The Future of India's Fiscal Policy

The future of fiscal policy
D. V. Divekar.

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INTRODUCTION

The irresistible logic of events has at long last compelled a reluctant Government of India to make an authoritative pronouncement to the effect that the tariff policy of this country will, in the future, be based on the principle of Protection.* Indian students of Economics and publicists have urged the adoption of a systematic policy of Protection for over a generation, but the Government out here, chiefly at the dictation of the superior authorities in England, tenaciously clung to a purely revenue tariff. The high customs duties necessitated by the War and maintained since its termination to cope with huge recurring deficits, having come to stay and having the effect of a protective tariff upon some of the Indian industries, Government apparently thought it might as well make a virtue of necessity and declare in favour of a policy of Protection, unanimously re-

* See Appendix C.

…mmended by the Fiscal Commission, in theory if not in immediate practice. Government spokesmen are not, however, very enthusiastic over the declaration of policy and are apprehensive as to its effects on Indian agriculturists and the mass of the population generally. Like everything else, Protection has its drawbacks (Free Trade is not an exception to the rule and we in India are only too familiar with its blessings), but it is not difficult to exaggerate the conflict of interests between the agriculturist and the manufacturer and between the capitalist and the workman. These subjects have to be placed and understood in their proper perspective and the right track has to be hacked through the different competing social and economic forces. Advocates of Protection have kept this wider national aim in view in urging State encouragement of the country's industries by means of a protective tariff and otherwise.

Mr. Divekar has dealt with the more important aspects of this subject in his booklet which is based on a paper he read before the Historical and Economic Asso-

ciation, Fergusson College, Poona.* I felt deeply interested in the work of a former pupil and greatly appreciated the industry and the ability with which it was done. The paper, in its present expanded form, gives an interesting summary of the tariff history of other countries and applies the principles deducible from it to the conditions in India. Each country has its peculiarities and what is practicable and beneficial in one may not be practicable and beneficial in others. And this applies as much to Free Trade as to Protection. The history of what other nations have done to promote the development of their industries and trade is, however, a valuable guide to us in India, and within the compass of a few pages, Mr. Divekar has given an instructive account of the tariff systems of the leading countries of the world.

The declaration of the Government of India in favour of Protection is only a beginning and a doubting and halting beginning in the desired direction and the public will have to watch the

* Some of the chapters also appeared as articles in the "Mahratta."

developments with the greatest vigilance. The booklet is calculated to throw useful light upon a subject round which animated controversy has raged for years and which must remain constantly in the public eye in the near future. It presents the national point of view from which problems like the one connected with India's fiscal policy, have to be approached and which European officials, manufacturers and merchants cannot properly understand. Some Indians also are caught in the Free Trade net and think that Protection will benefit only a minute section of the population of the country, at the cost of the agriculturists and the consumers. The pamphlet will supply a corrective to this kind of one-sided attitude of mind and line of reasoning.

DELHI,
24th February,
1923.

V. G. KALE.

THE FUTURE OF INDIAN FISCAL POLICY

I

THE COMMISSION'S REPORT

IT is unfortunate enough that in almost all Committees appointed by Government to investigate and report upon particular subjects a distinct line of cleavage is drawn between European or Anglo-Indian members on the one hand and Indian members on the other. The Fiscal Commission under the presidency of Sir Ibrahim Rahimtoola is the latest evidence of the fact.* In this case, two Indian gentlemen have indeed sided with the European members, but to those

* For a summary of the recommendations of the Majority and the Minority Reports of the Commission, see Appendix.

who have long known their political careers it must be evident that, although by courtesy they may be styled Indians, in point of their political behaviour towards India they are more Europeans than Europeans themselves.

Even this almost racial division of view one would not have much minded. What is more unfortunate, from the Indian point of view, is that these Anglo-Indian or Anglicised Indian members should take upon themselves the *role* of castigating those truly sincere Indian members who had, as they allege, the audacity to write a minute of dissent. Messrs. Montagu Webb and Cecil Rhodes and others of the same kidney have named the Minority Report of the Fiscal Commission a 'political manifesto.' But these strong-minded and bold Indian members have only done their duty and have done a great service to the country. The determination of a country's fiscal policy is so vital a matter that it must be wholly and solely carried out in

the interests of the people concerned. And if these interests are to be properly guarded they must be left entirely in the custody of the real representatives of the people themselves. As John Stuart Mill has observed: "It is an inherent condition of human affairs that no intention, however sincere, of protecting the interest of others, can make it safe or salutary to tie up their own hands. By their own hands only can any positive and durable improvement of their circumstances in life be worked out." When this test is applied to the *personnel* of the Fiscal Commission it seems to be defective from more than one point of view. But let that go. It is sheer impudence on the part of these members to swoop down upon these dissenting Indian members who have made their special recommendations about the fiscal policy of India. These Minority members have made their position quite clear and completely refuted all the allegations and interested misstatements of Messrs. Webb, Rhodes and Company. I his defence Mr. G. D. Birla says: "It w impossible for the Minority having dis agreed with the majority on the conditions imposed by them on the policy of protection, to subscribe to the policy of discrimination along the lines indicated in the report—a report which did not do full justice to the views of the Minority. It is hardly necessary to point out that while we have recognised the principle of discrimination, we have not tried to fetter the hands of the executive in a manner our colleagues have chosen to do, but have left the manner of procedure entirely in the hands of the Government and the legislature. It was found impossible to reach unanimity *without sacrificing vital economic interests of the country.*" The Indian patriot is glad to see that, having paid full regard to the appalling pass to which India has been brought industrially by the Free Trade policy foisted upon the people by the foreign Government and also to the trend of the present fiscal policies of all the civilised countries of the

world, the Minority has submitted in special report making recommendations that would, if executed, conduce to India's industrial development.

II

THE FAILURE OF FREE TRADE

In the discussion of the fiscal question with reference to the future of Indian fiscal policy attention should be concentrated principally on two points, viz. (1) whether the policy thrust upon the people of India by England has resulted in India's industrial health and prosperity, and (2) whether, in other civilised and industrially advanced countries the self-same Free Trade policy is followed or whether it has been already, or is being, thrown over-board. Looking at the question of India's future fiscal policy from the first point of view, one clearly finds that there is not a particle of support to the present Free Trade policy of India. Not only that, the

collective opinion and situation in other countries and the trend of individual Indian opinion and situation unmistakably point to the fact that, were India not to accept and assiduously follow the Protectionist policy, she would go to the wall in the neck-and-neck race of rivalry between the various industrial states of the modern world. The age in which we live is the age of capitalism, militarism and imperialism. Take England or France or even Italy; we find that every one of the nations is being driven, willingly or unwillingly, under their three-fold pressure to capture, more and more, different provinces under specious names and to make an indefeasible arrangement for the uninterrupted supply of raw materials for their respective manufactures. One casts a wistful glance at the Saar-Basin or the Ruhr valley; another is trying to control and monopolise all the oil-fields of Mesopotamia and so on and so on. The posture of events in the world being what it is, the question of questions before India now is whether she is to allow herself to be quietly victimised by the harpies of other nations of the world.

Coming to the industrial and commercial situation in India itself, the picture is something more than appalling. Before English people placed their foot on Indian soil, we can say this without exaggeration, India was really a country flowing with milk and honey. Indeed, she did not see thousands of chimneys rearing their heads high above towns and cities and spurting out volumes of smoke; but she certainly possessed a net-work of numerous cottage-industries extending from end to end of the country. India was industrially self-sufficient and she could herself utilise the raw materials produced in the country. Of course, none likes the abandonment of all intercourse with the world but what is indisputable is that, had India had a real popular government, we would have been spared this dire famine of important industries in India. The evil did not stop there too. Not only

great industries were not encouraged; but what small industries were existing and prospering in India were deliberately put out of existence. Again, had there been a truly Indian Government instead of the present alien one it would never have destroyed our precious hand-loom industry. Never, never would it have left the people of the country a helpless prey to unequalled poverty, chronic famines and industrial starvation as they actually are left to-day. It would su[illegible] an all-pervasive Protectionist have applied including import duties, subsidies, bounties and every other form of helping native industries that is being practised in all industrially great countries such as Germany and America and latterly Japan, Australia and Canada.

See! To what a terrible pass India has come under the blessings of the Free Trade policy! India produces in great abundance the raw materials for making paper-pulp but as to paper-manufacturing industries, India counts only nine or ten at the most. Now take the case of glass; all the ingredients of glass are found in India to a considerable extent; but the irony of the situation is that we have to import glass-beeds, bangles and other wares, after paying a huge price for them. Similarly, our native dyes have been destroyed by foreign artificial colours and the result is that without German dyes we are utterly helpless. Every year we export oil-seeds to the value of more than fifteen crores of rupees; but our Government has not thought it wise to start or help the oil industry of the country. Take even soap-making or candle-making or any other ordinary industry, we are reduced in all and every one of them to the position described by an English poet: "While the grass doth grow, the steed starveth."

So far, a few industries alone have been referred to here and there; but he who looks to the weekly import and export manifests would be awfully surprised to read that Dhotra flowers and Jambul

fruits and such other numerous small things, which are consigned to the refuse here, are exported to other countries to be returned here in the form of some finished medicines or other articles of everyday use; while it is quite possible to organise industries and so give work and food to the people here. How many of us will not be surprised to learn that when export of ground-nut to Germany was stopped in the war "the crop had been left to rot on the ground where a little help in adapting crushing mills might have started an industry that would have remained and have created an Indian manufacture which Germany had exploited for her own gain." With great ado the Government has protected the tanning industry but to a scrupulous and critical student of economics the protection is more apparent than real.

III

THE LIGHT OF HISTORY: AMERICAN TARIFFS

So far we have described the general industrial situation of India and the deadly effect of the policy of Free Trade thrust selfishly upon us by our benign British Government. Lest any should think that the picture is one-sided, let us admit that of late some native industries have sprung up and are springing up in a stray fashion; but they are simply a drop in the ocean; and besides, owing to the rank indifference of the Government, they have to lead a hand-to-mouth life and there is no knowing when they would have to shut up. The Glass Factory of Talegaon, the Match Factory of Karad do suffer from inconveniences and difficulties which are easily removable by the

merest word of the Government, but unfortunately the Government is immovable in the matter and the factories pass a languishing life.

Let us now briefly review the present situation in other civilised nations of the world. Up to the Great War all of them except Great Britain, Belgium and Holland were Protectionist to the core and such has been the revolutionising effect of the War on the world that those which were already Protectionist have become ten times more so, while those which were Free Traders have begun to raise round them big tariff walls.

The country *par excellence* that has, from its rise, consistently followed the Protectionist policy is the United States of America. American protection was born along with its constitution in the year 1789 and its foundation was laid on "the Report on Manufactures," sent by Alexander Hamilton, the then Secretary of the Treasury, to the New American Congress. In that Report, among the objects to be attained by the development of a flourishing manufacturing industry, are mentioned :—(1) Independence of foreign nations for military and other essential supply, (2) A positive augmentation of the produce and revenue of society growing out of (a) division of labour, (b) extensive use of machinery, (c) additional employment to classes of the community not ordinarily engaged in business, (3) An increase in the immigration of skilled labourers from foreign countries, (4) A greater scope for the diversity of talents and dispositions which discriminate men from each other, (5) A more ample and various field for enterprise, (6) In many cases a new and in all a more certain and steady demand for the surplus produce of the soil, (7) A more lucrative and prosperous trade than if the country were solely agricultural. And among the feasible means of promoting the development of such an industry he mentions the following :—(1) Protective duties, or duties on foreign articles which are the rivals of the

domestic ones, to be encouraged, (2) Prohibition of rival articles or duties equivalent to prohibition, (3) Prohibition of the exportation of the materials of manufactures, (4) Pecuniary bounties, (5) Premiums, (6) Exemption of the materials of manufactures from duty, (7) Drawbacks of the duties which are imposed on the materials of manufactures, (8) The encouragement of new inventions and discoveries at home, and the introduction into the U. S. of such as may have been made in other countries, particularly those which relate to machinery, (9) Judicious regulations for the inspection of manufactured commodities, (10) The facilitating of the pecuniary remittances from place to place.

In this way, since the very birth of the nation, America has enjoyed fully all the advantages of the Protective policy and even now American people are so firm on the point that they would not budge an inch from the policy laid down with great prescience by their forefathers. As a matter of fact, due to the long-established Protectionist policy, American industries and manufactures have become so formidable that perhaps there is now the least necessity of Protection for them. But, for good or for evil, they have so tenaciously clung to the policy of Protection that they have retained, and are still bent upon retaining, it on one pretext or another; sometimes because America was a predominantly agriculturist country, sometimes because of making up the huge expenditure due to the Civil War and sometimes to secure rich American labour against cheap European or Asiatic labour. Looking broadly over the American fiscal policy as it was framed in 1789 up-to-date, we find that it is being pitched into a higher, higher and ever higher key, so that the Mackinley Tariff of 1890, the Dingley Tariff of 1897, the Paine Tariff of 1909, and, lastly, the Emergency Tariff of 1921, all these look like a building, shooting up in the heavens floor above floor.

The story of American tariffs does not

end here. Only a few days back there was the New Import Duties Bill before the American people and under it mineral oil, glass-ware, cement, chunam, allumimum, steel, hemp and other things were to be given greater Protection. The Bill has now passed and is known as the Fordney Tariff Act. Really speaking, American industries have gone beyond the stage of Protection and to a dispassionate observer the fact that America should stick to a strict Protective policy even now appears as ridiculous as a mighty swimmer embracing his good old cork-jacket. In 1921 the actual customs receipts of the Federal Government amounted to 308,025,102 dollars; and the estimates for the year 1923 rise to 330,000,000 dollars. The cost of living in America is very high; American labour is very efficient; American trade is world-wide; Coal kings, Cotton dukes and Oil barons are numerous; great industries are wonderfully progressive; huge companies like the Ford Motor and the Standard Oil are to be counted by the hundred—such will be the present description of American industrial situation which stands in relation to other countries of the world as fearless and as indomitable as a lion. But notwithstanding all that, America does not give up Protection and one thinks there is much food for reflection in the fact.

American fiscal history teaches only one lesson prominently and that is this, that no nation in the present stage of the world's progress should give away its Protectionist policy. Mr. Simon N. Patten has given his judgment of the American policy thus:

"Protection now changes from a temporary expedient to gain specific ends (such as the establishment of manufactures), to a consistent endeavour to keep society dynamic and progressive. Protection has become part of a fixed national policy to increase the value of labour with the increase of productive power, and to aid in the spread of knowledge and skill, and in the adjustment of a people to its

environment." This may be taken to be the general trend of American public opinion and we have to learn much from it. At present America has imposed import duties on 1500 different articles and even agriculturists and planters are brought within the fold of Protection.

IV

THE LIGHT OF HISTORY: BRITISH EXPERIENCE

The remarkable story narrated in the previous chapter is the story of the U.S.A., the oldest and most orthodox of the Protectionist countries of the world. The fiscal history of England unfolds a different tale. So long England was thought to be the Mecca of Free Trade countries, but if we go behind the middle of the 19th century we find that England was impenetrably entrenched behind a strong Protectionist wall. The Navigation Laws that were passed from time to time in 1651, 1660, 1672 and were in operation since Cromwell's time up to the Ministry of Sir Robert Peel are a sufficient index, we believe, to the time honoured policy of England. An impartial historian has graphically summed up the contents of

these vigorous Protectionist measures. He says, "Stripped of technical details, these Acts provided that no merchandise should be imported into England, Ireland or any British plantation from Asia, Africa or America, in any but English-built and English-owned ships, navigated by an English commander and manned by a crew of which at least three-fourths were Englishmen." These words are transparent enough.

No one need be told what effect these severely Protectionist laws had on the promotion and prosperity of English industries and manufactures. The present invulnerable industrial position of England stands witness to it. When these laws were passed by England almost the whole of the carrying trade of the world was in the hands of Holland, so much so that Holland was described to have discovered a gold mine above ground. The above-mentioned Navigation Laws were aimed especially at Holland and they were repealed when they were no longer needed for England's protection. By their repeal England sacrificed nothing, suffered nothing. On the other hand, an eminent historical critic has remarked: "To insist that this measure confirmed the supremacy of Great Britain in the carrying trade is not to impugn the wisdom of those by whom the Navigation Laws were originally enacted; the infant industry had long since outgrown the need of swaddling clothes." England began to preach the virtues of free trade and to impose it upon India at this stage, while England had drunk deep at the fount of Protection and India was only just entering upon her career.

But the fun of the matter is that this Free Trade fervour of England was very short-lived and began to give way after the Boer War. From the beginning of the 20th century, the wind began to blow in another direction. Joseph Chamberlain started his campaign of Imperial Preference and after the last War, England has definitely renounced the Free Trade

Policy and accepted Protection, howsoever disguised it might be. Recently, the British Parliament has passed the Safeguarding of Industries Act which is nothing if not openly Protectionist in its intention and its effect. This Act has been divided into two parts—one protecting the key industries and the other securing England against foreign dumping. The Great War clearly showed for what ordinary things and war-materials England had to depend on Germany and naturally when those things could not be got from Germany, industries for the production of those necessaries grew up in England. Now that German competition is again let loose, this Act was designed especially to provide against the aggressive German competition. By virtue of this Act a duty of $33\frac{1}{3}$ per cent has been imposed on the import of Binoculars, Field and Opera glasses, Barometers, Chemicals, Metallic Tungsten and many other things. According to the second part of the Act, an excess duty of

33⅓ per cent is to be levied on goods that are dumped into England. The business of determining such imports as are entitled to protection under this Act, is entrusted to a committee.

Well, such is the general tenour of the new Act enacted by British Parliament. Of course, no one can find fault with England for thus bestirring herself to protect her industries from the terrible competition of other industrially more efficient countries. But the crux of the question is that, when it comes to the application of the same law to India, she very often forgets that what is sauce for the goose, is sauce for the gander too.

If one bears in mind the fiscal history of other countries, the revolution of thought wrought by the War and the effect of the revolution as reflected in their present fiscal policies, the most incontrovertible fact one will be struck with is that in every country the Protectionist principle has won and is making rapid headway.

V

TARIFF HISTORY: FRANCE, GERMANY, JAPAN

Like England, France was Protectionist till the middle of the 19th century. Upto 1846 France skilfully wielded the weapon of Protection to her industries given to her by Colbert; but in that year, famous in the history of economic doctrines, a certain school of thought arose in France before the onslaught of which the wall of French protection was swept away. The wheel however again turned after the Franco-Prussian War of 1870-71 and chiefly from 1890 France has again armoured herself with Protection. In 1908, the French import duties brought to the state a revenue of £21 millions and more, in 1909, £22 millions, in 1910, £24½ millions, in 1911, £32¼ millions and the budget estimates for 1921 and 1922 respectively were 2,344·3 million and 2,706·9 million francs. This is the way in which France has gradually increased her import and export duties. In some respects French duties against dumped goods are so heavy that even English merchants had to raise a hue and cry against them and Belgium had actually to open over her head the umbrella of Protection against French competition.

Germany was and is a pattern of what Protection can accomplish for the country which goes in for it. She carried out an all-round Protectionist policy in 1879 and as a result of it Germany's industrial and commercial position in the world has become simply unrivalled. In 1916-17 the total German revenue amounted to £187 millions and out of it £36 millions came from the customs duties. The budget estimates for 1921-22 are thus: The total revenue is 92,220 million marks and the customs dues are given to be 2,500 million marks.

The virtues of German Protection can be seen in the industrially indomitable nature of her industries, her world-wide commerce, the industrial tendency of her citizens and their commercial skill. There is no country on the face of the earth which has no commercial intercourse with Germany. England and France even have to look to Germany in certain matters. The Allies after the war have done their best to castrate Germany industrially; but like the boomerang, the blow has recoiled on the strikers themselves. Germany has exhibited to the world the strange phenomenon of millions of workers lying idle in victorious England and America themselves, while in defeated Germany mills and factories have to work for two or three shifts.

Lesser nations tell the same tale. Spain has imposed in 1921 import duties on 1,425 miscellaneous articles, while before that only 718 objects came within the orbit of import duties. The duties are so heavy that English commerce in Spain has shrunk so much that English papers howled against the laws. Spain used to import from England jute, yarn, iron ore, coal, manures, cotton, woollen cloth, ships and other materials; but now more than forty things of this sort are given Protection to a great extent, both with the object of protecting these local industries and also that of replenishing the empty treasury.

The cases of Canada, Australia and New Zealand are even more useful to us in fixing our national fiscal policy. In 1859 Canada obtained, not without agitation, the right of choosing her own fiscal policy and from that date Canada has pursued a strictly Protectionist policy. We frankly say that all the tall talk of Imperial Preference in these dominions is sheer humbug; because the scale of import duties levied on foreign goods is already so high that, to give preference to British goods by slightly reducing the scale, means no loss of money to their treasuries, nor any diminution of Protec-

tion to their industries. In 1920 Australia gave preference to British Motors to the tune of 10%, but as soon as she found that British Motors were dominating the home-market the rate of preference was brought down to only 5%. Again, Australia gives preference to woollen cloth, umbrellas, machinery and agricultural implements, gas and electrical material, lanterns and other lamps, watches and their parts, saddles and other horse-wear, shoes and boots and such other goods, hailing from England. But readers will be surprised to learn that the import duties levied on them by Australia already run from 20% to more than 40%. As they say in England, the nearer the Church, the farther from God and so the dominions keep glibly talking of Empire Protection and recede without fuss, from the god of Imperial Preference. New Zealand produces in great abundance raw wool and hides. Naturally all woollen goods, and also boots and shoes are heavily taxed on importation. The customs revenue in New Zealand rose from £ 3¼ millions to £ 8¼ millions in 1921. The total Canadian revenue for 1920-21 was £ 89¼ millions and the customs receipts were nearly £ 33 millions. In the years 1917-18, 1918-19, 1919-20, and 1920-21 the customs revenue of Australia was in an ascending order £ 9½, £ 11½, £ 13¼, and £ 22 millions respectively; while the total revenue was respectively 36¼, 44, 53, 65½ million pounds.

Among the Asiatic countries Japan used to import from England iron goods, machinery, sheets, engines and rolling stock; but Japan has levied high duties on the import of these things with the undisguised object of protecting Japanese rising industries.

VI

THE CASE FOR PROTECTION IN INDIA

The rather lengthy description of the state of affairs in other countries narrated in the last three chapters must have convinced our readers that all of them are at the present time avowedly Protectionist and this fact must be considered when discussing the future of India's fiscal policy. If India is to maintain her nationality, if the people of India are not to degenerate into literal 'hewers of wood and drawers of water' and if she is to once more establish her industrial supremacy as of yore, there is no alternative left for the present but Protection. India is specially blessed with immense natural gifts, and raw materials can be found in huge quantities, but all these enrich England and other countries. This deadly process cannot be allowed to be carried on blindly and indefinitely hereafter.

There is yet another argument in favour of Protection being practised in India. Although there was not the ghost of Protection here, behold what marvellous effects were produced by the Protection which Indian industries got during the War,—protection unseen, uninvited and perhaps unwanted by the authorities here! When in the War foreign cloth could not be brought here, within a twelve month, that is, in 1919-20, so many as 40 cloth-mills were set on foot. In 1913-14 only one new woollen mill was started, while in 1919-20 eight or nine saw the light of day. In the same manner Glass-factories, Jute mills and Tanning manufactories, all these received the necessary fillip in the War and now they are doing their business well. It is suicidal to permit these new-born industries to be engulfed by the cruel competition which must

be operating with redoubled energy and force after the War. What form of Protection is best suited to a particular industry is a question of detail and may be left over for later consideration. The essential principle is that, first and foremost, Protection must be made to be accepted as the pronounced policy of the Government and on that all efforts must be centred.

There is no doubt that many objections can be raised against the acceptance of this policy and in fact the questionaire of the Rahimtulla Commission whose report has now been published abounded in them. As is said by the objectors, the cost of living might leap up as a result of high import duties. One need not set much store by this objection, however conscientious it may be. The high prices which the consumers will be called upon to pay, will be more than repaid by the general rise of the whole nation's prosperity and also by the gradual but steady rise in the scale of salaries of middle-class people and also in the price of labour. Just as the waters of a canal flow above ground incessantly, but beneath the fertility of the soil does surely increase, so silently the wealth and the strength of the people in general and their resisting power will mount up in degrees, when national industries gradually grow up in the country. It must be admitted to be entirely true that India will not be studded with various industries as soon as Protection is applied, with the rapidity of the gourd of the prophet. In the interval between the application of the Protectionist policy and the birth of new industries people will have to suffer the pinch of shortage of supplies, or perhaps high prices, but that will be for the time being only. When the Great War was in its full career Indian people made shift with only 9 or 9½ yds. of cloth per man. That is a proven fact. Will they then grudge to put up with some slight inconvenience for the sake of the good of the nation? The plea

of the hardships of the people is utterly selfish if not deliberately mischievous. Even Fredrick List has given his judgment thus: "From the national standpoint of productive power the cheapness of the moment might be far more than counter-balanced by the losses of the future, measured by the loss of the productive power."

SOME say that, as a result of Protection, gigantic trusts and cartels will emerge and that they will establish their monopolies throughout the land to the detriment of common consumers. To this, we ask, does not the existence of such huge organisations depend upon the State in the ultimate analysis? Can it not clip their wings and make them innocent, if not profitable to the community to a certain degree? Another great difficulty is about the entry of foreign capital seeking shelter behind the Protective duties. Here we will quote the authority of no less an economist than Prof. Seligman. He remarks: "It is difficult to escape the conclusion that Protection has been on the whole a wise policy for the United States. Without it, it would probably have taken us a somewhat longer time to come to our own; without it the immense amount of capital invested by foreigners in starting the industries on this side of the Tariff Wall, would have been employed at home, to that extent retarding the diversification of American industry and the influence that contribute to the increased efficiency of labour; without it the United States would not have entered so soon on its role as a world-power; without it, in short, the whole trend of economic progress would have been slower."

There is one more aspect of this discussion which must not be overlooked. A large proportion, sometimes exceeding one half, of the total revenue of other countries, is drawn from import duties. In India alone this proportion is deplorably small. In the years 1918-19, 1919-20, 1920-21 the gross receipts of the Govern-

ment of India were approximately 123 crores, 135 crores and 134 crores of rupees respectively, while the customs revenue was 12, 14 and 17 crores in each particular year. This point must be seriously considered now as the financial condition of the Government is more than desperate.

VII

IMPERIAL PREFERENCE

There is one question regarding the future of Indian Fiscal Policy which is as much negatively important as is that of Protection positively important. Since the beginning of the present century the question of Imperial Preference has loomed large in every discussion of Indian economics and has attained a spurious significance in all economic discussions. Indian people have harboured long since a deep-seated suspicion that this principle of Preference will be one day thrust upon India. In the terms of reference of the Fiscal Commission there was a clear indication, in so far as the Commission was called upon to consider only the 'advisability' of Imperial Preference to India. We

think the Commission ought to have been appointed for the consideration of Indian Preference only, first, last and foremost. But the ways of the bureaucracy are inscrutable like those of God. Well, let it pass. Indians must be on their guard, for there is no knowing how this Preference will creep in where it cannot go.

If the principle of Imperial Preference is minutely analysed, we see that it is the hand-maid of the triumvirate of Imperialism, Capitalism and Militarism which at present is ruling the world and, from our point of view particularly, the British Empire. The market for Britain's goods in Germany, Austria, Russia and such other countries has shrunk and England, America and other successful nations produce much more than they can dispose of. Germany, America and Japan are ousting English or Empire goods from the Indian market as appears from figures. This Imperial Preference is, to speak plainly, a device to keep secure markets f[illegible] ...ly Im-Empire and especially England [illegible]trous to

factured goods and to obtain an unhindered supply of raw materials for Empire's, and more particularly for England's, industries. German trade in India is increasing by leaps and bounds. We brought from Germany dyeing chemicals, iron, steel, imitation silk, wines, printing paper and salt to the value of only 1 crore and 39 lakhs of rupees in the second half of 1920. And in the first half of 1921 we imported goods worth 2 crores and 81 lakhs. The figures must have undergone much change since then. American trade in India too is rapidly advancing. In the year 1918-19 we imported from America motors, mineral oils, iron and steel, etc., to the value of one crore and seven lakhs of rupees. In the next following year the figure jumped up to three crores and fifty-two lakhs. The same is the case with Japan. The import of cotton cloth and yarn, silk cloth, hosiery, match and other things from Japan is increasing to an
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Indian foreign trade and commerce. The intentions of Great Britain in forcing Imperial Preference on India are too patent to need any exposition on our part. Economically and financially we stand to lose much and gain little or nothing by the adoption of this principle. Our import trade is mostly within the Empire, while our export trade is mainly outside it. By the execution of the Preferential policy our foreign trade will have a strong tendency to be confined within the four corners of the Empire, thus completely jettisoning the wholesome principle of buying in the cheapest market and selling in the dearest. Are our relations with the Empire so pre-eminently cordial that we should sacrifice this fundamental principle of economic and industrial development? Are we to give concessions to the goods coming from South Africa which treats our countrymen as human cattle? It is India's firm conviction that economically Imperial Preference will be disastrous to

India and politically it is simply adding insult to injury. So both ways at the present time it is absolutely unthinkable. All talk of other Dominions giving Preference to countries within the Empire is so much transparent bluff. We will not pursue the discussion further. We have merely suggested the lines of thinking and we will now content ourselves with giving the verdict of the Indian Economic Society regarding the whole question. And this body consists not of Extremists but wholly of sober Moderates. The subject is politico-economic and human nature is such a complex blend that it cannot be divided into water-tight compartments. They are bound to act and re-act on each other and thus when we sit down to settle the question of Imperial Preference both the political and the economic aspects must be taken into account. The decision of the Indian Economic Society reads thus:

"A scheme of Imperial Preference for India is economically detrimental, politically inexpedient, and financially ruinous. India has nothing to gain and everything to lose in her import and export trade. Adoption of Free Trade without any thought of her economic condition and the stage of her industrial development, reduced India to a condition of economic helplessness; but the adoption of Imperial Preference will mark the culmination of that process. The only redeeming feature of Free Trade, viz., selling in the dearest and buying in the cheapest market, will disappear under Imperial Preference; and by limiting both import and export markets, Indian producers, consumers, and also the Indian treasury will lose considerably. It will divert India's export trade into British hands. India will commit economic suicide by thus giving Great Britian more opportunities to exploit her natural resources and markets. Unless India wants to postpone her industrial development, to remain a plantation-ground to produce raw materials for foreigners and to provide a lucrative market to the foreign manufacturers it will not be advisable to adopt such a scheme. It is certain that by the adoption of Imperial Preference India must give up all hopes of building up her manufactures."

At present the question of political liberty of India is very much to the fore and that rightly too; but the question of economic emancipation also is no less important and less indispensable from the broad point of view of national good. Both are equally essential. As Dr. Rutherford has vividly observed: "Political liberty without economic liberty is living on the mountain-tops, where the atmosphere is fortifying and appetising and the spiritual outlook glorious, but where the pangs of hunger and the pains of exposure and unemployment make the heavenly prospect more maddening."

APPENDIX A

FISCAL COMMISSION MAJORITY REPORT.

The following is the Summary of Recommendations in the Fiscal Commission Majority Report signed by Sir M. Webb, Mr. C. W. Rhodes, Prof. Coyajee, Sir M. Dadabhoy, Sir E. Holberton and Mr. R. A. Mant:

Reference.—"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 recommendations."

Preliminary Conclusions.—That the industrial development of India has not been commensurate with the size of the country, its population, and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole. (Chapter IV).

Principal Recommendations.—1. (*a*) That the Government of India adopt a policy of Protection to be applied with discrimination along the lines indicated in this Report. (Chapter V).

(*b*) That discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded so as to make the inevitable burden on the community as light as is consistent with the development of industries. (Chapter VI).

(*c*) That the Tariff Board (see below) in dealing with claims for protection satisfy itself:—

(i) That the industry possesses natural advantages;

(ii) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable;

and

(iii) That it will eventually be able to

face world competition without protection. (Chapter VII).

(*d*) That raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible. (Chapter VII).

(*e*) That industries essential for purposes of National Defence, and for the development of which conditions in India are not unfavourable, be adequately protected if necessary. (Chapter VII).

(*f*) That no export duties be ordinarily imposed except for purely revenue purposes, and then only at very low rates. (Chapter XI). But that when it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition (Chapter XII).

2. That a permanent Traiff Board be created whose duties will be, *inter alia*, to investigate the claims of particular industries to protection, to watch the operation of the Tariff, and generally to advise

Government and the Legislature in carrying out the policy indicated above. (Chapter XVII).

3. (*a*) That no general system of Imperial Preference be introduced; but

(*b*) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(*c*) That, if the above policy be adopted, its application be governed by the following principles:—

(i) That no preference be granted on any article without the approval of the Legislature.

(ii) That no preference given in any way diminish the protection required by Indian industries.

(iii) That preference do not involve on balance any appreciable economic loss to India.

(d) That any preference which it may

be found possible to give to the United Kingdom be granted as a free gift.

(*e*) That in the case of other parts of the Empire preference be granted only by agreements mutually advantageous. (Chapter XIII).

4. That the existing Cotton Excise Duty in view of its past history and associations be unreservedly condemned, and that Government and the Legislature start again with a "clean slate," regulating their excise policy solely in the interests of India (Chapter X).

5. *Subsidiary Recommendations*.—That the proviso to Section 20 of the Sea Customs Act be repealed, and that Customs Duty be ordinarily levied on goods belonging to Government (Paragraphs 285-288).

6. That difficulties in the shape of shipping rebates (paragraph 132), or unfair advantages like dumping (paragraphs 133-139), depreciated exchanges (paragraph 140), bounty-fed imports from abroad (paragraph 141), be investigated and, where possible, removed.

7. That industrial development be promoted by giving a more industrial bias to primary education (paragraph 122), and providing opportunities for training apprentices (paragraphs 123-124), and organisations for increasing the mobility of labour (paragraph 125).

8. That no obstacles be raised to the free inflow of foreign capital, but that Government monopolies or concessions be granted only to companies incorporated and registered in India with rupee capital, such companies to have reasonable proportion of Indian Directors, and to afford facilities for training Indian apprentices. (Chapter XV).

9. That the Tariff be not ordinarily employed for retaliation, or as a means of aggression (paragraphs 280-284).

10. That the Tariff be elaborated with a view to remove ambiguities, and that the system of specific duties and tariff valuations be cautiously extended (paragraphs 266-278).

APPENDIX B

MINORITY REPORT.

The Report is signed by all the members subject, however, to a Minute of Dissent by a minority consisting of the President Sir Ibrahim Rahimtullah and four members, Mr. T. V. Seshagiri Aiyar, Mr. G. D. Birla, Mr. Jammadas Dwarkadas and Mr. Narottam Morarjee.

The Minority say: The reasons which have moved us to write a dissenting minute may be stated in a few words: (a) The main recommendation has been hedged in by conditions and provisos which are calculated to impair its utility. (b) In places, the language employed is half-hearted and apologetic. (c) We are unable to agree with the views of our colleagues on Excise, Foreign Capital, Imperial Preference and the constitution of the Tariff Board.

Our *first* objection is to the statement in the Report that "we recommend a policy of Protection to be applied with discrimination along the lines of the Report." To formulate a policy in these words is open to objection because—(i) In the first place, it mixes up policy with procedure. (ii) In the second place, by emphasising the method of carrying out the policy, the vital issue of the problem is obscured. (iii) In the third place, it ignores the fact that every country applies protection with discrimination suited to its own conditions. (iv) Fourthly, in our opinion, the outlook of our colleagues is different from ours. We do not, therefore, feel justified in subscribing to the view that protection should be applied with discrimination "along the lines of the Report."

In our opinion, there should be an unqualified pronouncement that the fiscal policy best suited for India is Protection.

We are unanimous in recommending that a policy of Protection should be adopted. Our disagreement arises from the fact that the policy of Protection recommended by our colleagues is qualified by the words "to be applied with discrimination along the lines of the Report." We do not know of any other country, including the British Dominions, which have so qualified the policy of Protection. While it is perfectly relevant for the Commission to indicate the lines on which protection may be worked in the initial stages, the recommendation of the policy should be clear and unequivocal. While our colleagues recommend a "policy of Protection to be applied with discrimination along the lines of the Report," our recommendation is that a "policy of Protection" should be adopted in the best interests of India. This policy has not only the unanimous support of the people of India, but is on the same lines as prevail in all other protectionist countries of the world.

While we agree that the policy of Protection should be applied with discrimination, we do not think that any qualifications or limitations should be made a condition precedent to its adoption. We recognise that in the efforts to attain a prominent position in the industrial world, India will have to pay a price. The economic well-being of India which we aim at in the tariff policy which we recommend cannot be obtained without making a sacrifice. It is for this re[illegible] that we agree that the policy s[illegible] be applied with discriminatio[illegible] dis-crimination with which [illegible] agree is intended to minimise [illegible] sacrifice as far as possible, consi[illegible]ntly with reaching the goal which we are putting before the country. We do not subscribe to the condition that such discrimination should be "along the lines of the report." The conditions laid down in Chapter VII appear to us to be stringent, and will entail considerable delay in giving effect to the policy which we have

unanimously recommended and will not produce adequate results. We share the concern shown in the report for the interests of the consumers, and we agree that the policy should be applied in such a manner as to reduce the burden on the consumer to the minimum necessary for the purpose of carrying out the object in view. In the present economic condition of India, limitations in the interest of the consumers are necessary, but we anticipate that if immediate effect is given to the policy we recommend, India will begin to grow economically prosperous within a reasonable period of time. It is therefore necessary to make it clear that while a policy of Protection should endure till the goal is reached, discrimination must vary according to the circumstances for the time being and should not be applied rigidly on the lines indicated in the report. We may point out here that while we want India to rise to a commanding position in the matter of her industrial development, under a policy of Protection, our colleagues anticipate as a result of the qualified policy which they recommend that "India for many years to come is likely to concentrate on the simpler forms of manufactured goods" (para 310). A policy which is likely only to lead to this result for many years to come is not and cannot be acceptable to the people of India. In all protectionist countries the Government and the Legislature as representing the people regulate the application of the policy of Protection in a manner most suitable to local conditions and circumstances, and there appears to us no reason why the discretion of the Government of India and the Indian Legislature should be fettered in any way. The records of the Provincial and Central Legislatures conclusively show that non-official members have vied with one another in pressing on the attention of Government the interests of the masses. We can, therefore, confidently leave the interests of the consumers in the hands

of the non-official members of the Indian Legislature who are representative of large and varied interests. We would therefore recommend that the application of the policy of Protection should be regulated from time to time by such discrimination as may be considered necessary by the Government of India and the Indian Legislature.

While recognising the necessity of caution in the application of the principles of protection in the interests of the masses we do not think it would be right to hedge the policy in such a manner as to lead to inadequate results. We may, therefore, emphasise the fact that we desire immediate effect to be given to the policy recommended by us in order to achieve the object in view as early as possible. India's dependence upon agriculture has placed her in serious economic difficulties. Through the operation of world causes the cost of living has enormously increased during recent times and there is a great amount of misery prevailing in the land. The revenue needs of the country have enormously increased and taxation has been raised to an unbearable level. It is, therefore, essentially necessary that immediate steps should be taken to adopt "an intensive policy of industrialisation to ensure the creation of new sources of wealth, encouragement for the accumulation of new capital, enlargement of public revenues and providing more profitable employment for labour."

Secondly, the Minority would apply excise duties only to commodities such as alcohol and tobacco, whose consumption it is desirable to restrict. If more revenue is necessary, a few articles of luxury may be made subject to excise duty. They recommend immediate abolition of cotton excise duty.

Thirdly, on the question of Imperial Preference, they dissent in respect of the treatment to be accorded both to the United Kingdom and the self-governing Dominions. They say: "We are in favour of the principle of Imperial Pre-

ference on the distinct condition that India should in this matter be put on the same footing of freedom as is enjoyed by the self-governing Dominions, and that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary and withdraw preferences as may be necessary in the interests of India in all its aspects.

(ii) That the condition precedent to any agreement with a British Dominion in trade matters on the basis of reciprocity should be the recognition of the right of the Indian people to a status of complete equality and the repeal of all anti-Asiatic laws so far as they apply to the people of India."

Fourthly, as regards foreign capital, they consider that the recommendations of the Commission are inadequate and that all companies protected by a tariff wall should be companies incorporated in India with Rupee Capital and with a reasonable proportion of Indian Directors and offering facilities for training Indian apprentices.

Fifthly, they agree that a Tariff Board is necessary, but recommend that the Chairman should be a trained lawyer of the status of a High Court Judge, that the two other members should be elected by the non-official members of the Legislature and that there should also be two assessors representing trade elected by the leading Chambers and Mercantile Associations in India who could be summoned at the discretion of the Board when their presence was required.

Finally, they hold that an intensive effort at industrialisation will rapidly increase India's prosperity and also her demand for manufactured articles both local and imported; and that the trade relations of India and the United Kingdom will thus be put on a sound economic basis, mutually beneficial to both.

APPENDIX C

LEGISLATIVE ASSEMBLY RESOLUTION

On February 17, in the Indian Legislative Assembly, Mr. Jamnadas Dwarkadas moved: "This Assembly recommends to the Governor General in Council that a policy of Protection be adopted as the one suited to the interests of India, the application being regulated from time to time by such discrimination as may be considered necessary by the Government of India with the consent and approval of Indian Legislature."

The Hon'ble Mr. C. A. Innes moved the following amendment to the above Resolution: "That for the original resolution the following be substituted:—That this Assembly recommends to the Governor General in Council (A) that he accepts 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; (B) that in the application of the above principle of protection, regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue; (C) that the principle should be applied with discrimination with due regard to the well being of the community and the safeguards suggested in paragraph 97 of the report of the Fiscal Commission; (D) that in order that effect may be given to these recommendations a Tariff Board should be constituted for a period not exceeding one year in the first instance; that such Tariff Board should be purely an investigating and advisory body and should consist of not more than three members one of whom should be a Government official but with powers subject to the approval of the Govern-

The Motion of Mr. Innes was unanimously carried in the Assembly.

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