Argyll, practically ordered* the Government of India to adopt a certain section of the proposed Contract Law, which they previously did not approve of, and to "employ all the usual and legitimate means to secure its passing as a Government measure" through the Legislative Council. In reply the Government† of India under Lord Mayo claimed that the practical effect of the Indian Councils Act of 1861 was to invest them with a legislative initiative and discretion subject to the veto of the Secretary of State and further observed that if the Secretary of State expected them to receive the expression of his views, wishes or suggestions as a command to introduce into the Legislative Council measures of which they disapproved, "It is enough to say, as to such a course, that it would reduce‡ us to the alternative of either publicly stating that the Bill was introduced, not on our responsibility, but in obedience to your (the Secretary of State's) positive orders, or else of defending it by arguments which we did not believe to be sound."

In his reply to the Government of India,§ the Duke of Argyll emphatically asserted that the principle underlying the system of governing India was "that the final control and direction of the affairs of India rest with

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* C. 7731. 1895 p. 3. Legislative Despatch No. 8 of 18 March 1869.

† Ibid, pp. 1, 5. Letter to the Secretary of State, Legislative No .1 of 22nd March 1870.

‡ It may be noted here that the Government of India were really reduced to such a position at the time of passing the Cotton Excise Duty against their will, 1894-96.

§ C. 7731, 1895, pp. 6-7, Legislative Despatch No. 47 of 24/11/1870.

the Home Government, and not with the authorities appointed and established by the Crown, under Parliamentary enactment, in India itself," and that as such the Home Government must hold in its hands the ultimate power of vetoing all Indian Acts, of ordering the Government of India to adopt a measure which it deemed essential and of requiring them to get it passed through the Legislative Council by every constitutional means.

In 1874, Lord Salisbury then Secretary of State strictly instructed* the Government of India to regularly furnish him henceforward with full and timely information concerning the reasons and the policy of all important measures decided by them, before they were submitted to the Legislative Council. With regard to measures of slight importance or measures urgently requiring speedy enactment, this course might be suspended, for which sufficient reasons were to be subsequently communicated. The determination of the degree of importance was left to the discretion of the Government of India. If a Bill once sanctioned by the Secretary of State was materially changed during the course of legislation, the progress of the legislation was to be delayed and the altered Bill was to be referred to the Secretary of State for his opinion.

The sense of the word " urgent " was obviously vague and admitted of different interpretations. A sharp controversy took place between the Government of India and the Secretary of State on the Tariff Act of 1875 about which the latter was not previously informed. Very strained correspondence followed between Lord Salisbury and Lord Northbrooke. The Government of India maintained† that the Act was urgent. The Secretary of State challenged‡ the

* Ibid, pp. 7, 8, 9. Legislative despatch, No. 9. of 31st March 1874.

† Letter to the Secretary of State of 16th August 1875 P.P. 56 H.C. 1876, p. 67.

‡ C. 7731 of 1895, pp. 12-13. Despatch to the Government of India, Legislative No. 51 of 11/11/1875.

points of urgency and further instructed the Government of India that, in order to avoid any misapprehension due to the ambiguity of the word, measures of urgency were to be at once reported to the Secretary of State by Telegram before they were enacted. He concluded :— " The object of the instructions which I have given to your Excellency on this subject is not to fetter the discretion which the Law has vested in the various Legislative authorities of India ; nor in any case to renounce on behalf of the Crown the power of disallowance which belongs to it."*

The instructions of Lord Salisbury in general, followed by his disallowance of the India Tariff Act of 1875 were strongly criticised by the Government of India in their Letter† of 17th March 1876, accompanied by their lengthy and important minute‡ on the whole subject. The sense of the Letter is as follows :—According to the instructions of Lord Salisbury, all contemplated legislative measures, excepting those of slight importance, were to be reported to the Secretary of State, in order that an opportunity may be afforded to him for expressing an opinion upon them before their introduction into the Legislative Council. This would make a great change in the previous practice, according to which on many legislative measures there had been much consultation between the Government of India and the Secretary of State before their introduction ; with regard to others, the responsibility of enacting them without previous reference to the Secretary of State had by usage devolved upon the Government of India. For example, it had not been the practice to refer the alterations in customs duties to the Secretary of State previously to their being

* Ibid p. 12, Despatch to the Government of India, Legislative (1874) No. 33 of 15/10/1874.
† Ibid, pp. 13 to 19.
‡ P. P. 240. H. C. 1879.

passed by the Legislative Council. They were left entirely to the discretion and responsibility of the Government of India, subject to the final veto of the Secretary of State. The communications of the Secretary of State on fiscal matters had always come as suggestions and not as positive instructions.

The Letter of the Government of India ended with the following request to the Secretary of State :—" A similar course has been followed, so far as we are aware, with regard to all other measures affecting the finances of India. Bills imposing taxes have been constantly introduced without previous reference to the Secretary of State. It thus appears that the practice has hitherto been invariably observed of holding the Government of India to be primarily responsible for the finances of India, with full discretion, subject to disallowance if disapproved, to pass such financial measures as may be necessary from time to time. We apprehend that a change in this practice would be attended by a division of this responsibility in respect to the administration of the finances by delay and by other serious inconveniences ; and we submit that the rules should be so interpreted as to exempt measures affecting finance and customs which have hitherto been dealt with on the responsibility of the Government of India from the rule that requires legislative measures to be referred to the Secretary of State before they are introduced, and that it may be understood that the present practice of leaving in all ordinary cases the initiation of other legislative measures to the Government of India will not be disturbed. At the same time we fully recognize the desirability of free communication and consultation between the Secretary of State in Council and the Government of India when any special circumstances may render such consultation and communication expedient."*

* Letter to the Secretary of State, 17th March 1876. Public No. 9, C. 7731 of 1895, p. 18.

In the Minute* that accompanied this Letter of 17th March 1876, the Government of India under Lord Northbrooke claimed that in the Constitution " Parliament has made certain arrangements which, while fully providing for that control and direction, (ultimate control and direction of Indian affairs resting with the Home Government) distribute the functions of Government in respect to Legislation so that the initiation rests with the authorities in India, while the power of veto rests with the Secretary of State as the responsible adviser of the Crown." (paras, 4 to 15). They strongly resented the initiation of Legislation for India in England, which they thought was the tendency of the new instructions of Lord Salisbury. The dangers of such a course, they illustrated, by reference to the political pressure that was exerted by powerful classes in England upon the Secretary of State and the Government of India, specially in connection with the Indian cotton duties. (paras. 16 to 24.). The minute further remarked : " We think it our duty to submit our earnest protest against the principle that the taxation of India is to be regulated under pressure from powerful classes in England, whose private interests may not be the interests of India, and with regard to principles established in England and for England, and without ascertaining by communication with the responsible Government in India the political or financial bearings of the measure or the views and sentiments of our Indian subjects. In the first place we cannot consider that a duty imposed for the benefit of India gives the English manufacturer any claim for compensation.....We deny that the English manufacturer has any more claim to regulate Indian taxation for his own interests than any other (foreign) manufacturer has. Admitting fully that parties, who have private interests, but are in no ways concerned with the welfare of India, should be listened to, we hold that

* P. P. 240. House of Commons 1879.

the decision ought to go according to the interests of India. If the English manufacturer uses his political power in England to warp the decision in favour of his own private interests, that is not a legitimate process." (paras. 25-26). The minute concluded that they did not object to all preliminary correspondence or understanding between the Secretary of State and the Government of India, which, however, must essentially be voluntary rather than of the nature of rigid orders, and which would then facilitate the constitutional practice, leaving the initiative and discretion to the Government of India and the veto to the Secretary of State.

Lord Salisbury and his legal adviser Sir Henry Maine thought that the Government of India advanced in the above correspondence a legal doctrine which denied the right of the Secretary of State to direct them (the Government of India) to legislate in a particular way and that the Government of India claimed in fiscal matters a degree of independence that was not provided in the existing constitution.

Consequently, in order to remove the misconceptions that were believed to have arisen during the "Cotton Duties Controversy" regarding the fiscal relations between the Secretary of State and the Government of India, Lord Salisbury addressed in 1876 an important despatch to the Government of India under Lord Lytton,* which finally settled the whole subject in a most clear and emphatic language. It would be better to reproduce his own language :—

"Only one object can be gained by not communicating to Her Majesty's Government a financial proposal until it has become law. It might have the effect of diminishing

* Lord Northbrook had resigned just after his Letter of 17/3/1876 to the Secretary of State.

the control of Her Majesty's Government over this department of legislation. At all events, it would make the control more inconvenient and difficult to exercise, and would tend to give the Governor-General-in-Council independence, in respect to this class of measures. I gather from several passages in the Letter under reply, that this was the result which your predecessor in Council thought it desirable to attain.

"It cannot have escaped the notice of your predecessor in Council that "full discretion, subject to disallowance," is the extent of the legislative power enjoyed by the self-governed colonies of the British Empire. His proposal, therefore, is that the Government and Legislative Council of India shall enjoy the same amount of independence in respect to financial measures as is enjoyed by the elected Assemblies and responsible Governments of Canada and Australia. These Governments are at liberty to propose and carry what financial measures they may think fit without reference to any superior authority. But when the measures are carried they are subject to disallowance in England. This is precisely the position which your predecessor in Council desires should be assigned to the Government and Legislative Council of India.

"For the full investigation of this proposal, it would be necessary to examine the constitution of the Legislative Council of India, and to ascertain how far its structure and mode of appointment are suitable for the exercise of the same independence that is conceded to the Legislatures of Canada and Australia. It will be sufficient, however, on the present occasion, to confine my observations to the nature and extent of the responsibility which Parliament has imposed upon Her Majesty's Government in respect to India, and the duties and powers by which that responsibility is necessarily accompanied.

" It is not open to question that Her Majesty's Government are as much responsible to Parliament for the Government of India as they are for any of the Crown Colonies of the Empire. It may even be said that the responsibility is more definite in that the powers conferred are, in the case of India, armed with a more emphatic sanction. Disobedience to superior orders, on the part of the authorities of a Crown Colony, would entail no consequences except administrative censure; but the statue 3 and 4 Wm. 4 c. 85 s. 80 guards the power of the Crown in respect to India by the sanction of a formal enactment. Nor has any exception been made, either legally or in constitutional practice, in favour of questions of finance, which your predecessor proposes specially to withdraw from the action of the Home Government. On the contrary the vigilance of Parliament is more active, and the weight of parliamentary responsibility more strongly felt in respect to finance than in respect to any other department of Indian Government. On all other questions Parliament is satisfied to interpose only on occasion, whenever any matter which seems to require its attention may arise. But, in respect to finance,—besides frequent motions on particular point, and lengthened inquiries before committees,—the House of Commons requires that an elaborate statement of the policy of the Government shall be annually made to it, with a full explanation of the reasons by which that policy has been guided. The financial statement so made is always scrutinized and discussed with care. Occasionally the action of the Government upon the most vital questions of Indian finance is challenged, motions of censure are made, the policy pursued has to be defended in detail by the representatives of the Government in debate, and the motions of censure are submitted by a division to the judgment of the House. In respect, therefore, to Indian

finance, the constitutional responsibility of Her Majesty's Government is effective and constant.

"It necessarily follows that the control exercised by Her Majesty's Government over financial policy must be effective also. They cannot, of course, defend in debate measures of which they do not approve; nor can they disavow all concern in them, and throw the responsibility of them upon the distant Government of India. If some measure of financial policy were challenged in Parliament, the House of Commons would not be satisfied to be told that Her Majesty's Government wholly disapproved of it, but that it had been left to the responsibility of the Government of India. Full legal powers having been entrusted to Her Majesty's Government, Parliament would expect that care should be taken that no policy should be pursued which Her Majesty's Government were unable to defend. If the control they possess were to be in any respect less than complete, the power of Parliament over Indian questions would be necessarily annulled. If the Government were at liberty to assume the attitude of by-standers, and to refer the House of Commons for explanations to the Governor-General-in-Council upon any policy that was assailed, there would practically be no one whom theHouse could call to account, or through whom effect could be given to its decisions. In scrutinizing the control exercised over the Government of India by Her Majesty's Government, and the grounds for maintaining that control, it must be borne in mind that the superintending authority of Parliament is the reason and the measure of the authority exercised by the responsible Ministers of the Crown; and that, if the one power is limited, the other must be limited at the same time.

"It is impossible, therefore, that 'measures affecting customs and finance can be dealt with on the responsibility of the Government of India.' as your predecessor in

Council has suggested. So far as Parliament is concerned, no such responsibility exists. The only responsibility known to Parliament is that of the Ministers of the Crown.

" Nor is it possible to admit that there is any peculiarity in the nature of measures relating to finance and customs, which makes it desirable that they should not, previously to their introduction, be communicated to Her Majesty's Government. On the contrary, there are considerations which would make such communication in many cases specially desirable. Measures affecting the tariff touch subjects which are not exclusively of Indian concern. They influence the prosperity of trade and industry outside the confines of India, and they relate to matters on which Her Majesty's Government is in constant negotiation with foreign powers. Such considerations may furnish important elements in considering the expediency of financial proposals ; but they are necessarily less fully within the cognizance of the Indian than of the Imperial Government. Previous consultation appears, therefore, to be more necessary as to this class of measures than as to any other.

" I cannot, therefore, consider that it would be consistent with the obligations imposed by Parliament upon Her Majesty's Government, and the responsibility exacted from them, to except financial measures from the general practice of previous communication which, in the Despatch of 31st March 1874, I requested your Government to observe. I need hardly say that this request implies no derogation from the implicit confidence which Her Majesty's Government repose in your Excellency's judgment and ability ; nor does it imply any inclination on their part to withdraw from you the initiative, which, as a general rule, has been left to your Government."*

* C. 7731 of 1895, pp. 21-23. Despatch to the Government of India. Legislative No. 25 of 31st May 1876.

Thus the Home Government renewed and asserted in clear and affirmative terms its power to initiate, change, direct and control measures affecting matters of policy in India. It was not out of any sentimental motive of constitutional independence in principle or of challenging the ultimate authority of British Parliament to direct and control the affairs of India, but out of the expediency of a procedure which would keep the Indian Legislature, and specially fiscal measures, free from British political and social influences, that the Government of India under Lord Northbrooke claimed and struggled to secure to themselves, by mutual understanding with the Secretary of State, a sort of exclusive right of initiative in fiscal matters, subject only to the final veto of the Secretary of State. It was argued that the fundamental principle of good Government for India was that the fiscal measures should originate with the Government of India, while the function of the Home Government should be limited to the careful revision of such measures. It was foreseen that if the Secretary of State were ever to assume and exercise the initiative in fiscal measures regarding India, Parliamentary pressure would be exerted upon him by politically influential classes in Great Britain to produce measures with a view to their own interests rather than those of India.

No British Government could defy these powerful classes who had vital commercial interests in India and yet survive in office. Consequently, the history of fiscal relations between the Government of India and the Home Government during the last half a century is a story of successive incidents in which the Secretary of State, ostensibly under the cover of Free Trade principles but really under the pressure from certain interested classes in Great Britain, disallowed certain Tariff measures recommended by the Government of India and actually ordered and

forced them to adopt certain Tariff measures, against their own will and considered judgment, and in face of their open or silent protests, and on the other hand, a story of suspicion, resentment, and unsuccessful protests on the part of the Indian public. In general, the first and the last word on all tariff measures in India rested with the Home Government.

As regards the general relations between the India Office and the Government of India, the situation that existed before the constitutional changes of 1919 was as follows. In principle, the Secretary of State had full powers of superintendence, direction and control over the affairs of India. In virtue of these powers, "All measures, administrative, financial and legislative, of the authorities in India are referred to it (the Secretary of State in Council) for examination and decision except in so far as by general or special orders it has delegated powers of sanction. Delegation has been carried out largely as a matter of expediency with the direct object of increasing efficiency, it has not implied, and has not been intended to imply, any radical change in the respective functions of the authorities between whom it has taken place. The Secretary of State in Council retains the ultimate authority as the head of the system."*

Rise and Progress of the Indian Demand for Fiscal Autonomy.

Now we pass on to describe briefly the factors that gave rise to the Indian demand for fiscal autonomy and its subsequent development, together with the success it achieved.

Since 1875 the discussion on the fiscal relations between the Home Government and the Government of

* Cmd. 207 of 1919, p. 5. Report of the Crewe Committee on the Home Administration of Indian Affairs.

India centred round the controversy connected with the Indian cotton duties. The "Cotton Duties Controversy" and its apparent settlement revealed the pathetic and utter helplessness of the Government of India to protect the interests of India against those of Lancashire, acting through the Secretary of State. The abolition of the cotton import duty, its reimposition with a countervailing excise duty, the manner in which they were effected and the purpose which they were intended to serve, provoked a strong and wide-spread feeling of injustice, injury and indignation on the part of the public of India. With the complete triumph of Lancashire, the public opinion of India began to suspect the underlying motives of the Home Government. The action or inaction of the Home Government in connection with various tariff measures was construed in India to be actuated by its selfish motives. It was strongly believed that the policy of Free Trade was imposed upon India, not in her own interests, but distinctly in the interests of the British manufacturers. Enlightened public opinion also began to think that under the British control of the fiscal policy of India, Indian industries would not be fostered and developed, if they happened to conflict with similar British industries. The cotton excise duty was universally taken as an emblem of India's economic subordination to Great Britain, who established and maintained it through her political domination over India. All these factors gave rise to a general demand for fiscal autonomy for India, in order that she might decide her policy in her own interests.

Moreover, suspicions about the objects of the British tariff policy in India, the revelations by the Indian Famine Commissions during the last quarter of the 19th century as to the increasing dependence of the population upon agriculture as the only means of subsistence and their important recommendation as to the need of diversification of industries in India to reduce pauperism, growing

desire to speed up the industrial development, doubts as to the efficacy of free trade policy for that purpose, new spirit of nationalism, the example of the tariff systems of other modern industrial countries and of the rising British Dominions breaking away from the traditional British fiscal policy, and the growing reaction against Free Trade in Great Britain,—all these combined to create and stimulate in India a strong and wide-spread feeling in favour of Tariff Protection. And the demand for protection to Indian industries went hand in hand with the demand for fiscal freedom for India, since the former was thought to be impossible of realisation without the latter.

The repeal of the cotton excise duty was regarded as a test case in any concession to the Indian demand for fiscal autonomy. It united all shades of Indian public opinion. It formed a part of the stock-in-trade of Indian Politicians. The Indian National Congress, Industrial and Economic Conferences, Indian Chambers of Commerce, Mill-owners Associations, and other public bodies repeatedly demanded the abolition of the excise duty and the grant of fiscal freedom to the Government of India.

The Morley-Minto Constitutional Reforms* of 1909 made no change in the relations between the Secretary of State and the Government of India. However, a great fillip was given to the movement by the increased non-official Indian elected element in the constitution of the Legislative Council, with increased strength, enlarged functions, and enhanced powers of "criticism and discussion and of initiating advice and suggestions in the form of definite resolutions" regarding not only financial measures but all questions of general administration. The

* "Indian Constitutional Documents 1600-1918" by P. Mukharjee Until 1909, the Legislative Council was merely the creature of the Executive and to no extent represented the public. Nomination and not election was the method of creating the Council.

non-official members of this Council incessantly pressed, within their competence, the questions of fiscal autonomy and tariff protection upon the Government at the time of Council debates on Budgets or Tariff measures. They kept on recommending the Government to increase the general import duties, if not for purely protective purposes, at least for the mixed purpose of additional revenue and incidental protection. At times, some non-official resolutions* also raised the debates, which exhibited the intensity of the feeling and the unanimity of the non-official opinion on these questions.

An important development took place in the year 1916 which might almost be called the year of the first victory of Indian public opinion on the questions of Indian tariff. The financial difficulties of the war caused an all round increase in the customs duties of India, except the cotton import duty. The measure on the whole was welcomed as a concession to public opinion. The unfortunate omission of the cotton import duty was received with keen disappointment. The Government of India had fully expressed before the Secretary of State their opinion that the cotton import duty should be greatly enhanced, leaving the excise duty—"the subject of wide-spread criticism" in India—at the existing rate with a view to its subsequent abolition. But the Home Government could not then sanction it on the ground of the expediency of avoiding contentious questions during the war. The whole question was, for reasons of Imperial policy, postponed until the end of the war. Referring to this the Hon. Sir Ibrahim Rahimtoola said : "We are asked to await the readjustment that will take place after the war in regard to our fiscal matters. Sir, hope is eternal and we live in hope but I do trust that

* Refer to Proceedings of the Council on 9th March 1911, and on 17th March 1913.

the Government of India will forcibly bring to the notice of the Secretary of State that the feeling in the country is strong and insistent in favour of fiscal freedom, and they will not be satisfied by any reasons of the kind that have been advanced now and in the past ; that they desire that India shall economically rise and be free to levy taxation in directions most suitable to themselves, to their views and to their sentiments."*

Two days after, on 21st March 1916 the Hon. Sir Ibrahim Rahimtoola moved a Resolution in the Legislative Council recommending the appointment of a Committee " to consider and report what measures should be adopted for the growth and development of industries in India." Among the points† to be referred for the consideration of the Committee, he emphasised : "whether representations should be made to the Home Authorities through the Secretary of State for India for securing to the Government of India full fiscal autonomy, specially in reference to Import, Export, and Excise duties." In a very lucid and illuminating speech in support of the Resolution, he observed :‡ " It appears to me, however, that unless the hands of the Imperial Government (he meant the Central Government of India) are free in fiscal matters, the results will not be adequate. If the Government of India were free to adopt measures solely in the interests of the people of this country without any restrictions or limitations in fiscal matters, our industrial development would be in a fair way of successful accomplishment. India wants fiscal autonomy as the first step towards her industrial regeneration, and if Indian public opinion is to have any weight in the determination of this question, we ought to get it at once." Opinions were expressed with increased force during the Council

* F. S. 1916-17, p. 112.
† Proceedings of the Council, 21st March 191 p. 435.
‡ Ibid, p. 437.

Debate* in favour of the Resolution and specially in favour of Fiscal Autonomy and Protection.

The Government of India accepted† the Resolution and announced the appointment of a Commission. But the consideration of a suitable Tariff policy and the constitutional question of fiscal autonomy were specifically excluded from the scope of the inquiries referred to the Commission, even though the Government recognised that there was "a weighty body of opinion in that direction." Their reasons‡ were that the constitutional change was "a topic outside our purview and one on which we are not entitled to express an opinion," and that "His Majesty's Government feel that the fiscal relationships of all parts of the Empire as between one another and the rest of the world must be reconsidered after the war, and they wish to avoid the raising of all such questions until that fortunate time shall have arrived.....It is clear that the same pronouncement must affect the question of Protection, which has also formed a large part of the speeches to which we have listened to-day, since the question of any important modification in our fiscal system is manifestly inseparable from the question of fiscal relationships of the parts of the Empire and of the rest of the world." Naturally, this restriction of the scope of enquiries entrusted to the Commission was widely regretted.

In 1917 the cotton import duty was allowed to be raised without a corresponding rise in the excise duty. In the debates on 14th March 1917 in both Houses of Parliament,§ the defence of this increase elicited from the Coalition Government a virtual condemnation of the policy

* Ibid, pp. 434 to 471.
† Ibid, Speech of Sir William Clark, pp. 457 to 465.
‡ Ibid, pp. 458-459.
§ Refer to the Speeches of Austen Chamberlain, Lord Curzon and Lord Islington.

of the past Governments regarding the Indian cotton excise duty, an atonement of their past sins and the recognition of this " intolerable grievance and injustice " to India.

Then followed the most momentous years in the Constitutional History of India. In August 1917 the British Government pledged itself by an announcement to a new policy of " the gradual development of self-governing institutions with a view to the progressive realisation of responsible government in India as an integral part of the British Empire." The intensity of Indian feeling on and the importance of, the subject of the fiscal policy of India did not fail to attract the attention of the joint authors—E. S. Montagu, then Secretary of State for India, and Lord Chelmsford, then Viceroy of India—of the Report on Indian Constitutional Reforms. They remarked :

"Connected intimately with the matter of industries is the question of the Indian tariff. This subject was excluded from the deliberations of the Industrial Commission now sitting because it was not desirable at that juncture to raise any question of the modification of India's fiscal policy ; but its exclusion was none the less the object of some legitimate criticism in India. The changes which we propose in the Government of India will still leave the settlement of India's tariff in the hands of a Government amenable to Parliament and the Secretary of State ; but inasmuch as the tariff reacts on many matters which will henceforth come more and more under Indian control, we think it well that we should put forward for the information of His Majesty's Government the views of educated Indians upon this subject. We have no immediate proposals to make ; we are anxious merely that any decisions which may hereafter be taken should be taken with full appreciation of educated Indian opinion.

" The theoretical free trader, we believe, hardly exists in India at present. As was shown by the debates in the

Indian Legislative Council in March, 1913, educated Indian opinion ardently desires a tariff. It rightly wishes to find another substantial base than that of the land for Indian revenues, and it turns to a tariff to provide one. Desiring that industries will give him Indian-made clothes to wear and Indian-made articles to use, the educated Indian looks to the example of other countries which have relied on tariffs, and seizes on the admission of even free traders that for the nourishment of nascent industries a tariff is permissible. We do not know whether he pauses to reflect that these industries will be largely financed by foreign capital attracted by the tariff, although we have evidence that he has not learned to appreciate the advantages of foreign capital. But whatever economic fallacy underlies his reasoning, these are his firm beliefs ; and though he may be willing to concede the possibility that he is wrong, he will not readily concede that it is our business to decide the matter for him. He believes that as long as we continue to decide for him we shall decide in the interests of England and not according to his wishes ; and he points to the debate in the House of Commons on the differentiation of the cotton excise in support of his contention. So long as the people who refuse India protection are interested in manufactures with which India might compete, Indian opinion cannot bring itself to believe that the refusal is disinterested or dictated by care for the best interests of India. This real and keen desire for fiscal autonomy does not mean that educated opinion in India is unmindful of Imperial obligations. On the contrary, it feels proud of, and assured by, India's connection with the Empire, and does not desire a severance that would mean cutting the ties of loyalty to the Crown, the assumption of new and very heavy responsibilities, and a loss of standing in the world's affairs. Educated Indians recognise that they are great gainers by the Imperial connexion, and they are

willing to accept its drawbacks. They recognise that the question of a tariff may be mainly, but is not wholly, a matter of domestic politics."*

Constitutional Change of 1919-20 and the Measure of Fiscal Autonomy.

The Report was a subject of serious discussion in India. In 1919 a Bill was prepared to give effect to its recommendations and was submitted to a Joint Select Committee of both Houses of Parliament. The Committee took the evidence of a large number of Indian witnesses, who had specially gone to England for that purpose. They were all agreed upon the point of fiscal autonomy, with regard to which they tried to press upon the Committee the necessity of a statutory provision in the Bill. In this connection, dealing with clause 33 of the Bill referring to the control of the Secretary of State over the Government of India, the Committee made the following far-reaching recommendation :—

" The Committee have given most careful consideration to the relations of the Secretary of State with the Government of India, and through it with the provincial governments. In the relations of the Secretary of State with the Governor-General-in-Council the Committee are not of opinion that any statutory change can be made, so long as the Governor-General remains responsible to Parliament, but in practice the conventions which now govern these relations may wisely be modified to meet fresh circumstances caused by the creation of a Legislative Assembly with a large elected majority. In the exercise of his responsibility to Parliament, which he cannot delegate to anyone else, the Secretary of State may reasonably consider that only in exceptional circumstances should he be called upon to intervene in matters of purely

* Cd. 9109 of 1918, pp. 270-272. Paras 311-312.

Indian interest where the Government and the Legislature of India are in agreement.

"This examination of the general proposition leads inevitably to the consideration of one special case of non-intervention. Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear. India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective. A satisfactory solution of the question 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 as an integral portion of the British Empire. It cannot be guaranteed by statute without limiting the ultimate power of Parliament to control the administration of India, and without limiting the power of veto which rests in the Crown; and neither of these limitations finds a place in any of the Statutes in the British Empire. It can only therefore be assured by an acknowledgment of a convention. Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada, and South Africa. 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."*

At the time of the second reading of the Government of India Bill on 12th December 1919 in the House of Lords, Lord Curzon on behalf of the Government pointed out: "For the first time a responsible and representative British Committee, charged with shaping a Government for India, have conceded to India almost absolute freedom of fiscal policy; and they have laid down the proposition and the principle that she ought to be free to exercise, in respect of her tariffs, the same degree of liberty as is enjoyed by the great Dominions of the Crown. That is a change so fundamental and fraught with such stupendous consequences that I am amazed at the little attention which it has attracted in this country..... It is a starting point to a future career in the growth of self-governing institutions in India, the importance of which cannot be exaggerated."

The relaxation in the absolute control of the Secretary of State over the fiscal policy of India was greatly lamented by friends of Lancashire in the House of Commons,† who in defence of their lost cause exhibited fearful apprehensions of injury to many British industries from the grant of fiscal autonomy to India.

It was not long before a test case of the convention sanctioned by the Joint Select Committee occurred. In 1921 the imperative necessity of additional revenue compelled the Government of India to raise the general import duties including the cotton import duty from 7½%

* P. P. 203. House of Commons 1919 Vol. I, p. 11.
Also refer to the recommendations of the Crewe Committee appointed by the Secretary of State to enquire into the Home Administration of Indian Affairs on the general relations between the Secretary of State and the Government of India. Para 17, p. 7 of Cmd. 207 of 1919.

† Refer to the House of Commons debates on 4th and 5th Dec. 1919 on the Government of India Bill, specially the speeches of Mr. Stewart and Mr. Dennis.

to 11%. The rise was resented by Lancashire. Replying to a Lancashire Deputation of Employers and Employees on 23rd March 1921, Mr. Montagu, then Secretary of State, made the following courageous statement on behalf of His Majesty's Government : " It would be theoretically possible for me to veto the Bill in which these duties are contained when it comes home for sanction. Actually it is, I would submit, absolutely impossible. I cannot veto the part of a Bill, I must veto the whole Bill (The Indian Finance Bill including many other revenue measures); and I should therefore leave the Government of India with absolutely none of their increased revenue to meet their increased charges. Supposing when the Budget came home originally for sanction, I have refused leave to introduce it, what would have happened ? The Government of India would have had to propose to their Legislative Assembly, duties upon cotton coupled with a corresponding excise. That Legislative Assembly contains an overwhelming majority of members fresh from the constituencies on whose vote the issue would be decided. I do not hesitate to say that there would not be one single member of that elected majority that would have voted for an excise duty upon cotton goods."* After quoting the principle recommended by the Joint Select Committee, he continued : " After the Report by an authoritative Committee of both Houses and Lord Curzon's promise in the House of Lords, it was absolutely impossible for me to interfere with the right, which I believe was wisely given and which I am determined to maintain, to give to the Government of India the right to consider the interests of India first."† He also

* A proposal by the Government to increase the cotton excise duty in 1922 was defeated by an overwhelming majority in the Assembly.

† "The Times" 26th March 1921. Similar attitude was maintained before other deputations that followed later on ("The Times" 18th July 1921). When Mr. Montagu resigned, Lord Peel became the Secretary of State for India, and the same policy has till now been maintained (Refer to "The Times" of 31st March 1922).

suggested that Lancashire should appeal, not to Imperial Parliament, but to the Government and Legislature of India, to whom the former had practically transferred its powers in the matter.

Critique of the Joint Select Committee's Recommendation.

Now it remains to examine criticially the principle established by the Joint Select Committee of 1919, upon the scope and meaning of which various constructions have been placed by public men both in India and in England. "Full fiscal autonomy." "Almost full fiscal autonomy" "Fiscal Freedom on the Dominion Line." "Only a step towards fiscal autonomy" and "Fiscal autonomy to the Governor-General-in-Council and not to the people of India," were some of the different versions coming from different high authorities. Both the Secretary of State and the Government of India left the public to understand the recommendation of the Select Committee in its own way.*

Fiscal autonomy under the Dominion Home Rule† in practice means that every British Dominion has full powers to control its tariffs as it pleases, and to negotiate its own commercial agreements with foreign countries Consequently, no Dominion is bound by any existing or future commercial treaty between Great Britain and foreign states to which it has not assented ; nor is it bound to follow any development in the fiscal policy of Great Britain or to join any scheme of fiscal arrangements within the Empire, unless it is a willing party. The ultimate veto of the Crown, which is a theoretical limitation to the

* Refer to Council Proceedings, 20th Feb. 1920, a Debate on the resolution by the Hon. Mr. Patel regarding "Fiscal Autonomy." The attempt to get a definite interpretation of the recommendation from the Government of India failed.

† (*a*) "The Problem of the Commonwealth." the Round Table. Chapter IV.

(*b*) "Dominion Home Rule in Practice" by Keith, pp. 31-34.

powers of the Dominions, has long been in disuse and practically obsolete.

When compared with this description, the measure of fiscal autonomy given to the Government of India falls short in some important respects. The first limitation refers to "safeguarding the International obligations of the Empire," which keeps India bound to the old British commercial treaties whether good or bad for her and withholds from the Government of India the power of concluding their own commercial agreements. Secondly, the Home Government can interfere with the fiscal policy of the Government of India in so far as such arrangement relates to any scheme of "fiscal arrangements within the Empire to which His Majesty's Government is a party." This obviously refers to any scheme of Inter-Imperial Preference that may be definitely formulated hereafter. In this connection, it may be noted here that behind the British support of the measure of fiscal autonomy conceded to the Government of India, there was and there is still a strong expectation* that any fiscal system that will be ultimately adopted in India would give a substantial preference to the British Empire in her markets. On the other hand, for various economic and political reasons, there is at present a strong feeling in India against her participation in any scheme of Inter-Imperial preference. It is well and good, if India, having been convinced of its advantages, willingly adopted it. If not, the Home Government has the right to interfere, in Imperial interests, with the fiscal policy of the Government of India. Subject

*Refer to Montagu's replies to Lancashire Deputations in 1921 and also the Reforms Report, para. 342. In 1920 the Government of India actually appointed a Committee "to examine the trade statistics and to consider whether or not it is advisable to apply to the Indian Customs Tariff a system of preference in favour of goods of Empire origin." (Council Proceedings, 19th Feb. 1920). Notice there the pointed references made by the Government of India (Speech of Sir George Barnes), and Montagu in his replies, in favour of Imperial Preference. Even refer to the Select Committee's recommendation.

to these two limitations, the Select Committee recommended that "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." Here again there is a vague assurance. The phrase "as far as possible" can be used to destroy the spirit of the whole recommendation. In view of what preceded, the following remark of the Select Committee that "She (India) should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa" is a pious wish; it does not sanction the grant of full fiscal autonomy on the Dominion basis to India, nor does it guarantee a definite intention to acknowledge such a convention. However, in spite of its limitations and vagueness, one cannot be blind to the important fact that the recommendation of the Select Committee as it is and its acceptance by His Majesty's Government mark a long, though not the full, step in the direction of fiscal autonomy of India.

Its chief value lies in the acknowledgment of a convention that the Secretary of State, who until now has been a potent source of influence of British Manufacturers and Merchants in the fiscal legislation of India, will henceforth refrain from interfering with the Government of India, when they are in agreement with their Legislature on fiscal measures. The historical basis of such an arrangement is that in the past it was the Secretary of State who disagreed and interfered with the Government of India on important Tariff measures, while there was no such controversy between the officials and the non-officials in India; hence the necessity of relaxing the control of the Secretary of State over the Government of India in this respect.

In short, the Secretary of State still enjoys his constitutional powers of previous consultation, initial consent

interim and final veto over fiscal legislation as over all other kinds of legislation in India. But by convention the question of the fiscal policy of India, except in its Imperial and International relations, has been entirely left to the decisions of the Government of India and the Indian Legislature, that is, freedom regarding the domestic policy in Tariff has been granted to the Government of India, acting in co-operation with the Indian Legislature.

At this stage it is important to note the subtle distinction that as long as the Government of India is not constitutionally responsible to Indian Legislature (and in fact it is not now), the measure of fiscal autonomy as has been recommended by the Joint Select Committee has been granted to the Governor-General-in-Council and not to the Indian Legislature* representing the people of India. It will bear fruit only when the Government and the Legislature agree, because neither of them has by itself got any freedom of action in fiscal measures. Whether both of them will agree depends upon the Government of India, since the power to make fiscal proposals lies with them. But neither it is certain that they will rightly discover and adopt the policy favoured by the Indian Legislature, nor has the Indian Legislature any effective means by which they can be made to accept its policy. It is true that in the past the Government of India were in complete accord with Indian public opinion in fiscal controversies, but this was due rather to the unjust interference of the Secretary of State than to any agreement on

* In the Debate on the Government of India Bill in the House of Commons, 4th Dec. 1919, Colonel Wedgwood raised the point regarding the grant of fiscal autonomy to the Indian Legislature. He wanted to make the fiscal policy of India dependent upon the will of the Legislature and not, as recommended, on the will of the Governor General in-Council. To this Montagu replied: "What he seeks is quite unnecessary..... I would point out that it is not the Government of India which has been in disagreement on the point. It has been the Secretary of State. There has been no controversy between the officials and the non-officials." So he assumes that there will be concurrence between the Government of India and the Indian Legislature on the future fiscal policy of India.

the question of policy. In fact, the question of policy was not under discussion at all. The past experience, therefore, does not provide a necessary clue to the optimistic assumption of Mr. Montagu that there will be complete agreement between the officials and the non-officials on the future fiscal policy for India. In case of disagreement, there is no assurance that no Government fiscal measures disapproved by the Legislature will be adopted in India, or that the alternative suggestions of the Legislature will be accepted. Moreover, any superior authority, either the Secretary of State or the Viceroy, has, in that case, the statutory powers to overrule any decision of the Indian Legislature and do what he thinks proper. The root cause of all these doubts is that the Indian Legislature has no constitutional control over the Government of India, that is, India does not enjoy a Self-Responsible Government. Whether the Government of India will, in practice, respond to the opinion of the Indian Legislature remains to be tested by future experience.

In 1921 just after the inauguration of the Reformed Legislature, a very important and informative debate on the question took place in the Council of State. On 23rd February 1921* the Hon. Lallubhai Samaldas moved a resolution requesting the Secretary of State "that the Government of India be granted full fiscal autonomy under the direction of the Indian Legislature." The main objects of the Resolution if accepted were to remove all the limitations and doubts mentioned above and secure to the Indian Legislature the same full and unfettered fiscal freedom as is enjoyed by the self-governing Dominions. The Government of India† naturally objected to it on the legal ground that it was inconsistent with certain statutory obligations, which the Act of 1919,

* Council of State Debates, Vol. I, p. 251-274.

† Ibid. Speech of Dr. Sapru, the Law Member, pp. 264-267.

in view of the fact that the Government of India was still responsible both in theory and in practice to Parliament and not to the Indian Legislature, invested in the Governor-General and the Secretary of State. Full fiscal autonomy and full Self-Responsible Government go hand in hand; but the Government of India Act of 1919 does not provide for any measure of self-government in the central machinery of the Government of India under whose control the subject of Tariff falls. Hence the difference in the degree of fiscal autonomy enjoyed by the self-governing British Dominions and India where only the policy of "the progressive realisation of responsible government" has very recently been initiated. The Resolution if accepted would practically mean an amendment of the Parliamentary Act of 1919, which, though desirable in itself, was outside the pale of practical politics.

Consequently, instead of the words, that were of real importance, "under the direction of the Indian Legislature," the Government substituted "subject to the provisions of the Government of India Act." The resolution thus modified and ultimately passed stated nothing more than what was already given by the Joint Select Committee. When it was forwarded* to the Secretary of State, he only gave a fresh assurance† that the principle recommended by the Joint Select Committee had been fully accepted by His Majesty's Government. It was now finally settled that only a partial and conditional fiscal autonomy has been granted the Government of India over whom the Indian Legislature representing the people of India has no control. Any claim that the people of India have been granted fiscal autonomy or that full fiscal autonomy has been granted to the Government of India is, therefore, beside the mark.

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* Letter of the Govt. of India 21/4/1921. Gazette of India 3/9/1921.

† Ibid. The Despatch of the Secretary of State 10th June 1921.

We have seen that the use of the fiscal powers recently conferred depended upon the concurrence of the Government of India and the Indian Legislature. In response to a Resolution of the Hon. Prof. Kale on 29th September 1921* in the Council of State, pressing the Government to declare their policy on this aspect of the question, the Hon. Mr. Lindsay on behalf of the Government stated as follows: "I am perfectly prepared to state that the Government of India have every intention of exercising in concert with the Indian Legislature, and in what it believes to be the best interests of the country, the fiscal powers which have been conferred on it under the recent constitutional reforms.†

India and British Commercial Treaties.

Before concluding this chapter, the actual part of India in the British Commercial Treaties that affect Indian commercial interests deserves some consideration. Since 1850 there have been three distinct movements for freedom in Commercial Treaties in the British Dominions.‡ (1) They wanted complete freedom to negotiate their own commercial treaties, independent of any restraint or interference by the Colonial Office or the Foreign Office. (2) They also demanded freedom of choice as to their inclusion in the British Commercial Treaties affecting their commercial interests. (3) Lastly, they struggled for freeing themselves from all old British Commercial treaties binding upon them, to which their consent was neither asked nor recorded and which were believed to hamper their economic growth. During the course of time, these self-governing Dominions were successful in obtaining the desired series of concessions from the British Government.

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* Council of State Debates, Vol. II, pp. 506-512.

† Ibid. p. 510.

‡ Refer to Part III of "The Fiscal and Diplomatic Freedom of the British Dominions" by E. Perrit, pp. 161-212.

The situation regarding the treaty-making powers that stands at present in the Dominions has been thus described by A. B. Keith: "The position, therefore, has now been attained in which no Dominion is bound by any commercial treaty to which it has not assented, and in negotiating general commercial treaties the Imperial Government consults the Dominions in order to secure for them whatever concessions they specially desire. If a Dominion wishes to enter into specially close relations with any foreign power, the Imperial Government will appoint Dominion representatives as plenipotentiaries to negotiate with the foreign power and to sign jointly with His Majesty's representative, any treaty arrived at. The terms of the treaty must not contain any concession by the foreign power calculated to damage the interests of any part of the Empire, and the Dominion must extend to the Empire every concession it makes to a foreign power. The treaty must be ratified by the Crown on the advice of the Imperial Government acting on the request of the Dominion."*

From 1900, Imperial Preference had been the subject of serious public discussion in Great Britain, which brought into prominence the question of the influence of foreign tariffs on Indian trade. It was realised that even without any provocation on the part of India, her foreign trade was often attacked† by the tariff wars among foreign countries. The Indian tariff being very low and simple, there was very little with which to induce foreign States to grant Indian articles special or most-favoured-nation treatment in their tariffs. Again, the fact that, owing to

* "Dominion Home Rule in Practice" by A. B. Keith, pp. 33-34. The situation has developed still further. Canada dispensed with the joint signature of the British Representative in a very recent treaty on Fisheries with the United States of America (1923).

† F. S. 1903-4 and also of 1904-5, also the Letter of the Government of India to the Secretary of State on Imperial Preference of 22/10/1903. Cd. 1931 of 1904, pp. 10-11.

her traditional and enforced free trade policy, India could not adopt a differentiated tariff system was quite sufficient for foreign countries to penalise Indian trade either to protect home industries or to bring pressure, if necessary, upon the policy of Great Britain.* In short, there was the danger that India would be made, under the policy she was made to pursue, the battlefield of conflicting interests with which she had no direct concern. Besides, the Government of India was obliged to consider from time to time the adverse effects of the changes made in foreign tariffs upon the export trade of India.

With these considerations in mind, in 1903 the Government of India† under Lord Curzon requested the Secretary of State (1) to allow them to enact, if need be, tariffs with differential, discriminatory and retaliatory duties in India, (2) to grant them some freedom of action in commercial treaties, and (3) not to pledge India in advance in the British Commercial Most-Favoured-Nation Treaties to give equal treatment to all nations alike, without considering their treatment to Indian exports. They pointed out that in friendly commercial negotiations no less than in cases of threatened tariff hostility, "the greater freedom of policy" on the part of India would be attended with beneficial results.‡

Nothing seems to have happened after this until 1922, when in connection with the questions of fiscal freedom to India, an important point regarding the commercial treaties, already concluded or to be concluded in future, on behalf of India and affecting Indian commercial

* Cd. 1931 of 1904. p. 10, Russia attempted to levy an exorbitant duty on Indian Tea on the passing of the Sugar Convention Bill by Imperial Parliament.

† Cd. 1931 of 1904. Letter to the Secretary of State of 22/10/1903, pp. 10-11.

‡ Ibid. They illustrated their request with their special advantageous agreements then concluded with Russia, France, and Japan which removed unfavourable treatments to certain Indian articles.

interests, was raised in the Council of State.* On 22nd March 1922 the Hon. Sir Maneckji Dadabhoy, moved that "This Council recommends to the Governor-General-in-Council that he may be pleased to intimate to the Secretary of State that in future India shall not be made a party to any treaty arrangements involving fiscal obligations and international trade relations until the Indian Legislature has had an opportunity of pronouncing on the same."

Despite its constitutional and technical difficulties, the main objects† of the Resolution were: (1) to obtain from the Government a full and exhaustive statement of the nature of all International fiscal obligations arising out of the British Commercial Treaties—mostly Most-Favoured-Nation treaties—in order that they might be judged from the point of view of Indian commercial interests and (2) in view of the existing constitutional helplessness of the Government of India in negotiating their own commercial treaties or in controlling the fiscal arrangements made by the Imperial Government committing India to obligations which might be inconsistent with her economic interests, to get as assurance of the Secretary of State that the Indian Legislature would henceforward be allowed an opportunity of expressing its opinion on the merits of such agreements in order that the Imperial Government might know whether to ratify or cancel them.

The resolution did not imply that in case such an opportunity was granted, the decision of the Legislature should be binding on the Government. Some members were inclined to make it compulsory. This would mean full fiscal autonomy to India on Dominion lines; but India is not a self-governing country. Moreover, matters such as commercial treaties, which raise the question of foreign

* Council of State Debates, Vol. II. pp. 1177-1191.
† Ibid, pp. 1166 to 1180, Speech of Sir Maneckji Dadabhoy.

relations of the Government of India are entirely outside the discussion and vote of the Indian Legislature. So unless India is raised to the Dominion status, it is impossible to obtain for her freedom of action in negotiating her own commercial treaties or an effective control over such treaties as are made by the Imperial Government on her behalf.

However, the result of the Debate was an interesting statement* by the Hon. Mr. H. A. F. Lindsay on behalf of the Government. He began by stating how a commercial convention is concluded by the Home Government. He said:—the underlying principle of all commercial conventions is the exchange of Most-Favoured-Nation treatment. The convention is usually ratified by the Home Government, with a Colonial clause which enables the Dominions and India to accept or reject it. No convention is ever ratified on behalf of India without a reference to the Government of India for approval or disapproval. If the Government of India disagree, it is not ratified on behalf of India.—(In reply to the question by a member whether the Government of India ever disagreed, and whether on that ground a convention was cancelled no answer was made). India has also concluded direct commercial agreements with other countries, (*e. g.* with Japan in 1908) which were ratified and confirmed through the Home Government. He, then, pointed out that, besides the question of constitutional difficulty, it was both inexpedient and fatal to allow a free discussion by the Legislature on the terms of the conventions or treaties before they were actually concluded and ratified, that the right procedure must be to allow the discussion after ratification, which would then be on the action of the Government in concluding a particular treaty, and that if the Legislature rejected it, it was open for the Governments

* Ibid, pp. 1183-1186, 1189, 1191.

of the contracting parties to denounce it within the period usually specified in one of its clauses.

Consequently, although the preliminary discussion of the treaties could not be allowed, the Debate drew out an assurance from the Government to the effect "that hereafter all new conventions or commercial treaties that are entered into, either directly between India and foreign countries, or by Britain on behalf of India, will be placed on the table of the House and it will be open to all members of both Houses of the Legislature to raise a discussion on the subject matter of that treaty."*

This is no doubt an important concession, but it is obvious that the discussion will be of the nature of criticism. It will have no force behind it, except that it may produce some moral and persuasive effect upon the Home Government.

Conclusions.

To conclude : Since the beginning of its territorial Sovereignty and its governmental functions, the management of the East India Company and its territories was brought under the direct and permanent control of British Parliament, exercised, first, through a body representing the British Government and called the Board of Control, and later, after the abolition of the Company Government, through a Secretary of State in concert with a Council, who had ultimate authority to superintend, direct and control the civil, military and revenue affairs of the administration in India. The Secretary of State was thus the ultimate and supreme head of the machinery of governing India, and as a member of the British Cabinet, his decisions must be guided by the decisions of the Cabinet.

* Ibid, p. 1187. The speech of the Hon. Lallubhai Samaldas. The first statement of a brief summary of the existing commercial treaties affecting India is given on pp. 357-371 of Council of State Debates Vol. III, 20th Sept. 1922.

Since the assertion of the Parliamentary supremacy over India, the regulation of the commercial relations of foreign nations with India and of the domestic tariff policy in India was made a matter of British or Imperial concern, with the main objects of protecting and promoting the interests of British trade, British shipping and British industries. Fiscal subordination of India, was therefore, an end to serve these purposes for which the British political domination over India was employed as a means. Consequently, the Parliamentary control of Indian affairs has been, owing to the play of party politics, a potent source of influence of British manufacturers and merchants over the fiscal policy practised in India, with the result that the Indian interests were either neglected or subordinated to British or Imperial interests.

The Government of India was for all matters of policy subordinate to the Secretary of State in Council—a body designed to assert the active supremacy of Parliament over India—whose orders it was required to obey and who had full authority to disallow any Indian Act. In practice, the relations between the Government of India and the Secretary of State were guided by constitutional usage. As a rule, all fiscal measures like others, were referred to the Secretary of State for examination and sanction before they were enacted; but as a matter of administrative convenience, the initiative in fiscal matters not involving questions of policy was left to the Government of India. Notwithstanding this, cases when the Secretary of State actually directed the Government of India to adopt certain fiscal measures even against their will and against Indian public opinion are not wanting in the Tariff History of India. The extent and the substance of initiative, discretion and responsibility left to the Government of India and of the practical control of the Secretary of State were matters of unwritten law. When disputes arose, the ultimate authority of the Secretary of State used to

prevail and his powers of direction, initial consultation and consent, interim veto, and final veto in all tariff measures of the Government of India were ultimately vindicated. Until the Montagu-Chelmsford Constitutional Reforms, 1920, the first and the last word on all tariff measures in India rested with the Home Government.

The Government of India was constitutionally responsible to the Secretary of State and British Parliament and not to the Indian Legislature. The fiscal measures, like other measures, of the Government were only subject to criticism and discussion in the Council by means of Resolutions without any legal sanction. Fiscal subordination of India to Great Britain was one of the main grievances of Indian Politicians against British Rule in India. So a demand for fiscal autonomy had persistently been made by all sections of Indian public opinion during the last two or three decades in which they had also the support of the officials.

The Indian Constitutional Reforms of 1919 did not make statutory changes in the relations between the Secretary of State and the Government of India. However, a convention has been established that the interference of the Secretary of State, except in Imperial and International matters, should be avoided in fiscal measures of Indian interest where the Government of India and the Indian Legislature are in agreement. Despite its limitations, the measure of fiscal freedom granted to India under the change marks a long, though not the full, step in the direction of fiscal autonomy on the Dominion basis, as understood to-day. The effect of the policy of non-intervention has been, as shown in 1921 and 1922, and will be, to pass over the practical control and responsibility regarding the domestic tariff policy of India to the Government of India and the Indian Legislature and thus to block

for ever the source of the interested British commercial influence over the fiscal legislation in India.

Strictly interpreted, the recommendation of the Select Committee means that only a partial and conditional fiscal autonomy has been sanctioned to the Government of India, over whom the Indian Legislature has still no control. Full fiscal autonomy and full self-responsible government go hand in hand. For full fiscal autonomy on the Dominion line, the Government of India should be made responsible to the Indian Legislature, wholly elected on broad franchise, with the corresponding delegation, as a matter of constitutional practice, of the powers of the Secretary of State to the Indian Government; that is, the Act of 1919 should be amended in that direction, which at present seems to be outside the pale of practical politics.

However, a liberal interpretation leaves a large room for the development of its scope. Despite the irresponsibility of the Government of India to the Indian Legislature, the declaration of the former to exercise the newly-conferred fiscal powers in co-operation with the latter in the best interests of the country is a great relieving feature. The regulation of the foreign commercial relations of India has been still reserved solely as a matter of Imperial concern. The customs tariffs of a country affect its foreign as well as domestic policy. The division of control over the Indian fiscal policy as a whole is unnatural and untenable, as is proved by the experience of the British Dominions. So with the grant of autonomy in domestic fiscal matters, it is to be hoped that India will be relieved from obligations under the old British commercial treaties that are incompatible with her economic interests; that in future she will be made only a willing party to any British or Imperial commercial treaty and that she will be allowed to negotiate,if necessary, with the knowledge and assistance

of the Imperial Government, her own commercial treaty with Foreign Powers in order to safeguard her special interests. The convention of consulting the Government of India before a commercial treaty on behalf of India is concluded may be wisely extended and expanded in these directions. In this connection, the assurance of the Government to allow discussion by the Indian Legislature on the future commercial treaties after they have been concluded is a welcome step. Similarly, with regard to the Inter-Imperial fiscal arrangement, it is necessary that India should not be committed to the policy of Imperial Preference without the consent of the Indian Legislature. The recommendation of the Select Committee is thus full of immense possibilities.

Statutory provisions for these changes cannot be made without limiting the ultimate responsibility of Parliament and veto of the Crown. They are not to be found even in the case of the British Dominions. But even under the present political status of India, conventions in these directions can be so arranged as to bring about in practice the scope of fiscal autonomy enjoyed by the British Dominions. The careful fostering and growth of the convention of non-intervention on the part of the Secretary of State and the gradual surrender and disuse of his powers of previous consultation, initial consent, and interim veto, combined with the increasing response, if not constitutional responsibility, of the Government of India to the authoritative expression of popular opinion in the Indian Legislature, as intended by the authors of the Reform Scheme, will make the measure of fiscal autonomy that has already been granted, real and substantial. Whether these hopes will be realised Time alone will judge.

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