

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

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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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INTRODUCTION

The goal of industrial development in modern countries is maximum production with a view to increase the national dividend and to raise the standard of living of the people of the country concerned. Industrial policy in most countries is designed from this point of view. Questions of protection to industries, relief to the unemployed, reciprocal commercial treaties or conventions between certain countries and the like are different aspects of this fundamental aim.

In India, the growth of industries is naturally looked upon as a means of relieving the pressure of population on agriculture, so that there may be a balanced division of labour between different sections of the people, in order to exploit the resources of the country for the ultimate good of the people themselves. There is no essential difference in this point of view compared with that in other countries. In other words, maximum production and a national outlook are the two pillars on which the industrial policy of this country must be based, as in other countries.

Such a policy has been termed "Economic Nationalism". In view of the extreme forms taken by this policy in some Western countries, international trade has suffered with adverse effects on most countries. As against this, the cry for what may be described as "Economic Internationalism" has become popular. It should be pointed out that whatever the significance of this new cry, it does not mean the restoration of Free Trade, though it may mean freer trade compared with the present restrictions. We may say that the aim of Economic Internationalism is not to wipe out Economic Nationalism, but to encourage a policy by which undesirable and

extreme forms of restrictions on international trade may be removed. The effort, in other words, is to reconcile the desire for a national economic life in each country with the requirements for a larger volume of international trade in which all are interested. It should be pointed out that both the evil and the remedy refer chiefly to Western countries. The position taken as a whole cannot be applied to countries industrially backward or to countries whose economic independence is neither recognised nor felt in the councils of the world. We hear so much of the efforts of the League of Nations as expressed in the proceedings of the World Economic Conference to restore freer trade by putting a stop to excessive restrictions. So far as India is concerned, our tariff is low compared with that of most Western countries; our requirements for economic progress are essentially different due to the large size of the country, and the economic stage in which we are. Besides, though India is nominally a member of the League of Nations, in practice the economic status of India in the world is not equal, and its voice in influencing world opinion is not felt. One has simply to watch the proceedings of any important body like the World Economic Conference to verify the truth of these remarks. We may admit that this is due to the political dependence of India, but the fact has to be recognised and appreciated in applying the so-called world opinion to our situation.

In order to work the industrial policy defined above, namely, maximum production with a national outlook, two things will be necessary. In the first place, there should be a detailed survey of the facts relating to the condition and possibilities of different industries or groups of industries. At the same time, certain general principles should be defined, which would enable the policy of maximum production and a national outlook to be carried out with effect. For the successful prosecution of this

policy, a continuous study of the details in the light of the general principles will be essential. For our purpose, we have attempted an introductory survey of the Growth of Trade and Industry in Modern India in the preceding volume in this series. We shall here consider the general principles with reference to the classification of industries suggested in that volume.¹ The object of this classification is to consider the industries from different points of view; it is overlapping in some respects, because the same industry may have to be viewed from more than one point of view. The suggested classification is as under :—

1. Industries for the home market or for export.
2. Industries financed by Indian capital or by foreign capital.
3. Industries managed by Indians or by foreigners.
4. Industries owned by the State or by private people.
5. Industries receiving protection or other form of State assistance or unprotected industries.

1. INDUSTRIES FOR THE HOME MARKET OR FOR EXPORT*

The propaganda in favour of Swadeshi goods means the encouragement of local industries by voluntary methods of stimulating the demand for indigenous goods as against foreign goods, even at a sacrifice. It is certainly a desirable method so far as it goes, and is bound to be a useful complement to any state action for industrial progress. But it has its limitations from the larger point of view, namely, that of maximum production or the full exploitation of the raw materials and other natural resources of the country; because the Swadeshi principle

¹ cf. Growth of Trade and Industry in Modern India, p. 16.

* In discussing these general considerations, the material on pp. 16-20 of 'Growth of Trade and Industry in Modern India' has been freely used and elaborated.

can only work towards the displacement of foreign imported goods by locally made goods, and is therefore dependent on the home market only. In the case of those raw materials which we may have in abundance, but for the manufactured products of which, we may not have a sufficiently large home market, the Swadeshi principle cannot help us, because it cannot create for us a foreign market. In other words, the Swadeshi principle helps us in our economic progress only to the extent to which it can give an impetus to those industries which can command a large home market.

The policy of Discriminating Protection and the Swadeshi principle have a common defect. A large home market is an essential condition for an industry to receive protection from the Government of India under the existing policy. In other words, both the policy of the state, and the voluntary efforts of the people in the direction of Swadeshi, as now understood, are not likely to give any encouragement to those industries, which, if developed, may have to depend on foreign markets.

Our backward state is perhaps responsible in engendering this limited ideal in our mind, and it is curious to see that we are ignoring facts relating to our own country while we think on these lines. Two of the most important industries in the country, namely, jute and tea, are primarily export industries. In the case of the former we have the monopoly of the raw material, in the case of the latter, we have a very strong position. Even in the case of an industry like that of cotton, we used to export large quantities of yarn to China in the earlier years, and that was the source of strength of the Bombay mill industry ; and we are aware of the efforts now being made to develop the export trade in Indian cotton piece goods in the countries bordering on the Indian Ocean. Even a protected industry like steel, which has come into importance in this country, during the last decade, depends

to a certain extent on export ; large quantities of pig iron manufactured at Jamshedpur have been taken by Japan ; the exports of pig iron from India to the United Kingdom have led to enquiries in the House of Commons, and pig iron has been given an important position in the Ottawa Trade Agreement between India and the United Kingdom.

These illustrations should be sufficient to arrive at the conclusion that both the policy of Discriminating Protection and the Swadeshi principle suffer from important limitations. This means that though we should certainly think of the home market first, we should not therefore shut our eyes to the possibility of expansion of those industries which we may be in a position to develop, but for which we may have to depend on outside markets. Given an effective demand in any part of the world, if we are in a position to supply the required goods, of good quality at a reasonable price, there is no reason why we should not manufacture them merely because the home market in that commodity is either limited or does not exist. In our efforts to bring about a proper equilibrium in the economic organisation of the country, and to work for maximum production by means of industrial advancement, this point of view should not be ignored either by the public or by the state.

It may be pointed out in this connection that the ideal of the development of industries for the home market only has not been practised by most countries, and that the richer countries in the world are at present those which have developed export industries, for example, the United Kingdom, the U. S. A., Japan and so on. We may be told that the race for markets by such countries leads to undesirable jealousies between different countries, and sometimes to a disturbance of the peace of the world. Besides, there is the tendency for the exporting country to try to dominate or control the internal

affairs of the importing country with a view to retain the market.

In the policy that we have outlined above, we have taken care to eliminate these undesirable aspects of the industrial policy of other countries. We have emphasised the fact that we should think of export industries only in those cases in which we are in a position to supply the required goods, of good quality at a reasonable price. In order to remove any ambiguity, we may lay down that such industries should be confined only to those cases where nature has favoured us with abundant raw materials. Instead of exporting the raw materials, we should try to export the finished product. Most of the undesirable aspects of modern industrial policy are due to the fact that the manufacturing country has to import the raw material, and is dependent on foreign markets for disposing of the goods made from such imported raw material. Its economic organisation is thus open to attack from two sides, and has to be supported by extra-economic methods. A country which commands an abundant supply of the raw material of a certain commodity, is naturally in a strong position. Other countries requiring the commodity must either take its raw material or the finished product. There will therefore be no cause for the growth of jealousies for the control of markets and other undesirable consequences, which are a feature of the industrial greatness of some of the modern countries.

We need not point out that India is in an eminent position to set an example in working out such a humane industrial policy. In exporting jute goods and tea, we do not interfere with the natural rights of other countries ; if we export cotton goods and pig iron, we do so because we have plenty of raw material in either case, and because the importing countries find it advantageous to import them. We export large quantities of oil-seeds, hides and skins, lac and manganese and so on. There is no reason

why we should not be able to develop export industries in these and other articles, in which we may have obvious natural advantages.

An industrial policy so framed will enable us to reach the goal of maximum production early, without the fear of those evils with which the policy of other countries is surrounded.

2. INDUSTRIES FINANCED BY INDIAN CAPITAL OR BY FOREIGN CAPITAL

Industries financed by foreign capital do help in increasing the production of the country. But if the share of the foreign capital in the profits of an industry is unduly great, such increased production will not conduce to real national advantage. In view of the desirability of having maximum production, foreign capital must be welcome to us, in those cases in which Indian capital is not available. But there should be sufficient restriction or control over the use of such foreign capital to safeguard national interests. Most of the difficulties connected with the investment of foreign capital in our industries are due to the fact that the investment has been accompanied by foreign control. If foreign capital is borrowed by Indians and invested in Indian industries under Indian control, it will be possible to have maximum production and a national outlook. In view of the fact that the taxpayer is made to pay in one form or another for the protection of industries, and in view of the possibility of the extension of this policy in the future, the desirability of having suitable control on the investment of foreign capital in Indian industries becomes still greater. On the one hand, the investment of foreign capital borrowed and controlled by Indians should be encouraged; on the other, industrial enterprises run by foreigners with foreign capital should be required to conform to certain conditions, which

may safeguard national interests and guarantee a national outlook on the part of such industries.

The necessity of introducing such measures is borne out by the fact that those existing industries which are financed by foreign capital, have remained more or less exclusive, and under foreign control ; in spite of the fact that they have enjoyed valuable privileges in this country, for so many years, they have somehow preserved their non-Indian character. In consequence, not only have the profits in these industries gone to foreigners, but the valuable experience, knowledge of technique etc. have also been lost to us. All this equipment, if available to Indians, would have prepared us by now for easy adjustment to new conditions, and the kind of industrial development that we look forward to, would not have been so difficult.

We hear in these days of the extension of technical education and the establishment of institutions for technological research. Schemes for such purposes are being planned and carried out. The Universities in India consider it their patriotic duty to institute technological faculties and degrees, and if possible, start special departments for the same. This movement reflects the intellectual counterpart of that equipment which would enable us to organise for maximum production on national lines. But it should be pointed out that no amount of such academic work will be of avail, so long as the existing industries in non-Indian hands, do not have a national outlook. The experience and knowledge of technique which can be acquired only by practical work in responsible capacity will be lost to us so long as the foreign owned industries do not identify themselves with the interests of the children of the soil. The University equipment will be a good basis to take advantage of facilities for higher practical training ; but it will be a poor substitute for such training, and in the absence of adequate

facilities for such training, the Universities will be merely turning out a new class of educated unemployed.

We come to the conclusion that foreign capital for Indian industries is welcome only under certain conditions, which will ensure a national outlook. In any case, efforts should be made by the state to see that both the existing and new industries financed by foreign capital conform to these conditions. Unless this is done, the advantage of the increased production will be lost to us to a great extent; the people of the country will have less both in the distribution of profits, and in the acquisition of industrial experience and training.

3. INDUSTRIES MANAGED BY INDIANS OR BY FOREIGNERS

This classification is closely connected with the former. Industries financed by foreigners are invariably managed by foreigners. Besides this, there are a few industries which though financed and owned by Indians, are managed to a certain extent by foreigners; for example, the steel industry. Such foreign management refers in most cases to the management of the factory, or the employment of foreign experts for certain processes in an industrial establishment. For certain kinds of skilled work, qualified Indians are not available and hence the appointment of foreigners for such work. This may be justified in the case of an industry which makes a beginning and is faced with a situation in which it is not able to find qualified Indians to take up certain kinds of work. It should however, be its duty, and the state should enforce this, to see that as early as possible, Indians are trained by it for the purpose; so that the handicap with which it started may not be permanent. It is obvious that those industries which do not adopt this policy have not got a national outlook, and must be taught one as soon as pos-

sible. In the case of those industries which receive protection this condition can be easily enforced.

We come to the conclusion that the national outlook must suffer by the employment of foreigners in managerial and other important positions in Indian industries, and that therefore such employment should be reduced to the necessary minimum, and that simultaneous efforts should be made to train Indians to replace the foreigners in a reasonable period of time.

4. INDUSTRIES OWNED BY THE STATE OR BY PRIVATE PEOPLE

Without entering into a discussion of the problem of state ownership of industries, let us consider the position as it exists and is likely to be in the immediate future so far as we can foresee. We may assert that though the state is likely more and more to help industrial progress in a variety of ways, so far as industrial enterprise in general is concerned, it will be left to private parties. While making this assertion, we cannot overlook the fact that the biggest single industry in the country, namely, the Railways, is state property, and in course of time, will be entirely under state management. We have already observed that it is the duty of the state to see that the national outlook is preserved by industries in India. In the case of Railways, the state is in an eminent position to set the right example. So far as the Indianisation of the Railway service is concerned, the principle has been accepted in theory; and though some progress can be indicated in practice, much remains to be done. Here is a vast field for the acquisition of experience and training in highly skilled technical and engineering work, which would not only employ a large number of Indians, but would help indirectly for the industrial advancement of the country. The same remarks hold true in the

case of Irrigation Works which are also state property managed by the state.

This is however not the only way in which the state can help. In view of its ownership and control of railways, the state is very favourably situated to help industries in the country by a suitable policy of Railway Rates. It is well known that the Railway Rates policy in this country has little or no connection with the problem of industrial development ; that it has had a good deal of connection with the encouragement of the export of certain raw materials, and the import of certain manufactured goods ; and that complaints have been made both to the Tariff Board and the Railway Rates Advisory Committee regarding the treatment received by Indian industries at the hands of the Railway authorities.

No one denies the right of a railway administration to so arrange its rates that it may earn a reasonable profit in the aggregate. But in the case of a network of Railways spread over such a wide continental area like that of our country, it is the obvious duty of the state, which owns it and controls it on behalf of the taxpayer, to see that the Railway Rates policy is designed in the larger interests of the economic progress of the country, without detriment to the immediate requirements of Railway finance itself. A thorough examination of the existing Railway Rates policy from this point of view is long overdue, and it is high time that the Indian authorities utilise this important instrument for bringing about that rapid growth of industries in this country which is acknowledged to be necessary to relieve the pressure of population on the land.

5. INDUSTRIES RECEIVING PROTECTION OR OTHER FORM OF STATE ASSISTANCE AND UNPROTECTED INDUSTRIES

It may be noted that when we talk of protection of industries, it is usual to think of Customs duties. Though

Customs duties are the most effective for this purpose, and therefore most commonly employed, there are other ways of giving assistance to industries which may be briefly noted :—

(a) *Restrictions* :—The extreme forms of protective policy are export and import prohibitions.

(b) *Indirect Protection* :—This is given by means of lower freight rates (on railways and shipping); we have already referred to the Railway Rates Policy. Indirect protection is also given through administrative procedure e. g. marking of foreign goods.

(c) *Direct Financial assistance* :—Bounties are the chief forms of protectionism next to Customs duties—a form in many ways superior to others, but often not practicable. Bounties are given on production as well as on exports. They have been most common in the case of the shipping industry. Other measures that can be included under this head are preference in public contracts, trade facilities, and grants for unemployment.

(d) *Measures affecting Productive factors* :—These relate to legislation encouraging or discouraging the import or export of capital, and the emigration or immigration of labour. We have already referred to foreign capital. So far as labour is concerned we may say that the immigration of ordinary labour is not likely; we have to deal with the immigration of skilled labour, which we have already discussed. Besides, we have very limited scope of emigration for ordinary labour.

We have briefly enumerated these forms of protection, because the question of protection to industries in India has assumed importance in recent years, in view of the adoption of the policy of Discriminating Protection by the Government of India. Among the industries which have received some protection may be mentioned steel, paper, matches, cotton and sugar. If the question of the industrial advancement of the country is viewed from the point

of view we have emphasised, namely, maximum production and a national outlook, the existing policy will have to be revised in favour of a more aggressive one, which may enable us to develop our industries at a much faster rate. A closer examination of this policy and suggestions for improvement will be made during the course of this volume. We may however anticipate the conclusion in brief, that the state should give protection or assistance to the industries of the country in a variety of ways, with a view to increase the production of the country as much as possible in the interests of the people of the country, and that there should be a suitable permanent machinery to make a comprehensive and continuous study of all the essential facts and tendencies relating to the development of the trade and industry of the country, so that prompt measures may be taken whenever necessary.

CONCLUSION

This brief discussion of the industries of the country, from different points of view shows that in order to achieve the goal of maximum production with a national outlook, the industrial policy of the country should be revised to bring about among other things the following changes :—

(a) A change in the point of view regarding production with reference to markets. Production for export should be encouraged equally with that for the home market, though there may be certain limitations to such encouragement.

(b) A change in the outlook of foreign capitalists and foreign managers or experts working in Indian industries ; or in the alternative their substitution by Indians. This should be a necessary counter-part of suitable progress in technical and scientific education.

(c) Increased facilities for investment in industries of

Indian capital. Encouragement of investment of foreign capital in Indian industries under Indian control.

(d) A revision of the Railway Rates Policy with a definite aim to encourage the trade and industry of the country on national lines.

(e) Effective protection or assistance to industries in a variety of ways, accompanied by suitable machinery for a comprehensive and continuous study of the facts of trade and industry of the country.

Maximum production is not possible without encouraging export industries. National outlook in industries is not possible without the second and third changes noted above. The movement in favour of Swadeshi goods encourages the second change ; if the state and the foreign capitalists adopt a national outlook, the desired change will be complete.

The problem of industrial finance is highly technical, and requires a separate study. The various Banking Committees have discussed this problem, but we have to wait for the results.

The problem of Railway Rates is also highly technical, and must be the subject of a separate study. We may only note that the railways have a good deal to do in this connection before we feel proud of the fact that this state property is also national.

The question of better arrangements for industrial finance as well as of the formation of a suitable Railway Rates policy depend to a great extent on the impending constitutional changes. The constitution of the Reserve Bank of India on the one hand, and of the Statutory Railway Board on the other will have important effects on these problems. To what extent the functions and the powers given to these bodies and their personnel are consistent with national economic interests is a matter on which we cannot pronounce an opinion till these things are decided. We shall only point out here that the above-

mentioned changes must be considered from the point of view of the industrial policy outlined by us.

We emphasise that the policy of protection should be comprehensive, prompt, and effective ; we can neither think of maximum production nor of a national outlook unless the existing policy of Discriminating Protection is thoroughly revised. As pointed out above, the most important form of protection is Customs duties. Customs duties have attained such importance in modern times that they require a close study by themselves. It is therefore that the present volume has been mainly devoted to a discussion of the Customs Tariff as an instrument of Industrial Policy in India. While doing so, we shall refer to other forms of protection, whenever necessary, and at the same time bear in mind the fact that Customs duties are an important source of revenue to modern Governments. The study of Customs duties however does not imply that other parallel reforms necessary for a balanced and progressive economic life in the country are less important ; some of them in fact require separate and detailed studies.

THE SCOPE OF THE WORK

We are now in a position to indicate briefly the exact scope of the present volume. In the first place, we have taken a rapid review of the recent tendencies in the world regarding Industrial Policy. This confirms some of the general observations made in this Introduction, and prepares the way for a fuller discussion of the right policy for India. In order to have a connected idea of the Industrial Policy now in vogue, with that which preceded it, and that which we propose for the future, we have attempted a brief history of the Industrial Policy of the country in the past, and a critical analysis of the one now in operation. This forms the second chapter. The third chapter attempts to outline an Industrial Policy for the

country, and discusses the major issues involved including the Machinery and Procedure and the Cost or Incidence of Protection.

In view of the growing importance of Customs Tariff as the principal instrument of our Industrial Policy, we have attempted a study of the technique of tariffs and tariff methods followed in other countries from our point of view. For this purpose, we have analysed the Indian Tariff Schedule in chapter four, and discussed its classification in chapter five. In doing so, we have made use of the systems prevalent elsewhere. Some important aspects of Tariff methods found in other countries have been examined in chapter six. In the last chapter, we have attempted a tentative tariff schedule for India, classified and arranged according to our suggestions in the preceding chapters.

The appendices deal in brief with a few relevant problems.

CHAPTER I

SOME WORLD TENDENCIES IN INDUSTRIAL POLICY COMMERCIAL BASIS OF MODERN CIVILIZATION

Modern civilization is dominated by Europe, and it is well known that the modern progress of Europe and its hold on the other parts of the world were facilitated by (1) the commercial spirit of some of the European nations, (2) by the discovery of Columbus and (3) by the industrial revolution, first in England and then in other European countries. The colonial expansion of certain European countries in the American continent on the one hand, and the work of certain European trading companies in the East on the other hand, are important land marks in the spread of modern European civilization. In either case there was a commercial basis, and we may therefore say that European civilization spread itself with the help of commerce.

But as was natural, this commercial spirit was bound to lead to certain conflicts ; conflicts between the competing European nations themselves on the one hand, and between any one of them and the people of those parts where that nation tried to establish its supremacy and power on the other. In consequence we find a long period in history, which is dominated by such struggles ; it was out of such struggles that some settlement was arrived at, and we find the European nations settled down for peaceful work, each with vast territories, either colonies or dependencies in different parts of the globe. But the one thing that comes out from the relations of the colonising country with its colonies and dependencies, is that this power was obtained during the course of trade and has been retained for the purpose of trade.

The nature of control has changed its forms from time to time; the commercial exploitation of the American colonies led to open revolt and to the independence of the colonies. The subsequent policy with other colonies was therefore less inhuman, but nevertheless, it has been eminently commercial. The dependent countries were easily overpowered by the superior skill and organisation of the conquering country, and the kind of revolution which the American colonies could think of, was not possible for them. This enabled the ruling country to carry out its purpose of trade with greater advantage to herself in a variety of ways.

FREE TRADE IN ENGLAND

By the middle of the nineteenth century, though things seemed to be peaceful on the surface, important ideas were developing which were bound to lead to conflict if their realisation was opposed by vested interests. It was the growing consciousness to preserve the national spirit of each country. Each country desires to be either self-sufficing in the supply of economic wants, or at least to develop her own industries on a national basis, and in order to do this the policy of protection is generally resorted to. The controversy about the suitability of Free Trade or Protection seems to be endless; volumes have been written upon it and bitter controversies have often resulted. The truth seems to be that a policy of free trade is best and would be most conducive for world economy, provided all the countries join in carrying it out. It is therefore an ideal which depends for its practical success on the co-operation of various parties, which it is difficult to bring about. So long as this is not realised, each country thinks, naturally, from her own point of view, and adopts Free Trade or Protection as it suits her own economic organisation at the moment. If we apply this key to the industrial policy of different countries at

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different times, we shall be in a position to appreciate the changes made in the same. Without going into details, we may say that England gave up her protective policy and adopted Free Trade which eminently suited her economic condition for many years thereafter.

PROTECTION IN OTHER COUNTRIES

On the other hand the policy of Protection was more suitable to other countries. These countries had to face the growing power of cheap British goods, and they could not have progressed at all except with the help of tariff walls. This was true not only of European countries like France and Germany, but also of the newly established countries or colonies, the United States of America, Canada, South Africa and Australia, and the same policy was successfully adopted by Japan.

With the gradual development in scientific inventions and with improvement in organisation, some of these countries supported by a system of Protection became highly industrialised, so much so, that in some cases England found herself beaten ; and though the system of Protection was adopted in each case for supplying the home market to start with, the production in each industry soon outgrew the home requirements, and the necessity for finding adequate markets was felt by each of such countries. The acquisition of foreign markets became difficult for those countries which started late, because the control of large areas of the world had already been acquired by those which had made an early start. In spite of this, the struggle developed and continued, and resulted sometimes in treaty negotiations, sometimes in the formation of international cartels, and sometimes in the demarcation of spheres of influence in foreign centres, where more parties than one were struggling for supremacy. This search for markets or this very commercial basis of European civilization was, as it were, to work its

ruin, because in spite of such palliatives as mentioned above, the conflicting interests of some of these powerful European nations were bound to lead to serious trouble. The first sign of it was to be seen in the Franco-German War of 1870, which marked the rise of Germany as a united and powerful nation. The onward march of Germany thereafter, and the ambition of some of her statesmen met with restrictions in the form of vested interests of other countries in many parts of the world. This commercial rivalry of the European countries must, therefore, be considered as one of the deeper causes of the world war. And once again both during and after the war, we find that it is the commercial spirit which dominates the situation. It was the greater economic resources of the allies due to their wider commercial net-work that enabled them to stand the strain of the war for a long enough period during which Germany and her allies could be exhausted and defeated; and it is the possible prevention of Germany from rising once again into a commercial rival that is at the bottom of the various clauses of the Peace treaty to which Germany had to submit.

POST-WAR EUROPE

The War was nominally carried on for the rights of smaller nations, for example, Belgium, and this idea had to be kept up even in peace. In fact it was a convenient idea to break up the power of the defeated parties. What we now find is that Central Europe has been cut up into small independent nationalities, each with a separate political existence. These newly created small nations who thus found themselves independent began to ape the methods of the older countries, in order to preserve their independence and to increase their power. And the only method they could think of was the adoption of a policy of Protection and Tariffs, which have been the rule in these countries since the peace. What we find,

therefore, at present in Europe is that international commerce is more restricted than ever. On the one hand, many restrictions were imposed by different countries during the period of the War on imports and exports, and though the necessities of the War had gone, these restrictions persisted for a long time. In fact some of them had to be increased because of the era of depreciated currency, which followed immediately after the War, each country trying to protect herself against the goods of a country with depreciated currency. In consequence, new capital has been invested for the creation of national industries in these countries, to replace similar industries already in existence in other European countries. We have, therefore, over-production in some industries in Europe on the one hand, and a set-back to international trade on the other, due to high tariffs and frequent changes in them. This state of affairs, therefore, makes the work of European re-construction very difficult.

THE ECONOMIC DOMINATION OF AMERICA

One of the most important consequences of the War is the unusual importance which the United States have obtained in the economic sphere. The gradual rise of the United States was probably bound to come in course of time, but it cannot be denied that its sudden emergence has been greatly accelerated by the events of the War. The economic domination of America, meaning thereby the United States, is of such dimensions that it is bound to affect the future economic history of the world.

The United States covers a large area of more than 3 million square miles, and has a population of 120 millions. It is full of natural resources, which have been systematically exploited by the Americans. It has absorbed emigrants from most of the European races, and the mixed population that has thus come into

existence has tried to imbibe the best from European methods of production and commerce. In order to carry out its economic development, America had raised large foreign loans, and it was not therefore interested in lending abroad in large quantities. It is true, however, that some of her industries had greatly developed during the period before the War, and some beginnings towards a policy of lending abroad had been made, particularly to the South American countries. But the necessities of the War gave America her opportunity. The United Kingdom and her allies drew considerable sources of supply for the War from America, largely on a credit basis. In the first place, the effect of this was that the existing American debt to England was liquidated, but in course of time the credits grew larger and larger in favour of America as against England and her allies. In addition to this supply of war materials, the European countries took large amounts of loans for financing the war in Europe proper. Some of the loans were taken directly from America ; more often, England took the loan and in turn lent to other countries of Europe, chiefly her allies.

This increasing domination of America was felt more than ever after the War, when large sums of money were required for the reconstruction of Europe. Huge financial schemes were arranged, partly with the assistance of the League of Nations, for putting the European currencies on a suitable basis, and for relief operations in certain devastated areas. The help to Austria was organized on this basis, and the funds came from America. Similarly, Germany also received great financial assistance from America for the carrying out of the Dawes Plan in connection with the Reparations payments. Even England had to borrow in order to restore the gold value of the paper pound.

THE FUNDING OF EUROPEAN DEBT

So far as the War debts of European countries are concerned, the European countries have not all been willing to make full re-payment of what was taken in the stress of the war for destructive purposes. The question arose whether such loans advanced during a period of high crisis for such destructive purposes should be repaid just like any ordinary commercial debt, or whether other considerations such as the capacity of the borrower to pay, should be taken into account. Another delicate problem is that whereas the European countries, and particularly the British Government, consider the question of German reparations and that of American debt as interconnected, America does not accept that position, and therefore prefers to deal with each debtor country, separately irrespective of the reparations.

In consequence of these divergent ideas, the United States made different settlements with different countries on varying terms. Britain in her turn made similar arrangements with her debtors, the net result being that the burden of the American debt repayment was high for Britain. She agreed to pay to the United States a sum of about £33,000,000 annually up to 1933, rising to nearly £38,000,000 annually thereafter from that year until 1984.

ECONOMIC EFFECTS

It is obvious that from the economic point of view, the effects of an external debt of this character are the same as those of war indemnity. The interest and the capital have to be paid from year to year without any commercial equivalent in return, though when the loan was received it was spent for destructive purposes. The other feature to be remembered is that as such foreign payments have to be paid either in goods or in gold, and as

the acquisition of gold also means the export of goods to some country or other, the whole debt is in fact paid by an equivalent amount of exports.

The economic effects of such a great hold that America thus obtained on European countries were bound to be large. The internal trade of America, in view of her continental size, has been of much greater importance to her than her foreign trade. But during and after the war, her foreign trade grew fast both in volume and in importance, and at present, her foreign trade is greater than that of any other nation, except Great Britain. Not only has the trade increased in this manner, but the character of the trade has also changed considerably. Whereas in former years, American exports were chiefly food stuffs and raw materials, in recent years, she is exporting more of manufactured goods. In other words, American goods are now entering the markets of the world in competition with European goods to a greater degree than before, and this competition is being increasingly felt in all directions.

The strength of American exports since the War must be attributed to the huge credits which American investors supplied to foreign countries. Foreign countries chiefly European, had to buy from America, because, America had practically the monopoly of the credit required by them. In other words, her foreign loans were made if not wholly, at least partly, by means of an increased export of her manufactured goods. The hold which Britain had for many years before the war on foreign countries because of her loans, is now going to be enjoyed perhaps in a still greater degree, by the Americans. In other words, just as British trade followed the pound, American trade is following the dollar. The return of principal and interest of those loans spread over many years, will mean a proportionate increase in the imports into America from those other countries in

future years. But just as in individual relations, the creditor is in a position to dictate his terms to the debtor, similarly, the creditor country has in the present case imposed heavy terms on the repayment of these loans. It is obvious that these repayments can be made directly or indirectly by the export of goods from the European countries to America; but America has made the entry of foreign goods into her ports more difficult than ever by her tariff policy. America has been a protectionist country, and at present we find that she is one of the most highly protected countries. It thus happens that the increased tariff seriously affects things which Great Britain and her allies are in a position to send to America. The situation amounts to this, that the creditor country not only demands repayment of her loans, but makes the repayment difficult or more costly to the debtor by means of such tariffs.

THE NEW COMMERCIAL POLICY OF AMERICA

One of the most interesting contrasts in economic history is thus presented, that when England was in a similar position to demand repayment of her foreign loans she adopted a policy of free imports, whereas, America in the present case, has adopted a policy of greater restriction on imports than ever. This difference in method is justified by the difference in the economic structure of the different countries involved. Whereas in the case of England, the debtor countries were mostly backward, and interested in producing raw materials and food stuffs, the import of which England desired, as cheaply as possible, partly for her own industries, and partly for her increasing population; in the case of America, the debtor countries happen to be highly industrialised countries, who will repay their loans by means of the export of manufactured goods, the free entry of which is naturally feared by American industrialists. In conse-

quence, we find that the desire for protection in America against such competition is greater than ever. The Americans want protection not because their industries are so weak, but because their industries are so advanced, and have raised their standard of living so high that any such competition from Europe may tend to lower their highly cherished standard. In other words, this establishes more than ever the point that the adoption of Free Trade or Protection is a matter of convenience to the particular economic condition in which the country in question is situated. Not only does America desire the protection of her industries in this manner, but she also desires that her exports shall be treated in other countries on a footing of equality with the rest, and that there shall be no discrimination against American goods. In order to maintain her importance in international trade, America has to secure export markets. Whereas Great Britain and other European countries had in the past, and have now, their colonies and dependencies in which they have been used to secure export markets for their goods, the United States are not in a position to count upon such possessions with the exception of the Philippines. In the absence of such political control, America prefers to exercise her economic power to secure export markets on the best possible terms, by means of a new commercial policy, by which the American President is given power to protect and push forward American trade in the markets of the world by adopting special measures.¹

TRADE BARRIERS

We thus find that the domination of the world by Europe is challenged by the United States, and is likely to meet with obstacles in other parts of the world, because of greater economic development in them. In view of this,

¹ This refers to the Flexible Tariff of 1922; this has been further revised in recent years. cf. A New American Commercial Policy by W. McClure.

the necessity of common action by Europe is obviously great, if it is going to retain its former position in the economy of the world. But any such effort cannot be successful, so long as each country in Europe is trying to work on national lines by protecting its industries against the manufactured goods of other European countries. In other words, Free Trade within Europe has been thought desirable, and as a first step in this direction, efforts were made for the removal of trade barriers. The work of the International Chamber of Commerce, and the proceedings of the World Economic Conference of 1927, show the keen desire of European Statesmen to bring about the policy of freer trade. The trend of opinion in this connection is reflected in the resolution of the World Economic Conference of 1927 on this subject which runs as follows :—

“In view of the fact that harmful effects upon production and trade result from the high and constantly changing tariffs which are applied in many countries ;

And since substantial improvement in the economic conditions can be obtained by increased facilities for international trade and commerce ;

And in view of the fact that tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest but greatly influence the trade of the world ;

And in view of the fact that some of the causes which have resulted in the increasing of tariffs and in other trade barriers since the war have largely disappeared and others are diminishing ;

The Conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction.

The Conference recommends :—

(1) That nations should take steps forthwith to remove or diminish those tariff barriers that gravely hamper

trade, starting with those which have been imposed to counteract the effects of disturbances arising out of war.

Moreover, in order to ensure that this action is continually pursued, the Conference recommends :—

(2) That States should proceed to the conclusion of commercial treaties on lines and under conditions calculated to ensure the attainment of the aims mentioned herein ;

(3) That, in future the practice of putting into force, in advance of negotiations, excessive duties established for the purpose of bargaining, whether by means of tariffs de combat or by means of general tariffs, should be abandoned.

(4) That the Council of the League of Nations should be requested to instruct its Economic Organisation to examine, on the basis of the principles enunciated by the present Conference, the possibility of further action by the respective States with a view to promoting the equitable treatment of commerce by eliminating or reducing the obstructions which excessive Customs tariffs offer to international trade.

In this enquiry, the Economic Organisation should consult with representatives of the various Governments, including non-members of the League, and also so far as necessary with the competent bodies representing Commerce, Industry, Agriculture and Labour.

The object of the enquiry should be to encourage the extension of international trade on an equitable basis, while at the same time paying due regard to the just interests of producers and workers in obtaining a fair remuneration and of consumers in increasing their purchasing power."

RECENT EVENTS

For some time after the Conference, the situation was hopeful. But the movement towards lower tariffs was

short-lived, and we find that the tendency to raise tariff duties was again marked in 1928. During the year ending May 1928, nineteen countries revised their tariffs; out of these, ten revisions were definitely upward. During 1928-29, changes in tariffs were made in twenty-five countries, fifteen of which raised the duties. When the Tenth Assembly of the League of Nations met in September 1929, it was pointed out that the situation was worse than that in 1927. Several methods¹ were suggested to solve the problem, e. g. (a) a collective agreement between a number of states; (b) declaration of a tariff holiday; (c) and a programme of reduction of duties. It was expected that the States would agree to fix certain maximum tariff levels, which they would not transgress.

A Tariff Truce Conference met in March 1930. But by this time, the situation was further complicated by the depression which began with the Wall Street crash, and by the discussions on the proposed tariff in the U. S. A. It may be added that out of thirty States invited to this Conference twenty seven were European. The idea of a tariff truce had however to be abandoned because of the opposition of a number of states including France. Ultimately a Commercial Convention was signed by which the Contracting Parties undertook (a) to prolong till 1st April 1931 all commercial agreements expiring before that date, and (b) to increase existing duties only after having followed a given procedure, which meant a notice to the other parties. At the same time, a Protocol was signed with a view to secure "closer co-operation, the improvement of the regime of production and trade, the enlargement of markets, and to facilitate the relations of European markets between themselves and with overseas markets, so as to consolidate economic peace be-

¹ cf. Recommendations of the Economic Committee relating to Commercial Policy.

tween the nations''. We find in this an echo of the proposal of M. Briand for a United States of Europe.

The force of circumstances was, however, in a different direction. Outside Europe, several important countries¹ revised tariffs in the upward direction particularly after 1929. Again, by this time the U. S. A. had introduced a new feature in their tariff, namely, high protection to agriculture. This was soon imitated by some European countries in the hope of combating depression. But the depression was growing in intensity, and by the beginning of 1931, everybody had realized that the world was in an economic chaos, out of which little light could be seen. In spite of special arrangements, credit began to freeze; the failure of the Bank of Austria definitely showed which way the world was moving. The Hoover Moratorium failed to give relief to the diseased economic system of the world.

The underlying causes of the economic disequilibrium into which the world had fallen were at once so deep and powerful that they required radical remedies, and the sincere co-operation of the leading countries in applying the same. This could not however be realised till a general state of economic chaos manifested itself throughout the world. The continued fall in the general price level in recent years and the consequent depression in industries, the greater intensity of the fall in connection with primary products and the consequent suffering to agricultural countries, the abandonment of the Gold Standard by the United Kingdom and other countries, and the consequent instability in international exchanges and trade, and the suspension of the Gold Standard by the United States in April 1933, are among the chief outward signs of the economic chaos referred to above. From another point of view, the leading countries of the

¹ Canada, Australia, New Zealand, Turkey, Egypt and India.

world have been waging an economic war, with tariffs and depreciation of currency as the chief instruments for gaining strategic advantages over one another. The abandonment of the Gold Standard by different countries beginning with the United Kingdom in September 1931, and ending with the United States in April 1933, can be justified in each case by special circumstances, but the fact that the step has in each case involved important consequences to international trade cannot be denied. Similarly the triumph of Protection in the United Kingdom and the trade agreements between the countries of the Empire may have their own justification, but the fact that they do give a special importance to the United Kingdom in her economic struggles with the rest of the world cannot be denied. The dramatic manner in which the United States gave up the Gold Standard, while the British Premier was still on his way to see the American President to exchange views regarding the forthcoming World Economic Conference, was significant; though the step might have been accelerated by local conditions, it had no less significance from the world point of view. At the same time, the special nature of the British tariff which was emphasised by the British Government in connection with the Tariff Truce pending the decisions of the World Economic Conference, shows the importance of the tariff in economic strategy and economic warfare.

From the point of view of India, the triumph of Protection in the United Kingdom and the change in British fiscal policy leading to the Ottawa Agreements have a special significance. It is not possible here to relate the story of the movement towards Imperial Preference. At the earlier Imperial Conferences, the Dominions urged for a system of preferential duties for Empire products; some of them adopted it as between themselves, but the United Kingdom remained indiffer-

ent. On the one hand she was too much wedded to Free Trade, and on the other most British statesmen could not look into the future as far as did Joseph Chamberlain. So far as India was concerned, she had to adopt the fiscal policy which was in favour at Whitehall, without reference to her own conditions. Things gradually took a different turn, and the Conservative party began to be converted to Protectionism as well as to Economic Imperialism. The War gave an opportunity to the Conservatives, who slowly began to break into the citadel of Free Trade. High revenue duties with protective effect, and protective duties under the innocent name of safeguarding duties were the rule. The organisation of the Imperial Economic Committee and the Empire Marketing Board were other steps towards a complete change in the economic policy of the United Kingdom. Simultaneously with these changes, the Indian demand for a protective policy had to be conceded. The nature of this policy and the restrictions from which it suffers will be discussed in a later chapter.

The coming into power of the National Government with a large Conservative majority in 1931, made it possible for the United Kingdom to effect that radical change in her economic policy, which was inevitable sooner or later. The policy of protecting British industries was now pushed more vigorously; a general import duty became a part of the British tariff schedule, and the Empire countries were asked to enter into preferential tariff agreements. The Ottawa Conference resulted in several agreements between the members of the Empire calculated to give preferential treatment to Empire goods in Empire markets, but the net result was an increase in tariffs in Empire countries, because in most cases the preference was granted by levying higher duties on non-Empire goods. The United Kingdom followed up this move by trade agreements with several other countries.

We are too near the event to be able to ascertain the exact results of these agreements. But it may be said without contradiction that part of the benefit supposed to be derived from them disappeared with the abandonment of the Gold Standard by the United States in April 1933, because American goods became cheaper in world markets thereafter.

As already pointed out, the economic struggle is at its height; the world was anxiously looking forward to the Economic Conference for the right lead. Unfortunately it was the European and American situation that was at the back of the mind of the parties that dominated the proceedings of the Conference. The leading countries of the world are prone to forget that their point of view, which may be described as Western, often ignores the vital interests and requirements of the large populations of the East.

From a close study of the recent economic tendencies in the world in general and in the United Kingdom in particular, of which only a bare outline is given above, we come to the following conclusions:—

(i) That the Western world is involved in an acute economic war, with important repercussions on the rest of the world.

(ii) That the United Kingdom has radically changed her economic policy by adopting a system of protection for her industries and by introducing a preferential treatment to Empire goods in her tariff schedule.

(iii) That as a corollary to the above change, the theory of industrial co-operation between Empire countries is gaining ground. Whereas formerly the colonies and dependencies were producing chiefly raw materials, and the mother country was engaged in manufacture, now the former may take to lower stages or forms of manufacture, leaving the specialised stages to the latter. Though it is possible to point out the advantages of such an arrange-

ment in individual cases, the adoption of such co-operation as a general policy must mean that the industrial growth of the backward country shall be stunted.

(iv) In addition to changes in industrial policy, the economic struggle has also involved the world in monetary chaos. The abandonment of the Gold Standard by the U. K. and then by other countries, and more recently by the United States, has resulted in a complete instability in international economic relations. In this case also, though eastern nations are vitally affected, their interests play a subordinate part in the shaping of world opinion and policies.

(v) The economically backward countries of the world, like India and China, have a good deal to learn from the experience of the other countries, which are the chief actors in this struggle. But more than anything else, they have got to remember that they must try to work out their own policy suited to their own circumstances, and not be led away by the general economic wave floated by the Western countries to suit their own ends.

(vi) Thus for example, the legitimate desire of the people of India to advance industrially by a system of effective protection will be faced with the general Western cry in favour of a reduction of tariffs, or the Empire cry of preference for Empire goods. Suggestions to develop export industries in India will meet either with counter-suggestions for industrial co-operation, or the possibility of ruinous competition in outside markets. The attempt to give a national outlook to the economic policy of the country will be faced with vested interests who are already using political devices to maintain and perpetuate their hold.

(vii) The struggle for economic advance in the face of such odds for a country like India is bound to be not only severe, but also long-drawn out. But the goal of economic independence is bound to bring forth all those requi-

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site qualities which ultimately lead to success ; thus the process of reaching the goal will be no less valuable than the goal itself.

CHAPTER II

INDUSTRIAL POLICY OF INDIA—PAST AND PRESENT

I. THE PAST

The survey of the principal industries in India in the preceding volume in this series affords ample illustrations for an understanding of the Industrial Policy of India, past as well as present. We shall not repeat the facts already mentioned in that volume, but confine ourselves to the discussion of the general tendency in connection with this important problem, on the proper solution of which the future of this country depends to a large extent.

FREE TRADE

It is well known that the Industrial Policy of India was based on the principles of Free Trade till recently, and that a departure has been made since 1924 when the policy of Discriminating Protection was adopted. In order to appreciate fully the limitations of the present policy, some idea of the past is essential. Without going into elaborate details, we shall, therefore, attempt a brief outline of the Industrial Policy of India in the past, that is, during the period of settled British Rule up to the adoption of the policy of Discriminating Protection.

The opportunity for shaping an Industrial Policy for India for the British authorities arose after the Mutiny, from which time we have a period of settled British administration throughout the country. But by this time England had adopted Free Trade for herself, and had come to be known as the leading industrial country of the world. The prosperity of England was identified with the phrase Free Trade, so much so that many people in England sincerely believed in its universal application

without reference to the conditions of the country concerned. Interested parties in England found it to their advantage to encourage this blind faith in Free Trade, and were ready to make use of the same to their own advantage. Imbued with these ideas, the British Rulers professed that because Free Trade was good for England, it was good for India. When in course of time either an individual British officer, or the Government of India realised that this attitude was not correct, they found it difficult to express their views, and if they made bold to do so, they were immediately silenced by the superior orders of the Secretary of State for India. This officer in his turn was kept firm in his belief in the efficacy of Free Trade for India by the Lancashire Cotton Industry. The Cotton Industry was the first large industry of the modern type which England developed, and her industrial leadership owes a good deal to it. This industry depended for its success mainly on export, and it had by now found in India an unlimited market for her products. To secure and develop the Indian market for Lancashire goods at any cost was the keynote of the policy which was advocated by the representatives of the English industry in and out of Parliament. To help the Lancashire industry to do this, or to afford it an indirect measure of protection in this way, the British Government found a convenient handle in the principles of Free Trade. Let Indian industries develop if at all, in an atmosphere of free trade and equal competition; let them not have any encouragement by state action, because it was no business of the state to interfere in a sphere which was wholly a matter of private enterprise. Though departures were made from this attitude of Laissez Faire when it suited the British Authorities, for example, in the case of the Tea Industry, the Industrial policy of India was mainly determined by these ideas and considerations. The truth of these remarks will be fully borne

out by a study of the controversies which took place in connection with the imposition of even revenue duties on cotton goods.

THE COTTON DUTIES CONTROVERSY

In 1859, a duty of 20 per cent. was imposed on cotton piece goods, which were then included among articles of luxury. A duty of 5 per cent. was levied on cotton twist and yarn. The object of both these measures was to raise more revenue. This created opposition. A memorial submitted to the Secretary of State expressed the hope¹ "that the commercial policy of Her Majesty's Government in India will not be inaugurated by a departure from those principles of free trade which are now recognised in England as the basis of commercial prosperity". The duty on piece goods was reduced to 10 per cent. and that on yarn raised to the same figure by Wilson in 1860. In 1861, the duty on yarn was again reduced to 5 per cent., and in 1862, the duties on piece goods and yarn were restored to their old rates of 5 and 3½ per cent. respectively.

But even these small revenue duties were obnoxious to the Manchester Chamber of Commerce, which body addressed a memorial to the Secretary of State in 1874, pointing out their protective character and praying for their early removal.² This was referred to a Tariff Committee which came to the conclusion that there was no competition between Indian and English cotton industries; the former produced coarse fabrics, whereas the latter produced finer fabrics; and therefore the English trade did not suffer.³ But Lord Salisbury, the Secretary of State, was not convinced. He ordered⁴ the removal of these duties. The Government of India protested at

¹ Secretary of State's despatch, 23-2-1857.

² cf. Parliamentary Paper 56 of 1876, p. 38.

³ *Ibid.*, pp. 48-64.

⁴ *Ibid.*, pp. 3-4 and 69-71.

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this interference, because they did not consider such an action consistent with the interests of India.¹ But the Secretary of State remained unconvinced. In his despatch of 31-5-1876, after discussing the whole subject over again, he came to this conclusion ;—"whether then, the question be regarded as it affects the consumer, the producer, or the revenue, I am of opinion that the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects, and self-destructive in its operation".²

By now changes had taken place in the personnel of the Government of India. Lord Lytton was Viceroy, and Sir John Strachey, the Finance Member. The latter was more determined³ to remove the Cotton duties than those who directed the affair from England. Though he could not take immediate action because of financial difficulties, he definitely sounded the death knell not only of the duties on cotton, but also of import duties in general.⁴

Further impetus to this policy was given in July 1877 when the House of Commons passed a resolution without a division to the following effect :—"That in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy ;

¹ cf. P. P. C1515 of 1876, pp. 11-12; despatch, 25-2-76, cf. paras 48, 53 and 54.

² *Ibid.*, p. 36. Three members of the India Council voted against this despatch, and two recorded minutes of dissent.

³ cf. "I am not ashamed to say that, while I hope that I feel as strongly as any man the duties which I owe to India there is no higher duty in my estimation than that which I owe to my own country. I believe that our countrymen at home have a real and very serious grievance and that it is no imaginary injury against which they complain". Financial Statement by Sir John Strachey, 1877.

⁴ cf. "The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large Customs revenue from anything else. I do not know how long a period may elapse before such a consummation is reached but, whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world". F. S. 1877, Sir John Strachey.

and ought to be repealed without delay, as soon as the financial condition of India will permit''.

In view of this, certain kinds of coarse goods with which Indian manufactures were supposed to compete successfully were exempted from duty in 1878. But the appetite of the Manchester Chamber of Commerce was not satisfied. They asked that certain kinds of goods be also exempted from duty.¹ In accordance with the views of a committee which considered this question, all cotton goods containing yarn finer than 30s. were exempted from duty in March 1879.² This action was taken in an extraordinary manner. A majority of the members of the Viceroy's Council opposed this measure on financial grounds.³ The Viceroy used his discretionary power to over-rule the Council. When this measure came for approval before the India Council, it was equally divided; the Secretary of State decided in favour of the same by his casting vote. Both the Viceroy and the Secretary of State, however, had the satisfaction that their high-handed action was unanimously approved by the House of Commons which passed another resolution in April 1879 to the effect that "the Indian import duty on Cotton goods being unjust alike to the Indian consumer and the English producer, ought to be abolished; and this House accepts the recent reduction in these duties as a step towards their total abolition, to which Her Majesty's Government are pledged''.

The exemption of certain classes of goods from duty led to an increase in the imports of those varieties, and a decline in the imports of dutiable goods. In 1882, the Government of India found it convenient to put an end to such anomalies. There was a surplus, and it was pos-

¹ cf. P. P. 241 of 1879, pp. 14-15.

² *Ibid.*, pp. 15-29.

³ cf. P. P. 69 of 1879. H. of L. Also F. S. 1880, para 74, and Fawcett, "Indian Finance," pp. 4, 12, 75-77, 85 and 88.

⁴ cf. P. P. 392 of 1879.

sible to remit taxation.¹ It was accordingly resolved to abolish the Cotton Duties and the General Import Duty. The special duties, namely, those on wine, beer, spirits, and liquors as also those on arms and ammunition, salt and opium remained.

The triumph of Free Trade principles was never more complete. The ports of agricultural India were thrown open to the industries of the world. The competition of manufactured goods had by this time killed the village industries of India. The village craftsman was forced to become an agricultural labourer. The few industries which were beginning their precarious life were now "free" to compete with the advanced industries of England or the protected industries of the rest of the world.

It was not long before the Government of India were in financial difficulties. New sources of revenue had to be found. The License Tax was turned into an Income Tax (1886). The Salt duty was raised to Rs. 2-8 per maund (1888). A special import duty was levied on petroleum (1888). The Famine Grant was now and again suspended. The Provinces were frequently asked to contribute. But so long as there was the slightest possibility of getting money from any other quarter, Import Duties were to be held back in sacred horror.

After maintaining the position with admirable tenacity, the Government of India were compelled to reimpose import duties at the rate of 5 per cent. in 1894. Cotton piece goods and yarn were however excluded from the operation of this duty.

The Government of India were however faced with fresh difficulties. The instructions of the Secretary of State were to the effect that if cotton duties were necessary, the Government should devise means by which they might be deprived of a protective character.² In

¹ The Salt Duty was at the rate of Rs. 2 per maund.

² cf. P. P. 7602 of 1896.

view of this, the Finance Member made a detailed investigation and recommended¹ that import duties be imposed at the rate of (a) 5 per cent. on all cotton piece goods; (b) $3\frac{1}{2}$ per cent. on all cotton yarns of counts above 24; and (c) that an excise duty of $3\frac{1}{2}$ per cent. be levied on all machine-made cotton yarns, produced at mills in British India of counts above 24. But the Secretary of State doubted whether² a $3\frac{1}{2}$ per cent. duty on yarns used in Indian fabrics might not to some extent protect Indian manufactures against imported goods of the same description, paying a 5 per cent. duty, and whether counts above 24 was the right line at which duty on yarns should begin. He modified the above proposals by raising the duty on yarns from $3\frac{1}{2}$ to 5 per cent., and by asking that it should begin with counts above 20, instead of 24. Legislation to this effect was passed in spite of universal opposition in the country.

The agitation in England was however carried further. It was pointed out that whereas the Indian manufacturer paid the duty only on yarn, the English manufacturer paid it on the finished goods. Fresh mandates³ were issued by the Secretary of State, and the Government of India had to carry them out.⁴ The duty on cotton piece goods was reduced from 5 to $3\frac{1}{2}$ per cent., the counter-vailing excise duty on Indian manufacture became a direct duty on woven goods; and the discriminating line of division at number 20 or any other count was given up. This was done in 1896. Cotton twist and yarn of all kinds were free from duty.

WAR TAXATION

This position remained unaltered for twenty years. The first war taxation was levied in India in 1916. The

¹ *Ibid.*, p. 7, Despatch, 7-8-1894.

² *Ibid.*, p. 14, Despatch, 13-12-1894.

³ cf. P. P. c8078 of 1896, p. 7, Despatch, 5-9-1895.

⁴ *Ibid.*, p. 27.

cotton duties were left untouched, lest the old controversies might be revived.¹ In 1917, further taxation became necessary, particularly in view of the special War Contribution of £100 million which India was to give to the Imperial Treasury. Along with other increases in taxation, the import duty on Cotton goods was raised from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent. leaving the excise duty untouched. In this connection, Sir William Meyer, the Finance Member said, "To-day I am able to announce that in view of the taxation required to make our War contribution worthy of India and of the place we desire her to hold in the Empire, His Majesty's Government have now given their consent to our raising the Import Duty on Cotton Goods from $3\frac{1}{2}$ per cent. as it now is, to $7\frac{1}{2}$ per cent., which is our present General Tariff Rate".²

Large additions to taxation were again made in 1921. Along with the increase in the General Tariff Rate from $7\frac{1}{2}$ to $11\frac{1}{2}$ per cent., it was decided to increase the duty on Cotton goods to the same extent. As in 1917, the proposal to increase import duties on cotton goods without a corresponding increase in the cotton excise duty, was followed by an agitation on the part of interested parties in England. Though nothing is laid down in this connection in the Act of 1919, the Joint Select Committee which considered the Government of India Bill laid down a Convention to which we shall refer later.

¹ cf. Budget Speech, 1916-17, of Sir William Meyer.

² This action was immediately followed by a strong agitation in England for a corresponding increase in the Excise Duty. It was defended on the ground that the duty was necessary to enable India to give the war contribution of £100 million. Commenting on this agitation, the "Times" (London) wrote as follows on March 5th, 1917:—"The Indian cotton excise duty has always been politically, economically, and above all morally indefensible. Opposition to it unites every class in India, from the official members of the Government to all grades of the Indian community. It has made a grave breach in the moral basis of the British control of India. It was deeply resented from the outset, and has remained an open sore. India considers that the excise was imposed out of fear of the Lancashire vote, and no one can say that India is wrong in her belief".

This convention was accepted by the Secretary of State on behalf of His Majesty's Government in his despatch of 30th June 1921. In view of this, the agitation referred to above did not succeed, though its effects may be traced in the developments that took place in the following year.

With a view to meet the heavy deficit of 32 crores in the budget of 1922-23, an increase in the General Import Duty from 11 per cent. to 15 per cent. was proposed along with other measures. This was to apply to cotton piece goods also. The Excise duty on cotton goods was left at $3\frac{1}{2}$ per cent. in 1921; it was now proposed that a corresponding increase should be made in this duty by raising it to $7\frac{1}{2}$ per cent. It was alleged in the Legislature and elsewhere that this proposal was due to actual or apprehended pressure from Manchester. The Finance Member emphatically denied the existence of any such pressure, though it is doubtful whether he succeeded in convincing the Legislature about it. According to him the needs of revenue were the sole justification for the proposed increase.

The proposal to increase the Cotton Excise duty was thrown out by the Legislative Assembly. After this an unexpected development took place in that body. A proposal was made that the Import duty on Cotton piece goods should be left untouched at 11 per cent., though the General Import duty was to be raised to 15 per cent. In spite of the fact that the Government wanted a large additional revenue, and their proposals to increase the Salt duty and the Cotton Excise duty had been thrown out, they accepted this proposal in favour of a smaller duty on Cotton piece goods.

This brings the story of the Cotton Duties up to the end of the period of complete *laissez faire* in India. Though the policy of Discriminating Protection is hereafter adopted, the question of Cotton Duties has received a separate treatment, which reminds one of past events,

which have been briefly described above. The truth of the remarks made above regarding the nature of the Industrial Policy of India is fully borne out by this brief account. We shall now see the gradual change towards a new policy, and the leading features thereof as in operation at present.

II. THE PRESENT

DISCRIMINATING PROTECTION

We have seen that when most countries of the world were trying to build up their industries by a system of protection, India was the only large country which was left to work under a policy of *laissez faire*. During the War, when the belligerent countries were busy, there was a great field for industrial development and for nursing the home industries in a variety of ways. We were, however, so hopelessly unprepared that we could not avail ourselves of the opportunity. The advantage was taken chiefly by Japan and the United States, which succeeded in increasing their exports to India to replace the goods which we were receiving from England and the rest of Europe, and which could not be imported because of the War. And though after the War there has been some recovery in the European exports to India, the hold obtained by Japan and the United States in certain respects has been very formidable.

It was however during the War that the British authorities realised that a stronger industrial India would be a greater military asset. It was during the great efforts to manufacture munitions of war in India that the Government had to survey the industrial field from all its sides, and began to consider both its deficiencies as well as its possibilities; and it was left to the man who controlled the Munitions Department to guide the work of an Industrial Commission with a view to explore the fields of

industrial development in the country. But the work of Sir Thomas Holland had only an academic importance; definite steps towards a new policy could not be taken until the degree of freedom to be allowed to the Indian authorities in the matter of Indian fiscal policy was determined in connection with the Reforms Act of 1919.

The Joint Select Committee of Parliament which considered the Government of India bill in 1919 laid down a convention which marks a departure in the industrial policy of this country. The Committee observed "whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that this intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."

In course of time, this led to the appointment of the Indian Fiscal Commission in 1921; the majority report of this Commission, which was issued in 1922, recommended a policy of protection with discrimination. The minority were in favour of "an unqualified pronouncement that the fiscal policy best suited for India is Protection." In February 1923 the principle of discriminating protection as laid down by the majority was accepted by the Legislative Assembly and the Government of India. Under this policy, the chief conditions¹ which an industry has to satisfy before it can secure protection are :—

- √ (1) that the industry is one possessing natural ad-

¹Para 97 of report of the Indian Fiscal Commission.

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vantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour or a large home market ;

- ✓ (2) that the industry is one which without the help of protection either is not likely to develop at all, or is not likely to develop so rapidly as is desirable in the interests of the country ;
- ✓ (3) that the industry is one which will eventually be able to face world competition without protection.

If we consider these conditions in their practical application we at once see that the policy is not to be applied to new industries ; and that when applied to old or existing industries it is to be applied only for a given short period on condition that it fulfills the above provisions ; only those few industries in which a definite start has been made and which are run on a very large scale with several natural advantages may, if they can show that they cannot flourish without some assistance, get a qualified measure of protection from the Government. In view of the world forces in industrial development and the competition of various countries in the Indian market, it will be obvious that the policy of discriminating protection is not likely to bring about that industrial development of an all round character which we must work for, if the poverty problem of India is to be solved.

The halting nature of the policy will be realised when we compare it on the one hand with the new industrial policy of England herself, and the protective policy of the U. S. A. on the other. The former is an illustration of the only Free Trade country in the world which has now adopted a thoroughgoing policy of protection of her already well established and highly organised industries. The latter is an illustration of a country which has lived and flourished under the most highly developed protective system in the world, and which now believes in the

stiffening of that very system in order to retain her position as the greatest single economic unit in the world. These comparisons will at once suggest that in view of our large and complicated problems, in view of our continental size, and unlimited natural resources, the policy of discriminating protection will not guarantee anything more than a snail's progress.

In connection with the Safeguarding of Industries Act in the United Kingdom, the main idea was to create more employment for the large number of unemployed workers. In order to carry out this idea, small industries each of them providing employment only for a few hundred or a few thousand workers, were propped up by safeguarding duties. Among the industries which thus got assistance were (1) lace and embroidery, (2) leather gloves and fabric gloves, (3) gas mantles, (4) cutlery, (5) packing and wrapping paper, (6) table ware, (7) translucent pottery, (8) buttons, and (9) enamelled hollow ware. Large industries like the motor car industry have been protected even without an investigation by a Safeguarding Committee, by the imposition of duties embodied in the Finance Act. This policy has been recently developed very considerably by the National Government, which has assumed powers to impose high protective duties on the recommendations of an Advisory Committee.

Very few of the industries which have received Protection in England, would stand the tests applied for granting Protection in India. Very few of them seem to possess large natural advantages, and the problem whether they will eventually be able to face world competition without Protection is not even considered either by the Advisory Committee or by the Parliament.

From the above brief survey of the English system, we find that the protective policy of England is both liberal and prompt in application, and not hampered by

unnecessary restrictions. We have also seen that the protective policy of America is highly developed, is definite and bold in theory, thoroughgoing in practice, and even aggressive in intentions if necessary.

In order to realise the weakness of the Indian policy which has been pointed out above, one has only to study the reports of the Indian Tariff Board, which has investigated the cases of several industries referred to it, within the limits of the conditions of Discriminating Protection referred to above. Some of the principal industries investigated by the Tariff Board have been surveyed in the preceding volume in this series. We shall therefore, briefly refer here to a few important tendencies to show the difficulties created by the existing policy.

DISCRIMINATING PROTECTION IN PRACTICE

In the case of the steel industry, all the three conditions of discriminating protection were substantially fulfilled. Besides, there was an additional factor, namely, that this industry was considered a key industry requiring protection on non-economic grounds. The same was, however, not true in the case of all the allied and dependent industries whose case had to be considered because of the protection granted to steel. For example, the locomotive industry had a strong claim to temporary assistance because it was likely to give valuable training to Indians. On the ground that an adequate home market did not exist for this industry, the Tariff Board did not recommend the grant of protection to this industry. In the case of the magnesium chloride industry, though the natural advantages were found to be plentiful, it was decided that the development of the industry in India was not possible because Germany could send it at a very cheap price; it was possible for her to do so because magnesium chloride was a by-product of other industries in Germany. It was believed therefore that even if pro-

tection were granted, it would not be possible for this industry to fulfil the third condition, that is to dispense with protection eventually.

In the case of the cement industry, the Tariff Board found that there were abundant natural advantages, that unless temporary assistance was given some of the existing companies were likely to close down, and that there was a reasonable assurance that the industry would eventually be able to meet world competition. In view of this, a combination of specific duties and bounties was proposed by the Tariff Board to be given on certain conditions. It was however, considered unnecessary to take such measures because the industry organised itself by forming what is known as the Cement Manufacturers' Association.

The conditions of discriminating protection had to be considerably stretched in connection with the paper industry. So far as the existing supplies of raw materials were concerned, it was found that the sabai grass which is used for the purpose was both unsatisfactory and limited in supply. Under the circumstances it was not likely that the existing paper mills could dispense with protection in the long run as required by the third condition. It was, however, felt that if the bamboo pulp industry was developed, there was a great future in as much as India would then be in a position to supply raw material for all her paper mills and have a surplus for export. With this idea, the development of the bamboo pulp industry by suitable measures, including financial assistance by the Government was recommended.

In the case of the coal industry, there arose a serious difference of opinion between the members of the Tariff Board. In this case, the industry was producing more than the local requirements, and was required to export a part of the output. The trouble, however, arose from the imports of foreign coal, particularly in Bombay and

Karachi. These came chiefly from South Africa and amounted to about $2\frac{1}{2}$ per cent. of the total consumption. The reason why South African coal was able to compete in the Indian market was the special railway freights granted by the South African Railways to export coal. This amounted to a bounty, and the question was whether countervailing duties should be imposed by India against such imports. The South African coal was responsible not only for the capture of a part of the market in Bombay and Karachi, but also for the loss of market by India in Ceylon and other islands in the Indian Ocean, where Indian coal used to be exported in large quantities before the War. Mr. (now Sir Padamji) P. Ginwalla was in favour of a countervailing duty of Rs. 1-8-0 per ton on the import of coal from South Africa; the majority were however against the measure on the ground that the consumer should not be burdened in this way.

In the case of the gold thread industry, the Tariff Board felt that the conditions were different from those envisaged by the Fiscal Commission. There was already a revenue duty in existence; the question was whether if the revenue duty were abolished, the industry would be adversely affected. The Tariff Board had no hesitation in saying that this would be so, and therefore they recommended the retention or rather the conversion of the revenue duty into a protective one.

Something similar is true of the match industry, in which case also the existing revenue duty was retained, but was transferred to the protective category. Regarding this industry it was found that India did not have an abundant supply of the raw material. The condition was however waived on the ground that no country in the world was self-supporting in regard to all or most of the raw materials of the match industry.

So far as the cotton industry is concerned, the applica-

tion of the policy of discriminating protection raised delicate problems. The depression in this industry which began after the War, gradually became very acute. The industry appealed for help to the Government. After some agitation, the universally condemned Cotton Excise Duty was suspended in December 1925, and was not renewed in the next financial year. The difficulties of the industry were however so great that this relief did not prove adequate. The growing Japanese competition was making serious inroads in the Indian market. After considerable agitation, the Government of India decided to make an enquiry, and a special Tariff Board was appointed for the purpose. The Board was divided in its recommendations; the majority were in favour of a 4 per cent. additional duty on all cotton goods; the Chairman, Sir Frank Noyce recommended a similar duty only on certain classes of yarn, which were mostly coming from Japan. In view of this, the Government of India were at first in no mood to take any action. After protracted negotiations, however, they imposed a 4 per cent. duty on certain classes of yarn, which were supposed to compete with the Indian product. This step was taken in September 1927; the import duties on mill stores and machinery were removed from 1st October, the same year.

These half-hearted measures, however, were not enough to prevent the ruin of the Cotton Industry in Bombay. Conditions became almost critical, and the Government of India were at last persuaded to take a bolder action. But once again they delayed the matter by referring the question whether the additional duty should be *ad valorem* or specific to a special officer, Mr. Hardy. *Ad valorem* duties were favoured by the Hardy report.

In the Budget of 1930-31, it was proposed that the revenue duty on cotton goods should be increased from 11 to 15 per cent., and that an additional protective duty

of 5 per cent. should be imposed on goods of non-British origin. This proposal raised delicate constitutional issues. It was ultimately decided to accept the proposal with the difference that plain grey goods of British origin which without doubt competed with Indian production were to pay the protective duty.¹

These duties were to be in force for three years. But the Government were again faced with heavy deficits. Along with the new taxation imposed in March 1931, import duties on all classes of cotton piece goods were raised by 5 per cent. Further emergency measures became necessary a few months later; the Supplementary Budget of September 1931 levied a surcharge of 25 per cent. on all import duties. This was applied to cotton piece goods also. In consequence of these changes, the duties were 25 per cent. on cotton goods of British manufacture, and $31\frac{1}{4}$ per cent. on those of non-British manufacture; the specific rate on either was as. $4\frac{3}{8}$ per lb.

The question of protection to the Cotton Textile Industry was referred to the Tariff Board in April 1932. But the continued depreciation of the yen was causing great damage to the Indian industry. The aid of section 3(5) of the Indian Tariff Act of 1894 providing for measures against dumping was invoked. The Tariff Board inquired into the matter at the instance of the Government, and made an interim report recommending anti-dumping legislation or in the alternative the raising of

¹ The duties were as under:—

Cotton piece-goods:—

- (a) plain grey, that is, not bleached or dyed in the piece, if imported in pieces containing any length of more than nine yards which is not divided by transverse woven
- (1) of British manufacture—15 per cent. or $3\frac{1}{2}$ annas per lb., whichever is higher.
 - (2) not of British manufacture—20 per cent. or $3\frac{1}{2}$ annas per lb. whichever is higher.
- (b) Others:—
- (1) of British manufacture—15 per cent.
 - (2) not of British manufacture—20 per cent.

the duties on cotton piece goods of non-British manufacture to 50 per cent. In view of the Indo-Japanese Convention of 1904, the former step was not possible; the latter was however accepted. Accordingly from August 1932, the import duty on plain grey goods of non-British manufacture was raised to 50 per cent. or as. $5\frac{1}{4}$ per lb. whichever was higher, and on others to 50 per cent.

This action however failed to satisfy the demands of the industry, and the cry against Japanese dumping continued unabated. The Government was at last forced to give the necessary notice of six months for the abrogation of the Indo-Japanese Convention in April 1933; in June 1933, the 50 per cent. duty was further raised to 75 per cent.

The halting nature of the policy of Discriminating Protection will be obvious from the few illustrations of its practical operation given above. This was anticipated by the Minority of the Fiscal Commission in their Minute of Dissent. They were of opinion that the policy of Discriminating Protection was hedged in by conditions and provisos which were calculated to impair its utility.

THE PROCEDURE

Two other points may be emphasised in connection with this policy, namely, the procedure, and the development of the policy of Imperial Preference. So far as the procedure is concerned, we may assert that it is very dilatory, and not calculated to inspire confidence in the intentions of the Government to develop the industries of the country. An industry which desires to seek protection has to apply to the Government of India in the Commerce Department. If a *prima facie* case is made out in the opinion of the Department, the matter will be referred to the Tariff Board for enquiry. After a preliminary consideration the Tariff Board issues a question-

naire and invites the opinions of those interested in the problem. Witnesses are then examined with reference to their written statements. The Tariff Board has to confine its inquiry and make its recommendations within the limits imposed by the policy of Discriminating Protection. The Report of the Tariff Board may or may not be accepted by the Government of India. In due course, legislation is proposed according to those recommendations of the Board with which the Government of India are in agreement. The Legislature may propose changes, which can only be towards a reduction of the proposed duty or bounty. As a rule, these measures are temporary; in most cases they have a definite time-limit after which they must come up for reconsideration by the Legislature, if on a fresh inquiry by the Tariff Board, the continuation of the measures in some form is thought necessary.

The dilatory nature of the procedure was evident in the treatment of the Cotton Industry. It was also evident in the case of the Steel Industry, which was the first to receive protection. The Steel Protection Act of 1924 became a dead letter soon after it was passed, because of simultaneous changes in the competing countries, chiefly due to currency depreciation in Europe. Though the Government of India were empowered by the Act of 1924 to take prompt action in such cases, they referred the matter to the Tariff Board, and then to the Legislature. In contrast with this, the present procedure in England, may be noted. An industry in need of protection is given the same by executive authority; a temporary duty is at once imposed; investigation follows in the light of which the temporary duty is put on a permanent footing, with the necessary changes. The Steel Industry in England which is not a new industry as was the case in India, has recently received protection on these lines. The promptness with which thorough-going action has

been taken to protect several industries in England within a few months, is an object lesson for the Indian Authorities to follow in place of the slow machinery with which they carry out the Policy of Discriminating Protection.

IMPERIAL PREFERENCE

When the Statutory Enquiry into the condition of the Steel Industry was made in 1927, it was pointed out by the Tariff Board that the Indian Steel Industry did not manufacture certain classes of goods which were imported from the United Kingdom. Partly on this ground and partly on the ground that the prices of British Steel goods were more steady, certain basic duties were framed with reference to British prices. Higher duties were to be levied on steel goods of non-British origin. These recommendations were accepted and passed into law. It was said that this did not constitute an attempt to introduce the system of Imperial Preference in India, but that it was necessary in the interests of those Indian consumers who took British steel goods. The fact however remained that there were two rates of duties on steel goods, that the one was lower than the other, and that the lower rate was applied to goods coming from the United Kingdom. The argument regarding the interests of the consumer was the good old one which was used in the last century, when even revenue duties on cotton goods coming from the United Kingdom were opposed.

A similar situation arose with reference to the Cotton Duties which came into operation from March 1930. In this case also the argument was that British goods did not compete with the Indian industry, and therefore protective duties on the same were not necessary. The position in this connection became more frank, when in 1932, the Government of India in referring the question of the Cotton Industry to the Tariff Board asked specifically whether different and lower duties may not be

levied on goods of Empire origin as against other goods. It may be pointed out that by this time a complete change had taken place in the tariff policy of the British Government. Empire goods were exempted from the operation of the new British Tariff of 1932 for a certain period, within which it was expected that the Governments of the Empire would come to terms regarding a system of mutual preferences. The reference to the Indian Tariff Board regarding Cotton Industry anticipated the decisions of the Ottawa Conference. Besides, though the Ottawa Trade Agreement between India and Great Britain was ratified in great haste, the report of the Tariff Board on the Cotton Industry was shelved for a long time.

Even before the Ottawa Conference met, the policy of Discriminating Protection in India thus involved discrimination in favour of British goods, and it was felt that in the case of the development of those industries in India, which would compete with British products, efforts were likely to be made to secure the Indian market for the British industry.

The Ottawa Agreement confirmed these apprehensions, and legalised the policy of preferences for British goods even in the case of protected industries. In the first place, a system of preferential duties on British goods on a large number of articles was introduced at very short notice. The position of several small industries which have come into existence in recent times chiefly due to the Swadeshi movement, was not even considered, because the Government had no facts worth the name regarding these industries, and the parties concerned got no real opportunity to put up their case. It is true that the reports which the Government of India have to issue on the working of the Agreement may bring some facts to light, but it is not likely that the effects of the Agreement on the new industries will be known unless special efforts are made to investigate each case in detail. It is true that

any industry in India may establish its case for protection, in which event it will be withdrawn from the Preferential Scheme after due notice. But the already rigid conditions of the policy of Discriminating Protection will be difficult of fulfilment by those small industries which may have received a shock by the Ottawa Pact.

One wonders whether these objections to the future growth of industries in this country were considered by the Indian Delegation to the Ottawa Conference. They observe that the protection afforded to Indian industries has not been in any way impaired, and India retains complete freedom to shape her tariff policy in the manner she thinks best.¹ We have seen how the smaller industries are likely to be affected by the Agreement. But the report of the Delegation and the Trade Agreement go much further in as much as they commit India to a fundamental change in her industrial policy. The accidents connected with the present policy of Discriminating Protection have been taken as the basis of a novel interpretation of India's industrial policy. If this is accepted, the industrial career of India shall be diverted into channels other than those expected by the Indian Fiscal Commission and the Indian Legislature. It will mean that in the case of those industries in which British manufacturers are interested, protection to Indian industries will be subject to a preference for British goods. This will be done on the ground that the British manufacturers are turning out specialised products, the manufacture of which India need not hope to undertake.² In order to complete the picture, arrangements will be made for a scheme of industrial co-operation by which Indian manufacturers will manufacture some semi-finished goods which will be sent to the United Kingdom for being further manufactured into

¹ Report, Para 102.

² Para 113.

finished articles to be reconsigned in that form to India.¹ This means that the industrial growth of India will be stunted. In order to appreciate how this unforeseen situation is being brought about, we must follow the chain of events during recent years, and those parts of the Report of the Indian Delegation and the Agreement which are relevant to the issue.

When the Steel Protection Act of 1924 came for revision in 1927, the Tariff Board recommended lower duties on British steel goods as against those coming from other countries.² The Legislative Assembly objected to this scheme as one introducing the principle of Imperial Preference to which India was not committed.³ The Protection Act was however in the form of a taxation bill, which could be initiated only by the Executive. If the Assembly carried this objection to its logical conclusion, the Government would withdraw the whole bill, and even the limited amount of protection offered to the steel industry would not be available. On the supposition that half a loaf was better than none, the Assembly had to acquiesce in accepting the proposed arrangement.

When in 1930, after protracted negotiations, the Government of India agreed to give some measure of protection to the cotton textile industry, they introduced a bill with preference in favour of British goods. On this occasion there was no investigation by the Tariff Board. It is well known that the question resulted for a time in an important constitutional deadlock. But just as on the preceding occasion the woes of the Tata Company led the Assembly into acquiescence, similarly on this occasion the woes of the Bombay Mill industry led to a compromise.⁴ If the Assembly did not accept the proposed preference for British goods as suggested by

¹ cf. Steel Agreement.

² Sir P. Ginwala was Chairman of the Tariff Board at the time.

³ Mr. (now Sir) Shanmukham Chetty was one of those who opposed it.

⁴ This was due to the efforts of Mr. (now Sir) Shanmukham Chetty.

the Government, it was known that the whole bill would be withdrawn.¹ Once again on the assumption that half a loaf was better than none, the Assembly was forced to agree to a measure of protection which involved preference for British goods.

The Indian Legislature, businessmen, economists and the Indian public in general, were however not aware that these two cases which took place under such circumstances, would be used to give a novel interpretation to the Fiscal Policy of this country. This was first made public by Sir Atul Chatterjee in his opening speech at the Ottawa Conference on 21st July 1932. He said: "theoretically it might seem that preference in the case of protective duties would be excluded altogether, but practically the result has been different. One of the most interesting things about the Indian system of protection is that it has led directly to what has been in effect, if not in intention, a preference for Empire goods. In two very important cases, iron and steel, and cotton piece goods, it has been found that the imposition of a lower rate of duty on goods made in the United Kingdom is entirely consistent with India's interests. My colleagues and I hope that an examination on similar lines of other protected industries may lead to a solution which will be in the interests of both India and other parts of the Commonwealth."²

There is an admission that preference in a protective scheme is out of question. In spite of this, it is certainly a most interesting thing about the Indian system of protection that it contains preference for Empire goods in certain cases. It was not however, true to say that the existence of such duties in the case of steel and cotton is entirely consistent with India's interests, because the records of the Legislative Assembly tell a different story.

¹ Sir George Rainy was in charge of the bill.

² Page 56 of the Report of the Indian Delegation.

From the same point of view, there was no justification for Sir Atul Chatterjee and his colleagues to express the hope that similar arrangements in other protected industries would be made.

With a view to make the public accept this novel interpretation of the Indian Fiscal Policy, the report of the Delegation reiterates the same idea in paragraphs 14, 15, 29, 39 and 99. This means that in the opinion of the Indian Delegation to the Ottawa Conference, the Fiscal policy of India is Protection with Discrimination in favour of British goods, in those cases in which British manufacturers are interested. The principles of Discriminating Protection laid down by the Indian Fiscal Commission, and accepted by the Indian Legislature are calculated to discriminate in favour of the Indian consumer so that he may not be unduly taxed. But whereas the levy of some burden on the Indian taxpayer in the interest of the larger and varied industrial progress of this country was accepted, it was not the intention of anyone in this country to ask the Indian taxpayer to pay in order that the British manufacturer may flourish. One would hesitate to make such an apparently absurd observation, but for the fact that this is unfortunately the logical conclusion at which the Delegation have arrived, out of the novel interpretation that they have put on the Fiscal Policy of this country. This absurd position can be seen in the Supplementary Steel Agreement which is made under the cloak of the theory of Industrial Co-operation.¹ The idea underlying this theory is that the less industrialised Empire countries shall have the market in certain classes of goods, and that the more industrialised Empire country or countries shall have the market in more specialised goods. For this purpose, the Empire market is considered as one unit. The Steel Agreement contemplates an arrangement by which the Tata Company will send

¹ Para 113 of the Report.

Indian sheet bar manufactured by itself at Jamshedpur to England, will get it manufactured there into galvanised sheet and bring it back again to India in that form to be disposed of locally.¹ In the first place this is an admission on behalf of the Tata Company of the fact that in spite of the protection that they have enjoyed for so many years, they are not able to manufacture galvanised sheet in this country in sufficient quantities. At the same time it is possible that if the Tata Company find this particular transaction convenient to themselves, they may like to continue the process instead of developing the steel industry further, which is expected of them under the protection granted to them by the Indian Legislature. That this is likely can be seen from the remark in the Report of the Delegation where they observe that "if we had been unable to reach agreement the almost inevitable result must have been the erection of new iron steel furnaces in the U. K. and the accelerated establishment of additional galvanised sheet plant in India, thereby aggravating the conditions from which the world is suffering".² The altruistic motive of helping the world out of its suffering is indeed flattering, but a country in the position of India needs more the help of other countries in its own suffering, instead of being able to offer help to others. Protection has been granted to the steel industry not only because it fulfils the conditions laid down by the Fiscal Commission, but also because it is a key industry. The Tariff Board has remarked that there is room in India for three iron works of the kind of Jamshedpur. If these facts have any meaning, the arrangement by which the growth of the steel industry in this country may be stunted, stands self-condemned, and the condemnation should be still greater if this arrangement is going to be the beginning of a policy by which Indian

¹ Para 85.

² Para 86.

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manufacturers shall manufacture only semi-finished goods, which will be sent for being turned into finished articles to England and re-consigned to India for disposal. The Indian taxpayer will be perfectly justified in refusing to be a party to the development of industries of this character, because he will find himself in the absurd position pointed out above that he is being taxed in order that the British manufacturer may carry on certain specialised processes of manufacture for the Indian market.

CHAPTER III

INDUSTRIAL POLICY OF INDIA—THE FUTURE

THE GOAL OF INDUSTRIAL POLICY

We have defined the goal of an Industrial Policy for India to be maximum production with a national outlook, that is, the exploitation of the natural resources of the country to the best advantage of the people of the country. There is nothing new in this policy; most countries have adopted a similar policy; and there are not a few whose policy goes much beyond the scope laid down above in as much as it is aggressive and aims at the exploitation of other countries, for the benefit of their own people. The only unfortunate fact to be noted is that such a desirable policy has not been carried out in practice with that determination and thoroughness which are essential in view of the hopeless economic condition of the large masses of people in this country, who are forced to eke out a marginal existence.

THE POLICY

Having laid down the goal, we are in a position to define the policy which will enable us to reach the goal. The policy should be such that it may make it possible for us to achieve the goal as soon as possible; in other words, it should not involve a slow process. Though undue haste may be avoided, the policy should lead to a rapid industrialisation of the country.

In order to have maximum production, the policy should be comprehensive and embrace all possible industries, large and small, existing and potential, for which a reasonable field is available. This means that it should not be restricted by the kind of limitations now in vogue

such as the condition that the industry should be such that it would eventually face world competition without protection.

For the same reason, the point of view regarding the market should be radically changed. Industries should be developed even if they may not command a large home market ; it is enough if there is a foreign market available for the products of an industry. The limiting condition should be that we should aim at the manufacture of those of our own raw products, which we now export. This would ensure the existence of a foreign market, because in the absence of such a market foreigners would not care to take our raw materials. This means that we should not aim at the development of those industries for which we may have to import the raw material and at the same time depend upon a foreign market for the disposal of the finished goods. This however need not come in the way of the importation of raw materials, partly or wholly, for the development of an industry, for which we have an assured home market.¹

The development of industries on these lines will not bring full advantages to the people of the country, unless proper steps are taken to see that they have a national outlook. In order to ensure this, there should be effective restrictions on the use of foreign capital and the employment of foreign experts, or skilled workers, either in private or state concerns. These things should be allowed on definite conditions calculated to yield maximum production and to ensure that the largest possible gains of such production go to the nationals of the country.

This means that we should have a policy of protection unhampered by any conditions, comprehensive in its application, designed to develop industries large and small, existing and potential, both for the home and the

¹ e. g. We are importing raw cotton from Egypt and Uganda for finer counts, and Russian wood for Matches.

foreign markets, with a procedure which shall aim at a rapid industrialisation of the country, accompanied by suitable and effective arrangements to see that the gains of such development are mainly enjoyed by the nationals of the country.

In order to accelerate the process, the policy of protection should be accompanied by other forms of state assistance, e. g. suitable railway rates, a national banking policy, facilities for technical and technological education, appointment of Indian Trade Commissioners in selected markets and so on. It may be added that a thorough overhauling of the Managing Agency system is also urgently required to ensure that the future protected industries of the country are conducted efficiently and economically.

IMPERIAL PREFERENCE

In an outline of the future Industrial Policy of India, a consideration of the question of Imperial Preference is obviously necessary. We have referred in a preceding chapter to the development of the policy of Imperial Preference first in the colonies and then in the United Kingdom. So far as India is concerned, the question of Imperial Preference was first considered by Lord Curzon's Government in 1903. It was rejected on the ground that for India to join a system of Imperial Preference would involve a departure from its then existing fiscal policy, and would raise opposition from vested interests in Lancashire, and Dundee.¹ This opinion was repeated

¹ The Government of India in their despatch of 22-10-1903 wrote as follows:—

"It is sufficient to say that this alternative is not, so far as we can judge, within the sphere of practical politics. All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration..... If Indian industries are in need of, or should now desire a measure of protection, protective measures would necessarily seriously affect imports from the

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in the India Office Memorandum submitted to the Colonial Conference of 1907.¹

Indian opinion has also been against the adoption of a policy of Imperial Preference in India, but on entirely different and natural grounds. The position in brief is this. That India exports more to non-Empire countries than to Empire countries. That the imports of India are mainly manufactured products, and her exports are mainly raw materials and food stuffs. That India imports more from Empire countries than from others, and the chief source is the United Kingdom. In view of this the development of industries in India is likely to require protection against Empire goods. If however, Empire goods are given a preference in India, it is possible that our trade relations with other countries may suffer. For example, a preference to British cotton goods will result in a reduction of the import of Japanese cotton goods. This will reduce the Japanese demand for our raw cotton and Japan is the principal buyer of this our most important article of export. Lancashire on the other hand is not likely to help us to restore the balance by taking more of our raw cotton, because she requires particular varieties which are not grown in India in sufficient quantities. Hopes were given at the Ottawa Conference that arrangements to increase the demand of Lancashire for Indian cotton will be made, but it was not remembered that such hopes and efforts have been made for the last sixty or seventy years without any tangible result.

United Kingdom, and would only in a secondary degree affect those from foreign countries. We cannot imagine that the merchants of Lancashire or Dundee, to mention two interests alone, would be likely to acquiesce in such a course even though it were accompanied by still higher duties against the foreigner, or that it would be accepted by the Home Government. We therefore dismiss this alternative as beyond the range of the present discussion."

¹ cf. the concluding para of the Memorandum :—

"It is doubtful how the measure would commend itself to public opinion in India, and its adoption would be likely to give rise to demands for other changes in the fiscal system of the country which would be difficult to refuse, and injurious to prominent industries in the United Kingdom to grant."

Whereas Indian opinion has generally stuck to the view briefly explained above, the official view has gradually undergone a change since the adoption of the policy of Discriminating Protection. We have already seen that in two cases, the Government of India has introduced preference in favour of British goods, while imposing protective duties. It may be said that the measures in question, namely, those relating to Steel and Cotton, have been approved by the Indian Legislature. The reply to this is that the Indian Legislature was placed in a dilemma on both the occasions, namely, either to accept the protection proposed to be afforded to the Indian industry diluted with the proposed preference to British goods, or not to accept it at all. It reluctantly accepted the former alternative, and had the consolation of being made to believe that the measures did not commit India to a policy of Imperial Preference. The disguise was however given up first in connection with the reference to the Tariff Board re : the inquiry into the question of protection to the Cotton Industry, and secondly at the Ottawa Conference, where the illustrations mentioned above were taken as good features in the fiscal policy of India devised in the interests of India, and approved by the Indian Legislature.¹

Those who are against Imperial Preference are frequently told that they are influenced by political considerations, in spite of their economic argument which we have already explained. The prevailing atmosphere in the country, and the use of economic boycott against British goods as a means for political ends, lend colour to this view. If political considerations should not be imported in holding views against the system of Imperial Preference for India, they should also not be imported in holding views in favour of the same system. In other words, to give preference to Empire goods, simply because they

¹ For details see Chapter II.

are such, is an eminently political consideration without a tinge of economic colour. And the advocates of Empire Unity are obviously actuated by the desire to strengthen the political unit known as the British Empire by artificial bonds of an economic nature. We say this because we have still to learn of an inherently sound economic reason why the scattered parts of the Empire should join in a scheme of Imperial Preference, and should include India in the same.

COMMERCIAL TREATIES

If however we descend from the high sounding political level of Imperial Preference to the economic level of Commercial Treaties, we shall find that we are within the sphere of mutual self-interest, easy to understand and to carry out in practice.

We should be willing to enter into a commercial treaty with any country in or outside the Empire on a basis of equal and reciprocal advantage. If it could be shown that there is a measurable economic advantage to us in a foreign market, which we can obtain by granting an approximately equal and reciprocal advantage to the other country in our own market, without detriment to our industries, there is every reason for us to enter into an agreement by which such mutual concessions or preferences may be granted. In measuring the economic advantage to us in any such scheme, the main consideration should be that of our new industrial policy, maximum production with a national outlook. This means that it is no use obtaining concessions for a foreign industry established in India in return for equal concessions in our market to the goods of another country. For example, it would not be consistent with our policy to obtain a preference for Indian Tea in the British market, if in return for the same, we have to give a preference to British cotton goods or steel goods or both ; because this

would mean that we are encouraging a foreign industry in the country at the cost of the possible development of other Indian industries. If however the foreign interests in the Indian Tea Industry realise that it is to their advantage to adopt a national outlook in their work consistent with the Industrial policy of this country, the problem would present a different situation altogether.

Besides this criterion in entering into a Commercial Treaty with any country, we must see that the bargain is reasonable on both sides. In order to ascertain this, an estimate of the probable increase in the trade of both the countries should be made before entering into the treaty. As such estimates are bound to be approximate and subject to other influences, the treaty should provide for the revision of this estimate in the light of actual facts from time to time, so that the advantage on either side may be adjusted by suitable changes if necessary.

It would be the duty of the Tariff Board with the help of Indian Trade Commissioners to study the operation of such treaties, and to have up to date information of the advantages secured by the contracting parties by such treaties, and to suggest timely changes in them consistent with the object of the same.

We are aware that the problem of Commercial Treaties is a difficult one, and often raises delicate international issues. It does not however mean that it is on that account impossible of approach.¹ It is because India has not been independent in her industrial policy that she has not had adequate experience of such treaties. We may say that she has not had even the consciousness of the amount of weight she can exercise by having the power, the will and the determination to enter into such treaties on equal and reciprocal terms with any country. It is true that a study of the technique of Commercial Treaties and of the experience of other countries in this regard will have to be

¹ The recent Indo-Japanese Trade Parleys may be taken as a case in point.

made. The Tariff Board should be fully competent to make this study and to give proper advice in the matter.

We come to the conclusion therefore that it is better and economically more advantageous for India to work on the strictly economic lines of Commercial Treaties, in the manner explained above, instead of thinking in political terms of Imperial Preference, which obviously confuses political issues and aims with economic considerations. The supposed economic advantages of Imperial preference will not be lost by our suggestion, because any scheme of equal and mutual economic advantage with any country will be welcome under the system of Commercial Treaties that we have in view. Judged from this standpoint, the Ottawa Agreement between India and the United Kingdom is open to several objections. In the first place, the facts relating to the large variety of articles affected by the Agreement were not properly investigated, and the Legislature was put on the horns of a dilemma. If they accepted the Agreement they would get certain advantages for India. If they rejected it, they would put Indian export trade in the U. K. under a penalty of a duty of 10 per cent. on certain articles. The proceedings of the Assembly revealed the confused state of mind in which the members were; the Committee of the Assembly which investigated the problem in a few days did not produce more evidence in favour of the Agreement. In fact most of the evidence of witnesses recorded by the Committee was against the Agreement. But the majority of the Committee somehow took the view that because they could not come to a definite conclusion either for or against the Agreement, they should give it a trial for three years. This was endorsed by the Assembly.

The way in which the Ottawa Agreement interferes with the Industrial Policy of this country has been already referred to by us in another connection in a former

chapter. One only hopes that the whole question will be properly investigated before the Agreement comes in for revision. Since the passing of the Agreement however, many things have occurred in the world in the economic sphere, with the consequence that a study of its effects on Indian trade and industry will be both complicated and difficult.

THE MACHINERY AND THE PROCEDURE

In order to carry out a comprehensive industrial policy with the least possible delay, there should be adequate machinery and prompt procedure. The Indian Tariff Board is a small body of three members, whose appointment is renewed from time to time. It has no initiative, and as we have already seen its procedure is slow, and its outlook narrow and limited. In this connection valuable experience is afforded by the work of similar bodies in other countries, particularly those of the U. S. A. and Australia. We shall review in brief the important features of such bodies in these two countries, before making suggestions for the constitution, functions, and powers of a Tariff Board for India.

THE TARIFF COMMISSION IN THE U. S. A.

The history of the American Tariff Commission goes back to 1882. The modern body was however constituted in 1916. It was made independent of Government departments; it had no administrative or judicial authority. Its duty was to "investigate the relations between the administration and fiscal and industrial effects of the Customs Laws—the relations between the rates of duty on raw materials and finished or partly finished products, the effects of *ad valorem* and specific duties and of compound specific and *ad valorem* duties, all questions relative to the arrangement of schedules and classifications of

articles and in general to investigate the operation of customs laws."¹

The Tariff Commission was required to supply the President and the Legislature with information they asked for, and to make investigations when directed and submit annual reports of its work during the year. The Commission was also empowered to investigate the tariff relations between the U. S. A. and foreign countries. The Commission was thus a fact-finding body,² and its work was of a general character. The Fordney McCumber Tariff of 1922 considerably extended the powers of the Commission and the scope of its work. The Commission was invested with still greater powers by the Flexible Tariff of 1922.³

As a result of these more extensive powers the Commission has remodelled its organisation. Its function may be classified into four broad heads :—

- (1) The office of the chief investigator ;
- (2) The office of the chief economist ;
- (3) The legal division ;
- (4) The Secretary's work.

The chief economist supervises the general investigations conducted by the Commission, and the chief investigator directs investigations that relate to the new powers of the President under the Act of 1922. The organisation of the Commission under these two functionaries consists of a number of divisions each with a separate chief and other experts. These divisions relate to chemicals ; pottery, and glass ; metals ; wood and paper ;

¹ cf. Section 702, Title VII of the Act of 1916. Making the Tariff in the United States by T. W. Page.

² cf. F. W. Taussig, *Quarterly Journal of Economics*, February, 1930.

³ "Investigations to assist the President in ascertaining differences in cost of production under this section shall be made by the United States Tariff Commission and no proclamation shall be issued under the section until such investigation shall have been made". (Section 315 c) "That to assist the President in making any decision under this section the U. S. Tariff Commission is hereby authorised to investigate any alleged violation thereof on complaint under oath or upon its initiative". (Section 326 b)

sugar ; agricultural products ; textiles ; leather ; sundries ; preferential tariffs and commercial treaties ; and accounting. The Commission in accordance with the power conferred upon it by Section 318 (d) has an office at New York to conduct investigations in foreign countries. The work of the other two divisions—legal and secretarial—is indicated by the terms themselves. There is an Advisory Board co-ordinating the Commission's work, which reports only to the Commission and is under its immediate direction.¹

But the functions and powers of the Commission have been criticised for their inadequacy by one of its former Chairmen, Mr. T. W. Page.² He believes that while the tariff cannot be taken out of politics, there is a means of controlling politics in tariff-making. He thinks that the flexible provisions of the 1922 Tariff have diverted the activities of the Commission from the most fruitful fields.³ He suggests that a permanent Commission should assemble trustworthy and intelligible information and issue timely reports so that they may be "studied, learned and inwardly digested". The Commission should assume that the rates of duty, which it has to suggest are to be such as maintain equality of opportunity for foreign and domestic industries.⁴ Lastly the Commission should point out the effect on the importation and prices of a commodity expected from fixing a duty above or below the rate it provides and also the effects of the same on national welfare.

The Tariff Act of 1930 has left the powers of the Commission virtually unchanged. It still consists of members, not more than three of whom belong to the same political

¹ For a summary of the Commission's functions see W. S. Culbertson quoted in Fisk and Pierce: *International Commercial Policies*, pp. 119-120.

² "Making the Tariff in the United States", by T. W. Page, Chapters 2, 7 and 8.

³ *Ibid.*, p. 204.

⁴ p. 216. He substitutes the phrase "equality of opportunity" for "equality of costs" of the flexible clause of the 1922 Act.

party ; it has no powers of transferring an article from the free-list to the dutiable or vice-versa. Its work of investigating into the differences of cost of production in the United States and in foreign countries and reporting to the President regarding an increase or decrease of duty (not beyond 50 per cent.) is retained. But a new provision is made by which the Commission has to make investigations not only when demanded by parties concerned, but also on the request of the President or a resolution by either House of the Congress. The terms of the office of the existing members were abruptly cut off and the President was empowered to create a new body (with powers to reappoint). The salary of the members was raised from 7,500 to 11,000 dollars, to make it easier to secure men of the desired quality.¹ After criticising some of the work of the Commission, Professor Taussig, its first Chairman, makes the following suggestions. The intention and policy of the Congress must first be stated in terms that are prima facie workable, making clear also, the responsibility of the Congress. The Commission then must be left with the task of filling in the details. For this two essentials are called for, power and responsibility. He cites the examples of the Tariff Boards of Australia, Canada and Great Britain for a combination of the two essentials. In these countries a Minister takes up the responsibility for the findings and recommendations of the Commission. The 1922 Act gives power to the President to carry out the flexible provisions and he is to act on the advice of the Commission. It was thought that the costs of production in the United States and in foreign countries could easily be ascertained,² and so the powers of the President like that of many other high officials would be a political fiction.

¹ See quarterly *Journal of Economics* Nov. 1930. The President reappointed three members and appointed three others.

² For a critique of "equalization of costs of production" formula vide T. W. Page; *Making the Tariff in U. S. A.* pp. 83-99.

In fact the Presidents have assumed more positive responsibility. But the President is not answerable to the Legislature for his several doings. The Commission cannot be questioned by the members of the Congress because its work lies only in reporting to the President who by reason of his high calling remains unanswerable. Taussig therefore suggests that the divided responsibility may be remedied by entrusting the work of tariff-making to a Minister of the Cabinet, who should have a seat, if not a vote in the Legislature.

THE AUSTRALIAN TARIFF BOARD

Before 1913 the task of framing the tariff in Australia was done solely by the Minister of Trade and Customs and by the Commonwealth Parliament. Between 1913 and 1921 an Interstate Commission issued reports on the effects of the tariff at intervals.¹ The idea of a tariff board was entertained as early as 1910,² but it was in 1921 that it took definite shape in the appointment of such a body. It was to be a representative body, consisting of an administrative officer as Chairman and of representatives of manufacturers and importers, and since 1923 those of primary producers also. The Minister of Trade and Customs has to refer to the Board for inquiry and report matters relating to

- (1) classification and valuation of goods etc. ;
- (2) proposals for new increased, reduced or deferred duties ;
- (3) granting and effects of bounties ;
- (4) the Intermediate and Preferential schedules ;
- (5) any complaint against manufacturers abusing the state aid afforded to them by the tariff ;

¹ Skene Smith, *Economic Control*, pp. 152-157.

² Brigden and others, *Australian Tariff*, Appendix C.

- (6) the general effect of the working of the Customs and Excise Tariff on the industries of the country ;
- (7) the fiscal and industrial effects of the Customs Laws ;
- (8) the relative effects of the duties on raw materials and on finished goods (and partly finished goods) ; and
- (9) any other matter affecting the encouragement of industries.

The Board is empowered to recommend after a careful inquiry into the condition of an industry, about which a complaint is made, that the amount of duty payable to its commodities be abolished or reduced or that such action might be taken as the Board deems fit. The Board is empowered to enquire and report on its own initiative on any matters relating to subjects in (6) and (9) above.

At an early stage of its career the Board made it a point to inspect all the most important manufacturing establishments in order to gain a personal knowledge of the conditions, requirements and potentialities of the different industries.¹ It also receives applications for exemption from duties and considers them.

The Board hears requests for revision of the Tariff and recommends alterations or amendments to be made. It discusses the operation of the by-Laws, deferred rates, bounties and Imperial Preference.

The Board has repeatedly issued warnings "as to the danger of protection being used to bolster up the ever increasing costs of production".² In its Report for the year 1927 it pointed out that many of the applications for an increase in duties were received from industries that had already been protected, some even as late as in 1925.

¹ cf. Report June, 1924. Also Skene Smith, *Economic Control*, p. 144.

² See *Australian Tariff* by Brigden and others, Appendix C. This para is based on extracts quoted in this Appendix.

It lays the blame for this condition chiefly upon wages. Besides, for this prevailing tendency to "abuse protection" primary and secondary producers are also held responsible. Regarding the increase in costs due to the tariff itself the Board was aware of the general tendency of the effects of higher duties in one industry on many others. But it reported that in some cases the applicants gave a definite undertaking not to increase prices if duties were raised and that these promises had not only been fulfilled, but in a number of cases prices were actually lowered.

THE INDIAN TARIFF BOARD

Compared with the scope and functions of similar bodies in other countries, those of the Indian Tariff Board are very limited. Compared with the magnitude and complexity of the task before it, the Indian Tariff Board as now constituted is not well equipped. Even if we compare the kind of Tariff Board that the Fiscal Commission recommended with the one now in existence, we shall find that several important functions are omitted from the purview of the Board.

The Indian Tariff Board should be a permanent body with statutory¹ powers, defined by the Indian Legislature. Its composition should be considerably enlarged in view of the large, varied and complicated nature of the work required to suggest measures to carry out the industrial policy outlined above. We may suggest a personnel of seven. The members should be drawn from people with high qualifications, such as industrial and administrative experience as also the knowledge of economic problems. They should be above party politics, and should have a thoroughly national outlook. Some of the members should be associated with the work of Inter-

¹ This word is sometimes taken to refer to a Parliamentary Statute and hence the limiting clause.

national and Imperial Conferences dealing with economic questions, and should have opportunities to study on the spot the tariff systems of other countries.

The Tariff Board should have powers to investigate both on its own initiative, and on the application of an interested party or on account of a reference by the Government, problems relating to the development of industries by protection or other forms of state assistance and to make recommendations in that connection. It should make a continuous study of the trade movements, tariff changes, and prices in the world, particularly those in which India is interested directly or indirectly. It should report on the working of the Indian tariff and its results, and make suggestions for suitable changes, if any are required. The Board should watch the working of existing commercial treaties with other countries, and suggest new ones, if likely to help in the industrial progress of the country. The form, the classification and other technical aspects of the tariff should be reviewed by the Board from time to time, with a view to improve them in the light of the requirements of the trade on the one hand, and of the latest improvements in other countries on the other.

Special questions relating to tariff and industry, such as alleged cases of dumping, schemes of Imperial Preference or Empire Trade Agreements, complaints against manufacturers abusing the protective system, should be first investigated by the Board before any action is taken.

In order to safeguard the interests of the consumer, and to see that the cost of protection is not heavy on the one hand, and that its incidence is evenly distributed on the other, the Board should make a study of these questions and make recommendations for necessary changes in the protective scheme, or suggest other relieving measures.

In order that the work of the Board may not be unduly

hampered, it should have general powers to investigate and recommend any step that it may consider necessary to execute the industrial policy outlined above. Arrangements should also be made for co-operation with other departments and officers of the State. If an Economic Council or Councils of the kind we have in other countries are constituted, it will be found that frequent consultations with the Councils and the Board will be healthy. In its work of collecting data, it should be promptly assisted by all other Government Departments, Central or Provincial.

For the same purpose, it should establish relations with commercial and industrial bodies as well as with Universities and research institutions. In certain cases the Board should have power to compel businessmen and industrialists to give information, which, if necessary may be treated as confidential.

In order that the work of the Board may be above suspicion, its reports should be promptly published, and there should be no undue secrecy about its findings. The Board should however have power to make confidential reports to the Government on a matter on which the members are unanimous.

Prompt action should be taken on the recommendation of the Board. Wherever legislation is required, a special session of the Legislature should be convened, if necessary. In the alternative, the Executive should have power to take immediate action for a short period, pending the approval of the Legislature. In the case of those changes suggested by the Tariff Board, for which the intentions of the Legislature are definitely known, the Executive should have power to take prompt action. The Legislature should have opportunity in due course to object if it does not approve of the action.

THE COST AND INCIDENCE OF PROTECTION

Having laid down the broad outlines of a new Industrial Policy for India involving a comprehensive scheme of protection to industries, we should be conscious of the fact that any scheme of protection means some burden to some classes of people, particularly the consumers; and that a scheme of protection is accepted in the belief that the advantages on the whole outweigh the burden on the consumer or the cost of protection. There are certain automatic advantages to society of protection in the form of larger and diversified employment or a balanced economic organisation. If however any particular scheme of protection involves such heavy burdens to a particular class of consumers, that the general advantage pointed out above may not be considered a sufficient compensation, arrangements may be necessary to give an adequate consideration to the class in question in some form or other.

The majority of the Indian Fiscal Commission were so much obsessed with this idea of the burden on the consumer that in their zeal to safeguard his interests, they evolved a policy of discrimination which in its effects has not made for that desirable industrial progress which is so urgently required. In order to see that the burden on the consumer or the nation as a whole is not unduly high, the proper method would be to see how an adequate scheme of protection would affect different classes of people, or in other words to ascertain the cost and the incidence of the scheme. Having done so, it would be possible to weigh the advantages and disadvantages, and accept or reject the scheme. Or if the scheme was worthy of acceptance in spite of some disadvantages, compensating action in favour of the affected parties could be taken. Again the determination of the method of protection,

namely, bounties or duties would also be easier in this way. Besides, the scheme may be revised from time to time in the light of actual facts.

Instead of doing this, the Fiscal Commission adopted a wrong point of view. Their object being to protect the consumer, they ought to have proceeded to see how the consumer was likely to suffer and then thought of the remedy. Instead of this they put obstacles in the way of granting protection. They thought of protecting the consumer at the stage where they ought to have protected the industry. This explains the halting conditions with which their policy has been hedged. The conditions limiting the grant of protection were not based on the facts of each industry, but on certain a priori considerations. This was bound to lead to difficulties with the consequence that the main object of developing industries has remained in the background.

We do not suggest that protection should be given without any inquiry or consideration for the classes affected. In fact the very object of granting protection is to increase the national dividend and the standard of life of the people of the country. In doing so however difficulties may arise as between different classes of people. In order that these difficulties may be reduced to a minimum, the whole outlook of those responsible for framing a protective 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 desirable scheme of expenditure than that of income for the treasury. This can be done by separating the two functions of the tariff, (1) that meant for revenue, and (2) that meant to help industries. The alternative method referred to above aims at measuring the burden of protection, weighing the advantages, and giving relief where necessary. This method involves the difficulty of a statistically accurate measurement of the burden of protection. For this, the

following two methods devised in Australia may be suggested.

(1) The Tariff schedule is generally classified into several divisions or groups. We must first ascertain the representative commodities in each group. We can then find the prices paid for these selected commodities in the protected home market. If at the same time, we find the price paid by similar articles in another country, where they are not protected, and compare the same with those in the protected, and making due allowance for the cost of transport, insurance etc., from the centre of production, we shall be able to gauge the efficiency of the protected industry. If it is found that the price in the "protected market" is much above that in the "free market", we must conclude that the tariff imposes a substantial burden on the consumer to that extent. If however, at the end of a reasonable period, it is found that the production of the protected industry has been substantially enlarged, that the number of men employed has increased, and that the prices of its products approach those of similar goods in countries where they are not protected, the progress and efficiency of the industry cannot be doubted. In other words, the protective scheme must be declared to have succeeded without undue burden on the consumer.

Calculations based on this method are bound to be useful, but they have their limitations. In the first place we should be able to find commodities similar to those which we are protecting, being sold in other countries without protective duties. Even if we do, the inherent complexities of price formation are so great that the comparison may not be valid in all cases.

(2) The Indian Tariff Board estimates the future cost of production of the home producer, the prices at which foreign goods would be imported without duty, and determines the future fair selling price for the home

industry before constructing a scheme of protection. It also tries to anticipate the future course of foreign prices. If these data are verified and kept up to date in the case of each protected industry, we shall have good material for measuring the burden of protection. On the basis of this information, it is easy to estimate the amount which the consumers have to spend in excess of what they would otherwise pay for the same product if imported free. But this amount need not always be the measure of the burden of protection. The following considerations should help us to determine the figure of the burden.

(a) When it is clear from import statistics, that imports contribute a substantial proportion of the available quantity of the particular commodity, it may be assumed that the price is raised by the full amount of the duty. In this case the burden of protection is the maximum figure arrived at in the manner explained above.

(b) When the imports are relatively small, and the consumption is almost entirely of home-made goods, we shall find that the price is not raised by the full amount of the duty, and we may take the burden of protection to be roughly half of the maximum figure.

This method will enable us to estimate the burden of protection on those industries which have been assisted by a tariff. In the case of other forms of state assistance, the burden is not difficult to estimate. The amount of direct assistance in the form of bounties is a known figure. If the bounties result in making the price of home goods lower than that of imports, the burden will be less to that extent. Besides this, the amount of indirect assistance by way of preferential purchases of home-made goods by the State and public bodies should also be taken into account.

In order to study the effects of the Industrial Policy of the country as a whole, particularly on its economic organisation and its national dividend, it will be useful to

have estimates of the total volume of protected production from time to time. From the data that may be collected in the manner explained above, it would not be difficult to make such estimates. In making such an estimate, adjustments will have to be made for the nature of the raw material used. In those cases in which the raw material is a mobile article which can be easily imported or exported at world prices, the amount of protected production will be only the "added value", that is the value of the output less the value of the raw material. In the case of industries in which the raw material cannot be disposed of at competitive prices abroad, the whole output must be reckoned at protected production. There will be intermediate cases in which the raw material will come partly in either category ; in such cases a careful judgment in making the estimate will be essential.

Calculations of the burden of protection will be of no value unless they are followed by a study of the distribution of the burden on different classes of consumers. Consumers may be those who take the commodity for direct use or those who take it for purposes of further production. Besides, consumers may be divided into the rich, the middle class and the poor. According to the amount of protected production consumed by the different classes in the country, the burden will be distributed. The Indian Tariff Board made a rough estimate of this kind, when it came to the conclusion that the burden of the protection to the steel industry would be equally divided between (a) the general consumer ; (b) the industries and (c) the departments of the State. Attempts should be made to improve such estimates, which will enable us to determine the amount of the incidence of protection falling on this or that class of consumers. It should then not be difficult to give relief to this or that class, if it is found essential on the whole ; or it may lead to readjustments in the scheme of protection.

INDUSTRIAL POLICY UNDER THE NEW CONSTITUTION

The exact position regarding the control of the industrial policy of India under the new constitution now in the making has not been clearly defined. We have therefore to arrive at our own conclusions on a study of the relevant points. We find that among the subjects classed as "exclusively federal" the following are mentioned¹:—

- 26. "Development of Industries in cases where such development is declared by or under a federal law to be expedient in the public interest.
- 334. "The regulation of the import and export of commodities across the customs frontiers of the Federation including the imposition and administration of duties thereon."

It appears that these functions will be under the charge of a Responsible Minister in the Federal Executive, and the Governor General will be expected to take the advice of the Minister in connection with the same. But there will be one important respect in which the power of the Legislature as well as of the Executive will be limited, because of the special responsibility to prevent commercial discrimination against British subjects domiciled in the United Kingdom with which the Governor General and the Governors will be charged.

In order to realise the full implications of the position mentioned above, we must briefly refer to recent discussions on the subject.

The Indian Fiscal Commission was emphatic about the national outlook of industries which received state assistance. The Commission observed that "Where the Indian Government is granting concessions or where the Indian taxpayers' money is being devoted to the stimulation of an enterprise, it is reasonable that special stress

¹ White Paper, App. VI, p. 105.

should be laid on the Indian character of the companies thus favoured."

"In all such cases we think it would be reasonable to insist that companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian directors on the board and reasonable facilities should be offered for the training of Indian apprentices at Government expense."

The External Capital Committee narrowed the scope of the recommendation of the Fiscal Commission, and laid down the following guiding principle. "Where definite pecuniary assistance such as a bounty is granted to any particular undertaking we consider that discrimination is feasible, and we agree with the Fiscal Commission and the Legislature that no such assistance should be granted to any company, firm or person not already engaged in that industry in India, unless,

- (1) reasonable facilities are granted for the training of Indians, and
- (2) in the case of a public company, unless,
 - (a) it has been formed and registered under the Indian companies Act, 1913,
 - (b) it has a share capital the amount of which is expressed in the memorandum of Association in Rupees,
 - (c) such proportion of the Directors as Government may prescribe consists of Indians".

It can be easily seen that these recommendations are quite insufficient to achieve the avowed goal. We have fully realised that in practice formulæ like "reasonable facilities" have little significance. The conditions that a company should be registered under the Indian Companies Act and that its capital should be expressed in rupees are also of little consequence in safeguarding the national outlook of the concern.

As regards the proportion of Directors it is obvious that Government cannot demand a majority of Indian directors when most of the shares are held by foreigners. Under such conditions Government will demand one or two Indian Directors only. Such directors of course will have no effective voice in the management. Besides under the managing agency system the directors do not possess any important power. Even to-day we find several Indians on the Boards of foreign concerns, but they have no power to give a national outlook to the concerns.

One important limitation in respect of the recommendations of the External Capital Committee is that the above conditions are to be sought only in cases where direct pecuniary assistance either in the form of a bounty or a subsidy is to be granted, and not where protection is granted in the form of tariff walls.

In their report¹ on the Paper Industry the Tariff Board made the following observations:—"Apart from practical considerations of administration there can in reality be no distinction in this regard between industries receiving assistance in the shape of bounties or subsidies and those which are protected by means of import duties. It is, therefore, important from the national point of view, that in the case of every industry which claims protection this aspect of the case should be fully examined."²

Taking their stand on this recommendation the Legislative Assembly in the winter session of 1932, while dealing with a proposal for tariff protection to the paper industry, succeeded in getting accepted the view that the same conditions should apply to grants of tariff protection as to bounties and subsidies.

The proposed constitutional arrangement limits the rights thus enjoyed by the Indian Legislature at present

¹ In 1931.

² Para. 104 of the Report.

in the matter of the development of industries on national lines. The proposals are summarised in paragraphs 122 to 124 of the White Paper. We shall, however, refer to the proceedings of the second and third sessions of the Round Table Conference to understand more fully the significance of these proposals. We shall in the first place reproduce the relevant passages before commenting on them.

“The Committee are of opinion that no subject of the Crown who may be ordinarily resident or carrying on trade or business in British India, should be subjected to any disability or discrimination, legislative or administrative in respect of taxation, the holding of property, the carrying on of any profession, trade or business or in respect of residence or travel. The expression subject must here be understood as indicating firms, companies, and corporations carrying on business within the area of the Federation”¹.

“It should however be made clear that bounties or subsidies, if offered, would be available to all who are willing to comply with such conditions as may be prescribed. The principle should be a fair field and no favour..... Where the larger business makes use of unfair methods of competition, the general law should be sufficient to deal with it, but many members of the Committee were impressed with the danger of admitting a claim to legislate, not for the purpose of regulating unfair competition generally, but of destroying in a particular case the competitive power of a large industry in order to promote the interests of a smaller one.”²

“It is also plain that where the Governor General or the Provincial Governor is satisfied that proposed legislation, though possibly not on the face of it discrimina-

¹ Fourth Report, Federal Structure Committee (Second R. T. C. proceedings, para 18).

² *Ibid.*, para 21.

tory, nevertheless will be discriminatory in fact, he will be called upon in virtue of his special obligations in relation to minorities, to consider whether it is not his duty to refuse his assent to the Bill or to reserve it for the signification of His Majesty's pleasure¹."

It was decided by the Commercial Safeguards Committee of the third R. T. C. that as safeguards in general are to be "special responsibilities", the Governor General or Governor as the case may be, would be entitled in the last resort to differ from proposals of his Ministry if he felt that these involved unfair discrimination²."

It was further agreed "that no subject of His Majesty domiciled in the United Kingdom and no company registered in the United Kingdom should be subjected to any disability or discriminations to which subjects of His Majesty domiciled in India or companies registered in India are not subjected in the United Kingdom³".

"The Committee agreed that bounties or subsidies should be available, without distinction, to all firms or individuals engaged in a particular trade or industry at the time the enactment authorising them is passed, but that in regard to companies entering the field after that date the Government should be at liberty to impose the conditions of eligibility recommended by the External Capital Committee. It would, of course, be a question of fact whether the purpose of the subsidy or the imposition of particular conditions, though not discriminatory in form was, in fact, intended to penalise particular interests; and the Governor General or Governor, or the Courts, as the case may be, would have to form a judgment in this question in deciding whether a proposed measure was or was not discriminatory⁴".

¹ *Ibid.*, para 23.

² Para 2 of the Report.

³ Para 3 of the Report.

⁴ Para 4 of the Report.

The effect of these provisions is that the British people must be treated as nationals of India in connection with all steps, legislative or administrative, intended to develop industry in this country. If we think of anything in the nature of a bill for the reservation of coastal trade to Indian shipping, it would be treated as discrimination against the British. If we want to give a bounty to help any industry, we must give it equally to Indians and Britishers, otherwise it would be discrimination. If we want to help industries by means of special railway rates or other forms of assistance, we cannot reserve such concessions only to Indians, because it will then be discrimination against the British. In brief, either with reference to existing industries or future ones, discrimination in favour of the nationals of the country will be interpreted to mean discrimination against the British, if British interests are at stake. On the other hand, discrimination against third parties and in favour of British trade and industry will be welcome. The differential rates of duty imposed in the protective scheme with reference to cotton and steel, are illustrations of discrimination in favour of the British. The Ottawa Agreement has legalised not only this arrangement, but has carried forward the principle of discrimination in favour of British goods as against non-Empire goods. So long as this continues, it will be possible for British trade and industry to increase their vested interests in this country. The existence of British economic interests in this country has been responsible for the political device of commercial and financial safeguards, which in substance take away with one hand the political power which is supposed to be given to the Federal Government by the other. It is thus a vicious circle intended to perpetuate the present position. The situation will in fact be worse than now, because even those opportunities which now exist for giving an impetus to an Indian industry as against a British one, will dis-

appear henceforth under this statutory provision. The advantages which British interests have been enjoying in this country hitherto, partly because of their superior organisation, and partly because of their political connection, will hereafter be a matter of right, and therefore capable of unlimited expansion guaranteed by statutory safeguards. With the partnership that is thus going to be forced on this country for its economic development, the future national production must perforce be divided between the partners. And as in all partnerships, the dominant partner will get more than his due share. India may think in future of economic progress in those other spheres which have not hitherto been taken up because of obvious difficulties. [But the people of India cannot easily think of those productive activities which are already under the control of the British.] In view of the comparative backwardness of this country in technical knowledge, in industrial and commercial organisation, and even in capital resources, we should not be surprised if we find that the tentacles of the British partners will spread far and wide. In view of this, the only conclusions that we can arrive at is that the impetus for further production by the people of the country will be limited in its scope; that even if a larger production comes about in due course, it will not be wholly available to the people of the country, because a substantial share will have to be paid to the British partners. From the point of view of raising the standard of life of the people of this country, this arrangement is therefore not hopeful.

The principle of reciprocity embodied in the Commercial Safeguard sounds very grand, but whereas it gives all that the British demand in India, it gives nothing in return, but words. What the people of India desire is not opportunity for industry in the United Kingdom, which if theoretically possible, is in practice of no value. What they want, however, is adequate and natural opportunities

in their own country against the powerful vested interests of the ruling race. This new theory conveniently ignores the demand of the people for their natural rights in their own country, and offers a fictitious right six thousand miles away, on the absurd assumption that Indians who find it difficult to compete at home with Britishers, will be able to go and settle in the United Kingdom to compete with Britishers in their own home. We may admire the ingenuity of the authors of this formula, but its hollowness will not remain concealed for long. Not only is the new principle hollow from the point of view of the people of India, but it also takes away the power to use methods which have been already put into operation, under the existing constitution, as mentioned above, in the economic interests of the nationals of this country.

CONCLUSION

We aim at the maximum industrial production in the country with a national outlook. We consider it essential to bring about a balanced economic organisation in the country in order to solve its poverty problem. We maintain that such a goal should be achieved as rapidly as possible, if India is to be saved from economic desperation. We therefore, advocate a policy of protection, which shall not be restricted in its operation as now. It shall be a policy comprehensive in its outlook, rapid and thoroughgoing in its operation, meant to develop industries large and small, existing and potential. We propose an effective and efficient machinery for the same. We insist on a national outlook of all industries in the country, or the exploitation of its resources for the benefit of the people themselves, and suggest ways and means to bring about and maintain such an outlook. We shall not confine ourselves to the home market only, but shall also produce for export markets wherever we have reasonable facilities. We shall push forward our industries by entering into

commercial treaties with other countries, in or outside the Empire, on a basis of equal and reciprocal advantage. We shall at the same time see that the burden of protection does not fall unduly on any one class in the country. We shall estimate the incidence of protection, and arrange for its equitable distribution or in the alternative for relief where necessary.

We are however conscious that the new constitution may not give adequate scope for the full realisation of the proposed policy. To the extent to which the new constitutional arrangement comes in the way of an early solution of the economic problem of the country, it must be characterised as defective. While it is not within the scope of this work to think of ways and means to remove this defect in the constitution, we have pointed out the way, which in our opinion, is likely to bear the desired results.

CHAPTER IV

INDIAN TARIFF SCHEDULE: ITS COMPOSITION AND ANALYSIS

In the preceding chapters we have seen how the Customs Tariff has proved to be the principal instrument of industrial policy in other countries, and how it can serve the same purpose in this country. In view of the growing importance of the tariff both for industrial and revenue purposes in our country, a study of the technique of tariffs and of tariff methods from the point of view of their application to the Indian Tariff Schedule is essential. We propose in this and the following chapters to consider the more important aspects of this problem, from which it will be obvious that a thorough examination of all the details by a representative committee is urgently called for.

We shall take the existing Indian Tariff Schedule as the basis of discussion and study its composition, classification and other relevant points in this and the following chapter. We shall make use of the methods employed in other countries to criticise and suggest improvements in our system. Chapter VI will be devoted to a few special points of comparison in modern tariff systems from which we may find useful suggestions. The last chapter attempts a tentative tariff schedule for India in the light of the discussions in the preceding chapters relating both to policy and method.

EXPORT SCHEDULE

In the discussion of the composition of the Indian tariff the first point that strikes one is that it is made up of both an import and an export schedule, unlike the tariffs

of some other important countries such as the United Kingdom, the U. S. A. and Japan. The reasons why the Indian tariff contains an export schedule are clear. It is now an acknowledged maxim of fiscal policy that export duties are to be resorted to only under specially favourable circumstances. The incidence of export duties on raw materials, for which there are generally a world market and international competition falls on the home producers.¹ Export duties on manufactures would clearly weaken the country levying them in the competition for markets abroad and hence are seldom resorted to. The United States of America is prohibited from levying these duties by an article of the Constitution.²

Export duties can, however, be levied in two cases, either out of revenue considerations or still less frequently for protection.³ Where a country possesses an absolute or practical monopoly of an article that is when it is in a position to control the entire supply, an export duty can be conveniently levied. Secondly, where an article (generally a raw material) is to be preserved for home production, resort may be had to an export duty, e. g. nitrates in Chile, tin and rubber in the Federated Malaya States, logs and pulp wood in Canada and so on. The most common export duties are those on coffee, tea, India-rubber, timber, silk, tin, tobacco, rice, various fruits, hides, wines, ores, cotton, wool, etc. Looking at the export schedule of the Indian tariff we find that it bears out the

¹ The policy of export duties for protection, however, had a very limited field in which to be applied, since producers of raw materials are not willing to take upon themselves an additional burden for the benefit of manufacturers who purchase their raw material. cf. *Export Duties*:—Geneva, 1927, C. E. I., 22.

² "No tax or duty shall be levied on articles exported from any state"—a clause inserted mainly to appease the south which feared lest its exportation of agricultural products would be interfered with.

³ cf. Fisk and Pierce "International Commercial Policies", p. 60. Also cf. *Export Duties League's* publication, C. E. I. 22, p. 3. For a complete list of export duties levied in the world at the end of 1926, see *Ibid.* appendix.

above considerations. It consists of four items, Raw jute, Jute Manufactures, Hides and Skins and Rice. One of these, Raw Hides and Skins has an *ad valorem* rate of 5 per cent. while the other three have different specific duties. It will be seen that in the case of the most important of these commodities, raw jute, India enjoys a practical monopoly while in rice, too, as compared with her competitors in foreign markets, her position is very strong.¹ In the case of rice another consideration may also be admitted viz. the preservation of the supply of rice in times of famine. India is not only the greatest exporter of rice but its chief competitors Siam and Indo-China also levy an export duty on rice. This explains its continuance for a long period for revenue purposes.² The duty on Hides and Skins when it was introduced as a war measure in 1918 had a protective object namely the development of a key industry within the Empire, but later it was converted to a simple revenue duty.³ It will thus be seen that all the existing export duties in India are low and have a revenue purpose only.

IMPORT SCHEDULE

The import schedule contains 172 main items in serial number. But if we include the items and the sub-items the actual number comes to 283.⁴

The import schedule is schedule II of the statute and the export schedule, schedule III of the same. Schedule

¹ cf. para 188 of the Fiscal Commission Report.

² In the Budget of 1930-31 this duty was reduced from 3 As. per maund to 2 as. 3 ps. owing to the fall in price, so as to place Burma exporters at no disadvantage as compared with their Siamese competitors. See the speech of the Finance Member presenting the Budget for 1930-31. The export duties have remained unaltered even during the last two years.

³ cf. Para 190-193, Report of the Indian Fiscal Commission.

⁴ This number of items has more or less a formal significance only. No inference can be drawn about a tariff being good or bad from the number of items it contains; it is also difficult to say from this as to how many kinds of articles of import are taxed in a country because of the existence of "blanket clauses" under which a number of articles are grouped under a single item. cf. Gregory Tariffs:—A study in Method, pp. 90-91.

I of the Tariff Act of 1894 contains a list of the previous tariff acts that have been repealed. Such repealed acts are Acts XI of 1882, II of 1887, II of 1888, VII of 1889, XII of 1890, I of 1892 and IX of 1893. Only schedules II and III, are, for obvious reasons, commonly published from time to time.

The import schedule, until very recently, was divided into six columns. The first gave the serial numbers, and the second the numbers in the statutory schedule as it was framed by the Tariff Act of 1894; the third mentioned the articles covered by the respective items and the fourth showed the unit on which a duty was assessed in the case of specific duties. The fifth column indicated whether the duty was *ad valorem* and also contained the official tariff valuations.¹ The sixth column gave the rate-specific, *ad valorem*, alternative, or composite. After the passing of the Indian Tariff (Ottawa Trade Agreement) Amendment Act last year, this arrangement has been slightly altered. The first five columns remain as they were while the sixth instead of mentioning the single duty which operated in the case of every item² now gives the standard rate of duty and two new columns have been added which give the respective preferential rates of duty if the article is the produce or manufacture of the United Kingdom or a British colony in the case of articles covered by the Ottawa Agreement. Thus we have column seven for the British preferential rate and column eight for the preferential rate on colonial products. We shall deal with the importance of this change from the point of view of the tariff as a whole and its nature in a subsequent chapter.³ It may be noted here that the changes under the Ottawa Agreement covered 85 numbers in the statutory schedule (161-245) and in a great number of these items

¹ See further for explanations of such duties.

² The few preferential duties on steel and iron and cotton piecegoods are still given as separate parts of their respective items.

³ Chapter VI.

(31) the 10 per cent. preference was secured by lowering the general rate¹ of 25 per cent. to 20 per cent. in the case of British or Colonial products as the case may be and by raising the same by 5 per cent. in the case of these products imported from other countries.² In pursuance of sub-section (2) of section 1 of the said Amendment Act, rules have been framed laying down conditions for admission at preferential rates.³

The import schedule is divided into four broad heads, I Articles of Food, Drink and Tobacco, II Raw Materials and Produce and Articles mainly Unmanufactured, III Articles wholly or mainly Manufactured and IV Miscellaneous and Unclassified.⁴ The first part (serial Nos. 1 to 30) contains 44 items (according to our calculation) with duties on articles of import such as fish, fruits, grain, pulse and flour, liquors and spirits provisions and groceries, spices, sugar tea and coffee, tobacco, cigars and cigarettes. Out of these 44 items, 3 are free.

The second part is made up of 41 items (serial Nos. 31 to 58). Twelve of these are free of duty. This is obvious when we remember that this part of the schedule contains raw materials and articles needed for further production such as raw hides and skins, metallic ores, wool and manures. The important articles in this part are, coal and coke....., old iron and steel, kerosene oil and motor spirits, other oils, oilseeds, unmanufactured wool and textile raw materials (raw silk and coir fibre). The third and the biggest part of the schedule classed as articles wholly or mainly manufactured contains as many as 189

¹ See further for this general rate.

² cf. Indian Trade Journal 8-12-1932 and 2-2-1933.

³ Indian Trade Journal 29-12-1932.

⁴ It may be noted that this grouping of items very much resembles the classification of our imports and exports made for statistical purposes—viz. I Food, Drink and Tobacco, II Raw Materials and Produce and Articles mainly Unmanufactured, III Articles wholly or mainly Manufactured, IV Living Animals and V Postal Articles not otherwise specified. The last two divisions are obviously unimportant.

items and sub-items out of a total of 283 in the whole import schedule. Twenty-three out of these 189 are free. This big list (of 166 dutiable items) contains a variety of articles and all kinds of duties. The chief articles exempt from duty¹ are military stores, agricultural implements and dairy appliances, works of art and books. Almost all the protective duties are naturally to be expected in this part of the Schedule.² Iron and steel is the most important single article here—items 101a to 101g, 102a to 102i, 103a to 103t, and 104. Besides metals and machinery, we have in this part arms and ammunition and military stores, chemicals, conveyances, cutlery, hardware and instruments, glassware and earthenware, paper, railway plant and rolling stock, yarns and textile fabrics and miscellaneous articles such as aeroplanes, bangles, works of arts, matches, cinematograph films, perfumery, soap and toys.

The last and the smallest class contains miscellaneous articles that are not classified such as living animals, umbrellas, and coral. Out of these, four are free, these latter being living animals, living plants, insignia and badges of officials and diagrams and maps for educative purposes.

ANALYSIS OF THE SCHEDULE ACCORDING TO THE NATURE OF DUTIES

We shall now try to analyse the items in the schedule according to the nature of the duties.³ This will enable

¹ Owing to demands for larger revenues from customs "Machinery", most of which was free till 1931, now bears different duties, e. g. 10 per cent. and 6½ per cent.

² The protective duties on sugar and salt go in the first part of the schedule.

³ As already pointed out there are three columns that give the duties on each item Standard rate of duty, and the two preferential rates. We shall discuss this method of levying more than one duty on the same article under bargaining tariffs in a subsequent chapter. Here we take account of the standard rates of duty only. The preference rates in most cases are 10 per cent. lower than the standard rates under the Ottawa Trade Agreement.

us to find out what kind of duty is most predominant in our schedule and to see if a change in the system is necessary.

It must be noted that the term "item" as used here generally refers to the serial numbers in the schedule already referred to. The term usually refers to an article named in tariff schedule to which a particular rate is applied (or is marked 'free') and when two or more varieties of the same article are "differentiated" (distinguished from one another) and a separate duty is levied on each of these, they are often called *sub-items*. When an article in a schedule is differentiated and there is not merely a simple enumeration of its well known varieties but also a further division or specification of the same according to some definite method e. g. according to the grades of manufacture or weight or length that article is called specialized and the process specialization.¹ But in the Indian Tariff it is difficult to follow these names—items—and sub-items—so closely. This will be at once apparent if we compare our schedule with the tariff schedules of some other countries on the basis of the rates of duty. Not only are the varieties of a single article enumerated in an item but different articles too are grouped under the same number, e. g. serial No. 61 B which mentions different kinds of arms, or 103n which gives varieties of railway track material. In order, therefore, to avoid confusion and to simplify our analysis we have confined the term item to a distinct serial number having a rate of duty mentioned against it, and sub-items to the parts of these numbers which have separate rates of duty. This will leave a few items in which more than one kind of rate is to be found. These we shall call "mixed items," which are 11 in number. It must further be noted that the preferential rate for obvious reasons cannot be considered a separate rate. It involves a question not so much of rate-

¹ See chapter VI.

making as of a principle, viz. bargaining tariffs—which will be dealt with in a subsequent chapter. The import schedule can now be analysed according to the kinds of duties as follows :—

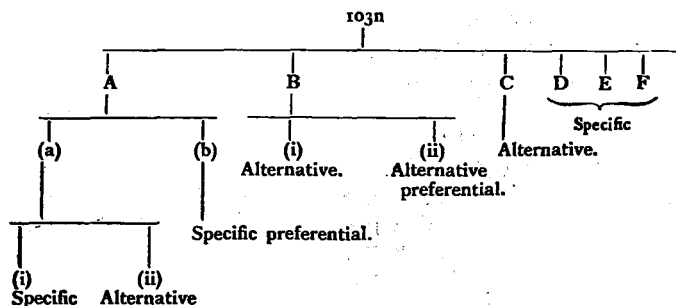
Duty.	No. of items under the duty*
Free	42
Ad Valorem	184
Specific	34
Alternative	10
Compound	2

* Excluding 11 items which are "mixed" items. ¹

THE FREE LIST

The following table shows that there are 42 items and sub-items (excluding the part of serial No. 6) which form our free list. These are enumerated along with the other items in the schedule unlike the case of the tariff schedules

¹ In these cases, as we have pointed out, it is difficult to number an item as being assessed on one or other kind of duty. The most conspicuous example of these mixed items is serial No. 103. In this big item the most complicated sub-item is 103n. This sub-item is first subdivided in A, B, C, D, E, F. A is further subdivided into (a) and (b); (a) into (i) and (ii) one of which is a specific duty and the other an alternative one. (b) has a specific preferential rate. B has again two subdivisions (i) and (ii) the former having an alternative duty the latter alternative-preferential. C has an alternative rate and the rest specific. The whole item may be thus represented:



These mixed items should not be confused with what the tariff maker calls "mixed" duties i. e. when an article is charged with either specific or *ad valorem* duty and also with some other duty in addition, e. g. serial No. 20; Coffee..... 25 per cent. plus 1 anna per lb.

of some other countries such as the U. S. A. where a free list is appended separately.

Class	No. of free items
I. Articles of Food, Drink and Tobacco	3*
II. Raw Materials and Articles mainly manufactured.	18
III. Articles wholly or mainly manufactured.	23
IV. Miscellaneous and unclassified.	4

* Excluding part of serial No. 6—grain and pulse, which are also free.

It is quite natural to expect that these free items under Class I must be small in number in the import schedule of a country that does not depend upon imports for her prime necessities of life.¹ Hence the articles in this group that are exempt from duty are of very minor importance, namely, hops, sago flour, and salt imported under certain Government rules.

It may be noted in passing that only two years ago there were 50 items on the free list. The curtailment of the list, as we have already seen, has been made owing to the needs of revenue. It is mainly in class III that this reduction has been chiefly effected by a 10 per cent. duty on certain kinds of machinery. The class "Articles wholly of mainly Manufactured" contains the majority of the total number in the free list because this is the biggest portion of the schedule and also because our imports under this head form more than 3/5 of the total imports. An examination of this part of the free list shows that apart from such items as Arms, Ammunition and Military Stores, Uniforms, Coins of the Government of India, postage stamps, paper money, and personal effects of a passenger, the main part of this portion of the free

¹ Our imports under this class form only 16 per cent. of the total imports.

list chiefly consists of articles that are required for productive purposes¹ such as agricultural implements, dairy appliances, and other machinery (with their parts) and implements: (e. g. water lifts, sugar mills, and oil presses), magnesium chloride, sulphur, bleaching powder and paste, dyes and colours, cotton ropes, starch and farina and stone prepared for road-metalling. This list has an obvious purpose because a duty on these would mean a tax on production. The other articles in this part are books, works of art for public purposes, trade catalogues, light ships, which are free because a tax on them would be either uneconomical or injurious from other considerations.

The twelve items that come under "raw materials and articles mainly unmanufactured" are chiefly made up of raw hides and skins, metallic ores, seeds, wool, manures and raw materials for Paper excluding wool pulp. These are free because no country would levy duties on articles that are used for further production within its boundaries. The remaining four come under Miscellaneous and Unclassified, and these are living animals, living plants insignia and badges of officials, models and diagrams illustrative of natural science and antique coins.

AD VALOREM DUTY

Our table giving the different kinds of duties shows that excluding the mixed items (in which the *ad valorem* rate appears only thrice), the duties based on the value of the articles number no less than 184 out of a total of 283 items (and sub-items), in other words more than three-fourths of the total number of duty-bearing items. The predominance of the *ad valorem* rate is obviously a main feature of our tariff. We shall therefore pause to

¹ cf. Report of the Indian Fiscal Commission, Paras 109-112.

The duties on other machinery have been avowedly levied to meet financial stringency and are likely to be removed when the emergency has passed.

study this kind of duty in some greater detail. These 184 *ad valorem* items are grouped under the various *ad valorem* rates as follows :—¹

Rate of Ad Valorem Duty	No. of items and sub-items under the rate.
30 per cent	63
25 per cent	61
50 per cent	99
90 per cent	21
2½ per cent	7
10 per cent	6
15 ⁵ / ₈ per cent	5
37½ per cent	4
35 per cent	4
45 per cent	2
18½ per cent	2
6½ per cent	2
119½ per cent	1
69½ per cent	1
34 ² / ₃ per cent	1
31½ per cent	1
9 ⁵ / ₈ per cent	1
	184

It should be noted that only two years ago the *ad valorem* rates numbered only nine. The reasons for the great increase to seventeen are not difficult to find. Two years ago the general level of the duties was only moderate. We have already seen that India in common with the rest of the world has considerably enhanced her duties. It can easily be seen that such a move in the upward direction means making the tariff more complex by multiplying the rates of duties which must vary if attention has to be paid to their incidence on the different interests thus affected. Secondly, the Indian schedule is steadily having more items of protective duties. Again,

¹ It may again be pointed out that for reasons mentioned above we have only taken account of the standard rates of duty in our present analysis.

the Ottawa Trade Agreement has also been responsible for a reshuffling of the rates. In a subsequent chapter we shall refer to a method of classifying the whole schedule on the basis of rates and note how increasingly difficult such an attempt becomes when the rates of duty are multiplied, let alone the problem of levying different rates on the same article coming from different countries, such as under the preferential rates in column 7 and 8 adverted to above. The highest rates $112\frac{1}{2}$ per cent. and $62\frac{1}{2}$ per cent. are levied on two articles; the former on cigars a luxury article used only by the well-to-do; the latter on silver thread and wire, and silver leaf etc. This duty has, however, been temporarily reduced to 50 per cent. by a notification of the Finance Department.

The three other special rates $34\frac{2}{8}$, $31\frac{1}{8}$, and $9\frac{2}{8}$ are levied on silk or artificial silk mixtures—more or less a luxury article—on molasses, a duty under the protective scheme on sugar, and on denatured spirit respectively. $6\frac{1}{4}$ per cent. and $18\frac{3}{4}$ per cent. are duties on either machinery or yarn used in textile industry, while 45 per cent. is a special revenue rate on spices and betel nuts. 35 per cent. is as we have already seen, the 25 per cent. general rate raised under the Ottawa tariff in the case of articles like soap and woollen carpets. $37\frac{1}{2}$ per cent. is also levied under the Ottawa Agreement on cinema films and motor cars. The 10 per cent. and $15\frac{5}{8}$ per cent. are based upon the consideration of taxing articles which are required for the processes of manufacture and yet not taxing them too highly. Thus the former rate applies to certain kinds of machinery, dyes and printers' ink and the latter to old iron or steel, telegraphic apparatus and ships. The lowest rate— $2\frac{1}{2}$ per cent.—is obviously intended to be a duty, as low as possible, on articles that are either required for manufacture or are of a nature as should not bear heavy duties at all due to other considerations. These articles under this

head are printing materials, racks for withering leaf, green copperas, fodder, firewood, vinegar and aeroplanes.

The 20 per cent. rate is a special one confined only to the items relating to iron and steel. It is mainly framed to give effect to the Supplementary Steel Agreement. 50 per cent. is our luxury tariff rate intended to derive revenue from articles which would easily bear it or about the incidence of which one need not be too watchful. The chief articles under this rate are confectionery, ammunition, clocks and watches, musical instruments, gold and silver plate, leaf and manufacturers, and silk and artificial silk piece goods.

25 per cent. and 30 per cent. rates :—Strictly speaking these are the same rates for as we have seen the 30 per cent. rate has only grown out of the 25 per cent. with a view to grant 10 per cent. preference under the Ottawa Trade Agreement. If we take these together more than half the *ad valorem* items have one or the other of these rates of duty, and if we take the total number of dutiable items—241—those which are assessed at either of these rates form more than 43 per cent. of the total. These are then the most important rates of duty throughout the schedule from our present point of view, for we thus come to the general rate of duty of the Indian tariff, viz. 25 per cent. It is true that by the Ottawa Tariff the number of items having the 30 per cent. duty exceeds that of the items having 25 per cent. But our conception of the general rate is further made clear by the so called “blanket clauses” which have the 25 per cent. rate. Under the items having this clause are grouped together articles that have not been otherwise specially provided for (often termed n-o-p, or n-e-i. not elsewhere included). Thus in our schedule at the end of each of the four parts there is one item which assembles the articles of the part which have not been otherwise specified. Thus item 26 runs :

All other articles of food and drink not otherwise specified..... 25 per cent.

Only in 4 items (serial Nos. 74, 76B, 129B and 134) is the preference of 10 per cent., under the Ottawa Agreement granted by a reduction of this rate only. The 30 per cent. rate, as we have already seen, is of the same nature as the general rate with this difference that in the case of British or Colonial products as the case may be, these are assessed at 20 per cent. only.¹

AD VALOREM VS. SPECIFIC DUTIES

A brief history of our tariff shows that its rapid development after 1916 is to be attributed mainly to revenue considerations and that after the adoption of the policy of Discriminating Protection in 1924, items have been added to the schedule to meet the new situation, without overhauling the tariff as a whole. The growth of our schedule shows that the Indian Tariff is still mainly a revenue tariff with a progressively increasing number of protective duties tugged on to it. The questions that naturally arise are, whether the form of the tariff is any indication of its purpose, whether the different forms of the duties, *ad valorem*, specific and others, have been achieving the ends their assessors have in view, and finally whether, with the outlook introduced by the new policy, it will be possible and desirable to continue the existing methods. The Indian Fiscal Commission referred to the historic forms of specific and *ad valorem* duties and made some recommendations as to the form of the tariff.² In their questionnaire, they had a definite query regarding the choice between specific and

¹ This conception of the general rate is not to be confused with the average rate though the general rate is sometimes loosely spoken of "average" *ad valorem* rate. The average rate in our schedule would mean either an average derived from different *ad valorem* rates 112½ per cent..... 2½ per cent. or from the rate calculated from the value of the total imports and revenue from customs both of which have, obviously, small significance.

² See paras 266-278. We shall deal with this a little further on.

ad valorem duties.¹ The answers that they got were mostly in favour of the continuation of *ad valorem* duties. Out of 23 witnesses and associations that gave their answers to this question not less than 18 definitely favoured the existing system as being equitable in incidence and easy of administration.² In order to find solutions of the questions that we have raised above we shall examine the merits and demerits of the two forms in some detail.

THE AD VALOREM RATE

The *ad valorem* duty is a rate based on the value of the commodity expressed in so many per cent. of its value while the specific duty has some definite physical attribute e. g. weight or volume, as its basis. For instance, let us take serial No. 4 Fruits and Vegetables of all sorts, assessed at *Ad Valorem* 30 per cent. and No. 3A Currants—Re. 1-4-0 a cwt., that is charged at Re. 1-4-0 for the specific weight viz. 1 cwt. In their simplest form given a certain value of the commodity in question it is possible to turn an *ad valorem* duty into its corresponding specific duty and vice versa. Let us take No. 161—soft soap—with an *ad valorem* duty of 25 per cent. Its value as given is Rs. 13-0-0 per cwt. We might say that the duty would be Rs. 3-4-0 per cwt.

Ad valorem rates may be of two kinds (i) what are called pure *ad valorem* duties i. e. when the schedule only gives the rate of the duty as so much per cent. of the value of the article and (2) when the rates are expressed as in (1) but these are accompanied by the values of the units in the schedule itself according to which the

¹ Part E of the Questionnaire Import Trade Q. No. 78. It will be seen at the end of this chapter that this question was inadequate to elucidate the whole point re: the form of the tariff.

² Most of the witnesses only recorded their opinion. The Collectors of Customs who discussed this question in detail are referred to in our discussion further on.

ad valorem duties are charged. The first sort is called *ad valorem* duties based on "current values," the second *ad valorem* with official or authoritative valuations.¹

Looking at our list of *ad valorem* duties we find that the total number of items and sub-items under this heading is 184. Out of this, 134 items have *ad valorem* duties without valuations; and 50 have *ad valorem* duties with official valuations. It must be pointed out that in all these 50 items official tariff valuations are not given for all the articles included under each. There are 20 such items in which the tariff values refer only to some of the commodities subsumed under them. Thus, for example, in No. 84A, Hardware, Ironmongery and tools—the tariff value is given only for "Crown Corks"—or No. 10—Denatured Spirit—tariff value is given only for spirit from Java denatured before clearance.

AD VALOREM RATES WITH CURRENT VALUATIONS

The next question that arises is that of the *ad valorem* duties proper—what value is to be taken into account, value at the place of export or the same at the place of import? It is easy to see that it makes a substantial difference to choose between the two methods,² when we note the cost of transport.

The procedure of the *ad valorem* duties in India is governed by the Sea Customs Act of 1878 and by the Indian Tariff Act of 1894. Section 31 of the Sea Cus-

¹ "The principle of a tariff valuation is that the Government from time to time determines the value of the article for purposes of assessment and thereby relieves the Customs Officials from this part of their task. The sanctioned *ad valorem* rate is then applied to the conventional value fixed for the article," para 273, Indian Fiscal Commission Report.

² On this question a great controversy was raised in the United States during the passage of the Tariff Act of 1922. The Bill as passed by the Senate, favoured the "American Valuation" plan i. e. 'values' of commodities to be taken for assessment were the prices that obtained in the American Markets. Finally this system was reserved only for a few cases. For a summary of this controversy see Litman: *Essentials of International Trade*, pp. 101-103.

toms Act lays down that the goods chargeable with duty upon the value thereof, but for which a specific value is not fixed by law for the purpose of levying duties, after examination by an Officer of Customs, will be assessed on "real value" of such goods. The previous Section (section 30) defines "real value" as the wholesale price less trade discount for which goods of the like kind and quality are sold or capable of being sold at the time and place of importation without any deduction except that of the amount of duties.¹

Thus the Indian appraisement method differs from that of some other countries² notably that of the United States of America where the value taken is the one at the time of exportation and the cost of transport, insurance and freight is added to it³ for assessing the duty.

Section 3 sub-section 2 of the Indian Tariff Act of 1894 provides that the Governor-General-in-Council is empowered to fix, for the purpose of levying the duties, tariff values of any article and to alter any value for the

¹ See the Sea Customs Act: 1878 modified up to 1918, Govt. of India, published in 1928, Ch. V, Sections 30-31.

Also Bombay Customs and Tariff Guide 1922, pp. 6-8 for rules relating to real value.

² See Litman: Essentials of International Trade, pp. 100-101. Countries referred to are: Cuba, Dominican Republic, Panama, New Foundland, Canada and Union of South Africa.

See also Fisk and Pierce: International Commercial Policies, p. 87.

³ In Continental (European) countries the methods followed are:—

- (1) Purchase price on country of origin (home market price—Export price, f. o. b. or f. o. r. frontier of country of origin).
- (2) Selling price at the point where goods are passed through the Customs (price of similar goods on market of receiving country i. e., price of f. o. r. frontier of receiving country).
- (3) Wholesale (or even retail) price of similar goods in a third country especially the country where prices are highest).
- (4) Average price (for certain classes of goods) as shown by Official tables.
- (5) Agreed price arrived at between industrial and commercial interests concerned and Customs Authorities at the point where goods are passed through the Customs and
- (6) Official prices fixed by the authorities. cf. Report on Commercial Policies and Trade Barriers Section VI. International Chamber of Commerce. See supplement to World Trade, June, 1930.

time being in force. By this Act as amended in 1925 the Governor-General-in-Council is also authorised to alter (in effect to raise) protective duties if they prove ineffective and levy additional import duty on bounty-fed articles. Thus the effective rate on the 134 items with *ad valorem* duties on current values can at any time be changed if the Government declare authoritative values for any or all of them.

AD VALOREM WITH OFFICIAL VALUATIONS

The essence of the difference between the specific rates and *ad valorem* ones is that the latter change in response to fluctuations in prices, while the former based on specific attributes remain unaltered against changes in prices. The *ad valorem* rate with official valuations approximates to the specific duty only in so far as the official valuations do not change according to changes in market values of the respective commodities. But this can hardly be the case¹ for the official valuations are frequently and regularly revised in order that the authoritative values may not be out of date in relation to the current rates. A second point of difference between the two rates is that specific duties are themselves determined by the legislature while in the *ad valorem* duties, the legislature only fixes the proportion of the value of the commodity that should be paid as duty.

The Tariff valuations in India are revised every year, though it is open to the Government to revise them whenever they like. The Director General of Commercial Intelligence goes to Bombay and Calcutta and meets the Chambers of Commerce and Customs officers and as a result towards the end of the calendar year or in the beginning of a year, a revised schedule is published which

¹ We have an example of *ad valorem* rates with official values, remaining the same for 40 years with all the consequent effects on revenue in China. This was more or less due to the peculiar treaty obligations of that country. See Chin Chu: The Tariff Problem in China, pp. 42-43.

comes into force from the first of February of the following year.¹

GENERAL CONSIDERATIONS REGARDING THE MERITS
AND DEMERITS OF EACH RATE

It will be seen that both kinds of duties are instruments in the hands of Customs administration which are to be used to carry out the particular ends dictated by the tariff policy of the country viz. collection of revenue, or safeguarding and fostering of home industries or both. Each of these kinds of duties have advantages and disadvantages and these have again to be viewed from the particular end or ends in view.

We must note at the outset that for certain kinds of articles *ad valorem* duties are the only rates that can be levied, such articles for which value is the only important characteristic, (e. g. old pictures and curios) and articles that have too wide a range of values to have a uniform rate of duty on all units (e. g. machinery and apparel).

Advantages of Ad Valorem Duties :—Speaking generally for purely revenue purposes a flat *ad valorem* rate would be much better than a specific duty. It is easily understood by the consumer and it provides automatic increase in revenue in times of rising prices. Its very simplicity makes it a convenient instrument of taxation. The history of our tariff since the War (1916) is a case in point. Further these duties, besides being responsive to price changes are progressive in their incidence, as they fall more heavily on highly priced varieties of the same article. Lastly the process of legislation is simple. The legislature fixes the proportion of the duty in relation to price and leaves it in the hands of the administration to carry out its intention in the best way they can.

¹ See Oral Evidence of Mr. Lloyd, Collector of Customs, Questions 9024, 9034, 9035, Volume II (Evidence), page 374 and Questions 14645 and 14647, Volume III, pp. 622-623; Indian Fiscal Commission.

Also Madras Customs House Tariff Manual 1924, p. 6.

A conclusion regarding the merits or demerits of the duty cannot be reached without a reference to (i) rising and falling prices (ii) elastic or inelastic demand for the article in question and (iii) above all to the end in view, revenue or protection. When the aim is only that of collecting revenue and when prices are falling, the demand for the article being elastic, *ad valorem* duties are more suitable than specific, for even at a lesser percentage a greater absolute amount of revenue is collected, it being assumed that the article is one, the consumption of which is not to be restricted out of consideration for some social good. If it is an article suitable for heavy taxation specific duties would be better in a period of falling prices e. g. liquor. Similarly where the object of the duty is the same (revenue) specific duties are more desirable when prices are rising, in the case of articles of elastic demand because though they fetch less revenue proportionally, the ability of the consumers is not so violently shaken as it would be if *ad valorem* duties were levied. For articles of inelastic demand such as luxury articles *ad valorem* rates under rising prices are to be preferred and specific ones under falling. Thus there seems to be a kind of the application of the principle variously known as the principle of Diminishing Returns or of Non-proportional Returns or of Maximum Utilization.¹

When the aim of the duty is protective we have to note and emphasise a further distinction viz. whether the *ad valorem* duty is assessed on internal or on foreign prices. Here, when the trend of fluctuations (rise or fall) is the same in both countries, the distinction is not of so much importance as when the same is in opposite directions. When the prices are rising at home and falling

¹"There is an absolute limit to every duty beyond which an increase of it necessarily occasions a loss of revenue." Sir A. Parnell quoted by Gregory, p. 125.

abroad and the duty is assessed on internal prices, the *ad valorem* rate is the better of the two, while under the same conditions (protective duties) when prices are falling at home and also falling abroad the specific rate is better. On the other hand when the duty is assessed on foreign prices, specific duties are better in either case. Again the specific duties are better adapted for specializing rates than are *ad valorem* duties. It is possible to grade a specific duty by changing the attribute on which it based e. g. wire according to its cross sectional area.¹ *Ad valorem* rates cannot be specialized to any such extent.

It has been noted that some of the chief difficulties of *Ad Valorem* rates are those connected with the administration of duties. So long as the rates are low and items few, the importers do not mind the differences that arise between them and the Customs authorities regarding the valuation of their goods, and the authorities too having a comparatively small number of items do not find it difficult to go through their task efficiently. But when the rates rise to 30 or 25 per cent., not only are the importers inclined to challenge the values fixed by appraisers but the system of duty lends an inducement to undervaluation and fraud.

ADMINISTRATION OF AD VALOREM RATES IN INDIA

Apart from the general considerations noted above, the administration of the Sea Customs Act aggravates the difficulties of *ad valorem* duties in two ways. We have seen that "real value" under Section 30 is based firstly on the current wholesale value at the port of importation, and secondly if this value cannot be ascertained, the value taken for the purposes of assessing duties is the landed cost² (excluding duty). With regard to the

¹ Item 83 of our tariff; Bare or insulated copper wire and cables any core of which..... has a sectional area of less than 1/80 square inch.

² The cost to the importer (c. i. f. price) including landing charges (1 per cent. generally for clearing in India).

first method of assessment the importer cannot well calculate ahead what the price would be when the goods actually arrive. On the other hand the appraisers are faced with a very responsible task.¹ They have inevitably to depend upon brokers and other dealers for information who may be influenced in the interests of a particular trade with the result that a correct valuation may not be forthcoming.² The right of pre-emption³ which is generally conferred upon the Customs Officials, if exercised, may not solve the difficulty. The importers may honestly disagree with the administration but are obliged to submit to the appraiser's estimate rather than lose possession of the goods for which they have already entered into a transaction. The Customs Officials may fail to realize the real value of merchants at that port combine not to buy these goods at the price desired by the Customs authorities.⁴

The other difficulty of *ad valorem* rates in India is the curious anomaly in the Sea Customs Act. Section 30(b) provides that "where the wholesale cash price, less trade discount, for which goods of the like kind and quality are sold"⁵ is not ascertainable, the price to be taken as the basis for assessment is "the cost at which the goods of the like kind and quality could be delivered"⁶ (excluding of course the duties on them). In practice this comes

¹ "In India there is the additional factor of a special difficulty in securing men with an expert knowledge of the many classes of goods that have to be valued".—Report of Taxation Enquiry Committee, para 148.

That such difficulties as are discussed here do arise can be seen from the Written Evidence of the Collector of Customs, Calcutta, before the Indian Fiscal Commission. See Volume II, page 370. Also Mr. A. M. Green, Collector of Customs, Madras (Written Evidence before Fiscal Commission). Recording his opinion on the *Ad Valorem* rates according to Sea Customs Act 30(a) he says "As regards (1) market value assessments are most difficult but normally yield best revenue". Volume III, p. 622.

² i. e. buying over the commodities at the declared price and selling them at the market price available, by the Customs.

³ cf. Mr. Lloyd's Evidence referred to above. Fiscal Commission, Volume II, p. 370.

⁵ Sea Customs Act, Section 30(a).

⁶ Sea Customs Act, Section 30(b).

to the invoice price value with the cost of freight and landing charges added to it. The former sub-section (30)a, as we have seen, takes the wholesale price of the commodity in question, at the port of importation as the basis for levying the duty. This includes the wholesale dealers' profit while the value taken under the basis of Section (30)b, does not. The result is that where the price can be ascertained the duty payable becomes higher to the extent that the wholesale dealers' profit is included. The importer thus gains if he makes the wholesale price of his article unascertainable and renders the task of the administration more difficult.¹

In order to escape from these difficulties an alternative lies in ascertaining the selling price in the country of production of the commodity and the *ad valorem* duty can be assessed on this price with the freight and landed charges added to it. We have seen that this method is followed in some other countries. For the adoption of this method in India, a consular system and its concomitants are presupposed and these do not exist.² In the absence of consular certificates we shall have to fall back upon invoices. But this would mean that identical goods arriving at the same time will pay different amounts of duty because they had been ordered at varying rates. This will also mean greater opportunities for fraud. We must thus have not only a certificate of origin but also full details of the various stages of production. We must also ascertain whether all the stages of production have been

¹ The Taxation Enquiry Committee noted this anomaly and suggested that the order of the sub-sections (a) and (b) be reversed. See Report para. 149. cf. also the speech of Mr. A. E. Miller moving a resolution recommending the adoption of specific duties at the annual meeting of the Associated Chambers of Commerce (1932). He believed that the present system would divert trade to other ports (Times Trade and Engineering Supplement, 13-1-32).

² Mr. Lloyd in answer to a question whether the Trade Commissioner of India could with the help of British consuls do the work, replied that it would mean an enormous increase of establishment. See Questions 899-1000.

gone through in the same country or in several, if the aim of the duty is not simply of collecting revenue but that of finding the cost of production in foreign countries and protecting home industries.¹ For all these purposes our system has little to commend itself. Besides, assessment according to Section 30(b), also involves a watch on the exchange rates² for the invoice values are to be converted into rupees. This means that a gain to the Customs Department in a falling market and gain to the importers in a rising one.

AD VALOREM RATES WITH OFFICIAL VALUATIONS

A question might now be raised : Are these difficulties not avoided by the method of tariff valuations? If we find that the valuation plan avoids these troubles and has no grave limitations of its own, then an extension of the official valuations would offer a solution of the problem of tariff-rates.

As the valuations are fixed beforehand, (i) the day-to-day administration proceeds smoothly and (ii) if they are revised frequently and regularly they maintain the elasticity of *ad valorem* duties. (iii) This system is also better than specific duties for the legislator, whose work is then confined only to fixing a certain percentage of the price of an article as the duty to be levied. (iv) The traders also know the precise figure of the duty payable just as they do in the case of a specific rate. (v) It can also be claimed that this method makes the incidence of duties fixed, irrespective of price level and solves the difficulties that arise from price-fluctuations such as re-

¹ It would be interesting to watch what the effect of this anomaly will be on the preferential part of our schedule so greatly enlarged as it has been since the beginning of this year. It is too early to say how the new administrative rules framed in order to give effect to the Ottawa Agreement would work. It may also be noted that these rules are not so minutely framed as they are either in the Dominions or even in Great Britain (for these rules as operating in Great Britain see Board of Trade Journal, 3-3-32, pp. 322-323).

² cf. W. T. Page's Memorandum on European Bargaining Tariffs.

sulted in the currency muddles in the period immediately after the close of the War or is witnessed during the present depression. (vi) Not only would the task of the legislator be simplified, but his intentions would also be respected. Finally, (vii) along with the stability of rates the system would simplify a comparison of different tariffs regarding the degree of protection accorded to industries in different countries and facilitate the adoption of a common nomenclature.¹

The Indian Fiscal Commission recommended an extension of the tariff valuation plan but not in the form as it obtains at present. The present system, while based on the records of the Customs Department and on the recommendations of the Chambers of Commerce, does involve a certain amount of speculation as to the probable trend of prices during the year² and is not entirely based on average prices of a particular period. The Commission preferred an "automatic valuation"³ more or less on the lines of the tariff valuation of sugar which obtained at that time. Till 1925 the official values of sugar (for the purposes of import duty) were based on the average values of the preceding twelve months. The Director General of Commercial Intelligence quoted in the Gazette of India the Customs House monthly values for sugar and the total importations in the months with a view to facilitate calculation ahead of the following year's valuation.⁴ The Commission recommended that the valuation be based on the price of the preceding three years instead

¹ For a discussion of this last point see pages 8-9, *Stability of Customs Tariffs* by J. Brunet (President of International Bureau for the Publication of Customs Tariffs, Brussels) League of Nations Publications—C. E. C. (71)1.

² See Answer to Question 14647; Oral Evidence of the Collector of Customs, Madras, before the Fiscal Commission.

³ Vide paras 274-276 of the Report.

⁴ See answer to Question 3956. Vol. II, Indian Fiscal Commission. Oral Evidence of A. M. Green, Collector of Customs, Calcutta. In his written evidence he strongly recommends an extension of the sugar valuation plan even for a protectionist policy.

of only one. They claimed that the system was advantageous both to the merchants and to the administration. The former could calculate ahead what the values would roughly be, while the task of the administration was simplified when the system became automatic. The Commission also tried to ascertain whether the system worked satisfactorily and all the three Collectors of Customs¹ who gave evidence before them testified that it did work well and one of them suggested its adoption as a matter of policy.² The Taxation Enquiry Committee had a specific question regarding the working of the valuation plan, and the evidence tendered before it showed on the whole that it did work well.³

LIMITATIONS OF THE VALUATION SYSTEM

But this system which thus seems to obviate the difficulties of *ad valorem* rates without involving the disadvantages of specific rates has limitations of its own. (i) While the frequent disputes between merchants and the administration (in the case of *ad valorem* rates) are avoided by authoritative valuations, they are not eliminated altogether. The conflicts centre round the valuation list itself instead of being spread throughout the year, because the interests of the merchants are opposed to those of the government. The former try to escape with as little taxation as they can, by quoting low prices for their imports, and the government would have it the other way. If the government ignores the mercantile community while fixing the valuations, these valuations are likely to diverge from the current market prices. The government then runs the risk of injuring trade interests. On the other hand if these valuations, (arrived at quite

¹ Messrs. A. M. Green, G. S. Hardy and A. H. Lloyd.

² Mr. Green. See Footnote 3 above.

³ For the conclusion of this Committee see further.

independently of the help of the trading community) coincide with current prices then the utility of fixing valuations may be doubted ; for, the Customs Department then is itself able to get prices of articles and there are no difficulties of valuation involved in the *ad valorem* rates proper, and the pure *ad valorem* rates might as well be retained.¹

(ii) All *ad valorem* rates are, *per se*, inferior to specific rates especially in a protectionist tariff. The government fixes say 20 per cent. as the duty but it is so much of an unknown future quantity. This characteristic disadvantage though lessened in the tariff valuation plan is not altogether obviated. The duty may fail of its purpose at the very time the prices are falling. We have seen that there is some guess-work involved in the tariff valuation, and so to that extent, the protective rate under that system is only less fluctuating than it is under *ad valorem* rates proper.

(iii) If the valuation plan is not detailed, cheaper varieties of the same article will be valued at the same price as those of higher quality.

(iv) Tariff valuation works satisfactorily in a period of stable prices and it is therefore less suitable in times when they are falling. But this is the period when protection is most sought for.² It also works successfully when applied to articles, the prices of which are generally steady and easily ascertainable. But these very conditions make it less suited for protectionist ends.

(v) The modification of the present valuation system on the lines of the old sugar valuations proposed by the Fiscal Commission—for making it automatic—does not dispose of the above-mentioned difficulties, in fact it adds to administrative difficulties by requiring the keeping of

¹ cf. Also Gregory, pp. 306-307.

² cf. Written Evidence of A. M. Green before the Fiscal Commission, Volume III, p. 622.

records for three years and publishing them every month.

(vi) Above all there is a practical difficulty of extending the plan much further when the schedule is elaborated, which means an increased number of articles the values of which are to be fixed by the authorities. The strain on the administration consequent upon this, is increased by the method recommended by the Fiscal Commission.

Lastly it should be noted that duties under the valuation plan are often loosely spoken of as specific duties, because they are very similar to the latter in practice and effect. Strictly speaking they represent a stage in the evolution from the pure *ad valorem* rate to the specific, as under :¹

1. Ad Valorem rates based on market values.
2. " " " " " " authoritative values.
3. " " " " " " with specific rates adjusted to given ad valorem.
4. Pure specific rate on quantity.

It is mainly due to the difficulties connected with the administration of *ad valorem* duties, that specific duties have gained ground over them in modern tariff-making.²

SPECIFIC DUTIES

We have already noted in passing in our analysis of the *ad valorem* rate, some of the merits and demerits of the specific rate and noted that their superiority over the former lies in the fact that they make the task of the administration simpler and also in their capacity for specialization. On the other hand we have also pointed out that where the duties are small in number, rates low

¹ cf. Gregory's Tariffs, p. 132.

² cf. "When we investigate the tariffs of the world we find that in so far as the principal trading nations are concerned, the specific duty has almost entirely displaced the *ad valorem* duty". Gregory *Ibid.*, p. 117.

See also his opinion expressed to the Taxation Enquiry Committee, Vol. II, Appendix V. At the annual meeting of the Associated Chambers of Commerce (Calcutta), 1932, a resolution moved by Mr. Miller recommending that whenever possible the Government of India should adopt "specific duties in place of tariff valuations" was passed.

and the aim, to obtain revenue, *ad valorem* rates are preferable. The main defects of the specific duties are (i) that their effect is regressive i. e. they fall more heavily on cheaper qualities of the article ; (ii) that they are less comprehensible by the legislator or the average tradesman and (iii) that they are less suited, being inelastic, for purely revenue purposes.

Then the question would arise, how is it that they have been so extensively adopted in modern tariff-making? Two reasons may be given for this : (1) that some of the above-named disadvantages can be obviated and (2) in some cases the protective object of the duty makes the advantages of the specific rate outweigh its disadvantages.

(i) With reference to the first defect viz. that the specific duty is regressive, it can be argued that these duties could be made more complex by a detailed specialization of rates and its regressive effect avoided.

(ii) As for the difficulty of a legislator or tradesman being unable to comprehend the specific rate fully, it may be said that protection inevitably makes a tariff very complex and the legislators may best leave the work of detailed rate-making to experts.

(iii) As to their want of responsiveness to price changes, which makes them less suited for revenue purposes, it may be possible to remove this defect by subjecting the tariff to periodical¹ revisions.

(2) Even if these difficulties of the specific duties remain, in some cases especially in a protective tariff, the advantages outweigh the disadvantages.

Conclusions regarding Ad Valorem and Specific Rates in the Indian Tariff :—A question then may be raised what should be the nature of rates in our tariff?

Before we formulate our conclusions we may make

¹ For this point see Gregory's opinion expressed to the Taxation Enquiry Committee Evidence, Volume II, Appendix.

one point clear—a point we have already emphasised before viz. that in view of the fact that the rates in our tariff have been raised a revision of the whole schedule is needed for (i) equalizing the rigours of the duties on different kinds of commodities (ii) avoiding inducements to smuggling (iii) making the work of the administration smooth.

This revision is already taking place in the protective part of our tariff as can be seen from the items relating to iron and steel and to a lesser extent in the items on matches and paper.

We have already noted that the Fiscal Commission recommended a cautious extension of the specific duties and tariff valuations. The Taxation Enquiry Committee favoured specific duties and suggested an expert enquiry.¹

The question of specific and *ad valorem* duties was considered by the Government, and in July 1929 they appointed a Customs Official to report on the question of levying protective import duties on cotton piecegoods and “to examine the possibility of substituting a system of specific duties for the existing system of *ad valorem* assessment of piecegoods”.

In his report² Mr. Hardy makes some interesting observations on these two classes of rates. He begins by quoting Professor Gregory and attempts to refute his conclusions regarding the superiority of specific duties over *ad valorem* ones. We must however observe that the quotations in this report from Professor Gregory refer to generalisations made from an inductive study of most of the tariffs of the world. This means that a general conclusion may not be true of every particular case. For example Mr. Hardy quotes from the preface to the author's book where the latter says that the choice

¹ Para 147. They quote Prof. Gregory with approval who says that the overwhelming disadvantages of all *ad valorem* rates is the fact that they involve valuation.

² The last two chapters.

between the two duties in modern tariff-making has been definitely made in favour of the specific rates. This may not apply to every kind of commodity and as we shall presently see from Mr. Hardy's own observation, that the case of cotton piecegoods in India has peculiarities of its own. Secondly, while quoting the same author, to the effect that whatever the process of valuation chosen, the difficulties attending it are greater than those connected with the determination of physical attributes, Mr. Hardy only rests content with a denial and further regards the tariff-valuation method as the same as specific duties proper. He is however on safer grounds when he says that he is only referring to cotton piecegoods in which he shows that the varieties of piecegoods are so great that mere specification of the dimensions and trade names will not suffice to determine its value.¹ In his last chapter he himself admits that while *ad valorem* duties are more suitable than specific from the revenue point of view, "if the interests of the indigenous industry are considered the problem is materially altered".² His analysis from this point of view also leads him to point out the superiority of specific duties.

But as regards one point his observation is very sound. He points out that because India's foreign trade is concentrated in a few ports only, the *ad valorem* rates are administratively much more convenient in India than in many other countries. This is true and here Indian conditions closely resemble those of the U. S. A. In the United States, New York is by far the largest importing centre. This enables the task of Customs administration to be gone through in a much simpler way than where the goods have to pass through many ports and frontier towns. It is partially due to this fact that the United

¹ Page 75.

² *Ibid.*, p. 88.

States tariff has a large number of *ad valorem* rates.¹ Mr. Hardy goes further to point out that the sections of the Sea Customs Act which we have discussed before, are also best suited to the import trade in cotton piece-goods and that this gives an added strength to his argument in favour of *ad valorem* rates on cotton piece goods.

We have already seen that Mr. Hardy's case for *ad valorem* duties refers only to one class of articles and as he himself points out the conditions of trade (classes of goods etc.) in piecegoods are very peculiar in this country and so even while admitting the validity of his conclusion in this single case our observations made above will remain unaffected, in fact we have already shown that Mr. Hardy's attempt to refute Professor Gregory's general conclusions has not been successful.

We have also noted that (i) while tariff valuations mitigate the disadvantages of *ad valorem* rates, they do not dispose of them altogether, (ii) they are incapable of great extension (iii) and less amenable to specialization than the specific rates.

It would be absurd to make a general statement regarding the extension of any particular rate. A tariff-maker always looks at a rate *per se*, with reference to the commodity on hand. But from the general tendencies the following conclusions may be formed, which may guide us in rate making.

(i) There are some cases in which only *ad valorem* rates are possible e. g. antique coins, pictures or some kinds of machinery.

(ii) There are some purely revenue duties where *ad valorem* rates appear eminently suitable e. g. "luxury goods".

(iii) In some protective schemes specific duties are obviously more desirable.

(iv) There are some articles on which specific duties

¹cf. Also Litman: Essentials of International Trade, p. 99.

can be safely levied without their disadvantages outweighing the benefits e. g. wine, spirits, sugar.

(v) There are other articles where it is difficult to decide one way or the other.

We may note here the recent tendencies in rate-making viz. an increasing use of alternative and compound duties. Thus in Australia as the report of the Australian Tariff Board for the year 1930 shows, the number of alternative duties has been of late widely extended.¹ This method can be adopted for serving either a protectionist or a revenue aim by assessing the duty according to the rate which is more suitable. Compound duties, on the other hand are found in a great number in the U. S. A. tariff. This duty also makes the yield in revenue steadier than that of the specific, or *ad valorem* rate, because in a period of falling prices the specific half will keep up the figure and in a period of rising prices the *ad valorem* half will bring a corresponding increase in the duty. On the one hand it lessens the regressive effect of specific duties and ensures some definite amount of protection.

What is needed is a diversification of rates and the answer to the question that we have raised would be : wherever after expert enquiry *ad valorem* rates are found to present difficulties, two solutions are possible. (i) In cases where the difficulties are primarily due to valuation, specific duties may be substituted ; (ii) where the difficulties are not those of valuation, either the alternative or compound duties may be levied.

SPECIFIC DUTIES IN THE INDIAN SCHEDULE

There are 34 items which have pure specific rates. We may divide these into three groups (i) the protective duties

¹ From 34 items and sub-items in the tariff till 1928 to 134 items in 1930. Their object, the Board says, "is to ensure adequate protection to Australian manufactures against the competition from very low-priced imported goods, on which the actual amount of the duty if levied on *ad valorem* basis only, would be inappreciable": Board of Trade Journal, 23-10-1930, p. 493.

as recommended by the Tariff Board (ii) the revenue duties and (iii) duties which fall on articles which were investigated by the Tariff Board but for which protection was refused.

- (i) The first group consists of 14 items, out of which 7 come under Iron and Steel. These refer to certain specified products and such as Serial No. 101d.

Iron, Common bar, not galvanized tinned or lead coated etc.

(i) *of British manufacture...Rs. 32-8-0 per ton.*

(ii) *Not of British manufacture...Rs. 46-4-0 per ton.*

An eighth item refers to paper industry viz. printing paper which contains mechanical pulp that does not amount to less than 70 per cent. of the fibre content. The remaining six items of this group refer to match industry (matches, veneers and splints), and to salt, sugar, and chemicals.

- (ii) The second group consists of 15 items. Most of the specific duties in this group—11 out of 15—belong to articles of Food, Drink and Tobacco. There are 3 specific duties on Tobacco (including cigarettes) and 5 under liquors, wines and spirits, the remaining three are on currants and tea and raw cotton. The other four duties of this group fall on silver, coin and bullion, printing type, raw cotton and tin block.
- (iii) The third group consisting of 5 items, belongs to the industries which have unsuccessfully applied for protection viz. coal, cement, oils and motor spirit.

ALTERNATIVE DUTIES

There are 10 items with alternative duties—i. e. a rate both on quantity (specific) and *ad valorem* being given the higher one is to be applied.

Four of these are for products of iron and steel (No. 75, 102h, 103g and 103t) one for cotton twist and yarn, one for opium and its derivatives, two for boots and shoes and the remaining two for saccharine tablets and certain fire arms..

"MIXED" ITEMS

This group consists of 11 items. Most of these (7) belong to the protective part of the schedule. The other four are flour, gram and pulse, mineral oils, arms and ammunition and military stores. This last item mentions seven varieties of arms and ammunitions and for five of them there are alternative duties and for two *ad valorem*. The non-protective item Mineral Oils has two rates of duty (one specific and one *ad valorem*) and each rate is levied on "flashing points".

Five of the "Mixed Items" are from the Iron and Steel group, and the duties on these are alternative and specific. The two remaining are, Writing Paper and Cotton Piecegoods. In the item on Writing Paper one specific and one alternative rate are combined while, in the Cotton Piecegoods item we have one *ad valorem* and one alternative¹ rate.

A common feature of these "mixed" items, most of which are protective, is the use of alternative rates in almost all of them. This bears out our general observation that where both the revenue and protective considerations have to be kept in view an alternative duty is very suitable.

The two items with compound duties are wet salted fish and coffee each of which is composed of one specific and one *ad valorem* rates.

¹ If we count the different kinds of duty in these "mixed items" we have 5 Alternative duties, 14 specific, 5 *ad valorem* and 3 free.

CHAPTER V

INDIAN TARIFF SCHEDULE—ITS CLASSIFICATION

A Customs Tariff may be described as an orderly arrangement of rates of taxation to be levied on articles that cross the boundary of a Customs Area. The systematic arrangement at first sight would seem to be only a convenient enumeration of articles accompanied by their respective duties. In this way a Customs Tariff may be compared to the tariff of a hotel or a taxi cab. But in the commercial policies of modern countries it becomes a much more complex instrument and the arrangement of articles itself is based upon certain principles.

IMPORT AND EXPORT SCHEDULES

We have already seen that a tariff consists of two schedules. (1) Import and (2) Export; and have also noted that the latter is of far lesser importance than the former, as export duties of a country to-day can only be a few in number. Hence the problems of classification arise only in connection with the import schedule.

It is not merely the Customs Officials who are interested in the rates of duties but also producers, importers, and agents and a classification serves as a guide for them to understand the highly complicated rates in a tariff schedule. Again the legislator also wants a convenient way of examining the schedule and understanding the rates. In much the same category must be placed the student of tariff problems.

OBJECTS OF CLASSIFICATION

As a rule the problem of classification assumes importance in the case of protective tariffs only, for in a purely revenue tariff the duties being nothing more than a kind

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of commodity taxation, only those articles are selected which yield a large revenue at a low cost of collection. The revenue duties, again, have not to be differentiated to an extent that protective duties have to be done, though even here duties are sometimes graded according to the quality of the articles. Thus, for instance, sugar and spirits in the British tariff (even prior to the Import Duties Act) were very elaborately specified, different duties being levied in the case of sugar according to the standard of polarisation. Similarly spirits were specified according to the different degrees of proof. So also was the case of sugar in India before protection was given to the sugar industry—sugar being specified according to the Dutch Standard. In this way the description of items becomes more and more detailed in order to give effect to the variation in duty.

We reserve for the next chapter this problem of specifying commodities or grading duties and briefly examine the question of classification with a view to see what principles govern it.

DEGREE OF CLASSIFICATION

We have already noted that classification as a rule is more detailed for protective tariff only. The protective duties are generally aimed at offsetting the competitive advantages of imported products in order to encourage the production of the same article at home. The margin between the prices of imported articles of those produced within the customs area varies with different articles, and the larger the number of articles to be protected the greater will be the number of tariff items and the more detailed their specification. Again countries which though predominantly agricultural adopt a protectionist policy, have a comparatively smaller number of articles than those with industries more varied because the differentiation of agricultural commodities does not go in such great

detail as that of manufactured articles.¹ If we examine the number of tariff items of different countries we find that in some cases the above remarks are not borne out. Thus in the table on page 133, Haiti, a country little developed industrially, has 13,300 items and Argentine 3811 as compared with 2300 of Germany, and Czechoslovakia has 1920 as compared with 1635 of the U. S. A.² But this can be explained in two ways. Some countries in spite of only a little variety in their production tax all imported goods in order to get revenue and some endeavour not only to protect existing industries but also to protect new ones.

NUMBER OF TARIFF ITEMS

The system of duties favoured by a particular country specific or *ad volorem* also determines the number of items because the former requires a specific attribute to be described, while in the case of the latter it is possible to subsume a number of commodities falling under the same group to be assessed on the same per cent. of the value.

As a result of industrial and scientific progress, new articles and new processes of manufacture have come into being. There have been new uses and adaptations of the old articles. A tariff schedule enumerating duties on commodities and taking into account their methods and degree of manufacture has of necessity to describe them or define them in appropriate detail. For this reason tariff-making has tended in modern times towards an increasing

¹ cf. Dr. Trendelenburg's Memorandum on Customs Nomenclature and Customs Classification (C. E. I. 32) League of Nations.

² These figures refer to the year 1925 or 1926 and are only illustrative for since the fall of 1929 almost every country has revised its tariff upwards. But our conclusion above need not be modified as can be seen from the new tariffs of Egypt and Turkey.

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number of definitions and resulted in multiplying the number of specified items.¹

It is no wonder then that the number of tariff items has been growing and the following table summarised from Dr. E. Trendelenburg's Memorandum to the Preparatory Committee of the World Economic Conference (1927) is enough to illustrate our point.

Country	No. of Tariff items (in parenthesis, Nos. Ad Valorem)	No. of actual Tariff items (in parenthesis, Nos. Ad Valorem)
Haiti	13,300 (1319)	13,300 (1319)
France	1,272 (97)	4,371 (204)
Argentine	3,811 (3659)	3,811 (3659)
Brasil	3,173 (142)	3,173 (142)
Hungary	974 —	2,906 (17)
Germany	990 —	2,300 —
Austria	558 —	2,020 (20)
Czechoslovakia	657 —	1,920 —
Japan	647 —	1,693 (543)
	a a	b b
U. S. A.	705 (379)	1,635 (1037)
Spain	1,540 —	1,612 —
Switzerland	1,389 —	1,389 —
Turkey	773 (5)	1,285 (9)
Canada	780 —	1,161 (626)
Australia	430 —	1,046 (621)
Union of South Africa	375 —	631 (21)
China	582 (82)	693 (94)
New Zealand	644 —	669 (406)
Cuba	346 (69)	536 (78)

The table not only shows the number of items but also indicates how detailed these items are. The second column gives the Tariff items as they are in the statutory sche-

¹ cf. The Progress of the Degree of Classification of Goods during the last few decades in Dr. Trendelenburg's Memorandum (section II) for examples.

(a) Including 210 headings under free list.

(b) Excluding 210 headings under free list. pp. 23-26, Dr. E. Trendelenburg's Memorandum on Customs Classification and Customs Nomenclature.

dules of different countries. In the brackets in the same column are given the number of items on which *ad valorem* rates are charged. A glance at these tariffs shows that these statutory tariff items are subdivided and a different rate of duty levied on each subdivision. This, then, obviously increases the number of ratings—which number is shown in the third column. Here, too, the figures in brackets indicate the *ad valorem* duties.

METHODS OF CLASSIFICATION

A tariff schedule, as we have seen already, is made up of articles enumerated and the rates which are applicable to the same. Thus we have two methods based on each of these constituents.

(a) CLASSIFICATION ON THE BASIS OF RATE

Classification on the basis of rate means the grouping of articles having the same rate, the whole tariff being thus divided into a number of class rates with the articles subsumed under each rate.

This is a convenient way of classifying a tariff schedule provided there are a number of items having the same rate and the items can be easily grouped. But in the tariffs of modern times in which many articles are specified, it is not suitable to classify them on the basis of rates. Again, as will be clear in the next chapter, such a classification becomes still less suitable for the bargaining tariffs now in vogue.

We have, however, an interesting example of this in our own tariff—a method that has been followed in the Annual Review of the Trade of India. This Government publication divides import tariff into articles which are free from duty and those that are liable to duty. The former constitute the First Part—the Free List. The dutiable articles are arranged in six parts as follows :— Those liable to duty at non-protective special rates

(Part II), those liable to $2\frac{1}{2}$ per cent. *ad valorem* (Part III), those at 10 per cent. *ad valorem* (Part IV), those assessed at 15 per cent. *ad valorem* (Part V), those at 30 per cent. (Part VI), and lastly those articles on which protective duties at special rates (Part VII) are levied.

It must not be taken that in the above division of the schedule the protective part of the tariff is separated from the revenue, for, the last division "Protective duties at special rates", enumerates mostly¹ those items on which specific or alternative duties are levied. *Ad valorem* rates as recommended by the Tariff Board are enumerated along with others that have the same rate in the revenue part.²

Part I as we have seen is our free list; in part II we have the specific, alternative, compound non-protective rates and other special *ad valorem* rates such as those on machinery, yarn and printer's ink (5 per cent.) or cigarettes (75 per cent.). These special *ad valorem* rates chiefly are those on molasses, arms and ammunition, motor cars etc. and silk mixtures. Parts III to VI group the articles under the rates $2\frac{1}{2}$ per cent., 10 per cent., 15 per cent. and 30 per cent. respectively.

It will at once be noticed that these are not the rates which operated even at the close of the year 1931-32. The surcharges levied during that year in the Supplementary Budget of September 1931, and in the Budget for 1932-33 have not been taken account of in the above classification in the Review of Trade for 1931-32, but are explained in their respective footnotes. We have seen in an earlier chapter that the general surcharge has been 25 per cent., except in the case of the $2\frac{1}{2}$ per cent. duty. During the course of the last year, however, not only were the duties permanently revised, in other words the

¹ The only exceptions are the duties on Silver thread and wire, and the Cotton piecegoods.

² e. g. the 10 per cent. *ad valorem* rate.

surcharges assimilated, but the Ottawa Trade Agreement also added a few feature in our tariff. As we shall see in the next chapter it made our tariff more or less a bargaining tariff. Thus for more than half the number of items we have the standard rate of duty as well as the preferential duty in the case of a British or Colonial product as the case may be. Supposing for a moment we set aside the preferential scale resulting from the Indo-British Trade Agreement and try to divide our tariff on the basis of the rate at the present level of duties we find (a) Part I and III unaltered; (b) in part II the duties (specific, alternative etc.) have to be increased by 25 per cent. in almost all cases;¹ part IV (10 per cent. rate) has been greatly affected some duties remaining the same, some raised to 15½ per cent. and others to 20 per cent. In the preceding chapter we have seen that instead of the former 15 per cent. we have now 25 per cent. as our general rate. This forms Part V though here also one or two items have been altered. Part VI contained the former luxury rate (30 per cent.), which now becomes 50 per cent.; though here also in one or two cases it is lower (45 per cent. or 37½ per cent.). Part VII remains as it was as it contains the protective duties at special rates, a very wide class in which any number of changes could be admitted.

It may be noted in passing that when the new schedules under the Ottawa Trade Agreement Act were first issued² they were published as Parts VIII and IX, the former comprising of articles liable to duty at 30 per cent. *ad valorem* as the standard rate of duty, and 20 per cent. *ad valorem* at the preferential scale—in other words, those items in which a 10 per cent. preference contemplated by the Act was granted by a lowering of 5 per cent. duty in the case of the British or colonial

¹ In one case it is unchanged and in two others the increase is 50 per cent.

² See Indian Trade Journal, 8-12-32.

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products and a raising of 5 per cent. in the case of others.¹ Part IX consisted of articles liable to duty at special rates or to preferential duty at lower rates.

It will be seen that such a classification has been possible because of the fact that our tariff has a large number of items with *ad valorem* rates, which are not many.² It must be noted that all the specific duties are assembled under one class whatever the rate of duty. This method, becomes more and more unsuited when the rates are detailed to a greater extent and specific duties are increased. It is necessary, therefore, that in the future numbers of the Review of the Trade of India, we should have a new classification.

(b) CLASSIFICATION ON THE BASIS OF ARTICLES

When we deal with commodities the simplest way would be to arrange the tariff items in an alphabetical order. One obvious advantage of this scheme would be the ease with which any one interested in a particular article, can find the rate on it in the tariff schedule. Simple of understanding, it is not incapable of minute differentiation. We have an example of a tariff arranged in an alphabetical order in the British tariff before the changes of 1931. Two of its items, sugar and spirits were even then elaborately specialized. Another example of a tariff arranged according to the alphabetical order was that of the Belgian tariff prior to 1924. But on the other hand this method makes a study of the tariff difficult by dispersing like commodities all over the schedule. It separates articles that can be combined together on the basis of affinity and hence it is far from logical. As a basis of subdivision, however, this method is frequently adopted.

We have thus to choose a system of classification which is based on some kind of affinity between the articles. The

¹ And this is done in a majority of cases.

² These, however, are fast increasing.

most suitable affinity would be the economic affinity, i. e. resemblance in the stage of manufacture of a particular commodity. Thus articles in a tariff would fall into four broad groups : Food-stuffs, Raw materials, Semi-manufactured articles and Wholly manufactured commodities. An example of a method very similar to this is found in our own tariff and we shall therefore examine it in some detail.

We have already noted in the previous chapter that our import schedule is divided into four main heads viz. (I) Food, Drink and Tobacco, (II) Raw materials and Articles mainly unmanufactured, (III) Articles wholly or mainly manufactured, and (IV) Miscellaneous and unclassified. The principle on which the schedule is classified may be said to be that of the Degree of Finish. It approximates to the formal classification—based on alphabetical order—in as much as degree of finish as the basis for classification is only less uncertain an attribute than their first letters. This, too, disperses the commodities one would expect to be together, such as articles made of the same material.

So long as wide classes of articles only are considered and undifferentiated articles enumerated, this classification has the merit of simplicity. But as soon as specialization is attempted its defects become clear. The question at once arises whether a particular commodity belongs to the class of raw materials or to that of manufactured articles. In the highly developed industries of to-day it is a moot point for the tariff-maker to decide to which class a commodity belongs. Our tariff makes further differentiation by taking semi-manufactured articles along with raw materials. But this does not simplify matters, for ultimately the decision rests on the use to which an article is put. A completely manufactured product of one industry becomes a raw material for another which takes it for further transformation. If the difference in duties

that results from a decision one way or the other is great the importers are tempted to show that the articles in which they are interested are not completely manufactured. This gives rise to a conflict not only between the customs authorities and importers but also among the importers themselves, especially under modern conditions of manufacture. We shall find all these difficulties well illustrated in our own tariff.

A CRITIQUE OF THE CLASSIFICATION OF INDIAN TARIFF

The first part combines under the head Food, Drink and Tobacco articles of animal and vegetable kingdoms with a view to include all articles of food, beverages and tobacco. Here no attempt is made to distinguish articles on the ground of the degree of finish though under a particular head differentiation is made. We have two kinds of articles somewhat highly specialized—Liquors and spirits, the former according to weight or measurement and the latter according to proof spirit. Under Tobacco also we have manufactured and unmanufactured tobacco as well as cigars and cigarettes. Apparently this division of the schedule is a distinct one as it includes all food stuffs and articles of direct consumption, which are generally treated separately from industrial products. The aim of classifying articles in Parts II and III, seems to be to tax those used for further manufacture more lightly than the finished products. This approach to a tariff and the consequent grouping of articles indicate that the object of the tariff is more that of equitable taxation than that of fostering particular industries or groups of industries. Even within this restricted sphere commodities of a like or equal finish are separately classed, e. g. chemical dyes and colours in that of wholly or mainly manufactured articles. A glaring example of the anomaly of the present system is to be found when we take up metals. Old iron or steel (serial No. 35) and Metallic Ores, all sorts except ochres and

pigment ores (No. 36) are classed in Part 11. Old steel can be taken both as a manufactured article as well as a raw material. It is also not clear why pigments are excluded. Among wholly or mainly manufactured articles are found iron alloys, pig iron and zinc unwrought. This is obviously inconsistent with the plan of separating articles according to their degree of finish. The difficulty seems to be acknowledged in Item 111A, which runs, "All sorts of metals other than iron and steel, and manufactures thereof etc.," and which for the purpose of tariff valuations, enumerates different metals such as Aluminium, Brass etc. Old copper is included here while old iron as we have seen is taken in Part 11.

Turning to another kind of articles, Canes and Rattans (Serial No. 50) we find that their manufactures, chairs, baskets etc., are grouped under Part 11, (raw materials). Again, if coke and coal and patent fuel is classed as "raw materials and articles mainly unmanufactured" iron alloys should not be taken in the other group. Similarly glass is taken with the materials that are made from it and not separated from its finished products.¹

These anomalies are inherent in the application of this method of classification, for it is often difficult to decide whether an article should be taken in the group of finished products or in that of unmanufactured. But so long as the object of the tariff is that of the collection of revenue and only broad classes of commodities are considered the difficulties may be overlooked. But when a policy of protection is adopted it should be a matter of increasing concern to remove such anomalies, lest the object of the policy be defeated. When certain branches of industry are sought to be protected the differentiation is bound to be minute. The principle of the degree of finish fails to offer

¹ As examples of difficulties which frequently arise, such as in the case of apparel or parts of machinery—(the former if it contains silk even to the smallest extent is assessed at 30 per cent.). See the evidence of G. S. Hardy Fiscal Commission, Vol. II, Q's. 12998-12999.

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a solution but gives rise to disputes and conflicts of interests between different producers, for, a decision one way or the other makes a considerable difference in the rate of the duty.

Two other principles, then, would seem to follow from the above discussion. We saw that ultimately a decision as regards an article belonging to the raw material group or the manufacture group rests, on the use to which it is put. We have thus a distinct basis for classification namely Use. Secondly we saw that on the basis of the degree of finish articles made of the same material are dispersed instead of being assembled together. This leads us to think of two other alternative principles Material Origin and Content.

It will be seen that none of these principles is free from difficulties. The first of these—Use—while it collects articles that serve the same purpose together, disperses commodities that are made of the same material. Thus for instance, it is convenient to find the different articles that may be grouped as machinery in a single part (or division) of the tariff but it scatters the different articles made of iron or steel e. g. scythes or motor chasis or rails or bars. An important industry like the iron and steel will have its different articles dispersed all over the tariff schedule, let alone the difficulty of arriving at a decision about the particular uses of different articles. On the other hand a difficulty of the opposite kind arises when the basis of classification is Material Origin. Articles serving a common purpose e. g. wooden furniture and metal furniture will not be found together. The third principle—Content—which is very similar to that of Material Origin in some respects—groups together articles, the constituent parts of which are of the same kind, but raises difficulties about articles of mixed content.

Apart from the logical consistency of a single principle many tariffs assign a separate section for agricultural

products in view of their importance (as being articles of general consumption), and countries that protect their agriculture have to look not simply to material origin (vegetable kingdom) but also to the use to which they are put and the manner of their production. Accordingly while on the one hand the tariff-maker thinks that such articles are generally used for direct consumption and must be taxed least, he has also to remember that production in agriculture is dependent upon natural conditions and therefore must select those products more according to use and the branch of production than according to material origin. Here then the three different principles have to be employed simultaneously.

The same considerations of economic policy make the tariff-maker depart from the principle of material origin or content (which may have been generally followed for classification in a particular schedule) in the case of industries which are of peculiar importance to the industrial needs of his country either from the point of view of protection or otherwise—and he may make separate classes for such articles. Thus the Australian tariff has a separate class for vehicles, while Japan has a special division for Machinery, Vehicles, Clocks and Watches, Scientific Instruments and Fire-arms.

This shows that the tariff-maker whose aim is to follow a suitable practice rather than logical consistency is interested in seeing that the advantages of all the three principles, Use, Material Origin and Content, accrue to his scheme of tariff classification. We might even go further and say that in order to achieve this end the last may be omitted if the other two are simultaneously adopted. The difficulties as regards articles of mixed content may be avoided by other methods, and at the same time the convenience of keeping articles of the same content together can be obtained in many cases by taking Material Origin as the basis. The difficulties arising from

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articles of mixed content may be met by making special provisions for the treatment of these articles as we shall presently illustrate.

If, then, the classification of a tariff is based on more than one principle some articles in which the principles seem to conflict with each other, cannot be classed under any of the divisions so formed. It is for reasons such as these that we find articles grouped under a division called "Miscellaneous". Under this head are assembled commodities that cannot be subsumed under any single class. It has been estimated that there are a million¹ commodities and all of them by virtue of their content or use cannot be distinctly classified especially when more than one principle of classification is followed. We shall find in the next chapter that such a class "Miscellaneous" is found in the tariffs of Australia, Canada, Japan and the United States.

TREATMENT OF UNENUMERATED ARTICLES

So far we have dealt with articles that are already enumerated in the schedule. What is to be done with those that are not enumerated or are new? There are two methods of providing for these. Firstly, the tariff may provide that only the goods that are enumerated are liable to duty and the rest free, and secondly, that all goods whether expressly provided for in the tariff or not are dutiable (unless otherwise specified). As an example of the first method may be taken the tariff of Great Britain which obtained prior to 1931 and as an instance of the second that of the United States. Paragraph 1558 of the U. S. A. tariff provides that a duty of 10 per cent. *ad valorem* is levied on all raw or unmanufactured articles not enumerated or provided for, and a duty of 20 per cent. on all such articles wholly or partly manufactured.

¹ The figure is Prof. Page's. See his Memorandum on Discriminatory Tariff Classifications (C. E. C. 96).

This method while showing a leaning towards protection may also be found in a revenue tariff, for as we saw in the beginning of the chapter some countries tax all their imports for revenue purposes and provide for duties on unenumerated goods. We have a similar case in our own tariff. Though our tariff cannot be said to be a purely revenue one, it is mainly a revenue tariff. At the end of each of the four parts into which it is divided there is a "blanket clause" which treats unenumerated goods uniformly and places them under the class to which they belong e. g.

Serial No. 58.¹ *"All other raw materials and produce and articles mainly un-manufactured not otherwise specified"* (25 per cent. ad valorem).

Another way of treating the unenumerated goods which are taxed is that by which a provision is made either in the preliminary sections of the tariff or in the Customs law. But this method needs to be elucidated somewhere in the body of the schedule. Unenumerated commodities are of such a nature as can be (i) easily associated with a tariff group or number or (ii) can be brought under a general class heading or (iii) can be associated with neither. Accordingly there are two ways of providing for such articles. (i) All such goods may be uniformly treated under a single item or (ii) they may be assimilated with those they resemble most. The first of these methods—that of uniform treatment is found in the Canadian Tariff.² e. g. Item 711 runs :—

"All goods not enumerated in this Act as subject to any other rate of duty, not declared free by this Act and not being goods the importation whereof is by this Act or any other Act prohibited; 15 per cent. (British preferential) 17½ per cent. (Intermediate) 17½ per cent. (General).

¹ Also Serial Nos. 26, 166 and 172.

² Which was in operation till 1929.

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The second method may be illustrated from the United States tariff. Para 1559 of this tariff provides that "every article not enumerated shall pay a duty payable for that article which it resembles in quality, texture or use and in the event of its resembling more articles than one, it is to pay a duty equal to the highest duty-paying article." Our tariff, it will be seen, makes a combination of both these methods—uniform treatment of all unenumerated goods and of associating them with like goods. On the one hand these articles are taken under a blanket clause and on the other they are placed in the class to which they are taken to belong (Food, drink, tobacco, or Raw Materials etc.). The rate of duty of the unenumerated goods is the general one, viz., 25 per cent. *ad valorem* and such articles as cannot be subsumed under any of the three classes—Foodstuffs, Raw Materials, and Manufactured goods—are treated uniformly by the last item which runs thus :—

172. *All other articles not otherwise specified, including articles imported by post.*

TREATMENT OF MIXED GOODS

A question naturally arises as to what should be the treatment of articles made of more than one material. Two solutions of the questions are possible (i) to base the rate on each component separately and (ii) to fix the rate on the principal component only. Both these methods involve difficulties of their own. In the former the Customs authorities have to decide as to how many components is a particular article made up of in order to ascertain the precise value and fix the proportion of each part before assessing its duty. In the second it has to be decided whether the duty is to be computed on the chief component only (from the point of view of value or quantity or whatever basis of assessment is chosen) or on the whole commodity. As an example of the first method of

treatment—that of levying a separate duty on each component part, we may take para 301 of the United States Tariff. It deals with iron, pigs and kentledge ; (i) it levies a separate duty on carbon content if this exceeds 1 per cent. of the content of the article, (ii) it differentiates irons and pigs according to the different proportions (to be measured in percentage) of Vanadium, tungsten and chromium content, and levies different duties according to the various proportions in which those other articles are mixed with iron and pigs.¹

An instance of the second method may be taken from the Australian Tariff. Here the method is to base a separate (higher) duty on the whole article if it contains in whatever proportion the more valuable article. It differentiates textile goods, according to the wool or silk content and levies different duties, not on the various constituents but on the whole article so formed. For example No. 115.²

Stocks and Stockings for human Attire.

(a) Cotton	per dozen pairs.	6s. 8s. 10s.
		or 30 p. c. 40 p. c. 45 p. c.
(b) Wool or containing wool		8s. 10s. 12s.
		or 45 p. c. 55 p. c. 60 p. c.
(c) Silk or containing silk but not wool.		7s. 7s. 11s.
		or 35 p. c. 45 p. c. 50 p. c.

PROPOSED CLASSIFICATION OF THE INDIAN TARIFF

We must now turn to the classification of our tariff. It has been seen that two principles—Material Origin

¹ Its actual wordings are as below:—

Iron and pigs and Kentledge 1½ per ton spiegeleisen containing more than 1 per cent. of carbon 75 cents per ton..... provided further that an additional duty of \$1 per lb. on the Vanadium content in excess of 1/10 of one per cent. ; 72 cents per lb. on the tungsten content in excess of 2/10 of 1 per cent. ; 65 cents per lb. on the molybdenum content in excess of 2/10 of 1 per cent. and 3 cents per lb. on the chromium content in excess of 2/10 per cent. shall be levied collected and paid. See also paras 302, 305.

² In the whole division on Textiles the same method is followed. The Tariff referred to is the one which was in force till 1929.

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and Use—seem to be well suited for classifying a schedule and when we apply them to the existing Indian Tariff, we get the following 14 Divisions in which it may be classified.

1. Living Animals and Products of the Animal Kingdom (not otherwise specially provided for).
2. Agricultural Products and Provisions.
3. Liquors, Spirits, Beverages and Tobacco.
4. Hides and Skins and Rubber and Manufactures thereof.
5. Oils and Paints.
6. Gums, Resin, Lac, Tallow, Stearine, Wax and Manufactures thereof.
7. Wood, Cork, Canes, Rattans and Manufactures thereof.
8. Minerals (a) Minerals other than Metals.
9. Minerals (b) Metals and Manufactures thereof.
10. Chemicals, Drugs, Medicines and Colours.
11. Earth and Earthenware, Glass and Glassware, Stone and Stoneware.
12. Pulp of Wood, Rugs—Paper and Paper Manufactures.
13. Textile Material and Manufactures thereof.
14. Miscellaneous.

Any new tariff scheme has also to take notice of the suggestion of the Economic Committee of the League of Nations. The International Economic Conference which met at Geneva in 1927 and concerned itself very greatly with the question of tariffs where a trend "in the opposite direction" was recommended considered "that a fixed nomenclature for goods subject to Customs duties is an essential condition of equity in their application and ease in their collection" and expressed an opinion that such a classification and nomenclature should be commonly adopted. It also recommended the drawing up of an appropriate plan of systematic Customs nomenclature

and this draft to be submitted to different countries for approval.¹ The work accordingly was to be entrusted to a Sub-Committee of experts. The Draft prepared by them consisted of 21 Sections.

It must be emphasised—and the Sub-Committee itself said—that it had merely laid the foundation of a Customs Nomenclature. We shall have to refer to this in some detail in the last chapter where we deal with details of a new tariff schedule for India.

The work of the Committee, however, made it necessary for them to adopt a certain classification according to which the various items were grouped. The principle on which this classification has been based has been explained as under :—

“The form taken by the classification is the collection in each chapter of commodities that can be brought together on the ground of their affinities, their specific characteristics or the raw materials of which they are made.”²

It will be obvious that though we do not follow their system of classification entirely in the one suggested by us for the Indian Tariff, we have adopted the same principles in substance.

We come to the conclusion that the classification of the Indian Tariff schedule needs to be thoroughly revised, in view of our new industrial policy and in view of the technique developed in other countries, on the lines which we have briefly indicated in this chapter.

¹ For details see Draft Framework of Customs Nomenclature and Draft Allocation of Goods.

² *Ibid.*, p. 8.

CHAPTER VI

SOME COMPARISONS IN TARIFF METHODS

PART I. THE EXTERNAL FORM OF THE TARIFF

INTRODUCTION

We have so far referred to the two main aims of tariffs, revenue and protection. During the last century a third consideration has come into greater and greater prominence, viz., the desire to create means for negotiating commercial conventions. It is obvious that this aspect assumes importance only in the case of protectionist tariffs, and that it arises from the fact that industrialized countries are not content with safeguarding their industries at home but also seek markets abroad for the products of their factories. Under the complex industrial life of to-day, therefore, the single tariff seems to have outgrown its utility as it proves an insufficient instrument of commercial policy for the development of foreign trade in the face of international competition. Even the most favoured-nation clause has appeared to be unequal to the needs of modern tariff systems for the removal of discrimination or unequal condition of competition in foreign markets. It has also been tacitly assumed that discrimination and inequality are inevitable in commercial policy and these are to be removed by mutual agreements.¹ With this object, then, conventions are made (a) to secure equal advantages with competitors in outside markets, (b) to ensure that the products of the other contracting party shall enjoy a reasonable measure of tariff protection and not a measure so large as to prevent all competition

¹ cf. Memorandum on European Bargaining Tariffs by W. T. Page (League of Nations C. E. C., p. 97, 1927).

from foreign products and (c) to maintain a balance of advantages between two countries conceded by one to the other for securing commercial opportunities. The first of these objects is attained by the application of the most-favoured-nation clause;¹ the second by a minimum tariff or conventional rates of duties; and the third by reciprocity treaties.

BARGAINING TARIFFS

In a bargaining tariff the schedules are constructed with a view to exchange concessions with other countries and to use import duties as a means of stimulating exports. To-day almost all the important countries have adopted one or the other of these methods of bargaining. One of the chief reasons of the complicated structure of modern tariffs is that when one important country adopts this kind of tariff, others follow suit; for they are compelled to revise their tariffs more frequently regardless of their own domestic needs. We have noted in the earlier chapters how frequent these revisions of tariff have become since the war. The Import Duties Act of 1932 in Great Britain is but one more illustration of this tendency and India, too, has not remained outside the sphere of this trend.

Bargaining tariffs can be divided into two classes: (i) according to the number of columns a tariff contains and (ii) according to the final agency that determines the rates.

The first distinction implies that a commodity is subject to two or more rates of duty and that the rate in one or the other column is applied to the commodity according to the tariff treaties in force between the importing and the exporting country. Of course, the question does not arise when there is only a single tariff, that is, when all the countries are treated uniformly by the different rates

¹ For an explanation of this clause see the following two pages.

of the schedule. The second distinction deals with the way in which the rates of duty are finally fixed either by the Government or by the Legislature in every case on its merits. In other words, this second standard emphasises the distinction between an autonomous tariff (in which the rates are unalterably fixed) and a tariff in which the rates are determined as a result of commercial conventions.

Under the first method tariffs are divided into (i) Unilinear or single columned (ii) Bilinear, i. e. having two columns and (iii) Multilinear—having more columns than two. It will be seen that only the latter two result from commercial negotiations. According to this method of division, both the autonomous and conventional tariffs will be grouped under the head Bilinear Tariffs.¹

The two most important types of Bilinear Tariffs are (i) The General and Conventional and (ii) The Maximum and Minimum Tariffs. In its simplest form of the first type, the government fixes the rates of duties on different articles and this is its general tariff. The government then enters into negotiations with other countries and grants concessions in its general rates, bargaining for concessions in their respective tariffs. These conventional rates are fixed as long as the treaties are in force. The rates, again, have to be extended to the countries which enjoy the most-favoured nation treatment² automatically

¹ We prefer the method of classifying according to the number of columns to the other one—which is generally followed—viz. dividing tariffs into autonomous (Maximum and Minimum) and conventional (General and Conventional). This latter method often makes the discussion cumbersome especially when we consider the Multilinear Tariffs. cf. for example M. Serruys' Brochure on Commercial Treaties, Tariff Systems and Contractual Methods (League of Nations: C. E. I. 31, 1927).

² This historic clause in international commercial treaties has been the subject of many discussions. We may rest content with a recent definition. "This formula stipulates that any favour or privilege which may hereafter be granted either in virtue of autonomous measures or in virtue of commercial conventions to the commodities of any third state whatsoever shall be extended to the like or similar commodities of the other contracting party". M. D. Serruys' Memorandum.

This clause has two interpretations (i) unconditional and (ii) conditional. The unconditional application signifies that a country with which this kind

if the country follows the unconditional interpretation of the clause. If on the other hand the clause is interpreted in its conditional sense, the countries which have entered into most-favoured nation treaties are given the opportunity to offer the same or similar concessions which the new country has given to the original country in question. In this way a second column of rates is formed, and the imports from a country are assessed on these rates, in the case of articles for which treaties have been contracted. In the other type, the Maximum-Minimum tariff, the government itself fixes the two rates of duty the higher and the lower. These lower rates forming the minimum column are to be applied to imports from countries with which commercial treaties to that end have been concluded, imports from others being subject to the higher or the Maximum rates. This tariff is called autonomous because the authorities are at liberty to change the rate whenever they like as the treaties only stipulate a treatment which ensures the minimum rates.

Three columned tariffs in their simplest form have any of the two above-mentioned types accompanied by a preferential scale of duties. Thus besides having either of the two contractual forms discussed above, a country may grant preference to the products of another country with which it has peculiar political or geographical or ethnic relationship; for example, we have the British Empire countries all of which now have preferential tariffs for Empire goods.

The two main types of tariffs, Maximum-Minimum of relation has been contracted automatically comes to enjoy any new advantage or privilege granted by the other party to any third state. This interpretation generally found favour in pre-war European treaties, but in post-war Europe it is held that this interpretation gratuitously extends a privilege to other parties and that it also runs counter to protectionist ends. The conditional most-favoured nation-clause implies that the country enjoying this privilege must be prepared to make the same specific concessions which its contractant makes with a third party. The U. S. A. was the chief exponent of this interpretation in the pre-war years, but during the last decade she has made treaties adopting the unconditional form.

and General Conventional, may be combined with each other. A country having the former may grant, through negotiations, some rates below its minimum rates or the autonomous tariff may be partially converted into a conventional tariff by consolidating several duties, that is, undertaking not to increase them so long as the convention remains in force. Similarly in the case of the other type, General-Conventional, the conventional rates may be fixed by the legislature at certain minima for a number of commodities beyond which the negotiators cannot go.¹ The Maximum-Minimum tariff may have two forms, the obvious one in which both the scales have been previously fixed by the Government or the Legislature—a system of which France has been the chief exponent since 1892;² and the other, the so-called 'flexible' tariff by which Governments retain the power to alter their tariffs in special circumstances. This as we shall presently see is a feature of the United States Tariff.

Before we come to offer our remarks regarding these bargaining tariffs, it would be useful to examine the general structure of the tariffs of some important countries namely Great Britain, Canada, Australia, Japan and the United States of America.

CHANGES IN THE BRITISH TARIFF

In the earlier chapters we have seen how the British tariff gradually developed into a protectionist tariff, how Great Britain in order to save the pound sterling and to correct the balance of payments, adopted the Emergency Tariff of 1931, and how, finally, by the Import Duties Act of 1932 the British Tariff became frankly

¹ For example see Gregory: *Tariffs: A Study in Method*, pp. 72-74 and M. D. Serruys' Memorandum, *op cit.*

² Since the war, however, France has modified her system a little. Of late in her treaties, generally, she has conceded only reductions from the maximum rates and not the full minimum rates; cf. W. T. Page: *Memorandum on European Bargaining Tariffs*.

protectionist. To-day it can no longer be said that the British tariff is only a single columned tariff with preferential duties for Empire goods. The Abnormal Importations Act expired on May 19, 1932; but in the meanwhile the general tariff of 10 per cent. framed under the Import Duties Act of March 1932, had been considerably altered by the successive Orders of the Treasury passed on the recommendations of the Advisory Committee appointed under section 3 of the Act. It is true that the Ottawa Agreements ratified at the close of the last year were in a large measure anticipated by the Act which came into force in March. Clause 7 of the Import Duties Act empowers the Treasury on the recommendation of the Board of Trade to negotiate preferential treaties of commerce with foreign countries. This means that the British tariff has become General and Conventional accompanied by preferential schedules for Empire goods.¹ It is, however, too early to say what form the British tariff will finally take in view of the fact that such negotiations would either involve for her the evasion of the most-favoured-nation clause or the denunciation of undertakings given thereunder.² More important than this question for the moment is the effect of the Ottawa Agreements on that part of the British tariff which deals with preferential duties. Whether we take the Imperial Economic Conference of 1932 as marking the culminating point in the movement of Inter-imperial preferences started by Canada in 1897, or a method of reciprocal trade agreements outside the scope of the most-favoured-nation clause, the Ottawa Agreements have affected the tariff schedules of all the Empire countries in a way which must needs be interpreted from the point of view of tariff

¹ Responsible British Statesmen (including Mr. Baldwin) have also declared that one of the main reasons for Britain's high tariff is to arm her with the powers by which she could negotiate with other countries for lowering their tariffs.

² cf. *Economist* 27-2-32, p. 450.

technique in a new light.¹ If we take the Ottawa Agreements as real trade agreements so common in international economic relations, it means that Great Britain and the Empire countries have General and Conventional tariffs in the strict sense of the term. The preferential rates were in many cases actually bargained for, besides those which were provided for in the Import Duties Act. This is apart from clause 7 of the Act to which we have already made a reference above, and which may in due course introduce further changes in the British tariff. In any case the tariffs of the Empire countries have become too complex as a result of the Ottawa Agreements to be dismissed as merely having additional columns with specially low rates for Empire goods framed on grounds of political or ethnic relationship. It may also be noted that the avowed purpose of the Ottawa Conference was to arrive at trade agreements *per se* in which only the economic interests of the parties were to play the deciding part.

THE INDIAN TARIFF

The Ottawa Trade Agreement has, therefore, in the same way not inconsiderably affected the Indian tariff, which up to the close of the last year² was only unilinear (single-columned) and non-bargaining. Indeed, it had preferential rates in the case of two kinds of articles, iron and steel and cotton-textiles. As a matter of fact India has strenuously and consistently opposed Imperial Preference as a principle in her tariff policy. The Ottawa Agreement has considerably extended the preferential treatment in favour of Great Britain and the Crown Colonies, with the result that instead of the preferential duties being simply tugged on to the ordinary rates the

¹ And this cannot be done until the tariffs of the Dominions have been re-shuffled as stipulated in their respective Ottawa Agreements.

² The Ottawa Trade Agreement Act came into force from 1st January 1933.

new tariff includes two more columns, one for the preferential rates on British products and the other for the products of the Colonies on which the lower duties are levied under the terms of the Agreement. In the preceding paragraphs we have raised the question whether the tariffs resulting from the Ottawa Trade Agreements should be called bargaining tariffs or should continue to be regarded as simply the extension of the old preference schedules. If on the one hand it is regarded that the Ottawa tariff is only the result of India's contribution to Imperial Economic Co-operation or Economic Unity, it means a wholesale adoption of the policy of Imperial Preference and not a bargaining tariff *per se*. But if on the other hand it means, as it is sometimes claimed that the Ottawa schedules are the result of *bona fide* trade agreement resulting from negotiations between two high contracting parties, then the Indian tariff must be more or less a bargaining tariff and the question which we raised with regard to the British tariff has to be mooted out in this case too. This question assumes greater importance in view of the fact that India is also empowered to enter into negotiations with other Dominions if she liked. There is also the fact that the Indo-British Trade Agreement at Ottawa has been ratified only for a period of three years which smacks rather of a commercial agreement—or treaty—rather than the extension of the preferential part of a unilinear tariff. But in other respects the Indian tariff remains unilinear.

On the other hand the tariffs of Australia and Canada are trilinear and are based upon the same principles. In both these Imperial Preference has created a third column, the other two resulting from the General Conventional system. Thus the three columns are General, Intermediate and British Preferential.

THE CANADIAN TARIFF

The present tariff in Canada is based more or less on the Tariff Act of 1907 which grew out of the "Reciprocity" Tariff 1897 and which established the three scales of duty. The Intermediate rates were framed to serve as a basis of negotiations in the interests of Canada's foreign trade. This tariff applied, in 1932, to the products of 23 countries including France and her colonies, Economic Union of Belgium and Luxemburg and the Belgian possessions, Italy, the Netherlands, the Argentine Republic, Czechoslovakia, Japan, Norway, Portugal, Sweden, Switzerland and Venezuela.¹ The British preferential tariff is applicable to the goods (produced or manufactured) of the British countries when such goods are shipped direct from a port belonging to the British Empire to a Canadian port. Among the chief inter-Empire trade agreements into which Canada had entered, prior to the Imperial Economic Conference of 1932, were the special trade agreements with British West-Indies (April 1927), Australia (August 1931)² and New Zealand in April 1932.³ Canada implemented the Ottawa Trade Agreement with the United Kingdom on October 12, 1932, and under article 13 of that Agreement, the Canadian tariff may undergo a complete revision in the near future.

THE AUSTRALIAN TARIFF

The Australian tariff also has three columns, General, Intermediate and British Preferential. The Tariff Act of 1921, which is the basis of the present tariff, empowers

¹ cf. Canada Year Book 1932, p. 386. The Special Convention of Commerce with France of 1922 was given notice of by Canada under the six months' denunciation clause and it therefore came to an end in June 1932. Fresh negotiations were however opened for a new convention.

² Canada Year Book 1932.

³ vide Board of Trade Journal, May 19, 1932, for full text.

the Minister of Trade and Customs to enter into negotiations for reciprocal trade relations with both Intermediate and British preferential scales as his instruments for bargaining in the case of the Empire countries and in the case of countries outside the Empire with intermediate tariff. All these agreements come into force after the assent of the Parliament of the Commonwealth.¹ The conditions for British preferential rates are laid down much more specifically than in the Canadian tariff. These are, briefly, according to the Act of 1925 : (a) that the goods must be wholly produced or manufactured in the United Kingdom, (b) goods not wholly produced or manufactured in the United Kingdom should contain 75 per cent. of British labour and/or material in their factory or works costs, (c) goods should be of a class not commercially manufactured in Australia and must contain at least 25 per cent. of the United Kingdom labour and (d) that the final process or processes of manufacture should take place in the United Kingdom and that the goods should be consigned therefrom direct to Australia. The provisions for the British preferential tariff may be applied wholly or in part to any portion of the Empire.²

The Australian tariff unlike the Japanese has been subject to frequent changes during recent years, chiefly owing to her financial and industrial difficulties. In April 1930 a special surcharge of 50 per cent. was introduced,³ and the import of 78 articles including spirits, manufactured tobacco, cigarettes and wireless receiving sets, was prohibited. Most of these prohibitions have now been removed since February 1932,⁴ when a number of

¹ cf. The statement of the Minister of Trade and Customs—Official Year of the Commonwealth, 1927, pp. 250-253.

² cf. New Zealand-Australia Trade Agreement of 1922 or the Agreement with Canada 1925 and with New Guinea and Papua 1926 in which last case preference is given only in the case of 8 kinds of articles including coffee, dried fruits, coconuts and seeds.

³ Official Year Book, 1930, p. 105.

⁴ See Board of Trade Journal, 3rd March 1932.

alterations, some increases and a great many decreases in rates were effected. Australia ratified her trade agreement with the United Kingdom at Ottawa on October 14, 1932 and under articles 10 and 11 of that agreement, her tariff will be more or less overhauled.

JAPAN

The Japanese tariff is also based on the General Conventional principle, and is, therefore, bilinear. The items which bear conventional rates are not many in number² and at present only two countries enjoy these special conventional arrangements viz. Italy and France, though other treaty countries are also entitled to the benefits of these special rates under the most-favoured nation clause.³ During the last few years there have been modifications in the rates but the structure of the schedule has remained unaltered.⁴

THE UNITED STATES OF AMERICA

The United States first expressly adopted the maximum-minimum tariff in 1909 by Section 2 of the Payne-Aldrich Act by which the President was authorised to impose an additional rate of 25 per cent. *ad valorem* on all or some articles the products of those countries which he found discriminating against the United States on "any agricultural or manufactured or other product thereof".⁵ The Act of 1913 abrogated the maximum-minimum schedule though the power of the President to negotiate reciprocal trade arrangements was continued.⁶ The

² These items are sometimes separately shown as the Conventional tariff of Japan. See the Import Tariff of Japan 1927 or 1932. (Japan Times)

³ 26 other countries including Argentina, Belgium, U. S. S. R., Turkey, U. K. and U. S. A.

⁴ Laws No. 32 and 33 of 1929, No. 4 of 1930, No. 38 of 1931, No. 3 of 1932 and (the Specific Duty) Law No. 4 of 1932. See Import Tariff of Japan, 1932.

⁵ For the text of the Section, see A New American Commercial Policy by McClure, pp. 67-68.

⁶ Section 4a of the Act of 1913 *Ibid.*, pp. 96-97.

Fordney-McCumber Tariff of 1922 marked a further development in this policy by the framing of a flexible tariff. By section 315 of the Act (sub-division A) the President is authorised, if he finds that the duties fixed by this act do not equalise the said differences in the costs of production in the United States and the principal competing countries, to "ascertain and determine and proclaim the changes in classifications or increase or decrease in any rate of duty". The investigation is to be made publicly by the United States Tariff Commission. The changes in the duties contemplated in this section are not applicable to the Free list. Section 317 puts a 50 per cent. limit to the changes, whether higher or lower. The *ad valorem* rates of the articles coming under these clauses are based on the "American Selling price",¹ and not upon its ordinary invoice value. This is an interesting survival of the American valuation provision of the Fordney Bill as passed by the House of Representatives. A thirty days clear notice is required² before the higher rates are to be levied. Section 316 seeks to protect American industry against unfair methods and unfair acts in the importation of goods. But overriding these, and the new feature introduced in the commercial policy of the United States, is section 317, by which the President, whenever he finds that a country discriminates against the products of the United States in any manner by way of charges or by any administrative procedure, and when he finds that public interest will be served thereby, is authorised to proclaim new or additional duties in order

¹ The value according to this system is the "price at the time of exportation of the merchandise at which similar domestic merchandise packed ready for delivery in the principal markets of the United States are sold or freely offered for sale to all purchasers in such markets". In the absence of such domestic merchandise the price taken is that of similar goods imported and sold in the United States. For a summary of the discussion on the valuation controversy see: Litman: *Essentials of International Trade*, pp. 100-101. McLure: *A New American Commercial Policy*. For section 402 (A-F) quoted on pp. 52-53.

² The section 315a quoted in full by McLure: *Ibid.*, p. 51.

to off-set the unequal imposition on American commerce. These duties must not exceed 50 per cent. *ad valorem* on the articles imported from the offending country. If this method is found ineffective he may proclaim absolute prohibition of the article or the articles in question.¹ The purpose of this section is to use it as an instrument for finding or expanding markets for the surplus manufactures of the United States. By this section a sort of maximum tariff is created.² The United States tariff is thus a maximum-minimum and a flexible one.³

REMARKS ON BARGAINING TARIFFS

It is now possible to evaluate the methods with a view to note their relative merits and demerits. In doing so, it is necessary to fix the standard by which we propose to judge them because it is the choice of these standards that will determine the worth of a particular tariff. A tariff suitable from one point of view may not be so from another. We shall therefore test the tariffs (a) from the point of view of a single country and (b) from the international point of view.

(A) FROM THE POINT OF VIEW OF A SINGLE COUNTRY

From this point of view we have (i) to see whether the tariff gives adequate protection to its own industries;

¹ For details see chapter III, A New American Commercial Policy, McLure.

² United States had not paid much attention to the bargaining aspect of the tariff. But after the War, the need for such a policy was clearly felt and the report of the Tariff Commission on "Reciprocity and Commercial Treaties" in 1919 definitely recommended a plan which was eventually adopted in the Act of 1922. cf. T. W. Page, Making of the Tariff in the United States, pp. 135-136.

³ It is held that this change made by the 1922 Act is a departure from the traditional policy of the United States more in appearance than in reality; that the power conferred upon President is restricted in such a manner that he will hardly exercise it. Vide T. W. Page, Making of the Tariff in the United States, p. 207. But the present Chairman of the Tariff Commission, Mr. Brossard holds a contrary view. See the Article in Annals of the American Academy of Political and Social Science, July 1930, p. 156..

(ii) to examine the way in which it affects the relations of the country with other states, and whether (iii) it makes the administration of the tariff simple or otherwise

The great merit of the maximum-minimum tariff is that it ensures a fixed degree of protection to the home industries, protection which is expressed in the minimum rates. Because it is autonomous it can be made promptly responsive to unforeseen circumstances (such as depression or depreciation of currencies) and rates can be altered at any time by the legislature. It thus avoids the possibility of the general fiscal policy of the country being upset or unduly altered by the conclusion of successive commercial treaties. It also avoids the danger of rates being too much lowered as a result of bargaining. For a country that is interested not so much in finding markets for her surplus goods as in the development of her industries, this system seems to be better than the general conventional one.

On the other hand when the aim of the tariff is that of establishing favourable commercial relations and bargaining for special treatment of goods in the markets of other countries, the maximum-minimum tariff has distinct disadvantages. The latter is subject neither to "consolidation" nor to modification at the request of a contracting party nor are the rates guaranteed for a fixed period. This last demerit is forcefully brought to notice by a case like that of the United States where tariff policy is one of the main planks of party politics. When one party comes into power it almost invariably undoes—or tries to undo—the work of its predecessor. The chief disadvantage of the maximum-minimum method has thus been felt in the negotiation of treaties. It lays all the cards on the table and the reservation of the right to change duties at any time lessens the value of bargaining. It thus excludes the advantages of the most-favoured nation treatment, being automatically extended to other states and if the maximum rates are almost prohibitive there is little possibility

of concluding a commercial treaty. Countries having this tariff have therefore to overcome these defects by a modification of the system. Instead of the bilinear tariff they make it trilinear in the case of some items. Thus for example, France, to obviate the first defect, fixes the conventional rates between the maximum-minimum in some cases and gives up the most-favoured nation treatment. Spain grants rates below the minimum but these reductions are limited to 20 per cent. by law.¹

From this point of view then the general conventional tariff is better adopted for concluding commercial treaties.² It possesses a strategic advantage as it holds back how far the negotiator is likely to go and gives an opportunity for a skilful diplomat to exercise his talent in making the most favourable bargain. Its great merit lies in the "bounded" rates for fixed periods, usually ten or twelve years, thus giving security of the rates to the importers and exporters. But this system too has its demerits. It means prolonged higgling. It involves a period of uncertainty unless the rates are revised before the old ones expire. The failure of negotiations entails the retention of unduly high rates of the general tariff.

All bilinear or multilinear tariffs enhance the difficulties of the administration. The customs authorities have to watch that goods liable to higher duties are not passed off for those assessed at lower ones; in other words, invoices and certificates of origin are required to supply many more details and be subjected to greater scrutiny than would otherwise be the case. It is true that the most-favoured nation treatment, especially in its unconditional form, lessens these difficulties to some extent. But any

¹ For example see Memorandum on Commercial Treaties by M. Serruys, section III.

² The use of the maximum-minimum system was attended in the past by many difficulties. It led to tariff wars and to the abandonment at one time or another of the main principle underlying this system.—Litman: *Essentials of International Trade*, p. 118.

bilinear or multilinear system involves an elaborate machinery of consulates, invoices, certificates of origin etc.

(B) FROM THE INTERNATIONAL POINT OF VIEW

When we come to examine these contractual methods from the international point of view, it is found that whichever type of bargaining tariff is selected the flow of international commerce is more restricted than facilitated, for though both the tariffs seem to offer concessions, their spirit is combative and their aim is not so much to promote imports as to protect home industries and find outlets for surplus products of other industries. They also involve delay in completing negotiations which is detrimental to commerce. The adoption of such methods by major states has forced others to follow suit. The latest and most conspicuous example, as we have seen, is Britain herself. Unless a party to a treaty permits more imports, it is not possible for the other contracting party to increase its exports to the former through mere trade agreements. The bargaining tariffs have on the contrary led to the "padding" of rates¹ and must be taken as one of the chief causes of the high tariffs prevailing to-day in almost every country in the world.²

It would be of interest to note here that the Economic Committee of the League of Nations in 1929, in its recommendations relating to commercial policy, gave no definite opinion in regard to bargaining tariffs, but concluded that each system should be judged by results. They of course prefer low tariffs to either high intangible tariffs (non-bargaining) or bargaining tariffs.

¹ "This tendency is less obvious in the general conventional tariffs and yet both the nature of the bargaining and the widening divergence of the conventional rates from the general schedule indicate that the tendency exists". W. T. Page: Memorandum on European Bargaining Tariffs.

² cf. Tariffs: The Case Examined: Sir W. Beveridge and others, Ch. IX, especially p. 113.

They, however, pointed out that the margin between the higher and lower scales of duties was very great and therefore recommended that this margin of negotiations should be narrowed. They also suggested that the tariffs be put into force only after the negotiations have been concluded. On the other hand, while they did not favour the abandonment of "intangible" tariffs they suggested that representations from countries that felt themselves hard hit by the scale of duties should be heard before applying the tariff.¹

PART II. INTERNAL FORM OF THE TARIFFS

CLASSIFICATION

Having noted the principles on which the tariffs in other countries have been framed we shall examine their internal forms with a view to study the different ways in which they have been classified and their methods of specialisation of rates on commodities. We shall in this section confine our study to the tariffs of those countries which we described in some detail in the preceding section.²

METHODS OF CLASSIFICATION

We have already noted the main problems that arise in connection with the classification of a tariff schedule in the preceding chapter. The following table shows the number of main divisions of the tariff schedules of Australia, Canada, Japan, India and the U. S. A.

¹ Similar halting suggestions regarding the interpretation of most-favoured nation clause were also made by this Committee.

² We have not included references to the British tariff in view of the fact that the new British tariff schedule was not available to us at the time of writing.

CLASSIFICATION OF TARIFFS

<i>Country</i>	<i>Number of divisions or parts</i>
Australia	16
Canada	11
Japan	17
India	4
U. S. A.	16

Before instituting any comparison between the classifications of these tariffs we have to bear in mind the fact that apart from different starting points at which they have been built up, their main divisions must be largely the result of historical development and the different times at which they were first drawn up. Secondly we must remember that the tariff is a complex instrument for carrying out certain objective purposes wherein regard has been paid more to practical utility of the time than to theoretical consistency.

We have seen in a preceding chapter that a tariff schedule is composed of (i) rates and (ii) articles and classification can be based on either of this. A glance at these tariffs (even including that of the old U. K.) will convince us that a comparison on the basis of rates will be too cumbersome to have any value because of the large number of rates of which each schedule is composed. Indeed in the case of the U. S. Tariff classification on the basis of rates will be well nigh impossible when we look at the number of rates even in a single "Division" of its tariff. On the other hand an attempt can be made with some success in the case of the Indian tariff as we saw in the last chapter.

On the basis of articles the formal classification (alphabetical order) was to be found in the old British tariff only. The others are based on some kind of affinity between the articles themselves. The United States tariff is based on the principle of associating the manufactured

commodity with the raw material from which it is made, i. e. classified on the basis of material origin. Thus out of the 15 "schedules" 11 are named thus:—Earth, Earthenware and Glassware (schedule 2), Metals and manufactures thereof (schedule 3), Wood and manufactures thereof (schedule 4) and so on. The remaining four are Chemicals, Oils and Paints, Agricultural Products and Provisions, Spirits, Wines, etc., and Sundries.

The Canadian tariff is very much like its neighbour's, grouping the manufactured articles with the material from which they are made. Eight out of the eleven groups thus consist of raw materials and their manufactures. The remaining three are Animals, Agricultural products, Fish and Provisions; Chemicals, Drugs, Oils and Paints; and Miscellaneous.

The Japanese tariff on the other hand is framed on more bases than one, viz. Use and Material Origin. There are eight groups under the first principle and five under the second. Under the first are included (I) Plants and Animals, (II) Grains, Flours, Starch and Seeds, (III) Beverages, Comestibles and Tobacco etc. Under the second are included the following: (VIII) Yarns, threads, cordages and materials thereof, (IX) Tissues and manufactures thereof, (XI) Pulp for paper making, Paper, paper manufactures, books and pictures and (XIII) Potteries, Glass and Glassware. The remaining three (excluding miscellaneous) enumerate industries (XIV) Ores and Metals, (XV) Metal manufactures, (XVI) Clocks, watches, scientific instruments, fire-arms, vehicles, vessels and machinery.

The Australian tariff is based mainly on Use and partly on Material Origin. The latter is applied to four divisions (II) Tobacco and manufactures thereof, (V) Textiles, felts and furs and manufactures thereof, (VI) Metals and machinery, and (XIII) Paper and Stationery. Two others (excluding the miscellaneous group) enume-

rate special industries, (XIV) Vehicles and (XV) Musical instruments.

An examination of the details of these divisions shows how commodities under each of them are enumerated, and the rates of articles fixed in accordance with the principle of bargaining tariff adopted by the country. It would be difficult to compare the different ways in which a single article or a group of articles is assessed in each of these tariffs.¹ We shall be content with the general tendencies with a view to note their methods. A study of their schedules, brings out

- (i) what special industries receive protection,
- (ii) what particular part of an industry is protected,
- (iii) what articles are selected for special taxation and
- (iv) what economic problems (industrial or agricultural) are peculiar to the country.

We shall explain these points in brief as under :—

(i) In all these tariffs the divisions on metals are the largest,² and this is so owing to the fact that the iron and steel industry is regarded as the key industry in most countries.

(ii) As examples of this point are the tariffs of Australia and Japan. The former seeks to protect parts of industries, viz., vehicles, especially coach or chassis—building and musical instruments, especially pianos.³ In Australia the division on textiles and apparel shows that it is only the woollen industry that is protected, for cotton goods are imported at comparatively lower rates.⁴ Japan also makes similar provisions for parts of industries. But

¹ For an instance of comparison on these lines of the tariffs of France, Italy, Germany, Switzerland and Belgium: See Dr. E. Trendelenburg's Memorandum on Customs Nomenclature and Customs Classification, Appendix.

² Australian Tariff Nos. 136-222. Canadian Tariff Nos. 329-491. Japanese "Two groups, XIV and XV, U. S. A. paras 301-378".

³ cf. also Survey of Overseas Market (Balfour Committee Report), pp. 353-354.

⁴ See item 105.

it collects the parts under one division—Group XVI “Clocks, Watches, Scientific Instruments, Fire-arms, Vehicles, Vessels and Machinery”.

(iii) The most conspicuous example is the Japanese tariff. By a law promulgated in 1924,¹ a 100 per cent. *ad valorem* duty was imposed on certain items and these formed the luxury tariff of Japan.²

(iv) The Canadian tariff (items 457-490) shows that Canada has somewhat similar problems for her industries to those of India. We have seen before that most of the machinery, chemical manures and agricultural implements in India are imported free of duty with a view to aid industries of the country. Canada also imports these articles without duty.

COMPARISON ON THE BASIS OF DIFFERENT KINDS OF DUTIES

The proportion in which different countries use different kinds of duties affords an interesting basis of comparison. The following table which gives the number of ratings under different kinds of duties in the selected countries is specially compiled to bring out this feature.³

Country	Specific	Ad. Val.	Compound	Alternative	Free	Total
India	34	184	2	10	42	283B
Japan	981	516	—	—	174	1671
Australia	356	584	7	67	109	1056
Canada	176	521	22	1	344	1064
U. S. A.	731	674	239	27	-A	1671C

A: United States of America has a separate Free List.

B: Including 11 mixed items.

C: Subject to explanation further.

¹ No. 24 of 1924 and amended by 41 of 1925.

² This measure was necessitated by the situation that arose out of the earthquake disaster in 1923. This part has now been considerably modified by subsequent enactments.

³ The tariffs for Canada and Australia are those that were in operation at the close of the year 1929 (See Shipping World Year Book); that for the U. S. A. is the one passed in 1930. The Japanese tariff here taken, is that which obtained in 1927 (Japan Times, 1927) and the Indian tariff is the most recent one.

The figures in this table are more illustrative than those in actual operation to-day. In two of these tariffs there have been numerous modifications, especially after the present depression set in. In most cases these changes have been more or less those in the rates of duties, the pitch of their tariff levels, rather than of their structure. This is true especially of Japan and the U. S. A. We have retained these figures for Australia and Canada also because the numbers there would compare well with the tariffs of other countries of similar dates and both of them may in the near future be overhauled as pointed out in the preceding section.

The first impression that we get from the table is that our tariff when compared with those of the other countries is both small and simple. Even the old British tariff had a larger number of ratings than ours. We also notice that other countries make a much greater use of specific duties for reasons which we have already discussed in an earlier chapter. Japan makes the greatest use of specific rates among the countries we have selected.

Besides, Australia, Canada and the U. S. A. have more diversified rates of duties than others. We have also seen the reasons why recent tariffs have resort to compound and alternative duties, viz., to overcome the shortcomings of the two historic forms. It will be seen that while Australia makes a greater use of the alternative rates than the compound ones, the U. S. A. resorts more to the latter kind than the former. We also find that Canada, Japan and Australia include (as does India) the free rates within their schedules while the United States tariff has a separate free list.

THE PROBLEM OF SPECIALIZATION AND METHODS FOLLOWED IN THESE COUNTRIES

We shall now pause to consider the elaborate nature of the schedules of these countries from the point of view

of tariff method. When we say that the tariffs of these countries are more elaborate, what is it that we mean? They enumerate not only a larger number of commodities under each of the divisions of the schedule but also have a large number of the varieties of each commodity, distinguished for the purposes of the duty. To take a simple instance, Schedule I of the United States tariff enumerates hundreds of Chemicals and Paints, this division being the largest in all these tariffs for these kinds of articles. A question thus arises : why is it that they enumerate so many commodities and assign a separate rate to each ; and secondly how do they subdivide or differentiate a particular article into its several varieties? In other words, what is the need for specialisation and what are the ways of differentiation? The first question is easier to answer than the second. The chief reasons why tariffs of modern countries are specialised may be briefly mentioned as under :—

(i) We have already seen that the protective nature of a tariff makes it elaborate, because the tariff policy requires specific qualities of goods to be emphasised and the articles accordingly differentiated. The group of items under Iron and Steel in our tariff is a case in point. Protection has sometimes to be given only to a part of an industry for which even a separate section of classification is made. We have seen the examples of this method in the Australian and Japanese tariffs, for vehicles in the former tariff and a separate group for watches, clocks, machinery, etc. in the latter.

(ii) These tariffs make a greater use of specific duties than that of *ad valorem* rates and this also leads to a larger number of ratings. We have seen in a preceding chapter that this kind of duty as it is levied on a specific characteristic of the article, makes for a larger number of items than the *ad valorem* duties. Again in order to avoid the regressive effect of the

specific duty the number of articles specified has to be augmented.

(iii) In cases where *ad valorem* duties are retained they have also to be differentiated to carry out the protectionist aim and we shall presently see how this is done.

(iv) A different kind of reason is also responsible for the elaborate tariffs of modern times, viz., their bargaining character. We have seen that the tariffs of Canada and Australia are "three-deckered" while that of Japan, 'General and Conventional' and that of the U. S. A. of the nature of maximum and minimum. The proportion in which this reason affects the degree of specialization differs in each according as the kind and number of items that are devised for bargaining. Thus it will affect the Australian and Canadian Tariff most as they contain a very substantial preference for British goods, and the Japanese least because it has bargaining parts separated from the general import tariff.¹

METHODS OF SPECIALIZATION

A tariff schedule contains a large number of items specifying the articles on which duties are to be levied. A tariff-maker has first to get a clear idea of the nature of each article before he can frame a duty on it. In a majority of cases, the items are given the trade or conventional names. Thus for instance one can easily understand divisions on agricultural products and the different items thereof. In divisions containing other kinds of articles also, the enumeration of commodities is not difficult, because the items refer to broad and general aspects of commodities. But in some cases the tariff-maker has to go further as in the case of metals and metal manufac-

¹ We have to rest content with this general statement when the exact knowledge of the different items of each tariff that form part of the bargaining, cannot be obtained without the details regarding several industries and the commercial treaties of these countries.

tures, to take the most obvious examples. In such cases, because of the large variety of articles falling under such categories, it becomes necessary to distinguish them clearly. Such distinctions have led to complex and elaborate processes in practice and have come to be known as the methods of "differentiation" or "specialisation", which we shall now consider in some detail.

A perusal of the tariff schedules of these countries will at once show the varieties of methods employed for the purpose. Among the principal methods of specialisation the following may be mentioned :—

- (1) Differentiation according to Length, Breadth, Diameter and Area.
- (2) Differentiation according to other measurements and Volume.
- (3) Differentiation by Number.
- (4) Differentiation according to Weight.
- (5) Differentiation according to Value.
- (6) Differentiation according to the Content of some given commodity.
- (7) Differentiation by Description.
- (8) Differentiation by special peculiarities. e. g.
 - (a) Sugar :—Dutch Standard or Polarisation.
 - (b) Spirits :—Strength of Proof.

For the sake of illustration, we give in the appendix to this chapter a few examples of each method as applied in different countries, along with the corresponding items from the Indian schedule. This will enable us to realise how even these simple but useful methods are rarely used in the Indian schedule.

SOME PECULIAR FEATURES OF TARIFFS

As the tariffs of different countries are framed on the requirements of their own industries, each schedule is bound to differ from the others in one respect or another

and to possess peculiarities of its own. We propose to note in brief a few of such peculiar features.

THE AUSTRALIAN TARIFF

This tariff has a number of "deferred rates" (about 16).¹ The Schedule provides ordinary duties (British Preferential, Intermediate, and General) and also fixes another rate that has to be applied on and after the date prescribed for the latter, e. g. item 147.

<i>Iron and Steel viz.</i>	British Preferential.	Intermediate.	General
Plates and Sheets tinned	Free	5% .	10% . 6
A. V. and on /after 1st April } 1929, shillings per ton	7.65	9.65	11.5

The aim of these deferred rates is to let the industry coming under that item start within the country, and attain a stage at which the state is prepared to aid it by means of an import duty. The reasonable scale of production to be achieved by the industry is that when it can supply 20 to 60 per cent. of the Commonwealth needs.²

Another important feature of the Australian tariff is a number of items (about 90) the rates of which are fixed by Departmental By-laws. The Minister in charge of Trade and Customs is empowered to admit free or at lower rates of duty certain articles which would otherwise be charged under the ordinary rates of the schedule. These special rates are generally for manufactures of a kind not produced in Australia, or of a kind used for the development of some of the home industries or articles used by public bodies for educational purposes or by hospitals. Let us take some typical items.

105(1) Piecegoods which would otherwise be dutiable at a higher rate than payable under this sub-item if im-

¹ Item Nos. 118(1), 118(b2), 136(f), 147, 152, 163, 181, 186, 194(d), 197(b), 334(f), 358(a), 392, 397(a), 397, 424, in the tariff which we have taken for our study.

² cf. Skene-Smith's brochure on Structure and Working of the Australian Tariff with special Reference to Empire Marketing, pp. 4-5 foot-note.

ported for the manufacture of water-proofed piecegoods as prescribed by departmental by-laws..... 10 per cent., 20 per cent. and 25 per cent.

415(a) Manufactures imported for use in the development of an Australian industry or of the natural resources of Australia for use in public hospitals or public educational institutions established under Commonwealth or state law and not being conducted for private gain.

These two features of the Australian tariff have an importance of their own to the tariff-maker. The deferred rates provide a method of protection by which new industries are established, being attracted by the promise of protection, or the old ones get better established and organised by the promised protection. The other feature lessens the rigours of the high tariff rate on articles that are not produced in the country or are required for the production of other articles at home. It also thus avoids a tax which hampers industry, education or public health.

THE UNITED STATES TARIFF

We have already noted in an earlier section the bargaining characteristics of the United States tariff by which in the case of certain articles, American valuation is adopted and in certain others "penalty clauses", empowering the President to levy 50 per cent. maximum duties on articles coming from countries that discriminate against the U. S. A., are introduced. It may be noted that it is laid down that the articles must clearly indicate their maker or purchaser and the country of origin ¹

Another peculiarity of this tariff is with regard to the provision of rate. In some cases after mentioning separate rates, a clause is added that none of the articles thus

¹ e. g. 355 Table, butcher's carving and other knives, provided that all articles specified in the paragraph shall have the name of the country of origin and name of maker and purchaser with die sunk legibly and indelibly upon the blade in a place that shall not be covered. Even boots and shoes are minutely differentiated on the basis of content (rubber or silk).

enumerated, having a certain attribute or other quantitative standard—such as of measurement—shall have a duty less than a given percentage, e. g. para 222 “plate glass” differentiated according to area provides that none of the foregoing measuring $\frac{1}{2}$ inch or more in thickness shall be subject to a less rate of duty than 50 per cent. *ad valorem*.¹ This is thus an illustration of a method of specialisation which contains differentiation by description or measurement combined with differentiation by rate.

We have noted the deferred rates in the Australian tariff. A method of the opposite kind is found in the American tariff. Instead of promising a higher rate in future, this method levies a higher duty on articles of the protected industry, but further provides that if after a given period the President finds that the production in that commodity has failed to capture a quarter of the domestic market the high rates would again be lowered.²

¹ See also para 223.

² Para 51.....Synthetic camphor 5 cents per pound and further provides that if at the end of three years after the enactment of the Act the President finds that during the preceding six months domestic production of synthetic camphor did not exceed 25 per cent. of the domestic consumption, he is empowered after investigation through the Tariff Commission to fix the duty at 1 cent per lb. instead of at 5 cents.

APPENDIX

Illustrations of Specialisation in Different Tariff Schedules.

I. DIFFERENTIATION ACCORDING TO LENGTH, BREADTH, DIAMETER OR AREA

CANADA

398. Wrought or seamless iron or steel tubing coupled or not.
4 inches diameter but not exceeding 10 inches.

398 (a) iron or steel as above, over 10 inches in diameter.

In the same tariff width is taken as the basis in the case of
woven fabrics (560, 560a, b, d, e, 561, 562) e.g. 560a, woven
fabrics wholly of silk exceeding

26 inches in width.

560b, woven fabrics wholly of silk

26 inches in width or less.

U. S. A. para 208.

MICA.

(b) cut to dimensions, shape or form

(c) films and splittings not so cut, not above 0.00012 inch
in thickness

(f) untrimmed phlogopite mica from which no rectangular
piece exceeding 2 inches in length or 4 inches in width
may be cut

Similarly para 216.

Carbons and electrodes if less than $\frac{1}{2}$ inch in diameter or of
equivalent cross sectional area If exceeding $\frac{1}{2}$ inch.¹

JAPAN

320. Elastic webbing and elastic cords.

1. Exceeding 8 cms. in width.

2. other.

¹ See also the most minutely differentiated articles, clocks and
watches, paras 367 and 368 in which a variety of methods are found.

612 F2. Cedar.

1. not exceeding 65 mm. in thickness.
2. not exceeding 15 mm. in thickness.

621. Plaits for hat making.

1. not exceeding 6.5 mm. in width.
2. „ „ 10.0 mm. „ „

AUSTRALIA

152 (a) Iron and Steel tubes or pipes . . . of not more than 3 inches internal diameter.

334. Paper.

(c) i. Newsprinting not glazed . . . in rolls not less than 10 inches in width or in sheets not less than 20 by 25 inches or its equivalent.

ii. Printing . . . not ruled or printed in rolls not less than 10 inches; in width or in sheets not less than 20×25 inches.

INDIA

Serial No. 102 c Steel bar and rods.

(a) shapes specially designed for the reinforcement of concrete.

(b) other qualities of sizes and shapes as follows:—

1. rounds not over 7/16 inch diameter.
2. square not over 7/16 „ side.
3. flats if under 1 inch wide.
4. flats not under 8 inches wide and not over ½ inch thick

(1) 103g. Iron or steel pipes and tubes and fittings therefor if riveted or otherwise built up of plates or sheets.

(b) not galvanized.

- i. not under 1/8 inch thick
- ii. under 1/8 inch thick

(2) 103 i. Iron or steel plates or sheets not under 1/8 inch in thickness and not of cast iron.

(3) 102g. Steel ingots billets and slabs of a thickness 1½ inches or more.

II. DIFFERENTIATION ACCORDING TO OTHER MEASUREMENTS AND VOLUME

CANADA

315. Carbons over 6 inches in circumference or outside measurement

315 a. Carbon electrodes exceeding .35 inches in circumference.

AUSTRALIA

110 A—Apparel.

(i) Overcoats and suits:—

(a) Men's with chest measurement of 34 inches and over . . .

(2) (a) (d) Trousers etc. . . . according to different measurements.

253. Bottles, flasks, jars, vials and of glass, or earthenware . . differentiated according to capacity.

JAPAN

64. Wines containing not more than 24% by volume of pure alcohol which has a specific gravity of .7947 at 15°C

66. Alcoholic liquors.

Containing not more than 7% by volume of pure alcohol which has a specific gravity of .7947 at 15°C

112. Mineral oils.

specific gravity at 15°C.

A. not exceeding 0.8762.

B. „ „ 0.9212.

U. S. A.

Para 217 . . . Bottles, vials, jars capacity not less $\frac{1}{4}$ pint. or not less than 1 pint if holding less than $\frac{1}{4}$ pint.

1553. Thermostatic bottles etc., on the basis of Capacity.

(No instance of the method is found in the Indian Tariff.)

III. DIFFERENTIATION BY NUMBER

AUSTRALIA

Matches and vestas of all kinds.

- (a) (1) Wax, in boxes of 50 vestas or less
- (b) Wood in boxes of 70 matches or less per gross
of boxes etc.

292. Timber.

- (b) Laths per 1000
- (c) Palings „ 1000
- (d) Pickets „ 100

JAPAN

298. Tissues of Cotton. (A very minutely differentiated item on the number of threads in a square of 5 mm.)

U. S. A.

Para 318. Woven-wire cloth with meshes not finer than 30 wires to the lineal inch in warp or foiling. With meshes finer than 30 and not finer than 90 wires to the lineal inch.

INDIA

Serial No. 43. Matches.

- (1) In boxes containing on the average not more than 100 matches.
- (2) In boxes containing on the average more than 100 matches.

IV. DIFFERENTIATION BY WEIGHT

CANADA

208. Boracic acid and borax in packages of not less than 25 lbs. in weight

208a. Chloride of lime

- (1) in packages of not less than 25 lbs. in weight

AUSTRALIA

154. Railway and Tramways material.

- (1) Rails weighing 50 lbs. per yard and over
- (2) Rails weighing less than 50 lbs. per yard and
over

227. Tallow and Greases.

- (1) Greases in packages exceeding 4 lbs. in weight.
- (2) „ „ „ „ not exceeding 4 lbs. „

JAPAN

492. Cocks and Valves

(2) A of iron.

(a) each weighing not more than 100 Kil. Gms.

(b) " " " " " 1000 "

539. Gas meters)

540. Water meters)

and many items on machinery differentiated according to weight.

U. S. A.

Para 65. Paints colours and pigments.

(1) in tubes, jarsnot exceeding $1\frac{1}{2}$ lbs, net weight, each.

(2) exceeding $1\frac{1}{2}$ lbs. net weight, each.

Para 201. Cattle weighing less than 700 lbs., each
 $2\frac{1}{2}$ cents per lb.

Weighing 700 lbs. or more each 8 cents per lb.

INDIA

Serial No. 103. Iron or steel Railway Track material.

A. Rails.

(a) (i) 30 lbs. per yard and over. . . .

(ii) fish plates therefor.

(b) under 30 lbs. per yard.

B. Switches and Crossing etc., the leads of which are not grooved.

(i) for rails 30 lbs. per yard and over.

(ii) " " under 30 lbs. per yard.

V. DIFFERENTIATION ACCORDING TO VALUE

The United States tariff makes the greatest use of this of all these tariffs.

Para 41. Edible fruits.

Valued at less than 40 cents per lb.

Valued at 40 cents or more per lb.

INDUSTRIAL POLICY OF INDIA

- 205 (c) Keene's cement
 Valued at \$ 14 a ton or less
 Valued above \$ 14 per ton not above 20
 valued above \$ 20
225. Spectacles, Eye-glasses according to different values.

INDIA

- Serial No. 28. Cigarettes of value
 (a) not exceeding Rs. 10/8 per 1000
 (b) exceeding Rs. 10/8 per 1000

VI. DIFFERENTIATION ACCORDING TO THE CONTENT OF
 SOME GIVEN COMMODITY

AUSTRALIA

105. Piecegoods.
 (d1) Artificial silk or containing artificial silk or having artificial silk worked thereon
 (d2) Silk or containing silk or having silk worked thereon.
110. Apparel a number of sub-items sub-divided on the basis of silk or wool content.

The whole division (No. 5) on Textiles Felts and Furs and Manufactures thereof has many items framed on the basis of wool content.

JAPAN

- 64 Wines.
 B. In cask or barrel containing not more than 1 gm. of sugar in 100 Ccms. at 15°C.
 Vermouth.
 B. In cask or barrel: those containing 2 gms. of sugar
- Group IX, Tissues and Manufactures thereof, contains many items differentiated on the basis of wool or silk content.

U. S. A.

Para 6. Aluminium sulphate containing not more than 15% of alumina.

Para 24. Chemical elements and chemical and medicinal compounds

containing 20% of alcohol or less

„ more than 20% but not more than 60%

CANADA

537. Rovings, yarns and warp wholly or in part of vegetable fibre not more advanced than single, n. o. p. not containing silk or artificial silk

537 a Rovings etc., as above containing silk or artificial silk.

560 to 562a.

Woven fabrics of different kinds on the basis of wool content.

INDIA

113. Printing paper, all sorts which contain no mechanical wood pulp or in which the mechanical wood pulp amounts to less than 65% of the fibre content.

In some cases a combination of two or more of the above methods is used. e. g.

CANADA

856b. Nickel chromium, in bars and rods, not more than $\frac{1}{4}$ inch in diameter and containing more than 60% nickel or more than 10% of chromium.

JAPAN

Weight and Length { 276. Linen made by twisting together single yarn above No. 7 English and not exceeding 12 gms. per 10 meters.

298. A number of sub-divisions formed on *weight and number* of threads in a square mm.

U. S. A.

Weight and Length { Para 180 Filaments of rayon or more synthetic textile... weighing 150 deniers or more per length of 450 meters... weighing less than 150 deniers per length of 450 Ms.

INDIA

Description and Area { 99b. Rubber, insulated. Copper wires and cables, no core of which other than one specially designed as a pilot core has a sectional area of less than $1/80$ sq. inch, whether made with any additional insulating covering or not.

88. Electrical and Transmission Gear.

..... for use in circuits.

..... at a pressure not exceeding 250 volts, and copper wire differentiated as above in 99b.

Description and Flashing point { 99. Mineral oil, which has a flashing point at or above 200°F and which is used for batching jute or other fibre.

98. Mineral oil (1) which has its flashing at 200°F and is not ordinarily used for any other purpose than for lubrication.
(2) which has its flashing point at 150-F and is not used except for fuel or for some sanitary or some hygienic purpose.

Description and Thickness { 103. Iron or steel pipes, tubes, fittings, riveted or otherwise built of plates or sheets.

(a) Galvanised (b) not galvanised not under $1/8$ inch thick, under $1/8$ inch thick.

103k. Iron or steel sheets under $1/8$ in. thick, whether fabricated or not, if coated with metals other than tin and zinc.

120. Cotton piece-goods:—

(a) plain grey that is not bleached or dyed in the piece or imported in pieces which either are without woven headings or contain any length of more than 9 yards which is not divided by transverse woven headings.

VII. DIFFERENTIATION BY DESCRIPTION

This method is used much more frequently than any of the preceding ones. Thus both in Canada and Australia a number of

items on machinery are differentiated by description. It is the simplest way of specialising commodities.

CANADA

504. Planks, boards, and other lumber wood, sawn split, or cut and dressed on one side only, but not further manufactured.

555. Grass, seer, weed, mosses and vegetable fibres other than cotton, not coloured, not further manufactured than dried cleaned and cut to size ground and sifted.

AUSTRALIA

242. Glass;

(c) Bent, levelled, semi-blasted

or brilliant cut; corner, cut, levelled or engraved.

U. S. A.

Para 20. Chalk or whiting or Paris white, dry or ground or bored. . . .

precipitated. . . .

ground in oil. . . .

put in forms of tubes, sticks, etc. . . .

Para 1410.

Unbound books of all kinds.

Bound books of all kinds except those bound wholly in leather; pamphlets, music in books or sheets

JAPAN

288. Yarns: woollen or worsted.

1. Undyed or printed

A. Yarns made by twisting worsted and woollen yarns together.

B. Yarns made by twisting those of different number together

378. Papers.

1. Covered with or without application of metal foil or powder.

2. Coloured on the surface

Embossed

INDIA

75. Coal tubs, tipping wagons and the like conveyance if adapted to be worked by manual or animal labour and made mainly of iron or steel.

96 to 100. Machinery ... different kinds described.

100. (1) Iron common bar not galvanised, tinned or lead-coated if not of any shape or dimension specified in clause (a) or (c) of Serial No. 102 c.

In a similar way are differentiated 101b, 102c and 103t all under Iron and Steel.

107 A. Silver bullion or coin not otherwise specified and silver sheets and plates which have undergone no process of manufacture subsequent to rolling.

VIII. DIFFERENTIATION BY SPECIAL PECULIARITIES

JAPAN

Sugar—Item No. 40.

1. Under No. 11 Dutch Standard.
2. Under No. 22 „ „
3. Other.

INDIA

Serial No. 20 of the tariff of 1930 i. e. before protection was given to sugar industry.

Sugar excluding confectionery.

1. Sugar, crystallised or soft 23 Dutch Standard and above.
2. „ „ „ „ inferior to 23 Dutch.
3. „ „ „ „ below 8 Dutch Standard.

GREAT BRITAIN (Tariff in operation before 1931)

Sugar. (About 25 specific duties on different degrees of polarization)

Not exceeding 76 degrees of polarization.

Exceeding 76 degrees but not 77

U. S. A. Para 501.

Sugar, tank bottoms, syrups of cane juice, testing by the polariscope not above 75 degrees, and all mixtures . . . testing by polariscope about 50 sugar degrees and not above 75 and for each additional sugar degree shown by the polariscopic test.

CANADA

All sugar number 16 Dutch standard in colour, and all refined sugars . . . testing over 56 degrees of polarization and not more than 88 degrees.

And per scale of every additional degree, up to 99 degrees . . . and when over 99 degrees.

(ii) Spirits; strength of proof.

AUSTRALIA—Item No. 8¹.

(ii) Spirits and spirituous liquors.

(a) Brandy;

(i) When not exceeding the strength of proof . . .

(ii) When exceeding the strength of proof . . .

CANADA

164. Wines of all kinds, except sparkling wines, containing not more than 40 per cent. proof spirit.

INDIA

11. Liqueurs, cordials, mixtures.

(a) entered in a manner as to indicate that strength is not to be tested.

(b) if tested (not so entered).

13. Wines.

(a) Champagnes and all other sparkling wines not containing more than 42 per cent. of proof spirit.

(b) All other sorts of wines not containing more than 42 per cent. of proof spirit.

¹ Only a part of this detailed item is given for illustration. See also items, 9, 10, 13, 15.

CHAPTER VII

A NEW TARIFF SCHEDULE FOR INDIA

Having discussed the general considerations that should guide the industrial policy of the country on the one hand, and the technique of tariffs on the other, we shall now try to show their application in detail. A thorough overhauling of the tariff on the lines we have indicated would require a representative committee, with expert knowledge of different trades and of Customs administration, and with adequate resources to obtain information on all relevant points. We may in this connection emphasise the need for an industrial survey of India. While there have been several attempts to review the problem of industrialisation in India from different angles, the problem has not been viewed as a whole. The need for such a comprehensive survey has of late been realised both in commercial and official quarters. It will, therefore, not be too much to expect that before the formulation of a well planned industrial policy, an industrial survey of the country will be undertaken either under official or under non-official auspices. Such a survey should be kept up-to-date by means of a periodical census of production. Though a thorough overhauling of the tariff will not be possible unless these conditions are fulfilled, we shall by way of illustration give a tentative scheme embodying the suggestions made by us in the preceding chapters. The detailed suggestions for a new tariff given in this chapter do not, therefore, claim scientific accuracy or finality because of the obvious limitations under which we have to work. They are frankly tentative ; but this does not mean that they have been made on any arbitrary plan. Their object is to illustrate, in concrete,

as far as possible, the application of the principles and methods discussed by us in the preceding chapters.

For this purpose we shall adopt the new classification of the schedule into fourteen divisions which we have suggested in Chapter V. In each of the divisions, we shall group the different items which already find a place in our Tariff and add new ones wherever necessary; in doing so, we shall take note of the methods of specialisation and differentiation adopted by other countries.

The chief object that should determine the formation of our tariff is that it shall be the principal instrument of a national industrial policy with due regard for the interests of the consumer. In applying this principle to our proposals we shall follow the example of Australia in some cases by suggesting "Deferred Rates and Tariff By-Laws".¹ We have already noted our conclusions regarding bargaining tariffs, in general, and noticed that the Ottawa Trade Agreement Act has substantially altered the structure of our Tariff. We have also noted that when the aim of the tariff is that of protecting home industries rather than that of securing markets abroad, the maximum-minimum form is the more convenient of the two historic forms of tariffs. There has been as we have already seen in the early chapters, considerable artificial padding of rates not only to meet the steep decline in prices or exchange troubles, but also to increase the bargaining power in negotiating commercial treaties. In view of the Tariff Truce, and in view of the gradual change of world

¹ These two methods—deferred rates and tariff by-laws—seem to be eminently suited to a protectionist policy. The Tariff Board while surveying the industrial position is likely to come across industries that seem to promise rapid growth, but are as yet conducted on too small a scale to be helped by means of import duties. A deferred rate, then, promises protection, if, within the prescribed period such an industry has started production on the scale fixed by the Board. On the other hand, Tariff By-laws will mitigate the rigours of protective duties by permitting imports needed primarily for further production at lower rates or free of duty. These by-laws can also be applied where the articles in question are used for educative or public purposes.

opinion regarding bargaining tariffs we have not considered this issue in detail in spite of our commitments at Ottawa. This does not mean that the bargaining tariff may not assume importance for us in future. For the reasons noted above, however, we have kept only one column for the duties suggested by us. The existing rates are shown in two columns as explained in a former chapter. We have not reserved separate columns for the Preferential rates on British and Colonial products, but only shown the preferential rates of duties. The serial numbers of items to which the preferential rates apply at present are marked P.

Besides these considerations, we have tried to take due note of the existing state of trade and industry, with regard to each article before proposing a change in the duty. It has not been possible to enter into an elaborate discussion of these important aspects, though explanations have been offered in the more important cases. In the case of certain industries we have found the need for a more detailed inquiry before new duties can be suggested, particularly on protective grounds e. g. chemicals and textiles. In such cases, we have been content with making out a prima facie case for such an enquiry by the Tariff Board instead of suggesting duties definitely.

Regarding the changes in the duties proposed by us, we may explain certain general standards adopted by us, leaving specific changes to be explained in connection with each division separately.

In the first place we have adopted a luxury duty of 50 per cent. *ad valorem*.¹ This rate coincides with the one which is now in operation and has been brought about by

¹ The Taxation Enquiry Committee divided the then existing Tariff into three classes (i) articles of direct consumption, (ii) means of production and (iii) raw materials of industries with a view to examine the incidence of the increase of duties since the War. They subdivided (i) articles of general consumption into (a) those consumed by the general population, and (b) those

the surcharges introduced during the last three years. We do not think that his rate is too heavy, especially when we remember that some other countries like Japan have a luxury rate much higher (100 per cent. in Japan) than 50 per cent. In the case of semi-luxury articles we have adopted the rate of 30 per cent. This is quite different from the 30 per cent. rate as found in our tariff to-day. As we have already seen, in our present tariff the 30 per cent. rate is generally applied to the articles which are subject to preferential duties. We propose, however, to go back to the general rate which operated in the years that preceded the surcharges begun in 1931-32. On the one hand the 25 per cent. general rate of to-day is admittedly meant for meeting the financial stringency, and is therefore not the normal rate which the Government is likely to fix for a long period. On the other hand we believe that a 15 per cent. general rate is reasonable and moderate and well suited to India's financial needs. Besides, this rate will not be considered too heavy when a general scaling down of tariff walls is undertaken the world over. It will also be seen that in a number of cases in which the general rate is applicable to-day we suggest the higher 30 per cent. rate for special reasons. The smallest revenue duty to-day is $2\frac{1}{2}$ per cent. ; we propose to raise it to 5 per cent.

We consider that these revenue duties will on the whole bring sufficient revenue to make good the loss of revenue which is likely to result from protective duties which should be increased in number according to the policy already suggested.

It may also be noted that while we have kept in view the draft frame work of customs nomenclature of the League of Nations, already referred to, it has not been possible to adhere to it fully ; the Report of the Sub-

consumed by the rich. Some such tentative classification may be useful in the consideration of the question of changes in duties for revenue only.

Committee of the Experts itself pointed out that a customs nomenclature must inevitably reflect the economic conditions of a country.¹

¹The aim of the Economic Committee was to follow up the resolutions of the Economic Conference (1927) with concrete suggestions to be offered to the nations for the lowering of tariff barriers. But this was too much to expect in view of the fact that the needs of different countries vary greatly so that a uniformity in tariff nomenclature was at least very difficult of achievement. This difficulty was once again demonstrated when the Tariff Truce Conference (1930) failed to bring forth any definite result.

**INDIAN CUSTOMS TARIFF
(PROPOSED SCHEDULE)**

PRELIMINARIES

Article I—Unenumerated goods: Every article not enumerated shall pay a duty, payable for that article which it resembles most in quality, texture or use, and in the event of its resembling more articles than one, it is to pay a duty equal to the highest duty paying article.

Article II—Mixed goods: Unless otherwise directed any article composed of two or more materials must be deemed for the purposes of classification, to be composed wholly of the materials of chief value in the article, and when the materials are of equal value the article shall be classified as if it were composed wholly of the material paying the highest rate of duty.

DIVISION I. LIVING ANIMALS AND PRODUCTS OF THE ANIMAL KINGDOM

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Living Animals	Free	—	Free
2p	Fishes			
	(a) Fish—dry, salted	Rs. 3/8 per cwt.	Rs. 1/8 per cwt.	Rs. 5/10 per cwt.
	(b) Fish—wet, salted	As. 9/8 per Md. plus 6½ p. c. A.V.	—	Rs. 2/13 per Md.
	(c) Fish—unsalted, dry	30 p.c. A.V.	20 p.c.	30 p. c. A. V.
	(d) Fish canned	30 p.c. A.V.	do	do
	(e) Fish, other	25 p.c. A.V.	—	do
	(f) Fish maws	do	—	do
3p	Milk			
	(a) Condensed, or preserved	30 p.c. A.V.	20 p.c.	20 p. c. A. V.
	(b) Milk foods	25 p. c.	—	15 p. c. A. V.

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
4p	Animal Oils			
	(a) Fish Oil including Whale oil	30 p. c.	20 p. c.	20 p. c. A. V.
	(b) Other oils	25 p. c.	—	do
5	Fertilizers of Animal origin	—	—	Free
6	Cowries and shells	25 p.c. A.V.	—	15 p. c. A. V.
7	Ivory			
	(a) Unmanufactured	30 p.c. A.V.	20 p. c.	30 p. c. A. V.
	(b) Manufactured	50 p.c. A.V.	—	50 p. c. A. V.
8	Pearls unset	Free	—	50 p. c. A. V.
9	Cheese (including canned)	25 p.c. A.V.	—	30 p. c. A. V.

The duty on Fish is excessively low. Till recently it worked out at only $2\frac{1}{2}$ per cent. on dry fish and 5 per cent. on wet.¹ Imported fish is not an article of general consumption for the majority of population, and where fish is commonly used as an article of food, it is generally obtained by the poor from the local fishermen. We may, therefore, regard imported fish, if not as a luxury article, at least as a semi-luxury one, on which a rate of 30 per cent. *ad valorem* must be imposed. The imports of Fish of all kinds are on an average 35 lakhs of rupees in value, and as it is a semi-luxury article a higher duty will fall on those who are able to bear it. So also the rate on Dry Fish may be levied at Rs. $5/10$ As. a maund and on Wet at Rs. $2/13$ As. a maund. Consistently with this the duty on the other two kinds of Fish must be increased to 30 per cent. *ad valorem*. On the same considerations the duty on Cheese should be double the general rate that we have adopted. The imports of Condensed Milk show a

¹cf. Evidence of A. E. Boyd, Collector of Sea Customs, Burma, before Taxation Enquiry Committee, Vol. VI, p. 177.

steady rise during the last five years ; they are not likely to be affected even if the duty were retained at 20 per cent. in normal years. For the same reason we suggest a duty of 20 per cent. instead of 15 on Animal Oils.

Manufactured Ivory and Unset Pearls would come under luxury articles with a 50 per cent. duty.

DIVISION II. AGRICULTURAL PRODUCTS, GROCERIES AND PROVISIONS

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Living Plants	Free		Free
2p	Vegetables, fresh or dried	30% A. V.	20%	15% A. V.
3	Hops	Free	—	Free
4p	Edible Fruits			
	(a) Fresh or dried.	30% A. V.	20%	15% A. V.
	(b) Preserved or canned	do.	do.	30% A. V.
5	(a) Flours (not otherwise specified)	25% A. V.	—	15% A. V.
	(b) Wheat flour	Rs. 2/8 per cwt.	—	do.
6	Sago flour	Free	—	Free
7p	Tea			
	(a) Black	As. 5 per lb.	As. 3. per lb.	30% A. V.
	(b) Green	Do.	do.	do.
8p	Coffee			
	(a) Other than roasted or ground	25% and An. 1 per lb.	25 p. c.	20% A. V.
	(b) Coffee canned or bottled	30% A. V.	20%	do.
	(c) Roasted or ground and packed in tins	25% and An. 1 per lb.	25 p. c.	30% A. V.
9	Chicory and other coffee substitutes	—	—	do.
10p	Cocoa	30%	20%	do.
11	Salt	Rs. 1-9 per Md. plus 4½ As.	—	Same as suggested by the Tariff Board

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
19	Saccharine	Rs. 6-4 per lb. or 18½% A. V. whichever is higher	—	Rs. 5 per lb.
15p	Spices			
	Cardamoms, cassia, cinnamon, cloves, nutmegs and pepper when underground	45% A. V.	37½%	30%
	When not underground	37½% A. V.	—	do.
	Chillies, ginger and mace	30 p. c.	23½%	do.
	Other	—	—	do.
14p	Oil-seeds	30% A. V.	20% A. V.	15% A. V.
15	Oil-cakes	25% A. V.	—	15% A. V.
16	Sugar and Sugar candy excluding confectionery	Rs. 9-1 per cwt.	—	Since 1931 the sugar has been protected and the industry shows phenomenal development as a result of this state aid.
17p	Confectionery	50% A. V.	40%	50% A. V.

As compared with the Divisions of Agricultural products of the tariffs of the other countries which we have studied this Division in India is bound to be small, as India is an agricultural country herself. But here also some changes in the duties on the articles are called for. The present tariff (Serial No. 4) levies a general duty of 30 per cent. on "Fruits, Vegetables, all sorts, fresh, dried, salted or preserved, not otherwise specified". This seems to be a very wide clause and the incidence of the general rate falls unequally not only upon vegetables and fruits of different kinds but also upon fruits imported in-

their natural state, and those which have been subjected to other processes such as canned or preserved fruits. Therefore, the latter should be more heavily taxed while the fresh and dried fruits may be assessed at 15 per cent. We propose a duty of 30 per cent., in view of the fact that canned or preserved fruits are consumed only by the well-to-do and are by no means necessities of life. Other fruits like almonds or cashew on the one hand and dates on the other must be differentiated and a separate duty levied on each.

Another article on which it is safe to increase the duty is tea. Tea is largely exported from India and the imports from abroad are of special qualities only ; and this tea is not used by the general consumers and the duty therefore is likely to be borne only by the special class of consumers. We, therefore, propose the duty of 30 per cent. *ad valorem*, but a specific duty on this basis should be preferred.¹ On more or less similar grounds we may fix the duty to 20 per cent. on Coffee other than roasted or ground, and to 30 per cent. on roasted or ground and packed in tins ; and we may have the same rate for Chicory and Coffee substitutes. On the same considerations Cocoa which is not separately mentioned in the existing schedule could be charged at 30 per cent.

Recently the duties on spices have been specified in more details as well as raised. While we agree that we should have more revenue from articles which yield it easily, we believe the present high rates are emergency rates and therefore suggest a uniform rate of 20 per cent. A. V.

¹ cf. Evidence of Mr. A. E. Boyd, before the Taxation Enquiry Committee. He proposed a duty of 3 annas a lb.

DIVISION III. LIQUOR, SPIRITS, BEVERAGES AND TOBACCO

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1p	Ale and beer specified according to the contents of the bottle in which they are imported see Serial No. 8 of the present tariff	general duty Rs. 1/8 per imperial gallon	Rs. 1/2/8 per imperial gallon	As. 19/4 per imperial gallon
2	Port, Cider and other fermented liquors specified as in 1	general duty Rs. 1/4 per gallon	—	do.
3	Liquors, Cordial, Bitters, Mixtures, and other preparations containing spirit not otherwise specified (i) entered in such a manner as to indicate that the strength is not to be tested. (ii) if not so entered	Rs. 50/- per gallon Rs. 37/8 per gallon	— —	Rs. 40/- per gallon Rs. 29/5 increased or reduced as the strength of spirit exceeds or is less than London proof
4	Other spirits:— Brandy, gin, whisky and other sorts not otherwise specified	Rs. 37/8 per gallon	—	Rs. 29/5 per gallon
5p	Spirits:— 1. Drugs and medicines containing spirits (i) entered in such a manner as to indicate that the strength of the spirit is not to be tested (ii) not so entered	Rs. 40/- per imperial gallon Rs. 29/- per gallon	Rs. 36/- Rs. 26/-	Rs. 29/5 per gallon do

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	2. Perfumed spirit	Rs. 60/- per gallon	Rs. 52/8	—
	3. Rum	Rs. 37/8 per gallon	Rs. 33/12	—
6	Denatured spirit	9 ³ / ₈ %	—	As. 6/- per gallon
7	Wines—			
	(a) Champagne and others, sparkling, not containing more than 42 p. c. of proof spirit	Rs. 13/2 per imperial gallon	—	Rs. 12/- per imperial gallon
	(b) All others	Rs. 7/8 per imperial gallon	—	Rs. 6/- per imperial gallon
8	Vinegar	2 ¹ / ₂ % A. V.	—	5% A. V.
9	Other beverages not otherwise specified	—	—	30% A. V.
10p	Tobacco			
	(a) Unmanufactured	Rs. 2 per lb.	Rs. 1/8	Rs. 2/- per lb.
	(b) Manufactured	Rs. 3/12 per lb.	—	Rs. 3/8 per lb.
11	Cigarettes			
	(a) Not exceeding Rs. 10/8 per 1000	Rs. 10/10 per 1000	—	Rs. 10/8 per 1000
	(b) Exceeding Rs. 10/8 per 1000	Rs. 15 per 1000	—	Rs. 15/12 per 1000
12	Cigars	112 ¹ / ₂ % A. V.	—	150% A. V.

As early as in 1926 increase of duties on liquors were recommended by the Taxation Enquiry Committee, especially in view of the fact that Bombay and Bengal could levy "vend license fees"¹ in addition to the import duties, which these articles could easily bear. In the Budget for 1931-32 the duties were appreciably raised and we have more or less retained these enhancements in our proposed duties, as the later surcharges have been levied in times

¹ A duty based on quantity, charged on liquors removed from the Custom House, see para 146 of the Report.

of falling prices when the exact incidence of specific duties could not be safely ascertained.

On tobacco and cigarettes our proposed duties are almost the same as the existing ones. Our proposals are in consonance with the suggested luxury rates, and we may therefore fix the duty on unmanufactured tobacco at Rs. 2/- and on manufactured at Rs. 3/4 per lb. accompanied by an excise duty of As. 8 on the former and of Re. 1/- on the latter. We also propose that the duty on cigarettes should be 100 per cent. in the case of those the price of which does not exceed Rs. 10/8 per 1000 and 150 per cent. in the case of others. The recent surcharges as also the Swadeshi movement have given a great impetus to cigarette-making and the retention of the duties at our proposed rates may enable the home-manufacturer to improve the quality and compete successfully with the other foreign and better known brands. Cigars too would, we believe, easily bear the high rate of 150 per cent.

DIVISION IV. HIDES AND SKINS, RUBBER AND MANUFACTURES THEREOF

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Hides and Skins, raw or salted or pickled	Free	—	Free
2	Hides and skins dyed or varnished	25% A. V.	—	15% A. V. and on and after Dec. 1934 20%
3p	Skins, tanned or dressed	30% A. V.	20%	do.
4p	Imitation leather or Artificial leather	30% A. V.	20%	15% A. V.
5	Skins for morocco leather tanned but not further manufactured	Not specified	—	20% A. V.
6	Japanned, Patent, Enamelled leather	do.	—	30% A. V.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
7	Gut and similar articles, to be used as tanned hides or skins	Not specified	—	Free
8p	Footwear—			
	(a) Boots and shoes of leather	30% A. V. or As. 5 per pair which-ever is higher	20% or As. 5 per pair	30% A. V.
	(b) Boots and shoes not otherwise specified	25% A. V. or As. 5 per pair which-ever is higher	—	30% A. V.
	(c) Other footwear containing leather	Not specified	—	50% A. V.
9	Leather gloves	Not specified	—	50% A. V.
10	Other manufactures of leather not otherwise specified			
	(a) Belts, belting and hoses for machinery	Free	—	Free
	(b) Sweat leather for Hats and Hat cases	Not specified	—	30% A. V.
	(c) Harness and Saddlery	25% A. V.	—	30% A. V.
11	Bags, Trunks, Suit cases	25% A. V.	—	—
	(a) Entirely of leather	Not specified	—	30% A.
	(b) Partly of leather	do.	—	do.
	(c) Covered with leather	do.	—	do.
12	Sponges	Not specified	—	15% A.
13	Furs	do.	—	50% A. V.
14	Rubber, guttapercha and similar substances, raw and unworked	Free	—	Free
15	Rubber, stumps and seeds	Free	—	Free
16p	Rubber tyres—			
	(a) Pneumatic	30% A. V.	20%	20% A. V.
	(b) Solid	do.	do.	do.
	(c) Motor covers	do.	do.	do.

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	(d) Pneumatic motor covers	30%, A. V.	20%	30%, A. V.
	(e) Pneumatic motor cycle covers.	do.	do.	do.
	(f) Pneumatic motor cycles tubes	do.	do.	do.
17	Rubber bags, handles, books, belts, erasers	do.	do.	do.
18	Fancy articles of Rubber	Not specified	—	30%, A. V.
19	Other articles of Rubber, such as rubber soles not otherwise specified	Not specified	—	15%, A. V.

India is a large exporter of hides and skins in the raw material stage. The export duty levied in 1918 (15 per cent.) was reduced in 1923 as it did not succeed in fulfilling its purpose, though some progress had been made, especially in the Madras Presidency, with regard to tanning. The recent measures of the Government contemplating the appointment of a Hides and Skins Cess Committee with powers to levy a cess instead of an export duty have been approved of by commercial bodies, and so the question of an export duty may be given up altogether. But the point to be stressed here is that in order to foster the tanning industry at home, higher import duties may be levied on tanned or other worked up hides, somewhat on the lines given above for which separate items differentiated in greater details will be necessary.

As for the manufactures of leather deferred rates such as those considered above may be levied which would come into operation as the industry progresses, e. g. a higher duty on Japanned or Patent leather, say from December 1934. During the period intervening between the promise of raising the duty and the actual enhancement of the

duties tanners may make the necessary adjustments for developing their industry up to the required level. During very recent years leather manufacturing industry especially in the South has been making some headway, and we believe a system of deferred rates will eminently suit a policy of encouraging the growth of the different branches of the industry.

Rubber: There is no rubber industry in India worthy of support. The rubber manufactures that are imported consist of two kinds, (i) Those used in production such as rubber pipes and tubes. In this class also may be included tyres for lorries and buses. (ii) The other kind of articles are those used in direct consumption such as motor tyres, rubber bags etc.... The former may be left as they are but for the latter a more detailed specification has to be made, and duties have to be adjusted, accordingly.

DIVISION V. OILS AND PAINTS

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Kerosene	As. 3/9 per imperial gallon	—	As. 3 per gallon
2	Motor Spirit	As. 10 per imperial gallon	—	As. 8 per gallon
3p	Mineral Oil			
	(a) Which has a flashing point at or above 300°F and is ordinarily used for batching of jute.	Rs. 15/10 per ton	—	—
	(b) Which has its flashing point at or above 160°F and is ordinarily used for fuel or sanitary or hygienic purposes	12½% A. V.	—	—

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	(c) Mineral oil with a flashing point at or above 200°F and is ordinarily used for lubrication	As. 2/6 per imperial gallon	6 pies	—
4p	Natural Essential Oils			
	1. Citronella, Cinnamon and Cassia	30% A. V.	20%	15% A. V.
	2. Almond, Begamot, Cajupatti, Camphor Cloves, Eucalyptus, Lavender, Lemon and Peppermint.	25% A. V.	—	15% A. V.
5	Synthetic essential oils	30% A. V.	20%	15% A. V.
6	Vegetable Non-essential Oils.			
	(a) Coconut	35 p. c. } A. V. }	25 p. c.	15% A. V.
	(b) Ground nut			
	(c) Linseed			
7	Vaseline	Not Specified		30% A. V.
8	Cosmetics	do		50% A. V.
9p	Paints and Painter's Materials			
	(a) Barytes	25 p. c. } A. V. }		15% A. V.
	(b) Blue Paint or Paris Blue			
	(c) Enamels, prepared			
	(d) Graphite			
	(e) Red and White Lead			
	(f) White Zinc			
	(g) Other sorts of paints			
	(h) Genuine Turpentine			
	(i) Turpentine substitutes			
	(j) Varnish			
	(k) Other painter's materials not otherwise provided for	30% A. V.	20%	15% A. V.

The Oil industry is very similar in importance to the Chemical industry,¹ in as much as it is also a basic industry. The position of India in respect of the oil industry is peculiar. There was in the pre-depression period a world shortage of the supply of seeds due to the fact that the world demand for vegetable oils had increased considerably and the European countries too which used fats and non-oleogineous substances for soap etc., demanded vegetable oils.² In India on the other hand large quantities of oil seeds are produced and exported. It is thus an industry closely allied to agriculture. Farmers produce oil seeds and the whole agricultural population requires oils for food and needs oil-cakes for cattle. There is thus a large home market for oils and oil seeds.

India produced, in 1929, oil seeds worth Rs. 70 crores.³ The production in quantity in the same year is given below :—

Seeds.	Tons (in thousands).
Cotton	1500
Ground-nut	1450
Rape and Mustard	1172
Linseed	541
Sesame	504
Castor	114

Even after deducting the quantity required for agriculture itself (seed purposes) a large amount is left which could be utilised for crushing and oil-making. It may also be noted that the practice of feeding cows and buffaloes with cotton seeds instead of oil-cakes, not only deprives the country of a substantial portion of oils, but does harm to the cattle themselves.

¹ See Division X below.

² "Capital" 13-12-1929, Article by J. A. Hare on "Vegetable Oil Industry in India and its Potentialities". cf. Also Vera Anstey. Economic Development of India, p. 258.

³ This and the following figures are taken from the article by Mr. Hare.

We may, therefore, think of the possibility of levying an export duty, but before an export duty can be definitely worked out a detailed inquiry by the Tariff Board is essential. India also exports a large quantity of oil-cakes (in value about Rs. 3 crores).¹ It is therefore safe to assert that the future of the oil industry depends upon its own powers of organization. The soap industry, in particular, will be benefited most by its development.² At present India imports soap to the extent of Rs. 1½ crores. The other industries most likely to be benefited are the paint and varnish industries.

In the case of Kerosene we have suggested the same duty as it operated in 1931. Before this date the duty was fixed at As. 2/3 pies. Kerosene is an article of general consumption and therefore while we have put the rate at As. 3 per gallon it may be worth trying whether a still lower rate will benefit the treasury by increased consumption. On the other hand while the present duty on motor spirit viz. As. 10 may be regarded as excessive—and intended only for a period of emergency—it would be quite safe to fix it at As. 8. It will thus not only be justified as a luxury duty but also meet the suggestions of the Road Development Committee of 1929.

In the case of other oils we refer in detail to the items with a view to watch the future production of these oils at home and the imports of the same. No increase in duties can be suggested, because in most cases the imports are not great in value and in some cases e. g. Almond oil, they have considerably declined. On Coconut oil, the duty may be raised to 30 per cent. pending the inquiry for protection that we have suggested, as the imports of that oil are substantial, (30 lakhs).

¹ See the Article above referred to.

² cf. Vera Anstey, pp. 257-59.

DIVISION VI. GUMS, RESINS, LAC, TALLOW, STEARINE, WAX AND MANUFACTURES THEREOF

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1p	Gums of different kinds and Resins			
	(a) Arabic and Benjamin			
	(b) Damer and resins	30% A. V.	20%	15% A. V.
	(c) Other sorts	25% A. V.	—	do.
2	Lac			
	(a) Seed or stick	Free	—	Free
	(b) Other kinds excluding lac dye	25% A. V.	—	15% A. V.
3	Manufactures of Lac, not otherwise provided for	Not specified	—	15% A. V.
4	Tallow	Free	—	Free
5	Stearine and Grease excluding mineral grease	25% A. V.	—	15% A. V.
6	Wax excluding parafin wax and candles	25% A. V.	—	15% A. V.
7	Parafin wax	Not specified	—	15% A. V.
8	Candles	25% A. V.	—	15% A. V.
9p	Bees wax	30% A. V.	20%	15% A. V.

The articles in this division do not form an important group of the tariffs of the countries we have examined. The general revenue duty on them may be retained. The most important articles in this division is lac. An export duty of 5 per cent. was recommended by the Taxation Enquiry Committee, in view of the fact that the substitutes of Shellac have not proved successful, and India continues to enjoy practically a monopolistic position. We concur with this suggestion. The exports of lac amounted to Rs. 864 lakhs in 1928-29 and the yield of

¹Para 160 of the Report.

the Export Duty at 5 per cent. would, therefore, be Rs. 43 lakhs.¹

On the import side, too, one has to take notice of recent developments of the Lac and Shellac industry. There is also a natural advantage to the industry in as much as 90 per cent. of the production of lac comes from a compact area, comprising Chhota-Nagpur and other districts in Orissa and the Central Provinces.² The Research Institute established in 1921 at Ranchi is showing interesting results,³ and we may suggest that the articles coming under lac may be differentiated according to the different commodities produced such as gramophone records and here also the best way of assisting the industry would be by means of deferred duties such as those suggested by us in the case of manufactures of hides and skins.

DIVISION VII. WOOD, WICKER, CANES, RATTANS, CORK AND MANUFACTURES THEREOF INCLUDING MATCHES

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Firewood	9½% A. V.	—	5% A. V.
2	Sandal wood	Not specified		15% A. V.
Sp	Building and Cabinet worker's wood			
	(a) Jarrah wood	30% A. V.	0%	15% A. V.
	(b) Teak wood			
	(c) Other kinds of wood and timber.			

¹ In common with other commodities the exports of these, too, have suffered heavily in value being only worth 184 lakhs in 1931-32. In quantity, however, they have not declined.

² See an Article on the Lac and Shellac Industry by Mrs. Dorothy Norris, Director, Indian Lac Association's Research Institute, "Capital" 10th December 1929.

³ *Ibid.*

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	(d) Manufactures of wood other than furniture or cabinet ware. n. o. p.	30% A. V.	20%	15% A. V.
4	Joinery work for Buildings, such as doors, window frames etc.	Not specified		30% A. V.
5	Furniture and Cabinet ware			
	(a) Bedsteads	15% A. V.	—	50% A. V.
	(b) Furniture of wood other than bedsteads			
6	Caskets, cash boxes, jewel boxes and wooden fancy goods	Not specified		do.
7	Blocks and Sleepers for railways	15% A. V.	—	10% A. V.
8	Billiard tables	Not specified		50% A. V.
9p	Cork			
	(a) Raw	do.		15% A. V.
	(b) Manufactures of cork	30% A. V.	20%	do.
10	Canes and Rattans and Manufactures thereof	25% A. V.		do.
11	Matches			
	(a) In boxes containing, on the average, not more than 100 matches	Rs. 1/14. per gross of boxes		Rs. 1/8 per gross of boxes
	(b) In boxes containing, on the average, more than 100 matches	For every 25 matches or fraction thereof in each box As. 7/6		For every 25 matches or fraction thereof in each box As. 6.
19	Undipped splints, such as are used for match making	As. 5½ per lb.		As. 4/6 per lb.
13	Veneers, used for making boxes	As. 7/6 per lb.		As. 6 per lb.
14	Mats and matting	25% A. V.		15% A. V.
15p	Coir matting	30% A. V.	20%	do.

The present tariff divides wood and articles made therefrom into Wood and Timber, (Serial Nos. 48-49) Furniture, Cabinetware and Manufactures of Wood, (Serial No. 92) and Wooden Blocks for Printing (Serial No. 98) included as an item under Machinery. The Imports excluding the wooden blocks amounted to Rs. 1.2 crores in 1928-29.¹ We may as well make a more detailed enumeration of the articles imported, for example, furniture and cabinet maker's wood and joinery work (Window frames or picture frames, bedsteads, etc.), with additional duties on articles generally regarded as luxury articles, because the existing rate on "furniture and cabinetware and all manufactures of wood" is too general. We therefore add some more items for these.

For manufactures of Cork we have added a separate item with the general duty on them. On canes and rattans the existing rates may be continued, and so also for matches on which the duties are already levied in accordance with the needs of the industry.

In the case of matches and allied articles we have adhered to the recommendations of the Tariff Board and excluded the present surcharges in our proposals.

DIVISION VIII. MINERALS (A) COAL, COKE, CEMENT, STONE AND MINERALS NOT OTHERWISE PROVIDED FOR

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Slates and Whet-stones	Not specified	—	15% A. V.
2	Slate Pencils	25% A. V.	—	15% A. V.
3	Marbleware	25% A. V.	—	50% A. V.
4	Artificial marble and marbleware	Not specified	—	50% A. V.
5	Mica			
	(a) Unmanufactured	Free	—	Free

¹ 80 lakhs in 1931-32.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	(b) In cut sheets or plates and other manufactures	Not specified		15% A. V.
6	Asbestos			
	(a) raw	do.	—	15%
	(b) manufactures of	do.		15%
7p	Cement			
	(a) Portland	Rs. 18/4 per ton	Rs. 13/12	—
	(b) Other	30% A. V.	20%	15% A. V.
8	Manufactures of Cement, including compressed concrete works	Not specified		30% A. V.
9	Manufactures of Plaster, such as sheets and pieces for building	do.		30%
10	Coal	As. 10 per ton		As. 8 per ton plus Rs. 1/8 per ton for coal imported from South Africa
11	Coke	As. 10 per ton	—	As. 8 per ton
12	Precious stones			
	(a) Unset and imported uncut	Free	—	30%
	(b) Unset and imported cut	25% A. V.	—	50% A. V.
	(c) Set and imported cut	Not specified	—	50% A. V.
13	Semi-precious stones, such as agates amethysts etc.	do.	—	30% A. V.
14	Chalk and Lime	25% A. V.	—	15% A. V.
15	Graphite crucibles	Not specified	—	15% A. V.

Coal and Cement form the most important articles of this group, and both these industries applied to the Tariff Board for protection without success. We may note here that the Coal Industry is making steady progress. The

output 1928 was 22,543,000 tons, only 85,000 tons less than the record output of 1919. It was 2.2 per cent. more than the previous year,¹ and there was an increase in all the Provinces except Assam and the Punjab. The Karanpura field, which gives coal of first class quality, is expected to assume an increasing importance with the completion of the through line to Daltongunj and Vizagpatam. There has also been a steady fall in the export value and the value at the pit's mouth, as well as an increase in the per capita output.² It is also reported that an increasing use of machinery is being made for winning coal. In these circumstances we believe that the Report of the Minority of the Tariff Board³ recommending a countervailing duty of Rs. 1/8 per ton should be acted upon. An industry that is showing progress need not be handicapped in the home market itself. It may be noted that in consonance with a sound protective policy, the general interest of the industry and of the country as a whole must always be considered more important than those of a section of the producers or consumers.

The other industry named above, Cement, which was also examined by the Tariff Board is often termed the most important non-metallic material for constructional purposes used by the engineer. It may also be noted that it is one of the few industries that have shown phenomenal development within a very short period. Though commenced in 1904—and attempted much earlier,⁴—it is a War product and has grown remarkably.⁵ The figures given below speak for themselves. At the time of the Tariff Board Enquiry the industry suffered from a peculiar disability. Overproduction and unremunerative

¹ Figures from Statistical Review of the Director General of Commercial Intelligence. "Capital" 2-1-1930.

² *Ibid.*

³ Mr. Ginwalla's Minute of Dissent.

⁴ Report of the Tariff Board on Cement, p. 4.

⁵ The figures in tons are:— (Figures exclusive of Burma.)

prices due to internal competition, and the preference of the consumers of foreign cement,—in spite of the fact that repeated tests such as at the Government Test House at Alipore showed that Indian Cement was not inferior to any imported cement,—were the chief difficulties of the industry. The subsequent progress made by it can be seen from the above-mentioned figures. The indigenous industry supplies 90 per cent. of the home demand, and the future holds out bright prospects for the industry.¹ The Concrete Association of India is doing good work for popularising the use of Cement and the new “all-concrete” roads—so successful in America and Great Britain,² are likely to result in a still greater use of Cement.

DIVISION IX. MINERALS (B) METALS AND METAL MANUFACTURES

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
IRON AND STEEL				
1	Iron ore	Free		Free
2p	Iron and steel manufactures as at present specified in the existing schedule on the recommendations of the Tariff Board. (Serial Nos. 101a-103t)	—	—	—
3	Safes, and strong boxes	Not specified		30% A. V.

Year	Production	Imports	Total consumption
1920	91253	138693	229951
1924	263746	124186	387932
1928	557953	74700	632653
1930	559,856	68,000	627,856
1931	587,806	62,500	650,306
1932	582,182	59,000	641,182

¹ cf. Times of India—Special Number, 16-9-1933, pp. 45-46.

² See the number of “Capital” above cited, 13-12-1928.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
4	Beds, Tables, Chairs, and other furniture of irons	Not specified		30% A. V.
5	Knitting pins and needles and safety pins	do.		15% A. V.
6p	Conveyances			
	(a) Coal tubs, tipping wagons and the like conveyances for use and light rail track, if adopted to be made or worked by animal labour and if made of iron or steel	Of British manufacture Rs. 26/4 per ton or 21½% whichever is higher; additional Rs. 18/12 in case of non-British manufacture		Of British manufacture Rs. 26/4 per ton or 21½% whichever is higher; additional Rs. 18/12 in case of non-British manufacture
	(b) Tram cars			
	(i) Imported with bodies	25% A. V.	—	20% A. V.
	(ii) Imported without bodies	25% A. V.	—	15% A. V.
	(c) Carriages and cars, not mechanically propelled	30% A. V.	20%	30% A. V.
	(d) Perambulators and gocarts	Not specified	—	do.
	(e) Cycles			
	(i) Bicycles imported entire or in sections	30% A. V.	20%	30% A. V.
	(ii) Parts of accessories of Bicycles other than tyres	do.	do.	20% A. V.
	(iii) Tricycles	Not specified		30% A. V.
	(f) Motor Cars			
	(i) Motor cars imported with chassis	37½% A. V.	30%	50% A. V.
	(ii) Motor cars imported without chassis	do.	do.	30% A. V.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
	(iii) Motor buses, with bodies	25 % A. V.	17½%	30%
	(iv) Motor buses imported without bodies	do.	do.	20% A. V.
	(v) Motor lorries	do.	do.	do.
7	Airships imported entire and parts of aeroplanes	2½% A. V.	—	5% A. V.
8	Vessels			
	(a) Dredging vessels	15⅝% A. V.		10% A. V.
	(b) Steam launches			
	(c) Ships of wood not propelled by steam.			
9	Railway plant and Rolling stock, as at present specified in the existing schedule (Serial Nos. 117 and 118)	—	—	—
10p	Cutlery			
	(a) Pruning knives, other than knives, and forks	30% A. V.	20%	30% A. V.
	(b) Razors, clippers, and other cutlery n. o. p.	30% A. V.	20%	30% A. V.
	(c) Cutlery made of or combined or coated with precious metals	50% A. V.	40%	50% A. V.
11p	Domestic Refrigeratory and refrigeratory machinery	30% A. V.	20%	30% A. V.
12p	Hardware, Iron mongery and tools including locks and keys and bolts	30% A. V.	20%	15% A. V.
13	Machinery most of which was free until recently and now charged 10% as at present specified in the existing schedule including Agricultural Implements and Dairy and Poultry Farming			

Serial No.	Articles	Existing Duty		Proposed Dut
		Standard	Preferential	
	Appliances (Serial Nos. 96 to 99 and 78 and 82) The present duties should be removed			
14p	Electrical Control Gear and Transmission Gear	30% A. V.	20%	15% A. V.
15p	Musical Instruments			
	(a) Pianos and Pianos players, Organs and Harmoniums	50% A. V.	40%	50% A. V.
	(b) Talking machines			
	(c) Other instruments imported complete			
	(d) Accessories of musical instruments	do.		30% A. V.
16	Watches, Clocks and Timepieces n. o. p.	50% A. V.	—	do.
17	Watches with gold or silver cases	Not specified		50% A. V.
18	Wrist watches			
	(a) Not exceeding 40 mm. in diameter	do.	do.	50% A. V.
	(b) Wrist watches having precious metals as their parts	do.		do.
19	Electric Clocks	do.		30% A. V.
20	Parts of Watches and Clocks	30% A. V.	—	do.
21	Arms and Military Stores of Metals as at present specified in items 61, 63, 64 of the existing schedule.			
22	Ornamental arms of an obsolete pattern possessing an antiquarian value	15% A. V.	—	50% A. V.
	OTHER METALS			
23p	Aluminium			
	(a) unwrought, ingots, and bars	30% A. V.	20%	15% A. V.
	(b) sheets and leaves			
	(c) other manufactures			

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
24p	Brass and Bronze (a) unwrought, ingots, and rods (b) wrought (c) Cocks and valves (d) Fittings etc. for doors and windows (e) other manufactures	30% A. V.	20%	15% A. V.
25p	Copper (a) Ore (b) Old for re-manufacture (c) Tiles, ingots, bricks, and slabs (d) Braziers and sheets (e) Wire and Cables n. o. p. (f) Rubber - insulated wires and cables (g) Other manufactures such as nails and screws	Free 25% A. V. 25% A. V. do. 30% A. V. 6½% A. V. 25% A. V.	— — — 20%	Free do. 15% A. V. do. do. 5% A. V. 15% A. V.
26p	German Silver including nickel silver	30%	20%	15% A. V.
27	Gold and Silver coins	Free	—	Free
28	Coins of other metals	do.	—	do.
29	Gold bullion and coin and gold sheets which have undergone no process of manufacture subsequent to rolling	Free	—	Free
30	Gold, wire, thread, and leaves	50% A. V.	—	50% A. V.
31	Jewellery, mainly or partly of gold	50% A. V.	—	50% A. V.
32	Other manufactures of gold	do.	—	do.
33	Silver, bullion and silver sheets and plates	As. 7½ per oz.	—	As. 6 per oz.
34	Silver plate, and silver manufactures not otherwise provided for	50% A. V.	—	50% A. V.

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
35	Silver thread and wire and silver leaf including imitation of silver or gold thread	62½%	—	50% A. V.
36p	Lead	25% A. V.	—	15% A. V.
	(a) Pig	30% A. V.	20%	15% A. V.
	(b) Pipes and tubes			
	(c) Sheets			
	(d) Bars, rods, wire and other manufactures			
37	Mercury	25% A. V.	—	do.
38	Nickle, ingots, bars, rods, plates, sheets	Not specified	—	15% A. V.
39	Platinum	do.	—	do.
40	Tin			
	(a) tin plates, sheets, taggers	Rs. 60/- per ton	—	—
	(b) block	Rs. 312/8 per ton	—	—
41	Radium	Free	—	Free
42p	Zinc			
	(a) Ingots, tiles, slabs and plates	do.	—	do.
	(b) wrought zinc	30% A. V.	20%	15% A. V.

The most important metals—iron and steel—and the industries connected with them have been investigated by the Tariff Board several times¹ and we have therefore made no alterations in the duties relating to these. Similarly in machinery, most of which till recently was free, the items of the present schedule are retained in toto. In the case of other metals also we propose no changes in

¹ A fresh inquiry is in progress.

view of the fact that their imports except in the cases of Copper and Aluminium¹ are not very great.

In view of this we have not copied the detailed sub-items coming under the categories of iron and steel as they remain unaffected by our proposals. Some changes are, however, needed in the fates of some of the articles, for example, motor cars. Here we have also to bear in mind the question of the development of motor transport, and see that while considering motor cars as luxury articles, the other products used in transport should not pay too heavy a duty. For this, however, it is easy to levy separate duties on cars, buses, and lorries. The motor cars are undoubtedly luxury articles just as silk piece goods are. We also can help the newly springing up chassis building industry by levying a lower duty on chassis. We have suggested changes in the duties accordingly.

On forks and knives, a semi-luxury duty can be imposed as the knives used by the majority of the people in India can be obtained from local producers. On watches, a differentiation must be made between the finished articles and their accessories. A luxury duty (50 per cent.) may be levied on watches with gold cases, and on watches having precious metals as their parts, while the semi-luxury rate may be retained on their accessories. Electric watches and clocks are used chiefly by public bodies like the Railways and the duty on these may be retained. In musical instruments too the same plan has been followed. We have incorporated the rate for gold and silver thread recommended by the Tariff Board viz. 50 per cent.²

¹In the case of Aluminium Industry Sir Alfred Chatterton recommends a much more drastic measure than import duties in view of the fact that only a very large single firm with state-aid and control can supply the articles required, in sufficient quantity and at cheap prices. See "Capital" 13-12-1929.

²Report on Gold Thread Industry, p. 18.

DIVISION X. CHEMICALS, DRUGS AND MEDICINES
INCLUDING DYES AND COLOURS

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Anti-plague Serum	Free		Apart from the items suggested by the Tariff Board a plea for more detailed specifications of duties is made out in the text
2	Chemical elements, bromide, iodine, phosphorous			
3	Acids	as specified in serial No. 72 (I-II)		
4	Arsenic and its oxides	25% A. V.		
5	Bleaching material (a) powder (b) other sorts	Free do.		
6	Calcium Carbide	25% A. V.		
7	Cinchona Bark and alkaloids derived therefrom and Quinine and its derivatives	Free		
8	Copperas	2½% A. V.		
9	Disinfectants (a) Naphthalene (b) others	25% Not specified		
10	Glycerine	25% A. V.		
11	Lead compounds	do.		
12	Magnesium compounds (a) Chloride (b) Sulphate (c) others	25% A. V.		
13	Opium and its alkaloids and their derivatives	Rs. 30 or 18¾% A. V. whichever is higher		
14p	Potassium compounds (a) Bichromate (b) Chlorate (c) other sorts	30% A. V. Not specified	20%	

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
15p	Soda compounds			
	(a) Bichromate of soda	30% A. V.	20%	
	(b) Borax			
	(c) Caustic Soda			
	(d) Soda Sulphide			
	(e) Sodium Carbonate			
16	Sulphur	Free	—	—
17	Zinc compounds	25% A. V.	—	—
18	Drugs			
	(a) Aloes	15% A. V.		
	(b) Amfoetida			
	(c) Camphor			
19	Patent medicines	Not specified		
20	Quinine salts	Free		
21	Storax	25% A. V.		
22	Chemical products derived from distillation of coal tar			
	(a) Dyes	10%		Free
	(b) Others			
23	Synthetic Indigo	Not specified		
24	Saffron	do.		
25	Synthetic products for photography	do.		
26	Colouring extracts	do.		
27	Tanning extracts	do.		
28	Inks, and ink-powders			
	(a) Printers ink	10% A. V.		5%
	(b) Other ink and powders	Not specified		15% A. V.
29	Perfumery, such as toilet waters, hair lotions, hair dyes, not otherwise specified	35% A. V.		50% A. V.
30p	Soap			
	(a) Toilet	35% A. V.	25%	50% A. V.
	(b) Washing soap	25% A. V.	—	30% A. V.
	(c) Other soaps, including medicinal	Not specified		15% A. V.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
31p	Glue			
	(a) classified liquid	10% A. V.		Free
	(b) all others	30% A. V.	20%	15% A. V.
32	Explosives			
	(a) Fire works	50% A. V.		50% A. V.
	(b) Gun powder	25% A. V.	—	do.
	(c) Dynamite	do.		30% A. V.
	(d) others	do.		30% A. V.

The importance of the chemical industry in any country that is industrially advanced, can hardly be exaggerated. The industrial growth of different countries shows that the establishment of chemical industry precedes that of other large scale enterprises, for the obvious reason that chemical industries are really the basic or key industries. For this very reason they are carefully protected even by import duties.¹

India imports nearly 22 crores worth of chemicals and chemical products such as glass, and glassware, match, cement, paints, colours, and soap.² This means that they stand only next to cotton piecegoods in our imports.

It has been well-known since the reports of the Munitions Board were issued that India is endowed with enough resources for the development of Chemical Industries as regards both raw materials and market. The three main chemical industries are those relating to acids, alkali, and metallurgical products. Of the acids the sulphuric acid is the most important, in fact the key to all other chemical industries. But India is not favourably

¹We have already noted the very detailed schedule on Chemicals of the U. S. Tariff and since the War even Great Britain has protected her Chemical Industry as a key industry.

²See "Capital" 13-12-1928; "Article on Chemical Industries and their protection" by H. K. Sen.

situated for sulphur. A ton of sulphuric acid costs Rs. 55 in India and 33 s. in the European countries.¹ Gypsum, the supply of which in India is almost unlimited² has been tried with some success and it is also asserted that the supreme importance of sulphur is now on the decline.³ The Munitions Board, however, reported that sulphuric acid could be easily prepared out of the Burmese Zinc at Singbhum,⁴ but for unknown reasons the scheme was given up.

Another problem of the Chemical Industries is that of power. India is not so fortunate in her coal resources as some other countries are.⁵ But a solution of the problem lies in the development of developing electric power and in an economic use of coal i. e. utilising its by-products properly.

The present position is that although about 11 types of acids are produced in India,⁶ in none of them the production is on a large scale. A development in the motive power industry especially hydro-electric would also lead to the establishment of the soda industry which yields a number of important by-products. Sodium Carbonate and Caustic Soda are essential for a number of industries including soap, glass and dye-works. In view of this fact soda, too, has a great future, and the soap industry which is only awaiting these developments can easily capture the whole Indian market, if not grow into an export industry.

¹ Article above adverted to in "Capital" 13-12-1928.

² Article on Manufacture of heavy chemicals by V. S. Chinnaswami, "Capital" 13-12-1928.

³ cf. Dr. P. C. Ray's address at the Classified Trades Exhibition, Bombay, on August 25, 1930.

⁴ Quoted by Vera Anstey, p. 257.

⁵ The Coal Committee (1920) concluded that the Raniganj Coal field contains 20000 million tons out of which only 518 millions are of first class quality and the best Jharia coal is estimated to have 1000 million tons. Great Britain has a resource of 140 thousand million tons and Germany 150 thousand million tons. See the above-mentioned Article by H. K. Sen, 20-12-1928.

⁶ Vera Anstey, p. 256. Also Report of the Tariff Board on Heavy Chemicals.

The claim for protection by the chemical industries is thus strengthened by these facts. Not only are they basic industries on which depends the progress of metallurgical industries, soap-manufacture, oil-refining, dye-works, disinfectants and fertilizers, to name the most obvious, but they also seem to present good illustrations of infant industries, in need of help.

All these points were noted by the Tariff Board which investigated and submitted its report on the Heavy-Chemicals Industry in 1929, a report which was signed in May 1929 but published only in August 1931. While it held that from the point of view of raw materials, India was not favourably situated it considered also that she was at no disadvantage as compared with some other countries like Japan or the United States. It also noted that as a result of the increased rates of revenue duties a number of factories producing chemicals had grown up, but that the most important problem of the industry—that of producing sulphuric acid at an economic cost—had remained unsolved. Thus in India we have the spectacle of one of those principal industries in which the economies of large-scale production are most marked, being run on small-scale and therefore on uneconomic lines. Some of the existing factories do not work even up to their full capacity. Among the chief causes for such a predicament, they point out, is the uncertainty as to the future such as Government's policy and the possibilities of dumping by powerful foreign combines. The inland freight, too, was held by them to be partly responsible for the backward state of the industry.

With a view to overcome these difficulties the Tariff Board recommended—in 1929—protection to the heavy chemical industry for a period of 7 years. The Government, however, took action late in 1931 and the period was restricted to the close of the financial year 1932-33. It will be apparent from the findings of the Tariff Board

that this measure was totally inadequate, apart from the new problems raised by the present depression. If the statement made by the Tariff Board viz. "If India is ever to become industrialised on any considerable scale the establishment of the chemical industry on a firm basis is clearly a matter of great importance,"¹—is to be given any weight the wisdom of giving security to the heavy chemical industry to begin with cannot be over-emphasised.

The arrangement of this division requires a detailed knowledge of the various chemicals and their uses. A glance at schedule I of the American Tariff will easily show how detailed this division could be. While we do not advocate detailed specifications for their own sake, we must emphasise the need for such a differentiation when the chemical industry is sought to be protected. This question assumes greater importance when we remember that most of the other industries make use of chemicals in one form or other.

DIVISION XI. EARTH, EARTHENWARE; GLASS AND GLASSWARE

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Prefertential	
1	Fire-proof Bricks	Not specified		15% A. V.
9	Pottery of common baked earth	do.		do.
3	Porcelainware	30% A. V.	—	30% A. V.
4	Sanitary appliances such as sinks, pipes and baths	30% A. V.	—	30% A. V.
5	Glass in mass;			
	(a) bars and rods of crude glass	25% A. V.	—	15% A. V.
	(b) plates or sheets			20% A. V.
6	Looking glasses and mirrors	—		

¹ Para 23 of the Report.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
7	(a) framed	Not specified		50%, A. V.
	(b) unframed	do.		30%, A. V.
8	Glasses assembled in plain or stained windows and glass mosaics	do.		50%, A. V.
8p	Globes and Bulbs for Electric lamps	50%, A. V.	40%	30%, A. V.
9	Lamp glasses and chimneys including reflectors and lamp shades	Not specified		30%, A. V.
10	Bottles			
	(a) Large bottles, demijohns or carboys	25%, A. V.		15%, A. V.
	(b) Special bottles for aerated waters	25%, A. V.		30%, A. V.
	(c) Thermoses and bottles of the like kind	do.		30%, A. V.
11	Special glassware such as is used in laboratories, for scientific instruments	20%		15%, A. V.
12	Table glass n. o. p. and all articles for table or toilet use; articles for office use domestic furnishing such as vases, flowers' stands, goblets etc.	25%		50%, A. V.
13	Glass beads and false pearls	50%, A. V.		30%, A. V.
14	Crude optical glasses, and watch and clock glasses	Not specified		15%, A. V.
15	Spectacles and eyeglasses with framed or handles of precious metals, or metals coated with precious metals	do.		30%, A. V.
16	Bangles	50%, A. V.	—	50%, A. V.
17	Glass manufactures not otherwise provided for	25%, A. V.	—	15%, A. V.

The need for a systematic investigation into the economic possibilities of glass-making was pointed out by the Indian Industrial Commission, as sand and lime suitable for its manufacture occur in many parts of India.¹ It has advantages of raw material in quantity though not so much in quality, when compared with those of the industry in Europe. Our coal and lime are of an inferior quality. Secondly it has to some extent the advantages of natural protection due to the nature of the material, glass, itself, and the distance involved in transportation. Cheap labour is also a factor to its advantage. On the other hand the industry has to meet the difficulties arising out of a lack of technical skill, for the industry even in its simplest form is highly technical. There is also the need for importing specialized machinery from abroad and above all India still lacks in chemicals for colouring and purifying glass including soda ash.²

Our suggestion for the grant of protection to this industry is based on the fact that despite its early failures partly because the industry was new, partly because the selection of sites was faulty,³ the industry has made some progress. In Ferozabad, a great distributing centre, the bangle industry was able to oust the foreign bangles in 1928-29.⁴

We propose differentiation in the case of some items under Glass, leaving the question for protective duties

¹ See para 58 of the Report.

² cf. Coynon, *The Indian Fiscal Problem*, pp. 135-136.

³ See quotations from Sir Alfred Chamberlain and C. S. Fox, *Coynon: The Indian Fiscal Problem*, p. 136.

⁴ See "Capital" 12-6-1930. Other methods of assisting the industry such as railway rates may also be considered. See also Dr. C. S. Fox's Article "Raw materials for glass-making in India". "Capital" Trade and Transport Supplement—December 1930. He concludes, "From a consideration of these factors it would appear that the large imports of common glassware—such as—bottles, lampware, bangles and beads—which constitute the greater part of Indian imports, could be supplied from glass works in this country, but whose location requires closer attention than appears to have been accorded to by many of those operating."

to fuller inquiry.¹ We have suggested an increase in the duty in the case of looking glasses, that are imported with frames considering them as luxury articles.

We also propose differentiation on the parts of lamps into lamp glasses and chimneys and lamp shades etc. The last named would bear a semi-luxury duty of 30 per cent. because the glass lamp shades are generally used by the well-to-do. On soda water bottles, a 30 per cent. rate is suggested pending the enquiry referred to above, and for similar considerations.

The imports of earthenware are inconsiderable. The only important item being porcelain. We have, therefore, retained the existing rates on these articles.

DIVISION XII. PULP OF WOOD, RAGS, ETC., PAPER AND MANUFACTURES OF PAPER

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Pulp of wood rags and other paper making materials	Free	—	Free
2p	Waste paper	30% A. V.	20%	15% A. V.
3	Old news-papers in bales and bags	25% A. V.		15% A. V.
4p	Paste board, mill-board and cardboard of all kinds	30% A. V.	20%	15% A. V.
5	Strawboards	25% A. V.		15% A. V.
6	Cigarette papers printed or cork or metal tipped	Not specified		30% A. V.
7	Greasy paper for pencil copying, carbon paper or tracing paper	do.		15% A. V.
8	Papers used for photographic purposes	do.		15% A. V.

¹ Such an inquiry has been ordered by the Government last year. But the Report by the Tariff Board has not yet been made. See Legislative Assembly Debates 1932, Vol. VI, p. 2134.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
9	Printing paper (excluding chrome, marble flint, poster and stereo), all sorts which contain no mechanical wood pulp or in which the mechanical wood pulp amounts to less than 65 per cent. of the fibre content	1 anna per lb.		1 anna per lb.
10	Writing paper (a) Ruled or printed forms (including letter paper with printed headings), and account and manuscript books and the binding thereof (b) all others n. o. p.	1 anna per lb. or 15% whichever is higher		1 anna per lb. or 15% whichever is higher
11	Paper for furnishing or wall papering	Not specified		30% A. V.
12	Note-paper, cards and envelopes	do.		30% A. V.
13	Paper lace and paper embroidery	do.		30% A. V.
14	Albums (a) Leather covers (b) Cloth covers	do. do.		do. do.
15	Trade catalogues and advertising circulars	Free		Free
16p	Picture postcards and new year Xmas cards	30% A. V.	20%	50% A. V.
17	Books, news-papers and periodicals	Free		Free
18	Artificial slates and all other wares of paper or board, n. o. p.	Not specified		15% A. V.
19	Postage stamps used or unused	Free		Free

The paper industry has already been investigated by the Tariff Board, and while the demand for protection

to the industry as a whole is negatived, a part of it (some printing paper and some writing paper) is assisted by means of protective duties. We have only to note that the future of India regarding this industry is very bright. The staple raw materials used in paper, namely, rags, straw and esparto grass have been unable to keep pace with the progress of the industry the world over, and wood also seems to be failing.¹ In the bamboo pulp are now centred the hopes for the maintenance of the pace of paper manufacture.² India possesses this raw material in abundance and hence there are prospects of the rise of India as an important paper manufacturing country. But in the immediate future, as the Tariff Board reported, the possibility of the indigenous industry being able to supplant imports is only to the extent of 20 thousand tons out of a total consumption of 100 thousand tons.³

In these circumstances, we may suggest a careful selection of duties particularly of some "deferred" rates. We have suggested a differentiation of items but the duties proposed have not been given with the above consideration for want of knowledge of the exact needs of the industry. On most of these the "general rate" has been retained and the changes relate to luxury articles like albums, and Christmas and New Year cards.

¹ "No increase is forthcoming from Scandinavia.—After long enquiry and reflection, I see no influence at work capable of averting a pulp shortage, which the rapid exhaustion of pulp-wood timber is bringing nearer with mathematical certainty". Lord Rothermere quoted in "Capital" 13-12-1928, Article on The Prospects of Bamboo Pulp Industry.

² *Ibid.*

³ In 1932 the Tariff Board again investigated into the claim of the Paper Industry for protection and recommended an extension of the same.

INDIAN CUSTOMS TARIFF
DIVISION XIII -- TEXTILE MATERIALS AND
MANUFACTURES THEREOF

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
(A)	COTTON			
1	Raw cotton	6 pies per pound	—	Free
2	Cotton and yarn and sewing or darning threads	As. 1½ per lb. or 6¼% A. V. whichever is higher		
3	Cotton thread other than sewing or darning and all other manufactured cotton goods not otherwise specified.	25% A. V.	—	The need for a revision of the system of the classification of imports and for a new nomenclature emphasised in the text
4	Cotton piecegoods (other than fents not more than 9 yards in length).			
	(a) plain grey i. e. not bleached or dyed in the piece, if imported in pieces which either are without woven headings or contain any length of more than 9 yards which is not divided by transverse woven heading, of ...			
	(i) British manufacture	25% A. V. or 4½ annas per lb. whichever is higher		
	(ii) non-British manufacture	31¼% A. V. or 4½ annas per lb. whichever is higher		
	(b) Others			
	(i) of British manufacture	25% A. V.		
	(ii) not of British manufacture	34¼% A. V.		

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
5	Cotton ropes	Free	—	
(B)	SILK			
6	Silk raw or waste	25% A. V.		15% A. V.
7	Silk yarn, noils, and warps, and silk thread	do.		do.
8	Artificial silk yarn or thread	18½% A. V.		18½% A. V.
9	Piecegoods of artificial silk and cotton	30%		30% A. V.
10	Silk goods required for Medical purposes, such as silk ligatures, bandages etc.	25% A. V.		15% A. V.
11	Silk mixtures, that is to say			
	(a) Fabrics composed in part of some other Textile than silk, and in which any portion either of the warp or the weft, but not if both is silk or artificial silk	34-4/8% A. V.		30% A. V.
	(b) Fabrics not being silk on which the silk is super imposed	"		
	(c) Articles made from such fabrics and not otherwise specified	"		
12	Silk piecegoods	50% A. V.	—	50% A. V.
(C)	OTHER TEXTILES			
13	Wool, raw and wool tops	Free	—	Free
14p	Woollen yarn and knitting wool	30% A. V.	20%	15% A. V.
15p	Hosiery, wholly of wool	35%	25%	30% A. V.
16p	Shawls	do.	do.	50%
17p	Woollen piecegoods	35% A. V.	do.	30% A. V.

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Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
18p	Carpets and floor rugs	35% A. V.	25% A. V.	30% A. V.
19	Other textile raw materials, flax, hemp, jute, n. o. p.	25% A. V.	—	15% A. V.
20	Second hand bags and other gunny bags	Free	—	5% A. V.

The arrangement of items dealing with cotton textiles presents unusual difficulties. At present there are only three or four items, but an examination of the import and export figures at once shows the complexity of the task. There are a great number of varieties of cloth produced and imported, and this extreme diversity makes it impossible to determine the value of cloth by ordinary methods of differentiation. The trade or conventional names of different articles such as chadars, dhotis, only mislead the student of comparative statistics because they appear in a number of varieties.¹ The classifications of import returns and those of production are different and are not used with uniform meaning. In the import returns no definitions are given for the different trade names used and hence for administrative convenience shipment samples accompany the bills of entry.

So long as the rates are more or less uniform, difficulties arising from the want of proper description or differentiation may be ignored, but since 1930 protection has been granted to a few varieties of plain grey goods and the difficulties cannot be shirked in future.

The Tariff Board which reported on the Cotton Textile Industry in 1927 suggested that the statistics of the production of cloth in Indian Mills should be compiled in

¹cf. Mr. Hardy's Report on the Import Tariff on Cotton Piecegoods, p. 5.

a form with which the figures for import could be easily compared.¹ Mr. Hardy also in his report emphasises the necessity for a revision of the whole system of classification in order to simplify future enquiries.²

A fresh statutory inquiry has recently been completed,³ and we have therefore to rest content with pointing out that this division needs a suitable arrangement of items even from the point of view of nomenclature let alone the question of protection. We have only to look at the Japanese Tariff for a contrast in the differentiation and classification of textile articles. Mr. Hardy discusses a number of methods such as length, weight, actual counts, or the number of the yarn and concludes that there is no general method of classification of piece goods by physical attributes which will secure uniformity of price within any particular class.⁴ He himself recommends a method based on weight and apparent counts. The enquiry that we emphasise in these lines will also have to take note of the protective policy with regard to cotton textiles adopted since 1930. Accordingly, we have only retained the existing items and made no definite suggestion for changes.

In the case of other textiles we have made a re-grouping consistently with our plan of the schedule. An enquiry by the Tariff Board into the question of protecting the silk industry has recently been set on foot. We, therefore, suggest tentative duties only.

The treatment of textile piece goods of a mixed nature will also have to be decided in the light of the arrangement of the different items under cotton goods.

¹Para 87 of the Report. It may be of interest to note that import figures are shown under some 100 heads.

²Page 7 of the Report.

³But its report not published so far.

⁴Page 88 of the Report.

INDIAN CUSTOMS TARIFF

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DIVISION XIV. MISCELLANEOUS ARTICLES

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
1	Accoutrements and uniforms imported for the use of a public servant	Free		15% A. V.
2p	Wireless apparatus for the reception of broadcast wireless	50% A. V.	40% A. V.	50% A. V.
3p	Component parts of wireless apparatus	50% A. V.	do.	30% A. V.
4	Art, works of			
	(a) Statuary and pictures intended for public use	Free		Free
	(b) Memorials of a public character	do.		do.
	(c) Other works			
	(i) Marble	25% A. V.	—	50% A. V.
	(ii) Other			
	(d) Prints, Engravings and Pictures n. o. p.	50% A. V.		50% A. V.
5	CURIOS			
	(a) for educational purposes	Not specified		Free
	(b) for other uses	do.		50% A. V.
6p	Articles for billiard, cricket, hockey, tennis, and other games and accessories thereof	50% A. V.	40% A. V.	30% A. V.
7	Artificial hair	Not specified		30% A. V.
8	Batteries n. o. p.	25% A. V.	—	30% A. V.
9p	BRUSHES			
	(a) Paint and Varnish	30% A. V.	20% A. V.	15% A. V.
	(b) Toilet			
	(c) other			50% A. V.
10p	BUTTONS			15% A. V.
	(a) combined with precious metals, precious stones and semi-precious stones	Not specified		50% A. V.
	(b) Metal buttons	30%	20% A. V.	15% A. V.
	(c) othersorts including buckles, hooks etc.	Not specified		do.

Serial No.	Articles	Existing Duty		Proposed Duty
		Standard	Preferential	
11p	Playing cards	50% A. V.	40% A. V.	50% A. V.
12p	Cinemetograph Films			
	(a) raw	25% A. V.	15% A. V.	15% A. V.
	(b) exposed	37½% A. V.	—	50% A. V.
13	Feathers	Not specified		50% A. V.
14	Jewellery etc. for personal adornment such as tie-pins hair-pins etc.	Not specified		50% A. V.
15	Photographic instruments			
	(a) other than films	do.		do.
	(b) films			
16p	Smoker's requisites excluding tobacco and matches, such as cigar and cigarette holders, cutters and cases	50% A. V.	40% A. V.	50% A. V.
17	Stationery not otherwise specified, such as pen-holders, fountain pens, pencils etc.	Not specified		15% A. V.
18	Walkingsticks, umbrella sticks, and handles thereof n. o. p. combined with precious or semi-precious metals, ivory or pearls	do.		50% A. V.
19p	Toilet requisites n. o. p.	30% A. V.	20% A. V.	50% A. V.

This division only enumerates articles that are not included in the other divisions. Most of these are luxury or semi-luxury articles, and we have suggested duties on them in accordance with our general scheme.

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;essian—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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