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**AN INTRODUCTION**  
*TO THE STUDY OF*  
**INDIAN ECONOMICS.**  
**Vol. I**

*BY THE SAME AUTHOR.*



- 1** INDAN ADMINISTRATION
- 2** GOKHALE AND ECONOMIC REFORMS
- 3** INDIA'S WAR FINANCE AND AFTER-WAR PROBLEMS
- 4** CURRENCY REFORM IN INDIA
- 5** INDIAN INDUSTRIAL AND ECONOMIC PROBLEMS
- 6** THE REFORMS EXPLAINED
- 7** THE DAWN OF MODERN FINANCE IN INDIA
- 8** ECONOMICS OF PROTECTION IN INDIA
- 9** ECONOMICS IN INDIA

AN  
INTRODUCTION  
TO THE STUDY OF  
INDIAN ECONOMICS  
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Vol. I

BY  
Prof. VAMAN GOVIND KALE, M. A.

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## PREFACE.

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In its present, the seventh edition, this book appears in an enlarged and improved form. It has grown in size and contents as much with its appreciation by a steadily widening circle of students and with increasing experience of their needs and requirements as with the rapid economic developments taking place in the outside world and in India. The warm reception which the first four editions of the book met with at the hands of University students and the general public all over the country, testified to its having satisfied a real want, and the author felt encouraged to bring out a fifth edition in a larger size and with a comprehensive treatment of the subjects dealt with. The opportunity was fully availed of to give effect to many of the suggestions which had been received. The desire had been generally expressed that ampler information and more statistics bearing upon the various topics handled, should be supplied and that all the important problems arising in the course of discussion, should be accorded greater space and prominence. The text was, therefore, revised throughout; and considerable additions were made to it in several places. The fundamental principles underlying economic phenomena were explained in each chapter and the working of economic laws in relation to collective and individual activities in India was indicated so as to assist intelligent understanding and the pursuit of scientific and fruitful study. The elements of diversity and unity in the conditions prevailing in the country and the directions of social and economic evolution were clearly brought out everywhere.

The effects of the war and the depression succeeding it, upon capital, labour, finance, currency, exchange, banking, prices, employment and consumption, were of a far-reaching character and they were appropriately pointed out. The problems of food supply, population, poverty, protection, Imperial preference, agricultural indebtedness, railway management and finance, trade unionism, international labour organization, public debt, provincial finance, foreign exchanges, increased taxation &c. were exhaustively dealt with. The latest available facts and statistics were given everywhere; and divergent views on controversial questions were referred to and discussed. And no pains were spared to bring the book up to date and to render it helpful to different classes of readers. The

summaries and the tables introduced for the purpose of effective illustration and added in the copious Appendices, were calculated to enhance the utility of the book. The bulk of the text indeed increased a great deal as a result of the improvements mentioned above and the book was issued in two volumes of convenient size. In this, the seventh edition, further improvements have been introduced and care has been taken to deal with the latest phases of the economic development of India, e. g. changes in relation to finance, banking, agriculture, currency, exchange, tariffs, taxation, consumption and unemployment.

One improvement in this edition, which deserves notice here, consists in the special effort made to attain more effectively the two-fold aim which the Author has placed before himself, viz the treatment of the economic problems of India as integral parts of the economics of the Indian nation and their discussion on the basis of the principles of economic science evolved and approved by the latest development of thought. The author has drawn upon the most recent original works of economists in Germany, France and other continental countries, and has received considerable assistance from them for the purpose of illustration and comparison and also by way of inspiration. He is grateful to these leading European economists some of whom have expressed to him their appreciation for his work. The appendices to the various chapters are calculated to guide the advanced student in the intensive pursuit of problems dealt with in them.

Almost all the Indian Universities have prescribed, in one shape or another, the special study of the economic conditions and problems of India, and these two volumes are intended to provide adequate guidance for the purpose. The University of Bombay has expanded its course of studies in Indian Economics for B. A. Honours, and this book will be found fully to cover it and also the M. A. course in the subject. The general reader will likewise benefit by the help the book will render in understanding the public questions of economic import which arise from time to time and call for proper solution. With the political and social development now going on with rapid strides in the country, such questions are coming into greater prominence and are evoking a more lively interest; and this new edition, it is hoped, will better facilitate the attainment of the Author's object in writing the book.

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**APPENDIX**  
**(A)**  
**REPORT OF THE INDIAN FISCAL**  
**COMMISSION (1921-22.)**

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Questions relating to the right fiscal policy for India, Indian fiscal autonomy and Imperial Preference, have been discussed at considerable length in the body of this volume. The Indian Fiscal Commission dealt exhaustively with this whole problem, and its Report was published towards the close of September, 1922. As we suggested in an earlier edition in the Chapter on Commercial Policy, complete unanimity among the members of the Commission was not possible, and a minority of five including the President, appended to the Report, a Dissenting Minute emphasising their points of difference with the majority. The dissent caused surprise to some, among them being members of the Commission, who thought that a unanimous report could and should have been sent forward—and had in fact been prepared after a good deal of discussion, and that the dissent was nothing more than an after-thought so far as the main recommendation was concerned and only a supplementary explanatory note in other respects. We felt it would be instructive to our readers if we gave a brief summary of the recommendations and views of the majority and the dissenting minority with the object of bringing out clearly the main lines of fiscal policy chalked out by the Commission and the specific points stressed by the dissenting minority. First of all, we extract a summary of the recommendations of the Commission as given in its Report:—

**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.

**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;

- (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 due development of industries ;
  - (c) That the Tariff Board in dealing with claims for protection satisfy itself :
    - (1) That the industry possesses natural advantages ;
    - (2) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable ; and
    - (3) That it will eventually be able to face world competition without protection ;
  - (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 ;
  - (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 ;
  - (f) That no export duties ordinarily imposed except for purely revenue purposes, and then only at very low rates 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 ;
2. That a permanent Tariff 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 ;
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 on the several cases by the Tariff Board ;
  - (c) That if the above policy be adopted, its application be governed by the following principles :—
    - (1) That no preference be granted on any article without the approval of the Legislature ;
    - (2) That no preference given in any way diminish the protection required by Indian industries.
    - (3) 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 the other parts of the Empire preference be granted only by agreements mutually advantageous ;
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.

#### Subsidiary Recommendations.

- 5. 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.
- 6. That difficulties in the shape of shipping rebates or unfair advantages like dumping, depreciated exchanges, bounty-fed imports from abroad, be investigated and, where possible, removed ;
- 7. That industrial development be promoted by giving a more industrial bias to primary education and providing opportunities for training apprentices, and organizations for increasing the mobility of labour ;
- 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 a reasonable proportion of Indian Directors, and to afford facilities for training Indian apprentices ;
- 9. That the Tariff be not ordinarily employed for retaliation, or as a means of aggression ;
- 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 ;

#### Summary of Views Embodied in the Report.

After a few introductory observations, the Report proceeds to trace the history of the Indian Tariff from the time of the Mogul Empire. In those days customs duties were low, rarely exceeding 5 per cent. *ad valorem*, though there prevailed an elaborate system of internal transit dues which impeded trade. In the early years of the East India Company's rule, a low tariff was maintained and inland duties were abolished. Until 1848, goods imported in foreign ships had to pay double duty. After that date and until 1859, foreign goods had to pay that penalty irrespectively of the nationality of

shipping. Immediately after the Mutiny the tariff was raised, and in later years there was a gradual reduction. Export duties had been an integral part of the system, being generally levied at the rate of 3 per cent. *ad valorem*. Improvement of the financial position of Government was utilized to lower and finally to abolish the customs duties altogether. "The partial abolition of the cotton duties in 1878 and 1879 led on in 1882, to the abandonment not only of the remaining cotton duties, but of the whole of the general customs duties, the Government of India concluding that the duties still existing caused an amount of friction, scrutiny and interference with trade quite incommensurate with the net revenue they produced." In 1867 the export duty schedule was reduced from 97 items to 9, and after 1880, 3 annas per maund on rice was the only lingering duty on exports. "From 1882 to 1894, no import duties were levied in India, with the exception of the duties on arms and ammunition which were retained for administrative purposes, the duties on liquors, opium and salt which were complementary to the excise policy, and a duty of  $\frac{1}{2}$  anna per gallon on petroleum which was imposed for revenue purposes in the year 1888." Financial embarrassments forced Government to reimpose a low tariff in 1894, and on the pressure of Lancashire, the duty on cotton piece goods was lowered two years later, to  $3\frac{1}{2}$  per cent, and an equivalent excise duty was levied on Indian mill-woven cloth.

This low revenue tariff remained in force till the outbreak of war which necessitated a revision and a considerable enhancement of the customs duties. Export duties too had to be revived, to be imposed on jute, tea and hides, and a high revenue tariff was found to be financially indispensable even after the close of the war. "It is obvious that the 1922 tariff has travelled a long way from the tariff in force before the war. The general rate of duty is no longer low, and wide breaches have been made in the old principle of uniformity. Omitting a free list, we have now an important class taxed at  $2\frac{1}{2}$  per cent, a second important class at 10 per cent, and a third at 30 per cent., while such largely consumed commodities as cotton piece goods, cotton yarn, sugar, petroleum and matches in addition to liquors and tobacco are taxed at special rates." Increasing reliance is being placed upon customs revenue which now bears a higher proportion to the total revenue than it used to do before.

The third chapter of the Report is devoted to a description of the economic position in India. An account is given of the principal crops and of their exports, and the possibilities of an improvement of the yield are indicated. The position with regard to the manufacturing industries is then reviewed and special mention is made of such factors as power, resources, labour, means of transport, supply of capital and the dimensions and distribution of foreign trade. The general conclusion drawn from the survey of the trade position is that "the United Kingdom still stands easily first among the countries supplying goods to India. She also takes more Indian



goods than any other single country, though the proportion seems to be diminishing. The two next most important countries in the matter of trade relations are the United States and Japan while the imports from Java and the exports to Germany are not inconsiderable." The general conditions in India are characterised as quite favourable to the steady growth of industries.

The importance of industrial development forms the subject of the fourth chapter. The advantages which the establishment and promotion of industries will bring to agriculture, labour, public revenues and to national character, are pointed out, and the report goes on to consider the fundamental question underlying the fiscal policy of India, viz. the choice between Free Trade and Protection. The fifth chapter opens with a statement of the pros and cons of the Free Trade vs. Protection controversy, and the Commission lays down the conditions under which a policy of protection is justified and is calculated, all things considered, to prove beneficial. The general principle evolved out of the discussion is then applied to the special conditions obtaining in India. The chief question that required an answer was whether the industrial development universally desired in India could be attained without the stimulus of protective duties, and if not, whether the advantage to the country arising from this industrial development would outweigh the burden which protective duties would impose. On a consideration of the different factors involved in the problem such as the industrial aptitude of the people, the abundant natural resources of the country and the difficulty of new industries being able to face outside competition without assured Government aid, the Commission came to the conclusion that protection was calculated to bring a very material gain to the country, in view of the desirability of industrial development and the impossibility of its taking place without the stimulus of protective duties. The Commission was strongly influenced in this connection by their belief that the limits of direct taxation had been reached in India and that the existing rates of the Income tax were detrimental to the progress of industries, and therefore by Government's necessity of deriving a high revenue from the Tariff. Since 1916, the tariff had become less and less consistent with purely free trade principles. It gives protection but it does so in the least convenient and the least beneficial way. "It is casual and haphazard." It appeared to the Commission, therefore, that "the necessity of raising a large revenue from customs duties and the obvious inexpediency of ignoring the effect of those duties on the industries of the country, must inevitably lead India to the adoption of a policy of protection as they led Germany in 1879." The disadvantages and the losses of protection are then set against the gains. The burden on the masses of enhanced prices due to protective duties is considered and the loss entailed by protection on the agricultural and the middle classes in particular, is given due weight. This danger of undue burden being thrown on the producer and the consumer, will not be serious, in the opinion of the

Commission, if protection is applied with discrimination along the lines recommended. Balancing all the factors of the problem, favourable and otherwise, the Commission comes to the conclusion that the advantage lies heavily on the side of protection, provided it is discriminately applied.

The subject of the disadvantages of protection and the need of discrimination, is further considered in chapter VI. The danger of political corruption will be overcome by the variety of interests represented in the Legislature and the proposed preliminary inquiry by an impartial body. The proper remedy against a combination of manufacturers will have to be devised and applied, when these dangers incidental to protection, raise their heads. Very great stress is laid on the principle of discrimination, adoption of which is calculated to restrict the rise of prices, to curtail the period during which the community will have to bear the burden of protection, to serve the best interest of industries by ensuring a steady and healthy development, and to minimise any adverse effect on the balance of trade.

The seventh chapter gives the outlines of the scheme of protection and draws a clear line of distinction between duties levied for purely revenue purposes and those fixed on protectionist principles. The former may be varied according to the revenue needs of Government but the latter must be modified only strictly according to the principles of protection. If the latter have to be enhanced to yield more revenue, the excess should be obtained by means of an excise duty plus an additional import duty. The proposed Tariff Board is to be an integral part of the whole scheme of protection, and that body must satisfy itself as to certain favourable conditions before it may recommend the imposition of protective duties. If protection given to one industry affects prejudicially the interests of others, an open public inquiry should be made of the whole question and the decision should be guided by the principle that "an industry should receive protection, even if it adversely affects the development of other industries, provided this results in a net economic advantage to the country." The rate and period of protection, the location and the national and basic importance of industries must be carefully considered, and protection by means of bounties may, in certain cases, be found preferable, especially when different interests are found to conflict with one another. Raw materials, machinery, coal and partly manufactured goods are specifically discussed. The question of the import duty on cotton yarn recently imposed, should be considered in all its aspects by the Tariff Board, as it involves keen divergence of interests and opinion.

The principal points in the eighth chapter, which deals with supplementary measures required for the development of industries, relate to the Railway rates policy and the proposed Rates Tribunal, improvement of railway facilities, lowering of coastal shipping rates, shipping rebates and measures against dumping. Anti-dumping legislation is recommended after a full

enquiry by the Tariff Board. The next chapter is devoted to a discussion of the general principles governing the imposition of excise duties, and illustrations are taken from the tax-systems of foreign countries. The justification and limitations of these duties are stated. They are to be ordinarily confined to industries concentrated in large factories or small areas, to be imposed for checking the consumption of injurious articles or otherwise to be levied for revenue purposes only. These principles are applied, in chapter X, to the Indian cotton excise duties. The history of these duties is then briefly reviewed, and the story of the selfish agitation of Lancashire against cotton import duties and the Secretary of State for India's surrender to it, is related in some detail. The strong feeling of resentment in India against the excise, though there is now a difference of 4 per cent. between it and the import duty on piece goods, is brought out, and it is recommended that the Government of India should "clean the slate" and take action with respect to the absolute repeal or retention of the duty, with the consent of the Indian Legislature.

The question of export duties forms the subject of the next chapter. The imposition of these duties for protection is deprecated and it is stated that even for revenue purposes they should be but sparingly used. Small cesses are an exception to this general rule. A duty on jute which is an Indian monopoly, is perfectly justifiable: one on raw cotton is not. Export duties on tea, rice, wheat and hides are examined on the basis of general principles and the abolition of the first of these is recommended. The twelfth chapter deals with restrictions on the export of food grains. In view of the contention that India's production of food is insufficient, it is maintained that the real problem in that connection is one of poverty and prices. Increased production is the true remedy, and artificial depression of prices will have a detrimental effect on the agricultural industry. Abnormal conditions may, however, be met by the imposition of an export duty. Imperial preference is discussed in the thirteenth chapter, which begins with a history of the problem. The question is dealt with in all its aspects and particularly with reference to India's trade with the Empire; and the conclusion is deduced that the actual and possible gain to India from preference is small. Objections to Imperial preference are examined in detail, such as the fear that it may diminish protection, throw undue burden on the consumer and may affect Indian fiscal autonomy; and the Imperial aspect of the problem and the sentiment of Empire are given considerable weight. The view that India can not grant extensive preferences without serious loss to herself and without increasing the burden to the consumer, is emphasised. Great stress is, however, laid, on the other side, on the services of the United Kingdom, the heart of the Empire, in maintaining the vast Commonwealth of Nations together and on the importance of India's co-operation with the Dominions in helping England to keep up its industrial and

commercial prosperity so as to be able to defend and strengthen the Empire in the interests of all the constituent parts of the organization. The Commission wishes India not to "turn her back on the principles of preference which have been adopted in the greater part of the Empire and are rapidly being extended to the remainder," and would not have India standing in a position of moral isolation within the Empire. It is stated that a free gift of preference from India, however small, will be welcomed by the United Kingdom as a gesture of friendship and as a proof that India realizes her position as a member of the Empire.

The fourteenth chapter is concerned with the discussion of questions relating to the form and application of the Tariff and examines the comparative advantages of specific and *ad valorem* duties. It also suggests various improvements in the existing practice in connection therewith. Foreign capital is the subject of the next chapter. The advantages to India of the import and the use of foreign capital are pointed out, particularly for the rapid industrial development of the country which is to be effected with the help of protection. Foreign capital means the most up-to-date methods and the newest ideas and its free use would accentuate increased industrialization. The existing distrust of foreign capital in India is referred to and various suggestions put forward for the restriction of its use, are examined and rejected as impracticable and injurious. Only in the case of Government concessions should stipulation be made with respect to rupee capital, Indian directors and so forth. It is believed that the present prejudice in India against foreign capital, will die out and it will be recognized that there is enough room for the Indian and the British in the field of industrial development in the country. The sixteenth and the seventeenth chapters deal with the relation of Indian States and the tariff and the constitution and functions of the Tariff Board respectively. Representation of the States on the Board is considered unnecessary, and their interests, it is believed, will be sufficiently guarded by the Board. An effort is made in the brief concluding chapter to remove the inevitable British feeling that the Commission's recommendations are calculated to prove detrimental to the industries of the United Kingdom. No real conflict of interests exists, it is said, between the two countries and even in the cotton trade and piece goods industry. British manufacturers will gain rather than lose if India becomes more prosperous as a result of a policy of protection.

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#### Minute of Dissent.

The signatories of the Dissenting Minute disapprove of the halting nature and the apologetic tone of the majority report, and would have liked the Commission to make a more emphatic, determined and enthusiastic pronouncement on the question of protection in accordance with the almost una-

nimous wishes of the Indian people. The reasons which necessitated the Minute are given thus :—

(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.

While the majority recommend a policy of protection to be applied with discrimination "along the lines of the Report", the dissenting members recommend that "a policy of protection should be adopted in the best interest of India". The importance of discrimination is indeed admitted and the need of safeguarding the interests of the consumer is fully recognized. There is no difference of opinion as to the desirability of trying to attain the object of protection with the minimum of national sacrifice. But it is felt that the conditions laid down as governing the application of protection, are too stringent such as will entail considerable delay and will not produce adequate results. Fault is found with the statement of the majority that "India for many years to come is likely to concentrate on the simpler forms of manufactured goods" as one that will fetter the discretion of the Government of India and the Indian Legislature. An intense policy of industrialization is, therefore, recommended, and immediate steps are to be taken to give effect to it. The discrimination that will have to be inevitably exercised may be safely left in the hands of the Government and the Legislature.

After showing this fundamental difference with the majority report, the dissenting minute proceeds, in the second chapter, to discuss the question of Excise Policy. The view taken in this regard is that "excise duties should be restricted to such articles as alcohol and tobacco which are regarded as injurious to public health and to public morality and the consumption of which it is desirable to check and to a few luxuries". This is the system adopted in the U. S. A. and the British Colonies. The examples of France and Japan, quoted on the other side, are examined and shown to be inapplicable to the case of India. Stress is laid on the fact that England did not impose an excise on motor cars though there was a heavy import duty on foreign motors during the war. The burden of an excise duty on Indian cloth is shown to be undesirable from the poor consumer's point of view. It is finally said that the exercise of discretion by the Legislature in the matter of cotton excise, as recommended by the majority, does not arise because the policy recommended is unsound in principle and the vote of the Assembly has no binding effect.

The question of cotton excise is discussed at length in the third chapter, and very great importance is attached to its proper solution. Exception

is taken to the recommendation of the report that the British Government should announce its intention of allowing the Government of India to decide the question of cotton excise duties in agreement with the Indian Legislature, as casting a doubt on the fiscal freedom conferred on India. The dissenting members fail to understand why financial difficulties of Government should have been pleaded against the repeal of the excise duty, which was imposed not for the purpose of revenue but only to satisfy Lancashire, when the majority did not hesitate to recommend the reduction or abolition of many export duties specifically levied for revenue. If there is to be "a clean slate" as suggested by the majority, the cotton excise duty must go, especially as the country unanimously demands its abolition.

In the fourth chapter, the Minute comes to Imperial Preference, and its conclusion with respect to it is that "India can not accept the principle until she has attained responsible Government and is able to regulate her fiscal policy by the vote of a wholly elected legislature. The question can become a matter of practical politics when the promised goal of responsible Government is reached. It may be contended that this would mean the indefinite postponement of the application of the principle of preference. To this the minority replies that it is prepared to recommend that the power of initiating, granting and withdrawing preference should be vested in the non-official members of the Legislative Assembly. The difficulties involved in granting of preference to a country, from the point of view of a combination among the favoured manufacturers and the high non-competitive prices charged to the consumers, are pointed out. Objection is taken to the majority report pleading for Imperial Preference on the ground, amongst others, of Great Britain's sacrifices in maintaining the British Navy. The naval defence of the Empire stands on a different footing altogether, and no useful purpose is served by mixing it up with the question under consideration. Preferential trade with the Dominions must be considered from a different angle of vision. Unless the claim of Indians to equality of status is conceded, there can be no reciprocity in trade relations with the self-governing Colonies.

The question of foreign capital is treated in the fifth chapter. The distinction drawn by the Majority between companies getting Government concessions and those establishing themselves behind the tariff wall created under a policy of protection, is not appreciated. It is pointed out that there is really no distinction between Government granting subsidies or bounties out of taxation money and allowing an industry to tax the people directly by means of higher prices resulting from protective duties. In both cases it is the people of India who have to pay the price either as tax-payers or as consumers. The fallacy underlying the argument of the Majority that "whether the immediate profit goes to a foreign or an Indian capitalist, the main and ultimate end, namely the enrichment of the country, will be attained," is exposed. The confusion between loan and ordinary capital made by the Majority is referred

to and it is stated that there would be no objection to foreign capital receiving the advantage of protective duties provided suitable conditions are laid down to safeguard the essential interests of India. If the Majority recommendations in this behalf are accepted, it will be open to every foreigner to establish industries in this country "by means of companies incorporated in their own country and currency." This danger did not exist under a policy of free trade, but is bound to materialise when the benefit of protective duties is available. Foreign firms may be allowed to be established in India on condition that they have rupee capital, that they have a reasonable proportion of Indian directors and that proper provision is made by them for the training of Indian apprentices.

The sixth chapter considers the constitution of the Tariff Board. The Board should consist of three members. The chairman should be a trained lawyer of the status of a High Court Judge and the two remaining members should be men elected by the non-official members of the Legislative Assembly and "men of ability, of integrity and of impartiality." To the three members should be added two assessors representing trade, commerce and industry and elected by the leading mercantile chambers and associations. The conclusion emphasises that no limitations such as those hinted in the main report, should be placed in the path of India's industrial development and that her economic problem, at least after the experience of the war, must be examined in a spirit of broadminded statesmanship.

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## APPENDIX

(B)

### EXTERNAL TRADE OF INDIA IN 1928-29.

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The foreign trade of India has not only reached its pre-war position but has passed those limits. The latest facts and figures relating to exports, imports, prices, exchange, balance of trade &c., are therefore interesting and we take the following extracts from the Review of the Trade of India in 1928-29.

The monsoon of 1928 was characterised by a marked deficiency of rainfall in the north-west of India, including the United Provinces, where persistently dry weather prevailed for a considerable time. The monsoon rains were also slightly in defect in Central India, the Central Provinces, Mysore and Madras, but normal or slightly above normal elsewhere. At the beginning of the retreating period of the monsoon exceptionally heavy rains occurred along the east coast of Madras resulting in floods: and the rainfall during the period was largely in excess over the whole of Northern and Central India, and normal or slightly above normal in the Peninsula. Taking the year as a whole, the rainfall was within 25 per cent. of normal except in Sind where it was very defective. At the end of January and the beginning of February exceptionally cold weather and frost over the whole of the north of the country did serious damage, particularly to the Gujarat cotton crop. These varying weather conditions affected the various crops differently. The rice crop of 1928-29 was, on the whole, good, being 12 per cent. more than in 1927-28, due mainly to favourable weather conditions in Bengal and Bihar and Orissa. The season, however, was unfavourable in deltaic part of Burma and owing to this, the exportable surplus of India and Burma together was considerably reduced.

#### POOR WHEAT CROP.

The wheat crop of 1928 was a poor one, showing a decrease of 13 per cent. as compared with the preceding year. Although the prospects of this crop were promising at first, unfavourable conditions in the Punjab in the later part of the season affected it adversely. The cotton crop of 1928-29 had been satisfactory till the end of January, 1929, when the prospects were marred by a severe cold-wave and frost. Consequently the production ultimately turned out to be about 325,000 bales less than in the preceding



year, inspite of the fact that the area devoted to the crop exceeded the preceding year's area by over one and a half million acres.

The jute crop of the year under review was less than in the preceding year by 282,000 bales on an area about 230,000 acres short of the preceding year's area. The crop may, therefore, be regarded as favourable on the whole. As regards the oil-seed crops of the year the yield of groundnuts was favourable, being 11 per cent. greater than in the preceding year. On the other hand, the yield of winter oilseeds (rape and mustard, and linseed) of 1928 and of the sesamum crop of 1928-29 was less than in the preceding season. The sugarcane crop suffered in the year under review; as the climatic conditions in the United Provinces, the most important sugarcane-growing region, were not favourable. On the whole, it will be seen that the condition of most of the crops was fair to good, except in the case of wheat where it was distinctly unfavourable.

#### LABOUR UNREST.

The year was marked by labour unrest in many Indian industries, the most important being the long-drawn-out strike in the Bombay cotton mills. This strike which started in April, 1928, lasted till October of that year and, though work was resumed then, really settled conditions had not been reached even by the end of the financial year, when a new strike started. The strike in Bombay affected the trade of India to a considerable extent. There was also a strike in the Tata Iron and Steel Works at Jamshedpur which lasted from the middle of September, 1928. Strikes amongst railway employees took place in Southern India and there was general unrest among other railway employees also. The occurrence of these strikes had a disturbing effect on the economic life of the country which was reflected in the trade statistics of the year. Apart from labour conditions, India can be said to have gone through a period of settled and fair conditions in other economic matters.

#### EXCHANGE FAIRLY STEADY.

Exchange was fairly steady and India's credit in the capital market was at a high level. The only event which created some stir in the financial circles in India was the raising of the Bank rate to 8 per cent. in February, 1929. This action, however, was necessitated by the increase in the Bank of England rate consequent on the increase in the Federal Reserve Bank rate. As regards the financial conditions of the Central Government the revenue position continued satisfactory, the revised estimates for 1928-29 closing with a surplus of Rs. 30 lakhs instead of one of five lakhs of rupees estimated in the Budget. This balance was credited to the Revenue Reserve Fund. The Budget Estimate for 1929-30 is Rs. 1,20 lakhs worse than that for 1928-29, so that instead of a surplus of Rs. 30 lakhs, it is anticipated that there will be a deficit of Rs. 90 lakhs.

## DOWNWARD TREND OF PRICES.

Prices in India were generally on a downward trend, though the decline was not of any great magnitude. In April, 1928, the Calcutta index number of wholesale prices was 146. By July it had increased to 148. Next month, however, there was a fall of 5 points and the index numbers varied between 142 and 146 throughout the remaining part of the year. In March, 1929 the index number was 143. On the whole, therefore, it can be said that the index number for all commodities was fairly steady round about 145. As regards prices of particular commodities, except in three or four cases, the changes were not of any great magnitude. The most important fall in prices was recorded in the case of hides and skins which declined by nearly 26 points between April, 1928 and March, 1929. In April, 1928 the index number was 156. Throughout the next four months there was a continuous decline in prices and in July and August the index number was 115. From that date prices steadily increased, although there was a weakening in January and by March, 1929 the index number was 130. The index number for jute manufactures declined from 152 in April 1928 to 139 in March 1929.

The economic conditions of the world in general in 1928 were tending to greater and greater stabilisation and conditions in industry and trade were slowly progressing in a favourable direction. An important factor in the year under review was the continuation of the process of stabilisation of currencies in European and other countries.

As regards the world agricultural situation, the outturn of the cotton crops of the United States of America and Egypt in 1928 was higher than in the preceding year. The wheat crops of Canada and the United States of America of the same year were also good. Siam and Indo-China had bumper rice crops as in the preceding year. It may be stated that the agricultural conditions in the world were, on the whole, favourable and there were generally good crops in most countries.

## IMPORTS AND EXPORTS.

## TRADE IN COTTON PIECE-GOODS STATIC.

The total value of the imports of merchandise into British India in 1928-29 advanced by Rs. 3 crores or 1 per cent. to Rs. 2,53 crores, while that of exports rose by Rs. 9 crores or 3 per cent. to Rs. 3,38 crores. A broad review of the course of trade during the year shows the following interesting results. On the import side, the trade in cotton piece-goods was more or less in a static condition, the total imports having declined only by 37 million yards to 1,937 million yards and by Rs. 1,32 lakhs to Rs. 63,81 lakhs. Grey goods, imports of which amounted to 839 million

yards valued at Rs. 20,19 lakhs, accounted for a decline of 37 million yards in quantity and of Rs. 1,06 lakhs in value, owing primarily to a remarkably heavy reduction in the off-take of bordered grey goods. Under white goods, the requirements of the Indian markets for the year fell off slightly from 556 million yards to 554 million and the value showed a decline from Rs. 15,42 lakhs to Rs. 15,34 lakhs. Under coloured, printed or dyed goods, the size of the trade showed a small expansion from 505 million yards to 507 million yards, although the value shrank from Rs. 17,52 lakhs to Rs. 17,35 lakhs. Imports of cotton twist and yarn receded from 32 million lbs. to 44 million lbs., owing chiefly to a curtailment of the requirements of Bombay mills. Among other textiles, artificial silk (including yarns and manufactures) declined from Rs. 5,49 lakhs to Rs. 4,77 lakhs. The value of imports of silk, raw and manufactured, also fell off from Rs. 5,06 lakhs to Rs. 5,01 lakhs and that of imports of wool and woollens from Rs. 5,37 lakhs to Rs. 5,02 lakhs.

#### IMPORTS OF SUGAR.

Imports of sugar, including molasses, were stimulated by the low prices ruling in the world market and reached 937,000 tons valued at Rs. 16,09 lakhs, an advance of 114,000 tons in quantity and of Rs. 1,18 lakhs in value. There was a weakening of demand for iron and steel manufactures, imports of which declined from 1,197,000 tons to 1,170,000 tons in quantity and from Rs. 21,44 lakhs to Rs. 20,24 lakhs in value. The year's imports of machinery and mill-work (which under the new system of classification adopted in April, 1928 includes railway locomotive engines and tenders and parts) were valued at Rs. 18,36 lakhs. The value of identical items for 1927-28 works out at Rs. 16,92 lakhs.

The increased use of motor vehicles in India was reflected in larger imports, the value of the trade increasing from Rs. 6,17 lakhs to Rs. 7,72 lakhs. Concurrently with this there was a complementary increase in the import value of rubber manufactures from Rs. 2,71 lakhs to Rs. 2,86 lakhs. Imports of hardware were valued at Rs. 5,23 lakhs, which showed a very small decline of Rs. 1 lakh. In spite of a decline in the absorption of fuel oils in the Bombay mills, imports of mineral oils rose in quantity from 232 million gallons to 242 million gallons, the value showing a comparatively small gain from Rs. 10,44 to Rs. 10,70 lakhs. Imports of kerosene oil advanced from 94 million gallons valued at Rs. 5,39 lakhs to a new record of 105 million gallons valued at Rs. 5,76 lakhs, part of this increase being attributable to the price-cutting war in the Indian markets during the early quarter of the year.

#### FALL IN RAW COTTON IMPORTS.

The value of provisions receded from Rs. 6,41 lakhs to Rs. 6,21 lakhs, the most important single cause for the decline being a reduction in the prices

of vegetable product under the pressure of competition. Imports of raw cotton, declined from 66,000 tons valued at Rs. 6,74 lakhs to 29,000 tons valued at Rs. 3,90 lakhs, owing to a decline in the consumption of the Bombay mills. Imports of liquors declined from 7,118,000 gallons valued at Rs. 3,67 lakhs to 6,790,000 gallons valued at Rs. 3,57 lakhs. Receipts of paper and pasteboard increased from 2,089,000 cwts. to 2,313,000 cwts. in quantity and from Rs. 3,01 lakhs to Rs. 3,30 lakhs in value. An abnormal development in the import trade of the year was a remarkable increase in the imports of wheat from 69,000 tons to 562,000 tons in quantity and from Rs. 1,09 lakhs to Rs. 8,17 lakhs in value due to the shortage of the local crop in India.

#### INCREASE IN JUTE EXPORTS.

Coming to the export side, the total value of raw and manufactured jute shipped during the year amounted to 80 crores against Rs. 84 crores in the preceding year. Shipments of raw jute increased by 6,000 tons in quantity to 898,000 tons and by Rs. 1,69 lakhs in value to Rs. 32,35 lakhs. Under Jute manufactures gunny bags recorded an advance from 463 millions valued at Rs. 23,27 lakhs to 498 millions valued at Rs. 24,93 lakhs in response to the increased demands made by the sugar and wheat trades of the world, while gunny cloth exported supplemented this gain by an increase from 1,553 million yards to 1,568 million yards in quantity and from Rs. 29,94 lakhs to Rs. 31,64 lakhs in value.

#### EFFECT OF BOMBAY STRIKE.

There was also an improvement of Rs. 17,62 lakhs or 31 per cent. in exports of raw and manufactured cotton, the total declared value for the group having been Rs. 74,49 lakhs. The increase was due entirely to an improvement in exports of raw cotton, which advanced by 33 per cent. in quantity from 480,000 tons to 663,000 tons and by 39 per cent. in value from Rs. 47,72 lakhs to Rs. 66,25 lakhs.

The reason for this increase in exports was the long-drawn-out mill strike in Bombay which reduced the home demand for raw cotton and depressed Indian prices in comparison with the prices of American cotton, thus turning the parity in favour of Indian and thereby encouraging exports.

The strike was also responsible for a decline in the exports of cotton manufactures which decreased in value by about 10 per cent. from 8,67 lakhs to Rs. 7,80 lakhs.

#### FOOD GRAINS EXPORTS.

There were violent reactions in the export trade in food grains and flour which showed a remarkable decline from 2.8 million tons valued at Rs. 42,92

lakhs to 2.3 million tons valued at Rs. 33.69 lakhs. Under rice alone, shipments of which amounted to 1.8 million tons valued at Rs. 26.47 lakhs, there was a reduction of 369,000 tons in quantity and of Rs. 7.54 lakhs in value. This was mainly due to the smaller exportable surplus of Burma, the two successive bumper crops in the important rice exporting regions of Indo-China and Siam and the prohibition of imports into Japan. The decrease in exports of food grains was further accentuated by a simultaneous decline in shipments of wheat from 300,000 tons to 115,000 tons on the quantity side and from Rs. 4.11 lakhs to Rs. 1.69 lakhs on the value side. The adverse statistical position in the world's tea trade was abundantly reflected in a decline in the value of shipment from Rs. 32.48 lakhs to Rs. 26.60 lakhs, although the quantities registered during the year showed only a very small decline from 362 million lbs. to 360 million lbs.

#### OIL SEEDS.

The value of shipments of oilseeds advanced from Rs. 26.69 lakhs to Rs. 29.63 lakhs, owing primarily to a steady development of the trade in groundnuts, which expanded in bulk from 613,000 tons to 788,000 tons. In spite of the depression in the leather industries of the United Kingdom and Germany, there was considerable vitality in the Indian trade in hides and skins, exports of which were valued at Rs. 9.56 lakhs as compared with Rs. 8.81 lakhs in 1927-28. Lac made a very significant contribution, its shipments having risen both in quantity and value from 544,000 cwts. with a declared value of Rs. 6.99 lakhs to 743,006 cwts. valued at Rs. 8.64 lakhs. There was also an appreciable improvement in exports of raw wool, the value rising from Rs. 4.36 lakhs to Rs. 4.89 lakhs. Among less important items, there was an interesting development in respect of oil-cakes, exports of which swelled in value from Rs. 2.53 lakhs in 1926-27 to Rs. 3.14 lakhs in 1927-28 and Rs. 3.84 lakhs in the year under review.

#### FALL IN RE-EXPORT TRADE.

The year witnessed some interesting movements in the re-export trade of India. The value of this trade declined from Rs. 9.54 lakhs in 1927-28 to Rs. 7.83 lakhs in 1928-29. As the bulk of the re-export trade usually passes through Bombay, the effect of the decline was naturally confined to that province alone, the value of its trade having fallen off from Rs. 6.94 lakhs to Rs. 5.02 lakhs and the percentage share from 73 to 64. The outstanding feature of Bombay's re-export trade was a decline in the shipments of non-Indian raw cotton from 2,790 tons valued at Rs. 44 lakhs to 500 tons valued at Rs. 9 lakhs and in those of foreign cotton manufactures (including twist and yarn) from Rs. 1.22 lakhs to Rs. 76 lakhs in value, as a result, chiefly, of the establishment in East Africa of Japanese organisations which combine the selling of Japanese cotton textiles with the purchasing of African (Uganda) cotton.

Among other notable features of the trade of Bombay was a falling off in re-exports of sugar from 15,500 tons valued at Rs. 44 lakhs to 4,000 tons valued at Rs. 11 lakhs and in those of raw skins from 429 tons to 323 tons in quantity and from Rs. 1,92 lakhs to Rs. 1,53 lakhs in value.

#### BALANCE OF TRADE.

It will be noticed that the trade figures of the year 1928-29, as calculated on the basis of the declared value of 1913-14, are a record for both imports and exports. Imports in 1928-29 surpassed the figure for 1913-14. Similarly exports surpassed the pre-war figure as well as the record figure of 1924-25. The total trade in merchandise, excluding re-exports, was the highest on record. Prices of imports and exports declined by about three points each as compared with the preceding year.

The visible balance of trade in merchandise and treasure for the year 1928-29 was in favour of India to the extent of Rs. 52 crores compared with Rs. 50 crores in the preceding year, Rs. 40 crores in 1926-27 and the record figure of Rs. 109 crores in 1925-26. The net imports of treasure on private account rose from Rs. 32 crores to Rs. 34 crores, of which net imports of gold were valued at Rs. 21 crores and of silver at Rs. 13 crores. Net imports of currency notes amounted to Rs. 12 lakhs.

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