

STUDIES IN INDIAN ECONOMICS

EDITED BY

C. N. VAKIL

UNIVERSITY PROFESSOR OF ECONOMICS, BOMBAY

STUDIES IN INDIAN ECONOMICS

A series of volumes dealing with the economic history and problems
of Modern India

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C. N. VAKIL

UNIVERSITY PROFESSOR OF ECONOMICS, BOMBAY

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INDUSTRIAL POLICY OF INDIA

WITH SPECIAL REFERENCE TO
CUSTOMS TARIFF

BY

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PREFACE

The world is witnessing rapid changes in the economic sphere. A system of planned economy is slowly gaining ground. Huge experiments are being made by modern states to meet passing economic emergencies. Such events in one part of the world are bound to have their effects on other parts. A well thought out economic policy for this country has not yet been framed. Those who have the economic progress of this country at heart must therefore think out a right economic policy that will suit our conditions and circumstances.

In this connection, the question of industrial policy assumes great importance. Either for the solution of the acute poverty problem in the country or for bringing about a balanced economic organisation, we have to turn to industrial progress, as one of the principal remedies. The prevailing economic depression in the world as well as the state of important industries in the country, present problems which require careful consideration. The growing competition of foreign goods on the one hand, as well as the impending constitutional changes on the other, are also factors which add weight to the desirability of stating in clear terms the industrial policy that the country should adopt.

The chief instrument of industrial policy in modern countries has been customs tariff. We are not concerned with the use of the tariff as an instrument of economic warfare; we are concerned with its use for legitimate industrial purposes, and this has become more important to us in recent years than ever before. The Indian Customs Tariff has grown considerably since the War, chiefly because of financial reasons. Important changes have also been introduced since 1924 for protective purposes. In more recent times, sudden changes have been introduced by means of surcharges for revenue purposes, and also to put the Ottawa Agreement into effect. The recent discussions with the Japanese and Lancashire Delegations are also likely to affect the customs tariff. The great

changes that have so far taken place, have been in a majority cases very haphazard in nature and have been introduced hastily except in those few cases where the changes were due to detailed investigations by the Tariff Board. It is obvious therefore that thorough overhauling of the customs tariff from all points of view is urgently required. This will incidentally enable the authorities to revise the technique, classification and arrangement of the tariff schedule, which have also been ignored during the period of hasty and sudden changes which have been the rule since the war.

The subject of industrial development with reference to a large country like ours, in its present economic condition, presents problems which may well require several volumes for a systematic study. In the former volume in this series entitled 'The Growth of Trade and Industry in Modern India', we attempted an introductory survey of facts relating to the principal industries in the country.¹ It was not an exhaustive treatment but sufficient material was brought together to enable us to think on the related problem of industrial policy. The present volume deals with industrial policy with special reference to the customs tariff. It must, however, be pointed out that a forward industrial policy will not, by itself, be sufficient to develop industries in the country, unless problems relating to the organisation and finance of industries are solved in the right spirit. At the same time, the object of an industrial policy may be defeated if parallel changes are not introduced in other departments of economic life. For example, the railway policy, particularly in the matter of railway rates with reference to trade and industries, should be in a line with the industrial policy of the country. Important problems like these in connection with the industrial development of the country, should therefore be treated in separate volumes. For the present, as pointed out above, we shall be content with a discussion of the industrial policy of the country with special reference to the customs tariff.

¹ If the proposals to have an industrial census of the country materialise, we shall have the necessary exhaustive data in due course.

In connection with the main theme of the work, we should like to point out that we have not discussed the theory of international trade nor those of free trade and protection. Out of the economic chaos in which the world is now involved, the existing ideas on these problems are likely to undergo some change. We may however assume that with the abandonment of Free Trade by Great Britain, the world has become protectionist in practice without an exception. The introduction of the policy of discriminating protection in this country since 1924, and the working of that policy in actual practice, as well as all attempts towards a forward industrial policy by means of protection are likely to raise problems of economic readjustment within the country. Whereas as we have pointed out in the text, discrimination is now applied at the wrong end or to wrong parties, we shall in future have to study how best to safeguard the interests of the consumer in a protective system. We have plenty to learn in this case from the experience of other countries. We must admit that the scope of the present volume has not enabled us to go into the details of this problem, which has been explained in brief under the heading of "Cost and Incidence of Protection" in Chapter III. The nature of the problems has been further discussed by Mr. Munshi in Appendix III, and he hopes to study the same in fuller details, with the help of suggestions from those interested.

The exact scope of the work has been explained in the introduction. Regarding the authorship of the volume, it may be mentioned that the earlier chapters dealing with the question of industrial policy, have been written by me, and that the later chapters dealing with customs tariff have been written by Mr. Munshi. A clear cut division, however, has not been adopted, because I have received suggestions from Mr. Munshi on the one hand, and also because, I was allowed to edit the later chapters before sending them to the press. These have been based on a thesis submitted by Mr. Munshi for the M. A. degree of this University. I may also add that I have freely drawn upon the published or unpublished material written by me on the sub-

ject before this, to which detailed reference has not been made.¹

Mr. Munshi desires me to add that he is indebted to the University of Bombay for a grant towards the cost of publication of his work.

C. N. Vakil

*School of Economics and Sociology,
University of Bombay,
16th December 1935.*

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- ¹ (a) *Our Fiscal Policy, 1923, second edition.*
(b) *Memorandum to the Federation of Indian Chambers of Commerce and Industry on Indian Customs Tariff, 1928.*
(c) *Four public lectures on "Some aspects of World Commercial Policy" 1929. (unpublished)*
(d) *Ottawa Trade Agreement between India and the United Kingdom, by C. N. Vakil and M. C. Munshi 1932.*

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APPENDIX I

CUSTOMS TARIFF AS A SOURCE OF REVENUE

Though the object of this volume is to consider the use of Customs Tariff as an instrument of industrial policy, we cannot overlook the fact that the Tariff is also an important source of revenue in modern times. Protective duties do bring in some revenue; and ordinary duties are known to have some protective effect under certain conditions. In fact, in some cases,¹ the increase in Customs duties for revenue purposes, has led to the growth of industries, with the consequence that the duties originally intended as revenue duties, have in course of time, assumed protective importance and have been recognised as such.

We have said above that protective duties bring in some revenue. Strictly speaking, if a protective duty is fully effective in the sense that it brings about such a growth of the local industry that it can meet the local demand fully, we shall find that the duty will not bring any revenue, because there will be no imports of the article in question. But such an ideal set of circumstances are rare; and even if they do come about, it takes time before an industry can grow to the desirable extent. In view of this, imports continue, though on a restricted scale, to fill the gap in the demand, which the local industry is not able to meet, and therefore some revenue must accrue to the State on account of the enhanced duties on such imports.

We have said enough to show the close inter-relation of the uses of the Customs Tariff as a source of revenue, and as an instrument of industrial policy. In order that we may not lose sight of the importance of the former, we shall note in this appendix, in brief, the financial aspects of the Customs Tariff in other countries in general, and in India in particular.

¹ cf. the duties on Matches and Sugar in India.

ADVANTAGES OF CUSTOMS DUTIES AS A SOURCE OF REVENUE

It is well known that Customs duties owe their origin mostly to the fact that they constitute one of the easiest methods of levying taxation from the people. Besides the administrative ease of collecting this form of taxation, there are other advantages which have led to their adoption as one of the principal sources of revenue by many countries. For example, Customs duties are an elastic source of revenue in the sense that the yield can be increased or decreased by a change in the rate of duty without a corresponding increase in the cost of collection. At the same time an increase in the rate of Customs duty on an article causes less public odium than other methods of raising revenue, because the consumer is ordinarily unaware of the incidence of tax that he pays.

Because of these and other advantages, the Customs Tariff occupied a very important position in the financial systems of many countries; in some it was responsible for about 50 per cent. of the total revenue; in others, it contributed even more. The World War, however, led to some changes. The extraordinary demands for more revenue were so great, that no single source of revenue could meet them. All available methods had to be tried. In consequence, though Customs duties were increased, other sources of revenue, and particularly the Income Tax was resorted to, to fill up the gap. Besides, there are natural limits to the raising of Customs duties, and therefore those countries which had already high rates of duty, had perforce to rely more on alternative sources of revenue. The following table gives the relative position of Customs in the financial systems of certain countries. ¹

PERCENTAGE OF CUSTOMS REVENUE TO TOTAL TAX REVENUE

<i>Country</i>	<i>Pre-War</i>	<i>Post-War</i>
Great Britain	21·8	15·8
U. S. A. (Federal)	43·6	10·0
Australia	73·6	34·9

¹ Shirras, *Science of Public Finance*. p. 351.

<i>Country</i>	<i>Pre-War</i>	<i>Post-War</i>
Canada (Dominion)	81·2	63·1
New Zealand	57·1	31·1
Japan	10·0	4·7
Italy	13·0	9·3
India	14·8	26·7

Without going into the details of the history of each of the above mentioned countries, we may summarise our conclusions based on a study of the financial history of these countries since the War.

(1) We find that whereas in all other countries mentioned above, the relative position of Customs has gone down, in India it has nearly doubled itself. This contrast is due mainly to the fact that Customs duties in India were low and the margin for increase was therefore great. Though other sources of revenue were tapped in India, Customs became the most important as we shall see later in greater detail. In more recent years the percentage of Customs to total revenue in India has further increased. It was 52·3 lakhs or 41·1 per cent. in 1932-33.

(2) Before the War, Customs had an important place in the revenue systems of protectionist countries like the U. S. A., Canada and Australia, as well as in that of a free trade country like the U. K. The same was not true of Japan.

(3) During the War, most of these countries began to rely in an increasing degree on direct taxation to meet the additional demands for revenue, with the consequence that the relative position of Customs in their financial systems declined.

(4) In spite of this relative decline, however, the total yield from Customs during the post-war period did not fall in these countries; in most cases it increased.

(5) In the case of a free trade country like the U. K., the increase was due either to additions to the existing rates of duty or to the imposition of duties on articles hitherto left free.

(6) In the case of other countries with a protective policy, the increase in the yield from Customs was remarkable, in spite of the fact that the intensity of protection was increased during the period. This is explained by two factors; first, the tariffs of pro-

tectionist countries contain a small but select number of items designed to yield a large revenue e. g. the U. S. A. has ten such articles on its tariff, which between them yield 80 per cent. of the total revenue from Customs. Second, the development of industries with the help of protective import duties is not necessarily accompanied by a cessation of imports, which must continue till the local industry is able to meet the local demand fully. At the same time it must be noted that the development of industries will, in its turn, lead to an increased or new demand for other articles, which may have to be imported, and if such articles are taxed, the Customs revenue will increase to that extent.

We come to the conclusion therefore, (1) that the Customs Tariff occupies an important place in the revenue systems of many countries, and (2) that in spite of high protective walls most countries have succeeded in raising substantial amounts of revenue from this source.

CUSTOMS REVENUE IN INDIA

In the financial reorganisation which followed the Mutiny, an increase in Customs duties was one of the measures adopted. But from this very time an increase in Indian Customs duties was jealously watched by the Lancashire Cotton Industry, which was interested in sending cotton goods to India. In consequence of this unfortunate interference, the industrial policy of India was shaped in a way which was not conducive to her interests. We have referred to this problem in the text. We are for the present concerned with the effects of these events on the financial policy of the Indian Government.

We find that on account of the disfavour with which Indian Customs Duties were looked upon in England, the Government of India were forced to consider Customs Duties as a minor source of revenue. In fact, the disfavour was so great that, with the exception of a few special duties, the General Customs duty was abolished in 1882. As a result we find that the Customs revenue which was Rs. 280 lakhs in 1861, was reduced to Rs. 120 lakhs in 1882, and further to Rs. 100 lakhs in 1884. The financial situation however, grew worse in the following years on account of the exchange difficulties, which

were intensified by a series of severe and widespread famines during the last decade of the last century. For want of other sources of revenue, the Government of India, had to reintroduce the General Customs Duty, and also the duty on Cotton goods.¹ The latter was however accompanied by a countervailing excise duty on Indian mill production. The Customs revenue therefore rose to Rs. 380 lakhs in 1894, and to Rs. 480 lakhs in 1898.

The Opium policy of the Government of India resulted in the gradual loss of Opium revenue. In order to fill the gap, it became necessary to find alternative sources. Customs duties, which were still a subordinate source of revenue were resorted to, and new duties were imposed on silver and petroleum, and those on liquors and tobacco were increased in 1910. The attitude of the authorities in this connection was reflected in the apology which Sir Grey Fleetwood Wilson, the Finance Member gave in proposing these measures. "I hope," he said, "I shall not be charged with framing a Swadeshi budget". He was anxious to emphasise the fact that the enhanced Customs duties did not show any indication of a protective customs tariff, but that they were required only for raising additional revenue. In other words, to frame a Swadeshi budget even by accident was considered a sin. The Customs revenue which was Rs. 450 lakhs in 1910, rose to Rs. 1080 lakhs in 1913. This amounted to less than 9 per cent of the total revenue of the Government of India.

CUSTOMS REVENUE DURING THE WAR AND AFTER,² 1914-1920

In the first two years of the war, additional taxation was not imposed in this country. In 1916, however, it was not thought wise to go on with uncovered deficits. Besides increases in Income tax and Salt Duty, important changes were introduced in the Customs tariff to bring additional revenue. These changes may be briefly summarised. The General Rate was increased from 5 per cent to 7½ per cent. The duty on sugar was raised to 10 per cent. The Free List was naturally curtailed; it was confined only to certain specified articles. A large number of articles formerly free were

¹ 3½ p. c. ad valorem on woven goods only.

² Summarised from Our Fiscal Policy by C. N. Vakil.

brought under the pale of taxation. The special duty on Arms, Liquors, Tobacco and Silver manufactures was increased. Export duties were levied on Tea,¹ and Jute.² The import duty on Petroleum ($1\frac{1}{2}$ as. a gallon) and the Export duty on Rice (8 as. a maund) were left untouched. As we have seen before, cotton twist and yarns of all kinds were free from duty, while a duty of $3\frac{1}{2}$ per cent was imposed on woven goods of all kinds, whether imported or manufactured in Indian mills. This position regarding cotton duties was also left untouched in spite of protests.

In 1917, it was resolved to give a special War Contribution of £ 100 million to the Imperial Treasury. This necessitated further taxation. The Super-tax was imposed. A surcharge on Railway goods traffic was levied. Two changes were made in the Customs Tariff. The export duty on Jute levied in the previous year was doubled; and the import duty on Cotton goods was raised from $3\frac{1}{2}$ per cent to $7\frac{1}{2}$ per cent, leaving the excise duty untouched.

Two other measures introduced in 1917 may be noted.

The increase in the duty on silver manufactures in 1916 created administrative difficulties. It was therefore decided to levy a uniform rate of 10 per cent. on silver plate and silver thread and wire, and silver manufactures of all sorts. With the object of restricting the consumption of motor spirit during war time, an act was passed in February 1917, by which an excise and customs duty of 6 as. a gallon was imposed on motor spirit. This was to be in operation during the war and six months after. But this tax became a useful source of revenue, and therefore the duration clause was removed in March 1919.

In September 1919, a duty of 15 per cent was imposed upon the export of hides and skins. This was coupled with a rebate of two-thirds of the duty in the case of exports to any part of the Empire. The duty was found unworkable; it was reduced to 5 per cent in 1928, and abolished a few years later.

¹ Rs. 1-8-0 per 100 lbs.

² Jute—Raw; Rs. 2-4-0 per bale of 400 lbs. or 5⁰/₁₀₀ ad valorem.

Jute—manufactured; sacking—Rs. 10-0-0 per ton; hessian—Rs. 16/- per ton.

The effects of the great changes described above are visible in the revenue derived from Customs during this period.¹ We find that by 1917, Customs had become an important source of revenue to the Government of India, being next only to Land revenue. In 1920-21, the yield from both these sources was almost equal, being about 32 crores. Future years were to show that the potentialities of Customs had not yet been over, and that it could still be relied upon for further additions to the revenue.

CUSTOMS REVENUE, 1921 AND 1922

From the subordinate position which Customs Revenue was assigned in earlier years, it was suddenly given a lift during the war, and in 1920, as we have just seen it occupied a position as important as that of Land Revenue. We might imagine from this that a further increase in Customs was not possible. Yet this source of revenue which was the last to be thought of in earlier years, was the first² to which the Finance Member turned to meet his deficit of 19 crores in March 1921, and another of 32 crores in March 1922. The more important changes introduced in these two years are summarised in the footnote.³

¹ Customs revenue in lakhs of rupees.

1914-15	9.52
1915-16	8.81
1916-17	12.98
1917-18	16.56
1918-19	18.18
1919-20	22.48
1920-21	31.89

cf. Statistical Abstract for British India.

² cf. "The first additional source of revenue available is Customs. I think the House will agree that the existing tariff heads are such that, in the case of most articles, both the trade and the consumer can undoubtedly bear some increase". Budget speech, 1921-22.

Also cf. "When additional revenues are required, the first head to which one's thought naturally turns is Customs". Budget speech, 1922-23.

	1920.	1921.	1922.
General Import Duty	7½%	11%	15%
Cotton Piecegoods	7½%	11%	11%
Yarn	—	—	5%
Machinery and stores of Cotton spinning and			

CUSTOMS REVENUE SINCE 1923

The policy of Discriminating Protection was adopted in 1924, and protective duties have been since imposed on several articles. These duties have brought some revenue. In view of the fact however that their chief importance is industrial, we shall here confine ourselves to those changes in the tariff which were made with the object of affecting the revenue.

In 1925, the ad valorem duties on sugar and cigarettes were changed into specific ones. The duty on sugar was now put at Rs. 4 per cwt; the duty on cigarettes varied according to value; it was Rs. 7 per 1000 cigarettes of a value not exceeding Rs. 10-8-0 and Rs. 10-8-0 on cigarettes exceeding that value.

The depression in the Indian Cotton Industry which had become acute by now led to an agitation for some relief. In consequence, the universally condemned Cotton Excise Duty was suspen-

Weaving mills	—	2½%	2½%
Iron, Steel and			
Railway Plants	2½%	2½%	10%
Matches	—	12 as. per gross box.	Rs. 1-8-0 gross box.
Sugar	10%	15%	25%
Luxury Articles:			
Motor Cars, Motor			
Cycles, tyres,			
including lorries,			
silk piecegoods,			
fire works, clocks,			
watches, musical instruments,			
cinema films, silver and gold			
thread, wire, and manufac-			
tures, jewellery, jewels,			
Cigars, and Cigarettes.	50%	75%	75%
Other sorts of manufactured			
tobacco	Rs. 1-8-0 lb.	Rs. 2-4-0 lb.	Rs. 2-4-0 lb.
Kerosene	1½ as. gallon.	1½ as. gallon.	2½ as. gallon.
Kerosene Excise duty.	—	—	1 anna gallon.

Besides these, several large increases were made in the duty on different kinds of liquors.

ded in September 1925, and was abolished in the next financial year. This involved a loss of about $1\frac{3}{4}$ crores of revenue.

In 1926, the duty on handlooms and their parts was reduced; that on saccharine was reduced from Rs. 20 per lb. to Rs. 5 per lb. or 15 per cent., whichever was higher. The $2\frac{1}{2}$ per cent duty on printer's ink was doubled, and the 15 per cent duty on cement was changed into a specific one of Rs. 9 per ton.

In 1927, the duty on artificial silk was reduced from 15 to $7\frac{1}{2}$ per cent. The export duty on tea was abolished, and was replaced by a change in the method of assessing the tea companies to income-tax. The import duty on motor cars was reduced from 30 to 20 per cent., and that on tyres to 15 per cent. This was in accordance with the recommendation of the Taxation Enquiry Committee, which drew attention to the importance of developing motor transport in the country. The 15 per cent duty on rubber seeds was abolished on the representation of the government of Burma. To make good the loss in revenue due to these reductions, the import duty on manufactured tobacco was raised from Re. 1-0-0 to Rs. 1-8-0 per lb.

In the two subsequent years several minor changes in the tariff were made, the most important of which was the raising of the excise and import duty on motor spirit in 1929.¹ The question of Imperial Preference once again cropped up at the time of the passing of the Cotton Textile Industry (Protection) Bill in 1930. The compromise measure, which was ultimately passed, provided for a minimum specific duty of $8\frac{1}{2}$ as. per lb. on all plain grey goods while the alternative ad valorem rate was 15 per cent for British goods and 20 per cent for others². A new duty of 4 as. per oz. was levied on silver, while the revenue duty on sugar (Rs. 4 per ton) was raised by Rs. 1-8-0. On the other hand, the import duty on Kerosene was reduced from 2 as. 6 ps. to 2 as. 3 ps. per gallon, and the export duty on rice was lowered from 3 as. per maund to 2 as. 3 ps.

If we now pause to examine the position of customs revenue

¹ From 4 as. to 6 as. in accordance with the recommendations of the Road Development Committee.

² It was not a purely fiscal measure. The duty was expected to yield Rs. 1,25 lakhs.

in India, on the eve of the present world depression (i. e. in 1929-30) we find that, it contributed 38.4 per cent of the total revenue of the country. Out of the total customs revenue of 51.24 crores, more than half (28 crores) was made up by the import duties on sugar, cotton piecegoods, liquor, tobacco, mineral oils and iron and steel goods, and export duties on jute and rice.

In the years that followed the Finance Member had to face difficulties that arose out of the unprecedented trade depression¹ and political situation in the country. Thus in 1931, he budgeted for a total deficit of 17.24 crores.² In order to meet this, some sweeping changes were made in the customs tariff—changes, which recalled those of the years immediately following the close of the War. At a stroke, the Finance Member added $2\frac{1}{2}$ per cent to the 10 per cent schedule, increased the general rate of 15^s to 20 per cent, and raised the luxury rate from 30 to 40 per cent. Duties on beer and the like were enhanced by 66 per cent., while those on wines and spirits by 30 to 40 per cent. The new duty on silver was raised from 4 as. to 6 as. per oz., while betel nuts, spices and exposed cinematograph films were transferred from the general to the luxury tariff. The customs and excise duty on kerosene oil was raised to 3 as. per gallon, and the import duty on motor spirit was again increased by 2 as. per gallon. On sugar the duty was temporarily raised by Rs. 1-4-0 pending the report of the Tariff Board.⁴

Due to the increased severity of the world depression, the budget expectations were soon upset and a supplementary budget had to be presented in September 1931. The total deficit for the current year, and for 1932-33 was estimated to be Rs. 39.05 crores, to meet which, the Finance Member proposed three lines of action—reductions in expenditure, emergency cut in salaries and fresh taxation. As regards customs, in the first place a sur-

¹ The country felt the severity of the fall in prices all the more because her exports declined in value to a much greater extent than her imports.

² Customs revenue alone was responsible for a deficit of Rs. 9½ crores. The share of cotton piecegoods being Rs. 3.45 crores.

³ Including duties on cotton piecegoods.

⁴ These enhancements were expected to yield an additional revenue of 9.78 crores.

charge of 25 per cent was levied on all the existing rates. Secondly the import duty on artificial silk piecegoods was doubled, while that on artificial silk yarn raised from 10 to 15 per cent. The duty on brown sugar was raised from Rs. 6-12-0 to Rs. 7-4-0 in accordance with the recommendations of the Tariff Board. Finally the free list was curtailed and a duty of 10 per cent. was levied on the import of machinery. A small duty of $\frac{1}{2}$ anna per lb. was also imposed on the import of raw cotton. These new customs duties were expected to yield Rs. 1557 lakhs at the close of 1932-33.¹

These changes as swift as they were drastic carried the level of indirect taxation to a very high pitch.² In the subsequent years, therefore, Government had to watch carefully the effects of these changes. But the exports as well as the imports continued to show a phenomenal decline as in the preceding year, and in 1932-33, the Customs revenue fell short of the budget estimate by Rs. 415 lakhs. Those items which until recently had been, as we have seen before, the mainstay of the Customs revenue, namely, sugar, cotton, piecegoods and liquor, themselves were responsible for the decline in revenue. Even the three new import duties on machinery, raw cotton and dyes, fell far below the expectations entertained at the time when they were levied. It was no wonder then that luxury articles like Tobacco, and Motor cars showed a deterioration of 22 per cent.

In the last year, however, the financial position slightly improved as compared with the preceding years, and the deficits of the earlier years were turned into a surplus of Rs. 2.17 lakhs in the budget for 1933-34, despite the fact that the decline in our foreign trade in common with the world, continued. From the point of view of

¹ This was expected to turn the deficit into a surplus of Rs. 5.23 lakhs at the beginning of 1933-34.

² Thus even for the first ten months of the first year in which these surcharges and increased rates came into operation the Government collected Rs. 29 crores of import duties on Rs. 105 crores of import, whereas during the same period in the last normal year (1929-30) import duties fetched 33 crores on imports of the value of Rs. 201 crores.

customs revenue, the situation was interesting. There were heavy falls in the imports of vehicles and in certain other luxury and semi-luxury articles, while the imports of machinery, raw cotton, cotton piecegoods and Kerosene were maintained especially in quantity¹. The customs revenue did come up to the budget expectations, but this was mainly due to the sudden rise in the imports of cotton and artificial silk piecegoods. For example, the import duties on cotton piecegoods amounted to Rs. 6.49 crores as compared with the budget estimate of Rs. 3.79 crores. This is particularly noticeable because in August 1932 the Government had in response to the demand of the textile mill industry levied anti-dumping duties on non-British² cotton and artificial silk goods. There were therefore no changes made in the tariff and the Finance Member hoped that the position would be continued.³ He, however, made an allowance for a slight decline in customs (from Rs. 52.29 to 51.24 crores).

Even this brief sketch will enable us to see that after the war, an ever increasing reliance has been placed upon this source which had been left untapped before. In fact the duties have been raised to such heights that we have begun to hear that they have been carried to the point of diminishing returns. It is said that the figures for the customs revenue during recent years are an indication of this tendency. While it is obviously too much to say this, we cannot at the same time escape the conclusion that Indian finances have come to depend too much upon this single source of revenue. Customs may prove to be a useful source of revenue in times of financial emergencies, but experience has shown that while it is a source easy to be tapped, it is also unreliable.⁴ It has further shown that in times of financial em-

¹ See Budget speech (1933-34) paras 10-15.

² The cotton duties were raised from 31½ per cent to 50 per cent or As. 4-3/8 per lb.

³ He has budgeted for a surplus of 42 lakhs

⁴ The finance member while levying the surcharges in his budget for 1931-32 hinted that some at least of the increases would be permanent. We have already shown in the last chapter the cases in which the duties should be permanently raised.

barrassment, India can hope to rely more successfully on real, drastic and well-adjusted retrenchment than upon any other source, having regard to the optimum taxable capacity of her people. Our survey will also reveal that some of those items which made up the bulk of our customs revenue have now been transferred to the protective part of our schedule. Hence their importance as sources of revenue must diminish.¹ The Finance Member is alive to the necessity of having a properly balanced system of taxation to counter-balance the loss due to such measures.² We may therefore hope that in any scheme of financial reconstruction, it shall not be forgotten that even in normal times the overwhelming pressure of indirect taxes (customs and excise) in the fiscal system of India, presents a marked contrast to the preponderating influence which direct taxes have come to exercise in the tax systems of other countries.

¹ Budget for 1932-33. "It is obviously too much to hope that the cotton duties would continue to be one of the main props of our customs revenue if the protective policy adopted since 1930 is to operate successfully."

² Budget speech 1932-33.

APPENDIX II

THE WORLD ECONOMIC CONFERENCE

Afflicted by a prolonged economic crisis and finding itself in a state of complete economic chaos, the world looked forward with great hopes to know the results of the World Economic Conference held in London in June and July 1933. In a sense, it was a unique meeting because for the first time in the history of the world, representatives of as many as 67 countries assembled together to find a solution for the economic ills of the world. Elaborate preparations were made by the League of Nations on the one hand, and by the British Government on the other, to ensure the success of the Conference. The Economic and Financial Section of the League Secretariat was temporarily working in London, and there were in addition, the representatives of various countries with their usual paraphernalia. Special arrangements were made for the journalists among whom one found every variety, to flash the news about the Conference over the wires throughout the world. In brief, nothing was left undone which would concentrate the attention of the thinking world on the activities in South Kensington. Unfortunately for the world, however, we find ourselves no better to-day after the Conference is over than before it met. In view of the failure of the leading countries to find an agreement on the fundamental issues, the Conference came to an end without any tangible results. From the point of view of the ideals of the League which works for international peace, or from the point of view of the settlement of the world problems by means of such Conferences, we must say that there has been a great setback to either. From the point of view of the student of Economics, there is nothing new to record, because nothing new was accomplished. Delegate after delegate representing different countries reiterated the same platitudes for the removal of trade barriers, the establishment of an international monetary system, the raising of the general price level and so on. But each of them seems to have had a mental reservation

regarding the practical methods to be applied to bring about a better state of economic order. The set speeches of the representatives of different governments made in public during the earlier days of the Conference, did not conceal for long the inherent difficulties in solving the problems. When matters came to a head, the public sittings of the two Commissions into which the Conference was divided, were suspended, to be convened later only for the purpose of what may be described as the funeral oration. The essential facts about the economic chaos in which the world is now involved, to which reference has been made in the body of this book, remains unchanged. If the Conference had succeeded in achieving some results, we would have thought it proper to analyse the same so far as it affected the subject matter of this volume. As matters now stand, we can consider only in brief the causes which led to the failure of the Conference.

It does not require any proof to say that in spite of the efforts of the League of Nations, war spirit is rampant in most of the leading countries of the world. The failure of the Disarmament Conference is only one evidence of this unfortunate spirit. One has only to move in the principal cities of Europe to see the way in which the spirit is kept up or to watch the current political events in these countries to be able to gauge the way in which this spirit is shaping events. Whereas war in the literal sense of the word, that is, an organised attempt to kill one another on a large scale, may break out at any moment, from another point of view, a war is already in progress in the civilised world. The economic chaos in which the world now finds itself may be ascribed to the existence of a state of economic war, which the principal countries have been waging against one another for the last so many years. In this kind of warfare, the two important weapons have been tariffs and depreciation of currency. It is not difficult to find some justification for this or that tariff change or currency depreciation in any particular country. But whatever the economic justification of these changes, the fact remains that most countries have by now realised the utility of these economic weapons as powerful strategic points which they can use with effect

against one another. An analysis of the existing high tariffs and the existing depreciation of currencies in the principal countries, may reveal some local economic factors in each case, but it will also reveal the fact that the continuance of this state of affairs is desired from non-economic motives. In other words, either because the countries concerned are not in a position to wage war or because the immediate horrors of the war are too great to be repeated at such a short interval, that the war spirit is finding manifestations in the form of this particular kind of economic warfare. Each country thus takes advantage over others by means of tariffs, irrespective of its capacity to make any economic use of the tariff. The use of the tariff weapon in this way may lead to retaliatory tariffs by another, and when this becomes difficult or impossible, a reply is given in the form of depreciation of currency, which has the effect of removing the utility of the tariffs to the other country. When such a process goes on, on a large scale among many countries, we cannot but describe the situation as a state of economic warfare. Unless this is appreciated, and unless the leading countries are willing to put an end to the use of economic weapons in the manner described above, the world will not be in a position to recover. The representatives of the various governments who met in London for the World Conference, were not able to renounce the use of these economic weapons for non-economic purposes, and this in brief, explains the failure of the Conference. The two main things for which the Conference professedly met, were removal of trade barriers, and the restoration of a sound international monetary system. The work of the Conference was therefore divided into two main commissions, each of which was charged with these respective problems. But as said above, these economic instruments had become important weapons for economic warfare which the countries were not willing to sacrifice for the common end. There were various conflicting interests of one country against those of another which could have found adequate solution in due course, provided the fundamental background was sound. As matters stood, the United States had abandoned the Gold Standard on the eve of the Conference. The

depreciation of the dollar may have had its local justification, but it had also a world consequence. One found therefore the leading countries divided into two principal groups, the gold group and the non-gold group. The general desire to increase the price level could not be translated into effective steps so long as there was no agreement on the monetary issue; and so long as the monetary problem could not be solved, people were not willing to touch the tariffs. It was a vicious circle which ought to have been cut simultaneously at several points, but no one was bold enough to do so.

The discussion of the question of industrial policy in this country with special reference to tariffs in this volume is essentially an economic issue. There is nothing similar to the war spirit that dictates the use of tariffs in other countries in our consideration of the problem. There could be none because India wants to fight with no one. The chief problem for India is to work for her own economic salvation within her own borders. If there is a conflict of interests which has to be avoided or overcome, it is essentially an economic conflict, and the use of the tariff suggested in this volume is therefore for economic purposes alone.

APPENDIX III

A NOTE ON THE COST OF PROTECTION

In the foregoing pages we have not discussed the traditional free-trade vs. protection controversy, which one may almost say still remains interminable. In this volume which is a preliminary survey of the industrial policy of India it has been assumed that protection is inevitable in our economic policy, and it has not been possible to enter into the fundamental issues of the theory of international trade which such a policy raises. It must, however, be said that the theory of international trade and the practice or history of commercial policies have run a tilting against each other; and in the present depression the advocacy of free trade by the economist has become even less than a cry in the wilderness. We have erstwhile been told that the almost universal adoption of protection even in the pre-depression era was to be explained by the fact that the policy was based upon non-economic grounds on which the "economic-statesmen" took their stand. This may be partially true; but it is not the whole truth if we maintain that protectionism is an *economic* policy. Economics to be a social science—as has now long since been accepted—must take into account all the factors of human life to explain the phenomena covered by its sphere. And here one must emphasise that the theory of international trade still remains incomplete inasmuch as few systematic or scientific attempts have been made to survey and explain *a posteriori* the all-pervading practice of protectionist policies the world over. Signs of the coming change, however, are not wanting and the history of protectionism itself in all the countries—the sheer exaggeration that has been placed upon its potentialities and its actual results—are, we believe, sure to lead even the "economic statesmen" to a searching of their hearts, and reflect whether they have not played too much in the hands of the industrialists. While all these questions have not been dealt with in this volume, the present writers have advocated protection as a main plank in industrial policy on the assumption that these questions would

naturally be raised and solved. With a view to stimulate discussion of such a question and to attempt at finding out a rational basis of protectionist policy, a tentative scheme is proposed in this Appendix. We have referred to the question in general terms in the text; we propose to give an outline scheme here, the details of which can be filled in when the data required for the purpose are available.

It is now increasingly realized even by those who advocate protection that the aid to industries through a tariff is no free gift made by the community to the industries concerned—rather, a sacrifice made by the former in expectation of some general benefit accruing from the development of the latter. We must also bear in mind before starting upon a definite scheme of protection what the history of protectionist countries shows viz: that the tariff gradually comes to exercise a very important influence in national life. It helps the formation of a different industrial structure and to some extent a different distribution of the national income from that which would have resulted without it. The history of protectionist policy in other countries is also a warning against neglecting the baneful effects of protection unskillfully handled.¹ The political influence that protected industries come to possess especially in 'democratic' countries have often provided the free trade armoury with a number of darts.² A new country starting upon such a policy must profit by their experience. The whole outlook of those responsible for framing such a policy needs to be quite different from what it has been in the past. *The Government and the legislature must regard protection more as a scheme of expenditure than that of income for the treasury.* It has been seen in the earlier chapters that many a government has gradually been brought to adopt a protectionist policy as a result of high import duties it first levied for revenue purposes. The fiscal history

¹ "We think the tariff may be likened to a powerful drug with excellent tonic properties, but with re-actions on the body politic which make it dangerous in the hands of the unskilled and uninformed". Brigden and others: *Australian Tariff* p. 99.

² For the latest "The hogs are scrambling in the pond"—about the tariff legislation in the U. S. A.—See: "The Tariff 1929-1930" *Quarterly Journal of Economics*, June 1930 by F. W. Taussig.

of our own country is an instance in point. The tariff has been used both as an instrument for revenue and as a means of assisting industrial development in a number of countries. With regard to the first purpose we have to note that even when it is regarded as a method of indirect taxation the aim generally kept in view in all sound systems of taxation viz: that of transferring a part of the income of the tax-payers—with as 'little sacrifice' to individuals and as little disturbance to production as possible—has not been as scrupulously followed as in direct taxation. It is true, however, that in most countries food-products, machinery or chemicals or whatever articles that a country cannot produce itself and are essential for direct consumption (which is not to be restricted for any purpose), or for further production are allowed free or charged very low rates of duty. *It would be better if in future the two functions of the tariff could be separated.* When we remember that in some important countries e. g. Australia, U. S. A., and Great Britain there are comparatively a small number of items of import which make up the bulk of the customs revenue we think it is quite possible to keep the two functions of the tariff separate. When this has been done, and the Government itself regards protection as an *item of expenditure* there will no longer be a confusion between the needs of industries and the Treasury—nay this changed outlook in itself will act as a check on any unreasonable extension of protection.¹ This need not mean abolition or even reduction of revenue duties. It may on the contrary be possible to extend some revenue duties after a careful examination of their probable incidence. It should not seem that the above considerations are pedantic inasmuch as only the adoption of heroic measures would make them practicable under the conditions that obtain to-day. We submit that once the outlook is changed and the soundness of the above consideration recognised they will guard us against dangers frequently lurking in the path of protectionism.

¹ The Report of the Australian Tariff by Bridgen and Others suggests that a Trust fund must be created out of the receipts from protective duties for the purpose of paying bounties where necessary.

THE PROBLEM OF THE COSTS OF A TARIFF

If then protection is a kind of expenditure incurred by the state on behalf of the community is it possible to measure its extent?

The cost of a tariff can be estimated after a study of its effects upon home production and prices of articles (a) which are dutiable under the tariff and (b) prices of articles which are not dutiable under it.¹ If we can compare the prices paid for home-made goods (protected) with those which would have to be paid for similar goods if imported free, and if we find as a result that the consumers have to pay, for a considerable period, more for the products protected by the tariff we have the measure of the burden. It may be that these enhanced costs are more than made up for by advantages derived from political security, increased industrial knowledge and stability resulting in a diversity of employment. The tariff is often said to draw capital and labour away from the non-protected industries. But in India we have no question of this nature to raise. Our problem is to find employment for an over-crowded agricultural population.

In order, therefore, to find out this burden that people are presumed to bear two methods may be considered for working out an estimate of the costs of protection.

We have seen how the tariffs are classified into divisions or groups. In this method² one division after another is taken and the prices of representative commodities are ascertained firstly in the home (protected) market and secondly the prices of the same commodities or those that resemble them most in a country where they pay no import duties. We thus get a table as follows:—

The Import Duty.	Price in the Protected Market	Price in the Free Market.
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¹ cf. Skene Smith's *Structure and Working of the Australian Tariff* p. 11.

² This is the method of the Australian Tariff Board and is followed by Mr. Skene Smith in his *Economic Control* and illustrated in some detail in his later brochure mentioned in F. N. 1 below.

A comparison of the prices in the two countries can thus be made and if it is found that the price in the free trade country (or the country in which these articles are lightly taxed) is much below the same in the country with the protective tariff, it means that the tariff imposes substantial burden on the consumers. In some cases the position of several important industries is examined for a number of years—its production at an earlier period (say before the War) and its output to-day, the number of men employed then and now may all be considered. If at the close of a period it is found that the production of the industry has been substantially enlarged and the number of men employed is increased, and also if the price of its products approaches the price of similar products in countries not levying duties on them, both the progress and efficiency of the industry cannot be doubted.

Such a comparison is made in the table that is given below.¹ The first column gives a list of certain commodities and the table seeks to compare (i) the duty on each of these articles in the two countries New Zealand and Australia, and (ii) the prices of these commodities in the two countries on the dates given in the third and sixth columns. These dates are so chosen as to compare their prices as far as possible at the same period. The last column gives the export price from a country (England) which exports these commodities in large quantities; hence these prices are bound to be as low as possible. It then remains to be seen whether a commodity that has a high duty in Australia but a low (or no) duty in New Zealand, is sold at a much higher price in the former than in the latter or not. It can also be seen whether the difference in prices in Australia and England is much greater than the cost of transportation from the latter to the former. Finally, if it is found that the price in the country levying heavy import duties is not higher than the price of similar commodities in the country levying low (or no) duties, and that the difference between the export price of the article in the country exporting it and the

¹ Summarised from Mr. Skene Smith's *Structure and Working of the Australian Tariff*.

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market price of the country levying protective duties on that article is not substantial then the burden of protection is either small or none.

Article	New Zealand		Australia		Price per ton Melbourne Feb. 1929	England Export price November 1928
	Duty	Price December 1928	Duty			
			British Preferential	General		
Pig iron	Mostly free from U. K. at 20% From elsewhere	£ 7	20 s.	40 s.	£ 7-5 s.	£ 3-14 s.
Steel plates		£ 20-10s.	Free	120 s.	£ 15	From £ 7-10 s to £ 10-10 s.
Black sheets		From £ 21-10s. to £ 23-10s.	Free	125 s.	£ 25	From £ 8-15 s. to £ 10
Galvanized sheets	25 to 30 p. c.	From £ 24 to £ 26	20 s.	60 s.	From £ 24-10 s. to £ 26	£ 13-10 s.

It will be seen that in all these commodities there is no great difference between New Zealand and Australian prices—in fact in Steel plates it is substantially lower in the latter and in Galvanized sheets it is nearly the same in both. There is a marked difference between the English and Australian prices but then the cost of transportation to the latter country may explain this divergence.

But this method gives only an indication of the costs of the tariff in the different Divisions of the tariff, from which we have to infer the burden imposed by the tariff, as a whole. Secondly even if for the selected commodities based on tariff items similar articles (in quality and value) are found in the country importing them without duty, prices of commodities are swayed by so many factors that a comparison of these in different markets at the same period is imperfect even at best.

AN ALTERNATIVE METHOD FOR MEASURING THE COST OF PROTECTION AND FOR DISTRIBUTING THE SAME

We may, therefore, have recourse to another method which is much more elaborate and calls for the collection of data much greater than are at present gathered by our Tariff Board. We may describe it briefly as under:

Three kinds of industries may be distinguished for our purposes:—

- (i) industries (and occupations) which by reason of physical limitations are beyond the pale of foreign competition—the naturally protected industries—such as building trades, and inland transport.
- (ii) industries protected by the tariff.
- (iii) industries which face international competition i. e. prices in which are determined by world factors.

It will be evident that we are primarily concerned with the second class of industries and to a much smaller extent with the first. Under the burden of protection we have therefore to include

1. The difference between the cost of home produced goods and the cost of the same goods if they were imported free of duty. This could be obtained by multiplying the difference in the prices of the articles as in method already described by the total consumption of these articles.

2. The amount of direct assistance in the shape of bounties etc. If the bounties make the price of home produced goods lower than that of imports this decreased amount will have to be deducted from the total estimate of the burden.

3. Strictly speaking the amount of indirect assistance by way of preferential purchases of home-made goods by the Government and other public bodies must also be taken account of.

The first of these, the cost of home-produced goods in excess the cost of imported products, is the most important and difficult of measurement, while the second, bounties etc., the easiest of the three. In a country that has followed protectionist policy for a considerable period there are serious difficulties in ascertaining all

the commodities that come directly or otherwise in the pale of protection. But in India it would be comparatively easy as there are only a few industries protected. The extent to which products of the protected industries are more costly than similar goods of imported free of duties is indeed very difficult to decide with exactitude. But our Tariff Board follows a method of estimating the future fair selling price which might usefully be applied here. The Indian Tariff Board estimates the future cost of production of the home producer, and the prices at which foreign goods would be imported without duty. It then determines the future fair selling price for the home industry before recommending the amount of protective duties or bounties.¹ It thus tries to anticipate the future course of foreign prices.

On these lines, then, we can attempt to find out the amount which the consumers have to spend in excess of what they would otherwise pay for the same products if these very goods were imported free. But then a question arises whether it is the full amount of the duty that must be computed in the excess cost. In all cases the prices of the commodities, raised as a result of protection, are not raised to the full extent of the duty. We, therefore, have to make an estimate on the following lines:—

1. When it is clear from import statistics, that imports contribute a substantial proportion of the quantity of particular goods concerned, it may be assumed that the price is raised by the full amount of the duty. Here the burden of protection to be taken is the maximum possible.²

2. When the imports are relatively small and the consumption is almost entirely of home-made goods, it is clear that the price is not raised by the full amount of the duty and we may take the excess cost roughly at half the maximum.

3. There are some industries which we have distinguished

¹ See Chapters IV and VI of the 1st Steel Report and of 1927 Steel Report, for this method.

² Such an assumption is made by the Tariff Board in India in the case of Steel. See Report (1924).

Annexure B to the second report on Steel pp. 151 and 161.

before as being naturally protected, such as engineering, or transport industries—in which some kind of protection is inevitable and so the increased cost may be taken *at one third*.

Our task then would be to ascertain the items of the protective tariff and the industries covered by them. When the articles concerned have thus been tabulated the next step will be to estimate the value of the output of these industries. Then the burden of excess cost can be computed as under:—

To ascertain the amount of duty on each kind of protected articles in percentage i. e. turning duties other than ad valorem into their corresponding ad valorem rates.

To calculate the total output of the industry producing each article.

The burden is to be found out for this figure on the output. The ad valorem duty is so many per cent. then by the rule of three the required figure is to be obtained for the output as illustrated in the table below:—

Production item.	Import Duty p. c. of landed cost.	Value of output.	Excess cost of the whole duty is added.
Cutlery	25	Rs. 10,00,000	Rs. 2,50,000

We take the landed cost i. e. the total cost of the imports of the commodities, after they arrive in the country including freight and landing charges. This gives us a measure of the maximum possible amount of the price corresponding to the Indian product.

We will then have to calculate the excess cost to the full amount of the duty on class (1) as marked above, one-half the amount of duty on class (2) and one-third on class (3). In some industries, it will be found that they use as raw materials the products of some others which also may be protected. This duplication of burden can be avoided by taking only the industry that turns out the final products.

The burden thus calculated may not exactly represent the burden

of each industry but taken collectively, an over-estimate in one case may be cancelled by an under-estimate in another.¹

To this must be added the amount expended on bounties and the estimate of the sum of preferential purchases by public bodies.

Volume of Protected Production:— The next step then will be to find out the extent or volume of production dependent upon protection. Indeed there will be some industries which cannot live without the protection and there will be some which can survive the withdrawal of protection. But this question will be of moment when we come to consider the distribution of the burden among the several industries.

We have already got the output of the different industries in the above calculation. But the total of all the output of the industries protected will not give us the real amount of protected production because in some cases the raw materials used herein may be imported (or are those that can be exported at world prices) while in others the raw materials cannot be exported.² It is then only in the last case that the value of the whole output can be regarded as dependent upon tariffs. Proceeding along these lines we find that:—

(i) in the case where raw material is imported or exportable at world prices, the amount of protected production to be taken will be only the “added value” i. e. value of the output less the value of raw material used.

(ii) there are some industries the raw materials of which cannot be exported at competitive prices abroad. The amount of protected production must then be the whole output; such as industries are cement, tobacco, glass etc.

(iii) There are others, such as cotton, where the raw materials come into both the categories and a somewhat careful

¹ This method of calculating the total burden has been checked in Australia (by the Committee of Economic Enquiry above referred to) by another, involving an enquiry into confidential records, and the results have been confirmed

² e. g. Building industries or Paper industry.

judgment has to be made regarding the proportion of raw material that must be computed for the amount of protected production.¹

Before making a final estimate of the volume of protected production we must again turn to the three kinds of industries we have distinguished on the ground that each of them imposes either the maximum or half or one-third of the total burden of protection.

In the first of these classes it is easy to see that all the production in that class must be taken as protected. In the second where the burden of the duty was taken as half the maximum it would be safe to take the full value though some part of that production must be taking advantage of the tariff only partially. In the third class of industries those "naturally" protected—wherein the burden was estimated at one-third of the maximum—one-half the total output may be taken as due to protection.

We may then summarise this discussion on the measure of the burden of protection in the following table:—

Item of Production	Import Duty P. C. of landed Cost	Excess Cost if the whole of Duty is calculated	Value of output	Value added to Raw Materials	Amount of the Raw Material	Proportion of Raw Material to be calculated
I	II	III	IV	V	VI	VII

The Indian Tariff Board has made an attempt to estimate the cost of protecting Steel in their report of 1924, which may be described as under²:—

It obviously restricts its enquiry to the single industry it has been dealing with. It takes (i) the different kinds of steel (ii) their consumption at the time of levying the duty (iii) the existing duty (iv) the proposed duty per ton. The difference between (iii) and (iv) will be the increased burden of the protective duty which they recommend (v). This difference is multiplied by (ii) the volume of consumption the product of (ii) and (v) giving the additional

¹ In the Report on Australian Tariff these industries are taken out separately and the proportion of raw material to be counted is estimated.

² Annexure B to the Report p. 161 and Statement IV p. 161.

price resulting from protection for each item of import considered. Their total gives the probable burden on consumers. It is obvious that the method of the Tariff Board is crude and requires improvement on the lines discussed above.

DISTRIBUTION OF THE BURDEN

Having estimated the total burden of protection and the volume of production dependent upon the tariff, we can easily calculate the average excess price in percentage that the consumers pay for the protected articles.¹

We must now see how this burden is distributed among the different industries and among the different classes of consumers in the country. Here again we turn to the work of the Indian Tariff Board. In its second report on the Steel Industry in 1924², it attempted at examining the burden on the consumer resulting from the adoption of their recommendations and also the effect on the Customs revenue. After estimating the total burden of the protection to the industry, as indicated above, it classified the different kinds of steel and their cost to the consumer. Thus it divided the steel included in the extra burden into (i) that part which goes for general consumption, (ii) the part used by the principal industries (iii) the remaining used by Government and other public institutions.³

We have tried to study the method of estimating the total burden resulting from all industries dependent upon protection. An attempt has now to be made at finding the probable proportion of this burden on the different kinds of industries and finally on the different kinds of consumers—that is, what industries are required to pay higher prices for articles which they use for their own pur-

¹ The Committee of Enquiry on the Australian Tariff, above referred to estimated the burden at £ 36 million and total volume of protected production at £ 180 million. Hence the average excess price (in p. c.) was placed at 20 p. c.

² Annexure B to 1924 Report (2nd Report) pp. 142-163. A preliminary effort at this same topic was made in Chapter IX of its First Report.

³ *Ibid.* para. 25.

poses and how much of the extra costs they are able to "pass on"— and the class of consumers that directly bear the extra burden and whether they are 'able' to bear it. If the total burden resulting from protection in general be calculated on the lines indicated above and at the same time, arrangements be made to have improved data for ascertaining the incidence of this burden on different classes of producers and consumers in the country, the system of protection will almost reach perfection. The incidence calculated by the Tariff Board in the case of steel is approximate; even such an approximate estimate will not be possible in the case of other industries unless the statistical machinery is improved, and to this increasing attention is being paid in recent times by all the important countries. In India the work is simplified because of the comparatively small number of industries as yet protected. This inquiry will show, on what industries in particular falls the excess cost due to the protective policy and when we are in a position to know how different classes of consumers are affected, we shall be able to judge fully the benefits or otherwise of the policy adopted.

It is also easy to see how useful this method of estimating "the cost of protection" would be in guiding us in future as regards the policy of granting further protection. The tendency of protection generally is to increase the number of industries that seek shelter behind it. But the above method at once points to the limitations of the policy. It leads us so to say, to mark the point of maximum utilisation of tariffs. It enables us to be truly discriminating in a protective policy neither being overcautious nor rash.

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