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STUDIES IN INDIAN ECONOMICS
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First Series: Aspects of the Indian Tariff

No.1.

The Burden of the Indian Tariff

by

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**OFFICE OF THE ECONOMIC ADVISER TO THE GOVERNMENT
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1. At various times during recent sessions of the Legislature, questions have been addressed to the Hon'ble Finance and Commerce Members, reflecting a widespread interest in the problems of the tax-burden associated with the various classes of duties imposed by the Indian tariff, both as it is now and as it has been in recent years. The two following memoranda represent an effort to examine this problem objectively. The first, which deals with the issue in a broad manner, has been prepared by the undersigned: the second, which goes into greater detail, has been prepared by Mr. W. R. Natu, B.Sc. (Econ.) under the general direction of the Economic Adviser.

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T. E. GREGORY,
Economic Adviser.

Simla, 6th July 1939.

ASPECTS OF THE INDIAN TARIFF.

I.—THE DE FACTO BURDEN OF THE INDIAN TARIFF.

1. Inquiries into the incidence of a tariff, or of tariffs generally, may take two different forms. The first form of inquiry—and the one raising the more difficult issues of scientific procedure and interpretation—relates to the measurement of the level or height of the tariff. The second form of inquiry relates to the burden or charge actually imposed from time to time by the tariff on the goods actually passing inwards or outwards across the frontier at which the tariff is in force. In this Memorandum only the second of these inquiries is pursued in relation to the Indian tariff, but in order to prevent misconception, the relationship between these two forms of inquiry will first be briefly studied.

2. "The expression tariff level or height of a tariff as a generic term" states the League of Nations Memorandum on Tariff Level Indices (Geneva, 1927, page 8) "is taken to mean a magnitude which is equal to the average of the percentages which the duties imposed by any given country constitute of the values of the commodities which go to compose the whole catens of goods normally entering into international trade". Whilst it is very difficult, in view of the complexity of modern tariffs, the multiplicity of rates upon various categories of goods, the multiplicity of the goods themselves, and the necessity of "marrying" the rates of duty with the appropriate subjects to which they relate,* to arrive at an adequate quantitative statement of what the magnitude known as the tariff level really is at any moment of time, nevertheless, the objective aimed can be clearly defined. That objective is to obtain as clear an idea as is possible of the quantitative limitations imposed by a tariff upon the flow of goods in international trade.

3. At first sight it might be supposed that a simple solution of the problem is available. If the value of all the goods imported and exported during a given period of time are related to the volume of customs duties collected, and the latter magnitude is stated as a percentage of the former, a figure is obtained which gives the percentage value of customs duties actually collected. It might be held that that magnitude, which in this memorandum, is called the *de facto* burden of the tariff, measures the "level" or "height" of the tariff. But this is not the case.

4. The reason why there is a logical distinction between the concept of the tariff level and the concept of the *de facto* burden of the tariff, lies in the circumstance that the latter concept is narrower in scope than the former. When the height of a tariff is being measured, its deterrent effect is being inquired into. Now a tariff may be so deterrent as to prevent, in the case of a particular country, certain categories of goods from passing across the frontier at all. But though the tariff is high enough to exclude these goods, its deterrent effect can only be expressed by calculating what these goods would have to pay if they were imported and that can only be done by comparing the tariff rates with the value

* Loveday, *The Measurement of Tariff Levels* in xcii J. R. S. S. (1929), pages 495-496.

of the goods potentially capable of import and including this magnitude along with the others which relate to goods actually imported. In this way a measure of deterrence can be obtained. But if only the goods actually imported are taken into account, the measure of deterrence is under-estimated, for the burden upon the goods which are not imported (or exported) because of the existence of the tariff is not expressed in the magnitude which we have here called the *de facto* burden in any way at all.

5. The point at issue can be easily illustrated by the following example: Suppose a country with only two imports of equal quantitative value taxed at ten per cent. *ad valorem*. Then the height or level of the tariff will be ten per cent. and, under the circumstances imagined, the *de facto* burden of the tariff will also be ten per cent. If now one of the rates, say on commodity A, is raised to fifteen per cent., then, in the absence of any change in prices ex-duty, the height of the tariff will become twelve and a half per cent. But if the rise in the duty is sufficient to exclude commodity A from the list of imports, the *de facto* burden of the tariff will remain at ten per cent., for that is the *ad valorem* equivalent of the duty actually collected.

6. Again, suppose that a country imposes rates of ten and twenty per cent. respectively on two commodities of equal quantitative value. The tariff level will be fifteen per cent., but if only one of the commodities is actually imported, namely that dutiable at ten per cent., the *de facto* burden of the tariff will also be ten per cent. Now suppose the higher duty to be reduced to fifteen per cent., and suppose further that at this rate imports will be possible. The height of the tariff will become twelve and a half per cent., but the *de facto* burden of the tariff, owing to the changed character of the imports, will rise from ten per cent. to twelve and a half per cent.

7. Thus a rise in the tariff level is consistent with stability in the *de facto* burden, and a fall in the tariff level is consistent with a rise in the *de facto* burden. The *de facto* burden of the tariff is thus neither a measure of the true "height" of the tariff nor, it may be added, of the economic burdens imposed by it. It measures simply the net *ex post facto* effects of all the forces at work, including, of course, the level of the tariff itself. Changes in the *ad valorem* equivalent of the duties may imply changes in the real economic burden imposed by the tariff, but are not necessarily an *accurate measure* of such changes. For a change in the average level of income, or in internal costs of production, may completely alter the significance of changes in the *de facto* burden.

8. The *de facto* burden of a tariff is measured by the ratio Yield of Customs Duties.

Or, to put the matter algebraically, $\frac{\text{Value of imports}}{\text{Yield of Customs Duties}}$ if r_1, r_2, \dots, r_n represent tariff rates of duty, q_1, q_2, \dots, q_n the quantities of the various imports, and p_1, p_2, \dots, p_n the unit prices of these imports, then the *de facto* burden of the tariff is equal to

$$\frac{q_1 p_1 r_1 + q_2 p_2 r_2 + \dots + q_n p_n r_n}{q_1 p_1 + q_2 p_2 + q_3 p_3 + \dots + q_n p_n}$$

9. The magnitude of the *de facto* burden represented by the Indian tariff and calculated on different bases is given in the accompanying table (*vide* page 13) for every fiscal year between 1926-27 and 1937-38. The procedure adopted in calculating the burden requires explanation.

10. Firstly, given that the *de facto* burden is measured by the ratio $\frac{\text{Yield of Customs Duties}}{\text{Value of imports}}$, it must be pointed out that the definition of these terms is not unequivocal. For administrative reasons it has been customary to exclude the yield of the import duty upon salt from the statistics of customs revenue as published in the Finance and Revenue Accounts of the Government of India, on the ground, presumably, that as there is a countervailing excise duty, salt revenue should be treated as an integral whole. But a revenue duty does not cease to be a revenue duty merely because local production of the commodity is subject to a countervailing duty of a similar amount; and a revenue duty is as truly a part of the tariff as any other duty contained within it. Nevertheless, a concession has been made to administrative practice in that the *de facto* burden has been worked out on two assumptions, (i) that the salt tax duty has been included (the gross *de facto* burden), and (ii) that the salt duty has been excluded from the total of import values (the net *de facto* burden). It will be noted that the gross and net burdens differ by an amount which is by no means constant, a point to which attention will be drawn again in a later paragraph.

11. In order to maintain the homogeneity of the data, the figures of the value of imports are taken throughout from Table I of the Monthly Sea-borne Trade Accounts, whilst the yield of the tariff has been taken from Table VI of the same publication, which, in the March issue of each year, contains the figures for the whole of the preceding fiscal year. The data, as so given, are subject to later revision and, in fact, the figures as given in the appended statement do not in all cases correspond to the values recorded in the Annual Statement of Trade and Navigation or in the Finance and Revenue Accounts. Nevertheless, as these Volumes do not give the latest figures for the latest period which are available in the Monthly Sea-borne Trade Accounts, it was thought best to work throughout a consistent basis.

12. The value of imports and of import-duty collected are based on total imports and on total revenue collected (with one exception noted below). Thus no account has been taken (i) of re-exports and (ii) of refunds of duties. Thus the *de facto* burden (whether gross or net), as calculated in the Table, relates to the burden of the tariff at the moment of the imposition of the duty and not to the burden when all final revenue adjustments have been made. Quite apart from the statistical difficulty of adjusting the customs refunds of a particular time-period to the goods to which they are related, there is strong logical ground for calculating the burden in the manner adopted in this survey. For, at the moment of entry, the goods imported pay the rates of duty imposed by law and the contingent possibility of re-export (and therefore of refund of duty) ought to be neglected when the ascertainment of the burden of the tariff is being undertaken.

13. A minor logical difficulty arose which has had to be resolved in a somewhat arbitrary manner. It is known that the tariff classification of goods subject to duty differs from the classification adopted for the purpose of recording imports and exports as such. In consequence, it has been necessary to *exclude* from Customs Revenue the yield of item 61(2) of the Tariff, i.e., the yield from the duty on "silver bullion and silver sheets and plates which have undergone no process of manufacture subsequent to rolling". As "Treasure" has been excluded from the imports, the duty on silver bullion has necessarily to be excluded from the Customs Revenue.

It must be pointed out that the Customs Revenue includes the duty collected upon Government Stores, whilst the stores themselves are included in the imports taken into account in estimating the burden of the tariff.

14. An inspection of the table will show that, as regards trend, three periods are distinguishable:—

- (i) Between the years 1926-27 and 1929-30 both the gross and the net burden remained relatively unchanged.
- (ii) Between the years 1930-31 and 1932-33 both the gross and the net burden rose sharply, reaching a maximum in the latter year.
- (iii) Beginning with the year 1933-34 a decline set in, so that, in 1937-38 the gross burden had declined by 24.9 per cent. from the maximum, and the net burden had declined by 23.4 per cent. These movements obviously require explanation.

15. Although the formula given in paragraph 8 accurately embodies the causative factors, it is not sufficiently concrete to throw much light upon the problem. *In concreto*, the following points require examination. The *de facto* burden of the tariff will vary with:—

1. The absolute level of the tariff rates imposed.
2. The price-level of imports.
3. The distribution of imports among the various categories assessable to tax, and between those dutiable and those on the free list, elements which are, of course, *not* independent, either of the level of tariff-rates or of the price-level.

16. In the case of a pure *ad valorem* tariff, where all duties are imposed *directly* upon the value of the articles imported and where no articles are admitted free of duty, the determining factors are simply the absolute level of the tariff-rates and the proportionate distribution of the articles imported among the various categories. Naturally, these are not independent variables: for a change, if any takes place, in the *ad valorem* duties imposed on various categories of imports, will affect the distribution. But if a tariff contains "mixed" and/or specific duties as well as *ad valorem* ones, the situation becomes much more complicated. A fall in the price-level of imports will at once cause the *ad valorem* equivalent of pure specific duties to rise, and a rise in import-prices will cause them to fall. Again, where a duty is of the "mixed" type, a fall in the price-level of imports will cause the burden to rise, the extent of the rise varying with the proportionate importance of the specific or the *ad valorem* element. And if, in addition, the tariff contains rates of the "alternative" type, such that the duty is in the first instance *ad valorem* or specific, whichever yields the higher return to the fisc, a fall of prices will in general cause a rise in the *de facto* burden. This, again, will cause a re-distribution of imports among the various categories. As the Indian tariff contains specimens of all the three classes of rates mentioned above, the position is complicated from the beginning. As in addition, by Section 22 of the Indian Customs Act, various classes of imports are

subject to tariff valuations, *i.e.*, to an assessed value, the position becomes still more complicated. For the time-lag involved will result, in a period of rapidly falling prices, in a relative *rise* in the effective rate of duty, and to a relative *fall* in the effective rate of duty in a period of rapidly rising prices. These changes in the effective rate will naturally have repercussions upon the goods actually imported.

17. It will, of course, be realised that a rise in the tariff rate may result in a complete exclusion of the taxed article, and the effect upon the burden will depend on the amount formerly imported in relation to the duty formerly collected. Again, a rise in one tariff rate, or a rise in a group of rates, whilst resulting in the exclusion of the articles subject to the taxes involved, may nevertheless lead to the importation of other articles. If these are on the free list, the *de facto* burden of the tariff will fall. If the substituted article or articles are themselves subject to tax, the effect on the *de facto* burden again obviously depends upon the amount of such imports on the one hand and the rate of duty imposed on the other. The substitution of domestically produced sugar for imported sugar since 1930 and the growth of machinery imports and imports of raw cotton in place of imports of cotton goods are illustrations of the general cases considered above.

18. Since the *de facto* tariff burden at any given moment is the product of a complex of causes, it is obviously very difficult to assign to each factor at work its due proportionate significance, especially as two factors may at a given moment cancel each other out, *e.g.*, a rise of import prices may neutralize the effect of a rise in specific duties, not, of course, upon the amount of duties collected, but upon the *de facto* burden. Nevertheless, the main cause of the increase in the burden between 1929-30 and 1932-33 is clear: it is the tariff advances sanctioned in the intervening years, both for the purpose of collecting additional revenue and for the purpose of continuing or extending protection to a variety of industries—cotton textiles, steel, heavy chemicals, wire and wire-nails, paper, gold-thread, wheat growing and the manufacture of sugar.*

19. That changes in the level of import prices must have contributed to changes in the net burden is clear, if the magnitude of the price-changes taking place in the decade under review is taken into account.

Index of price level for imports: 1927-28=100.

1928-29	.	.	.	.	.	.	.	.	96.4
1929-30	.	.	.	.	.	.	.	.	93.2
1930-31	.	.	.	.	.	.	.	.	90.0
1931-32	.	.	.	.	.	.	.	.	71.7
1932-33	.	.	.	.	.	.	.	.	65.2
1933-34	.	.	.	.	.	.	.	.	63.5
1934-35	.	.	.	.	.	.	.	.	63.0
1935-36	.	.	.	.	.	.	.	.	62.1
1936-37	.	.	.	.	.	.	.	.	62.8

*A history of the Indian tariff for the last ten years is being published in the series of which this is the first publication. The main revenue duty changes were effected by the Indian Finance Act, 1931, which introduced the principle of surcharges and raised the absolute level of a series of duties, and by the Indian Finance (Supplementary and Extending) Act, 1931, which continued the process.

Index of price levels for imports : 1927-28=100.

(New series, excluding Burma).

1935-36	64.4
1936-37	64.6
1937-38	71.3
1938-39	67.7

20. Given unchanged specific duties, halving the import-price level is equivalent to doubling the rate of duty. (For a mathematical exposition *vide* Appendix I. This and Appendix II have been furnished by the Statistical Assistant to the Economic Adviser). Import prices fell by 37.2 per cent. in the decade, and an unchanged level of specific duties would have represented an increase of burden of 59.2 per cent. Specific duties have not in fact remained unchanged. Fully to evaluate the place of the specific duty would require a detailed examination of the structure of the Indian tariff for the last ten years—a task which will form the subject of a separate memorandum. A sample investigation based on an examination of the position in 1926-27, 1931-32 and 1937-38 is summarized in the following table (*vide* table 3 next page). Owing to the impossibility of accurately dividing Government Stores among the various tariff items, they have had to be neglected. The table shows that revenue from specific duties and from "mixed" duties amounted to between 40 and 50 per cent. of the total revenue of the years in question. Due to the falling off in the revenue from certain categories of imports, subject at times to specific duties, and owing to changes in the structure of the tariff,* the significance

*The two-fold nature of the situation can be judged from the following sample figures of yield and of changes from specific to mixed or *ad valorem* duties, or from *ad valorem* to specific or mixed duties, in the case of some important articles, so far as can be ascertained.

(1) *Articles subject to specific Duty.*

	(Yield in lakhs of rupees.)		
	1926-27.	1931-32.	1937-38.
Sugar	7,00	7,98	27
Cigarettes	1,24	59	Mixed duty.
Iron and steel	2,77	1,16	76
Matches	89	1	..
Kerosene	1,02	1,80	3,37
Motor spirit . . . . .	..	67	4,75
	12,92	12,21	9,15

of pure specific duties fell somewhat between 1931-32 and 1937-38, whilst that of mixed duties has correspondingly risen. It is clear, however, even from this admittedly imperfect survey, that changes in the import price level must have important repercussions on the *de facto* burden. By 1931-32, for instance, import prices had fallen by 23 per cent. since 1927-28, involving an increase in the burden, if all duties had been specific, of 39 per cent. Actually, only 45 per cent. of the revenue collected was represented by pure specific duties. Therefore, of the increase in the actual burden of 73 per cent., some 17·5 per cent. may be directly attributable to changes in the price-level, *i.e.*, without taking into account the further increase of burden represented by the specific element in the mixed duties which was probably considerable.

(2) *Articles subject to Mixed Duties.*—(Yield in lakhs.)

1926-27 1931-32 1937-38.

Cigarettes (Specific)—(Specific)—40.

Textile materials and goods—Import Duties.

Year.	Specific.	Mixed.	Ad valorem.	Total.
1926-27 . . . . .	..	..	9,28	9,28
1931-32	23	1,32	5,41	6,96
1937-38	83	5,40	4,34	10,57

(3) *Yield of Customs Duties of Various Types.**

Year.	(Exclusive of Government Stores and duty on silver bullion and plate, inclusive of salt.)								
	Specific.		Mixed.		Specific and Mixed.		Ad valorem.		Total.
	(1)		(2)		(3)		(4)		(5)
	Rs.	% of	Rs.	% of	Rs.	% of	Rs.	% of	Rs.
	lakhs.	Col. 5.	lakhs.	Col. 5.	lakhs.	Col. 5.	lakhs.	Col. 5.	lakhs.
1926-27	16,50	39·9	2,34	5·7	18,84	45·6	22,47	54·4	41,31
1931-32	16,81	44·85	2,85	7·59	19,66	52·34	17,90	47·66	37,56
1937-38	14,53	33·2	8,07	18·4	22,60	51·5	21,29	48·5	43,89

* All duty on protected iron and steel has been lumped under specific group due to difficulty of sub-division.

21. As already referred to in a previous paragraph, the amount of the difference between the gross and the net burden has not remained constant throughout the period. The difference has been as follows:—

Year. 1	Gross burden less Net burden. 2	Net burden. 3	(2)/(3)%
1926-27	0.7	16.7	4.2
1927-28	0.6	15.6	3.8
1928-29	0.7	15.6	4.5
1929-30	0.8	16.3	4.9
1930-31	1.3	20.3	6.4
1931-32	2.1	27.0	7.8
1932-33	2.2	31.2	7.1
1933-34	2.3	30.5	7.5
1934-35	1.7	28.8	5.9
1935-36	1.7	28.4	6.0
1936-37	2.0	27.8	7.2
1937-38	1.2	23.9	5.0
1938-39	1.4	25.5	5.5

The difference, it will be noted, is greatest in the fiscal years 1931-32 to 1933-34. As already explained, the burden is measured by Yield/Imports (for a mathematical exposition *vide* Appendix II). It will be noted that during the years in question, imports of salt fell sharply, whilst the yield from salt duties rose. The gross burden, therefore, rose faster than the net burden. Again, between 1935-36 and 1936-37, the yield of customs, excluding the salt duty, fell, whilst the yield from the salt duty rose, yet the imports of salt remained a small proportion of all imports: this explains the growth of the difference between gross and net burden.

22. It will be noted that in 1937-38 both the gross and the net burden fell sharply, whilst in 1938-39 there was a reversal of trend, gross and net burden in that year rising by about the same absolute amount. A variety of factors have to be taken into account. In the first place, the situation in these years was influenced by the fiscal separation of Burma from India. As a consequence, kerosene, petrol, lubricating and other oils from Burma, formerly subject to excise duty, now pay customs duties, whilst the amounts of the various oils themselves are now included among the imports. Since the rates of duty are relatively high, thus adding proportionately more to the yield of the customs duties as a whole than the imports on which these duties are levied add to the total volume of imports, the general effect of these fiscal changes is to add to the nominal

burden, and, indeed, if the figures for 1937-38 are corrected both for imports of oil from Burma and for the additional customs revenue collected, the gross and net burden show a further substantial fall.

During 1937-38 there were no important changes of tariff regime; the import trade was buoyant and customs revenue, even after allowance has been made for the duties upon Burmese imports, increased substantially, some 1.6 crores. A probable element of explanation is that the rise in import prices which took place during the years (*vide* para. 19 above) reduced the *ad valorem* equivalent of the specific duties and of the specific element in the mixed duties. A rise in import prices of the goods subject to specific duties of the order of ten per cent. would reduce the burden—if specific duties only were imposed—by nine per cent. If half the imports approximately were subject to the influence of specific elements, the change in import prices would have affected the burden to the extent of some four and a half per cent. Actually, the over-all rise of import prices being of the order of seven per cent. and the volume of imports directly subject to specific duty being less than half of the total, the net effect of this element was probably rather less than the figure just mentioned.

23. In 1938-39 the situation was affected by the depression in trade. The fall in import prices, expressed in terms of the index-number with base 1927-28=100, was 3.6 points from 1937-38 which would have involved an increase of 5.3 per cent. in the burden, had all imports been subject to specific duties. Actually, as pointed out previously, only a percentage, and not the whole of the imports, are so dutiable and the direct influence exerted by the fall of prices was probably not more than two to three per cent. The changes in the tariff which took place during 1938-39 were not great, but had divergent influences on the tariff burden: the removal of the import-duty of 1½ annas per maund on salt and of the surcharges on the protective duties on paper and wood pulp worked in the direction of reducing the burden, whilst the imposition of a duty on imported wheat worked in the direction of increasing the burden, though the wheat duty was not imposed till December 1938. The fact that the burden as a whole rose less than might have been expected with the fall in import prices which actually occurred is no doubt mainly ascribable to detailed changes "in the distribution of imports among the various categories assessable to tax" already referred to in para. 15 above.

APPENDIX I.

Formula for changes in burden of taxation due to changes in price-level (Specific duties).

Let the price-level change from p to p^1 and let s be the specific duty.
 Then the burden is at first given by $\frac{s}{p}$; when the price-level changes,
 the burden changes to $\frac{s}{p^1}$
 \therefore The relative change in burden
 $= \frac{s/p^1}{s/p} - 1$
 $= \left(\frac{p}{p^1} - 1\right) \left\{ = 100 (p/p^1 - 1)\% \right\}$

If $p^1 > p$, the burden decreases
 and if $p^1 < p$, the burden increases.

APPENDIX II.

I. Let i represent the total value of imports.

y	„	total yield of the duties.
a	„	the value of imported salt.
s_1	„	the yield of salt duty.
b_g	„	the gross burden.
b_n	„	the net burden.
b_s	„	the burden of the salt duty.

Then $b_g = y/i$ and $b_n = (y - s_1)/(i - a)$.

$$b_g = b_n \text{ when } \frac{y}{i} = \frac{y - s_1}{i - s_1}$$

i.e., when $y s_1 = i s_1$ (A)

Equation (A) will hold good when

either (i) both s_1 and s_2 are zero

or (ii) $y/i = s_1/s_2$ i.e., when the burden of salt duty is the same as the gross burden (also=net burden in this case).

The second alternative will be possible if, for instance, there is a very steep rise in the value of imported salt (twelve to sixteen times the present level, the rate of duty remaining unchanged) or a corresponding fall in the rate of duty.

II. When neither of the alternatives is true,

$$\begin{aligned} b_g - b_n &= \frac{y}{i} - \frac{y - s_1}{i - s_1} \\ &= \frac{i s_1 - y s}{i (i - s_1)}, \\ b_s - b_n &= \frac{s_1}{s} - \frac{y - s_1}{i - s_1}; \\ &= \frac{i s_1 - y s}{s (i - s)} \end{aligned}$$

Thus $\frac{b_g - b_n}{b_s - b_n} = \frac{s_1}{i}$

Now if $\frac{s_1}{i} = r$,

$$b_g - b_n = r (b_s - b_n)$$

i.e., $\frac{b_g}{b_n} - 1 = r \left(\frac{b_s}{b_n} - 1 \right)$ (B)

Thus the divergence of the gross burden from the net burden is a function of two factors:—

(i) r , the ratio of the value of salt imports to total imports
and (ii) $\frac{b_g}{b_n} - 1$, the divergence of the burden of the salt duty from the net burden.

If both the factors increase, then $\frac{b_g}{b} - 1$ also increases; if both decrease, $\frac{b_g}{b_n} - 1$ also decreases. In other cases, $\frac{b_g}{b_n} - 1$ may increase or decrease according as the increasing or the decreasing factor predominates.

During the years 1931-32 to 1933-34 the decrease in the value of r was more than offset by the large increase in the other factor. In 1936-37 both the factors increased from their values during the previous year.

Statement showing the Gross and Net Burdens of the Indian Tariff.

(Figures in rupees thousands.)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.	1938-39.
1. Net* customs duties including salt.	41,97,22	42,36,81	42,94,85	42,65,52	37,30,48	38,02,48	45,10,37	38,43,58	41,01,05	41,18,79	38,00,55	44,48,92	41,89,41
2. Net* customs duties excluding salt.	39,96,41	40,46,11	40,92,06	40,55,16	34,96,38	35,10,92	41,86,20	35,67,48	38,63,69	38,64,12	35,33,25	42,18,40	39,50,35
3. Salt duty	2,00,81	1,90,70	2,02,29	2,10,36	2,33,55	2,91,56	3,24,17	2,76,05	2,38,26	2,54,67	2,67,31	2,30,52	2,39,05
4. Total value of imports.	2,40,81,84	2,61,52,38	2,68,39,80	2,49,70,74	1,78,06,26	1,80,64,28	1,35,01,76	1,17,30,45	1,34,58,25	1,36,76,37	1,27,72,18	1,77,21,78	1,55,52,32
5. Total value of imports of salt.	1,26,20	1,74,84	1,46,62	1,30,89	1,14,97	71,99	78,06	49,79	52,08	56,74	60,49	55,77	37,80
6. Total value of imports excluding salt.	2,39,55,64	2,59,77,54	2,61,92,98	2,48,40,35	1,71,91,29	1,29,92,29	1,34,22,80	1,16,80,66	1,34,06,17	1,36,19,63	1,27,11,64	1,76,66,01	1,55,14,52
7. Gross burden of tariff (1) / (4) %.	17.4%	16.2%	16.8%	17.1%	21.6%	20.1%	33.4%	32.8%	30.5%	30.1%	29.8%	25.1%	26.9%
8. Net burden of tariff (2) / (6) %.	16.7%	15.6%	15.6%	16.3%	20.3%	27.0%	31.2%	30.5%	28.8%	28.4%	27.8%	23.9%	25.5%

* i.e. after deduction of the duty on silver bullion and silver sheets and plates.
 N.B.—Total Government Stores taken into account in arriving at import value figures.
 Source—Monthly Sea-borne Trade Accounts—March Issues.

II.—AN ANALYSIS OF IMPORT DUTY.

I.

The figures of Import Duty have been herein analysed with a view to discovering the relative contribution to revenue of different import duties and to estimating the burden on imports thereby imposed. The rates of duties are related either to the volume of imports or to the value of imports, or to both, and this leads to a classification of import duties into specific duties, *ad valorem* duties and mixed duties, respectively. Imports are classified into Consumption Goods, Raw Materials and Capital Goods, thereby distinguishing the different roles they play in the productive process. Consumption Goods enter into the consumption of widely different income groups in society and hence they have been further classified into Goods of General Consumption and Luxury Goods. The policy of protection to domestic industry has resulted in the imposition of protective duties on certain imports and the more important of these have been grouped together for review. Besides, some of the major imports of the country have been studied individually.

The period selected for study has been the ten year period from 1926-27 to 1936-37, beginning from a normal year after the war and before the depression and ending with the last year of the association of Burma with India. In view of the separation of Burma, the figures in future years will not be comparable with those of this decennial period and hence the figures for 1937-38, the first year after the separation, have been separately examined.

The imports of Government stores and the duty on them have been excluded from consideration as the figures for Government stores are not available in sufficient detail to enable their further classification. As the duty collected on Government stores has usually amounted to less than 2 per cent. of the duty collected on other imports, the exclusion of Government stores would not materially detract from the analysis. The imports of bullion and the duty on them are also excluded from consideration. Whenever the terms "total imports" or "total Import Duty" are used herein, they indicate total imports or total Import Duty excluding the imports of Government stores and bullion or the duty on them, respectively.

The classification of imports has been carried on only as far as the available figures have permitted. Difficulties are created by the fact that the statistics of imports and of import duty are compiled on different lines and it is not always possible to ascertain precisely the amount of duty collected on any particular head of imports. Then, in many cases, part of the supply of an import is liable to a specific duty while part is subject to an *ad valorem* duty, figures of duty-yield being available only for the total supply of the import. In such cases, the import has to be generally classified with the imports in the Mixed Duty group. The classification of imports into the different groups has varied over the period under review and hence the figures dealing with them have to be used with caution. Some of the goods imported have only lately become of sufficient importance to receive separate mention and figures for the duty collected on them are not available for the earlier years. The analysis presented herein is subject to all these limitations.

One chapter of this paper deals with the relative significance to revenue of different duties while another examines the burden imposed on imports. In a third chapter, the effects of the separation of Burma are reviewed and a fourth sums up the general tendencies that are brought to light.

The figures of imports and Import Duty are taken from the March issues of the Accounts relating to the Sea-borne Trade and Navigation of British India.

I.

Amount of Import Duty.

(Rs. Lakhs.)

Year.	I.				II. Duty collected on Government Stores.	I+II. Total duty excluding duty on Silver Bullion and Sheets.	III. Duty collected on Silver Bullion and Sheets.	I+II+III Grand Total of Import Duty.
	Excluding duty collected on Silver Bullion and Sheets and on Government Stores.							
	Yield of Specific duties. a	Yield of Mixed duties. b	Yield of Ad Valorem duties. c	Total duty. a+b+c.				
1926-27 .	13,49	5,34	22,20	41,03	94	41,97	...	41,97
1927-28 .	13,34	5,91	22,04	41,29	1,08	42,37	...	42,37
1928-29 .	14,98	5,57	21,72	42,27	67	42,94	...	42,94
1929-30 .	15,76	5,08	21,23	42,07	59	42,66	18	42,83
1930-31 .	16,88	5,11	14,68	36,67	64	37,30	2,33	39,63
1931-32 .	15,45	4,37	17,74	37,56	46	38,02	94	38,96
1932-33 .	14,92	5,45	24,40	44,77	33	45,10	8	45,18
1933-34 .	11,29	5,88	21,01	38,18	26	38,44	1	38,44
1934-35 .	10,38	9,03	21,36	40,77	25	41,02	21	41,23
1935-36 .	10,08	9,16	21,65	40,89	30	41,19	37	41,56
1936-37 .	7,81	9,05	20,67	37,53	48	38,01	1,26	39,27
1937-38 .	13,52	8,89	21,49	43,90	42	44,31	33	44,64

II.

Important Sources of Import Duty.

(Rs. Lakhs.)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
Iron and Steel .	3,28	3,55	3,14	2,61	1,85	1,49	1,46	1,23	1,21	1,35	1,06	1,27
Machinery and Electrical Instruments.	60	48	21	22	20	82	1,62	2,02	2,17	2,37	2,41	2,86
Motor Spirit .	...	...	...	16	32	67	29	10	5	8	53	4,75
Oil	1,40	1,96	2,16	2,08	1,91	2,31	2,19	1,97	2,30	2,22	2,28	4,12
Salt	2,01	1,91	2,02	2,10	2,34	2,02	3,24	2,76	2,38	2,55	2,67	2,31
Spirits	2,62	2,56	2,52	2,54	2,41	1,91	2,21	2,26	2,25	2,31	2,27	2,10
Sugar*	7,00	6,50	7,76	8,68	10,67	7,98	6,85	4,73	3,87	3,30	56	27
Textiles	9,70	10,18	9,93	9,45	6,15	7,37	13,00	9,76	12,22	11,90	11,18	10,63
Tobacco	1,84	2,11	2,52	2,20	1,21	1,01	1,30	1,12	1,04	1,01	1,28	1,32
Vehicles	1,68	1,64	1,70	1,74	1,20	1,10	1,20	1,29	1,74	1,74	1,75	2,14

* Figures till 1930-30 (inclusive) include molasses.

Group distribution of Import Duty.

(Rs. lakhs.)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
1. Goods of General Consumption.	18,06	17,64	18,66	19,46	19,28	9,52	12,61	10,50	12,07	12,67	12,26	12,41
2. Luxury Goods .	13,71	14,20	14,20	14,16	11,08	20,21	21,67	18,17	16,06	16,92	14,09	14,11
3. Raw Materials .	3,28	3,18	3,69	3,27	2,55	3,70	5,47	4,49	5,15	5,82	5,55	10,01
4. Capital Goods .	5,98	6,27	5,72	5,18	3,86	4,13	5,02	5,02	5,49	5,98	5,63	6,66
Total .	41,03	41,29	42,27	42,07	36,67	37,56	44,77	38,18	40,77	40,39	37,53	43,00

IV.

Certain Important Imports subject to Protective Duties.

(Cotton piecegoods, Sugar, Iron and Steel, Matches)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
Import Duty Rs. Lakhs.	16,37	16,25	16,67	16,79	15,88	12,85	14,48	10,18	9,80	9,56	5,65	4,26
Value of protected Imports Rs. lakhs	85,17	84,52	87,31	80,46	40,11	26,07	28,06	18,92	22,06	21,18	16,41	15,56
Burden Per cent. .	20	19	19	21	40	49	52	54	44	45	34	27

II.

The total yield of import duties amounted to 58 per cent. of total central tax revenue in 1926-27. It fell to 51 per cent. in 1931-32 and though it showed a sudden jump next year to 55 per cent. due to the increase in the yield from sugar and cotton piecegoods, it again fell next year and was 49 per cent. of total Central Revenue in 1936-37.

The total yield of import duties has varied between Rs. 36 crores and Rs. 45 crores over this period. For the first four years, it was in the neighbourhood of Rs. 42 crores. Then in the year 1930-31, it suddenly dropped by 5½ crores to Rs. 36.67 crores. It remained at about the same figure next year and then recorded a rise of Rs. 7 crores in the year 1932-33, amounting to Rs. 44.77 crores which is the maximum level reached during this period. The improvement was however wiped out in 1933-34, when the revenue realised was Rs. 38.18 crores. Though the next two years did show some increase, in 1936-37, the last year of the period under study, the amount of duty stood at the figure of Rs. 37.53 crores.

The fall of Rs. 5½ crores in the year 1930-31 marked the beginning of the depression. In this year, the total value of imports showed a fall of 32 per cent. compared to that of the previous year and there has been no

real recovery in the recorded value of imports since then. The rise in yield of Rs. 7 crores in 1932-33 was due to increased taxation, brought about both by increases in substantive rates and by surcharges levied during the preceding year. The increase in revenue was principally due to the yield from Textiles which alone showed a rise of a little less than Rs. 6 crores. This rise was due both to increased duty as well as an increase in textile imports. The increase in textile imports resulted from an improvement in the political situation as well as from a fall in their prices owing to Japanese competition. The fall in the revenue of Rs. 6 crores next year was also partly accounted for by a fall in the yield of textiles. The imports of textiles showed a reaction owing to the heavy imports of the previous year as also owing to an enhancement of duty in June 1933, which considerably reduced the imports from Japan. The falling purchasing power of the people was also one of the causes. Part of the fall in the total import revenue must however be attributed to the progressive fall in the yield of the duty upon sugar. The imports of sugar were rapidly falling owing to the increase in domestic production, stimulated by a protective duty. In 1934-35, and subsequent years, the yield of textiles again increased and tended to remain at a more or less stable level. The effect of the heavy imports of 1932-33 and of the reaction next year appeared to have worn off and textile imports were returning to a normal, even if a lower level. The yield from sugar was however falling and the return of the total import duty to the low figure of Rs. 37,53 lakhs in 1936-37 was due to a further fall of about Rs. 3 crores in the yield from sugar.

The share of the group of specific duties in the total Import Duty was 33 per cent. in 1926-27 and it gradually rose till it was 46 per cent. in 1930-31. Thereafter it gradually dwindled to 21 per cent. in 1936-37. The sudden rise of percentage from 37 per cent. in 1929-30 to 46 per cent. in 1930-31 was due chiefly to an opposite fall in the magnitude of the *Ad Valorem* Duty group in that year, owing to the decline of textile imports, rather than to any absolute increase in the yield of the Specific Duty group, though it had in fact increased by about 7 per cent. over the yield of the previous year. As there came about an improvement in the yield of *ad valorem* duties in subsequent years, the proportionate share of the Specific Duty group again fell, though now the relative fall was considerably accelerated by an absolute fall in the value of the Specific Duty group as well. The actual figures of yield of the Specific Duty group show a slowly rising tendency in the pre-depression years: from Rs. 13,49 lakhs in 1926-27 to Rs. 16,88 lakhs in 1930-31—a rise of 25 per cent. in four years. Since 1930-31, the yield of specific duty started falling, but in 1931-32 and 1932-33 it was still maintained at a high level, in spite of the depression and the fall in prices. When the yield of *ad valorem* duties fell in 1930-31 and 1931-32, the stable yield of Specific Duty was a saving feature in the financial situation. The fall in the yield of the Specific Duty group was more rapid after 1932-33, and in 1936-37 the yield amounted to Rs. 7,81 lakhs, showing a fall of 54 per cent. since 1930-31. The chief factor contributing to this result has been sugar and its importance may be judged from the fact that the revenue from sugar formed 52 per cent. of the total yield of the Specific Duty group in 1926-27: amounting to Rs. 7 crores in that year. The yield of the sugar duty rose by 52 per cent. in the next four years till in 1930-31 it amounted to 63 per cent. of the Specific Duty group. Thereafter, as an effect of the protection accorded

to domestic production of sugar, the imports of sugar fell rapidly till the yield from sugar was almost wiped out. In 1936-37, the yield of sugar was little more than half a crore and formed only 6 per cent. of the total Specific Duty group. It had fallen by about 95 per cent. since 1930-31. Another important source of revenue was the duty on matches. In 1926-27, the revenue from matches was about Rs. 89 lakhs and formed 7 per cent. of the Specific Duty group. By the end of the period, it had fallen to a few thousand rupees on account of the protective duty. The duty on cigarettes yielded Rs. 1,24 lakhs in 1926-27 and though it continued to yield about 9 per cent. of the total Specific Duty group for the next four years, the yield had fallen to about Rs. 29 lakhs by 1932-33. The chief cause in this case was the growing profitability of importing unmanufactured tobacco and converting it into cigarettes within the country. The duty on unmanufactured tobacco had yielded Rs. 59 lakhs in 1926-27 while in 1936-37 it yielded Rs. 92 lakhs. After 1932-33, the duty on cigarettes became a mixed duty and it ceased to belong to the Specific Duty group. Salt has been a very steady source of revenue and with the fall in the revenue from the Specific Duty group in recent years its relative importance within this group has proportionately risen. In 1926-27 it formed 15 per cent. of the yield of the Specific Duty group; in 1936-37, it amounted to 34 per cent. The figure of the yield has been maintained by additional taxation, which has assumed a protective character since 1931. Another important item is kerosene which yielded Rs. 1,02 lakhs in 1926-27 and Rs. 1,53 lakhs in 1936-37. Since 1931-32 there has been a duty on raw cotton which yielded Rs. 23 lakhs in 1931-32 and Rs. 45 lakhs in 1936-37.

The share of the Mixed Duty group was between 12 per cent. and 15 per cent. of the total revenue from Import Duty between 1926-27 and 1933-34. In 1934-35, however, the share suddenly increased to 22 per cent. and has remained at that level ever since. This sudden rise was due to the yield of the new mixed duties on textiles. The importance of the contribution of textiles to this group may be judged from the fact that while in 1926-27 there was no mixed duty on these goods, in 1936-37 the yield from duties upon textiles amounted to 62 per cent. of the total revenue collected by means of mixed duties. In 1927-28, a mixed duty was imposed on cotton twist and yarn and in 1930-31 cotton fabrics—grey goods—also came under this group. In 1934-35, silk and artificial silk yarn and fabrics were added. Another important item in the Mixed Duty group is spirits, which contributed 42 per cent. of the total revenue from mixed duties in 1926-27. The growing importance of textiles in the mixed duty group and the fall in the imports of spirits led to a reduction to 19 per cent. in 1936-37. The protective duty on iron and steel yielded as much as Rs. 2,77 lakhs in 1926-27, which was 52 per cent. of the total revenue from mixed duties in that year. Under the influence of growing protection, the imports of iron and steel are falling and in 1936-37, the yield of the duty upon iron and steel was only Rs. 68 lakhs—about 8 per cent. of the revenue from the Mixed Duty Group. The actual figures show that the total yield of the Mixed Duty group has amounted to between Rs. 5 and 6 crores during 1926-27 to 1933-34 except in the year 1931-32, when the duty collected was Rs. 4,37 lakhs, i.e., about Rs. 75 lakhs less than in the previous year. Most of this decrease was under spirits which yielded Rs. 56 lakhs less. In the year 1934-35, the revenue from mixed duties amounted to Rs. 9,03 lakhs, showing a rise of 54 per cent. compared to the previous year and this level was maintained in subsequent years. The rise in 1934-35 was due to the yield of

textiles, which rose by Rs. 2,89 lakhs, accounting for 92 per cent. of the rise in the Mixed Duty group.

The mixed duties imposed have been of two types. They have been either an alternative duty, *i.e.*, a specific rate and an *ad valorem* rate whichever was the higher, or a compound duty, *i.e.*, a specific rate and an *ad valorem* rate both together. Some of the compound duties have also attached to them an alternative *ad valorem* rate and should therefore be in a class by themselves. As, however, the yield of such duties cannot always be separately ascertained, they are grouped together with other compound duties. In 1926-27, alternative duties and compound duties were almost equally important in the Mixed Group. Since then, however, the Alternative Duty Group has vastly increased in significance. In 1926-27, the yield of alternative duties amounted to 48 per cent. of the total Mixed Duty group. Since then their share went on rising till in 1933-34, it amounted to 85 per cent. Though the percentage fell thereafter, it amounted to 73 per cent. in 1936-37. Looking to the actual figures, the revenue from the Alternative Duty group has been constantly rising all through the decennial period, having risen to Rs. 6,63 lakhs in 1936-37, *i.e.*, about 158 per cent. more than in 1926-27. The *ad valorem* duties on certain types of textile goods have been, of late, changed into Mixed duties and many of these have been of the Alternative type. The yield from the Compound Duty group, on the other hand, fell from Rs. 2,77 lakhs in 1926-27 to Rs. 89 lakhs in 1933-34 and though it recovered next year to Rs. 2,62 lakhs, it was only Rs. 2,42 lakhs in 1936-37, *i.e.*, about Rs. 35 lakhs less than in 1926-27. The fall in the proportion and absolute amount of the yield of compound duties was due to the fact that till 1934-35, the only important item paying compound duty was Protected Iron and Steel, which was showing a continually falling yield. In 1934-35, some of the new mixed duties on textiles were compound duties, notably on raw silk and yarn and silk fabrics, and their yield made up for the fall in the protective duty on iron and steel and raised the yield of the Compound Duty group to its old figure; but as the total yield of mixed duties had increased considerably, its relative proportion fell considerably.

The *Ad Valorem* Duty group, excepting the two years 1930-31 and 1931-32, has always contributed more than 50 per cent. of total Import Duty. In 1930-31, the relative proportion fell sharply to 40 per cent. from 50 per cent. in the previous year, as a consequence of the general depression. There was a fall in the yield under all heads but it was particularly severe under textiles, which alone fell by 47 per cent. compared to the previous year. The decrease in the *Ad Valorem* Duty group was about equal to the fall in the total Import Duty as a whole. As the revenue from specific and mixed duties was maintained, the proportion of *Ad Valorem* Duty naturally fell. As a consequence of the imposition of surcharges and enhancements of duty in 1931,—the yield of the *ad valorem* duties increased in 1931-32, but the increase was just enough to compensate for the decrease in the yield of specific and mixed duties and total revenue did not show much improvement. The percentage of the yield of *ad valorem* duties, however, increased to 47 per cent. The year 1932-33 saw a further huge increase in the yield of the *Ad Valorem* Duty group, and its relative position returned again to 55 per cent. since when it has never gone below 52 per cent. In 1932-33, there was a recovery in cotton piecegoods imports for a time, which however was not sustained after the end of that year. Textiles were the most important single item paying *ad valorem* duty but their importance is

on the wane. Textiles contributed 44 per cent. to the total yield of the *Ad Valorem* Duty group in 1926-27. Their proportion gradually fell to 32 per cent. in 1931-32. They showed a temporary recovery in 1932-33 due to an easing of the boycott situation as also to the depletion of stocks, and their contribution again rose to 41 per cent. Since then it has been steadily falling until in 1936-37 their contribution amounted to only 25 per cent. of the yield of the *Ad Valorem* Duty group. The rise in *Ad Valorem* Duty in 1932-33 was also partially accounted for by the yield of the duty on certain types of machinery, which had been reimposed. The absolute figures of a *valorem* duty collected show the same general trend. Between 1926-2 and 1929-30 the yield of the *Ad Valorem* Duty group varied between Rs. 2 crores and Rs. 22 crores. In 1930-31, the yield of the group fell suddenly to Rs. 14,68 lakhs—a fall of Rs. 6,55 lakhs, compared to the previous year. Half of this fall was under cotton piecegoods alone. Textiles as a whole show a fall in their yield of Rs. 4,24 lakhs—65 per cent. of the total fall. Next year, the yield of the *Ad Valorem* Duty group rose to Rs. 17,74 lakhs—a rise of Rs. 3,06 lakhs compared to the previous year. Only a third of this rise was due to an increase under the head of textiles, while the yield of cotton piecegoods showed hardly any rise at all. The year 1932-33 produced the maximum yield under the head of *Ad Valorem* Duty, for the entire period under review. The yield was Rs. 24,40 lakhs, an increase of Rs. 9,72 lakhs over that of 1930-31. More than half of this rise was accounted for by the yield of textiles, which were imported in very large quantities, to make up for the small imports in the two previous years. There was also an increase in the duty on certain types of textiles in August 1932. In 1933-34, *Ad Valorem* Duty figures fell again to Rs. 21 crores, which has been their normal level ever since. There was an immediate fall in the yield from textiles in 1933-34 as a reaction from the abnormal imports in the previous year and the yield has been steadily falling since then. Part of the fall may also have been due to the almost prohibitive increase in duty in June 1933. The duty on textiles yielded Rs. 5,11 lakhs in 1936-37, as compared to Rs. 9,70 lakhs in 1926-27. Side by side with a fall in the relative significance of textiles, there has been a rise in the significance of machinery and electrical instruments. This item contributed only 3 per cent. of the total yield of the *Ad Valorem* Duty Group in 1926-27, but by 1936-37 its proportion had risen to 12 per cent. Other important items under this group have been vehicles and iron and steel.

Considering these figures from the point of view of individual items imported, it appears that sugar, salt, motor spirit, oil, spirits, iron and steel machinery, vehicles, tobacco and textiles have usually contributed the bulk of the Import Duty. In 1926-27 these items together contributed 73 per cent. of the revenue and in 1936-37, 69 per cent. The yield of certain individual items has, however, fluctuated violently. Textiles contributed 24 per cent. in 1926-27, 17 per cent. in 1930-31 and 30 per cent. of the total duty in 1936-37. The lowest absolute figure was Rs. 6,15 lakhs in 1930-31, while the highest was Rs. 13 crores in 1932-33. The position of textiles as a source of taxation has been maintained and improved recently due to the increased rates of taxation. The yield of sugar was 17 per cent. in 1926-27, 29 per cent. in 1930-31 and 1 per cent. in 1936-37. The actual figures for these years were Rs. 7,00 lakhs, Rs. 10,67 lakhs and Rs. 56 lakhs, respectively. Due to the protective policy of the Government, sugar has almost ceased to be of any importance to Indian Revenue. Machinery and electrical instruments yielded only 1 per cent. of the total duty in 1926-27. As a

consequence of the removal of certain types of machinery from the free list in 1931, the yield under this item increased till it amounted to Rs. 2,41 lakhs in 1936-37—about 6 per cent. of the total duty. Under the influence of a protective duty on certain types, the yield of iron and steel shrunk from Rs. 3,28 lakhs in 1926-27 to Rs. 1,06 lakhs in 1936-37. The share of oil in the Import Duty increased from 3 per cent. in 1926-27 to 6 per cent. in 1936-37.

The actual figures of the yield of salt, spirits, vehicles and tobacco were comparatively stable and they continued to yield together about 20 per cent. of the total.

There have been protective duties on iron and steel and on printing and writing paper, and cotton twist and yarn throughout the period. In 1928, a protective duty on matches was introduced while in 1930 protection was accorded to cotton piecegoods. The policy of discriminating protection has been extended so as to include within its scope different types of cotton manufactures, silk manufactures, heavy chemicals, wood pulp and sugar. There have been temporary protective duties like the duties on broken rice and wheat and wheat flour. In some cases protection has been moderate enough to permit a volume of imports sufficient not to unduly diminish the revenue. In other cases, the duties have been almost prohibitive and have cut down revenue severely. The magnitude of the effect on revenue may be judged from the figures of the yield of four items, namely, cotton piecegoods, sugar, iron and steel, and matches, selected for convenience. These four together yielded a revenue of Rs. 16,87 crores in 1926-27, which was about 41 per cent. of total import revenue in that year. This level was maintained till 1930-31, when their share was 43 per cent. In 1931-32, their percentage fell sharply to 34 per cent. and has been falling since then, till in 1936-37 it was only 15 per cent. The absolute figure for 1936-37 was only Rs. 5,65 lakhs which meant a decrease of Rs. 11,22 lakhs since 1926-27. This decrease in customs revenue was only partially offset by the yield of the central excise duties imposed in recent years on domestic manufactures of sugar, matches and steel ingots, which amounted in 1936-37, to Rs. 4,85 lakhs.

An attempt will now be made to measure the contribution to Import Revenue of different groups of commodities, grouped according to their role in the productive process. Thus, the imports have been classified into four classes: Goods of General Consumption, Luxury Goods, Industrial Raw Material, and Capital Goods; and the total yield of each group has been found with a view to getting an idea of the importance of its contribution. These figures, however, have to be used with great caution as the composition of each group has changed over the period. Sugar, which formed an important article of general consumption in the earlier years, ceased to be so later when most of the sugar necessary for the population was manufactured at home, imports catering to luxury needs alone. The same was the case with matches. Then, again, figures are not available in earlier years of the yield of certain goods, which, though subsequently of sufficient importance to receive separate mention, were formerly shown under some more comprehensive head. For example, artificial silk piecegoods, which have become an important source of revenue since 1933-34, were in earlier years included in silk goods. Now, while artificial silk goods may be considered to be articles of general consumption, the same can hardly be said of silk goods. An obvious difficulty in comparison arises, when handling such figures. Further, none of these items wholly belongs to any one of

these three groups in actual reality. An article may be used as raw material in an industry while it may also serve as an article of direct consumption. In such cases, it has to be included in that group where the main proportion of its imports may be judged to belong, but to some extent such classification will be a matter of opinion. All that follows is subject to these limitations. Articles of General Consumption include kerosene oil, chemicals, drugs and medicines, salt and cotton piecegoods. In certain years, sugar, matches and artificial silk fabrics are also included under this heading. Articles which generally form an element of supplementary costs are included in the group of Capital Goods. Such articles are machinery, implements, hardware and ironmongery, building materials, iron and steel manufactures and conveyances (other than motor cars and cycles). Under Industrial Raw Material come all items which form an element in prime costs of an industry and these include oils, unmanufactured tobacco, metals other than iron and steel, and all textile materials and yarns. The remaining items, which include silk piecegoods, spirits, motor cars and cycles and provisions and oilman's stores, are brought together under the group of Luxury Goods. Most of the goods in this group are articles of consumption but there are also some which have yet to undergo some finishing process.

Articles of General Consumption contributed 44 per cent of total Import Revenue in 1926-27, and in 1930-31 this proportion was as high as 52 per cent. Since then the percentage fell till in 1936-37 it was only 33 per cent. This fall in the proportion of the yield of these articles to total Customs revenue does not mean that there is an equivalent fall in their contribution to taxation generally. It only means that less of the articles belonging to this group are imported, and their place is taken up by home production which contributes by way of excise duties and income tax and through the duties on raw materials. The chief source of revenue under this head which has gone dry is sugar, which since 1931-32 has not been included in this group at all. The imports of sugar were halved in that year and whatever sugar was imported was of finer quality required for luxury consumers. It therefore could not be given a place in a group which purported to represent general consumption. This made a considerable difference to the share of this group because sugar had yielded Rs. 10,78 lakhs in 1930-31. Another item which is dwindling in significance is cotton piecegoods. In 1936-37, it yielded about Rs. 1,47 lakhs less than in 1926-27. This loss, however, has been made good by artificial silk piecegoods which yielded Rs. 1,82 lakhs in 1936-37. The separate figures for artificial silk are not available in the years up to 1932-33, but their yield cannot be expected to be of any considerable significance at that time and their non-inclusion is not likely to materially affect the proportionate importance of this group. The fall in the Customs Revenue on cotton piecegoods and sugar is an indication of the expansion of these industries within the country under the influence of a protective policy. The revenue from kerosene has been more or less steady and that from salt has increased from Rs. 2,00 lakhs in 1926-27 to Rs. 2,67 lakhs in 1936-37.

The contribution of Luxury Goods was 33 per cent. in 1926-27 and 30 per cent. in 1930-31. In 1931-32, the contribution rose to 54 per cent, because of the yield from sugar (which has been transferred for purposes of definition to the Luxury Group dating from that year), which was as much as Rs. 8 crores, in spite of a severe reduction in the quantity of the imports. The imports of sugar had fallen in 1931-32 to nearly half their

volume in the previous year and went on falling further still in subsequent years. Most of the sugar necessary for general consumption has been produced within the country since 1931-32 and imports were restricted to fine varieties required by the richer classes. As the yield of sugar went on falling, the share of Luxury Goods fell till it was 38 per cent. in 1936-37, which however was higher than in the first year of the period. Textiles contributed about 20 per cent. of the total yield of the Luxury Group in 1926-27. These included silk and artificial silk goods, woollen goods, apparel, hosiery, etc. Their proportion had fallen to 13 per cent. in 1931-32, when sugar was first added to the group of Luxury Goods. Under the influence of the new taxation measures, the yield of luxury textiles rose sharply in 1932-33 and amounted to 21 per cent. of the revenue from this group. After 1933-34, the prices of artificial silk piecegoods and certain mixed fabrics fell sufficiently to bring them within the means of the poorer classes and hence they have since been transferred to the group of Goods of General Consumption. In 1936-37, the yield of textiles amounted to 18 per cent. of the total yield of the Luxury Group. Spirits contributed about 19 per cent. of the revenue from this group in 1926-27. The proportion rose to 22 per cent. in 1930-31 but fell next year to 9 per cent. owing both to a drop in the absolute yield as well as to a rise in the total yield of the Luxury Group due to the transfer of sugar to it. The absolute yield of spirits rose next year and as the yield of sugar fell in subsequent years, reducing the total yield of the Luxury Group the proportionate significance of spirits within the Luxury group rose again to 16 per cent. in 1936-37. Food and Drink contributed 13 per cent. to the yield of the Luxury Group in 1926-27 and 15 per cent. in 1936-37. The yield of manufactured tobacco has been falling since 1930-31 and has never recovered. The imports of manufactured tobacco fell spectacularly in 1930-31 as a consequence of the increase in duty. With the development of a tobacco industry in the country in subsequent years, the imports of manufactured tobacco remained at a low level. Manufactured tobacco contributed 9 per cent. to the revenue of the Luxury group in 1926-27, but the proportion had fallen to 3 per cent. in 1936-37.

Raw Materials of Industry contributed about 8 per cent. of the total import revenue from 1926-27 to 1930-31. In 1931-32, this proportion went up to 10 per cent. and was 15 per cent. in 1936-37. With growing industrialization within the country the yield of most of the items included in this group shows a rise. The yield of silk yarn has doubled while that of artificial silk yarn has multiplied five times. The yield of mineral, animal and essential oils as well as unmanufactured tobacco has increased largely. New duties have been imposed on raw cotton and wood pulp which were hitherto imported free and the duty on raw cotton, in particular, has been very productive, its yield amounting to Rs. 45 lakhs in 1936-37. The yield of motor spirit has been on the increase with the growing popularization of motor transport.

The contribution of Capital Goods was maintained in 1936-37 at 15 per cent. which was the level in 1926-27. The level was, however, not constant throughout the period. It had fallen gradually to 11 per cent. in 1932-33 and recovered only thereafter. The major part of this fall has been under iron and steel, which yielded only about Rs. 1,46 lakhs in 1932-33, instead of Rs. 3,28 lakhs in 1926-27. Part of the explanation lies in the protective nature of the duty on certain types of iron and steel. This deficit under iron and steel has been made up by the yield of the duties imposed in 1931-32 on certain types of machinery which up to that time were included in the free list, and the proportionate significance of this

group started rising again. The duty on machinery and electrical instruments amounted to only Rs. 60 lakhs in 1926-27, while in 1936-37 it totalled Rs. 2,41 lakhs. The total duty on Capital Goods was Rs. 5,98 lakhs in 1926-27, Rs. 5,02 lakhs in 1933-34 and rose again to Rs. 5,63 lakhs in 1936-37.

There has been a general change in the relative order of significance of these different groups of imports, from the point of their contribution to total import revenue. The balance has shifted away from Goods of General Consumption to Raw Materials of Industry and Luxury Goods. The position of Capital Goods has remained unchanged.

V

Percentage Burden of Import Duty.
(Duty on Silver Bullion and Sheets Excluded.)

Year.	Burden on private imports.				Total Burden of import duties on all imports, including Government Stores.
	Burden of Specific Duties.	Burden of Mixed Duties.	Burden of Ad Valorem Duties.	Total Burden of Import Duties.	
1926-27	40	38	18	17.7	17.4
1927-28	42	24	14	16.5	16.2
1928-29	47	20	14	16.7	16.3
1929-30	49	21	14	17.4	17.1
1930-31	64	26	16	22.6	21.6
1931-32	63	30	21	29.7	29.1
1932-33	73	43	25	33.8	33.4
1933-34	80	49	25	33.1	32.3
1934-35	68	41	24	30.8	30.5
1935-36	63	42	23	30.4	30.1
1936-37	60	46	23	29.9	29.8
1937-38	43	41	19	25.3	25.1

VI

Percentage Burden of certain important imports.
%

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
Iron and Steel	23	19	14	14	14	20	33	27	23	22	21	19
Machinery and Electrical Instruments.	4	8	1	1	1	6	13	13	14	14	14	14
Motor Spirit . . . . .	...	...	...	42	44	64	78	167	63	63	151	89
Oil	15	13	19	18	19	27	29	29	33	31	33	31
Salt	160	109	137	162	203	406	410	562	453	447	445	413
Spirits	74	70	71	67	73	84	98	100	95	93	95	91
Sugar	37	44	43	55	101	133	166	175	183	173	233	142
Textiles	11	11	11	12	14	20	27	30	30	30	31	25
Tobacco	72	73	93	81	80	107	134	156	163	163	158	155
Vehicles	17	13	16	16	13	25	31	27	26	25	27	24

VII

Percentage burden of Import duty on Different Groups of Imports.
(%)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
1. Goods of General Consumption.	21	21	20	23	42	37	42	45	39	44	48	30
2. Luxury Goods .	21	21	22	22	23	47	48	46	44	42	37	31
3. Raw Materials .	9	8	10	9	8	13	17	18	17	16	19	22
4. Capital Goods .	13	12	10	9	9	14	20	18	18	18	18	17.
Total .	17.7	16.5	16.7	17.4	22.6	29.7	33.8	33.1	30.8	30.4	29.9	25.8

VIII

Value of Imports.
(Rs. lakhs.)

Year.	1 Value of Imports, excluding Government Stores.					2 Government Stores.	Total value of imports including Government Stores.
	Subject to Specific Duty.	Subject to Mixed Duty.	Subject to ad valorem Duty.	Free of Duty.	Total		
	a	b	c	d	a+b+c+d		
1926-27	33,33	13,91	1,73,17	10,81	2,31,22	9,60	2,40,82
1927-28	31,65	24,96	1,60,37	32,36	2,49,84	11,69	2,61,52
1928-29	31,82	27,58	1,52,82	41,11	2,53,31	10,09	2,63,40
1929-30	31,92	24,58	1,47,81	36,50	2,40,80	8,91	2,49,71
1930-31	26,41	19,70	89,87	28,82	1,64,79	8,27	1,73,06
1931-32	24,58	14,64	83,06	4,09	1,26,87	4,27	1,30,64
1932-33	20,41	12,54	95,91	3,73	1,32,58	2,43	1,35,02
1933-34	14,08	11,96	85,29	4,03	1,15,36	1,95	1,17,30
1934-35	15,30	22,02	83,73	6,25	1,32,29	2,30	1,34,58
1935-36	16,01	21,87	92,67	3,87	1,34,42	2,34	1,36,76
1936-37	13,12	19,50	88,53	4,11	1,25,24	2,48	1,27,72
1937-38	31,39	21,46	1,14,69	5,91	1,73,45	3,43	1,76,89

III.

The average burden of import duty on total imports was about 17 per cent. in the first four years of the period under review. In the year 1930-31, it sharply increased to 22.6 per cent. and then went on increasing till it reached its maximum of 33.8 per cent. in 1932-33. Thereafter, it diminished but still was 29.9 per cent. in 1936-37, which was considerably higher than in 1926-27. The rise in the burden in 1930-31, was due to the fact that though the value of total imports in that year fell by 32 per cent. over the figures of the preceding year, the fall was proportionately less in the imports subject to specific and mixed duties and their relative significance had risen. Imports liable to *ad valorem* duty fell by 39 per cent., while the imports paying specific and mixed duty fell only by 18 per cent. in value. This raised the share of the latter in the total imports from 23 per cent. in 1929-30 to 28 per cent. in 1930-31

and proportionately reduced that of the former. As specific and mixed duties are based on some physical characteristic of the imports rather than on their value as in the case of *ad valorem* duties, their yield does not respond to changes in the prices of imports and in a period of falling prices, their burden increases. While the burden on imports paying specific and mixed duties rose from 37 per cent. in 1929-30 to 48 per cent. in 1930-31, the burden on imports paying *ad valorem* duties remained steady between 14 per cent. and 16 per cent. As the proportion of imports subject to specific and mixed duties rose simultaneously, the total burden on all imports also rose from 17.4 per cent. in 1929-30 to 22.6 per cent. in 1930-31. While the burden on imports paying specific and mixed duties increased from 37 per cent. to 48 per cent. between the years 1929-30 and 1930-31, the burden on imports paying specific duties had increased from 49 per cent. to 64 per cent., and that on imports paying mixed duties had increased only from 21 per cent. to 26 per cent. If the burden of mixed duties is further analysed, it is found that all the rise therein is attributable to the alternative type. The burden of alternative mixed duties rose from 29 per cent. to 36 per cent. while that of compound duties remained constant at 15 per cent. In 1931-32, the burden on total imports further increased to 29.7 per cent. This was due to both a further fall in the value of imports and to a general increase in the rates of duty which took effect in March and September 1931. The imports were less by 48 per cent. than those in 1929-30, the last year of a normal burden and as before the fall in imports paying *ad valorem* duties was greater, i.e., 44 per cent. as compared to that of goods paying specific and mixed duties, which was only 31 per cent. This brought about a further change in the relative proportions. The proportion of imports paying specific and mixed duties had risen to 31 per cent. in 1931-32 compared to 23 per cent. in 1929-30 and 20 per cent. in 1926-27. As the burden of specific and mixed duties had risen to 51 per cent. in 1931-32 instead of 48 per cent. in the previous year, the increased weightage of these imports naturally affected the burden of total duty as well, and now, owing to increases in taxation, the burden of *ad valorem* duties in addition had gone up to 21 per cent. in 1931-32 from 16 per cent. of the previous year. The proportion of imports subject to *ad valorem* duties had also gone up this year to 66 per cent. from 55 per cent. in 1930-31, on account of the curtailment in the free list. Free imports which amounted to 17 per cent. of total imports in 1930-31, now fell to only 3 per cent. In 1932-33, the burden of duty rose to 33.8 per cent. which was the maximum for the period. This year showed the full effect of all enhancement in the duties, some of which had been in force only for six months in the last financial year. While the total value of imports had gone up by less than 5 per cent., the total import revenue showed a rise of 19 per cent. over the previous year. There was a rise in the value of imports paying *ad valorem* duties, while that of the remaining imports continued to fall. There was an alteration again in the respective proportions, and imports paying specific and mixed duties fell from 31 per cent. in the previous year to 25 per cent. in 1932-33. The burden of *ad valorem* duties had now risen to 25 per cent., nearly double what it had been in 1926-27, while the burden of specific and mixed duties increased from 40 per cent. to 62 per cent. over the same period. After 1932-33, the burden of duty gradually fell till in 1936-37 it was 29.9 per cent. The value of imports had fallen by about 6 per cent. in these four years, but the fall in the import

revenue was 16 per cent. Compared to 1926-27, however, the burden of duty was still very high. The total value of imports was still 46 per cent. below the 1926-27 level while the total revenue was only 9 per cent. less. The burden of all types of duties had risen compared to 1926-27—that of specific duties from 40 per cent. to 60 per cent., of *ad valorem* from 13 per cent. to 23 per cent. and of mixed from 38 per cent. to 46 per cent. The year 1926-27 was, however, an abnormal year as far as the yield of mixed duties is concerned and if the year 1927-28 is taken for comparison, the burden of mixed duties would appear to have risen from 24 per cent. to 46 per cent. The proportionate importance of imports paying *ad valorem* duties was still lower than in 1926-27, when such imports amounted to 75 per cent. of all imports, as compared to 71 per cent. in 1936-37. Compared to 1927-28, however, when the percentage of imports subject to *ad valorem* duties was 64 per cent., the percentage in 1936-37 was higher. This difference is due to the fact that the proportion of free imports which amounted to 13 per cent. in 1927-28 had now fallen to 3 per cent.

Proceeding to examine the burden of different types of duty more closely, it appears that the burden of specific duties went on increasing from 1926-27 to 1933-34 and then fell. The variation in the burden was very wide inasmuch as from 40 per cent. in 1926-27 it rose to 80 per cent. in 1933-34 and then though it fell, it still remained at 60 per cent. in 1936-37. The enormous rise in the burden till 1933-34 was due to the fact that while the imports had fallen in value over this period, till they were less than half their level in 1926-27, the revenue was not only maintained but was even higher than in 1926-27. It showed a significant fall in 1933-34 for the first time. The rise in burden would have appeared still greater had it not been for the fact that in 1931-32 there was imposed a duty on raw cotton which brought raw cotton imports into the Specific Duty group. As the burden on raw cotton was never more than 9 per cent., while the imports of raw cotton amounted to 29 per cent. in 1931-32 and 25 per cent. in 1933-34 of imports subject to specific duties, naturally the total burden of specific duties was kept down. The rise in the burden was due chiefly to sugar and salt. The imports of sugar formed 57 per cent. of total imports paying specific duties in 1926-27 and though this percentage fell to 19 per cent. in 1933-34, the burden on sugar had increased from 37 per cent. to 175 per cent. in the same period. The burden on salt imports, which generally formed about 4 per cent. of the Specific Duty group, rose from 160 per cent. in 1926-27 to 552 per cent. in 1933-34. After 1933-34, the burden of specific duties started falling, because, while the total value of imports subject to specific duties was maintained, the yield of specific duties fell by about 31 per cent. by 1936-37. This fall in the burden of specific duties was due partly to the almost complete extinction of sugar from India's imports and partly to the growing importance of imports of raw cotton which now amounted to 45 per cent. of the total imports in the Specific Duty group. Sugar now amounted to only 2 per cent. of the imports subject to specific duties and although its burden had now gone up to 233 per cent., it could not raise the total burden of the Specific Duty group very much. On the other hand, as the proportion of raw cotton, which bore a burden of only 8 per cent., rose, it brought down the total burden of specific duties. The burden of specific duty remained as high as 60 per cent. because of

the burden on kerosene and salt. Kerosene imports which amounted to 15 per cent. of the Specific Duty group of imports, now paid a duty equivalent to 78 per cent. of its value.

The burden of mixed duties was 38 per cent. in 1926-27 and 24 per cent. in 1927-28. This sudden change in the burden is due to the fact that in 1926-27 the only important imports liable to mixed duties were spirits (excepting ale, beer, etc.), and protected iron and steel, of which spirits were taxed to the extent of 103 per cent. of their value. In 1927-28, there was a mixed duty levied on cotton twist and yarn and as the *ad valorem* value of this duty was only 6 per cent., while the imports of cotton twist and yarn amounted to 30 per cent. of the total imports subject to mixed duties, the burden of mixed duties came down to 24 per cent. and remained a little lower till 1929-30. After 1929-30, there was a steady rise in the burden till in 1933-34 the burden was 49 per cent. The imports subject to mixed duties had fallen in 1933-34 to less than half their value in 1927-28, while the duty collected was about the same. A large part of the rise in the burden is explained by the position of the textile group. The burden upon textiles rose from 6 per cent. in 1927-28 to 45 per cent. in 1933-34, while the proportion of textile imports to total imports subject to mixed duties rose simultaneously from 27 per cent. to 51 per cent. The burden upon spirits (excepting ale, beer, etc.), also rose from 100 per cent. to 135 per cent. and the proportion of the imports of spirits rose simultaneously from 9 per cent. to 11 per cent. The burden on protected iron and steel rose from 21 per cent. in 1927-28 to 31 per cent. in 1933-34 but now the significance of protected iron and steel imports had undergone a great change. The imports of protected iron and steel made up 56 per cent. of total Mixed Imports in 1927-28. In 1933-34 they amounted to only 23 per cent. In 1934-35, the burden of Mixed Duty fell to 41 per cent. As a result of the new mixed duties on textiles, the total value of imports subject to mixed duties rose by 84 per cent., while the total duty collected also rose by 54 per cent. Textile imports now totalled 62 per cent. of the total imports in the Mixed Duty group and the burden upon them had gone down to 41 per cent. By the end of the period, the burden of mixed duties had, however, risen to 46 per cent., and this again was due chiefly to a rise in the burden on textiles which still made up the major part of the imports in the Mixed Duty group.

If the burden of alternative mixed duties and compound mixed duties is separately studied, it is found that the burden represented by alternative duties was considerably greater. In 1926-27, the burden of alternative duties was 78 per cent., as the chief import under this head was spirits (excepting ale, beer, etc.), which paid a duty of 103 per cent. Since 1927-28, cotton twist and yarn (and sewing and darning thread) also became liable to an alternative mixed duty of 6 per cent. and as these imports formed 69 per cent. of all imports paying alternative duty, the burden of alternative duties fell to 27 per cent. In 1930-31, there were alternative duties levied on certain other textile goods as well. After 1927-28, the burden of alternative duties went on rising till it was 55 per cent. in 1933-34 and later fell for a time, again rising to 48 per cent. in 1936-37. The burden of compound duties, on the other hand, was never higher than 42 per cent. and was as low as 15 per cent. between 1928-29 and 1930-31. Till 1933-34, the only important article of import subject to a compound duty was protected iron and steel, the burden on

which almost determined the burden of compound duties as a whole. The burden of compound duties rose to 41 per cent. in 1932-33, due to the sudden increase in the burden on protected iron and steel consequent on the value of their imports being cut by a half. After 1934-35, the influence of the imports of protected iron and steel on the burden of compound duties diminished due to compound duties being also imposed on certain textiles, such as silk materials and piecegoods, and hence although the burden on protected iron and steel imports fell later on, the burden of compound duties was maintained and, in fact, in 1936-37, rose again to 42 per cent. In general, the alternative form of mixed duty appears to be getting more popular, since imports subject to alternative duties, which amounted in 1927-28 to 44 per cent. of total imports in the Mixed Duty group, had risen to 70 per cent. by 1936-37.

The burden of *ad valorem* duties was 13 per cent. in 1926-27. It remained steady till 1929-30 and then started rising till it was 25 per cent. in 1932-33. Thereafter, it oscillated about that figure and was 23 per cent. in 1936-37. The value of imports subject to *ad valorem* duties fell by 39 per cent. in 1930-31 compared to the previous year and as the total yield of *ad valorem* duties did not fall in the same proportion, the burden started rising. In subsequent years, while the total value of imports subject to *ad valorem* duties showed no appreciable recovery, the figures of the yield of *ad valorem* duties returned somewhat nearer the previous level as a result of the increases in duty in March and September 1931. The yield of *ad valorem* duties amounted to Rs. 24,40 lakhs in 1932-33 which was the highest figure for the period and it was in this year that the burden rose to the highest level. In 1936-37, the value of imports subject to *ad valorem* duties was about half of what it was in 1926-27, while the amount of duty realized was only about 7 per cent. less. As a consequence, the burden remained as high as 23 per cent. One of the major influences which accounted for the change in the burden since 1931-32 is the removal of certain types of machinery from the free list in September 1931. In the year 1930-31, imports of dutiable machinery constituted only 4 per cent. of the total imports in the *Ad Valorem* Duty group in that year. Their relative significance had risen to 16 per cent. in 1931-32. The burden on machinery as a whole (free and dutiable) was 1 per cent. in 1930-31. In 1931-32, the burden was 6 per cent. and rose to 13 per cent. the year after. Although the importance of cotton piecegoods had dwindled over the period under review, it was still considerable in view of the rise in the burden on piecegoods. In 1926-27, the imports of cotton piecegoods formed 20 per cent. of the imports subject to *ad valorem* duties while in 1936-37 they amounted to only 13 per cent. The burden, however, had risen from 18 per cent. to 30 per cent. in the same interval. Imports of vehicles steadily amounted to between 6 and 8 per cent. of the imports subject to *ad valorem* duties, but the burden upon them had risen from 17 per cent. to 27 per cent. Other important imports paying *ad valorem* duties were non-protected iron and steel, rubber manufactures, paper manufactures, metals other than iron and steel, chemicals, drugs and medicines, and hardware, ironmongery and tools.

The value of imports, free of all duty, has varied between 3 per cent. and 17 per cent. of total imports in the period under review. In 1926-27, free imports were 5 per cent. of total imports, the important items in

this year being raw cotton, precious stones and coal tar derivatives. Next year, certain types of machinery were included in the free list and there was a large rise in the imports of wheat. The percentage of free imports consequently rose to 13 per cent. and this high level was maintained till 1931-32, in which year raw cotton, machinery and coal tar derivatives ceased to figure in the free list. Moreover, there were no large imports of wheat in this year and all these factors combined to reduce the percentage of free imports to 3 in 1931-32. Thereafter, free imports have never amounted to more than 5 per cent. of the total value of imports. This must, however, be considered only an approximation, as imports of rice, which have been considerable in recent years, have not been included under the head of free imports, since broken rice which is dutiable constitutes a large proportion of rice imports. In 1936-37, the most important free items were books, manures, raw wool and rice.

It is interesting to examine the change in burden on some of the more important items in the list of imports individually. The most important single item has always been textiles. Textiles accounted for 38 per cent. of total imports in 1926-27 and for 28 per cent. in 1936-37. The burden on textiles was steady at about 12 per cent. till 1929-30 and rose to 30 per cent. in 1933-34 remaining steady at that level thereafter. Another important item in the earlier years of the period was sugar, though in recent years it has undergone a complete change of fortune. In 1926-27, imports of sugar amounted to 8 per cent. of the total imports. Even in 1930-31, its share was 6 per cent., but by the end of the period it had gone down to a negligible fraction. The burden on sugar was 37 per cent. in 1926-27 and has since been gradually rising till it was 233 per cent. in 1936-37, under the influence of a protective policy. Total iron and steel imports (protected and non-protected) comprised 6 per cent. of total imports in 1926-27. In 1932-33, their percentage fell to 3 and was 4 in 1936-37. The burden on total iron and steel has shown an uneven course. In 1926-27 the burden was 23 per cent. and it later fell as a consequence of the reduction in protective duties till it was 14 per cent. from 1928-29 to 1930-31. As a result of the fall in the prices, the burden rose to 20 per cent. in 1931-32 and 33 per cent. in 1932-33. When the prices of iron and steel recovered, the burden fell till it was 21 per cent. in 1936-37. The burden on the protected items of iron and steel imports was a little higher throughout and its jump in 1932-33 also was more sharp. From 15 per cent. in 1930-31, it rose to 41 per cent. in 1932-33 but fell thereafter. The importance of machinery and electrical instruments (and printing and litho presses) in Indian imports has been increasing. In 1926-27, these comprised 7 per cent. of total imports. In 1930-31, they had risen to 11 per cent. and in 1936-37 they accounted for 14 per cent. of India's import trade. This improvement in the imports of machinery is all the more remarkable in view of the circumstances that since 1931 machinery has no longer figured in the group of free imports but has become dutiable again, as it was in 1926-27. The burden upon machinery and electrical instruments was 4 per cent. in 1926-27. Next year, a very large variety of machinery were exempted from duty and the burden fell first to 2 per cent. and then to 1 per cent. where it remained till 1930-31. The duty on machinery was reimposed in September 1931 and the burden rose to 6 per cent. in 1931-32 and to 13 per cent. in 1932-33. It has remained at about this level since then and was 14 per cent. in 1936-37. Other important items of imports are oil, vehicles, spirits, tobacco and salt.

The full significance of protective duties may well have to be the subject matter of an independent and exhaustive enquiry. It has not been attempted here. But it may be of some interest to take four major items, namely, cotton piecegoods, sugar, iron and steel, and matches, which have been subjected to protective duties, and observe the trend of their significance in India's import trade. The imports of these four items together formed 37 per cent. of total imports in 1926-27. This level was maintained for the next two years, but from 1930-31 these imports started steadily falling in relative importance till in 1936-37 they accounted for only 13 per cent. of total imports. The burden of duty on these imports was 20 per cent. in 1926-27 and continued to be steady about that level till 1929-30. In March 1930, the protective duty on cotton piecegoods was raised, while in December of the same year the duty on certain types of iron and steel was also increased. As a result of these measures the burden of duty on this group of protected imports rose sharply from 21 per cent. in 1929-30 to 40 per cent. in 1930-31. There was a further surcharge levied on cotton piecegoods in March and September 1931 and the duty on sugar also was enhanced in the same year. As a consequence, the burden rose to 49 per cent. in 1931-32, to 52 per cent. in 1932-33 and to 54 per cent. in 1933-34. In the years 1934, 1935 and 1936, reductions were made in the duties on cotton piecegoods, both British and non-British, and the burden gradually fell from 54 per cent. in 1933-34 to 44 per cent. in 1934-35 and 34 per cent. in 1936-37. Cotton piecegoods have always been the most important item in this group. Their imports amounted to 65 per cent. of the total value of this group in 1926-27 and their relative significance had risen to 81 per cent. in 1936-37. The absolute value of the imports of cotton piecegoods was Rs. 55,02 lakhs in 1926-27 and fell first gradually to Rs. 50,25 lakhs in 1929-30 and then sharply to Rs. 14,67 lakhs in 1931-32. They amounted to only Rs. 13,37 lakhs in 1936-37. The depression had hit all kinds of imports but while total imports had fallen in 1931-32 by 45 per cent. below their 1926-27 level, the imports of cotton piecegoods fell by 73 per cent. over the same period. Cotton piecegoods were singled out for an organized political boycott in 1930-31 and 1931-32, which greatly restrained their imports. The textile industry within the country has been expanding rapidly and the improvement in the political situation has brought no substantial recovery to the imports of cotton piecegoods. The burden of duty on cotton piecegoods was 16 per cent. till 1929-30 and rose thereafter to 34 per cent. in 1933-34, remaining about that level ever since. Another important item in this group was sugar, which amounted to 22 per cent. of the total value of this group in 1926-27. Its proportionate significance has been falling till it was 1 per cent. in 1936-37. The imports of sugar amounted to Rs. 18,89 lakhs in 1926-27 and to Rs. 15,78 lakhs in 1929-30, the burden rising at the same time from 37 per cent. to 55 per cent. In 1930-31, the duty on sugar was enhanced and the burden rose to 101 per cent., the imports falling to Rs. 10,54 lakhs. Since 1931, the duty on sugar became protective and the imports of sugar have been falling steadily. In 1935-36, the burden of duty upon sugar had risen to 173 per cent., while the imports of sugar fell to Rs. 1,91 lakhs. In 1936-37, the imports of sugar amounted to Rs. 24 lakhs. The imports of protected iron and steel formed 12 per cent. of the total imports of this group in 1926-27 and 17 per cent. in 1936-37. The imports rose from Rs. 10,60 lakhs in 1926-27 to Rs. 17,23 lakhs in 1928-29, and the burden of duty on these imports fell from 26 per cent. to 15

per cent. over the same period. Since 1928-29, the imports of protected iron and steel have been steadily falling till they amounted to Rs. 2,79 lakhs in 1936-37. The burden of protective duty on iron and steel was 15 per cent. from 1928-29 to 1930-31 and rose due to a fall in the prices to 41 per cent. in 1932-33. Since 1932-33, with an improvement in the price level and a reduction in the duties, the burden started falling again and was 24 per cent. in 1936-37. The imports of matches have been steadily falling throughout the period under review. They amounted to Rs. 66 lakhs in 1926-27 and fell to Rs. 18 lakhs in 1928-29. Protection was accorded to the Match Industry in 1928, and the burden of duty rose from 135 per cent. in 1926-27 to 143 per cent. in 1928-29. After 1928-29, the imports of matches fell rapidly till they amounted to Rs. 1 lakh in 1931-32. They have shown no improvement since.

The burden of duty may now be examined on different groups of imports classified according to their role in the productive process. As already pointed out a classification of this type is bound to be somewhat arbitrary but it is, nevertheless, possible to constitute certain general categories, though an import which may belong to one class in one year may belong to another in other years. Difficulties are also presented by the paucity of detailed statistics in earlier years, which make proper classification and comparison difficult. In spite of the allowances which have to be made on all these grounds, groupings of this type may have value inasmuch as they may enable inferences to be drawn in respect to the burden on different social classes and on different types of economic goods.

Beginning with goods of general consumption it appears that there is an increasing tendency for imports of this type to diminish in relative significance. The imports of General Consumption Goods amounted to 37 per cent. of total imports in 1926-27 and since then their share gradually fell until it was only 20 per cent. in 1936-37. Their absolute value fell from Rs. 86.46 lakhs in 1926-27 to Rs. 25.53 lakhs in 1936-37. This is due to the fact that as regards most of the articles comprising this group, domestic production is making rapid progress. The sugar industry has expanded so rapidly under the cover of protection that the imports of sugar in the last few years (since 1932-33) have been severely curtailed and confined only to such qualities as cater to luxury demand. The competition of the textile industry within the country has considerably reduced the imports of cotton piecegoods, though their place has however been partially taken by the imports of artificial silk piecegoods and mixed fabrics which, on account of a fall in their prices, have now become sufficiently cheap to enter into general consumption. Kerosene oil maintains its relative position, while the importance of chemicals, drugs and medicines has gone up. In 1926-27, chemicals, drugs and medicines formed 5 per cent. of imports of General Consumption Goods. In 1936-37, their percentage had risen to 19. Since 1930-31, the imports of matches have been negligible and do not affect the general consumer. The imports of wheat, rice and pulses have been of a greatly varying magnitude, inasmuch as such imports are very sensitive to price parities, especially as their supply has now greatly increased due to the changed conditions of world agriculture. Wheat was imported to the extent of Rs. 8.17 lakhs in 1928-29, while in 1936-37 its imports amounted only to about a lakh of

rupees. The imports of rice amounted to Rs. 2,44 lakhs in 1934-35, while in 1936-37 their value was about Rs. 55 lakhs. Other important items included in this group are glass bangles and beads and salt. The imports of glass bangles and beads amounted to Rs. 1,16 lakhs in 1926-27 but their value was only Rs. 40 lakhs in 1936-37. The imports of salt had fallen from Rs. 1,26 lakhs to Rs. 60 lakhs over the same period. The tariff burden on General Consumption Goods was 21 per cent. in 1926-27 and it continued to be steady till 1930-31 in which year there was a jump in the burden to 42 per cent. This was due to the sudden fall in the value of the imports of these goods in 1930-31 to a little more than half their value in the previous year, while the total yield remained constant. A large part of the rise in the burden on the group of General Consumption Goods was due to the rise in the burden upon sugar which rose from 55 per cent. in 1929-30 to 101 per cent. in 1930-31 while the imports of sugar also rose in their significance relative to other goods of general consumption. The increase in the duty on cotton piecegoods in March 1930 was also partly responsible. In 1931-32, the burden on General Consumption Goods fell to 37 per cent., due to the exclusion of the imports of sugar from this group which had formed 24 per cent. of the total imports of this group in the previous year. Due to the grant of protection to sugar in 1931, the imports of sugar sharply fell amounting to only Rs. 6,17 lakhs in 1931-32, their value in the previous year being Rs. 10,54 lakhs. The domestic production of sugar had expanded and imports were confined to finer varieties required by the richer classes. The fall in the burden would have been still greater, had it not been for the general increases in duty in March and September 1931. The full effect of these changes, however, was seen in 1932-33, when the burden again rose to 41 per cent. and continued about that level except in 1934-35, when it fell to 39 per cent. partly owing to a temporary fall in the burden on cotton piecegoods, the imports of which had recovered, and partly due to a sudden temporary increase in the imports of rice which came in free of duty. In 1936-37, the burden on General Consumption Goods was 48 per cent., more than double the burden in 1926-27. But while the burden on these goods increased, consideration must also be paid to the fact that these goods no longer occupied the same place in India's imports as before. General Consumption Goods figured only to the extent of 20 per cent. in India's imports in 1936-37, while in 1926-27 they accounted for a total of 37 per cent. While total imports fell by only 46 per cent. over this decennial period, the imports of general consumption goods had fallen by 70 per cent. The place of many of the imports composing this group was taken over by goods produced within the country.

The position of Luxury Goods has varied less. In 1926-27, this group of goods accounted for 28 per cent. of total imports, reached a maximum of 34 per cent. in 1931-32 and came down again to 30 per cent. in 1936-37. The burden was about 23 per cent. till 1931-32, in which year the burden suddenly rose to 47 per cent. under the influence of the general increases in tariff in March and September 1931. The burden upon luxury goods started falling thereafter till in 1936-37 it was 37 per cent. The imports of sugar were transferred to this group in 1931-32, as since the grant of protection to the domestic sugar industry, imports of sugar have been mainly of the finer variety. Since the burden upon sugar was 133 per cent.

in 1931-32, while its imports amounted to 14 per cent. of the total imports of this group, the rise in the burden upon the group of Luxury Goods in 1931-32 may partly be attributed to the regrouping of sugar. The steady fall in the burden upon this group in subsequent years is due, in a large measure, to the altered relative significance of the imports of sugar. The imports of sugar, the burden upon which was continuously rising, fell in 1936-37 to less than one per cent. of the total imports of this group. Other important articles under this group are paper and its manufactures, rubber goods, motor cars and cycles, and spirits which together amount to between 18 per cent. and 24 per cent. of Luxury Imports. Of these, the burden on spirits has been rising since 1929-30, when it was 67 per cent. It rose to 100 per cent. in 1933-34 and was 95 per cent. in 1936-37. The burden on paper was about 19 per cent. in 1930-31 but it rose sharply next year and was 28 per cent. in 1936-37. Part of the paper imported paid a protective duty and the burden on such imports was as high as 47 per cent. in 1936-37 as compared to 27 per cent. in 1926-27. The share of this type of paper in the total imports of paper and its manufactures had fallen from 23 per cent. to 13 per cent. over the same period. The burden on motor cars and cycles rose sharply within the two years after 1930-31. In 1930-31, the burden was 27 per cent., while in 1932-33, it was 57 per cent. After that the burden started falling but it still remained at 40 per cent. in 1936-37. Rubber tyres and tubes and other rubber manufactures paid a duty of about 15 per cent. for the four years till 1930-31. The burden rose to 25 per cent. in 1932-33 and since then has been steady at 23 per cent.

The growing relative importance of Industrial Raw Materials in India's imports is a testimony of the industrial expansion in the country. This group formed 16 per cent. of total imports in 1926-27 and its proportion was steady till 1929-30. The next three years saw a rapid rise. From 14 per cent. in 1929-30 the relative importance of Industrial Raw Materials rose to 24 per cent. in 1932-33, and thereafter has remained almost steady at that level. It is interesting to note that this rise in the significance of Raw Materials has been taking place side by side with a rise in the burden upon them. The burden was between 8 and 10 per cent. till 1930-31. But from 8 per cent. in 1930-31, it rose to 17 per cent. in 1932-33 in consequence of the taxation measures of 1931 and has been steady since then at that level. The major items in this group are textile materials and yarns, metals (other than iron and steel), mineral oils and dyes, colours and paints. Textiles have always formed more than 40 per cent. of this group, and the burden on textile materials and yarns, which was about 5 per cent. till 1930-31, has increased to 14 per cent. since 1933-34. A large proportion of the textiles coming under this head is constituted by raw cotton which was free of duty till 1931-32. In 1931-32, the burden of duty upon it was 3 per cent., but next year it rose to 8 per cent. and has been near about that level ever since. The imports of cotton twist and yarn (and sewing thread) are next in importance and the burden on them has varied from 5 per cent. in 1926-27 to 13 per cent. in 1932-33, returning to 8 per cent. in 1936-37. Cotton twist and yarn and raw cotton, the burden on both of which was less than the total burden on textile materials in this group, together formed more than 70 per cent. of total textile materials and yarns imported in 1936-37. The burden on textile materials has remained as high as 14 per cent. in

recent years, due to the higher burden of the duties on silk yarn, noils and thread, artificial silk yarn, and other materials. The burden on metals (other than iron and steel), which are the next important item in this group, was between 8 per cent. and 10 per cent. till 1930-31. It rose to 18 per cent. in 1932-33, but fell to 14 per cent. in 1936-37. The relative importance of metals (other than iron and steel) has, however fallen from 26 per cent. of total Raw Material Imports to about 15 per cent. over the period under review. Next in importance come dyes, colours and paints, which accounted for 10 per cent. of imports in this group in 1926-27 and for 13 per cent. in 1936-37. The burden on dyes, colours and paints has been rather uneven, falling from 14 per cent. in 1926-27 to 8 per cent. in 1930-31, mainly due to the transfer of coal tar derivatives to the free list. A duty on coal tar derivatives was re-imposed in 1931 and as a result, as also of the other taxation measures of 1931, the burden rose again till it was steady at about 15 per cent. The relative significance of mineral oils (other than kerosene) has remained more or less constant round about 11 per cent. of total Raw Material Imports. The burden on them was about 7 per cent. till 1930-31 and then rose till it remained at about 12 per cent. for the last four years of the period.

The figures of imports of Capital Goods bring out the same point—the growing industrialization in the country. Capital Goods formed 19 per cent. of total imports in 1926-27 while by 1936-37 the percentage had gradually risen to 25 per cent., in spite of a rise in the burden. The burden on Capital Goods was 13 per cent. in 1926-27, and it gradually fell to 9 per cent. in 1930-31, due partially to the removal of the duty on certain types of machinery. The duty was later re-imposed and by 1932-33, the burden had gone up to 20 per cent. and since then has been steady at 18 per cent. The most important items in this category are machinery and electrical instruments, which formed 38 per cent. of this group in 1926-27, and 55 per cent. in 1936-37. The burden on machinery and electrical instruments was 4 per cent. in 1926-27 but fell next year when the duty on certain types of machinery, which formed a predominant portion of the imports of these items, was entirely removed. The burden was only 1 per cent. for three years till 1931-32. In 1931-32, the duty was re-imposed and the burden at once rose to 6 per cent., rising to 13 per cent. in 1932-33, when the new taxation measures had showed their full effect. Since then, the burden has been steady about 14 per cent. The item next in importance has been iron and steel, though imports have been relatively falling due to the progress of the domestic industry. Iron and steel imports amounted to 32 per cent. of total capital goods imports in 1926-27, while in 1936-37 the share was only 16 per cent. The burden on iron and steel fell from 23 per cent. in 1926-27 to 14 per cent. in 1928-29. It was steady for three years and then rose sharply to 33 per cent. in 1932-33, after which it gradually fell again to 21 per cent. The fall in the burden since 1932-33 has not however been able to prevent the fall in the relative position of iron and steel in Capital Goods imports as a whole for while in 1932-33 the share of iron and steel was 18 per cent., it had fallen to 16 per cent. by the end of the period. The decrease in imports has been more marked in the protected types of iron and steel imports. The year 1928-29 was the year in which the absolute value of iron and steel imports, both protected

and otherwise, was the highest. During the next eight years the value of imports of protected iron and steel fell by 84 per cent., while that of unprotected imports fell by 50 per cent. In 1928-29 protected iron and steel figures to the extent of 79 per cent. in the total imports of iron and steel, while in 1936-37 the proportion had fallen to 55 per cent. The burden on protected iron and steel, though showing a parallel movement to that of the burden on iron and steel as a whole, showed a higher maximum and minimum value. It reached a peak of 41 per cent. as compared to 33 per cent. in the case of the whole item. If the position of non-protected imports of iron and steel is examined, it has been nearly steady. They formed about 8 per cent. of total Capital Goods imports in 1926-27, while even in 1936-37 their proportion was maintained at 7 per cent. Other major items in this group are conveyances, and hardware, ironmongery and tools. Conveyances, (excluding motor cycles and cars) amounted to 15 per cent. of Capital Goods imports in 1926-27 when the burden upon them was 10 per cent. The burden rose to 12 per cent. in 1928-29 and to 18 per cent. in 1932-33, remaining almost steady at that level thereafter. The relative position of conveyances (excluding motor cycles and cars) in this group had fallen to 10 per cent. in 1932-33 but it again rose to 13 per cent. in 1936-37. As regards hardware, ironmongery and tools, these have maintained their relative position more or less steady between 9 per cent. and 11 per cent. of total Capital Goods imports. The burden upon them was about 16 per cent. till 1930-31 and then rose rapidly till it was 29 per cent. in 1934-35. In 1936-37, it had fallen to 27 per cent.

IV.

The review has hitherto been restricted to the decennial period 1926-27 to 1936-37. The figures for 1937-38 are available, but from this year India has ceased to include Burma within its frontiers. Prior to April 1937, the trade between India and Burma was treated as internal trade, but with the separation of the two countries, the trade between them has become part of the foreign trade of both countries. Imports into Burma no longer feature in the figures of the imports into India, while goods brought into India from Burma are included in Indian imports. The figures for 1937-38 are therefore not comparable with those of the earlier period, and hence the review has stopped short of 1937-38. As, however, the separation of Burma is now an established arrangement, the figures in future years will be comparable with those of 1937-38, rather than with those of the period preceding. It may therefore be of interest to study the figures of 1937-38, in this chapter and see how they differ from those of the year before.

The yield of import duties formed 59 per cent. of total revenue from all sources in 1937-38, as compared to 49 per cent. in 1936-37. The relative significance of import duties in India's revenue system has returned to the position it occupied in 1926-27. This has been due both to a rise in the yield of import duties, which rose from Rs. 37,53 lakhs in 1936-37 to Rs. 43,90 lakhs in 1937-38, as well as to a fall in the total revenue of about Rs. 2,00 lakhs over the same period.

The respective proportions of the yield of specific, mixed and ad valorem duties has also altered significantly. Specific duties now accounted for 31 per cent. of total import duty, while their share had only been 21 per cent. in 1936-37. The relative significance of specific duties is now again approximately the same as in 1926-27. The share of mixed duties has

fallen from 24 per cent. in 1936-37 to 20 per cent., while that of *ad valorem* duties has fallen from 55 per cent. to 49 per cent. Compared to 1926-27, however, the proportion of mixed duties is much higher while that of *ad valorem* duties is lower. Looking to absolute figures, the import revenue in 1937-38 was Rs. 43,90 lakhs, which was Rs. 6,37 lakhs more than in the previous year. Striking increases were to be seen in the yield of specific duties which rose from Rs. 7,81 lakhs in 1936-37 to Rs. 13,52 lakhs, while the yield of mixed duties and *ad valorem* duties remained almost constant. Compared to 1926-27, the figures of the yield of specific and *ad valorem* duties have returned to their old level, while the yield of mixed duties has increased by a couple of crores. The rise of Rs. 5,71 lakhs in the yield of specific duties, compared to 1936-37, is due almost entirely to the yield upon kerosene and motor spirit. The imports of kerosene and motor spirit from Burma have been very considerable, especially those of motor spirit, and paid no customs duty so long as Burma formed part of India. On the separation of Burma, they became dutiable and the yield of motor spirit increased from Rs. 53 lakhs in 1936-37 to Rs. 4,75 lakhs in 1937-38. The yield of kerosene increased from Rs. 1,53 lakhs in 1936-37 to Rs. 3,37 lakhs. While the yield of customs duties on kerosene and motor spirit rose owing to the separation of Burma, the yield of excise duties on them fell simultaneously, the total contribution of kerosene and motor spirit to the total revenue remaining mainly unchanged. If kerosene and motor spirit are excluded, the yield of specific duties on the other heads shows a fall of Rs. 35 lakhs compared to the previous year. The yield of mixed duties and *ad valorem* duties was, for all practical purposes, almost constant.

Considering the various important sources of revenue individually, the relative position of iron and steel, spirits, machinery and electrical instruments, vehicles, and tobacco has remained more or less stable. The only significant change has been in textiles, oil and motor spirit. The contribution of textiles has fallen from 30 per cent. in 1936-37 to 24 per cent. in 1937-38. As, however, there is no appreciable change in the absolute figures, the change in the relative position is due to a rise in the total import revenue, on account of the yield of oil and motor spirit. Motor spirit yielded only about 1 per cent. of total import revenue in 1936-37, while now the proportion had gone up to 11 per cent. The yield of oil rose to 9 per cent. from 6 per cent. in the previous year.

The duty collected on the four protected imports, cotton piecegoods, sugar, iron and steel, and matches, fell still further in 1937-38, both absolutely and relatively. There was a fall of Rs. 1,39 lakhs in the absolute value, compared to the previous year, while the share of this duty in the total import duty fell from 15 per cent. to 10 per cent. The fall was chiefly in the yield of cotton piecegoods, which fell from Rs. 4,41 lakhs in 1936-37 to Rs. 3,23 lakhs—a fall of 27 per cent. The fall in the revenue from the customs duties on these protected imports was only partially set off by the rise of Rs. 91 lakhs in the yield of the central excise duties on the home manufactures of sugar, matches and steel ingots.

The fall in the revenue from cotton piecegoods has been more than balanced by the rise in the yield of kerosene, so far as the absolute yield of the duties on consumption goods imports is concerned. But though the absolute value is stable, the relative position of the yield from general consumption goods has undergone a change from 33 per cent. in 1936-37

to 28 per cent. in 1937-38. The absolute figures of the yield from luxury goods have also remained stable at about Rs. 14 crores, but their relative significance has fallen from 38 per cent. in the preceding year to 32 per cent. This fall in the proportion of the yield from general consumption goods and luxury goods has been counterbalanced by a rise in the contribution of industrial raw materials, which yielded 24 per cent. of the total import duty instead of 15 per cent. in the previous year. The absolute figures show a more spectacular change. The total duty collected on raw materials rose from Rs. 5,55 lakhs in 1936-37 to Rs. 10,65 lakhs in 1937-38. The chief rise here is in the yield from motor spirit, which yielded Rs. 4,75 lakhs this year, compared to only Rs. 53 lakhs in 1936-37. The relative importance of the duty on motor spirit in the total duty on industrial raw materials has risen from 10 per cent. in the previous year to 45 per cent. in 1937-38. If the duty on motor spirit is left out, the absolute figures of the duty on industrial raw materials show an increase of about 18 per cent. over that of last year. This increase is chiefly accounted for by an increase in the contribution of raw cotton and artificial silk yarn. As for capital goods, their yield has maintained its relative significance stable at 15 per cent. of the total import duty. The absolute figures of duty collected on capital goods however show an increase of Rs. 1,03 lakhs, chiefly under the heads of machinery and electrical instruments and iron and steel manufactures.

The separation of Burma has had two important effects. It has increased the importance of specific duty in the total import revenue and the contribution of raw materials has increased in relative significance. The chief cause has been the large imports of kerosene and motor spirit from Burma which till now were not subject to "Customs" duties. The change, however, has been of purely statistical importance. Kerosene and motor spirit produced within the country have been subject to excise duties and hence the only difference now is that the Burmese supplies of these goods which formerly contributed to India's revenues through excise duties, now contribute by way of customs duties. The change made by the separation of Burma has been not so much in the amount of revenue collected as in the channel of collection. While the yield of customs duties on kerosene and motor spirit has sharply risen since the separation of Burma, the yield of the excise duties on them has fallen simultaneously. If the figures of the total yield, from both customs and excise duties, are examined, it appears that the yield from kerosene amounted to Rs. 4,04 lakhs in 1936-37 and to Rs. 4,14 lakhs in 1937-38. The yield of motor spirit rose from Rs. 5,75 lakhs to Rs. 6,11 lakhs over the same period. The rise in the yield of motor spirit was a consequence of the rapid development of motor transport in India.

Looking to the burden of duty, it appears that the total burden has fallen from 29.9 per cent. in the previous year to 25.3 per cent. There has been a rise both in the total import duty collected as well as in the total value of the imports, but the rise in the latter has been proportionately higher, resulting in a lowering of the burden. The burden of all types of duties—specific, mixed and *ad valorem*—had fallen, but the fall in the burden of specific duties has been the sharpest, having fallen from 60 per cent. to 43 per cent. The lowest burden, however, was that of *ad valorem* duties which fell from 23 per cent. in the previous year to 19 per cent. The burden of import duties as a whole would have fallen even below 25.3 per cent., but for the fact that the percentage of the imports

in the *ad valorem* duty group had in the year fallen from 71 per cent. to 66 per cent. The imports subject to specific duties had simultaneously risen in relative significance from 10 per cent. in the previous year to 18 per cent., and the burden of specific duties has always been the highest. The share of free imports remained steady at 3 per cent. The burden of mixed duties had fallen from 46 per cent. to 41 per cent., the fall being evenly distributed over alternative duties and compound duties. The burden of compound mixed duties was lower, being 38 per cent. and the percentage of imports paying compound mixed duties had gone up from 30 per cent. to 33 per cent. of total imports in the Mixed Duties group.

The burden of specific duties at 43 per cent. was the result of a balance of forces. The burden on motor spirit had fallen from 151 per cent. in the previous year to 89 per cent., but the imports of motor spirit had now risen in importance from 3 per cent. to 17 per cent. of total imports in the Specific Duty group and hence the burden of 89 per cent. itself was high enough to raise the entire burden of the group of specific duties. The increase in the imports of motor spirit was mainly due to the fact that supplies from Burma now figured in Indian imports. A part of the increase was however also attributable to the growth of motor transport in the country. The customs duty on motor spirit was equal to the excise duty on it and hence the inclusion in the imports, of Burmese supplies, which were formerly liable to excise duty, made no difference to the burden of duty on the total imports of motor spirit. The fall in the burden on them was a consequence of a rise in the unit value of the imports of motor spirit. On the other hand, the imports of raw cotton were still relatively considerable, amounting to as much as 39 per cent. of the total imports subject to specific duties, while the burden on raw cotton had simultaneously fallen to 7 per cent. thus making for a general lowering of the burden represented by specific duties. The imports of kerosene had also become important now, amounting to 24 per cent. of total imports subject to specific duties as against 15 per cent. in the previous year and the burden on kerosene had fallen from 78 per cent. to 44 per cent. The rise in the imports of kerosene as also the fall in the burden upon it was of purely statistical significance. According to the India and Burma Trade Regulation Order of 1937, the imports of kerosene from Burma were subject to a duty at a rate not exceeding the excise duty on it. As the excise duty was lower than the customs duty on it, the imports from Burma received more favourable treatment than the imports of kerosene from other countries. Since a very large proportion of the imports of kerosene in 1937-38 came from Burma, the burden of duty on the total imports of kerosene fell significantly, compared to the previous year when supplies from Burma did not figure in imports at all. As regards imports subject to mixed duties, textiles still amounted to 60 per cent. of these imports and the burden on textiles had fallen to 42 per cent. compared to 47 per cent. of the last year. The only other important items in the Mixed Duty group of imports are iron and steel and spirits. Iron and steel manufactures have maintained their relative position and the burden on them has slightly fallen. The burden on spirits was still considerable, being at 121 per cent., but spirits were only 6 per cent. of the total imports in the Mixed Duty Group. Under the *Ad Valorem* Duty group of imports, textiles still amounted to about 14 per cent. and the burden on them had fallen from 29 per cent. to 27 per cent. Machinery and electrical instruments formed 18 per cent. of the total imports subject to *ad valorem* duties and

their burden was constant at 14 per cent. The burden on most of the other imports in the *Ad Valorem* Duty group of imports had either remained steady or had fallen.

The burden on textile imports, as a whole, has fallen from 31 per cent. in the previous year to 25 per cent. The absolute value of textile imports has risen by 6,71 lakhs over the previous year but their relative position has fallen from 28 per cent. to 24 per cent. of the total imports of the country. Next to textiles come machinery and electrical instruments, which account for 12 per cent. of total imports. Their burden has been constant at 14 per cent. Oil formed 8 per cent. of the imports in 1937-38, but the actual value of the imports was almost double that of the previous year. The chief change was under kerosene, its imports rising from Rs. 1,96 lakhs in the previous year to Rs. 7,62 lakhs. The burden on kerosene had fallen from 78 per cent. to 44 per cent. within a single year. The fall in the burden on kerosene is accounted for by the fact that imports from Burma which formed a large proportion of total imports of kerosene, were subject to duty at a rate lower than that applicable to the imports of kerosene from other countries. The significance of motor spirit also had immensely risen and its imports rose from Rs. 35 lakhs in 1936-37 to Rs. 5,31 lakhs, the burden falling from 151 per cent. to 89 per cent. The duty on motor spirit being a specific duty, its burden fell with a rise in the unit value of the imports of motor spirit. Other important imports were iron and steel, vehicles and spirits and the burden on all of them had fallen.

The burden on the group of four protected imports, cotton piecegoods, sugar, iron and steel, and matches, has fallen from 34 per cent. in 1936-37 to 27 per cent. The value of these imports, however, has fallen, both absolutely and relatively. The total imports in this group have fallen by about one crore of rupees in value, while their relative proportion to total imports has fallen from 13 per cent. to 9 per cent. The imports of sugar and matches are now negligible and the only important imports in this group are cotton piecegoods and iron and steel. The burden on cotton piecegoods has fallen from 33 per cent. in the previous year to 28 per cent. while that on iron and steel has fallen from 21 per cent. to 19 per cent.

The burden on General Consumption Goods has further decreased from 48 per cent. in 1936-37 to 30 per cent., while the percentage of General Consumption Goods to total goods imported has risen from 20 per cent. to 24 per cent. This is due chiefly to the large increase in the imports of rice which rose from Rs. 55 lakhs to Rs. 11,20 lakhs in value. The relative magnitude of this change may be judged from the fact that the imports of rice, which amounted only to 2 per cent. in 1936-37, now rose to 27 per cent. of total imports of Consumption Goods. These imports which appear abnormal are the natural consequence of the separation of Burma, as rice which till the year before was treated as part of domestic production has now to figure in the list of imports. As rice (except broken rice) is imported free of duty, the burden on Consumption Goods was naturally affected, imports of rice in 1937-38 amounting to 27 per cent. of total consumption goods imported. The other important contributory cause to the decline in the burden is kerosene. The relative significance of kerosene in the imports of consumption goods has gone up from 8 per cent. in the previous year to 19 per cent., while its burden has fallen from 78 per cent. to 44 per cent. owing to the fact that a large proportion of the imports of kerosene are from Burma and are subject to a lower rate of duty. The

burden on the other imports included in the group of General Consumption Goods has generally shown a downward tendency while the relative positions of these imports have not materially altered.

The imports of Luxury Goods have fallen in their relative significance from 80 per cent. of total imports in 1936-37 to 26 per cent. The change has been due to an increase in the value of all imports, for the absolute value of Luxury Goods actually shows a big rise from Rs. 38,08 lakhs in 1936-37 to Rs. 45,56 lakhs. The imports of paper and its manufactures have alone risen by Rs. 1,39 lakhs. The burden on this group has fallen from 28 per cent. to 25 per cent. over the same period. An important change in this group was the increase in the value of wood and timber imports, which rose in value from Rs. 49 lakhs in 1936-37 to Rs. 2,98 lakhs. The increase was chiefly in Burma teak and its significance was thus primarily statistical.

The imports of Industrial Raw Materials have risen both absolutely and relatively. The imports of this group amounted to Rs. 47,37 lakhs, which was an enormous increase compared to the Rs. 29,88 lakhs of the previous year. The relative significance of this group had changed from 24 per cent. to 27 per cent. The chief increases were to be seen in the imports of raw cotton and motor spirit. The imports of raw cotton rose from Rs. 5,85 lakhs in the previous year to Rs. 12,13 lakhs. This increase of more than a hundred per cent. is a symbol of the growing manufacture of yarn of higher counts at home. The imports of motor spirit rose from Rs. 35 lakhs in 1936-37 to Rs. 5,31 lakhs. This increase is due chiefly to the imports from Burma which were till now reckoned as part of the country's home supply. The burden on Industrial Raw Material rose slightly from 19 per cent. in the previous year to 22 per cent. The rise was due chiefly to the importance of motor spirit which now amounted to 11 per cent. of total imports in this group, while its burden was still as high as 89 per cent.

The imports of Capital Goods have risen in absolute value from Rs. 31,75 lakhs in 1936-37 to Rs. 39,46 lakhs, but their relative position has slightly worsened, having fallen from 25 per cent. to 23 per cent. over the same period. The imports of all items in the Capital Goods group have increased in value but the most notable increases have been in machinery and electrical instruments which have increased from Rs. 17,18 lakhs in the previous year to Rs. 20,63 lakhs. The burden on this group has remained constant between 17 per cent. and 18 per cent.

IX

	1926-27.	1936-37.	1937-38.
I. Import Duty—Rs. lakhs (excluding Government Stores and duty on silver)—			
Specific	13,49	7,81	13,52
Mixed	5,34	9,05	8,89
Ad Valorem	22,20	20,67	21,49
Total	41,03	37,53	43,90

	1926-27.	1936-37.	1937-38.
II. Burden of Import Duty—Per Cent.—			
Specific	40	60	43
Mixed	38	46	41
Ad Valorem	13	23	19
Total	17.7	29.9	25.3
III. Value of Imports—Rs. lakhs—			
Liabie to Specific Duty	33,33	13,12	31,39
Liabie to Mixed Duty	13,91	19,50	21,46
Liabie to Ad Valorem Duty	1,73,17	88,53	1,14,69
Free of any duty	10,81	4,11	5,91
Total	2,31,22	1,25,24	1,73,45
IV. Mixed Duty—			
1. Duty—Rs. lakhs—			
Alternative	2,57	6,63	6,18
Compound	2,77	2,42	2,71
2. Burden—Per cent.—			
Alternative	78	48	43
Compound	26	42	38
3. Value of Imports—Rs. lakhs—			
Alternative	3,31	13,74	14,30
Compound	10,60	5,78	7,16
V. Protective Duty—			
Duty (Rs. lakhs)	16,87	5,65	4,26
Burden (Per cent.)	20	34	27
Value of Imports (Rs. lakhs)	85,17	16,41	15,58
VI. Import Duty—(Rs. lakhs)—			
Articles of General Consumption	18,06	12,26	12,48
Luxury Goods	13,71	14,09	14,11
Raw Materials of Industry	3,28	5,55	10,65
Capital Goods	5,98	5,63	6,66
Total	41,03	37,53	43,90

	1926-27.	1936-37.	1937-38.
VII. Burden of Import Duty—Per Cent.—			
Articles of General Consumption	21	48	30
Luxury Goods	21	37	31
Raw Materials of Industry	9	19	22
Capital Goods	13	18	17
Total	17.7	29.9	25.3
VIII. Value of Exports—Rs. lakhs—			
Articles of General Consumption	86,46	25,53	41,06
Luxury Goods	63,88	38,08	45,56
Raw Materials of Industry	35,89	29,88	47,37
Capital Goods	44,99	31,75	39,46
Total	2,31,22	1,25,24	1,78,45
IX. Import Duty—Rs. Lakhs—			
Iron and Steel	3,28	1,06	1,27
Machinery and Electrical Instruments	60	2,41	2,86
Motor Spirit . . . . .	..	53	4,75
Oil	1,40	2,28	4,12
Provisions, Oilman's Stores, Fish, Spices, Food, Drink.	1,75	2,06	1,79
Salt	2,01	2,67	2,31
Spirits	2,62	2,27	2,10
Sugar	7,00	56	27
Textiles	9,70	11,18	10,63
Tobacco	1,84	1,28	1,32
Vehicles	1,68	1,75	2,14
X. Burden of Import Duty—			
Iron and Steel	23	21	19
Machinery and Electrical Instruments	4	14	14
Motor Spirit . . . . .	..	151	89
Oil	15	33	31
Provisions, Oilman's Stores, Fish, Spices, Food, Drink.	15	30	29
Salt	160	445	413
Spirits	74	95	91
Sugar	37	233	142
Textiles	11	31	25
Tobacco	72	63	64
Vehicles	17	27	24

V.

The yield of import duties has always been the most important item in India's central tax revenue. Though its proportion had fallen over the period from 58 per cent. to 49 per cent., which itself was still very considerable, it has again risen to 59 per cent. in 1937-38. Thus half or more than half of the country's central tax revenue is dependent on a type of taxation which is regressive in character. The rates of import duties were raised since 1931-32, when a surcharge was imposed on all existing duties, certain new duties introduced and some existing duties enhanced. The "general" rate of duty previously was 15 per cent. *ad valorem* though certain specified commodities were charged at a higher or lower rate. This rate was raised to 25 per cent., in two stages, at which level it still remains. From January 1933, the structure of the tariff was altered by the introduction of preferential rates under the Ottawa Trade Agreement. In February 1934, minimum specific duties were added to certain items with the purpose of safeguarding home industries. In 1936-37, imports had fallen by nearly 46 per cent. below their value in 1926-27, while the quantum fell by more than 20 per cent. The burden of import duties has increased owing to increased taxation and a fall in the unit value of imports. Though the burden of duty is of late again showing a tendency to fall, it still remains at a level which is considerably higher than that ruling in the pre-depression period.

Of the total import revenue, half or more has been generally contributed by *ad valorem* duties and *ad valorem* duties have been levied on 55 per cent. to 75 per cent. of the country's total imports. The burden of all types of duty has risen but the burden of *ad valorem* duties has always remained lower than that of the other types of duties. As between specific and mixed duties, the tendency has been towards an increasing preponderance of mixed duties, especially of the alternative variety. The contribution of mixed duties has increased in proportion though their burden has not risen to the same level as that of specific duties. Imports paying mixed duties have also risen in their relative proportion. The burden of specific duties has always been and still remains the highest. The year 1937-38 shows a return of specific duties to their old position of importance in import duties, since the supplies of kerosene and motor spirit from Burma which were formerly subject to specific excise duties, are now to be reckoned as part of India's imports, subject to specific customs duties.

The imports of cotton piecegoods, sugar, iron and steel, and matches, which have been paying a protective duty, have fallen enormously in value. The value of these imports is now even lower than the amount of duty they paid in the beginning of the period. Their total value in 1926-27 was Rs. 85,17 lakhs while the duty paid by them amounted to Rs. 16,97 lakhs. In 1936-37, their total value had fallen to Rs. 16,41 lakhs, while the duty collected was Rs. 5,65 lakhs. Their relative contribution to import revenue has fallen from 41 per cent. to 15 per cent. The burden of these duties has risen, under a policy of protection, and the imports of the goods, which amounted in value to 37 per cent. of total imports in 1926-27, now amount to only 13 per cent. In spite of a reduction in the burden of these duties in 1937-38, the imports of these goods fell still further in proportion and so did the duty collected.

Textiles have always been relatively the most important source of revenue and their importance has increased. The heavy burden of duty on them has, however, severely cut off their imports both absolutely and relatively, though they still remain the most important single item of imports. After textiles, sugar was once the most fruitful source of revenue. Under a protective duty, its imports have shrunk to nothing and its yield has become insignificant. The imports of iron and steel have also fallen in spite of a lower burden and their contribution to revenue has diminished. The fall has been most marked in the protected varieties. The imports of machinery and electrical instruments have now become the most important item of imports after textiles, in spite of a rise in their burden and their yield has consequently increased. The imports of oil have also increased relatively. The year 1937-38 shows a large increase in the yield of oil and motor spirit due to the increased imports of these articles consequent on the separation of Burma. The yield of motor spirit amounted to 12 per cent. of total revenue in 1937-38, as compared to 1 per cent. in the preceding year and the yield of oil has increased by more than 81 per cent. The importance of the change with regard to kerosene and motor spirit is, however, merely statistical since what they contributed formerly through excise duties they now contribute through customs duties.

Goods of General Consumption no longer figure to the same extent in India's imports, their place being taken up by capital goods and raw materials. Goods of general consumption amounted to 37 per cent. of total imports in the beginning of the period. They have now fallen to 20 per cent. Sugar and cotton piecegoods which once formed the major portion of this group are now produced at home. The burden on this group has been more than doubled between 1926-27 and 1936-37 and its contribution to revenue has fallen from 44 per cent. to 33 per cent. The relative position of luxuries in imports has remained more or less stable, in spite of an increased burden, leading to an increase in their contribution to revenue. The imports of capital goods and raw materials have increased in relative significance in spite of a rise in their burden. The burden on raw materials has doubled, yet their share in imports has increased and their contribution to import duty has risen from 8 per cent. in 1926-27 to 15 per cent. in 1936-37. The imports of capital goods have risen from 19 per cent. to 25 per cent. of total imports over the same period and they continue to contribute a steady 15 per cent. to import duty. The burden of duty is now highest on goods of general consumption. Some goods in this group are heavily taxed to give protection to the supplies produced at home, while others are selected for heavier duties because, being necessities, they are likely to respond with greater certainty to increased taxation. Besides, many of the duties imposed on goods belonging to this group are specific duties, the burden of which rises with a fall in prices. The burden on luxuries comes next in severity. The demand for luxuries is elastic and if the burden is too onerous, there is the risk of a fall in the imports with consequent repercussions on revenue. The relative proportion of luxuries in total imports has been here maintained, while their proportionate contribution to import duty has increased. The burden on capital goods and raw materials is the lowest. The year 1937-38 saw an increase in the total value of imports. Imports of every group rose in value. The burden on general consumption goods fell largely, but their relative position in total imports still

remained below what it was at the beginning of the period, while their contribution to import duty fell still more in proportion. The burden on raw materials rose when the burden on all other groups had fallen, but the imports of raw materials increased all the same, both absolutely and relatively. Their contribution to import duty rose to 24 per cent. as compared to 8 per cent. in the beginning of the period and 15 per cent. in 1936-37. Part of the rise in the imports of raw materials and in the duty collected on them is, however, on account of the imports of motor spirit and therefore mainly statistical. There appears to be a definite change in the nature of India's imports. The relative significance of goods of general consumption has diminished, both in their relation to imports and in their contribution to import duty. The imports of raw materials and capital goods have become more important, while luxuries have maintained a more or less stable position.

APPENDIX.

COMPOSITION OF DIFFERENT GROUPS OF IMPORTS.

An attempt has been made to classify the different imports, according to their use. Such classification is bound to be more or less arbitrary, as no single import can wholly be relegated to any particular group. Part of the quantity imported may logically belong to one and part to the other. Then again there is the difficulty that the classification of import duty and the classification of imports is not carried out on identical lines and hence it is often not possible to separately ascertain the import duty for any given import item. It then becomes necessary to lump together a number of items in the imports, so as to correspond as closely as possible to a given item in the import duty figures, and find the burden on them jointly. Both classifications have undergone alterations in the period and figures have been available in more detail in some years compared to others. The composition of the different groups has also undergone a change over the course of years, items like sugar which figured in goods of general consumption in the earlier period, being transferred to luxuries later on and artificial silk piecegoods from luxury goods to goods of general consumption. The distribution in these groups is therefore naturally defective in accuracy, but still it may be found useful as suggestive of broad general tendencies.

The imports are divided into four groups—Goods of General Consumption, Raw Materials of Industry, Capital Goods and Luxury Goods. The last group is a residual group. It includes mainly goods of luxury consumption but certain goods like precious stones, unset, and high class timber, which have yet to undergo some technical process, are also included therein. Under Raw Materials of Industry, are brought together goods which enter into the prime costs of an industry, while the category of capital goods covers goods which enter into supplementary costs. The distribution of imports into these four groups is generally on the lines followed in one of the Appendices of the Taxation Enquiry Committee Report of 1926, though there are some departures here and there.

The following are the important goods included in the four groups:—

I. Articles of General Consumption—

1. Sugar (till 1930-31).
2. Kerosene oil.
3. Chemicals, drugs and medicines.
4. Glass bangles and beads.
5. Cotton piecegoods and fents.
6. Matches (till 1929-30).
7. Salt.
8. Artificial silk piecegoods (after 1933-34).
9. Mixed fabrics (cotton and artificial silk predominating after 1934-35).
10. Wheat.
11. Rice.

II. Raw Materials of Industry—

1. Coal, coke and patent fuel.
2. Tobacco unmanufactured.
3. Metals, other than iron and steel.
4. Oils, excluding kerosene oil.
5. Pitch, tar, dammer.
6. Tallow, stearine, wax.
7. Wood pulp.
8. Dyes, colours, paints.
9. Cinema films unexposed.
10. Textile materials and yarns.
11. Motor spirit.
12. Skins and unwrought leather.
13. Metallic ores.
14. Manures.
15. Raw rubber.

III. Capital Goods—

1. Hardware, ironmongery, and tools.
2. Implements and instruments (except musical).
3. Machinery and electrical instruments, all sorts.
4. Building materials.
5. Iron and steel.
6. Conveyances (except motor cars and cycles).
7. Living animals.

IV. Luxury Goods include, among others, the following:—

1. Textile manufactures (excepting those already specified).
2. Spirits.
3. Rubber goods.
4. Motor cars and cycles.
5. Paper and stationery.
6. Tobacco manufactured.
7. Provisions, oilman's stores.
8. Fruits and vegetables.
9. Tea and coffee.
10. Spices.
11. Sugar (from 1931-32 onwards).
12. Precious stones.
13. Wood and timber.
14. Post parcels, unspecified.

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OFFICE OF THE ECONOMIC ADVISER TO THE GOVERNMENT
OF INDIA.

Simla, 31st July 1939.

In continuation of the series of studies connected with the Indian Tariff, there is presented herewith an analysis of the changes in the tariff since the inauguration of the policy of Discriminating Protection. It is hoped that this analysis will serve to make clear the great changes which have occurred in recent years, as well as the grounds therefor. This has been prepared by Mr. B. N. Adarkar under the general supervision of the Economic Adviser.

This document has been prepared and is published by order of the Government of India and has their general approval; but they should not be understood as accepting responsibility for every particular statement of fact or expression of opinion in it.

T. E. GREGORY,

31st July 1939.

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The Scope of Work.

A brief history of the Indian tariff from 1858 to 1924 is given in Section I with a view to indicate the broad lines along which the tariff system developed in the period up to 1924 when the policy of discriminating protection was inaugurated.

Section II contains a discussion of all the tariff changes made in pursuance of the policy of Discriminating Protection. The following industries are covered by the discussion: (1) Iron and Steel industry, (2) Cotton Textile industry, (3) Sericultural industry, (4) Bamboo Paper and Pulp industries, (5) Match industry, (6) Heavy Chemical industry, (7) Gold Thread Industry and (8) Sugar industry. In each case the grounds on which protection was granted and the main recommendations of the Tariff Boards which were appointed from time to time in connection with the industry have been explained. Moreover, an attempt has been made to explain the significance of every important tariff change and to answer all questions which arise in connection with it as to the scope of the protective tariff (*i.e.*, why a particular product was specifically included in the protective scheme and why another was specifically excluded), the actual level of duties, and the method of assessment (*i.e.*, why the duties were levied in the specific rather than in the *ad valorem* form and *vice versa*). The method by which the Tariff Board mostly calculated the amount of protection required is indicated in the broadest outline, with explanations in those cases in which the method had to be modified on account of the technical peculiarities of the industry (*e.g.*, the match and textile industries). All specifications of a technical nature (*e.g.*, the specification of textile fabrics based on varying percentages of textile materials present in them or those of printing papers based on their percentage of mechanical pulp content or the weight of their substance) are explained in order to facilitate a clear understanding of the protective tariff schedule.

The section also includes a discussion of the tariff amendments made for protecting the producers of salt, wheat and broken rice; and the various safeguarding duties which were imposed in 1934 to protect certain indigenous industries against Japanese competition. The distinction between "safeguarding" and "substantive protection" and the method of calculating safeguarding duties are explained.

Section III contains a discussion of the changes introduced in pursuance of the policy of Imperial Preference. The main principles which were observed in determining the scope of the Trade Agreements with the United Kingdom and the Colonies are made clear.

In Section IV, all amendments made with a view to remove tariff anomalies are discussed. Such anomalies are of two types: (1) tariff inequality due to the existence of a higher duty on raw materials than on the finished product and (2) anomalies arising from a lack of proper balance between the duty on an article and that on its component parts or on its substitutes. Amendments made with a view to lighten the burden of taxation on the necessaries of life and the means of production are also treated in the same Section.

In Section V, revenue changes and other miscellaneous amendments are described. Those tariff increases the proceeds from which were allocated to specific purposes (*e.g.*, the duty on motor spirit) are treated separately.

The changes made in the export tariff since 1924 are summarised in Section VI.

SECTION I.

Earlier History, 1858—1924.

The Indian customs tariff in its evolution to the present form has passed through several distinct stages. During the pre-War period, the tariff consisted of low uniform rates of duties imposed on practically all articles of import. The growing needs of revenue of the War and the post-War times, however, necessitated extensive modifications in the tariff involving, on the one hand, successive increases in the general rate from 5 per cent in the pre-war period to $7\frac{1}{2}$ per cent in 1916, 11 per cent in 1921, 15 per cent in 1922, 20 per cent in the first Budget of 1931 and 25 per cent in the supplementary Budget of the same year, and on the other hand, an increasing diversification of the tariff by the introduction of the luxury rate in 1921 and of a special rate intermediate between the lowest and the general rates in 1922. The inauguration of the policy of Discriminating Protection in 1923 further increased the complexity of the system, while the very structure of the tariff underwent a radical change from its former unilinear form into the present bilinear one as a result of the Ottawa Trade Agreement which involved the grant of preferences on a large number of commodities imported from the United Kingdom and the Colonial Empire.

During the days of the East India Company the customs tariff, although essentially simple and consisting of a low general rate, had an element of preference in it. Generally speaking, the duties on raw produce were at the rate of $3\frac{1}{2}$ per cent and those on manufactured articles at $3\frac{1}{2}$ or 5 per cent, and until 1848, these duties were doubled in the case of goods imported in foreign ships. After that date only the basis of discrimination changed, the duties being doubled in the case of non-British goods, irrespective of the nationality of shipping.

The Mutiny of 1857 imposed a heavy strain on the finances of the Government and there was a general revision and enhancement of rates in 1859. The preference on British goods was withdrawn, the general rate was raised from 5 to 10 per cent, and the duty on cotton yarn from $3\frac{1}{2}$ to 5 per cent. A specially high rate of 20 per cent was evolved for certain luxury articles, but was abandoned in 1860, having proved unremunerative. In subsequent years, as the financial position improved, the duties were again lowered. In 1862 the duty on cotton piecegoods was reduced to 5 per cent and that on yarn to $3\frac{1}{2}$ per cent. In 1864 the general rate was lowered from 10 to $7\frac{1}{2}$ per cent.

Eleven years later, in 1875, the Government of India had a substantial surplus which they utilised in abolishing some of the export duties and in lowering the general rate from $7\frac{1}{2}$ to 5 per cent. With continued improvement in the financial position further reductions became possible. In 1878 and 1879, some of the cotton duties were abolished, and in 1882, not merely the remaining cotton duties were abandoned, but the whole of the general tariff was done away with, thus establishing complete free trade. For twelve years from 1882 to 1894, the imports of goods into India were free of duty with a few exceptions, namely, arms and ammunitions, the duty on which was retained for administrative purposes, liquors, opium and salt the duties on which were necessary in view of the excise duties on indigenous production and petroleum on which a duty of $\frac{1}{4}$ anna per gallon was imposed in 1888 as a revenue measure.

The regime of free trade came to an end in 1894, when the depreciation of the rupee-sterling exchange combined with the wide-spread famines in India made it inevitable to reimpose the import duties for purposes of revenue. A general rate of 5 per cent was imposed, to which certain exceptions were allowed, namely, railway materials, machinery and cotton goods which were admitted free, and iron and steel which were dutiable at 1 per cent. As the financial position, however, continued to deteriorate, cotton goods could no longer be left free and in December 1894 an import duty of 5 per cent had to be placed on cotton piecegoods and yarn and an excise duty of the same amount on indigenous yarn of counts above 20 s. In 1896 some further changes were made in cotton duties. Both the import and excise duties on yarn were abolished, the import duty on cotton piecegoods was lowered to $3\frac{1}{2}$ per cent and an excise duty of $3\frac{1}{2}$ per cent was imposed on indigenous production of woven goods.

Between 1896 and 1916 there were no material changes in the customs tariff apart from the imposition of specific duties on silver and petroleum and the increase in the duties on liquors and tobacco in 1910. These changes were made in order to make good the loss of revenue caused by the opium policy of the Government. In 1916, as part of the additional taxation necessitated by the war several changes were made in the customs tariff. The general rate was raised from 5 per cent to $7\frac{1}{2}$ per cent, and the duty on sugar was increased to 10 per cent. The duties on arms, liquors, tobacco and silver manufactures were enhanced. Machinery other than for cotton mills and railway materials which were so far on the free list were subjected to a duty of $2\frac{1}{2}$ per cent. The duty on iron and steel was raised from 1 to $2\frac{1}{2}$ per cent.

In 1917, the Government of India decided to make a contribution of £100 million to the Imperial Treasury, and had, consequently, to find fresh sources of revenue. The duty on cotton piecegoods which was left untouched in the previous year was raised from $3\frac{1}{2}$ per cent. to $7\frac{1}{2}$ per cent, but no change was made in the excise duty on cotton goods which remained at $3\frac{1}{2}$ per cent. The excise duty which was so far a countervailing tax imposed in strict observance of the free trade principles can be said to have lost that character from this date and to have become a purely revenue measure. Among other changes made in 1917, it was decided to levy a uniform rate of 10 per cent on silver plate and silver thread and wire and silver manufactures of all sorts, in order to obviate certain administrative difficulties which had arisen as a result of the increase in the duty on silver manufactures in 1916. In February 1917, an excise and customs duty of 6 annas a gallon was imposed on motor spirit with the object of restricting the consumption of motor spirit during War time. The duty was to remain in force till six months after the War: but as it proved to be a good revenue producer, it was made permanent by removing the duration clause in March 1919.

In 1921, the Government of India was faced with an enormous deficit of 19 crores and had perforce to turn to customs tariff for additional revenue. The general rate which stood at $7\frac{1}{2}$ per cent was raised to 11 per cent; the duty on cotton piecegoods was raised to the same level, but the cotton excise duty was left untouched. Textile machinery which was so far exempted from import duty in consideration of the excise duty on cotton piecegoods was now made liable to duty at $2\frac{1}{2}$ per cent. Liquor duties were further enhanced, while the duty on sugar was

raised from 10 to 15 per cent. A heavy specific duty of 12 annas per gross boxes was imposed on matches. Cigars and cigarettes which so far paid 50 per cent were now to pay 75 per cent, while other manufactured tobacco had to pay Rs. 2-4-0 a lb. instead of Rs. 1-8-0 a lb. as heretofore. A special luxury schedule was introduced comprising articles like motor cars, silk piecegoods and watches paying duty at 20 per cent.

In spite of this heavy taxation, the budgetary position continued to deteriorate and further changes had to be effected in 1922. In that year the general rate was raised from 11 to 15 per cent. But no change was made this time in the duty on cotton piecegoods which was left at 11 per cent. Iron and steel and railway materials which so far paid 2½ per cent were now subjected to a duty of 10 per cent, the duty on matches was increased from 12 annas to Rs. 1-8-0 per gross boxes, and that on sugar from 15 to 25 per cent. A new duty of 5 per cent was levied on cotton yarn which was free since 1896. An excise duty of 1 anna was imposed on kerosene produced in India which involved an increase in the custom duty from 1½ anna to 2½ annas a gallon. Further additions were made to the special duties on liquor and the luxury rate which was newly introduced in 1921 was increased from 20 per cent to 30 per cent.

In the old customs tariff, export duties were quite as important and numerous as import duties. Practically all exports, with certain exceptions, used to be subject to a low uniform rate of duty. The main exceptions were raw cotton, raw silk, tobacco and sugar. In course of time the harmful effects of export duties came to be realised and it was decided to eliminate them one by one as the financial conditions permitted. The process continued from 1860 to 1880 when all the export duties, excepting the one on rice, were abolished. In 1916, however, the Government was again compelled by its revenue needs to have recourse to export duties. In that year two new export duties were introduced, one on jute, both raw and manufactured, and the other on tea. In 1917 the export duty on jute was doubled. In September 1919, an export duty of 15 per cent was imposed on hides and skins. It was coupled with a rebate of two-thirds of the duty on hides and skins exported to other parts of the Empire. The primary purpose of this duty was to protect the indigenous tanning industry. This was the first occasion when an export duty was levied avowedly for a protective purpose. The duty was reduced to 5 per cent in 1923.

Summary.

It will be seen that upto 1923 the fiscal policy of India was guided solely by revenue needs and no protective or preferential considerations played any important part in the framing of the tariff. Although during the War and post-War period the tariff became distinctly more diversified than before with the introduction of three new schedules, namely, 2½ per cent, 10 per cent and the luxury schedule and the reintroduction of the export duties on some articles, the general structure remained very much simpler than it is at present. The financial needs of the War and post-War period necessitated an increased extraction of revenue from this source and the general rate was subjected to successive increases from 5 per cent before 1916 to 7½ in 1916, to 11 per cent in 1921 and to 15 per cent in 1922, but it is significant that it remained unchanged at this level for nine years from 1922 to 1931. Before 1931 the luxury rate was also changed only once, *i.e.*, in 1922 from 20 to 30 per cent.

SECTION II.

Discriminating Protection.

The Fiscal Autonomy Convention of 1919 opened a new epoch in the tariff history of this country. According to this Convention, which was laid down by the Joint Select Committee in their Report on the Government of India Bill of 1919, and which is still in force, the Secretary of State is as far as possible to avoid interference in all cases relating to the fiscal policy of India in which the Government of India and its legislature are in agreement and his intervention when it does take place, is to 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. This was followed by the appointment of the Indian Fiscal Commission in March 1921, which is another landmark in our fiscal history. The Commission recommended a policy of discriminating protection and the Legislative Assembly adopted it in a famous resolution passed on 16th February 1923. Under the policy of protection as recommended by the Commission great discrimination was to be exercised in the selection of industries for protection, so as to make the inevitable burden on the consumer as light as was compatible with the due development of industries. In particular, the Commission laid down that an industry to be worthy of protection must satisfy the following three conditions:—(1) it must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market; (2) it must also be 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 interest of the country; and (3) finally, it must be proved that the industry will eventually be able to face world competition without protection.

The resolution of 16th February 1923 recommended the creation of a Tariff Board to investigate the claims of particular industries to protection and accordingly a Tariff Board was constituted in July 1923. The Tariff Board examined several cases referred to it and as a result of its recommendations protection was extended to the iron and steel industry, cotton and sericultural industries, bamboo paper industry, match industry, sugar industry, heavy chemical industry and gold thread industry and several other adjustments were made in the structure of the tariff with a view to help the development of Indian industries. We give below an account of the protective measures recommended by the Tariff Board and adopted by the Government with detailed explanations in important cases of the tariff changes involved.

The Iron and Steel Industry.

The case of the steel industry was the first to be referred to the Tariff Board who found that the industry satisfied all the three conditions laid down by the Fiscal Commission and had, besides, a special claim to protection on the ground of being a key industry. During the post-war period the competition between the steel producers of the world had become extremely intense due partly to the surplus capacity with which they were burdened and partly to the fact that the market for steel was heavily reduced after the war. The Tariff Board was satisfied that the

Tata Iron and Steel Company, which was already labouring under high works costs, could not survive this competition without tariff protection. The scheme of protective duties which they recommended was so devised as to bridge the gap between the price at which steel was likely to be imported and the price at which the Indian manufacturer could sell steel at a reasonable profit. The latter, which was called the "fair selling price", was based on the estimates of works cost, overhead charges and the manufacturer's profit. The fair selling price for the Indian manufacturer was found to be Rs. 180 a ton and different specific duties were proposed for different kinds of steel according to the amount by which their import price fell short of the fair selling price. All those kinds of steel which were not produced in India and were not likely to be produced for some time were excluded from the scheme of protection. The duration of the protective duties was proposed to be limited to three years because of the extreme uncertainty regarding the future course of world prices and the probability of a decisive drop in the costs of production. The Tariff Board further recommended that the Government should take powers by legislation to impose additional duties in case the price of imported steel fell so low as to impair the efficacy of the scheme of protection. The duties proposed were as follows:—

	Rs.
Steel, structural shapes, i.e., beams, channels, etc.	30 a ton.
Ship, tank and bridge plates.	30 a ton.
Common merchant bars and rods.	40 a ton.
Light rails under 30 lbs.	40 a ton.
Black sheets, whether plain or corrugated.	30 a ton.
Galvanised sheets, whether plain or corrugated.	45 a ton.
Wrought iron, angles, channels.	20 a ton.
Common bars.	35 a ton.

The duty of Rs. 30 per ton on structural shapes did not fully cover the difference between the fair selling price and the import price. This exception was made in favour of railways and engineering firms which were the principal consumers of these products. Besides, the Indian producer was expected to get a little more than Rs. 180 for rails, at any rate during the first year, as a result of the bounties proposed by the Board. The case of sheets also had to be treated separately because the Company had not started the manufacture of sheets and hence accurate estimates of works cost were not available to the Tariff Board. The Tariff Board had therefore to rely on certain general considerations in fixing the duties on sheets. The actual duties proposed amounted to 15 per cent *ad valorem* on the tariff valuation of 1924. They made comparatively little difference in the duty on very thin sheets which were not in common use. It will be also observed that protective duties were proposed only for light rails and fishplates therefor which are sold principally to private consumers. As regards medium and heavy rails and fishplates therefor, the Company was bound under contract to supply rails to Railway Administrations at

fixed prices and hence protective duties would have been of no material benefit to it. A system of bounties was therefore proposed under which the Company was to receive bounties of gradually diminishing amounts according as it was freed from its contracts and was able to realise a price for its rails more nearly approaching the world price and as its cost fell with the increase in production. The amounts of bounties proposed were as follows:—

	Rs.
1924-25	32 a ton.
1925-26	26 a ton.
1926-27	20 a ton.

The *ad valorem* duty of 10 per cent on rails was converted into a specific duty of Rs. 14 a ton. The change meant no immediate increase in duty but was intended only to provide against a possible fall in the price of imported rails.

Although wrought iron is not produced in India it was found necessary to raise the duties on certain common qualities of it in view of the fact that they are used for many purposes for which steel is used and were therefore likely to displace steel if their prices had not been raised proportionately.

The grant of protection to the raw steel manufacturers necessarily involved an increase in the costs of engineering industry for whom steel is an essential raw material. There was, therefore, a clear case for imposing compensatory duties on fabricated steel. The Tariff Board, moreover, held the view that the fabricating industry deserved substantive protection in addition to mere compensation for the increase in costs because, like the raw steel industry, it was also suffering from keen foreign competition; and as the industry provided a market for raw steel, its protection was an essential counterpart of the scheme of raw steel protection. Being, besides, an industry which provided opportunities for technical training of Indians, its development was also desirable on wider grounds of national interests. The Tariff Board, therefore, recommended that the duty on fabricated structural steel (including bridge-work and building) for which structural shapes, such as beams, angles and channels, are used should be raised from 10 per cent to 25 per cent. The duties on other varieties of fabricated steel, such as bell curves, chimneys, colliery tubs and tipping wagons, for which steel plates are an important raw material, were proposed to be increased to the same level although foreign competition in some of them was less severe than in bridge-work. The Indian market for plates is a limited one and hence it was considered necessary to encourage the fabrication of plates. Steamers, launches, barges, flats, boats and other vessels were excluded from the operation of the duty because the component parts of these vessels, being bulky in proportion to their weight, enjoyed a certain degree of natural protection. The duty on switches and crossings, which are substantially fabricated steel, was also raised to 25 per cent while spikes and tiebars were

subjected to the same duty as steel bars, viz. Rs. 40 a ton. The Government of India accepted these recommendations and the Steel Industry Protection Act, 1924, was passed to give effect to them.

Within about six months of the passing of the Steel Industry Protection Act, 1924, the prices of imported steel began to decline due to the rise in the rupee-sterling exchange to 1s. 6d. coupled with the fall in the c.i.f. sterling price of continental steel, and the Tariff Board was asked to consider the question of revising the level of protective duties. The scheme of protection which was originally proposed was so devised as to ensure to the Company Rs. 175 a ton for structural sections and Rs. 180 a ton for all other kinds of steel. These prices were absolute minima in the sense that, considering the overhead charges, they were not expected to yield anything like a normal profit to the Company till the third year when the output of 400,000 tons was likely to be attained. The prices actually realised by the Company, however, during the four months after the passing of the Act were very much below these minimum levels and the Company was faced with a heavy loss. In the case of structural sections, plates, bars, spikes, tiebars and light rails, although prices were affected by both the factors mentioned above, the real danger was from the fall in the prices of continental steel. The prices of these varieties were determined more by the prices of continental steel than by those of the British steel. As regards these articles, therefore, the Tariff Board based their estimate of additional protection on the duty-paid cost of continental varieties subject to certain allowances. In the case of rails, sheets, wire and wire nails, and tin plates, the fall in prices was considered to be due mainly to the exchange factor and the Tariff Board recommended adjustment in the duties to compensate for the fall.

In their decision on the Tariff Board Report the Government of India did not accept the proposal to impose additional duties but preferred to give the supplementary protection required in the form of bounties instead of import duties. Such a course, in the first place, presented no financial problem because on a revised estimate of revenue the import duties on steel were expected to yield a surplus of about Rs. 71 lakhs, while the total cost of the bounties was estimated to be Rs. 50 lakhs. The Government attached great importance to the consideration that bounties on home production are much less expensive from the point of view of the community than the import duties which increased the cost of the entire volume of consumption. This argument had a special force in the case of steel which is an essential raw material for many public utility undertakings. The burden of additional duties proposed by the Tariff Board was estimated to be Rs. 2 crores while the cost of subsidies was only Rs. 50 lakhs. By granting the bounty, moreover, Government could give assistance where it was needed without having to make adjustments in the duties on several other articles made from the protected article. An increase in the import duty on raw steel would have made such an adjustment inevitable either on the ground of tariff equality, as in the case of fabricated steel, or for the purpose of maintaining the normal price difference with a potential substitute like wrought iron. Besides, it was highly problematical, in view of the heavy importation of foreign steel in the earlier part of the

period and the consequent accumulation of stocks, how far the imposition of an additional duty would have sufficed to raise the internal price level to the desired level. The bounty was granted at the rate of Rs. 20 a ton for a period of 12 months ending 30th September, 1925, on 80 per cent of the total weight of steel ingots manufactured by the Company.

In June 1925, the Tariff Board was asked to report whether there was any case for continuing the bounties after 30th September, 1925. The Tariff Board made a fresh investigation into the conditions of the industry. On a consideration of the probable course of steel prices and the estimated fair selling prices, the Board recommended a bounty at the rate of Rs. 18 per ton for a period of 18 months, subject to a maximum of Rs. 19 lakhs. In giving effect to this recommendation the Government of India reduced the rate to Rs. 12 a ton, and the maximum amount to Rs. 16 lakhs. The Tariff Board recommended supplementary protection to the fabricating industry also, but the Government did not accept the recommendation with the result that the duty on fabricated steel continued unchanged at 25 per cent *ad valorem*.

The Steel Industry Protection Act, 1924, had granted protection to the industry only for a period of three years. Towards the end of the period, therefore, the Tariff Board was called upon to consider the advisability of continuing protection and the extent to which protection was required by the industry. In their investigations the Tariff Board adopted the same method of analysis as in previous enquiries but with certain important modifications. In determining the fair selling price, for example, they took account of the fact that different parts of the plant were in different stages of efficiency and the works costs varied from one product to another according to the efficiency of the plant concerned and the level of output reached. They, therefore, based their calculations of the works cost on certain definite assumptions as to the quantities of the average output of different products. The former method of calculating the average cost of all products was abandoned on this occasion. The average works cost for each product was found by taking the mean between the actual cost in August 1926 and the estimated cost in 1933-34. The burden for overhead charges and profit was distributed over different products in proportion to their works costs and the capital values of the plants concerned with their production. Moreover, the fair selling price of each product obtained by adding up these three items was further adjusted so as to compensate the manufacturer for the loss incurred by him on the sale of inferior materials and to allow for any freight advantage or disadvantage which existed in respect of that product.

In comparing the fair selling prices with import prices the Tariff Board had a difficult problem to solve. Of the seven classes of imported steel, three, *vis.*, rails, fishplates and galvanised sheets, came wholly from the United Kingdom; one, *vis.*, sleepers, came entirely from the Continent; and four, *vis.*, structural shapes, bars, plates and black sheets, came from both. With regard to these four, there was a wide difference between the British and Continental prices and the Tariff Board had to decide whether to devise a uniform scale of duties by reference to a weighted average of the two prices or to adopt a system of differential duties by reference to the two prices separately. The former system which was simple to administer had, besides, the advantage of keeping

the prices low for the users of non-standard steel, but it would have raised the costs of many public utility undertakings, railway companies and others, for whom the use of standard steel is essential. It was also likely to accentuate the tendency of Continental steel to displace British steel, thus upsetting the assumption regarding the relative importance of the British and Continental steel in the total imports and thereby bringing about a fall in the general price level and thus impairing the efficacy of the whole protective scheme. Such a contingency had to be avoided all the more because, apart from other consequences, it would have tempted the Indian manufacturer to lower the quality of his product. The other alternative was free from these objections and had, besides, two good features to recommend it. For one thing, it did not raise the prices of standard steel to a level higher than was necessary, and, secondly, it provided a flexible system in which the lower scale guaranteed a certain minimum degree of protection to the Indian manufacturer, while the higher scale was adjustable according to changes in circumstances. In view of the comparative stability of British prices, the Tariff Board was of the opinion that the lower scale applicable to British steel should be basic and unalterable; but in the Act, as it was finally passed by the Legislature, Government was empowered to make increases in the lower scale to offset the fall in British prices but no reductions. The following table shows the duties recommended by the Tariff Board:—

Product.	Basic duty.	Additional duty.
	Rs. per ton.	Rs. per ton.
Rails 30 lbs. per yard and over	13	..
Fishplates for above	Revenue duty. (Minimum Rs. 6 per ton).	..
Structural sections (including wrought iron)	19	11
Bar and rod (including wrought iron) Spikes and tie-bars, Rails under 30 lbs. per yard and fishplates for same	26	11
Plates	20	16
Ordinary sheets	35	24
Galvanized sheets	38	..
Steel sleepers	10	..
Fabricated steel structures*	17 per cent. <i>ad valorem</i> (minimum Rs. 22 per ton).	13
Coal tubs and tipping wagons	Ditto	13

* The minimum basic duty and the additional duty on fabricated steel of other kinds vary according to the duties on the kinds of rolled steel used.

The classification of iron and steel adopted in 1924 had given rise to certain technical and administrative difficulties. The Board, therefore, revised it in 1927 with a view to make the protective scheme as fully effective as possible. The following were the important changes. Rails under 30 lbs. per yard are used mainly by private consumers, and as the cost of production and prices of such rails are similar to those light bars, it was proposed that they should bear the same duties as bars. Fishplates used for such rails were also to pay the same duty. The protective duty recommended for rails was to apply only to rails 30 lbs. and over and a special protective duty was recommended for fishplates used for such rails. Tramway rails were so far admitted at the revenue rate of 10 per cent, but it was pointed out that attempts were made to pass off as tramway rails certain types of light rails which were intended to be protected. It was, therefore, provided that only tramway rails with grooved heads should be allowed at the revenue rate. The Board also recommended that all the items then classified as "railway track material" should be transferred from the general head "steel" to "iron and steel", because wrought iron articles of some of these kinds were sometimes imported for the same purposes as steel articles.

Bar and rod liable to protective duties were so far classified as "common merchant bar and rod, and bar and rod designed for the reinforcing of concrete". In actual administration, this gave rise to doubts regarding the definition of common merchant bar. Hence, a new detailed definition was proposed. The new definition excluded from its scope all those kinds of bars which were either not made in India or were made on too small a scale to justify protection or were such that their protection was likely to raise the cost of certain essential articles, for example, alloy steel bars for cutting tools, without any corresponding advantage to the Indian industry.

Under the existing classification the protective duties on plates applied to cast iron plates also. The Board considered that cast iron plates were not likely to be used in substitution for steel plates and therefore proposed that they should be assessed at the revenue rate. Another proposal was that chequered plates which then formed a separate item, should be included among the protected kinds of plates, as chequered plates do not cost substantially more than plain plates and might be used in substitution if the duty on them remained at 10 per cent. In 1924, the duty on plate cuttings was fixed at a rate of Rs. 5 per ton lower than the rate on ordinary plates, but it was found that entry was being claimed under the lower duty for cuttings of sizes not materially different from those of ordinary plates. The Board proposed to remedy this defect by imposing the same duty on cuttings as on plates. Cuttings of protected sheets were subjected to an *ad valorem* duty of 15 per cent which was regarded as equivalent of the specific duty on protected sheets. As in the case of plates, this also opened an opportunity for evasion and it was proposed that sheet cuttings should also be subject to the specific protective duties. For similar considerations, the duty on galvanised sheet cutting was equalised with that on galvanised sheets.

The existing protective duty on black sheets did not apply to the following kinds: (a) annealed which have been either cold rolled, smoothed (including planished) pickled or cleansed by acid or other material or process and (2) "other sorts including cuttings". The Board proposed

that the former should be included in the protected category, because with the increase in the duty on protected sheets, there was a danger of this kind of sheets being used in substitution for protected sheets and, besides, their definition had given rise to doubts. Under the revised classification, the only kinds of sheets which were excluded from the protective duties were those coated with metals other than zinc.

The description of non-fabricated galvanized sheets was proposed to be changed from "galvanized sheets whether corrugated or flat" to "galvanised sheets, all kinds and shapes produced by rolling or pressing", because they were imported in shapes other than corrugated or flat e.g., roof riding. The Tata Company did not intend to continue the manufacture of discs and plates, but on the ground that their exemption from protective duties would reduce the demand for plates and sheets made in India from which such circles were cut, the Board recommended that the duty on them should be the same as on the kinds of plates and sheets from which they were cut. Keys and distance pieces were to be subject to the same duty as iron or steel sleepers, but cast iron sleepers were to be excluded from the protective duty.

In their Report of 1924 the Board had recommended increased duties on wrought iron on the ground that certain common qualities of wrought iron were likely to compete with steel if the duties on them were substantially lower. The increased duties proposed on the wrought iron were, nevertheless, lower than the duties on steel and the Custom authorities had frequently to deal with claims for admitting steel at rates applicable to wrought iron. The Board therefore proposed that for convenience of administration the duties on "protected" wrought iron should be made the same as those on protected steel.

The period of protection was fixed for seven years, 1927-28 to 1933-34. This was approximately the length of time which the Tata Company required to carry out certain essential economies on which the Tariff Board's estimates of works cost were based. The Company had to replace the old plant and also to remove certain maladjustments, between different parts of the plant. The new plant called Greater Extension still required some time to attain its maximum efficiency. The Company had undertaken a development programme in order to bring its works to a higher state of efficiency; that programme was expected to be complete in 1931-92 and to show its full effect on costs in 1933-34. In view of these considerations the period up to 1933-34 was considered as the only natural basis for calculation of works cost and the Tariff Board recommended that the protective duties should remain in force for this period.

The Tariff Board also examined the claim of the fabricating industry to continuance of protection. No large increase in production or decrease in cost was noticeable since 1924, which was natural, because the industry was an old one. The Tariff Board, nevertheless, admitted the claim to protection on the ground that the industry provided a market for raw steel. They recommended a basic duty of 17 per cent *ad valorem* on fabricated steel in place of the existing duty of 25 per cent. The reduction was mainly due to the fact that the price of imported fabricated steel had not fallen in the same proportion as Indian costs. The imports of fabricated steel are almost entirely from the United Kingdom, but a proper balance had to be maintained between the duty on Continental

raw steel and that on Continental fabricated steel. Otherwise, there was the danger of the duty on Continental raw steel being evaded with slight manipulation. The Board, therefore, proposed that additional duties should be imposed on Continental fabricated steel. They also recommended that the *ad valorem* duties should be coupled with minimum specific duties in order that the Indian manufacturer of fabricated steel should not be at a disadvantage in those cases in which the duty on rolled steel was higher than 17 per cent which was the basic duty proposed on fabricated steel. The minimum basic duties and the additional duties on such articles as fabricated sections, as distinct from structures, were calculated on the basis of the duties proposed on rolled steel, with an allowance of 10 per cent for wastage.

Coal tubs, tipping wagons and light switches were proposed to be subjected to the same duties as other forms of fabricated steel. Restriction of demand was the main difficulty of this industry and Tariff Board expected that with an improvement in the coal trade and an increase in railway constructions, irrigation and similar works, the demand for this class of product would improve and the costs of production would be substantially lowered. As regards switches and crossings for light railways and points and crossings for medium and heavy rails, the Board held that the duties recommended for other kinds of fabricated structures would afford adequate protection for these classes also. Spikes and tiebars were subjected to the same duties as bars. In their Report on the ship building industry the Board had recommended an *ad valorem* duty of 10 per cent combined with a minimum specific duty of Rs. 35 per ton on ships and other vessels for inland and harbour navigation when imported in parts. The minimum specific duty had to be modified in view of the reduction of the duty on steel structurals and plates from Rs. 30 per ton to Rs. 19 per ton and Rs. 20 per ton respectively. The Board proposed that the minimum specific duty on steel parts for ships etc. should be reduced from Rs. 35 to Rs. 28 per ton.

The specific duties were modified by the Government in view of the changes in prices which had taken place since the Tariff Board reported. The minimum specific duty on fabricated steel structures and coal tubs and tipping wagons; for example, was changed from Rs. 22 to Rs. 21 per ton and the additional duty leviable on these articles when imported from countries other than the U. K. was changed from Rs. 13 to Rs. 15 per ton. The Steel Industry (Protection) Act, 1927, gave effect to the recommendations of the Tariff Board subject to these modifications. The Act discontinued the system of bounties. It also removed the duty on unwrought zinc as recommended by the Tariff Board in their Report on galvanized hardware.

In September 1930, the Tata Iron and Steel Company appealed to the Government of India to exercise their powers under the Steel Industry Protection Act, 1927, to increase the duty on galvanized sheets on the ground that the price of such sheets had fallen to a level at which the protection intended to be given by the Act was likely to become ineffective. The Tariff Board examined the case and found that even after making allowance for the fall in the prices of spelter, which affected both the Indian and the foreign manufacturers, the difference between the

fair selling price and the landed price of imported sheets amounted to Rs. 67, while the protective duty was only Rs. 30 per ton. They, therefore, recommended that the duty should be increased to Rs. 67 per ton. This necessarily involved a revision of the minimum specific duty on fabricated sheets. The Tariff Board recommended that it should be increased to Rs. 73 per ton. In pursuance of these recommendations a notification was issued under Section 3(4) of the Indian Tariff Act, 1894, increasing the protective duty on non-fabricated galvanised sheets from Rs. 30 to Rs. 67 a ton and the alternative specific duty on galvanised sheets fabricated or made into pipes and tubes from Rs. 33 to Rs. 73 a ton. The new duties came into effect on 30th December 1930 and were to remain in force up to 31st March 1932. Before this date, it was to be considered whether a system of bounties might not be substituted wholly or in part for increased duties. In 1932, however, the financial position did not permit the grant of a bounty, but the increased duties were extended in 1932 and 1933, each time for a year and in March 1934 they were extended till 31st October 1934 pending the enactment of a comprehensive legislation on the steel industry.

Following the recommendations made by the Tariff Board in their Report of 1926, the Government of India had entered into a contract with the Tata Iron and Steel Company to purchase rails at the rate of Rs. 110 per ton for a period of seven years from 1st April 1927. The Tariff Board thought that the rate of Rs. 110 per ton represented a fair selling price for the rails manufactured by the Company on the assumption that the total production of rails would amount to approximately 195,000 tons and that the Railway Administrations in India would be able to purchase the whole of the amount produced by the Company. These assumptions, however, were completely falsified by later events, because the Government was compelled by financial stringency to reduce its orders for rails. On a review of the whole position the Tariff Board found that while the average demand per year during the period 1927-28 to 1933-34 was not likely to exceed 113,000 tons, the average output on which they had based their original calculations of the fair selling price was 195,000 tons. The reduction in output meant an increase in works cost. The Tariff Board estimated that an increase of Rs. 20 had to be allowed in the fair selling price on account of the reduction in output and recommended that Government should raise their contract price for rails by this amount. The Government of India accepted this recommendation.

The Steel Industry (Protection) Act, 1930, which came into force on the 29th March, lowered the limit of the size of the protected qualities of round and square steel bars from $\frac{1}{2}$ to "over 7/17" inch in order to make the protection more effective. It also imposed the protective duty on tie-bars for cast iron sleepers making all spikes and tie-bars liable to the same protective duty as bars, thus giving full effect to the intention underlying the Act of 1927. The protective duties on iron and steel were further enhanced by the surcharge of 25 per cent imposed by the Indian Finance (Supplementary and Extending) Act, 1931.

The case of the iron and steel industry came again before the Tariff Board in 1934 when it was found that the industry had made a substantial progress, maintaining output and effecting considerable reductions in

its cost of production. In spite of the fact that a variety of circumstances had conspired to reduce the company's profits below the desired level, the Company was able to earn an average profit of 2½ per cent on its capital and to set aside a substantial sum for depreciation fund.

As in previous enquiries, the Tariff Board's recommendations were based on an estimate of the difference between what they considered to be the fair selling price and the probable import price. The former was made up of three factors, *viz.*, the works costs, the overhead charges and the manufacturer's profit with suitable adjustments, wherever necessary, for freight disadvantage, the selling expenses and the lag between realised and import prices. The calculation of works costs was based on an estimate of average output of different products, and the overhead charges and manufacturer's profits were distributed over the various products in varying proportions according to the works costs, the capital value of the plants concerned with their production and the market conditions governing them. The lag between import and realised prices mentioned above needs an explanation. It was due principally to the severity of foreign competition and the falling demand for steel which compelled both the steel and engineering industries to accept reduced prices in order to maintain their output. It was also partly due to the attempts on the part of the Company to maintain a steady output in the face of seasonal variations in demand by sometimes avoiding to follow an upward movement in import prices. On a comparison of the fair-selling price with the average import price it was found that no protective duties were required in respect of British imports except bars and sheets, and even the duties required on these did not exceed the normal level of revenue duties and were considerably below the old level. Protection was required only against the low prices of untested steel in which the main competition was from the Continent, where an international organisation regulated prices to suit its export markets, without strict regard to the costs of production. The following table shows the duties recommended by the Tariff Board on different products. It will be remembered that rails, fishplates and galvanised sheets came only from the United Kingdom, sleepers only from the Continent, and structural shapes, bars, plates and black sheets came from both. The steel imported from the United Kingdom was mostly tested, while that imported from the Continent was untested. The steel of British manufacture was, therefore, synonymous for all practical purposes with tested steel and that of non-British manufacture with untested steel.

Articles.	Duties recommended by the Tariff Board.
Rails	Rs. per ton. Nil.
Fishplates	Nil.
Structurals :—	
(1) United Kingdom (tested)	Nil.
(2) Continental (untested)	43

Articles,	Duties recom- mended by the Tariff Board.
	Rs. per ton.
Bars :—	
(1) United Kingdom (tested)	10
(2) Continental (untested)	39
Plates :—	
(1) United Kingdom (tested)	Nil.
(2) Continental (untested)	25
Semis :—	
	Nil.
Black sheets :—	
(1) United Kingdom (tested)	11
(2) Continental (untested)	32
Galvanised sheets :—	
(1) United Kingdom (tested)	10
(2) Continental (untested)	40
Sleepers	Nil.

Only in one case, namely, that of Continental structurals, was a higher duty required than the existing duty. No protective duties were recommended on rails, fishplates, semis and sleepers, while in the case of structurals and plates, protective duties were recommended only for the untested varieties imported from the Continent. On the strength of the principle laid down by the Fiscal Commission that the raw materials of industry should as far as possible be admitted free of duty, the Tariff Board recommended that not even revenue duties should be imposed on tested structurals, tested plates and billets for rerolling (which are included in "semis"). The problem of ascertaining the extent of protection required for galvanised sheets was a little complicated because the prices of galvanised sheets were on an artificial level as a result of the Supplementary Agreement in respect of iron and steel between India and United Kingdom concluded in 1932. The Board accepted the data regarding the minimum fair selling price for British steel on which the Supplementary Agreement was based and proposed that the British galvanised sheet should be dutiable at Rs. 10 per ton and the Continental galvanised sheet at Rs. 40 per ton, thus continuing the old margin of preference.

The hope of the Indian industry being ever able to dispense with protection depended largely on an improvement in the demand for tested steel and a rise in the price of Continental steel to a level more in keeping with the economic costs of production. This was quite within the bounds of possibility because with the wearing out of old plants, which were bought out of subsidies, a time was sure to come when the Continental producers, having to carry out their replacements with borrowed capital, could no longer avoid including in their price a due provision for depreciation. The Tariff Board was confident that the Indian industry would be able to hold its own against Continental imports if full economic prices were quoted for them. The Indian manufacturer had a substantial measure of advantage in the shape of a low price of pig iron which far outweighed any saving that the Continental producer could make on account of the by-products of the Basic Bessemer process (which, incidentally, was not practicable in India due to the low phosphorous content of Indian ore). The Tariff Board recommended that the proposed protective duties, with the exception of the duty on fabricated steel imported from the United Kingdom, should continue in force till 31st March 1941. Their estimates of future reductions in costs depended on certain essential replacements and improvements in capital and it was expected that a period of at least seven years would be required for the Company to earn sufficient depreciation allowance to finance this expenditure.

As the provision for offsetting duties was to be applicable to all articles considered by the Tariff Board, it was proposed that the articles on which no protective duties were recommended should also continue to be included in the schedule of protective duties. The Board also suggested that the Railway Board should enter into an agreement with the Tata Company for the supply of all rails and fishplates.

As regards fabricating industry, the Tariff Board was of opinion that no substantive protection was required because the capacity of the industry was in excess of demand. The imports from abroad were negligible. They observed that the indirect stimulus to the production of raw steel arising from the demands of the engineering industry could not be increased by a further development of that industry but only by an effective increase in the India's demand for fabricated steel. Bridge work is a typical example of fabricated steel and the Board considered that a compensatory duty at the rate of Rs. 40 a ton would be required on imports of bridge work from the Continent. *Prima facie*, no compensatory duty was required on British imports in view of the proposed removal of protective duties on tested structurals and plates, but the unfair competition of certain integrated firms in the United Kingdom made it inevitable to impose a duty as a measure of protection. The Indian industry had little to fear from the ordinary fabricating shops in the United Kingdom, but there are firms like Dorman Long who both roll and fabricate steel, and are therefore in a position to charge whatever price they like to their fabricating shops for raw steel; the Board considered the competition of such firms as unfair. The duty was more of the nature of an anti-dumping duty than a protective one and the Tariff Board recommended that it should be continued only so long as there was evidence of unfair competition.

The following protective duties were also recommended for commercial bolts and nuts, rivets, fishbolts and nuts and dogspikes, gibs, cotters and other railway material:—

	Of British manufacture per cwt.	Of non-British manufacture per cwt.
	Rs. A. P.	Rs. A. P.
Commercial bolts and nuts	Nil.	1 9 0
Rivets	Nil.	1 14 0
Fishbolts and nuts	Nil.	4 5 0
Dogspikes, gibs, cotters, keys and other Railway materials.	0 7 0	2 15 0

The protective duties imposed by the Steel Industry Protection Act, 1927, and Wire and Wire Nail Industry Protection Act, 1932, were to expire on the 31st March 1934. As, however, the Government of India were unable to complete their examination of the Tariff Board Report before this date, the Steel and Wire Industries Protection Extending Act, 1934, was passed extending the operation of these duties to 31st October 1934.

The Government of India accepted the view that the Steel industry deserved protection for a further period. As the recommendations of the Tariff Board involved a considerable reduction in the existing level of duties (except in the case of untested structurals) with a consequential loss of revenue to the extent of Rs. 30 lakhs, the Government proposed to levy an excise duty on steel ingots to make up the loss. The amount of the excise duty was fixed at Rs. 4 a ton. Steel ingots were chosen as the basis of the excise only in order that its incidence should be spread equally over all products.

The customs duties were revised in the light of the imposition of the excise duty so as to keep intact the measure of protection intended to be given to the industry under the scheme proposed by the Tariff Board. In the case of articles in the protected categories, the excise duty was to be additional to the protective duties while in the case of other articles it was to be alternative to the *ad valorem* revenue duties. The actual amount of additional duty was fixed at $1\frac{1}{2}$ or $1\frac{3}{4}$ times the amount of the excise duty according to the wastage or labour cost involved in manufacturing different products from steel ingots. Generally speaking, for non-fabricated steel products, it was $1\frac{1}{2}$ times the excise duty and for fabricated products or for the products of wire and wire nails and tinplate industries it was $1\frac{3}{4}$ times. The Government accepted the Tariff Board's proposal not to levy any duty apart from the excise duty on British structurals and plates which were essential raw materials for engineering and public utility undertakings and in respect of which the Indian industry did not require any protection; but although the same considerations applied to billets, they proposed to levy the revenue duty on this product for financial reasons, subject to one proviso, namely, that in case the Tata Iron and Steel Company was found to be exploiting

its monopolistic position or was for any reason unable to supply billets to the re-rolling industry at the fair selling price as calculated by the Tariff Board (*i.e.*, Rs. 64 a ton) plus the excise duty, the Government would reduce the revenue duty to such extent as they might think necessary. The proposal to admit British structurals and plates at no more than the excise duty was not accepted by the Select Committee who amended the Bill so as to make these products pay the excise duty or 10 per cent *ad valorem*, whichever was higher. The Tariff Board's proposal regarding the duty on galvanised sheets of British manufacture contained an element of preference and hence an assurance was obtained from the Government of United Kingdom regarding the continuance of free entry of Indian pig iron and the grant of concessional treatment to Indian manganese in that country. In respect of all imports of iron and steel, other than structurals and plates of British origin, for which no protective duties were recommended, a preferential margin of 10 per cent was allowed to the United Kingdom by increasing the alternative revenue duty to 20 per cent in the case of non-British imports. An *ad valorem* rate of 10 per cent was taken as the minimum revenue rate for iron and steel, whether protected or not. In all cases, therefore, in which the customs duty (including the excise duty) amounted in the aggregate to less than 10 per cent, the words "or 10 per cent *ad valorem* whichever is higher" were added. In the case of iron and steel bars of non-British origin it was found that although on common bars the incidence of the duty worked out at 70 per cent, there were imports of very expensive alloy steel bars for the purpose of making high speed tools on which the burden of the specific duty was trifling. The alternative *ad valorem* duty of 20 per cent was, therefore, applied to them. The Iron and Steel Duties Act, 1934, gave effect to these decisions. The protective duties imposed by this Act were exempted from the surcharge of 25 per cent imposed by the Indian Finance (Supplementary and Extending) Act, 1931.

Supplementary Agreement *Re*: Galvanized Sheets.

Following the conclusion of the Ottawa Trade Agreement in 1932, a Supplementary agreement regarding Iron and Steel was entered into by the Government of India with the United Kingdom. The Supplementary Agreement, as far as India was concerned, was intended to secure the continuance of the free entry into the United Kingdom of Indian pig iron and to find a fresh outlet for Indian steel. The pig iron production in India was largely dependent on the maintenance of exports but since 1930-31, Japan which was the principal buyer had heavily reduced its purchases and the industry was faced with the necessity of finding fresh markets. The seriousness of the situation could be gauged from the fact that while India's blast furnace capacity in 1932 was more than 1½ m. tons of pig iron a year, the annual demand for foundry iron in the country itself was about 150,000 tons a year and the demand for steel manufacture about 500,000 tons, making 650,000 tons in all.

Since the beginning of the depression the demand for rolled steel in India had rapidly declined and in particular the quantity of steel rails taken by the Indian railways was heavily reduced. The Indian industry was, therefore, working below capacity and the Indian Delegation to the Imperial Conference of 1932 thought that if a new outlet was found for Indian sheets, bars and billets, it would go a long way towards compensating the Indian manufacturer for the falling off in the demand for rails.

Owing to the heavy freight disadvantage it was so far not possible for Indian sheet bar to compete with the Continental sheet bar in the United Kingdom market, but with the imposition of a duty against the foreign product under the Import Duties Act a new situation had arisen in which unless the Indian industry took advantage of it, new furnaces and new sheet bar mills were likely to be established in the United Kingdom.

Under the Steel Industry Protection Act, 1927, the duty on galvanized sheets was fixed at Rs. 30 a ton, and it was applicable uniformly irrespective of the country of origin because till 1926, imports from countries other than United Kingdom were negligible and consequently the need for differential duties did not arise. Two years later, galvanised sheets began to be imported into India from Belgium at abnormally low prices and after an inquiry by the Tariff Board the duty was raised to Rs. 67 a ton. With the surcharge of 25 per cent. imposed in September 1931, the duty became Rs. 83-12-0 a ton.

Under the provisions of the Supplementary Agreement the duties on galvanized sheets were to be at the following rates up to 31st March 1934 when they were to be replaced by such duties as might be fixed after an enquiry by the Tariff Board:—

(1) Sheet made in the United Kingdom from Indian sheet bar	Rs. 30 a ton.
(2) Sheet made in the United Kingdom from other sheet bar	Rs. 53 a ton.
(3) Sheet not made in the United Kingdom	Rs. 83 a ton.

These rates were embodied in the Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932. Subsequently, the Indian Tariff (Amendment) Act, 1933, made it clear that the preferential rate was applicable only to sheets manufactured from the Indian sheet bar imported into the U. K. after the ratification of the Ottawa Agreement. The preference of Rs. 30 on sheet made from bar other than Indian was based on the Delegation's estimate of the difference between the lowest price which would give the British manufacturer a reasonable return and the lowest price actually quoted for Continental sheet. The preference equalized the duty-paid prices of both in the Indian market and thus made it possible for the British manufacturers to compete with the Continental sheet without actual loss. This by itself, however, was not sufficient. One of the primary objects of the Agreement was to secure a fresh outlet for Indian steel and it was not going to be satisfied unless any increase in the sale of British sheet in India was accompanied by an equivalent increase in the sale of Indian sheet bar in the United Kingdom. A difference of Rs. 23 was, therefore, maintained between the duties proposed on sheet made in the U. K. from Indian sheet bar and those on sheet made from other bar, because it was expected that the difference would give an inducement to an extended use of Indian sheet bar.

As regards iron, it was agreed that with effect from November 1932, Indian foundry iron would be allowed free of duty in the U. K. to the extent of 30,000 tons per annum and 22½ per cent of the requirements of the free market for basic iron, subject to a maximum of 70,000 tons a year. The agreement regarding galvanised sheets was followed by an arrangement between the Tata Iron and Steel Company and the Oriental

Company that until the full output of the Company's works including sheets made from Indian bars was marketed, no British sheets should be sold and that the British manufacturer should use Indian steel for the manufacture of sheet bars for India subject to a maximum of 7,000 tons a month. The sheets made from Indian bars were the property of the Tata Company and the price was regulated by the Company.

The Tariff Board of 1933 examined the working of these arrangements. The arrangement regarding foundry iron was found to have worked satisfactorily inasmuch as it stabilised prices and, so far as the basic iron was concerned, the manufacture of iron for sale had the incidental result of reducing the cost of iron made for the Company's own consumption. There was, however, considerable difficulty in carrying out the provisions of the agreement regarding galvanized sheets, but the Tariff Board found that the agreement was nevertheless of considerable help to the Steel Company and to merchants in stabilising prices. It provided an outlet for Indian steel bars at a time when the supply of continental sheet bars was shut off for the U. K. by a tariff. In their opinion, the agreement had served its purpose and its renewal was impracticable without drastic modifications. The need for finding an outlet for Indian steel no longer existed, because the Tata Company had greatly extended its capacity for the production of sheets and the growth of the re-rolling industry had also created an additional demand for its production of billets. The Tariff Board's proposals regarding galvanized sheets involved a measure of preference and they recommended that use should be made of that preference for securing the continuance of the concessions granted by the United Kingdom with regard to pig iron. It has already been stated above that before introducing the Iron and Steel Duties Act, 1934, in the Legislative Assembly the Government of India obtained an assurance from the Home Government regarding the continuance of free entry of pig iron into the United Kingdom. As recommended by the Tariff Board, the Supplementary Agreement was terminated in 1934.

Tinplate Industry.

Tinplate consists of thin sheets of steel coated with tin. The industry is a new one because the only important Company engaged in the manufacture of tinplate in India, namely the Tinplate Company, started its operations in 1922. In 1924, when the Tariff Board examined the case of the industry, sufficient data was not available to decide whether the industry was capable of eventually becoming independent of protection. It was labouring under two handicaps which increased its costs of production; one was the necessity of incurring heavy capital expenditure in the shape of lofty buildings to enable the manufacture of tinplate to be carried on under hot weather conditions and the second was the necessity of employing a large amount of imported labour. There was reason to expect that in course of time the second of these disadvantages would disappear. The Tariff Board considered that protection to this industry was worth giving a trial; but proposed that it should be limited to the minimum. The Tinplate Company had two other features which are worth noting. It had entered into a contract with the Burma Shell Company for twenty-five years by which the latter Company was entitled to take the whole output of the Tinplate Company, at the same price as would be paid for the imported tinplate. This contract made no serious

difference in the situation so far as the question of protection was concerned. But the Company had another contract with the Tata Iron and Steel Company for the purchase of sheet bars from which tinplate is made. Under that contract the Steel Company was to receive, as a provisional price, the price, f.o.r., "Swansea" of sheet bar for tin plate, subject to an adjustment to be made at the end of the year, when if the average cost of production exceeded the average price of the imported tinplate the Steel Company was to make good half the loss, and contrarily, if the cost of production was less than the import price, the Steel Company was to receive half the profit. The terms of the contract were very unusual and resulted in the beginning in the Tinplate Company being subsidised by the Steel Company. This contract was also to last for 25 years. The Tariff Board considered the working of both these contracts, but came to the conclusion that the establishment of the tinplate industry in India was clearly desirable and there was no justification for withholding protection on the ground of these contracts. They recommended a duty of Rs. 60 per ton on all imported tinplate and this was imposed by the Steel Industry (Protection) Act, 1924. In 1925, the Tariff Board considered the claim of the industry for additional protection and recommended that the duty on tinplate should be increased to Rs. 89 a ton; and that the industry should be given a rebate of the duty paid on imported tin. On the 27th February 1926 the Government raised the duty to Rs. 85 per ton and at the same time replaced the existing duty of 15 per cent *ad valorem* on imported tin by a specific duty of Rs. 250 per ton. At the *ad valorem* rate of 15 per cent, the duty on tin amounted to Rs. 555 per ton; the change to a specific duty of Rs. 250 per ton, therefore, resulted in a reduction in duty by Rs. 305 per ton.

In 1926, when the Tariff Board again examined the case of the industry, it was found that the industry had made considerable progress and had fully justified the policy of protection adopted by the Government. Production had increased, works costs had fallen and there was considerable improvement in the efficiency and skill of Indian labour. Financially, however, the results were not satisfactory and the Tariff Board considered that the industry required a further period of protection. They recommended a duty of Rs. 48 per ton. The Government of India accepted this recommendation and accordingly the duty was imposed under the Steel Industry (Protection) Act, 1927. The duty was increased to Rs. 60 per ton as a result of the surcharge of 25 per cent imposed by the Indian Finance (Supplementary and Extending) Act, 1931.

In their Report of 1926, the Tariff Board had expressed the hope that by 1933 the costs in the industry would be reduced to such an extent that it would need nothing more than the revenue-duty of 10 per cent for its continued existence; and even this small revenue duty was not considered indispensable if by 1933 the industry could properly carry out certain economies which the Board then visualised. Since 1926, the industry no doubt had made a considerable progress, but in 1933 when the Board again examined the case of the industry, it found that the industry was still in need of substantial protection. It had reached its limit of maximum output, and works costs were reduced to the minimum. The estimated fair selling price was much lower than what the Tariff Board expected in 1926; but the import prices had fallen to a still lower level due to the fact that the fall in the price of tin (which reduced the costs of

all producers) was much greater in proportion than reductions in Indian works costs.

So far as the Welsh tinned sheets were concerned, the Board estimated that a duty of Rs. 38 per ton would be required to give the necessary protection to the industry. In arriving at this estimate the Board made allowance not only for such factors as the freight disadvantage and the lag between realised and import prices, but also for the fact that the price of Welsh sheets was not keeping in sympathy with the variation in the price of tin. They expected that on an average the Welsh producers tended to quote Rs. 6 less than is necessary to compete with the Indian product.

As regards Continental tinplate, the Board had no basis on which to forecast the trend of future import prices. Continental tinplates were being imported at any price, economical or not. The Board, therefore, decided to take the lowest prices quoted by Continental producers in the immediate past and proposed that a differential duty at a rate that would protect the Indian industry against such prices should be applied to Continental imports of tinplates. A duty of Rs. 59 per ton was found to be necessary to meet Continental competition, as against Rs. 38 a ton proposed for British imports.

There was one important feature of the costs of production of tinplate which complicated the problem of its protection. As mentioned above the price at which the Tinplate Company obtained its steel from the Tatas was determined by an agreement between the two companies whereby the Tatas were to supply tin bar at Rs. 83 per ton up to December 1936 and thereafter at 33 per cent of the f. o. b. price of Welsh plates. According to the Tariff Board's estimates, the price after December 1936 would work out at Rs. 70 and the average for the whole of the period of protection would be Rs. 74 per ton. These prices were far in excess of what the Tatas should reasonably charge having regard to their costs of production. The Tariff Board had estimated that the fair selling price of Tatas' tin bar was the same as the price of semis at port, namely, Rs. 64 without duty. The Board pointed out that if the average price of tin bar to the Tinplate Company could be reduced to Rs. 64 a ton, it would be possible to reduce the duty on tinplate by something like Rs. 13-3 a ton. The proposed protective duties on tinplate which were based on the assumption of the continuance of this contract were excessive by this amount.

The Government accepted the Board's recommendation to impose duties at the rate of Rs. 38 for British tinplate and Rs. 59 for Continental tinplate *plus*, of course, the excise duty in each case, but qualified their acceptance with the condition that if the Tatas did not revise their contract with the Tinplate Company more in accordance with the fair selling price of tin bars (*plus* the excise duty on steel ingots) by March 1935, the Government would consider reducing the revenue duty on billets. The duties recommended by the Tariff Board were imposed by the Iron and Steel Duties Act, 1934. The duties were exempted from the surcharge of 25 per cent imposed by the Indian Finance (Supplementary and Extending) Act, 1931.

Cast Iron Pipes.

The cast iron pipe industry made a claim for protection for the first time in 1932. Till about a year before this date the industry was fairly

secure in its position having control of the entire home market. The entire Indian demand was shared between the two concerns, Bengal Iron Works and Mysore Iron Works. With the beginning of the trade depression, however, the public works programmes of P. W. D. and municipalities were severely curtailed and the industry lost much of its custom. The situation was made worse by the entry of Japan into the market. Helped by the depreciation of the yen, Japanese pipes were coming in at abnormally low prices. The Tariff Board held that the industry had a claim to be protected against this competition and they recommended a duty of Rs. 57-8-0 per ton. It may be noted that the Indian Tariff Amendment Act, 1934, had already imposed a duty of Rs. 25 per ton on non-British cast iron pipes in order to check the unfair competition from Japan. The Government accepted the Board's recommendation. Under the Iron and Steel Duties Act, 1934, the duty on cast iron pipes of non-British manufacture was fixed at Rs. 57-8-0 per ton. The duty was exempt from the surcharge of 25 per cent. imposed by the Indian Finance (Supplementary and Extending) Act, 1931.

Wire and Wire Nail Industry.

In 1924, when the claim for protection from the wire and wire nail industry was first considered by the Tariff Board, it was held that the industry satisfied all the conditions laid down by the Fiscal Commission, provided the wire rod required for the manufacture of wire could be produced in sufficient quantities by the Tata Iron and Steel Co. On this assumption, the Board recommended a duty of Rs. 60 per ton on wire other than barbed or stranded fencing wire and Rs. 3 per cwt. on wire nails. No protective duties were recommended on barbed or stranded wire because it was not manufactured in India. In the supplementary inquiry of 1925, it was discovered that there was no definite undertaking on the part of the Tata Iron and Steel Company to supply wire rod at a definite date; and the Tariff Board, therefore, made no recommendation for supplementary protection for wire and wire nails. The protective duty on wire rod was, however, withdrawn and was replaced by the revenue duty of 10 per cent. Even in 1926 when the statutory inquiry was held, it was found that the Tata Company was still not in a position to manufacture wire rod; although they expected to be able to do so within three years. In the meanwhile, early in 1927, the only Company then engaged in the manufacture of wire, the Indian Steel Wire Products, Ltd., went into liquidation and the protective duties on wire and wire nails were removed, on the recommendation of the Tariff Board, under the Steel Industry (Protection) Act, 1928, which came into force on the 1st April 1928. Both wire and wire nails became subject to the revenue duty of 10 per cent. *ad valorem*.

When the case of wire and wire nails industry again came before the Tariff Board in 1931, the Indian Steel Wire Products Co., was under the ownership of a new proprietor who proposed to set up a rod mill for the manufacture of wire rod from billets supplied by the Tata Company, and thus to fulfil the first conditions laid down by the Fiscal Commission. The Tariff Board was satisfied that it was quite possible for the Company to manufacture wire rod economically and as the beginning of what might be called the re-rolling industry in India, the enterprise was worthy of encouragement. On a comparison of the fair selling price and import

price with suitable adjustments for freight advantage and other miscellaneous factors, the Tariff Board recommended a duty of Rs. 45 per ton on wire (other than barbed or stranded fencing wire, wire rope or wire netting) and wire nails. The same duty was recommended on wire, and wire nails, because in the first place, it was difficult to separate the cost of wire from that of nails and, secondly, there was not much difference between the prices of these two products. The Wire and Wire Nails Industry (Protection) Act, 1932, which was passed on 5th March 1932, gave effect to this recommendation. The duty on wire and wire nails was exempted from the surcharge of 25 per cent. imposed under the Indian Finance (Supplementary and Extending) Act, 1931. Like the duties on other steel products imposed by the Act of 1927, these duties also were to remain in force till 31st March 1934. As a measure of additional relief the Indian Steel Wire Products were permitted to import their requirements of wire rod free of duty.

As said above, the protective duties on wire and wire nails were revived in 1932 on the condition that the industry would set up a rod mill. In 1934, when the Tariff Board again examined the state of the industry, it was found that the condition was fulfilled.

The rolling capacity of the rod mill was in excess of the requirements of the wire and nail industry and, therefore, it was stipulated in the contract between the Wire Products Company and the Tatas as a condition for the supply of billets by the latter, that the mill would produce for sale only bar and rod of a small section ($\frac{1}{2}$ inch and under)—sizes which were not rolled by the Tatas.

Bars and rods of small sections were so far excluded from the protective list as they were formerly not produced in India. The Tariff Board held that the Indian Steel and Wire Products Company deserved protection in its manufacture of rods of these sizes. The competition was mainly from non-British sources and hence they recommended a duty of Rs. 39 a ton on bar and rod of these sizes of non-British manufacture. As this was also the duty already proposed for non-British bar and rod of heavier sections, the former distinctions between bars and rods of different sizes were now abolished and all bars and rods were included in one item. For the sake of uniformity, a duty of Rs. 10 per ton was recommended for smaller bars of British origin.

As regards wire and wire nails, the Board had a difficult problem in devising duties that would be adequate against Continental and Japanese products both of which were showing a steep downward trend. They estimated that a duty of Rs. 60 a ton was required against non-British imports to give adequate protection to the Indian industry. British prices were stable and on a higher level and hence a lower duty was proposed for imports of British origin. The same duty was proposed for both wire and wire nails, as there was no evidence of any material difference in the costs of production of those two products. Fencing wire was excluded from the protective duty in view of its importance for agricultural purposes, while wire nails made from imported wire rod were not considered to have any claim to protection as they did not satisfy the first condition laid down by the Fiscal Commission. These recommendations were accepted by the Government, and the duties proposed by the

Board were embodied in the Iron and Steel Duties Act, 1934. These duties were exempt from the surcharge of 25 per cent.

Textile Industries.

In 1923, the cotton textile industry in India was caught in a wave of depression due to the after-effects of the boom of 1920-22 and the growing severity of competition from Japan. This led to a renewed agitation for the repeal of the cotton excise duty. Although after the enhancement of the duty on cotton piecegoods from $3\frac{1}{2}$ per cent. to $7\frac{1}{2}$ per cent. in 1917 and to 11 per cent. in 1921 and the imposition of a duty of 5 per cent. on yarn in 1922, the excise duty had ceased to be a purely countervailing tax and had, on the other hand, become a remunerative source of revenue, the duty had become obnoxious to the political sentiment of the people on account of its historical associations, and as the depression in the textile industry worsened in 1925 and the textile mills were forced to measures like a general reduction in wages by $11\frac{1}{2}$ per cent., thereby precipitating a general strike, the Government was compelled to ignore revenue considerations and to suspend the duty in 1925 and to finally abolish it in 1926.

The Indian Tariff (Cotton Yarn Amendment) Act, 1927, was the next instalment of assistance granted to the textile industry. This was preceded by an enquiry by the Tariff Board who found that the difficulties of the industry were mainly due to the unfair advantage which Japan enjoyed owing to the adoption of the double-shift system and the employment of women and children at night in contravention of the Washington Labour Convention. The difference in the costs of production of yarn in India and Japan, that could be attributed to this factor, after making due allowance for a reasonable return on capital, was estimated to be 10 per cent. Another important factor which had a special influence on the industry in Bombay was the loss of the yarn export trade to China, at a time when the competition in the home market was becoming increasingly severe due to the development of mills in other parts of the country. Although the members of the Tariff Board were agreed as to their diagnosis of the situation, there was a difference of opinion regarding the remedy. The two Indian members proposed a bounty of one anna per lb. on yarn of counts above 30s produced in Indian mills and an additional import duty of 4 per cent. on cotton piecegoods. They objected to additional import duty on yarn on the ground that it would put a fresh burden on the handloom industry which was already subject to many handicaps in its competition with mill-made goods. The President, however, held a different view. He was of opinion that as the main object was to safeguard the industry against unfair competition from Japan an increase in the duty against Japanese yarn and piecegoods by 4 per cent. would be sufficient to meet the needs of the situation. In his view there was no special case for stimulating the production of yarn of higher counts in India at the expense of the tax-payer, and bounties would do nothing to relieve the depression in Bombay which was due as much to internal as external competition.

The Government of India in their resolution on this Report admitted the need for protection for the cotton yarn but expressed their unwillingness to give it in the form of an import duty in view of the hardship such a duty would impose on the handloom industry in India. As regards bounties they concurred in the view expressed by the President and, besides, the

proposal was also unacceptable to them for administrative reasons. As regards piecegoods, they held that the unfair advantage which Japan enjoyed as compared with the Indian producer was already more than covered by the existing revenue duty of 11 per cent. As a measure of partial relief, they decided to remove the duties on mill stores and textile machinery.

The crisis in the mill industry soon became acute and Government was compelled to reconsider the decision. Under the Indian Tariff (Cotton Yarn Amendment) Act, 1927, the duty of 5 per cent. *ad valorem* on cotton yarn was replaced by an alternative duty of 5 per cent. or 1½ annas per lb., whichever was higher. The imposition of the specific duty had the effect of increasing the duty on all qualities of yarn the prices of which were less than Rs. 1-14-0 a lb., i.e. on all counts of yarn below 50. According to the analysis put forward by the Commerce Member, while introducing the Bill, the duty was likely to have no material effect on prices of yarn below 30^s in which the Indian industry had practically a monopoly of the market, and only a slight effect on counts above 40^s but was really intended to raise the prices of counts between 30 and 40, which was precisely the range in which the Indian industry needed protection against Japanese competition. In view of the fact that the new factory law in Japan which eliminated some of the unfair conditions of employment was to come into force in June 1929, it was decided that the duty on yarn should continue in force till 30th March 1930 by which time all the stocks of yarn produced in Japan before the enforcement of the law were expected to be sold off.

By the Indian Tariff (Amendment) Act, 1927, the duty on artificial silk yarn was reduced from 15 to 7½ per cent. in order to minimise the burden on the handloom industry and to encourage the mills to produce artificial silk cloth so as to attain greater diversification in production. The Act also exempted certain mill-stores and machinery from payment of duty.

The conditions in the mill industry continued to deteriorate owing to the growing severity of competition from Japan and the worsening of the labour situation. In 1928 and 1929 there were general strikes in Bombay. The Government of India was, therefore, again forced to take up the question of protection to cotton industry in 1929 and appointed Mr. G. S. Hardy as Special Officer to examine and report on the extent of foreign competition in the different classes of cotton piecegoods and the possibility of introducing a system of specific duties on cotton piecegoods. Mr. Hardy's analysis showed that the medium grades of grey and coloured goods were really the classes of goods in which the Indian mills met with the severest foreign competition and India's real rivals in respect of these classes were Japan and, to some extent, Italy. The Indian mills had nothing to fear in the matter of coarser varieties, while the position of the United Kingdom was practically unchallenged so far as the bleached goods and the finer grades of grey and coloured piecegoods were concerned. As the Indian industry had already captured the whole of the market for coarser varieties, its further progress depended on the extent to which it was able to increase its production of medium grades of cloth. As regards the choice between specific and *ad valorem* duties, Mr. Hardy pronounced himself in favour of *ad valorem* duties.

In 1930, the Government was faced with a budgetary deficit and decided to raise the duty on cotton piecegoods from 11 to 15 per cent. for revenue

considerations. In 1927, the Tariff Board had held that the industry would be adequately protected against foreign competition by an increase in the duty to 15 per cent. The situation had, however, considerably deteriorated since 1927 and the cotton mills, particularly those in Bombay, were claiming protection far in excess of what was recommended by the Tariff Board. The Government recognised the urgent necessity of giving some temporary assistance to the cotton industry in Bombay partly to enable it to get out of the state of atrophy in which it had fallen and to re-organise itself and partly to ease the situation which was created by the recurrence of labour troubles. In view of the fact that the competition felt by the Bombay industry was mostly from non-British sources and it was most severe in the matter of plain grey goods it was decided to prescribe a minimum specific duty of $3\frac{1}{2}$ annas per lb. on plain grey goods and to impose an additional duty of 5 per cent. *ad valorem* on non-British goods. Incidentally, the definition of plain grey goods was widened with a view to include such new classes of imports as *dhutis* with printed headings and to provide as far as possible against the danger of substitution. The original intention of the Government was to make the minimum specific duty applicable to non-British goods only, but during the passage of the Bill through the legislature it was so amended as to make the specific duty applicable to British as well as non-British goods. As all plain grey goods of coarser and medium varieties came under the operation of the minimum specific duty, their prices being normally of the order of $23\frac{1}{2}$ annas per lb., the British imports of these classes of goods received no preference whatever under the Act and this was precisely the result aimed at, because it was in this class of goods that the Indian industry needed protection most. In the case of plain grey goods of finer qualities, the British imports did receive preference, but these qualities were neither imported from Japan nor made in India. An additional 5 per cent. duty on these goods would have only increased the cost of these goods to the consumer without any benefit to the Indian producer. Among the remaining varieties, so far as the bleached goods and the finer classes of coloured goods were concerned, the adoption of preferential duties did not make any material difference in the existing situation because the imports of these classes came mostly from the United Kingdom. The only classes of goods in which preference was of real advantage to the United Kingdom were the medium and coarser qualities in which there was a competition between United Kingdom, Japan, Holland and Italy. This proposal which comprised a measure of Imperial Preference without making any diminution in the amount of protection needed by the industry was also justified on wider grounds as a step in furtherance of the community of economic interests between the United Kingdom and India, which was considered to be of special value to this country at a time when the beginning of a severe depression had created grave uncertainty regarding the future of its trade and industry. It was originally inspired by a message sent by His Majesty's Government when the protective measure was under consideration that the unfavourable effects of the protective duties on England might not be lost sight of. These proposals were embodied in the Cotton Industry (Protection) Act, 1930, which was passed on 4th April 1930. The Act also provided for the continuance of the minimum specific duty of $1\frac{1}{2}$ anna per lb. on cotton yarn imposed in 1927. Although the labour conditions in Japan had now improved, a new danger had arisen in the shape of a large import trade from China where labour conditions both as regards hours of work and employment

of women and children were far inferior to those in India. All these duties were to remain in force for a period of three years. In view of the avowedly temporary character of these duties the Government gave an undertaking in the Legislative Assembly to the effect that their working would be examined by the Tariff Board before the expiry of that period.

The duty on cotton piecegoods was further enhanced for revenue considerations by the Finance Act of 1931 which imposed a surcharge of 5 per cent. so that the *ad valorem* duties on British and non-British piecegoods were raised to 20 and 25 per cent., respectively. The Supplementary Finance Act, 1931, imposed a surcharge of 25 per cent. which raised the duty on British piecegoods to 25 per cent. and that on non-British piecegoods to $31\frac{1}{2}$ per cent., and the minimum specific duty on plain grey goods from $3\frac{1}{2}$ annas to $4\frac{3}{8}$ annas per lb. As a result of the same surcharge the duty on cotton yarn was increased from 5 per cent. or $1\frac{1}{2}$ annas per lb. to $6\frac{1}{2}$ per cent. or $1\frac{3}{4}$ annas per lb. The fortuitous advantage which accrued to the industry on account of these surcharges was to some extent reduced by the restoration of the duties on machinery and mill stores and the introduction of a new duty of half an anna per pound on imports of raw cotton under the same Act. The duty on artificial silk yarn was raised by the Finance Act, 1931, to 10 per cent. and by the Supplementary Finance Act, to 15 per cent. plus the surcharge of 25 per cent., that is to say, to $18\frac{3}{4}$ per cent. As regards artificial silk piecegoods, the Finance Act, 1931, increased the duty on them from 15 per cent. to 20 per cent. and the Supplementary Act differentiated them as artificial silk piecegoods and artificial silk mixtures, imposing the same duties on them as were applicable to the corresponding classes of silk piecegoods, namely, 40 per cent. and $27\frac{1}{2}$ per cent., respectively. Including the surcharge of 25 per cent., these duties became 50 per cent. and $34\frac{3}{8}$ per cent. respectively.

Before April 1930, when the duty on cotton piecegoods was 11 per cent. and that on artificial silk goods was 15 per cent., mixtures were assessed at one or other of these rates according as less or more than 20 per cent. of the superficial area consisted of artificial silk. Mixtures containing less than 20 per cent. of artificial silk came mostly from Japan or from the Continent and hence, when the duties on cotton goods were raised to 15 or 20 per cent. according as they were or were not of British manufacture, mixtures containing less than 20 per cent. of artificial silk became liable to 20 per cent. while others continued to pay the lower duty. In March 1931, there was no change in the position except that both the rates on cotton piecegoods were enhanced by 5 per cent. As said above, in the Supplementary Budget of 1931, the duty on artificial silk mixtures was equalised with that on silk mixtures, irrespective of the proportion of their artificial silk content.

In August 1932, when the Ottawa Trade Agreement was concluded the question of preferential duties on cotton, silk and artificial silk goods was treated separately, because a Tariff Board enquiry was then in progress and it was not known what duties would be required on these goods for purposes of protection. The Government of India agreed that if as a result of the Tariff Board's recommendations, protective duties were not imposed on United Kingdom goods of the kinds which were not already protected (and which were scheduled separately), a preferential margin of 10 per cent. would be extended to such goods.

The imports of Japanese piecegoods which had shown a rapid and continuous rise from 1921-22 to 1929-30, received a setback in 1931 due to the combined operation of the *Swadeshi* sentiment and the heavy duty on foreign piecegoods imposed in that year. In 1932, however, the depreciation of the Japanese yen gave them a renewed stimulus and they again began to pour into the country at abnormally low prices, with the result that the agitation for a further increase in the duty against them was revived. The Government asked the Tariff Board to hold a special enquiry into the matter. The Tariff Board agreed that the Indian industry needed protection against Japanese competition, and recommended that protection should be given either by adjusting the tariff values of cotton piecegoods so as to counteract the effect of exchange depreciation or by raising the *ad valorem* duties on cotton piecegoods from 31½ to 50 per cent. No discriminatory action against Japanese goods could be contemplated in view of the Indo-Japanese Convention of 1904 under which Japan could claim the most-favoured-nation treatment. The Government of India did not accept the Board's proposal to adjust the Tariff values; but decided to give the necessary relief by increasing the *ad valorem* duty to 50 per cent. and the minimum specific duty on plain grey goods from 4½ annas to 5½ annas per lb. This was done with effect from 30th August 1932 by issuing a notification under Section 3 (5) of the Indian Tariff Act, 1894. No surcharge was leviable in respect of these duties.

In 1933 and 1934 the textile tariff was subjected to a thorough-going process of revision as the combined result of the recommendations of the Tariff Boards on the Cotton Textile and Sericultural industries,) the conclusion of a new trade agreement with Japan and the adoption by the Government of India of the main provisions of the unofficial agreement known as the Bombay-Lancashire Pact. The Finance Act of 1933, the Indian Tariff Amendment Act, 1934, and the Indian Tariff (Textile Protection Amendment) Act, 1934, embodied the decision of the Government on all these matters.) It may be convenient, therefore, first to explain the main recommendations of the two Tariff Boards and the provisions of the two agreements just mentioned (so far as they are relevant for our purpose) and then proceed to explain which of them, and with what modifications, were accepted by the Government and the Legislature.

The Tariff Board Enquiry of 1932 Regarding the Cotton Textile Industry.

It will be recalled that the protective duties imposed by the Cotton Textile Industry (Protection) Act, 1930, were for a limited period of three years. In April, 1932, therefore, the Tariff Board was again asked to carry out a comprehensive investigation into the conditions of the industry and to make recommendations regarding the continuance of protection after March 1933.) In referring the question to the Tariff Board, the Government of India drew their attention to three important changes which had occurred since the Act of 1927 was passed, namely, the additional protection enjoyed by the industry as a result of the surcharges of 1931, the increase in the imports of artificial silk piecegoods and the equalisation of the import duty on them with that on silk piecegoods and the probability of a Trade Agreement being concluded at Ottawa involving a preferential tariff.

Between 1927 and 1931, the textile industry had achieved a considerable increase in production. In grey and white *dhoties*, the whole of the decline in imports was made good by Indian mills, and in grey long cloth

and shirtings and white shirtings, while United Kingdom was losing trade to Japan, Indian mills were increasing their share of the market. Moreover, in T. cloth, domestics and sheetings they were well able to hold their own. Coloured goods were, however, an exception, because although there was a decline in the imports of these goods, there was no corresponding increase in mill production.

The Tariff Board were satisfied that the industry had a good claim to be protected. The industry was affected by two factors, the increased competitive strength of Japan due to technical efficiency and exchange depreciation, on the one hand, and the general economic depression, on the other. The protective duties of 1930 had partially mitigated the fall in prices while the *Swadeshi* movement and the natural preference of the consumer for low priced goods in times of depression had also helped the industry. The majority of mills, however, needed protection. The Tariff Board, besides, considered that the industry had a special claim to protection on the ground of its national importance, whether as measured by the number of people supported by it or as evidenced by the 90 crores of capital invested in it, or from the viewpoint of the possible reactions of a depression in this industry on the cultivator of cotton or on the general economic life of Bombay or probably of the whole of India.

In estimating the measure of protection required, the Tariff Board had to adopt a different method from the one used in earlier enquiries. They found that no comparison was possible between particular classes of Indian and imported cloth, and the only practicable method was to compare the fair selling price of Indian cloth with the price less duty actually realised by the Indian mills. On this basis, they estimated that the measure of protection required for each class of cloth was as follows: 5 annas a pound for plain grey, 5½ annas for bordered grey, 6 annas for bleached and 6½ annas for coloured goods. (These duties were to apply against both British and non-British goods.) It will be observed that the very method of analysis adopted by them, namely, that of comparing the fair selling prices with realised prices instead of import prices precluded them from considering the exact differences in the degrees of protection required against British and non-British imports with the result that there was no basis on which they could recommend differential duties.

As regards the method of protection, the Tariff Board decided in favour of specific duties based on weight subject to their being combined with alternative *ad valorem* duties to prevent a loss of revenue. In their opinion, *ad valorem* duties which reduced the measure of protection in a period of falling prices were very unsuitable for protective purposes. (They recommended specific duties for goods of all counts and kinds of weaves. Protective duties were recommended on goods of finer counts also, both because they competed indirectly with goods manufactured from Indian cotton and also with a view to encourage the manufacture of goods from imported long staple cotton. They found that there was more competition from United Kingdom in respect of *dhoties* woven from counts 30^s to 40^s than was recognised by Mr. Hardy.

The proposed specific duties represented the minimum of protection required by the industry and the Tariff Board suggested that they might be combined with alternative *ad valorem* duties, the exact level of which was to be determined by the financial needs of the Government. They further suggested that the scheme of protection would not be affected if,

for giving effect to the Ottawa Agreement, the Government decided to levy the alternative *ad valorem* duties at different rates.

The Board also considered the effect of the protective duties on the handloom industry. The handloom weavers had benefited from the duty on piecegoods but not from that on yarn which had enabled the mills to raise the prices of yarn. There was no competition between mills and handlooms in finer qualities, but in coarser qualities, there was some competition, while in medium range the competition of the mills was intensely felt and the Tariff Board were doubtful whether the handloom industry could survive in medium and finer counts.

They recommended that the mill industry would be adequately protected in respect of yarn by a duty of one anna per pound instead of the existing duty of $1\frac{1}{2}$ annas, and that in the interest of the handloom industry which was the principal consumer of imported yarn, the duty should not apply to counts above 50^s the production of which in Indian mills was negligible.

As an important subsidiary industry, the hosiery industry was also considered to have a claim to protection. On a comparison of the estimated fair selling prices with realised prices, the Tariff Board recommended a specific duty of Rs. 1-8-0 a dozen on underwear including knitted garments of all descriptions and underwear made from woven fabrics, a specific duty of 8 annas a dozen pairs on socks and stockings, a specific duty of 6 annas a pound on knitted fabrics in the piece and a specific duty of $6\frac{1}{2}$ annas a pound on the braids known as "Ghoonsis" or "Muktakesis".

In considering the duty on artificial silk yarn, the Board were confronted with two divergent opinions. Between 90 and 95 per cent. of the artificial silk yarn imported into India was used by handloom weavers; the mills had almost given up the production of artificial silk goods due to the competition of cheap Japanese imports. It was recognised as a material which enabled the hand-weaver to improve the appearance of his product, at a low cost. On these grounds, it was urged that it should be admitted free of duty, but, on the other hand, it was said that if competed with Indian silk and cotton and hence deserved to be subjected to higher rates of duty. Being unable to decide between these conflicting views for want of satisfactory evidence, the Board refrained from making any recommendation.

Both mills and handloom weavers were severely affected by the competition of artificial silk piecegoods. In respect of the area provided by it, one pound of artificial silk cloth in some cases corresponds to three pounds of cotton cloth. For these reasons and because of the continuous fall in the price of Japanese goods, the Board recommended a specific duty of Rs. 1-8-0 a pound on artificial silk goods, which was over three times (the rate fixed for coloured cotton goods.) The same specific duty was also recommended for piecegoods made partly of artificial silk which also competed with coloured cotton goods and which did not differ much in price from piecegoods made entirely of artificial silk. Where, however, the proportion of artificial silk did not exceed 15 per cent. of the total weight, it was recommended that the artificial silk element should be ignored and the goods should be assessed as coloured cotton goods or woollen manufactures as the case may be. Mixtures of cotton and waste silk were also proposed to be subjected to the same duty as artificial silk goods, except when the proportion of waste silk did not exceed 15 per cent. of

the total weight in which case they were to be assessed as coloured cotton piecegoods.

Among their supplementary recommendations, the Board proposed the continuance of the duty on raw cotton in the interest of the cultivator of cotton. The increase in the imports of raw cotton was partly due to the unfavourable trend of parity with American cotton and the Tariff Board recognised that the cheapness of American cotton brought it in competition not merely with the long staple but also with the short staple cotton in India. Starch, along with certain other millstores, was so far free of duty, but the Indian flour mills which manufacture starch had to pay a duty of Rs. 2 per cwt. on wheat. This involved a disadvantage of 15 per cent. to the Indian industry and it was, therefore, recommended that a duty of 15 per cent. should be imposed on all imported starch.

Sericultural Industry.

In 1932, the Government of India received representations to the effect that notwithstanding the existing high revenue duty the position of the Indian sericultural industry was menaced by the imports of raw silk from abroad and the Tariff Board was accordingly directed to consider the case of the industry. The Tariff Board completed their investigation in May 1933. In the sericultural industry, the Tariff Board had a problem which was not one of protection of an infant industry but of saving an old-established cottage industry from extinction. The industry enjoyed the advantages of an agricultural population with low wages and demanding subsidiary vocations. It had all the natural advantages in the matter of climate, labour and power supply, and it was capable of expansion and improvement in certain respects such as the yield of cocoons. The industry was scattered and conditions varied from place to place. The Tariff Board found it in a seriously depressed condition due to a combination of circumstances.) Having lost the export market, the Kashmir silk was selling in India at depressed rates. China, being driven out of the American market by Japan, had begun to flood India by cheap goods under the stimulus of a depreciated exchange and a system of bounties, although it may be noted that the cheapness of the Chinese silk was also partially accounted for by more efficient methods of production. Already there was a decline in the demand for silk and there was a growing tendency for Indian raw silk to be replaced by cheaper substitutes. The narrow market which existed in India for silk waste had also disappeared. Besides, a more serious danger had arisen in the shape of growing competition from artificial silk yarn and piecegoods. Apart from these factors, the abandonment of the gold standard by Japan and the continued dumping of cheap silk goods by that country dealt the severest blow to the Indian silk industry, and reduced the already shrunken market. The raw silk industry occupies an important place in the economic structure of India and the Tariff Board felt that it was in the interest of both the agricultural and weaving industry that it should be protected against this unfair competition.

The handloom weaver is the principal consumer of Indian raw silk. It has no export market, but the demand from the weaving centres which are spread all over the country is capable of great expansion. Apart from the competition offered by cheap Japanese silk and artificial silk yarn and spun silk, the Indian silk is subjected to certain serious disadvantages, in view of the fact that it is not properly sorted or graded and that a large

proportion of it is reeled by *charkha* instead of in filatures, which makes it dirty and irregular. When the Tariff Board reported, the silk weaving industry was also depressed quite as much as the raw silk industry, due to the competition of shirtings and suitings and hence an increase in the duty on raw silk could not be justified unless it was accompanied by an increase in the duty on silk manufactures.

In estimating the amount of protection required, the Tariff Board compared (1) the price of imported filatures and re-reeled silk with the estimated fair selling price of first quality *charkha* silk and (2) the price of imported native reeled silk and filature dupions with the estimated fair selling price of the second and third quality *charkha* silks. The differences were found to be Rs. 2-6-6 per lb. in the first case and Rs. 2-6-3 per lb. in the second. The Tariff Board concluded that both filature and *charkha* silk would be adequately protected by a specific duty of lbs. 2-6-0 per lb. They also thought it necessary that the alternative revenue duty should also be raised from 25 to 50 per cent. not merely to maintain a balance between specific and *ad valorem* rates of duties but also to ensure a certain degree of protection for the Indian filatures against the risk of an increase in the imports of high quality silk and to protect the revenue from loss in case there was a rise in the general level of prices during the period of protection. They suggested that the protective duty should be imposed on all classes of silk and should continue in force for five years during which the Indian industry would have an opportunity to reorganize itself. They further recommended that the duty should be applied to cocoons also. The imposition of these duties on raw silk necessarily involved an increase in the duty on silk goods which were dutiable at 50 per cent. *ad valorem*. The Tariff Board recommended that this rate should be raised to 83 per cent. that is by 33 per cent. which was just enough to compensate the weaving industry for the increased cost of the raw material. The duty on silk or artificial silk mixtures was also proposed to be raised to 60 per cent. leaving the existing minimum specific duties unchanged. Spun silk was so far included in the class of silk yarn, noils and warps and assessed at a duty of 25 per cent. On the ground that it competed directly with raw silk and was priced at about the same level the Tariff Board recommended that it should also be made liable to the same rate of duty as raw silk. For the same reasons all other items included under the head of yarns, noils and warps were proposed to be made liable to the same duty. Thrown silk is raw silk which has been treated by twisting and has been converted into yarn suitable for weaving purposes. The Tariff Board found that in respect of thrown silk, India could hold its own, but for purposes of tariff equality it was necessary to increase the duty on thrown silk to the same amount as the duty on raw silk. As already mentioned, artificial silk yarn, which was dutiable at 18½ per cent, had a tendency to displace natural silk on account of its cheapness. For safeguarding the market for natural silk, therefore, the Tariff Board considered it necessary that the artificial silk yarn should be subjected to a specific duty of one rupee per lb. The duty was so adjusted that while it amounted to more than 18½ per cent., a difference of at least one rupee per pound was maintained between the artificial silk yarn and the cheapest imported silk. The existing specific duties on artificial silk goods and mixtures, which were imposed in 1933, were left untouched, because they roughly corresponded to the duty which the Tariff Board had proposed for artificial silk yarn. Hence there was no danger of the

one encouraging the import of the other. The *ad valorem* rates of duty were, however, proposed to be raised to the same level as those proposed for silk goods and mixtures.

The Indo-Japanese Trade Agreement, 1934.

The increase in the duty on non-British goods to the high level of 50 per cent. in August 1932 failed to put an effective check on Japanese dumping and the Government was forced to give the necessary notice of six months for the abrogation of the Indo-Japanese Convention in April 1933. By a notification issued on 7th June, 1933, under Section 3 (5) of the Indian Tariff Act, 1894, the duty on cotton piecegoods, not of British manufacture, was raised to 75 per cent., with a minimum specific duty on plain grey goods of 6½ annas per lb. (No surcharge was leviable in respect of these duties). This heavy increase in duty had the desired effect on Japan and contributed a great deal to the success of the negotiations which followed for the conclusion of a new trade agreement to replace the old Convention.

On the 12th July 1934, a Trade Agreement was concluded between India and Japan which imposed a definite quantitative limitation on Japanese imports. The Agreement expressly recognised the right of both Governments to impose additional duties on any goods imported, provided that such duties did not exceed those imposed on like articles imported from any other foreign country. Under the provisions of this Agreement, a definite quantitative relation was established between the imports of Japanese piecegoods into India and the exports of raw cotton to Japan. The maximum amount of Japanese cotton goods to be imported into India every year was laid down, with provisions for adjusting any excess in the subsequent year. In consideration of this limitation, it was agreed that the duties on Japanese piecegoods should not exceed 50 per cent. or 5½ annas per lb., whichever was higher, in the case of plain grey goods and 50 per cent. in the case of others. Accordingly, a notification was issued under Section 3 (5) of the Indian Tariff Act, 1894, reducing the *ad valorem* duty on non-British piecegoods from 75 per cent. to 50 per cent. and the minimum specific duty from 6½ annas per lb. to 5½ annas per lb., with effect from 8th January, 1934. (No surcharge was leviable in respect of these duties).

The Bombay-Lancashire Pact.

In the autumn of 1933, the British Textile Mission visited India and an agreement known as the Bombay-Lancashire Pact was made between the Mission and the representatives of the Bombay mill-owners. It was agreed between the parties that the Indian textile industry was entitled to a reasonable measure of protection against the imports of United Kingdom, but a most higher level of protection was required against countries other than United Kingdom owing to lower costs and other factors operating in those countries. The Indian side agreed that if the financial position of the Government of India permitted the removal of surcharge imposed in September 1931 on cotton piecegoods along with other imports, they would not make fresh proposals with regard to duties against imports from United Kingdom. In the matter of cotton yarns, it was agreed that the duties against yarns of British origin might be reduced from 6½ per cent. or 1½ annas per lb. to 5 per cent. and 1½ annas per lb., while so far as artificial silk piecegoods were concerned, the following duties were

considered adequate in the case of imports from the United Kingdom:— 30 per cent. *ad valorem* or 2½ annas per square yard for 100 per cent., artificial silk fabrics (in place of 50 per cent. *ad valorem* or 4 annas per square yard) and 30 per cent. or 2 annas per square yard for mixture fabrics of cotton and artificial silk (in place of 35 per cent. or 2½ annas per square yard). In return for these concessions the British Textile Mission agreed to do every thing in their power to popularise and promote the use of Indian raw cotton in the United Kingdom. This understanding was to continue till 31st December 1935.

At the time when the Bombay-Lancashire Pact was signed, the Government of India had under consideration the report of the Tariff Board on the cotton textile industry. Being an agreement between important and representative sections of the British and Indian industries, the Pact was considered by the Government as offering a satisfactory basis for the revision of the duties on cotton and artificial silk goods of British manufacture and it was decided to incorporate the main provisions of the Pact (with one important modification in respect of cotton yarn of counts over 50^s) in the Indian Tariff (Textile Protection) Amendment Act, 1934.

Changes made in Advance of the Indian Tariff (Textile Protection) Amendment Act, 1934.

The duties imposed by the Cotton Textile Industry (Protection) Act, 1930, were to expire on the 31st March 1933. The Government, however, could not complete their consideration of the Tariff Board Report before this date, and hence the Cotton Textile Industry Protection (Amendment) Act, 1933, was passed to extend the operation of the protective duties up to 31st October 1933. After the denunciation of the Indo-Japanese Convention of 1904 in April, 1933, the question of protection had to be deferred again, pending the conclusion of a new agreement between India and Japan and the Cotton Textile Industry Protection (Second Amendment) Act, 1933, was passed extending the operation of the protective duties till 31st March 1934. Another extension by one month became necessary in March 1934, which was granted by the Cotton Textile Industry Protection (Amendment) Act, 1934, as the consideration of the new legislation could not be completed in the Legislative Assembly before 31st March.

The Finance Act of 1933 effected certain revenue changes in the textile tariff which could not be postponed till the comprehensive legislation on cotton and sericultural industries was ready. These changes were aimed at closing certain loopholes of evasion which were discovered in the case of silk or artificial silk mixtures.

The duty on these goods was 34½ per cent. while the duty on cotton piecegoods was raised to 50 per cent. in August 1932. It was possible to evade this higher duty on cotton piecegoods by mixing in them a nominal quantity of silk or artificial silk. Silk or artificial silk mixtures were, therefore, made liable to a minimum specific duty of 2 annas 3 pies per square yard in order to check this evasion. The duty, being operative only in the case of cheap varieties, did not affect the genuine types of silk or artificial silk mixtures. The Government also thought it advisable to impose a minimum specific duty of 4 annas per square yard on artificial silk goods as a precautionary measure against any possible fall in the very satisfactory revenue which was being realised from the high *ad valorem* duties on these goods. The precautionary provision had a special signi-

finance because of the fact that 99 per cent. of the piecegoods came from Japan and had a tendency to decline in value. Besides, the competition of such goods when imported at cheap rates was also likely to impair the efficacy of the protective duties on cotton piecegoods. The imposition of the minimum duty was considered sufficient for the purpose of protecting the Indian industry against cheaper varieties which came mainly from Japan. The raising of the general *ad valorem* duty would have been unfair to goods coming from sources other than Japan. Incidentally, the duty on mixtures, which, as a result of the surcharge of 1931, had reached the odd figure of 34½ per cent. was also rounded off to 35 per cent. All these duties were exempt from the surcharge of 25 per cent.

The Indian Tariff (Amendment) Act, 1934, which was passed for the purpose of safeguarding certain indigenous industries against unfair competition, made some more changes in the textile tariff in advance of the main legislation. These related to cotton fents and artificial silk and cotton mixtures. Cotton fents are short lengths of cloth usually up to 10 yards in length which have been cut from standard lengths of piecegoods by reason of defects in weaving or for some other reasons. On account of their exceptional character, they were so far excluded from the protective duties imposed on cotton piecegoods and were assessed at 25 per cent. *ad valorem*. When the duty on cotton piecegoods was raised to 75 per cent., an abnormal increase in the imports of fents was noticeable; which was due to the imports of spurious fents which were really piecegoods cut into lengths of less than 9 yards in order to evade the duty on piecegoods. The new Act sought to check this evasion by equalising the duty on fents with that on piecegoods, subject to the proviso that the minimum specific duty applicable to plain greys was not to apply to fents. Genuine fents are cheaper than piecegoods and it was thought that the incidence of the specific duty on these might be unduly heavy. The second change was about the artificial silk and cotton mixtures which were subject to 35 per cent. or 2½ annas per square yard. This rate of duty was fixed by the Finance Act of 1933, when the duty on cotton piecegoods of non-British origin was 50 per cent. With the increase in this rate to 75 per cent., the difference in price between the pure cotton piecegoods and artificial silk piecegoods, on the one hand, and the mixtures of artificial silk and cotton, on the other, widened beyond the normal proportion and the sales of mixtures began to increase at the expense of pure goods. This threatened to defeat the very purpose of the protective scheme for cotton piecegoods. The Act, therefore, raised the duty on mixtures from 35 per cent. to 50 per cent. (without surcharge) to discourage the tendency.

The Act also imposed a minimum specific duty of 18 annas on the non-British imports of woollen hosiery and woollen knitted apparel and woollen fabrics excluding felt and fabrics made of shoddy or waste wool. The duty was intended as a safeguarding duty against Japanese imports. The alternative *ad valorem* duty remained at 35 per cent. standard rate, and 25 per cent. preferential rate. No specific duty was imposed on woollen mixtures (which continued to be assessed at the 35/25 rate). They were, however, more clearly defined as "fabrics not otherwise specified containing not more than 10 per cent. silk or 10 per cent. artificial silk but containing more than 10 per cent. but not more than 90 per cent. wool". The object in laying down such a detailed specification was to prevent silk or artificial silk mixtures (the duty on which was now raised

to 50 per cent.) containing a small proportion of wool from being passed off as woollen mixtures.

It will be recalled that the Tariff Board on cotton textile industry had recommended a minimum specific duty of Rs. 1-8-0 a dozen on cotton underwear including knitted garments and another duty of 8 annas a dozen pair on cotton socks and stockings. The Act under consideration gave effect to these recommendations with, however, one modification, namely, the minimum specific duty on cotton socks and stockings was fixed at 10 annas per dozen pairs instead of 8 annas. The alternative *ad valorem* duty remained in each case at the non-preferential rate of 25 per cent. The safeguarding duties imposed by the Indian Tariff (Amendment) Act, 1934, were free from the surcharge of 25 per cent. imposed by the Supplementary Finance Act of 1931.

The Indian Tariff (Textile Protection) Act, 1934.

The Indian Tariff Textile Protection Amendment Act, 1934, embodied the Government's final decision on the reports of the two Tariff Boards on cotton textile and sericultural industries. But the tariff changes actually incorporated in the Act, differed considerably from the changes recommended by the Tariff Boards and it may perhaps be interesting to see the reasons which weighed with the Government and the Legislature in making the modifications.

Since the Tariff Board completed their investigation of the cotton textile industry, certain important developments had taken place affecting the cotton industry, particularly, a further depreciation of the Japanese yen, the conclusion of the Indo-Japanese Trade Agreement and the Bombay-Lancashire Pact. As the recommendations of the Tariff Board took no account of these developments it was natural that the Government found it necessary to re-examine and modify them to a material extent. Besides, after the passing of the Indian Tariff (Amendment) Act, 1934, fresh experience had been gained in the working of certain duties which could be utilised in the framing of the new Act.

While the Tariff Board had recommended a duty of 1 anna per lb. for yarns of 50 counts and below and an *ad valorem* revenue duty for higher counts, the Bombay-Lancashire Pact had laid down a rate of 1½ anna per lb. or 5 per cent. *ad valorem* for yarns of all counts so far as imports from the United Kingdom were concerned. In the interests of the handloom weaver the Government accepted the Board's recommendation regarding the division of yarn into two classes, and to exempt counts over 50^a from the specific duty. As regards the rates of duties, they accepted the rates suggested in the Bombay-Lancashire Agreement so far as the British yarns were concerned, and for non-British yarns, they let the existing rates continue on the ground that those rates would not put an excessive burden on the handloom industry. In order to compensate the handloom weaver for any injury that these duties might cause they proposed to give grants out of the proceeds of the duties to Local Governments to finance schemes of co-operative buying and selling on behalf of handloom weavers.

Although there was no artificial silk industry in India, the imports of artificial silk goods at exceptionally low prices offered a severe competition both to Indian mill cloth and the products of the sericultural industry. Japan's share in this trade was increasing by leaps and bounds and

amounted to 99 per cent. in 1932-33. The Finance Act of 1933 had already imposed a minimum specific duty of 4 annas per square yard. The duty was continued under the new Act, but as artificial silk goods of British manufacture did not compete with Indian goods to the same extent, the duty on them was fixed at the rate suggested in the Bombay-Lancashire Pact, *viz.*, 30 per cent. or 2½ annas per square yard.

Since, 1932, the Government of India had taken several retaliatory measures to counteract the effects of Japanese dumping. Due to the operation of the most favoured nation clause, these measures had necessarily to be in the form of general increases in duties on all piecegoods of non-British manufacture. Several other countries, besides Japan, were thus affected, although the piecegoods imported from them were not in effective competition with Indian piecegoods. In the new Act, the Government took the opportunity of redressing the injustice caused to such countries by specifying separately certain articles which came mainly from them and not from Japan and applying the ordinary rates of 25 per cent. preferential and 30 per cent. standard, to them. These articles were formerly liable to duty at 50 per cent. The following cotton fabrics, namely, sateens, including italians of sateen weave, velvets and velveteens and embroidered all-overs, were included in this group. These came mostly from Italy.

The Tariff Amendment Act, 1934, had abolished the concessional rate of 25 per cent. on fents and subjected them to the same duty as cotton piecegoods. This was done, as has already been explained above, to discourage the attempts to evade the duties on cotton piecegoods by importing them in the form of so-called fents. The equalisation of the duty on fents and piecegoods, however, had an adverse effect on the genuine trade in short fents which did not compete with Indian mill-cloth. Such fents are sold to poor classes at very low prices. It was therefore decided to specify separately fents which are less than 4 yards in length and to put the ordinary preferential revenue rate of 25 and 35 per cent. on them. It will be remembered that the permissible length of fents used to be 9 yards before the Indian Tariff (Amendment) Act, 1934 was passed. It was therefore thought that the reduction of the length from 9 to 4 yards would be sufficient to prevent the import of spurious fents. For administrative reasons, fents of all materials were grouped together.

It will be recalled that the Finance Act of 1933 imposed a minimum specific duty of 2½ annas per square yard on artificial silk mixtures in order to check the practice of evading the heavy duties on pure artificial silk and pure cotton piecegoods by nominally mixing in them some other material and thus bringing them in the category of "mixtures" which were till then liable to the *ad valorem* duty of 35 per cent. only. The specific duty was not fully effective in checking the practice and hence the Indian Tariff (Amendment) Act, 1934 raised the *ad valorem* duty on mixtures from 35 per cent. to 50 per cent. Under the new law, the Government proposed to make a corresponding increase in the specific rate of duty also, but so far as the mixtures of British origin were concerned, they adopted the rates suggested in the Bombay-Lancashire Pact, in view of the fact that there was relatively less competition between these and the Indian goods.

Fabrics containing gold and silver thread were so far left out of the protective schedule, although gold and silver thread were subject to pro-

fective duties. They were brought in and made liable to a 50 per cent. duty under the new Act.

The Government and the Legislature had no difficulty in accepting the Tariff Board's recommendations in respect of a duty of 6½ annas a lb. on braids and cords and a duty of 15 per cent. on starch and farina.

Certain articles made of cotton or other piecegoods, such as bedsheets, table cloths, towels, handkerchiefs, etc., were subjected to the same duty as was applicable to the fabric from which they were made. A lower duty on these articles would have made it possible to import them in a finished form in order to evade the high protective duties on their raw material. There was a similar possibility in the case of the duty proposed on hosiery, which could be evaded by importing only knitted fabric and manufacturing hosiery articles in India. A specific duty of twelve annas per lb. with an alternative duty of 50 per cent. *ad valorem* was therefore imposed on knitted fabric.

During the passage of the Textile Protection Bill through the Select Committee, one more article, namely, umbrella coverings, was added to the list of articles which were separately specified and made to pay the same duty as was applicable to the material from which they were made. The duty on umbrella coverings was intended not only to check the evasion of the duty on umbrella cloth (which is a variety of cotton piecegoods) but also to safeguard the cottage industry of assembling umbrellas (which exists in Bengal) against the import of coverings in made up forms.

The Tariff Amendment Act of 1934 had given effect to Tariff Board's recommendation regarding cotton undervests and socks by imposing minimum specific duties based on numbers. The new Act imposed a single specific duty based upon weight on both vests and stockings. The duty was fixed at 25 per cent. or 12 annas per lb. whichever is higher. Cotton hosiery was transferred to the protective schedule. It will be observed that while the *ad valorem* duty on cotton hosiery was fixed at 25 per cent., that on knitted fabric was 50 per cent., the object being definitely to discourage the import of cotton knitted fabric so as to make the protection of hosiery as fully effective as possible.

With regard to the sericultural industry also the Government of India found themselves unable to accept the recommendations of the Tariff Board without substantial modifications. They considered that the heavy duty of 50 per cent. or Rs. 2-6-0 per lb. on raw silk proposed by the Tariff Board would inflict a real hardship on the handloom weaver and would practically prohibit the imports of the more expensive varieties of raw silk. Besides, in calculating the amount of the duty required the Board had allowed for a price for cocoons (which form the largest item in the cost of raw silk) far in excess of that prevailing in what is the largest single raw silk producing area in India, namely Bengal. The Government of India therefore felt the necessity of revising the duties recommended by the Tariff Board. In doing so, they adopted a different method of approach from that of the Tariff Board. In their view, the assistance required was more of the nature of safeguarding than of protection. This was also admitted by the Tariff Board in their report. The Government therefore aimed merely at restoring the fair competitive conditions of the pre-depression times rather than at positive protection. They assessed the safeguarding duties on the same lines as they had done in the

case of other articles. Conditions in the silk industry were more or less normal in 1928 before the depreciation of the Chinese currency began. Taking the prices in that year as the starting point, they made allowance for the general depression and the resulting figure was taken as the fair selling price meaning the price which might have prevailed if abnormal circumstances had not intervened. The safeguarding duties were found by comparing this "fair selling price" with the price of imported silk. Calculated by this method, the duty required on raw silk was found to be Rs. 1-7-6 per lb. and the Government proposed to levy it in the form of an *ad valorem* duty of 25 per cent. combined with a specific duty of 11½ annas per pound. In the Select Committee on the Bill, the duty was raised to 14 annas, on a revised calculation on the basis of more recent figures. In view of the wide range of qualities and prices which exist in the raw silk trade, a compound duty was considered preferable because it placed a relatively lighter burden on better qualities which are sold at relatively high prices. For considerations of tariff equality the same duty was applied to silk yarn, thrown silk and warps. Spun silk yarn is a product manufactured from waste silk, while noils are merely shreds of waste silk. The Government did not think that these articles could bear the same duty as raw silk and thrown silk and, besides, it was inadvisable to impose a prohibitive duty because a large proportion of India's imports of spun silk yarn came from Italy, a country against which there were already considerable tariff increases. A duty of 25 per cent. was therefore considered adequate. The duty on silk piecegoods had also to be adjusted in view of the modification made in the Tariff Board's recommendations regarding the duty on raw silk. This duty was of the nature of a countervailing duty and hence in revising the duty, the Government used the same method as was used by the Tariff Board. In view of the fact that imported silk piecegoods have a wide range of values it was decided to subdivide silk piecegoods into three classes and to impose minimum specific duties equivalent to 65 per cent. of the average current tariff valuations for each of these groups. As regards silk mixtures, the Government did not accept the Board's recommendation to levy a 60 per cent. duty on silk or artificial silk mixtures. When a mixture consisted mainly of artificial silk, it was proposed to treat it as pure artificial silk. The duties on other mixtures were fixed at rates equal to the total of the duty payable on their various constituents; the rates therefore varied according to the differences in the composition of these mixtures.

Silk waste and noils and silk yarn spun from waste or noils (noils are a form of waste silk) and silk sewing thread were transferred to the protective schedule but the duty on them was maintained at 25 per cent. *ad valorem*.

In recommending a duty of one rupee per lb. on artificial silk yarn in the interest of the raw silk industry, the Tariff Board on sericultural industry had ignored the adverse reactions of such a duty on the handloom weaver. The Cotton Textile Tariff Board had deliberately refrained from making any recommendation on this subject. Here there was a real conflict of interest between two indigenous industries and the problem was how to safeguard the sericultural industry against excessive imports of artificial silk yarn without unduly increasing its cost to the handloom weavers. The Government proposed to solve the problem by increasing the *ad valorem* duty from 18½ to 25 per cent. which at the same time

amounted to very much less than the *ad valorem* equivalent of the duty of one rupee per lb. recommended by the Tariff Board, and by imposing an alternative minimum specific duty of 3 annas per lb.

Ribbons, and socks and stockings made wholly or mainly from silk or artificial silk were important revenue items and were therefore separately specified from apparel, hosiery etc., (which was liable to 25/35 rate) and subjected to the special preferential rate of 50/40 per cent.

Articles of apparel, haberdashery and millinery were so far assessed at varying rates according as they were made of silk or artificial silk or silk or artificial silk mixtures or of wool and at the preferential rate of 30/20 per cent. when made of other materials. Under the new law, all these articles were placed in the same group for the sake of administrative convenience and charged at a uniform rate of 35/25 per cent. irrespective of the material from which they were made.

Under the terms of the Ottawa Agreement it was agreed that a ten per cent. preference would be granted to the United Kingdom in respect of such articles made of cotton, silk, or artificial silk which would not become liable to protective duties as the result of the Tariff Board enquiry which was then in progress. The duties on cotton piecegoods, cotton yarn and artificial silk piecegoods were determined by the Bombay-Lancashire Pact and the Indo-Japanese Convention of 1934, while the duties on many articles made from these fabrics, and those on silk goods were transferred to the protective schedule for reasons already explained. (There was no question of granting preference in respect of articles on the protective schedule). The remaining articles were grouped together in a residuary group and the general preferential rate of 25 per cent. on British goods and 35 per cent. on non-British goods was applied to it. It will be seen that the preference was given wholly by raising the duty. in order that the protection already enjoyed by the home industry in respect of these articles should not be diminished.

Many other important changes were made by the Act under consideration to put the cotton tariff on a more scientific basis or to minimise the possibility of evasion. The existing definition of "piecegoods" permitted evasion by allowing piecegoods to be passed off as "mixtures" liable to a lower duty by a nominal mixture of some other material in some part of the warp or the weft. Reference has already been made above to the attempts made in the past to check this practice, but they were not fully effective. Under the new Act, the entire scheme of classification of piecegoods and mixed fabrics was revised and new definitions were evolved based on actual proportions in which one or more textile materials were present in a fabric. The main principles of this revision can be briefly explained as follows. The principal textile materials are silk, artificial silk, wool and cotton. Wool was not covered by the protective scheme, but it was also included for the sake of logical consistency. All fabrics containing more than 90 per cent. of any textile material were made liable to the rate applicable to a fabric entirely made of that material. Conversely, when any textile material formed not more than 10 per cent. of the fabric, that material was ignored for purposes of classification. A fabric was classified as a mixture when a textile material appeared in combination with any of the other three materials within the range of the minimum of 10 per cent. and the maximum of 90 per cent. The following five categories of mixtures were evolved by eliminating each of

the four materials, silk, artificial silk, wool and cotton, one by one, and by lumping all other mixed fabrics in a residuary group; (1) mixtures containing silk; (2) mixtures containing artificial silk but no silk; (3) articles containing wool but no silk or artificial silk; (4) mixtures containing considerable quantities of cotton but no silk, artificial silk or wool; (5) miscellaneous mixtures containing no silk, artificial silk or wool but less important quantities of cotton. Mixtures of other materials like linen were included in this miscellaneous group.

Silk mixtures were further subdivided into three classes: (1) those containing a high proportion of silk or artificial silk (more than 50 per cent.); (2) those containing a lesser proportion of silk or artificial silk *i.e.*, 50 per cent. or less silk but more than 10 per cent. but not more than 50 per cent. artificial silk; (3) those containing a negligible proportion of artificial silk and a low proportion of silk. These three classes were subjected to diminishing rates of duty in the order in which they are stated. The item of mixtures of artificial silk with materials other than silk was also further subdivided. Among the textile materials other than silk which are usually mixed with artificial silk, cotton is the most important. Different rates were provided according to the proportion of cotton present. When cotton represented less than 50 per cent. of the fabric, the mixture was treated in the same way as pure artificial silk. Where it contained 50 per cent. or more it was subjected to an intermediate rate of minimum specific duty. Preferential rates were prescribed for artificial silk mixtures of British manufacture. Mixtures containing no silk, artificial silk or wool but more than 50 per cent. cotton were treated in the same way as cotton piecegoods liable to the preferential duty of 25/50 per cent. No surcharge was leviable in respect of the protective duties imposed by the Indian Tariff (Textile Protection) Amendment Act, 1934.

The protective duties on British goods embodied in the Indian Tariff Textile Protection (Amendment) Act, 1934, were to remain in force for a period of 5 years. In view of the fact that the agreement on which the changes affecting the tariff rates on British goods were based was to expire on the 31st December 1935, the Government gave an assurance to the Legislative Assembly at the time when the changes were introduced that a fresh enquiry would be instituted before that date. Accordingly a Special Tariff Board was appointed in September 1935 to examine the question as to what modifications, if any, were required in the level of protective duties against imports of cotton piecegoods, cotton yarn, artificial silk fabrics and mixtures of fabrics of cotton and artificial silk.

In estimating the amount of protection needed by the industry, the Board adhered to the old procedure of comparing the prices of imported goods with estimated fair-selling-prices of similar goods produced in India. On the basis of such a comparison they recommended that so far as imports from the United Kingdom were concerned the existing duties had become excessive for the purpose of protection intended to be afforded by them to the Indian industry. They proposed that the existing duties should be replaced by a duty of 20 per cent. *ad valorem* on cloths of bordered grey variety (*i.e.*, chadars, dhooties, saris and scarves), bleached goods and coloured goods (excluding printed fabrics) and by a duty of 20 per cent. *ad valorem* or 8½ annas per lb., whichever is higher, on plain grey goods.

They made no recommendation in regard to the duties necessary in the case of printed goods on the ground that the Indian textile printing industry was in its infancy and sufficient evidence was not available as regards costs. The Tariff Board found it difficult to devise a satisfactory way of comparing the import prices of yarns of different counts with their estimated fair-selling-prices because different brands of the same counts of yarn were being sold at varying prices.) On a review of the whole position, they concluded that the existing duties of 5 per cent. or $1\frac{1}{4}$ annas per lb. on counts below 50^s and 5 per cent. on counts above 50^s afforded adequate protection to the industry and should be retained. Nor did they suggest any change in the level of duties on artificial silk fabrics or mixtures of artificial silk and cotton, because, in view of the predominant position of Japan in this trade and the influence exercised by Japanese goods on the prices of these goods, they did not think themselves justified in comparing the fair-selling-prices of these goods with the prices of imports from the United Kingdom. The data before them was not sufficient to enable them to decide whether the protection afforded by the present tariff to the Indian industry was adequate against imports from the United Kingdom. The changes recommended by the Tariff Board were given effect to by a notification issued on the 25th June 1936, under Section 4 (1) of Indian Tariff Act, 1934.

The Indian Tariff (Second Amendment) Act, 1936, was passed to remedy certain defects which were brought to light by experience in the protective scheme embodied in the Indian Tariff (Textile Protection) Amendment Act, 1934. It was found that the lower rate of duty on fents of non-British manufacture was encouraging an import trade in spurious fents, which escaped the protective duty and thus threatened the purpose of the protective scheme. The Act, therefore, reduced the permissible length of silk and artificial silk fents from 4 yards to $2\frac{1}{2}$ yards. It also imposed an alternative specific duty of 12 annas per lb. on cotton knitted apparel of weight not exceeding 4 lbs. per dozen and of 10 annas per lb. on those of weight exceeding 4 lbs. per dozen. So far, there were protective duties on cotton undervests and cotton knitted fabric, but "apparel and hosiery not otherwise specified" were liable to revenue duty. This made it possible for certain types of knitted fabric to be imported in the shape of apparel and thus brought under the operation of the revenue duty instead of the protective duty. (The Tariff Board on woollen industry drew the attention of the Government to this loophole in the tariff and recommended that the same protective duty should be imposed on apparel made of cotton knitted fabric as to knitted fabric itself. The change in the duty on cotton knitted apparel just mentioned, was made in pursuance of this recommendation. The Act also imposed the protective duty applicable to pure silk yarn on spun silk yarn, because on an examination of the statistics of imports over the preceding two years, it was found that spun silk yarn was quite as serious a competitor of Indian silk as pure silk yarn. At the time when the protective duties on raw silk and silk manufactures were imposed, it was thought that spun silk yarn, being a product of waste silk, was not in effective competition with Indian silk. The Act came into force on 1st May 1936.

On the 1st April 1937, the minimum specific duty on artificial silk fabrics of non-British manufacture was increased from 4 annas to 5 annas per square yard, and that on mixtures, also of non-British manufacture, containing not more than 10 per cent. silk, but more than 10 per cent. and

not more than 90 per cent. artificial silk, from $3\frac{1}{2}$ annas to 4 annas per square yard, in the case of those containing 50 per cent. or more cotton, and from 4 to 5 annas per square yard in the case of those containing no cotton or less than 50 per cent. cotton.

The duties on British piecegoods were further revised under the Indian Tariff (Third Amendment) Act, 1939, which gave effect to the provisions of the Indo-British Trade Agreement signed in London on the 20th March 1939. The rates of duty on British piecegoods were fixed as follows: $17\frac{1}{2}$ per cent. *ad valorem* on printed goods; 15 per cent. *ad valorem* or 2 annas $7\frac{1}{2}$ p. per lb., whichever is higher, on grey goods, and 15 per cent. *ad valorem* on all others. The duties applicable to the following fabrics, *vis.*, satins including Italians of satin weave; velvets and velveteens, and embroidered allovers when of British manufacture, which were 25 per cent. in the case of printed fabrics and 20 per cent. in the case of others, were reduced to $17\frac{1}{2}$ per cent. and 15 per cent. *ad valorem*, respectively. The duties on the non-British varieties of piecegoods and other cotton fabrics mentioned above continued to be assessed at 50 per cent. and 35 per cent., respectively. The same Act also extended the period of operation of the protective duty on cotton piecegoods up to the 31st March 1942. These changes have been fully discussed elsewhere along with other provisions of the Indo-British Trade Agreement, as their full significance cannot be realised without a knowledge of the latter.

The protective duties on silk were due to expire on the 31st March 1939. The Tariff Board investigated the claim of the sericultural industry to a continuance of protection and submitted its report; but as there was not sufficient time to complete the examination of the Report before 31st March 1939, the existing duties were continued for another year under the Indian Tariff (Second Amendment) Act, 1939.

Woollen Industry.

The steps taken in connection with certain woollen manufactures under the Indian Tariff (Amendment) Act, 1934, have already been discussed above. (In June 1935, the Tariff Board reported on the claim of the woollen industry to substantive protection. The Tariff Board admitted the claim and recommended protective duties for different classes of woollen and worsted manufactures. The Government of India, however, did not accept these recommendations. They held the view that as the worsted branch of the industry was dependent on imported raw material, it did not satisfy the first condition laid down by the Fiscal Commission and had, therefore, no claim to protection.) As to the woollen branch, the Government of India considered that the recommendations of the Tariff Board were vitiated by the fact that a very important section of the industry failed to tender any evidence before the Board about the cost of manufacture or the nature of the competition experienced by it. The Government, however, accepted the Board's suggestion that the small scale woollen industry needed technical advice and assistance and sanctioned a grant of Rs. 5 lakhs, spread over five years, for this purpose.)

Paper and Paper Pulp Industries.

The Tariff Board was asked to consider the case of the paper industry in 1924. The Board found that in so far as the mills were dependent

upon sabai grass as their raw material, they had with one possible exception little chance of being eventually independent of protection, in view of the high cost of this raw material, the inadequacy of its supply, the limited market for the paper made from it, and the low cost of the competing raw material, viz., bamboo pulp. In bamboo pulp, on the other hand, the Indian paper maker had a raw material which was much more plentiful, more widely distributed and was even sufficient to leave a surplus for an export trade in pulp to be developed.) With the rapid diminution of the supply of coniferous wood in Europe and America, there was a chance of the price of imported paper rising. The industry, however, had one hindrance in the way of its development, namely, the long distances which separated the raw material from the supply of power and fuel. On a consideration of all the advantages and disadvantages of the industry, the Tariff Board came to the conclusion that a good deal of exploratory work had to be done towards reduction of manufacturing costs and particularly towards determining which of the two processes of making bamboo pulp (sulphide process and soda process) was more economical, before the Government was justified in taking a final decision in favour of protection. The exploratory work involved was likely to take a period of five years and it presupposed an increased output and fresh capital expenditure. As it was undesirable to encourage an indiscriminate investment in the industry in view of the uncertainty regarding the prospects of the industry, the Board recommended that the Government themselves should advance the necessary capital to companies which were best equipped for the necessary explorative work or help them to raise it from the public by giving a guarantee for a public issue of debentures. It was proposed that this measure should be supplemented by an increase in the duty on paper, because the Company was not likely to make any profit, over the period of protection, without a rise in the price of paper.

The imports of paper fall into six classes: newsprints, printing, writing, packing and wrapping, old newspapers, and other sorts. Practically all the paper made in India is covered by the first three classes. No protection was recommended on newsprints because in this class of paper, cheapness was the primary consideration and it is impossible to manufacture newsprint at a low cost with Indian material. As the imported newsprint contains about 70 per cent. of mechanical wood pulp, allowing a margin of 5 per cent. it was proposed that the new duty should apply to paper other than that which contains not less than 65 per cent. mechanical wood pulp. The Tariff Board deliberately avoided the use of the term "newsprint" and defined the excluded class of printing paper on the basis of the mechanical pulp content. The intention was to exclude from the operation of the protective duty some other classes of paper used for publications like cheap almanacs, novels and magazines, besides newsprint paper. Packing and wrapping paper was also excluded from the operation of protective duty as it was not established that India had any natural advantages in jute or hemp waste from which this paper was made. And, besides, the main object of the scheme was to facilitate the production of paper from bamboo pulp and the important bamboo paper mills were concentrating on the production of white printing and writing paper only. The other classes of paper excluded from the protective scheme were stereo, poster, chrome, flint and marble. Stereo paper is a highly absorbent paper not made by Indian mills, while the manufacture of poster paper required a special plant which none of the Indian

mills possessed. Chrome, Flint and Marble papers, being 'litho' papers, were excluded at the request of lithographic firms. Other 'litho' papers could not be excluded, partly because they did not have such well understood trade names and partly because some of them were not materially different from the printing papers.

The Tariff Board recommended that a uniform specific duty of one anna per lb. should be imposed on all writing paper and printing paper with certain exceptions for a period of five years in the first instance. The existing duty on paper was 15 per cent. *ad valorem* and the specific duty of one anna per lb. had the effect of increasing the duty on the cheapest classes of paper which really competed with the Indian paper. The burden diminished as the value of the paper increased, and the expensive paper which was not made in India was excluded altogether. Both printing and writing paper were subjected to the same rate of duties because there was not much difference in the prices of these kinds. The duty was expected to yield a price of 4 annas a pound to the Indian mills for printing and writing paper and the Tariff Board considered that the Indian manufacturer of bamboo paper ought to receive this price if he was to hold his own during the period of protection.

The Government of India rejected the Board's recommendation for the grant of financial assistance, on the ground that in effect it meant assistance to one private mill, the Indian Paper Pulp Company, and it was wrong in principle to single out one company for preferential treatment when there were several competitors in the field. Besides, the sulphite process which was to be tested with the help of the subsidy was covered by patent rights held by one of the members of this private company. The Government, however, accepted the other proposal for a protective duty and in lieu of the financial assistance extended the period of protection from 5 to 7 years. The Bamboo Paper Industry (Protection) Act, 1925, was passed to give effect to these proposals.

The working of the protective scheme embodied in the Act of 1925 gave rise to certain difficulties. In their report of 1925, the Tariff Board had recommended that newsprint should be excluded from the protective duty on paper and as the newsprint commonly imported contains about 70 per cent. of mechanical wood pulp, they defined newsprint for tariff purposes as printing paper "containing not less than 65 per cent. of mechanical wood pulp". Doubts, however, arose as to whether the percentage was to be based on the fibre content or the total weight and the ruling of the Government of India in favour of the latter alternative brought within the operation of the protective duty certain classes of newsprint in which loading amounted to as much as 20 per cent. and hence the percentage of mechanical wood pulp worked out at less than 65 per cent. of the total weight. This was against the intention of the Act. The question was referred to the Tariff Board in May 1927. The Tariff Board ruled that the percentage should be reckoned on the fibre content. They made two other recommendations. The old description of paper subject to protective duty as containing less than 65 per cent. of mechanical wood pulp excluded paper containing no wood pulp at all and as this class of paper also competed with Indian paper, the Tariff Board proposed that the wording of the specification should be amended so as to bring it within the operation of the protective duty. Further, the protective duty of one anna leviable on all sorts of writing paper, was in some

cases substantially less than the former *ad valorem* revenue duty of 15 per cent. It was, therefore, recommended that the relevant item in the Tariff Schedule should be so amended as to impose a duty of one anna per lb. or 15 per cent. *ad valorem*, whichever was higher, on "ruled or printed forms (including letter paper with printed headings) and account and manuscript books and binding thereof". All the three amendments were carried out by the Bamboo Paper Industry Protection (Amending) Act, 1927.

When the Tariff Board examined the case of the industry again in 1931 they found that the hopes entertained by the Board in 1925 regarding the prospects of bamboo paper industry were fully justified. The paper mills had achieved expansion and reduction in costs by improved methods of working although it may also be noted that they had begun to make an increased use of imported wood pulp. There was a considerable fall in the price of pulp, coal and other materials. The Board expressed the opinion that the future expansion of the industry will be based on bamboo and it was therefore necessary to offer a direct incentive to the manufacturer of bamboo pulp by imposing a duty on imported pulp. They recommended that this duty should be at the rate of Rs. 45 per ton which was approximately the difference between the works cost of bamboo pulp and the price of imported pulp. After balancing the effects on the fair selling price, of the reductions in costs due to the fall in the price of bamboo pulp and other materials, and of the increase in the price of wood pulp due to the new duty, the Tariff Board concluded that it was necessary to continue the existing duty on paper at the rate of one anna per lb. The duty on paper and pulp was to remain in force for seven years which was considered to be a sufficiently long period to enable the industry to get over its difficulties in the matter of technique or installation of machinery.

In revising the tariff schedules, the Tariff Board followed the same method as was used on the previous occasion, namely, including in the protective schedule all writing paper, but printing paper with certain specified exceptions. The Board recommended that the precise definition of the kinds of paper to be classed under the two heads, printing and writing paper, should be determined according to trade usage after consultation with representatives of the different interests concerned.

In their resolution on the Tariff Board Report, the Government of India accepted the Board's recommendations regarding the continuance of the protective duties on paper at the existing rates for a period of seven years and the imposition of a specific duty on wood pulp; but they were unable to accept the proposal that the definition of the classes of goods to be included in the protective categories should be determined by reference to trade usage.) They held the view that the definition of articles to which the protective tariff was to apply should indicate as precisely as possible the intention of the Legislature and should be so framed as to include all such articles as are likely to compete with the indigenous product. As, however, the time left before the expiry of the old Act was insufficient to enable new definitions to be properly framed, the Government of India decided to re-enact the law with the existing definitions, subject to one exception, namely, that the percentage of mechanical wood pulp required in the fibre content of the printing paper to enable it to be assessed at the revenue rate was raised from 65 to 70

This was done in order to enable the Customs authorities to make allowance for errors in test, without having to admit at revenue duty any paper containing substantially less than 65 per cent. of mechanical wood pulp. When the maximum was at 65 per cent., there used to be cases in which the actual percentage was found to be just below the maximum and still the importers claimed assessment at the revenue rate on the ground of errors in test. By raising the percentage required for admission at the revenue rate the Government ensured that all printing paper containing substantially less than 65 per cent. would be assessed at the protective rate, even if an allowance was made for errors in test.

The Bamboo Paper Industry (Protection) Act, 1932, was passed to give effect to these decisions. The duties imposed by the Act were to remain in force till 31st March 1939. The duties were not exempt from the surcharge of 25 per cent. imposed by the Indian Finance Supplementary and Extending Act, 1931; the industry, therefore, received additional protection to the extent of 25 per cent. of the duties.

As stated above, the Government of India did not accept the Tariff Board's proposal that the classification of paper for tariff purposes should be determined by trade usage. Accordingly, in May 1935, they directed the Tariff Board to consider whether a satisfactory scheme of classifying paper into certain broad categories could be evolved. The scheme suggested by the Government was to specify all the non-protected papers and to group all others in a residual protective class. The Tariff Board, however, found it impossible to compile an exhaustive list of papers which could not be economically produced in India or which were not in competition with Indian products. They, therefore, tried to explore ways by which, while leaving the existing tariff schedule substantially unchanged, full effect could be given to the intentions of the legislature by changing the tariff treatment of certain classes of paper. In framing their classification, the Board made a combined use of both the methods, namely, the trade usage and the economic criterion of costs and prices of competing imports.

During the course of their enquiry it was revealed that the existing description of the non-protected class of printing paper as "that having a mechanical wood pulp content of not less than 70 per cent." (the main object of which was to exclude newsprint) had given rise to two kinds of difficulties. On the one hand, it encouraged the importation of a type of writing paper which was ordinarily treated as printing paper and which escaped the protective duty because of its high mechanical pulp content. This was against the intention of the law, as under the protective scheme the entire market for writing paper was reserved for the Indian industry. Secondly, it led to an increase in the imports of certain superior classes of printing paper, which were not used for newspaper printing and still paid the revenue duty because of their high pulp content. The Tariff Board proposed to remove these anomalies by amending the existing classification of paper in the manner discussed below. Their most important recommendation related to the tariff treatment of glazed hard sized buff or badami mechanical paper which was hitherto treated as printing paper and which by virtue of its high pulp content had escaped the protective duty. As this paper was mainly imported for use as writing paper, the Board recommended that it should be treated accordingly.

The following classification was recommended by the Tariff Board:—

I. *As writing paper.*—Hard sized duplicator paper (according to trade usage, this is neither a printing nor a writing paper, but in actual practice it is suitable for writing when hard sized, while its soft sized variety is suitable for printing). (Generally speaking, soft sized variety is unsuitable for writing because ink spreads on it.) Hard sized white and buff or badami mechanical paper.—The classification of this paper as writing paper is already explained.

II. *As printing paper.*—Unglazed thin news coloured, other than deep blue, of substance above 10 lb. demy.* Unglazed thin news white, buff or badami of substance above $7\frac{1}{2}$ lbs. demy.—These varieties are very largely used for wrapping and decorative purposes, but are described as news and are capable of being printed on. The Central Board of Revenue had ruled that unglazed coloured thin papers were liable to protective duty as printing paper, with the exception of deep blue paper and coloured papers of less than $7\frac{1}{2}$ lbs. demy. As the Indian mills do not produce any paper less than 10 lbs. demy, the Tariff Board raised the exemption limit from $7\frac{1}{2}$ lbs. to 10 lbs., with one exception, namely, unglazed buff or badami paper. In this case the mills apprehended that unglazed buff or badami paper above $7\frac{1}{2}$ lbs. demy, though not produced by them, was likely to compete with the wood-free 11·27 lbs. demy paper and 12 lbs. demy white printing produced by them; and hence the exemption limit for this class was retained at $7\frac{1}{2}$ lbs. demy. The classes of paper below the exemption limit were treated as wrapping paper and were assessed at the preferential rate. The unglazed white thin news, on account of its high mechanical pulp content, generally paid the revenue duty, but its substance being small, its pulp content in many cases amounted to less than 70 per cent. and it became subject to the protective duty. As no Indian mill produced paper below 35 grammes per square metre, it was recommended as a more precise way of classification to exempt all paper below $7\frac{1}{2}$ lbs. demy or 26·6 grammes per square metre from the protective duty. The reasons for lowering the exemption limit to $7\frac{1}{2}$ lbs. were the same as those in the case of unglazed buff paper.

Cover paper including machine glazed pressings and wrappings over 24 lbs. demy.—Cover papers were already classed by Customs as printing paper and taxed according to their pulp content on the ground that they were used for the covers of school books, journals, etc. Machine glazed pressings and wrappings are ordinarily made from the lowest grade materials by a special process of machine glazing which is not available in India and are mostly used for packing and wrapping. It was, however, discovered that some machine glazed pressings and wrappings were suitable as cover paper, but the Central Board of Revenue, instead of requiring all the machine glazed pressings and wrappings to be taxed as printing paper according to their pulp content, as they had done in the case of cover paper, had ruled that only such of them as are suitable for use as cover paper and are ordinarily printed on, should be liable to protective duty as printing paper and the others which were not so suitable should be liable to non-protective duty. The Tariff Board recommended that a more precise definition would be to class all machine glazed pressings and wrapping above 18" x 22" — 24 lbs. per 500 sheets—as cover paper and the rest as wrapping or packing paper.

Cartridge paper below 24 lbs. demy.—This is a special class suitable for drawings, but some of its inferior qualities are also suitable for

* The weight mentioned is the weight for 500 sheets of "demy" size, i.e. 18" x 22".

printing. Under a Central Board ruling cartridge paper below 18" x 22" 28 lbs. was assessed as printing paper, but the Tariff Board lowered the limit to 18"x22"—24 lbs. for 500 sheets—, as no real cartridge paper is made below that substance. Soft sized duplicator paper—the reasons for classifying this variety as printing paper are already explained above.

Soft sized white and buff or badami mechanical paper of substance above 7½ lbs. demy.—This is a superior kind of paper which is, properly speaking, printing paper but is not used for newspaper printing, and still paid the revenue duty, because of its high mechanical pulp content. It competed with the machine finished white printing paper produced by Indian mills. The Tariff Board, therefore, recommended that it should be classed as printing paper above 7½ lbs. demy.

The existing classification excluded from protective duty certain superior kinds of paper, namely, chrome, marble, flint, poster and stereo, by expressly specifying them. They were not made in India and are not likely to be made. The Tariff Board considered that this consideration applied to all coated papers except art papers and therefore proposed that the class of exempted papers should include all coated papers except art papers and stereo. Art paper was already treated as an exception and was taxed as printing paper because some of its cheap varieties competed with Indian printing paper.

Under the existing Customs practice, envelopes when made of writing paper were assessed to protective duty applicable to writing paper, other sorts, and to preferential duty when made of wrapping paper. The Tariff Board considered that envelopes made of writing paper were properly taxed at the protective rate, but as ready made envelopes were more costly than ordinary writing paper, the incidence of specific duty on some kinds of envelopes was actually less than ordinary *ad valorem* duty of 18½ per cent. and hence they recommended that they should be included in the other class of writing paper paying the specific duty of 1 anna 3 pies per lb. or 18½ per cent., whichever was higher.

It will be recalled that by the Bamboo Paper Industry (Protection) Act, 1932, the percentage of mechanical wood pulp required to bring the printing paper under the revenue rate was fixed at 70 per cent. In actual administration, a margin of 5 per cent. was allowed for errors of test and in certain exceptional cases another 5 per cent. was allowed for unevenness of manufacture. The Tariff Board recommended that while the first allowance of 5 per cent. should be allowed as a matter of course, the second allowance should not be allowed except in exceptional cases.

The Government of India gave effect to the more important of the above recommendations by issuing executive instructions to the Customs officers. The recommendations in respect of envelopes and coated papers could not be given effect to without legislation, but the Government did not consider them so important as to justify the introduction of a bill specially for that purpose and proposed to take them up when a more convenient opportunity presented itself.

The new classification proposed by the Tariff Board involved a not inconsiderable extension of the range of protection enjoyed by the paper industry. Already the industry had received an extra measure of protection as a result of the surcharge of 25 per cent. imposed in 1931 which had the effect of raising the specific duty of one anna a pound to one anna three pies and the alternative *ad valorem* duty of 15 per cent. to 19½ per

cent., and the Government of India thought it advisable to institute a departmental inquiry in May 1936 as to whether the continuance of the surcharge was any longer justifiable. The Paper Makers' Association contended that while the re-classification had widened the market, it did not increase the price of the bleached varieties which formed the bulk of their production. Although the cost of production was considerably reduced since 1931, the prices of paper had also fallen heavily in spite of the surcharge due to the importation of subsidised German paper and cheap Japanese paper. The Association, therefore, requested the continuance of the surcharge till the next Tariff Board inquiry. (The Government accordingly kept the question pending till December 1937 when it was referred to the Tariff Board along with the general question of the continuance of the protection enjoyed by the Paper and Paper Pulp industries. The Tariff Board submitted an interim report on the question of the surcharge. The Board found that while the continuance of the revenue surcharge was justified till 1937-38, the situation had materially changed since then, due to the rise in the price of imported paper. The three principal companies, who manufactured paper from bamboo pulp and whose combined output represented 85 per cent. of the total production in 1936-37 agreed that it was no longer necessary to continue the surcharge. The other two companies who pressed for its continuance were dependent on the use of imported raw material and had therefore a less strong claim to protection. (The Tariff Board concluded that the surcharge imposed an unnecessary burden on the consumer and should, therefore, be removed. As regards wood pulp, their conclusion was that in view of the recent rise in the price of wood pulp and the reduction in the cost of indigenous wood pulp, the surcharge could safely be removed, because the removal, while being of obvious benefit to the mills, was not likely to encourage the substitution of imported wood pulp for indigenous wood pulp. The Government accepted these recommendations and gave effect to them on 25th June 1938 by a notification issued under section 4(1) of the Indian Tariff Act, 1934. By this notification, the import duty on wood pulp was reduced from Rs. 56-4-0 per ton to Rs. 45 per ton, that on printing paper assessable under item No. 44 (1) of the Custom Tariff from one anna three pies to one anna per lb., that on writing paper assessable under item No. 44 (3) (a) of the Customs Tariff from one anna three pies per lb. or 18½ per cent., whichever is higher, to one anna per lb. or 15 per cent., whichever is higher, and that on writing paper assessable under item No. 44 (3) (b) from one anna and three pies per lb. to one anna per lb.

The final Report of the Tariff Board on the question whether protection to the paper and paper pulp industries should be continued after 31st March 1939 was submitted on the 7th May 1938. The Tariff Board supported the claim of the industries for a continuance of protection. In their opinion the withdrawal of protection would have disastrous consequences, particularly for the new mills and would make it impossible for the established mills to continue experimental work on the improvement of bamboo pulp. It would, besides, force the grass mills to use imported pulp, because otherwise the high cost of grass pulp would make it difficult for them to compete with the imported paper. The Tariff Board estimated the average cost of manufacture of bamboo pulp to be Rs. 144 per ton and that of grass pulp to be Rs. 173 per ton. On the basis of the probable c.i.f. price of the imported pulp of Rs. 126 per ton, the protective duty required for bamboo pulp was Rs. 18 per ton and that

required for grass pulp was Rs. 47 per ton. The Tariff Board recommended a duty of Rs. 35 per ton or 25 per cent. *ad valorem*, whichever was higher, which was slightly higher than the mean between the two duties. This meant a certain measure of protection for grass pulp also. The Board justified it on the ground that grass pulp was an important ingredient in the manufacture of paper whether mixed with bamboo pulp as in two mills in Bengal or used by itself as in two mills in Northern India. If the grass-mills were forced to use imported pulp, as they would be if the duty on pulp was fixed as low as Rs. 18 per ton, a number of persons engaged in the cultivation and transport of grass would be thrown out of employment and the cultivation of grass on the waste land would receive a setback.

As regards paper, the Board drew attention to the fluctuations in the prices of imported paper. In view of the difficulty of predicting the trend of the prices of the imported paper and the possibility of the revival of Japanese competition, they took the average price realised in 1936-37 and 1937-39 by two companies which manufacture mainly protected classes of paper, namely Rs. 423 per ton, as the equivalent of the import price. The ex-duty import price was therefore Rs. 248 per ton. They estimated the fair selling price of paper at Rs. 381 per ton; the difference between the fair selling price and the assumed import price was Rs. 133 per ton. The Board, therefore, recommended a duty of 11 pies per pound, which was one pie less than the existing duty of one anna. They also recommended that the period of protection should be extended by seven years from April 1939.

The Tariff Board were of opinion that as important developments were impending in the paper industry, a further inquiry should be held at the end of 1939 to consider whether any protection was required for those classes of paper which were not protected under the existing tariff. The customs tariff classification of paper recommended by the 1935 Board was found to have worked satisfactorily and was, therefore, recommended for adoption in the form of a new Tariff Schedule with some minor alterations.

In their decision on this Report, the Government of India held the view that the continued use of the relatively expensive grass pulp would make it difficult for the industry ever to dispense with protection. The supply of bamboo is sufficient for the requirement of the industry and is available at Rs. 17 per ton which is less than half the rate for grass. The grass pulp industry had thus no claim to protection and the Government proposed a duty of 25 per cent. *ad valorem* only on imported pulp which was considered sufficient to permit the profitable manufacture of bamboo pulp. As regards paper, the Government of India pointed out that while the Tariff Board accepted Rs. 140 as a reasonable estimate of the cost of conversion and held that the estimate was lower than the figure of Rs. 141 taken by the Tariff Board of 1931, they made an addition of Rs. 32 per ton to the above estimate for certain miscellaneous expenses. This was an error because these expenses were already included in the figure of Rs. 141 used in the former Report. The Government of India, therefore, adjusted the Board's estimate of fair selling price by deducting this amount of Rs. 32 and proposed a rate of 9 pies per pound. In order that this rate may not be too low for certain expensive kinds of writing paper, it was coupled

with an alternative rate of 25 per cent. *ad valorem*. In view of the imperfections revealed in the Board's enquiry, the period of protection was fixed at three instead of seven years. The question of extending the scope of protection will also be considered at the end of three years. The Indian Tariff (Second Amendment) Act, 1939, gave effect to these decisions, with one exception, namely, the duty on wood pulp, which was changed, as a result of the discussions in the Legislative Assembly, from 25 per cent. *ad valorem* to Rs. 30 per ton or 25 per cent. *ad valorem*, whichever was higher. The Act also revised the customs classification of paper as recommended by the Tariff Board.

Match Industry.

The duty on imported matches since 1922 was Rs. 1/8 per gross which amounted to more than 100 per cent. *ad valorem*. Under the shelter of this high duty which was imposed purely as a revenue measure, numerous match factories were established in India, some of them using indigenous wood and others using wood imported from abroad. This, incidentally, led to a decline in customs revenue and the Government decided in October 1926 to have the whole position examined by the Tariff Board.

The Tariff Board found that the rapid expansion of the industry was accompanied by a reduction in costs which was due mainly to the improved efficiency of the Indian industry. The industry possessed certain distinct advantages over foreign manufacturers, such as cheap labour and a large home market. The objection that certain materials, such as chemicals were not available in India was waived on the ground that in the match industry no country in the world was self-sufficient in the matter of raw materials. On a comparison of the estimated fair-selling-price of Indian matches with that of imported matches it was found that the industry was quite capable of holding its own against imported matches with no more than the revenue duty of 15 per cent. There were at the same time two important factors in the situation which indicated that the industry would not survive in India without protection. In the first place, foreign matches were being imported at uneconomic prices and secondly, there was a widespread prejudice in the market against Indian matches which, at least in certain cases, was not justified by any difference in quality. The Board, therefore, admitted the claim to protection.

It is interesting to observe that in fixing the protective duty on matches the Tariff Board found that the familiar method of comparing the fair selling price with the import price fell far short of the needs. Indeed, the match industry affords an interesting example of how in certain cases technical reasons may compel the retention of a protective duty at a level several times higher than the difference between a theoretical fair selling price and import price. The fair selling price was estimated by the Tariff Board to be Rs. 1-4-0 per gross boxes and the import price was 11 annas 10 pies. Theoretically, therefore, a protective duty of 9 annas was indicated as against the existing revenue duty of Rs. 1-8-0 per gross. Certain important considerations peculiar to the match trade had, however, to be taken into account which made the Tariff Board recommend the retention of the existing duty. In considering the effect of any reduction in the duty on the price of matches great importance has to be attached to the retail sale by a single box. In the match trade the monetary unit sets a definite limit to the extent to which the retail price can be re-

duced. In other words, the price per box cannot normally be below one pice. The Tariff Board found that Indian matches were selling at one pice per box and imported matches at 2 pice per box, while the wholesale rate for Indian matches was Rs. 1-5-0 per gross boxes and that for imported matches was Rs. 2-4-0. As the fair selling price for Indian matches was estimated to be Rs. 1-4-0 per gross boxes, a further reduction in the retail price could not be postulated because the sale of two boxes a pice would result in the wholesale price falling below Rs. 1-4-0. In the case of imported matches, however, which were selling at 2 pice a box, a reduction to one pice was possible, by reducing the middleman's profits, and there was already a tendency on the part of importers to do so. At the rate of 2 pice a box, the middlemen were making Rs. 2-4-0 per gross boxes on the imported matches, as the wholesale price was Rs. 2-4-0 (assuming, of course, that the unit of sale was always a single box). The Tariff Board estimated that the lowest amount to which the middleman's profit could be reduced was 4 annas and they considered that in view of the efforts of the foreign match companies to reduce the middleman's profit, the interest of the Indian match industry would not be adequately safeguarded if they assumed the middleman's profit to be higher than 4 annas in future. At the existing duty the wholesale price of imported matches was Rs. 2-4-0 per gross and the position was that even if the middleman's profit was reduced to 4 annas the retail price would be above one pice per box. If the duty was reduced by 4 annas then, with the middleman's profit at 4 annas, the retail price could be reduced to one pice per box. Any further reduction in the duty could only serve to swell the profits of foreign manufacturers without any benefit to the consumer because the reduction in the retail price was limited to the monetary unit of one pice, and as this resulted in a wholesale price of Rs. 2-4-0 per gross boxes, the foreigner need not reduce the duty-paid import price below Rs. 2, provided the middleman's profit was reduced to 4 annas. The Tariff Board was satisfied that in view of the prejudice which existed against Indian matches it was necessary to maintain the existing difference in retail prices and the difference was likely to disappear altogether even if the duty was reduced by 4 annas. They were, therefore, led to the conclusion that although the difference between the fair-selling-price of Indian matches and the existing import price was only 9 annas per gross boxes, it was in the interest of the Indian industry to maintain the duty at the existing level of Rs. 1-8-0 per gross boxes and to convert it into a protective duty. Besides, the industry had reached a stage when there was sufficient internal competition to prevent the manufacturers from raising the wholesale price to the full level of the import price. As the factories in India were working below capacity, the maintenance of the existing duty was also desirable from another point of view, inasmuch as by reducing imports it was likely to help them to increase their output to the limit of home consumption. (The Tariff Board recommended that no definite period should be fixed for protection because, with the possible elimination of imports in a few years time the protective duty would cease to have any significance and, besides, the programme of plantation which they recommended in order to ensure a sufficient supply of wood to Indian factories was expected to take at least 20 years.

In pursuance of these recommendations the Match Industry Protection Act, 1928, was passed which retained the existing rate of import duty on

matches and converted it into a protective duty.) It also converted the then existing import duties on undipped splints and veneers into protective duties to make the duty on matches effective. The match duties were further enhanced in 1931 as a result of the surcharge of 25 per cent. imposed in the Supplementary Budget of that year.

The next occasion for the revision of the duties on matches arose in 1934, when under the Matches Excise Duty Act, an excise duty was imposed on matches and the rates of import duty on matches were revised so as to comprise rates maintaining the existing measure of protection for the Indian industry over and above the equivalent of the new excise duty. The rates of excise duty on matches made in British India and sold in boxes or booklets containing on an average not more than eighty were fixed as follows: (1) Re. 1 per gross of boxes or booklets if the average number was forty or less; (ii) Rs. 1-8-0 per gross of boxes or booklets if the average number was more than 40 but less than 60; and (iii) Rs. 2 per gross of boxes or booklets if the average number was more than 60. The rate of excise duty on all other matches was fixed at 4 annas for every 1440 matches or fraction thereof. The rates of customs duties were revised as follows: (1) The excise duty plus ten annas per gross of boxes or booklets if the average number was not more than 40, (2) the excise duty plus 15 annas if the average number was more than 40 but not more than 60, (3) the excise duty plus Rs. 1-4-0 if the average number was more than 60 but not more than 80; (4) the excise duty plus one pie for every 48 matches or fraction thereof, for all other matches. These duties were exempt from the surcharge of 25 per cent. imposed in September 1931.

Gold Thread Industry.

Following certain discussions in the Legislative Assembly regarding the need for protection for gold thread industry, the Government of India decided to refer the question to the Tariff Board on 15th May 1930. The articles mentioned in the terms of reference were silver plate, silver thread and wire (including so-called gold thread and wire mainly made of silver), silver leaf and other silver manufactures. Until March 1930, these articles were assessed at 30 per cent. *ad valorem*, but on the imposition of a duty of 4 annas per lb. on silver in the Budget of 1930, the duty on silver manufactures was increased to 38 per cent. The 30 per cent. duty was in existence since 1922. The Tariff Board made no recommendations with regard to silver plate and "other silver manufactures" in view of the wide variety of goods falling under this classification and for want of any claim for protection based on satisfactory evidence from the interests concerned. As regards other articles, the Board found that an industry of considerable dimensions existed in them, mostly on cottage industry lines, with an annual production of Rs. 100 lakhs and giving employment to 10,000 men. During the preceding period of 10 years, during the major part of which the industry had the shelter of a high revenue duty, it had expanded considerably and the expansion was achieved not merely by displacing imports but by capturing the growing market in Northern and Western India for the cheaper classes of real gold thread. To the extent to which the high revenue duty enabled the industry to achieve this result, it was of real assistance to the industry and its continuance was justified. The classes of imported goods which really competed with the Indian industry were the electroplated thread of finer quality and

imported half fine imitations. Due partly to lack of trade connections and standardisation but largely to the inferior quality of its thread as compared with the French thread, the Indian industry was still unable to supply more than a small share of the demand from the weavers of fine classes of silk goods in South India. The market for the coarser kinds of gold thread, however, was almost entirely supplied by the Indian manufacturer. Even as regards finer varieties, the Tariff Board found that their cost of production was so low that if cost were the only consideration it would *prima facie* appear that they should be able to compete with the imported product without duty, or with a greatly reduced duty. Their main disadvantage, however, was their inferior quality and the Tariff Board's estimates showed that if gold thread of the same quality as the imported thread was produced in India, the cost would be very much higher. It was from this point of view that the finer quality of gold thread required protection. The amount of protection required was found to be Rs. 12-5-0 per marc which was equivalent to 50 per cent. *ad valorem*. Owing to the existence of wide varieties of classes in this group, the Tariff Board recommended an *ad valorem* duty instead of a specific one although the latter was not suitable for purposes of protection. The duty, though high, was not likely to have a seriously adverse effect on other industries using silver manufactures because it made a difference of only 2 or 3 per cent. in the cost of production. The Tariff Board also recommended that for administrative reasons as well as for protecting the market for real gold thread, all colourable imitations and lametta should also be assessed at the same rate. Gold thread and wire, *i.e.*, thread and wire made entirely of gold, which did not compete with any of the articles under enquiry were excluded from the operation of the duty, but various ornamental articles, such as spirals, discs, flattened wires, etc., the manufacture of which is closely allied to gold thread, and silver leaf which is not often distinguishable from lametta, were included. The Board expected that the industry would take at least a period of ten years to attain the European standard of quality and hence recommended that the protective duties proposed should remain in force for this period.

The recommendations were accepted by the Government in substance and the Gold Thread Industry (Protection) Act, 1931, was passed on the 28th February 1931 extending protection to the industry for a period of ten years. The Act imposed a duty of 50 per cent. *ad valorem* on silver thread and wire, including so-called gold thread and wire mainly made of silver, and imitation gold and silver thread and wire, as well as silver leaf and lametta, metallic sprangles and articles of a like nature. It also restored the duty on silver plate and on silver manufactures "not otherwise specified" to the original level of 30 per cent. *ad valorem*. The Indian Finance Act, 1931, increased the duty on silver plate and "other silver manufactures" to 40 per cent. The Supplementary Finance Act of that year raised the same duty further to 50 per cent. and also enhanced the duty on gold thread to 62½ per cent.

Sugar Industry.

The enquiry into the sugar industry was referred to the Tariff Board in May 1930 and the Tariff Board completed their investigation in January 1931. In their discussion of the claim of the sugar industry for tariff protection, the Tariff Board laid a great emphasis on the agricultural aspect of the case. The expansion of the sugar industry in India was,

in their opinion, an essential adjunct to agricultural development. With the introduction of improved varieties, the production of sugarcane was bound to increase by leaps and bounds, and the Tariff Board were convinced that unless an outlet was provided in the form of the white sugar industry, there would ensue a tremendous fall in the prices of *gur* and cane, with a contraction in the area under cane as its inevitable consequence.

The Tariff Board were satisfied that the industry satisfied all the three conditions of the Fiscal Commission. The need for protection was mainly due to the serious overproduction of sugar in all the principal sugar producing countries, which led to a precipitous fall in the price of the article. The steady increase in the revenue duty from 5 per cent. before 1916 to 10 per cent. in 1916, 15 per cent. in 1921, 25 per cent. in 1922, Rs. 4-8-0 per cwt. in 1925 and Rs. 6 per cwt. in 1930, had done little to arrest the fall.

The khandsari system of sugar manufacture is of great importance in the Rohilkhand tract of the U. P. Both from the point of view of providing an outlet for cane and also to ensure the position of the cultivators of cane in Rohilkhand, the Tariff Board thought it desirable to secure the continuance of this branch of the industry.

On a comparison of the fair selling price with the probable import price, the Tariff Board found that the industry needed protection to the extent of Rs. 6-9-3 per cwt. for a period of 15 years. In order to enable the industry to tide over the initial difficulties and to safeguard the position of the manufacturer of Khandsari sugar in Rohilkhand, they proposed that for the first seven years the duty should be fixed at Rs. 7-4-0 per cwt. and for the remaining period at Rs. 6-4-0 per cwt. The total protection thus granted worked out at approximately the same as would result from the imposition of a duty of Rs. 6-9-3 for the whole period of protection. The protective duties were to apply to all classes of sugar including sugar candy.

The grant of protection for such a long period as 15 years was an unusual step; but the Tariff Board justified it on the ground that a reduction in the cost of cane which formed such a large element in the cost of production of sugar depended on the spread of improved varieties of cane and this was bound to be a slow process in view of the conservatism of the Indian agriculturist and the proverbial slowness of his progress. For any real development of the sugar industry, therefore, the Board thought it was essential that both the agriculturist and the industrialist should be assured of protection for a lengthy period. As a precaution against a possible fall in the price of sugar, it was suggested that an additional duty of 8 annas per cwt. should be imposed in case the price of sugar in Calcutta fell below Rs. 4 without duty.

As the future reductions in the cost of sugar depended on a reduction of cost of sugarcane, the Tariff Board recommended that increased sums should be allotted to development and research work. A grant of not less than Rs. 10 lakhs from the Central revenues was suggested. The Board recorded their conviction that without such measures the whole purpose of the protective scheme was likely to be delayed, if not defeated.

The Government of India accepted the Board's recommendation that a single rate of duty should apply to all classes of sugar, but considered

obvious difficulty of foreseeing what rate of duty might be necessary for protective purposes after the lapse of seven years. The Government, therefore, proposed to impose a protective duty at the rate of Rs. 7-4-0 per cwt. on all classes of sugar until 31st March 1938 and to make a statutory provision for a further enquiry before the end of that period regarding the continuance of protection. This proposal, however, was not accepted by the Select Committee who inserted a declaration in the preamble of the Bill to the effect that protection was to continue till 31st March 1946, *i.e.*, for 15 years; and the statutory inquiry to be held before March 1938 was only to decide the extent to which protection was required after that date. The Government also announced their intention to give careful consideration to the Board's proposal regarding an annual grant for sugar research.*

The Sugar Industry (Protection) Act, 1932, passed on 8th April, transferred sugar and sugar candy from the revenue to the protective tariff. As the duty on the superior grades of sugar was already raised to Rs. 7-4-0 per cwt. under the Finance Act, 1931, the main recommendation of the Tariff Board regarding white sugar had already come into effect and the change made by the Act was only of a formal character. The equalisation of duties on all classes of sugar had, of course, the effect of raising the duty on sugar below 8 D. S. and sugar candy to the same level as that on white sugar, *i.e.*, to Rs. 7-4-0 per cwt. The duties were, in the first instance, to have effect up to 31st March 1938, but statutory provision was made for offsetting duties, if at any time during the currency of the Act it was found that foreign sugar was being imported at a price likely to render the protective duty ineffective.

In the Supplementary Budget of 1931 a surcharge of 25 per cent. was imposed on the duty on sugar which brought it to Rs. 9-1-0 per cwt. The additional protection thus granted had the effect of giving a fresh impetus to the expansion of the sugar industry in India. Factories multiplied rapidly and production began to increase at an abnormal rate. The Government considered that the manufacture of sugar was receiving an excessive degree of protection and the industry was on the verge of a serious state of overproduction.† At the same time the Customs revenue from sugar was dwindling rapidly—from over 10 crores in 1930-31, it had come down to a little more than 2 crores in 1933-34. What is more important is that the real benefit from these sacrifices was being reaped almost wholly by the factory owners and not by the canegrowers for whom, really speaking, the protective scheme was originally devised. In 1934, the Government took a review of the whole position and decided on a two-fold line of action—one was to replace a part of the revenue lost through protection by imposing an excise duty on factory-produced sugar and, secondly, to introduce legislation enabling Provincial Governments to apply schemes for enforcing a minimum price to be paid by the factories to the cane-grower. The amount of the excise duty was calculated as follows: The original protective duty which was recommended by the Tariff Board and imposed by the 1931 Act was Rs. 7-4-0, but according to a recommendation of the Tariff Board, the Government of India was to

* Grants of considerable amounts were subsequently made by the Government of India for sugar research schemes through the Imperial Council of Agricultural Research. From 1936-37, the Central Sugar Institute at Cawnpore is also financed by the Govt. of India to the extent of Rs. 14 lakhs spread over 5 years.

† Cf. The speech..... 1934-35.

increase the duty by 8 annas per cwt. when the ex-duty price of Java sugar imported at Calcutta fell below Rs. 4 per maund. Had the emergency surcharge not been in force, it would have been necessary for the Government to impose this additional duty; and hence the amount of protection to which the industry was entitled in 1938 was taken to be Rs. 7-12-0 and not Rs. 7-4-0 per cwt.; and a withdrawal of the whole of the additional protection given by the surcharge was not considered to be justified. The Government, therefore, fixed the rate of the excise duty at an amount equal to the surcharge less the additional protection required, i.e., at Rs. 1-5-0 per cent.

Under the Finance Act, 1937, the excise duty on sugar was increased from Rs. 1-5-0 to Rs. 2-0-0 per cwt. The increase was dictated mainly by revenue considerations, but it was expected that it would also serve to exercise a salutary restriction on the unhealthy growth of the sugar industry. In view of the heavy fall in the internal price of sugar, the Government thought that even if the additional duty of eleven annas was passed on to the consumer, it would not increase the burden on him to any material extent. The change in the excise duty involved a change in the import duty. In fixing the excise duty at Rs. 1-5-0 in 1934, when the import duty was Rs. 9-1-0, the Government had aimed at maintaining the protection enjoyed by the industry at Rs. 7-12-0 per cwt. instead of Rs. 7-4-0 which was originally recommended by the Tariff Board. In 1937, however, Indian sugar was selling at a price so far below that of the imported sugar that there was no longer any justification for maintaining the additional margin of protection. The revised rate of import duty was, therefore, fixed at the level equivalent to the total of the excise duty of Rs. 2 per cwt. and the protective duty of Rs. 7-4-0 per cwt. to which the industry was entitled till March 1938 under the Act of 1931.

The protective duty on sugar was to expire on the 31st March 1938, and a Tariff Board was appointed towards the end of 1937 to examine the question of the amount of protection required by the industry. The Tariff Board submitted their report before 31st March 1938, but as the Government were unable to complete their examination of the Report before that date, the Sugar Industry Protection (Temporary Extension) Act, 1938, was passed which extended the operation of the existing duty till 31st March 1939. The Act came into force on 25th March 1938.

The Report of the Tariff Board was published on 30th March 1939. Besides dealing with the amount of protection required, the report also contained proposals regarding several other factors affecting the progress of the sugar industry such as the utilisation of byproducts, rationalisation, research and the excise duty. The Board's recommendations in regard to the protective tariff on sugar may be briefly summarised as follows. The Board estimated the fair selling price of Indian sugar to be Rs. 6-13-10 per maund to which they added annas 9 per maund for freight and annas 5 for the difference in quality, making roughly Rs. 7-12-0 per maund. They took the import price of Java sugar at Rs. 2-7-0 per maund and comparing this with the estimated fair selling price of Indian sugar, they recommended a protective duty of Rs. 5-5-0 per maund or Rs. 7-4-0 per cwt. for a period of eight years. No special protection was recommended to the *gur* industry apart from the protection granted to sugar.

In their decision on this Report, the Government of India expressed doubts about the correctness of the Board's estimates of the manufacturing

costs and profits and the adjustment required for difference in quality. They also considered that the Board's assumption that Java sugar could be sold ex-duty at Rs. 2-7-0 per maund had become out of date in view of the improvement in the world sugar market conditions and the successful working of the International Sugar Agreement. The Calcutta c.i.f. quotations for Java white sugar remained well over Rs. 3-8-0 per maund during the first four months of 1938-39 and thereafter averaged Rs. 4-3-8, per maund. The Government of India, moreover, took account of certain important changes which have taken place within the industry itself since the Board submitted their Report. The Governments of United Provinces and Bihar have subjected the sugar industry to an elaborate and extensive system of control and have decided to levy a cess on cane supplied to the factories and to enforce minimum price regulations more rigidly than in the past. These have produced unexpected conditions to which the industry has not yet adapted itself and yet they are of vital significance to the question of the degree of protection required by the industry. The Government, therefore, did not think it proper to fix the level of protection for the whole of the unexpired term and proposed instead to fix it for a period of two years from 1st April 1939 to 31st March 1941 pending a further investigation to be held in 1940. The duty proposed by the Government was less than the duty recommended by the Board by annas 8. The Sugar Industry (Protection) Act, 1939, gave effect to this decision.

Heavy Chemical Industry.

The Tariff Board examined the case of this industry in 1929. The chemicals covered by their examination were sulphuric acid, hydrochloric acid, nitric acid, magnesium sulphate, ferrous sulphate, potash alum, aluminium sulphate, sodium sulphide, zinc chloride, copper sulphate and Glauber's salt. The basis of the whole group is sulphuric acid.) On account of the heavy freight on acids, the manufacture of sulphuric, hydrochloric and nitric acids was generally carried on profitably in India, but the absence of this natural protection in the case of salts derived from sulphuric acid had prevented their manufacture except on a small scale. The Tariff Board found that the heavy chemical industry was endowed with sufficient natural advantages to justify its claim for protection and although sulphur had to be imported, it did not place India at a disadvantage as compared with the two principal competing countries, namely, Great Britain and Germany. Moreover, there were alternative sources of supply such as zinc concentrates, copper sulphide and gypsum which could be useful at least in times of war. Besides, the heavy chemical industry had a special claim to protection on the ground of being a key industry. As the production was carried on in small units and on too small a scale, the industry was realising much below the fair selling price and the Tariff Board considered that its continued existence was difficult without protection. The Tariff Board estimated the fair selling prices of various chemicals on the assumption of a much bigger output (an output of 8,000 tons of chamber acid for which they considered that in the next few years a market would be found in Western India alone) and, comparing them with their import prices, came to the conclusion that a duty of 44 per cent. was required on epsom salts, and another of 84 per cent. on zinc chloride, while duties substantially equal to the existing level of revenue duties were required for other chemicals. In the cases of copperas (ferrous sulphate) and the three acids, no protection was found to be necessary. Nevertheless, the

Tariff Board recommended the retention of the existing revenue duties, as there was no serious demand for their reduction and the effect on the industries concerned was negligible. In view of the principle that specific duties were more suitable than *ad valorem* duties for purposes of protection, all the *ad valorem* duties proposed were converted into specific duties. The existence of large combines in the chemical industry, combined with serious overproduction had made the future course of import prices extremely uncertain; hence a provision for offsetting duties was recommended. No definite period of protection was proposed but the Board recommended that after seven years a fresh enquiry should be held.

The Tariff Board also considered the advisability of protecting the manufacture of two artificial fertilisers, namely, ammonium sulphate and superphosphate. No protection was found to be necessary in the case of ammonium sulphate but a bounty was proposed for the manufacture of superphosphate. The Board explained that their proposals were based on the assumption that production would be carried on by several units of manufacture working independently in the principal centres of distribution. A more economical method of development was, obviously, the organisation of a single unit of manufacture supplying the whole of the Indian market. It was also clear that if a reorganisation of the industry on this basis was to take place, it would require a substantial reduction in transport charges both on raw materials and on finished products by the railways; the Board, therefore, recommended a policy of reduction of railway freights. They believed that such a reduction was both in the national interest and in the interest of the railways themselves.

The Government of India in their decision on these proposals emphasized the highly unsatisfactory nature of the existing organisation of the chemical industry and pointed out that protection might serve only to perpetuate the uneconomical organisation. However, as the Tariff Board had found the industry to be in need of assistance, they decided to impose the protective duties on the chemicals in question at the rates recommended by the Board. As regards the bounty on superphosphate, they considered that the question required further expert examination because a bounty to an industry which was not yet in existence was an unusual step. The Government also differed from the Tariff Board's views about freight reductions, which they considered to be wrong in principle. They held that railway rates should be fixed purely on the basis of commercial principles and not with a view to subsidising industries.

In the revised schedule the Government added a proviso that none of the protected chemicals would pay a lower duty than the duty which would be charged if they were included in Part V of the Statutory Tariff Schedule (*i.e.*, the general rate of 25 per cent. *ad valorem*). The existing duty on copperas was left unchanged in view of a provision in the Commercial Convention between India and France of 1903. The new protective duties were to have effect up to 31st March 1933 in the first place pending further consideration of the possibility of reorganising the industry on an economical basis and expert investigation of the superphosphate bounty scheme.

Magnesium Chloride Industry.

In 1925 when the Tariff Board first examined the case of this industry they were unable to recommend protection because the prospects of the industry were then very uncertain, due to the extreme instability of the

prices of the imported product. It was then pointed out to the Tariff Board that as magnesium chloride was a byproduct of the potash industry in Germany, the German manufacturer could sell it at an exceptionally low price. The Tariff Board, therefore, concluded that the industry did not satisfy the third condition laid down by the Fiscal Commission, or in other words, it would never be able to dispense with protection. On a comparison of the probable import price and the estimated fair selling price, they calculated that a duty of 70 per cent. would be required to protect the Indian industry. In 1927, the duty on magnesium chloride was removed as a measure of relief to the cotton textile industry which uses it as a sizing material. When the Tariff Board again examined the case in 1929, it was found that there was less force in the arguments advanced against the industry than appeared to them in 1925 to be the case. The fact that magnesium chloride is a byproduct does not mean that no expense is incurred in its manufacture. The abnormally low prices at which magnesium chloride was imported in India was rather accounted for by a deliberate attempt on the part of the German Syndicate, which controlled the industry, to coerce the Indian manufacturers who had failed to come to an agreement with it in 1927. The cost of manufacturing magnesium chloride in India which is also a byproduct of the salt industry was found to compare very favourably with the cost of manufacture in Germany. Even in the absence of protection, the Pioneer Magnesia Works had taken advantage of the short period of high prices which began in 1927 to increase their output and reduce their costs of production. The gap between the price of the indigenous article and the price of the imported article had thus been greatly narrowed. Indeed, with a further increase in output, more economical working and improved practice directed towards the removal of the grey colour which had created a prejudice against it (particularly in the Ahmedabad textile industry) it was expected that the industry would be able to compete with the German industry even if the revenue duty was removed. It was found that the price quoted for the German magnesium chloride was lower in India than in other countries and looked more or less like a dumping price. The case for protection was further strengthened by the fact that in the textile industry which principally used magnesium chloride, its cost represented such a small proportion of the total value of goods produced that even a heavy protective duty would throw practically no burden on the consumer. The Tariff Board estimated that a duty of 15 per cent. was required to protect the Indian industry and recommended that it should be imposed for a period of seven years in the form of a specific duty of seven annas a cwt. They also recommended that in view of the uncertainty regarding the course of import prices, provision should be made for imposing offsetting duties by executive orders, should a further fall in import prices make them necessary.

The Government of India accepted the recommendation of the Tariff Board regarding the imposition of a duty of seven annas a cwt. on magnesium chloride for a period of seven years. They, however, did not approve of the proposal that power should be taken to levy offsetting duties on the ground that the price of this chemical had shown great stability during the preceding three years and was already unremunerative to the foreign manufacturer. The offsetting duties clause was, nevertheless, inserted in the Bill in the Legislative Assembly.

The Heavy Chemical Industry Act, 1931, which was passed on 1st October, embodied the decisions of the Government on magnesium chloride and other heavy chemicals.

The duties levied under the Act were not free from the surcharge of 25 per cent. imposed by the Indian Finance (Supplementary and Extending) Act, 1931; the industry, therefore, received additional protection to the extent of 25 per cent. of the duties. The duties imposed by the Act lapsed on 31st March 1933, with the exception of the duty on magnesium chloride which was to continue till 31st March 1939. The duty on magnesium chloride was increased to Rs. 1-5-0 per cwt. or 25 per cent. *ad valorem*, whichever was higher, under the Indian Tariff (Amendment) Act, 1934, which imposed safeguarding duties.

In December 1937 the Government of India took up the question whether the protection of the magnesium chloride industry should be continued after 31st March 1939 and referred the question to the Tariff Board by their resolution dated 18th December 1937. The Tariff Board submitted their report on 7th May 1938.) In 1929 when the Tariff Board investigated the case of the industry, the Pioneer Magnesia Works Ltd., was the only important company engaged in it. Since then another company called Mayurdhwaj Swadeshi Magnesia Works had come into existence. The older company, however, still remained the more important. During the period of protection the Pioneer Magnesia Works had achieved a progressive reduction in costs and had shown considerable enterprise in developing an export trade to the United Kingdom and other countries. The Tariff Board were satisfied that dumping from Japan was the chief menace to the industry, and it was as much in the interest of the consumer as of the manufacturer to protect the industry against it.) On a comparison of the estimated fair selling price, Rs. 2-12-0 per cwt., with the lowest import price, Rs. 1-13-0 per cwt., they recommended a protective duty of annas 15 per cwt., which was annas 6 a cwt., lower than the existing duty, for a further period of seven years. Both the fair selling price and import price were calculated for delivery at Mill Bombay so as to allow for the freight disadvantage. They also recommended that provision should be made for an increase in the duty if the import price fell below Rs. 1-8-0 per cwt. c.i.f. Bombay, and that the continuance of protection should be made conditional on the Pioneer Magnesia Works converting itself into a public liability company.

In their resolution dated 30th March 1939, the Government of India observed that in estimating the fair selling price the Board had made the error of allowing for freight disadvantage in respect of the entire production of the industry, whereas the disadvantage existed only in respect of a part of the production which was sold in Bombay. After rectifying this error, they found the fair selling price to be Rs. 2-9-0 per cwt., and accordingly decided to impose a protective duty of annas 12 per cwt. The Indian Tariff (Second Amendment), Act, 1939, gave effect to this decision. The protective duty is to remain in force till the 31st March 1946.

Miscellaneous Protective Measures.

In addition to the major industries discussed above, salt, wheat and rice were also given tariff protection against foreign competition for temporary periods. The Salt (Additional Import Duty) Act, 1931, which came into force on 18th March 1931, imposed a temporary additional customs duty of 4½ annas per maund on foreign salt in the interest of the Indian salt industry. The duty was to remain in force up to 31st March 1932 only, but its period of operation was extended from year to year by passing Extending Acts. The Extending Act of 1933 reduced the duty from 4½ annas

per maund to 2½ annas per maund. No surcharge was to be levied in respect of the additional duty. In his Budget speech of 1935 the Finance Member admitted the unfairness of the duty which sought to protect the salt producers of Aden (which, incidentally, was shortly going to be separated from India) at the expense of the consumers of Bengal, but he deferred its abolition for some time out of consideration for vested interests. The industry had complained that the practice of extending the duty from year to year subjected it to grave uncertainty; it was, therefore, decided in 1936 to extend it for a period of two years instead of the usual one year. In the same year the duty was further reduced to 1½ annas per maund. The reduction was not considered injurious to the industry in view of the absence of competition from Italian sources. The duty expired on 30th April 1938.

A temporary customs duty was imposed on foreign wheat at the rate of Rs. 2 per cwt. under the Wheat (Import Duty) Act, 1931, with effect from 20th March, in order to assist the sale of indigenous wheat which was being hampered by the low price of foreign wheat. The duty on wheat flour was also raised to the same level. Both the duties were originally fixed for one year, but, as in the case of salt duty, their operation was extended from year to year by Extending Acts of 1932, 1933 and 1934. No surcharge was leviable in respect of this duty. By 1935, the conditions in the wheat market had considerably improved and the old duties were therefore replaced by reduced duties of Rs. 1-8-0 per cwt. under the Indian Tariff (Amendment) Act, 1935, which came into effect on the 13th April 1935. The Act was to remain in force for one year only. The same Act imposed a duty of twelve annas per maund on imported broken rice, which constitutes the major portion of the imports of foreign rice in India and was found to be a serious competitor for some of the better grades of rice produced in Madras. Under the Indian Tariff (Amendment) Act, 1936, the duty on wheat and wheat flour was further reduced to Re. 1 per cwt., but that on broken rice was maintained at the same level. The wheat duties expired on the 31st March 1937 and the Indian Tariff (Second Amendment) Act, 1937, was passed to delete them from the customs schedule; but the period of operation of the protective duty on broken rice was extended by one year till 31st March 1939 by the Indian Tariff (Amendment) Act, 1938. The Indian Tariff (Second Amendment) Act, 1939, further extended the operation of the duty on broken rice till the 31st March 1940. In 1938, the conditions in the wheat market again became abnormal, and it was found that foreign wheat was being imported into India at exceptionally low prices. The protective duty on wheat was, therefore, revived. Under the Indian Tariff (Amendment) Act, 1939, a duty of Rs. 1-8-0 per cwt. was imposed on wheat and wheat flour with effect from 6th December 1938. The duty is to continue in force till 31st March 1940.

Safeguarding Duties.

In 1932-33, the Government of India received representations from numerous small industries asking for tariff protection against the competition of foreign and particularly Japanese goods which were being imported at abnormally low prices. A bill known as the Safeguarding of Industries Bill was, therefore, introduced in the Legislative Assembly and it became law on 16th April 1933. Under the provision of the new law, the Governor General in Council was empowered to impose additional duties in all cases in which he was satisfied that foreign goods were being imported at such abnormally low prices as to threaten the existence of an established industry.

Applications were received from a number of small industries and a questionnaire on points arising out of these applications was issued in July 1933. On a consideration of the replies to the questionnaire it was found that the claims of most of the industries for tariff protection were fully justified, but in view of a provision in the Indo-Japanese Convention to the effect that goods imported from Japan should not be subjected to higher duties than similar goods imported from any other foreign country, it was decided not to take any action under the Safeguarding of Industries Act, 1933. Instead, another Act was passed known as the Indian Tariff (Amendment) Act, 1934, which gave assistance to the industries concerned by imposing minimum specific duties under the standard rate applicable against all countries. The safeguarding duties imposed by this Act were exempt from the surcharge of 25 per cent.

In fixing the amounts of the specific duties the object kept in view was to restore as far as possible the fair competitive conditions which prevailed in the period before the depreciation of the yen. The actual procedure adopted may be briefly described as follows. The year 1930-31 was taken as the base, because there were no serious exchange disturbances during this year. The duty-paid price of each article in 1930-31 was then taken and it was corrected for such factors as the fall in the general price level since 1930-31. The corrected price was assumed to be the price which the Indian industry should receive in order to be in the same competitive position *vis-a-vis* Japan as in 1930-31. The rate of the specific duty was fixed at the amount by which the c.i.f. price of Japanese article in 1933 fell short of the corrected price. In selecting each industry for such safeguarding treatment, the Government satisfied themselves that its production was fairly substantial in extent and that the fall in price was really abnormal and serious in nature. The measure was aimed at "safeguarding", pure and simple, and no substantive protection was intended to be given to any of the industries concerned. The passing of this Act, therefore, made no departure from the existing practice of extending protection only after an industry had proved its claim before the Tariff Board.

The Act imposed specific duties on the following articles: alum, magnesium sulphate and magnesium chloride; cotton undervests and socks and stockings; glass globes and chimneys for lamps and lanterns; certain kinds of paints, colours and painters' materials, enamelled ironware, electrical earthenware, china and porcelain; lead pencils; tiles of earthenware and porcelain; umbrellas; cast iron pipes; woollen hosiery; knitted apparel and fabrics; and toilet soaps.

The Act also imposed specific duties on hardened or hydrogenated fish oil and whale oil, sugar candy, and household and laundry soap and increased the duties on boots and shoes and uppers therefor, silk or artificial silk mixtures, and certain kinds of cotton fents and woollen hosiery. The changes in respect of fents and artificial silk mixtures are discussed elsewhere. The Act came into force on the 20th February 1934. The Safeguarding of Industries Act expired on 31st March, 1935.

Glass Industry.

In October 1931 the Tariff Board was asked to examine the question of protection to the glass industry. The industry has a wide geographical distribution and there are marked differences, both in the nature of its products and in the methods used in their manufacture. The two most

important raw materials of the industry are silica and soda ash; and while ample supplies of the former in the form of sand of sufficiently good quality are available, there is no indigenous supply of soda ash which has to be imported. The Tariff Board, however, held the view that the industry was capable of being eventually independent of protection in spite of this dependence on imported supply of raw materials and reported in favour of protection.

The Government were unable to accept this finding. In U. P., where the glass industry is to a great extent concentrated, soda ash represents something like 70 to 75 per cent. of the total cost of materials, while at ports of entry it represents 30 to 40 per cent. The Government attached a great importance to this factor. It appeared to them that the necessity of importing this raw material placed the industry at a serious disadvantage which was more than could be balanced by any advantages that the industry might possess in other respects. This was a fatal obstacle to the grant of protection, because in face of this handicap the prospect of the industry being ever able to dispense with protection appeared very remote. At the time when the Board reported, it was expected that supplies of soda ash would be available in India in the immediate future. But subsequently it became clear that there was no early prospect of any adequate source of Indian soda ash being developed. There was just a possibility of a fresh source of soda ash being opened up at Khewra and the Government deferred their decision regarding the grant of protection to the glass industry till the possibilities of this new source were more fully explored. In the meantime they decided to afford the industry a certain measure of relief by way of a rebate from the duty on imported soda ash. It was provided that when soda ash was imported for use in glass manufacture, the manufacturer could claim refund of the duty paid on it to the extent of the entire duty in the case of soda ash of British or colonial origin and to the extent of such duty as was in excess of 10 per cent. *ad valorem* in the case of non-British soda ash.

SECTION III.

Imperial Preference.

The principle of Imperial Preference was first introduced in the tariff policy of India by the Ottawa Trade Agreement which was concluded on the 20th August 1932. Prior to that date the Indian import tariff made no discrimination in rates according to the country of origin, except in two cases, namely, the protected classes of iron and steel and cotton piecegoods for which differential duties were adopted, according as they were of British or non-British origin, in 1927 and 1930, respectively. The Import Duties Act which was passed in England in 1932 imposed a duty of 10 per cent. on all commodities not subject to duty under earlier Acts or not included in the Free List attached to the Act, and empowered the Government to increase the rates above 10 per cent. on the advice of an Advisory Committee which was appointed for the purpose. The Act contained a provision by which products of the Dominions and India were exempted from the operation of the new duties up to the 15th November 1932 but then became subject to them unless an Order in Council had been issued before that period exempting them for a further period. Under the circumstances, it was evidently in the interests of India to enter into negotiations with the United Kingdom for exchange of preferences, failing which Indian exports to the United Kingdom would have been liable to pay the additional duties and would thus have been at a serious disadvantage as compared to other Empire countries. The Indian Delegation at the Imperial Economic Conference was mainly swayed by these considerations. Under the Ottawa Agreement, India granted preferences on imports from the United Kingdom in exchange for the preferences granted by that country in respect of Indian exports. The Agreement also provided for the exchange of preference with the non-self-governing Colonies and Protectorates.

In deciding on the classes of goods on which preferences were to be given, the Indian Delegation to the Ottawa Conference were mainly guided by the consideration that the preferences were not to involve any departure from the established principles of Indian tariff policy. They, therefore, took care to exclude from the scope of the Agreement all commodities to which protective duties were applicable and commodities which were free of duty or were admitted at specially low rates of duty on broad grounds of national policy. The classes of goods which were subjected to preferential treatment were only such as were paying revenue duties at the ordinary or the higher rate, with the addition, however, of certain classes of iron and steel which being excluded from the protective scheme had continued to be dutiable at a specially low rate. In 1924, all the important classes of iron and steel became subject to the protective duties and since that date the special treatment of the remaining articles had ceased to be of real importance. It was agreed that a ten per cent. preference should be accorded to articles of apparel, haberdashery and millinery which were dutiable at 25 per cent. *ad valorem* and to woollen manufactures, excluding in each case those articles which were dutiable at specially low rates or those which were dutiable under the entries applicable to cotton, silk or artificial silk. As regards goods made of cotton or artificial silk, there was no objection to a preference on those varieties which were not subject to protective duty, but the Delegation thought it proper to treat them separately in view of the fact that a Tariff Board enquiry was in progress in regard to these articles. Silk goods, though not subject to protective duty at that time, were also grouped with them, as the duties on silk and artificial silk

goods were only recently equalised. The Delegation agreed to extend a preference of ten per cent to goods included in this group subject to the following exceptions: (1) cotton manufactures (twist and yarn, piecegoods, thread for sewing, blankets, handkerchiefs in the piece, hosiery, rope and towels in the piece); (2) silk and artificial silk yarn, piecegoods and thread for sewing; (3) certain goods of silk and artificial silk mixed with other materials (twist and yarn, piecegoods and thread for sewing); (4) articles on which protective duties might be imposed as the result of the Tariff Board enquiry. Needless to say, articles which were not exported by the U. K. or the Colonies were also excluded from the scheme of preference.

The general rate of preference was 10 per cent. with certain exceptions, e.g., certain classes of motor vehicles (motor cars and motor omnibuses, chassis for motor omnibuses, motor vans and motor lorries and parts and accessories thereof) on which a rate of 7½ per cent. was granted. The ten per cent. rate of preferences applied to the following articles:—

Apparel (excluding hosiery and articles made of silk or artificial silk), certain arms and ammunition, asbestos manufactures, boots and shoes of leather, brushes and brooms, certain building and engineering materials, buttons, certain chemicals and chemical preparations excluding manures, cocoa and chocolates, confectionery, cordage and rope other than of jute and cotton, cork manufactures, cutlery, drugs and medicines except narcotics, earthenware and porcelain, furniture and cabinet-ware, glue, hardware excluding electro-plated ware, instruments, apparatus and appliances and parts thereof (electrical, musical, photographic, scientific and philosophical, surgical, wireless and miscellaneous), leather and certain manufactures thereof, liquors (ale and beer, spirit in drugs, etc., and perfumed spirit), certain machinery and millwork, metals (aluminium, brass, bronze and similar alloys, copper, German silver, certain classes of iron and steel, lead wrought and zinc wrought or manufactured), oils, (fish oil, certain essential oils, mineral lubricating oil, petroleum in paints, etc., and vegetable oils other than coconut, groundnut and linseed), oil cloth and floor cloth, engine and boiler packing, certain paints and painters' materials, certain classes of paper and pasteboard, certain kinds of provisions and oilmans' stores, rubber manufactures, smokers' requisites, toilet soap, stationery, textiles (haberdashery and military), the wool manufactures other than blankets and rugs, toilet requisites, toys and requisites for games and sports, umbrellas and umbrella fittings, vehicles not mechanically propelled and cycles.

In the case of Colonies and Protectorates, the Agreement provided for the grant by India of preference to certain staple exports of the Colonial Empire, namely, dry salted fish, unmanufactured ivory, certain vegetables, certain fresh dry fruits, coffee, tea, certain unground spices, the following spices, namely, cardamums, cassia, cinnamon, cloves, nutmegs and pepper, betelnuts, vanilla beans, sago and tapioca, certain non-essential oilseeds, cutch and gambier, certain specified gums and resins, beeswax, certain vegetable non-essential oils, canned fish, fruit juices, canned or bottled fruits and vegetables, bitters, drugs and medicines containing spirit, rum, unmanufactured tobacco, asphalt, certain chemicals, drugs and medicines, plumbago and graphite, certain natural essential oils, sisal and aloe fibre, coir yarn and coir mats and mattings, apparel, hosiery, haberdashery etc., and hats, caps, bonnets and hatters' ware.

It should be noted that the Agreement simply laid down the margin of preference, thus leaving the Government of India complete liberty to give

the preference either by increasing the duty on foreign goods or by reducing the duty on United Kingdom goods or by a combination of both methods. As customs is the mainstay of Central finance, it was considered injudicious to specify in the Agreement the actual rates of duties which are properly determined by the needs of revenue from time to time.

Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932: details of tariff changes made by the Act.

The changes in the Indian imports tariff involved in the Ottawa Agreement were given effect to by the Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932, which came into force on the 1st January 1933. As said above, the Agreement laid down only the margins of preference to be granted on the imports from the United Kingdom and the Colonies leaving the Government of India free to fix the actual scales of duties. In the case of the majority of articles, the amount of preference stipulated was 10 per cent. There were three ways open to the Government for giving effect to the preference; one by increasing the duty on non-British goods by 10 per cent.; the second, by reducing the duty on British goods by 10 per cent. and the third, by increasing the one and lowering the other to such an extent as will leave the margin between the two at 10 per cent. The Government made use of all the three methods but applied each of them to large groups of articles. In selecting articles for particular preferential treatment, they had to bear in mind its possible reaction on revenue, the effects on industries using the articles or producing the articles or its likely substitutes, the effect on the consumer and the effect of the revision of duties on the general expansion of trade. At a time when a general shrinkage of international trade was taking place all over the world due to the rise of tariff barriers, the desirability of giving preference by lowering duties rather than by raising them was very great. But a balance had to be struck between the considerations set forth above. Where, for example, a reduction in a duty would have been harmful to certain local industries or to revenue the necessary preference was given entirely by raising the duty; where, on the other hand, it was thought that an increase in a duty would impose an unduly heavy burden on the consumer or would have adverse effects on revenue, the preference was given entirely by lowering the duty. In many cases a compromise was made between the several conflicting considerations partly by lowering the duty in favour of preferential imports and partly by raising it against non-preferential imports.

In the case of the following articles, the necessary margin of preference was granted partly by reducing the existing rates and partly by raising them:—

Fish, unsalted, dry; fruits and vegetables, all sorts, fresh, dried, salted or preserved, not otherwise specified, including vanilla beans; cocoa and chocolate other than confectionery; coffee, canned or bottled; fish, canned; fruit Juices fruits and Vegetables, canned or bottle; milk; condensed or preserved, including milk cream; sago (excluding Sago flour) and tapioca; canned or bottled provisions, not otherwise specified; gums; Arabic, Benjamin (ras and Cowrie) and Dammer (including unrefined batu) and rosin; the following natural essential oils, namely citronella, cinnamon, and cinnamon leaf; natural essential oils, all sorts not otherwise specified; essential oils,

synthetic; fish oil including whale oil; oilseeds, non-essential, all sorts, not otherwise specified, including copra or coconut kernel; sisal and aloe fibre; beeswax; ivory, unmanufactured; apparel, excluding hosiery and articles made of silk or artificial silk; chemicals, drugs and medicines, all sorts not otherwise specified; vehicles not mechanically propelled, cycles; cutlery, all sorts not otherwise specified; domestic refrigerators; hardware, ironmongery and tools, all sorts not otherwise specified, excluding machine tools and agricultural implements; instruments, apparatus and appliances (electrical, photographic, scientific, philosophical and surgical); cutch and gambier, all sorts; plumbago and graphite; earthenware, China and Porcelain, all sorts not otherwise specified; furniture and cabinetware of all materials, excluding mouldings; skins, tanned or dressed, unwrought leather, leather cloth including artificial leather, and other manufactures of leather not otherwise specified; machinery and component parts thereof, meaning machines or parts of machines to be worked by manual or animal labour, not otherwise specified, and any machines (except such as are designed to be used exclusively in industrial processes) which require for their operations less than one-quarter of one brakehorse-power; all sorts of iron and steel and manufactures thereof not otherwise specified; metals (aluminium, brass, bronze and similar alloys, copper, german silver, lead wrought, zinc, wrought or manufactured); certain classes of paper and pasteboard and stationery; haberdashery and millinery, all sorts, including lace and embroidery, but excluding towels not in the piece and articles made of wool or of silk or artificial silk or of silk or artificial silk mixtures; woollen yarn for weaving and knitting wool; asbestos manufactures, not otherwise specified; brushes, all sorts; certain building and engineering materials; buttons, metal; coir fibre, coir yarn and coir mats and matting; cordage, rope and twine of vegetable fibre other than jute and cotton, not otherwise specified; cork manufactures, not otherwise specified; glue, all sorts other than clarified liquid glue; oil cloth and floor cloth; packing—engine and boiler—all sorts not otherwise specified; rubber tyres and tubes and other manufactures of rubber not otherwise specified, excluding apparel and boots and shoes; toilet requisites, not otherwise specified; umbrellas including parasols and sunshades, and fittings therefor; boots and shoes—composed mainly of leather (the alternative specific duty of 5 annas a pair in this case was left unchanged).

These articles were liable to duty at 25 per cent. Under the new Act, they became liable to pay 30 per cent. standard rate and 20 per cent. preferential rate. Of these articles, the preferential rates on dry unsalted fish, fruits and vegetables, sago and tapioca, gums, nonessential oilseeds, sisal and aloe fibre, beeswax, unmanufactured ivory, cutch and gambier, plumbago and graphite, coir fibre etc., were applicable only to Colonies, while those on coffee, canned fish, fruit juices, canned or preserved fruits and vegetables, certain natural essential oils, apparel and certain chemicals, drugs and medicines, were applicable to both United Kingdom and Colonies. The preferential rates on the remaining articles were applicable to the United Kingdom only.

(2) Certain iron and steel items which were liable to duty at 15½ per cent. The duty was changed to 20 per cent. standard rate, and 10 per cent. preferential rate (applicable only to the United Kingdom).

(3) The following unground spices, namely, chillies, ginger and mace. The stipulated margin of preference was 7½ per cent. which was granted by replacing the existing rates of 25 per cent. by 30 per cent., standard rate, and 22½ per cent. preferential rate. The preferential rate was applicable only to the Colonial produce.

In respect of the following articles a preference of 10 per cent. was granted entirely by reducing the existing duty in favour of British or Colonial imports as the case may be.

(1) Confectionery, cartridge cases, filled and empty, cutlery plated with gold or silver, electric lighting bulbs, certain musical instruments—wireless reception instruments and apparatus and component parts thereof, smokers requisites excluding tobacco and matches, toys, games playing cards and requisites for games and sports. The existing duty on these articles was 50 per cent. which was changed to 50 per cent. standard rate, and 40 per cent. preferential rate (applicable to the United Kingdom only).

(2) The following chemicals, namely, cadmium sulphide, cobalt oxide, selenium, uranium oxide and zinc oxide; cinematograph films, not exposed, and asphalt. The duty on these articles was 25 per cent. which was changed to 25 per cent. standard rate and 15 per cent. preferential rate applicable to both the United Kingdom and Colonies in the case of chemicals, to U. K. only in the case of films, and to Colonies only in the case of asphalt.

(3) Motor omnibuses, chassis of motor omnibuses, motor vans, motor lorries and component parts thereof. The duty on these was 25 per cent.; a preferential margin of 7½ per cent. was granted by changing the duty to 25 per cent., standard rate, and 17½ per cent., preferential rate, applicable to U. K. only. Motor cars and parts thereof—the existing duty was 37½ per cent. which was changed to 37½ per cent., standard rate, and 30 per cent., preferential rate, applicable to U. K. only, thereby granting a margin of 7½ per cent.

(4) Bitters and Rum—The existing duty was Rs. 37-8-0 per proof gallon; and a preferential margin of Rs. 3-12-0 per gallon was to be accorded to Colonial imports. The duty was altered to Rs. 37-8-0 per proof gallon, standard rate, and Rs. 33-12-0 per proof gallon, preferential rate, in the case of tested bitters and rum and Rs. 50 per Imperial gallon, standard rate, and Rs. 45 per Imperial gallon, preferential rate, in the case of bitters which were not tested. The preferential rates on bitters and rum were applicable to Colonies only.

In the case of some articles, the necessary margin of preference was granted wholly by raising the existing duty. The following were such articles:

(1) Vegetable non-essential oils, toilet soap, woollen carpets, floor rugs, hosiery, piecegoods, shawls and other manufactures of wool not otherwise specified, including felt. The existing duty of 25 per cent. was replaced by 35 per cent. standard rate and 25 per cent. preferential rate. The preferential rate was applicable to Colonies only in the case of coconut, groundnut and linseed oils, and to both U. K. and Colonies in the case of other vegetable non-essential oils. In the case of the other two articles, it was applicable to U. K. only.

(2) Betelnuts and the following unground spices, cardamoms, cassia, cinnamon, cloves, nutmegs and pepper.—The stipulated margin of preference was $7\frac{1}{2}$ per cent. which was granted by changing the existing duty of $37\frac{1}{2}$ per cent. to 45 per cent., standard rate, and $37\frac{1}{2}$ per cent., preferential rate, applicable only to the Colonies.

The problem of fixing duties was rather complicated in the case of articles which were liable to mixed duties and those which were liable to specific duties and yet the preference on which was laid down in terms of an *ad valorem* percentage or *vice versa*. The following were such articles:—Fire arms, including gas and air guns, gas and air rifles, and gas and air pistols not otherwise specified, but excluding parts and accessories thereof. The existing duty was Rs. 18-12-0 plus $12\frac{1}{2}$ per cent. *ad valorem* or 50 per cent. *ad valorem*, whichever was higher. This was changed to Rs. 18-12-0 plus 10 per cent. *ad valorem* or 50 per cent. *ad valorem*, whichever was higher, standard rate, and Rs. 18-12-0 or 40 per cent. *ad valorem* whichever was higher, preferential rate applicable to U. K. only. Fish, dry, salted—The existing duty was $9\frac{3}{4}$ annas per maund plus $6\frac{1}{2}$ per cent. *ad valorem*. The mixed duty was done away with and the new duty was fixed as Rs. 3-8-0 per cwt., standard rate, and Rs. 1-8-0 per cwt., preferential rate, applicable to Colonies only. Portland cement other than white Portland cement was liable to duty at Rs. 18-12-0 per ton, and a preference of 10 per cent. had to be granted on it. The new duty was fixed at Rs. 18-4-0 per ton, standard rate, and at Rs. 13-12-0 per ton, preferential rate, applicable to U. K. only. Ale and beer—The existing duty per quart bottle was $2\frac{1}{2}$ annas per bottle. A preference of 10 per cent. was accorded by changing it to 3 annas per quart bottle, standard rate, and $2\frac{1}{2}$ annas per quart bottle, preferential rate, applicable to U. K. only. The rates for other containers were changed proportionately. Perfumed spirits—these were paying a duty of Rs. 60 per Imperial gallon; and a margin of 10 per cent. was stipulated for them. The new duty was fixed as Rs. 60 per Imperial gallon, standard rate, and Rs. 52-8-0 per Imperial gallon, preferential rate applicable to U. K. only. Spirits in drugs, medicines or chemicals—The existing duties were Rs. 27-5-0 per proof gallon for tested spirits and Rs. 37-8-0 per Imperial gallon for spirits which were not to be tested. The revised duties were Rs. 29 per proof gallon, standard rate, Rs. 26 per proof gallon, preferential rate, in the case of tested spirits and Rs. 40 per Imperial gallon, standard rate, and Rs 36 per Imperial gallon, preferential rate, in the case of spirits which were not to be tested. The preferential rates were applicable to both U. K. and Colonies. Mineral lubricating oil, other than batching oil—The existing duty was 2 annas one pie per gallon. It was changed to $2\frac{1}{2}$ annas per gallon, standard rate, and $\frac{1}{2}$ anna per gallon, preferential rate, applicable to U. K. only, so as to accord a preferential margin of 10 per cent. Mineral paints, solutions and compositions, dangerous, flashing below 76° Fahrenheit—The existing duty was 3 annas 9 pies per Imperial gallon. It was converted into an *ad valorem* duty of 30 per cent., standard rate, and 20 per cent., preferential rate, applicable to U. K. only.

Tea was subject to an *ad valorem* duty of 25 per cent., while the preference to be granted on it was 2 annas per pound. The *ad valorem* duty was converted into a specific duty of 5 annas per pound, standard rate, and 3 annas per pound, preferential rate, applicable to Colonies.

Coffee not otherwise specified—A preference of one anna was to be granted on coffee. The existing duty of 25 per cent. was, therefore, altered to 25 per cent plus one anna, standard rate, and 25 per cent., preferential rate applicable only to Colonies.

Unmanufactured tobacco—The margin of preference on this article was not laid down in the Agreement, but was stipulated subsequently. The existing duty was Rs. 1-14-0 per pound which was changed to Rs. 2 per pound, standard rate, and Rs. 1-8-0 per pound, preferential rate, applicable only to the Colonies.

A Supplementary Agreement was also concluded with the United Kingdom in September 1932 regarding non-fabricated galvanized sheets. The provisions of this Agreement and its subsequent history have already been described elsewhere.

After the duties imposed by the Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932, came into operation, certain inaccuracies and discrepancies in the Act came to light and these were rectified by the Indian Tariff (Ottawa Trade Agreement) Supplementary Amendment Act, 1933, which came into force on the 8th April 1933. The reference to ferrous sulphate was deleted as it had already been specified elsewhere as green copperas. The protective duty on alum lapsed on the 31st March 1933 and it was included in the non-preferential item of chemicals. The preference inadvertently given to moist white lead and newsprinting paper of British manufacture was withdrawn. Copper braziers were grouped with copper sheets liable to preferential rate. Tea chests and parts and fittings thereof were subjected to the ordinary non-preferential rate. The preference to British incandescent mantles was made clear, while on administrative grounds the lubricating oil item was re-drafted to read oil other than mineral pure and mixed which are not ordinarily used for any purpose other than lubrication". The preferential rate for Colonial products was withdrawn in the case of certain glass-making chemicals. Gold and gold-plated pen nibs were specified separately with a preferential rate in favour of the United Kingdom. In the interest of the Indian industry, two glass-making materials, liquid glue and covered crucibles, were given a specially low preferential rate of duty.

On the 9th January 1935, a Supplementary Agreement was concluded with the United Kingdom in which the Government of India gave formal expression to the general principles governing the treatment of United Kingdom goods competing with the products of a protected Indian industry.

The question of examining the working of these Agreements was discussed in the Indian Legislative Assembly in March 1936 when a resolution was passed, recommending the Government of India to terminate the Ottawa Agreement and to explore the possibility of entering into bilateral treaties with various other important countries besides the United Kingdom. Notice of denunciation of the Ottawa Agreement was accordingly given on the 13th May 1936, but pending the negotiations of a fresh agreement the old agreements continued in operation subject to termination at three months notice on either side. The negotiations were concluded and the new Agreement was signed in London on the 20th March 1939.

Among the principal features of the new Agreement it is worth noting that the old principle that the mutual concessions should take the form

of only a guaranteed margin of preference and not of actual rates of duties which are to be fixed according to the revenue needs of the respective Governments has been observed. The Supplementary Agreement of 1935 is not renewed. Further, the scope of preferences granted to the United Kingdom has been considerably narrowed by excluding articles included in the categories of food, drink and tobacco and raw materials or semi-manufactured articles which were entitled to preference under the old Agreement. This is a gain from the Indian point of view, as competition between Indian producers and foreign manufacturers is probably more keen in these categories than in the category of manufactured goods. Under the new Agreement the majority of the items on which preference has been granted relate to specialised products which are not at present manufactured in India; as regards other items, *e.g.*, woollen carpets and rugs, drugs and medicines, etc., the imports from the United Kingdom consist of special varieties which are produced in India only in negligible quantities. In the case of all items, moreover, which have been retained in the preferential schedule it is worth noting that during the period in which the old Agreement has been in operation although imports from the United Kingdom have increased there has been no setback to our trade with other countries, the imports from which have also increased and the relative position of which in the Indian market has in most cases actually improved. It may also be noted that under the new Agreement certain preferential heads have been re-defined so as to exclude a number of commodities which were formerly included in them. Thus, under the head of chemicals, drugs and medicines, several acids and chemical products have been removed from the scope of preference; similarly, batteries, accumulators and electro-medical apparatus and scientific, philosophical and surgical instruments have been excluded from the relative preferential heads. These exclusions are designed in the interest of the Indian consumer.

The extent to which the scope of the preferences granted to the United Kingdom is narrowed under the new Agreement can be seen from the fact that the value of imports from the United Kingdom falling in the preferential category has been reduced from Rs. 18,75 lakhs to Rs. 7,75 lakhs (including Burma) on the basis of values prevailing in 1935-36. Only 16 per cent. of India's total imports from the United Kingdom fall in the category of goods subject to preference. There is, however, one important direction in which the scope of the preferential scheme has been widened in favour of the United Kingdom. The former Agreement had left out the duties on cotton piecegoods on the principle that a protected industry should be outside the scope of a preferential scheme. It was, however, not found possible to observe this principle under the new agreement because it was only on the understanding that the cotton tariff would be reduced that the United Kingdom agreed to surrender the several preferences referred to above. Under the Ottawa Agreement raw cotton was entitled to duty-free entry into the United Kingdom and an undertaking was given by His Majesty's Government to co-operate in any practical scheme that might be formulated for promoting the greater use of Indian cotton in the United Kingdom. In pursuance of this undertaking a committee was formed in Lancashire and partly as a result of its efforts and partly due to the improved quality of Indian cotton the exports of Indian cotton to the United Kingdom increased from an average of 167,000 bales per annum during the two years ending 1932-33 to 610,000 bales in

1936-37. In 1937-38 they declined to 395,000 bales. In return for this increased consumption of raw cotton, however, the United Kingdom was so far receiving no *quid pro quo* from India so far as the piecegoods trade was concerned. The imports of piecegoods from United Kingdom declined from 403 million yards in 1935-36 to 267 million yards in 1937-38, in spite of a reduction in duty in 1936 on British piecegoods excluding printed fabrics from 25 to 20 per cent. *ad valorem*.

Under the new Agreement a sliding scale of duties is fixed for cotton piecegoods of United Kingdom origin which is linked, on the one hand, with the exports of Indian cotton to the United Kingdom and, on the other, with the imports of cotton piecegoods from the United Kingdom into India. The new Agreement provides that the cotton fabrics assessable under items 48 (3) and 48 (9) of the Indian Customs Tariff shall be subject to the following basic rates; 17½ per cent. *ad valorem* on printed goods, 15 per cent. *ad valorem* or 2 annas 7½ pies per lb., whichever is higher, on grey goods and 15 per cent. *ad valorem* on all others. If, however, in any cotton piecegoods year the United Kingdom imports do not exceed 350 million yards, the duties charged after the end of that year and until the end of any cotton piecegoods year in which such imports exceed 425 million yards, are to be reduced still further by 2½ per cent. *ad valorem* with a proportionate reduction in the specific duty on grey goods. On the other hand, if in any cotton piecegoods year United Kingdom imports exceed 500 million yards, the rates of duty in the following cotton piecegoods year may be increased above the basic rates to such extent as may be deemed necessary for the purpose of restricting imports of such goods during the year to the "maximum yardage figure" for the preceding cotton piecegoods year; the enhanced duties are, however, to be reduced to the basic rates after the end of any such year in which total imports from the United Kingdom have not exceeded 425 million yards. In determining the rates of duty to be charged on the United Kingdom piecegoods, regard must also be had for the imports of Indian cotton into the United Kingdom because if such imports fall short of 5 lakhs bales for the cotton year ending 31st December 1939, 5½ lakhs for the cotton year ending 31st December 1940 and 6 lakhs for any subsequent cotton year, the total imports of piecegoods in any cotton piecegoods year corresponding to that cotton year are to be deemed to have increased at the rate of 25 million yards for every 50,000 bales or less of the deficiency. It has also been provided that if the deficiency exceeds 1 lakh bales in the cotton year ending 31st December 1939 and 1½ lakhs bales in any subsequent year, the basic rates charged on imports of United Kingdom cotton piecegoods may be increased. If, on the other hand, the offtake of cotton by the United Kingdom exceeds 7½ lakhs bales in any cotton year the duty charged on printed goods of United Kingdom origin would be equalized with that of other piecegoods of United Kingdom origin in the following piecegoods year. Further, in relation to that cotton piecegoods year, any excess up to a maximum of 25 million yards in imports of United Kingdom cotton prints over the previous year's imports will not be counted in calculating imports of United Kingdom cotton piecegoods with reference to the medium and maximum yardage figure; and so long as the reduction of duty on cotton prints continues to be earned, the increase in yardage figures will remain in force but will not be further increased. Thus, the new agreement provides, on the one hand, for penalties for a fall in the consumption of cotton by the United Kingdom below a certain minimum and, on the other hand, for rewards for an

increase in consumption above 7½ lakhs. The limits laid down for the imports of United Kingdom piecegoods have an approximate correspondence with the figures for actual imports from the United Kingdom in recent years; the minimum and maximum figures correspond to the actual minimum and maximum levels reached during the six years ending 1937-38 while the medium figure is slightly higher than the figure for the average imports during the same period.

As regards the Colonies, the new Agreement differs from the Ottawa Agreement in one important respect, namely, that provision has been made in the new Agreement for the negotiation of a separate trade treaty with Ceylon. Pending such negotiation, the provisions of the Ottawa Agreement so far as they relate to Ceylon are to continue without any substantial modification. The schedule of preferences granted to India by Ceylon (on a provisional basis) and by the Colonies remains practically unchanged except for some minor alterations; two items, namely, coffee and coriander seed, have been omitted from the preferences provisionally granted by Ceylon and five small items from those granted by the Colonies, while a new preference on unmanufactured tobacco has been secured from British Malaya; while in the list of preferences granted by India to the Colonies, three new items, namely, artificial teeth, tapioca flour and ground spices have been added and preference has been withdrawn from four articles, namely, beeswax, dry salted fish, canned fish and vanilla beans. There is, further, no change in the list of preferences which India has agreed to grant to Ceylon and the Colonies on a provisional basis, pending the conclusion of a fresh agreement with Ceylon. In the case of certain commodities, it has been mutually agreed that preferences will continue only so long as it is consistent with the policy of the Government concerned to levy duty on these commodities.

Indian Tariff (Third Amendment) Act, 1939; details of tariff changes made by the Act.

The changes in the import tariff necessitated by the new Agreement were effected by the Indian Tariff (Third Amendment) Act, 1939. As provided in the Agreement, the Act withdrew preferences from a large number of articles. The following articles which were so far paying 30 per cent. at the standard rate with or without an alternative rate and 20 per cent. at the preferential rate, are now liable to a revenue rate of 25 per cent. only:—Condensed milk, vanilla beans, beeswax, fish oil, canned fish, cocoa and chocolate, bottled provisions, toilet requisites, lead pencils, natural and synthetic essential oils, glue, skins other than fur, leather cloth, fur skins, rubber tyres, furniture, cork articles, wicker and bamboo furniture, woollen yarn and knitting wool, oil cloth and floor cloth, rope and twine, parasols, umbrellas, asbestos articles, engine packing, building materials not otherwise specified, earthenware, tiles, crockery, iron and steel articles not otherwise specified, enamelled ironware, german silver, aluminium articles, certain lead wrought articles, zinc articles, articles of brass and similar alloys, hardware and cutlery not otherwise specified, metal furniture, certain machinery (sewing and knitting machines, however, though formerly included in this group, continue to enjoy the preferential rate; they are, therefore, separately specified), electrical earthenware, boots and shoes made of leather, brushes and metal buttons. The alternative specific duties combined with the *ad valorem* rate in the case of umbrellas, domestic earthenware, enamelled ironware, electrical

earthenware and boots and shoes made of leather are left unchanged. Scientific, philosophical and surgical instruments were so far paying duty at 30 per cent. standard rate and 20 per cent. preferential rate; the duty is now changed to 25 per cent. The residuary group of chemicals continues to pay 30 per cent. standard rate and 20 per cent. preferential rate, but the following chemicals have been taken out of the group and subjected to the ordinary revenue rate of 25 per cent: hydrochloric, nitric, sulphuric, tartaric and other acids (formerly, only acetic, carbolic, citric and oxalic acids were assessed at 25 per cent.), anhydrous ammonia, potassium bichromate and potassium compounds (formerly, potassium chlorate and potassium cyanide only were paying duty at 25 per cent.), sodium bichromate and sodium cyanide. Soda ash is also removed from the residuary group of chemicals and is to pay duty at 25 per cent. standard rate and 15 per cent. preferential rate applicable only to the Colonies. Preference is withdrawn in respect of British imports. Of the articles mentioned above, the changes in respect of vanilla beans and beeswax affected only the Colonies, the U. K. having no preference under the old Act, while those in respect of canned fish and chemicals, drugs and medicines affect both the U. K. and the Colonies, both being formerly entitled to preference. The remaining affect only the U. K., as the Colonies had no preference in them.

In the case of the following articles which were so far assessed at 30 per cent. standard rate and 20 per cent. British and Colonial rate, the preference in favour of British imports is withdrawn, while that in favour of the Colonies is retained: canned or bottled coffee, vegetable non-essential oils, fruit juices bottled fruits and vegetables, citronella, cinnamon and cinnamon leaf.

Preference has been withdrawn from the following articles which were so far assessed at 50 per cent. standard rate, with or without an alternative rate, and 40 per cent. preferential rate by abolishing the preferential rate, while retaining the standard rate: Confectionery, ribbons, silk or artificial silk stockings, crucibles for glass making, electric light bulbs, gold pen nibs, plated cutlery, cartridge cases, toys and smokers' requisites other than tobacco and matches, musical instruments (records for talking machines have been specified as musical instruments under the new Act). The preferential duty of Rs. 52-8-0 per Imperial gallon on perfumed spirits has been removed, while the standard duty of Rs. 60 per Imperial gallon is retained. Certain articles were so far dutiable at 35 per cent., standard rate, and 25 per cent., preferential rate; the preferential rate on them is now abolished, while the standard rate is reduced to 25 per cent. The following are such articles:—toilet soap, woollen yarn and fabrics not otherwise specified, excluding felt and fabrics made of shoddy wool, woollen mixtures with silk or artificial silk, woollen hosiery and woollen knitted apparel, apparel, hosiery, haberdashery, millinery and drapery not otherwise specified, hats, caps, bonnets and hatters' ware and textile manufactures not otherwise specified. All changes discussed in this paragraph affect only the U. K. as the Colonies had no preference on these articles, except in the case of two items, apparel and hatters' ware in which both had preference.

The old rate of 15½ per cent. has been restored in the case of the following articles which were so far assessed at 20 per cent., standard rate, and 10 per cent., preferential rate:—certain iron and steel items such as iron alloys, pig iron, cast iron pipes, rice bowls, steel ingots, iron or steel

blooms, billets and slabs, anchors and cables, expanded metal, nails and washers not otherwise specified, pipes and tubes and fittings therefor not otherwise specified, iron and steel specially designed for the reinforcement of concrete, railway and tramway track material not otherwise specified. The removal of preference affects only British imports as the Colonies had no preference on these articles. The only items in this group which continue to enjoy the preferential rate are iron or steel hoops and strips, and barbed or stranded wire and wire-rope.

The preferential rate, applicable to U. K. only, on ale and beer has been abolished and the standard rate is brought in line with that on other fermented liquors. The following chemicals, namely, cadmium sulphide, cobalt oxide, liquid glue for glass making, selenium and uranium oxide which were assessed at 25 per cent., standard rate, and 15 per cent., preferential rate applicable to U. K., only are now subject to the general rate of 25 per cent; while cinematograph films, not exposed, which were also dutiable at the same preferential rate applicable to U. K., are now liable to pay only 20 per cent. The duty on zinc oxide has been changed from 25 per cent. standard rate and 15 per cent. preferential rate to 30 per cent. standard rate and 20 per cent. preferential rate. The preferential rate applies to both U. K. and the Colonies.

Under the new Act, the duty on Portland cement other than white Portland cement, which was Rs. 18-4-0 per ton standard rate and Rs. 13-12-0 per ton, preferential rate applicable to U. K. only, has been changed to Rs. 13-12-0 per ton; similarly, the duty on lubricating oil, which was 2½ annas per Imperial gallon standard rate and ½ anna per Imperial gallon preferential rate applicable to U. K. only, has been replaced by a single duty of two annas one pie per Imperial gallon. Accumulators, batteries and electro-medical apparatus are now included in the residuary group of instruments, apparatus and appliances liable to duty at 25 per cent. Salted dry fish was so far liable to duty at Rs. 3-8-0 per cwt. standard rate and Rs. 1-8-0 per cwt. preferential rate applicable to the Colonies only; it will now be assessed at an *ad valorem* rate of 15 per cent.

The new Act has removed the preferential duty of 20 per cent. applicable to U. K. only on vehicles which are not mechanically propelled and has reduced the standard rate from 30 per cent. to 25 per cent., with one exception, namely, cycles which continue to be dutiable at 30 per cent. standard and 20 per cent. preferential rate applicable to U. K. only. Fire arms, including gas and air guns, gas and air rifles and gas and air pistols so far paid duty at the following rates—standard rate Rs. 18-12-0 each plus 10 per cent. *ad valorem* or 50 per cent., whichever was higher; preferential rate applicable to U. K. only—Rs. 18-12-0 each or 40 per cent. *ad valorem*, whichever was higher. These rates are now replaced by a single rate of Rs. 18-12-0 each or 37½ per cent. *ad valorem*, whichever is higher, plus 12½ per cent. *ad valorem*. A preference of 7½ per cent. is granted on motor cycles, motor scooters and their parts and accessories by combining the existing standard rate of 37½ per cent. with a preferential rate of 30 per cent.

As said above, the Colonies have received preferences on three new items, artificial teeth, tapioca flour and ground spices. Artificial teeth have been separately specified with a duty of 25 per cent. standard rate, and 15 per cent. preferential rate. Tapioca flour has been added to the

tariff item containing tapioca which is already subject to duty at 30 per cent. standard rate and 20 per cent. preferential rate; while ground spices have been included in the item of spices which is assessed at 45 per cent. standard rate and 37½ per cent. preferential rate.

Perhaps the most important changes effected by the new Act are the extension of the duration of the protective duties on cotton goods which were to expire on the 31st March 1939 to 31st March 1942 and the reduction of the duties on cotton piecegoods to the rates already mentioned above. The duties applicable to the following cotton goods, namely, sateens including italians of sateen weave, velvets and velveteens and embroidered all-overs, when of British manufacture, which were 25 per cent. *ad valorem* in the case of printed fabrics and 20 per cent. *ad valorem* in the case of others, are also reduced to 17½ per cent. and 15 per cent. *ad valorem*, respectively. The duties on the non-British imports of cotton piecegoods and the other cotton fabrics mentioned above continue to be at 50 per cent. and 35 per cent. *ad valorem*, respectively.

SECTION IV.

Technical changes.

We may now proceed to discuss what may conveniently be called "technical changes". The changes included in this category were not dictated primarily by revenue or protective considerations but were made for removing certain technical anomalies discovered in the working of the tariff. Such changes may be divided into the following five classes:—

- (1) Changes introduced for restoring the tariff equality between different classes of goods;
- (2) Changes made for restoring the normal price relationship, apart from "tariff equality", between different articles, more particularly the price relationship between an article and its actual or potential substitutes or that between the finished product and its component parts;
- (3) Changes made for minimising the burden of taxation on the necessaries of life and means of production;
- (4) Changes made for adjusting the duty to an economic level from the point of view of revenue; and
- (5) Technical changes in the method of assessment or specification

Tariff Equality.

Since the inauguration of the policy of discriminating protection, the Government received a number of representations to the effect that the development of certain industries in India was being hampered by the fact that the duty on the finished article was lower than the duty on the materials which had to be imported for the manufacture of that article. These representations were referred to the Tariff Board for investigation and duties were adjusted on its recommendations.

The following were some of the important cases examined by the Tariff Board:—

Printing type.

Printing type was subject to a duty at 2½ per cent while the type metal was liable to a duty at 15 per cent. In India printing type was made from imported type metal as well as from type metal manufactured locally. On a comparison of the existing duty on imported type with the duty on imported type metal it was found that the tariff inequality was higher in the case of those who used imported type metal than in the case of the other class of manufacturers. The Tariff Board therefore recommended that the duty on printing type should be fixed at a rate corresponding to the duty paid on the imported type metal.) The actual rate proposed was one anna per lb. The conversion of the *ad valorem* duty of 2½ per cent. into the specific duty did not materially increase the amount of duty paid on type of better quality imported from the United Kingdom and America; it affected only the type imported from Germany which was most representative of the class of type used in India and which competed with the type produced by Indian foundries.

Electric wires and cables.

Another case of tariff inequality was electric wires and cables. Imported wires and cables of the sizes generally used for industrial purposes were admitted free of duty, while a large number of articles used in their manufacture had to pay duties ranging from 5 per cent. to 30 per cent. The principal imported raw materials were, electrolytic copper rod known as "black rod", raw rubber, cotton for making magnet wires braids for covering cables, silk for making magnet wires and electric light flexible pig lead, chemicals such as sulphur, zinc oxide, etc. Of these, raw rubber was exempted from duty by a notification in 1923 and arrangements were made for admission free of duty of electrolytic copper rod imported by the Indian Cable Company. Sulphur was exempted from duty in 1924. The abolition of the duty on wires and cables of large sizes had made it possible to maintain large stocks, as the maintenance of large stocks no longer entailed locking up of capital in payment of duties. This affected the bazaar business of the Cable Company, because orders on account of repairs and urgent replacements were now fewer than before. Electric wires and cables were of three kinds: (1) bare hard drawn copper conductors, (2) paper insulated cables and (3) rubber insulated cables. Paper insulated cables are not produced in India, while in the case of copper conductors such tariff inequality as existed was removed by the exemption granted to the Company in respect of black rod, which is the principal raw material required for this type of cables. The arrangement left a small measure of advantage to the Company, because there was still an import duty of 15 per cent. on bare copper conductors having a sectional area of $1/80$ th of a square inch. The Tariff Board recommended that the duty on black rod should be removed.

In the case of rubber insulated cables, the Tariff Board estimated the tariff inequality to be 3 to 5 per cent. However, with a view to provide a safety margin against a possible drop in prices due to Continental imports and the recent cuts in prices on the part of large British firms interested in the Indian market, they recommended that all rubber insulated cables having a sectional area of $1/80$ th square inch should be subjected to a duty of 5 per cent. The alternative method of giving relief by giving a refund of duty on raw material was not considered suitable as the raw materials which were subject to duty numbered as many as 92 different items. Nor was there a case for giving relief by a bounty, rather than by a duty, because a duty of 5 per cent. was not likely to affect materially the cost of electric installations.

The Indian Tariff (Amendment) Act, 1928, gave effect to these recommendations of the Tariff Board by converting the duty on printing type from $2\frac{1}{4}$ per cent. *ad valorem* into a specific duty of one anna per lb. and by imposing a duty of 5 per cent. *ad valorem* on rubber insulated electric wires and cables with effect from 1st April 1929.

Cotton, hair and canvas ply belting.

Cotton belting was imported free of duty while cotton yarn used for its manufacture was paying a duty of $1\frac{1}{2}$ annas per lb. and the materials used for painting or dressing it were paying a duty of 15 per cent. *ad valorem*. The Board proposed to give the relief required partly by imposing a duty of 5 per cent. on cotton belting and partly by abolishing the 15 per cent. duty on black proofing. The duty on yarn could not be

touched, as it affected the market for the products of Indian mills, while materials other than black proofing used for dressing the belt, particularly red oxide and linseed oil, were also used in other industries and the Tariff Board did not consider it feasible to remove the duty on them, as their object was only to give relief to the belting industry and not to exempt all raw materials as such from payment of duty.

As regards hair belting, which was also free and with regard to which a similar inequality had arisen due to the duty on camel hair yarn and the dressing materials, the Board proposed that a 5 per cent duty should be imposed on hair belting, that the 15 per cent duty on black proofing should be abolished and that the duty on camel hair yarn should be reduced from 15 per cent to 6 per cent. Camel hair was unsuitable for any purpose other than the manufacture of belting and was not produced in India on a commercial scale. In the case of canvas ply belting, which was free of duty and very little of which was imported, the only relief required was in respect of cotton duck which was liable to duty at 11 per cent. In view of the fact, however, that cotton duck is used for other purposes than the manufacture of belting, the duty on it could not be removed and the Board recommended that the relief should be given by imposing a duty of 5 per cent on this type of belting also.

In their resolution dated 10th February 1928, the Government of India accepted the Tariff Board's recommendation that a duty of 5 per cent should be imposed on cotton, camel hair and canvas ply belting, but found it impossible to accept the Board's proposal to remove the duty on black proofing. Instead, they decided to reduce the duty on camel hair yarn from 15 per cent to 5 per cent instead of 6 per cent as recommended by the Board. The Indian Tariff (Amendment) Act, 1928, gave effect to this decision.

Manila rope.

Both manila rope and manila hemp, which is the principal raw material used in its manufacture, were subject to duty at the same rate *vis.* 15 per cent *ad valorem*. There was, therefore, no tariff inequality in respect of manila rope manufactured for local consumption. But in respect of ropes supplied to the shipping companies, the Tariff Board found that the establishment of bonded warehouses by certain shipping companies for importation of all ships' stores, including manila ropes, into bond free of duty had created a serious situation for the Indian industry. About two-thirds of the total output was sold to the shipping companies. Before 1920 manila rope used to be exported to Siam and the Straits Settlements, but the exports had ceased since that date and part of the explanation for the cessation of exports was to be found in the import duty on manila hemp. The Tariff Board therefore recommended that the import duty should be removed. The Tariff Board Report was published in May 1929. The Government of India accepted this recommendation in principle, but were unable to give effect to it immediately due to financial considerations.

Printer's Ink.

The printer's ink industry applied in 1926 for equality of tariff treatment on the ground that while printer's ink was dutiable at 2½ per cent only, the raw materials imported for its manufacture in India were subject to duty at 15 per cent *ad valorem*. The imported raw materials

included a large variety of colouring materials and also rosin, gums and lithographic varnishes. There was tariff inequality even in regard to the raw materials which were purchased in India, such as linseed oil and mineral oil, because in both cases the market price was regulated by the cost of importation. There were two ways of removing this disability—one was by giving a rebate on the materials used, and the other by raising the duty on the printer's ink. The former alternative was unsuitable because printer's ink was not a case of a product where the exact quantities of materials used in its manufacture could be easily ascertained by an inspection of the product and the total output produced. The Board, therefore, recommended that the duty on printer's ink should be raised from 2½ to 5 per cent. The additional burden imposed by the duty on the printer's industry was negligible, as the duty amounted to one-seventh of one per cent of the cost of printing. In accordance with this recommendation the duty on printer's ink was raised from 2½ per cent to 5 per cent *ad valorem* with effect from 1st April 1926, under the Indian Tariff Amendment Act, 1926.

Bolts and Nuts.

Bolts and nuts are manufactured from steel bars. While a duty of Rs. 40 per ton was charged on steel bars, the duty on bolts and nuts was only 10 per cent *ad valorem*. The industry claimed protection in 1927, but the Tariff Board found that the manufacture of these articles was being carried on on too small a scale and there was no data to decide what the costs would be if large scale production was undertaken. They were, therefore, unable to recommend substantive protection but proposed that the tariff inequality should be removed by imposing a specific duty of Rs. 2 per cwt. on bolts and nuts in place of the *ad valorem* duty. The Government accepted the recommendation and the duty was imposed under the Steel Industry Protection Act, 1928.

Certain Railway Materials.

It was represented to the Government of India in 1930 that the manufacture of certain railway materials was hampered by the fact that the import duties on the manufactured articles were lower than, equal to or insufficiently above the protective duties levied on the materials required for their manufacture.

The following were the materials in question:—

- (1) Chrome steel points and crossings, (2) bearing plates, (3) fish bolts, (4) rivets, (5) dogspikes, (6) stretcher bars, (7) gibs and cotters.

In the case of these articles the Tariff Board had to consider not merely the removal of tariff inequality, (because in the case of some of them the duty on the finished product was already equal to or higher than the duty on the materials), but also whether any assistance was required otherwise than by equalising duties. In regard to chrome steel switches and crossings no tariff inequality existed, but the Tariff Board considered that their exemption from the protective duties had become anomalous because the Tata Company had begun to manufacture chrome steel rails and was in a position to manufacture alloy steel when required.

The Board, therefore, recommended that chrome steel switches and crossings should also come under the protective duty applicable to other switches and crossings. Stretcher bars being a part of switches and crossings, were also proposed to be subjected to the same duty. Bearing plates manufactured from flats though subject to tariff inequality, were becoming obsolete and hence no adjustment was required in their case, while bearing plates with a raised shoulder were not subject to any tariff inequality. With regard to the other articles, *viz.* fish bolts and nuts, ordinary bolts and nuts, dogspikes, gibs, cotters and keys and rivets, the Indian manufacturer was really under a disadvantage on account of tariff inequality which was proposed to be rectified by specific duties at the following rates:—

Fish bolts and nuts	} Rs. 2 4 0 per cwt.
Ordinary bolts and nuts	
Dogspikes	
Rivets, gibs, cotters and keys	Rs. 2 0 0 per cwt.

In their Report of 1926 on Steel Industry the Tariff Board had recommended *ad valorem* duties for fabricated steel, because of the wide variety of the articles included in that category, but although the above articles were also fabricated steel, the same consideration did not apply to them and hence specific duties were recommended. Apart from tariff inequality, these duties were also justified on the ground that it was necessary to encourage the development of the fabricating industry which constituted a market for the various kinds of raw steel produced in India.

The Steel Industry (Protection) Act, 1931, which was passed on 28th February, gave effect to these recommendations by imposing specific duties at the above rates on the railway materials concerned. It also subjected chrome steel switches and crossings as well as stretcher bars which form part of them to the protective duty applicable to other switches and crossings.

Carbon Brushes.

Carbon brushes were subject to tariff inequality, because the duty on them was 10 per cent, while the duty on carbon blocks was 25 per cent and that on copper flexibles and patent cement was 20 per cent. This inequality was felt all the more by the industry because the sizes of the carbon blocks do not correspond closely to the sizes of the brushes which had to be cut from them, with the result that a good deal of raw material is wasted. In order to remove that inequality it was proposed to equalise the duty paid on carbon blocks with the duty payable on the number of brushes cut from them. As the ordinary carbon brush contains also a flexible lead fastened with expensive cement, on both of which duty had to be paid, it was necessary to deduct this duty from the duty on brushes. It was not practicable to reduce the duty on these articles. Calculating on this basis (the Tariff Board recommended the reduction of duty on carbon blocks from 25 per cent to 15 per cent.) They did not recommend the alternative method of increasing the duty on carbon brush because the great number of varieties of the latter made it difficult to estimate the effect of an increase in duty on it and other articles in which it is used (*e.g.*, electrical motors and generators).

The Government of India gave effect to this recommendation by reducing the duty on carbon blocks used in the manufacture of carbon brushes for electrical motor and generators from 25 per cent to 15 per cent. *ad valorem* by notification under Section 23 of the Sea Customs Act. The change was approved by the Legislature in the autumn of 1935.

Tariff Balance.

There is another type of anomaly similar to tariff inequality which arises out of a lack of adjustment between the price of an article and that of its potential substitute or the price of a finished product and the prices of its component parts. If as a result of the imposition of a heavy duty on an article, another article which is a potential substitute for it becomes comparatively cheap, the latter will have a tendency to displace the former from the market. Similarly, if the duties on component parts are comparatively much lower than those on the finished product, there will be a tendency to import only the component parts and to make them up into a finished product locally. In both cases the revenue suffers and the purpose of putting a heavy duty on the article is frustrated. The following are the important cases in which such an anomaly existed and had to be rectified by tariff adjustments.

The high duties on imported matches were encouraging the practice of importing empty match boxes and splints and of dipping splints in India. The Government, therefore, found it necessary to impose duties on these component parts in order to protect the revenue from the match duty. Under the Finance Act, 1924, undipped splints used for match making were subjected to a duty of four annas and six pies per lb. and veneers including boxes and parts of boxes made of such veneers to a duty of six annas per pound.

Under the Finance Act, 1933, certain important changes were introduced in the import duties on boots and shoes and artificial silk mixtures, in order to safeguard the revenue from the special duties imposed on these articles under the Emergency Act, 1931 (*viz.* a specific minimum duty on boots and shoes and enhanced rates of duty on artificial silk manufactures). In the case of boots and shoes, it had become possible to evade a part of the duty by importing only the canvas uppers and rubber soling sheets, which paid duty at no more than the standard evenue rate, and assembling these constituents in India. In order to protect revenue, therefore, a minimum specific duty was applied to uppers for boots and shoes at half the rate applicable to complete boots and shoes. Leather uppers, which in any case could not be cheap enough to fall within the scope of the minimum specific duty, were excluded for the technical reason that the *ad valorem* duty to which they were liable, was, owing to the operation of the Ottawa Agreement, different from that applicable to other uppers.

Another loophole for evasion was discovered in the case of silk or artificial silk mixtures. The duty on these was $34\frac{3}{8}$ per cent, while the duty on cotton piecegoods was raised to 50 per cent in August 1932. It was possible to evade this high duty on cotton piecegoods by mixing with them a nominal quantity of silk or artificial silk. Silk or artificial silk mixtures were therefore made liable to a

minimum specific duty of 2 annas and 3 pies to check this evasion. This duty, being operative only in the case of cheap varieties, did not affect the genuine types of silk or artificial silk mixtures.

In 1934, it was discovered that the duties on manufactured tobacco were not yielding the expected revenue due to a similar reason. As the duty on cigarettes worked at something like double the rate on the raw leaf used for its manufacture, it became profitable to import only the raw leaf and manufacture cigarettes similar to those imported. It was, therefore, decided to replace the existing duty on cigarettes by a specific duty roughly corresponding to the amount that would have been paid on the raw leaf contained in them, *plus 25 per cent ad valorem*. The actual rates of duty were fixed as follows:—

Cigarettes—25 per cent *plus* either Rs. 8-2-0 per thousand or Rs. 3-4-0 per lb., whichever was higher.

Tobacco, unmanufactured.—Rs. 3-4-0 per lb. Standard and Rs. 2-12-0 per lb. Preferential.

Thus, the local industry manufacturing cigarettes from imported tobacco was left with no more advantage than any other industry turning imported raw material into a finished product. No surcharge was leviable in respect of these duties.

Again, in view of the wide range of values existing in the cigarette trade, the method of dividing cigarettes into two classes according as their value was above or below Rs. 10-8-0 per thousand was given up. Under the old system certain brands which slightly exceeded Rs. 10-8-0 in value and came consequently under the higher rate of duty could not be imported due to the almost prohibitive increase in the amount of duty payable on them. No such difficulty arose under the new method which combined the specific and *ad valorem* duties. The revised rates amounted to a reduction in duty on the majority of imported cigarettes which were formerly assessed at Rs. 10-10-0 per thousand and to an increase in duty on the more expensive brands which could stand the increase.

In the same year the Mechanical Lighters Excise Duty Act was passed to rectify another defect in the tariff. It was apprehended that the heavy duty on matches was likely to encourage an increased use of mechanical lighters, thereby causing a loss of revenue and at the same time impairing the efficacy of the protective duty. The Act, therefore, imposed an excise duty at the rate of Rs. 1-8-0 per lighter on mechanical lighters produced in British India and raised the customs duty on mechanical lighters by an amount equal to the excise duty.

It must be added that these were not the only changes which were effected for establishing a due correspondence between different duties. Several changes of the same type have already been mentioned in the discussion of protective and preferential measures; they are not discussed here simply to avoid repetition.

Changes (other than protective) made on Broad Grounds of National Policy.

The general principle behind the tariff amendments in this class was to minimise the burden of taxation on the necessaries of life and the means of production. The principle was endorsed by both the Indian Taxation Enquiry Committee and the Fiscal Commission and several

cases were brought to the notice of the Government by the Tariff Board or the interests concerned in which a reduction or removal of duty was justified in the light of this principle*. The principal tariff changes made with a view to minimise the regressive character of the tariff system are discussed below :

Under the Finance Act, 1925, the excise duty on motor spirit was reduced from 6 annas to 4 annas a gallon in order to cheapen it; and as imports were very small, and it was thought that the difference of $2\frac{1}{2}$ annas between the excise and import duties served no purpose, the import duty was also reduced from $8\frac{1}{2}$ annas to 4 annas a gallon.

Under the same Act, the $2\frac{1}{2}$ per cent import duty on grain and pulse was removed in accordance with the recommendation of the Fiscal Commission. This import duty had little significance from the revenue point of view, because the import of these articles was negligible in normal times and the duty was suspended in times of scarcity.

Certain articles such as healds, reeds, shuttles, etc. which were used both in power-loom and handlooms were assessable at the higher rate of duty applicable to the component parts of handlooms. As, however, their chief use was in the power looms, it was decided to specify them separately so as to bring them under the lower rate of duty, namely, $2\frac{1}{2}$ per cent *ad valorem* applicable to the component parts of power machinery. The change was effected by the Finance Act of 1925.

In 1927, the improvement in the financial position enabled the Government to give effect to certain recommendations of the Taxation Enquiry Committee. The export duty on tea was abolished. The loss resulting from the abolition of the export duty on tea was made up by making an important change in the method by which the profits of the tea companies were assessed to income-tax. It was found that the non-agricultural profits of these companies were very much in excess of 25 per cent of the whole and hence the proportion of their profits which could be assessed to income-tax was raised from 25 per cent to 50 per cent, thereby partially making good the loss of revenue resulting from the abolition of the export duty.

In the same year the import duty on motor cars was reduced from 30 per cent to 20 per cent and the import duty on tyres from 30 to 15

* The Report of the Indian Delegation to the Ottawa Conference (1932) (page 11) gives the following classification of the articles in the Indian Tariff Schedule which are exempted from import duty or are assessed at a specially low rate of duty.

- (1) Commodities of importance to the cultivator, such as agricultural implements and manures.
- (2) Particular medicines such as quinine, the wide distribution of which is important from the point of view of health.
- (3) Commodities a duty on which might operate as a tax on knowledge such as printing machinery and appliances.
- (4) Commodities a duty on which would impede the development of industries such as power machinery, raw materials and dyes.
- (5) Commodities a duty on which will retard a desirable development in its infancy, such as aircraft and radio appliances.
- (6) Commodities a duty on which might appreciably increase the cost of railway transport, such as locomotives and many other classes of railway materials.

per cent. The measure was intended for encouraging the development of motor transport in India and was recommended by the Taxation Enquiry Committee. The Finance Member, while proposing this change, gave a hint to the Provincial Governments that they could take that opportunity for imposing fresh taxation on the users of motor cars in order to obtain funds for purposes of road developments.

The duty on rubber seeds and rubber stumps was also removed in 1927. Apart from the fact that the proceeds of this duty (which was 15 per cent *ad valorem*) were inconsiderable, the removal of this duty was strongly urged by the Burma Government on the ground that it was hampering the development of an important adolescent industry in that province.

The Indian Tariff (Amendment) Act, 1927, removed the import duties on all machinery and component parts of machinery, including printing machinery, and the following millstones:—sago flour, tallow, china clay, bleaching paste and bleaching powder, magnesium chloride, dyes derived from coal-tar and coal-tar derivatives used in any dyeing process, cotton ropes and starch and farina.

Notifications were issued from time to time under the Sea Customs Act, 1923, exempting certain articles, partially or wholly, from payment of import duty. The Indian Tariff (Amendment) Act, 1928, gave statutory effect to some of these exemptions. The following articles were involved:—currants, certain agricultural implements, plated surgical instruments, milking machines, zinc lithographic plates, illustrations specially made for binding in books, light ships, stone prepared as for road metalling and insignia and badges of official British or Foreign Orders.

The same Act removed the duties on paper money, on gold and silver sheets and plates which have undergone no process of manufacture subsequent to rolling, and on models and wall diagrams illustrative of natural science.

The Free List was further extended by the Indian Tariff (Amendment) Act, 1930, which removed the import duties on tanning barks, ammonium phosphates, living plants, certain agricultural implements and dairy appliances and incubators, pans for boiling sugarcane juice, sugar centrifuges and sugar pugmills, and certain printing lithographic materials.

In 1934, the export duty on hides was abolished as a measure of relief to the export trade which was in a severely depressed condition.

In his Budget speech of 1935, the Finance Member admitted the unfairness of the additional import duty on salt which had the effect of helping the salt producers of Aden at the expense of the consumers of Bengal, and proposed its extension for another year solely out of consideration for vested interests. The duty was lowered from 4½ annas to 2½ annas per maund in 1933 and to 1½ annas in 1936. It expired on 30th April 1938. These changes have already been discussed elsewhere.

The export duty on skins was abolished in 1935, because it was considered unfair to tax the exports of a commodity which had suffered heavily from a severe contraction of demand.

SECTION V.

Revenue Changes.

It is difficult, in a sense, to segregate revenue changes in a separate class, because excluding those tariff amendments which are purely protective in their effect, every other increase in duty has usually a revenue significance. There are, however, certain tariff changes which are dictated principally by revenue considerations and it is convenient to classify them separately. From a review of these changes, it is at once apparent that almost on every occasion when there was a need for revenue, the brunt of additional taxation fell on one or other of the same group of articles, namely, cotton piecegoods, sugar, liquors, tobacco, kerosene, matches and silver. Cotton piecegoods, sugar, kerosene and matches being articles of general consumption and having a comparatively inelastic demand, the duties on them were proved by experience to be good revenue producers, and were comparatively stable elements even in times of depression. Liquors and tobacco, on the other hand, are luxury articles and were on that account considered suitable for specially heavy rates. A duty on silver has been an old feature of the Indian import tariff. In India silver is a form of investment and the habit of putting money in silver is fairly widespread and deeply rooted among the masses; besides, the demand for silver is governed more by the general prosperity of the agricultural population than by the price. Even a small duty on silver has, therefore, been found capable of yielding a fairly handsome revenue.

In 1927, the Government gave effect to several recommendations of the Taxation Enquiry Committee, which resulted in a net loss of revenue of Rs. 24 lakhs. In order to make up this loss, the import duty on unmanufactured tobacco was raised from Re. 1 to Rs. 1-8-0 per lb. The increase, while giving some additional protection to the Indian grown tobacco, was not considered to be unfair to the Indian cigarette industry which had then attained a fairly strong position.

In 1930, the Government was faced with a heavy deficit of more than Rs. 5½ crores and had, consequently, to introduce several changes in the tariff, which while resulting on the whole in a substantial addition to the revenue, were also considered capable of yielding indirect benefits to trade and industry. The duties on cotton piecegoods, kerosene and sugar were raised, the duty on silver was re-introduced and the export duty on rice was lowered by one-quarter, that is, from three annas a maund to two annas three pies a maund. This latter measure was designed to remove the disparity which then existed, between the export duty on rice in Siam and that in this country. It was also welcomed as a measure of relief to the rice growers of Burma who were hard hit by the fall in the price of rice.

The change in the duty on cotton piecegoods is discussed elsewhere. The excise and import duties on kerosene were found to be a comparatively stable and reliable source of revenue and the Government proposed to tap them for additional revenue by adjusting them in such a way that the cost of kerosene to the ordinary consumer might not be raised and at the same time there might not be a drastic change in the conditions of the indigenous industry which was enjoying a certain degree of protection as a result of the difference of 1½ annas between the two duties. Under the Finance Act, 1930, the import duty on kerosene was reduced from 2½ annas a gallon to 2¼ annas and the excise duty was raised from 1 anna to 1 anna six pies, the difference between the two duties being narrowed by one-half.

The next change was an all-round increase in the duties on all grades of sugar by Rs. 1-8-0 a cwt. The duty on sugar below 8 Dutch Standard and sugar candy had little significance for revenue, the imports being very small, but it was considered desirable to specify it separately, in order to prevent the substitution of lower for higher grade sugars. Molasses were treated differently, since its use is mainly as a raw material of certain industries, such as those manufacturing denatured spirit.

The reintroduction of the revenue duty on silver (which was fixed at 4 annas an ounce), although inspired by revenue considerations, was also considered to have the additional advantage of partially mitigating the fall in the internal price of a commodity in which the savings of the masses were invested. The old objection (which was endorsed by the Babington Smith Committee) that a duty on silver hampered the establishment of a world market for silver in Bombay was met by allowing a full rebate of the duty on re-export of any silver which had paid the duty. The duty was also considered to create a protected market for the surplus stock of silver in the hands of the Government. As said above, the duty on silver is an old feature of the Indian tariff. Prior to 1910, silver was included in the general tariff schedule of articles liable to duty at 5 per cent. *ad valorem* and in 1910, the duty was changed to 4 annas an ounce. During the war silver imports were prohibited and after the war the duty was removed on the recommendation of the Babington Smith Committee.

The new duty on silver involved two consequential changes. The import duty on silver manufactures (plate, thread, wire, leaf, etc.), had to be raised from 30 to 38 per cent. *ad valorem* which was done by the Finance Act 1930, while under the Silver Excise Duty Act, 1930, an excise duty was imposed on the local production of silver.

In 1931, the finances of the Government of India were severely affected by the economic depression and a deficit of Rs. 17-24 crores arose in the Budget. The Government had, therefore, to impose additional taxation to meet the deficit. The changes introduced in the customs tariff fall into two classes, increases in substantive rates and general surcharges. In the first category, the duty on ale, beer, porter, cider and other fermented liquors were increased by about 66 per cent. while those on wines and spirits (except denatured spirit and spirit used in drugs and medicines) were raised between 30 and 40 per cent. An additional duty of Rs. 1-4-0 per cwt. was imposed on all grades of sugar (except molasses) and sugar candy, while the duty on silver was raised from 4 annas to 6 annas an ounce. Betelnuts, spices and exposed cinematograph films were transferred from the general rate of 15 per cent. to the luxury rate of 80 per cent.

In the second category, surcharges were imposed on whole classes of articles, bringing about a general levelling up of rates throughout the tariff schedule. A surcharge of 2½ per cent. was levied on all articles paying duty at 10 per cent., another surcharge of 5 per cent. on articles paying the general rate of 15 per cent. and one of 10 per cent. on all articles paying the luxury rate of 80 per cent. Other important surcharges were as follows: 15 per cent. on cigars, Rs. 1-8-0 per thousand on cigarettes, 12 annas per lb. on other kinds of manufactured tobacco, 9 pies per gallon on kerosene, 2 annas per gallon on motor spirit, Rs. 2-8-0 per ton on batching oil, 4 pies per gallon on lubricating oil, 2½ per cent. on fuel oil, 10 per cent. on arms and motor cars, motor cycles, etc., 2½ per cent. on artificial silk yarn and thread, 7½ per cent. on silk mixtures and Rs. 2 per ton on Portland.

cement other than white Portland cement. Cotton piecegoods were subjected to a surcharge of 5 per cent.

In September 1931, the revised estimates of revenue revealed a heavy deficit over the budgetary estimates for 1931-32; and fresh taxation was necessary. A surcharge of 25 per cent. was accordingly imposed on all articles liable to import duty, excluding articles liable to import duty at $2\frac{1}{2}$ per cent. *ad valorem*. The rates were enhanced on several items in the import tariff. The import duty on artificial silk piecegoods and other manufactures of artificial silk, camphor, and electric bulbs was increased from 20 to 40 per cent. and on artificial silk yarn from 10 to 15 per cent. The duty on artificial silk mixtures was raised from 20 to $27\frac{1}{2}$ per cent. while that on printer's ink was increased from 5 to 8 per cent. In accordance with a recommendation of the Tariff Board, the duty on brown sugar was raised from Rs. 6-12-0 to Rs. 7-4-0 per cwt. The 20 per cent. duty on boots and shoes was replaced by an alternative duty of 20 per cent. or 4 annas per pair, whichever is higher. All these articles had to pay the surcharge on the increased duty.

The surcharges imposed in the two budgets of 1931 had resulted in raising the level of the general revenue tariff from 15 to 25 per cent. It was, therefore, considered permissible to levy a duty of 10 per cent. on articles which were hitherto on the free list. Accordingly, machinery and dyes derived from coal-tar and other coal-tar derivatives were made liable to a duty of 10 per cent. and a small duty of $\frac{1}{2}$ anna was imposed on raw cotton. As regards the last named duty, which was a tax on the raw material of a protected industry, its effects were considered to be more than counterbalanced by the additional protection which the industry had received as a result of the surcharges. The duties on raw cotton, machinery, and dye-stuffs were exempted from the surcharge of 25 per cent. The Indian Finance (Supplementary and Extending) Act, 1931, by which these changes were effected came into force on 31st September 1931. The duty on raw cotton was enhanced from $\frac{1}{2}$ anna to 1 anna per lb. under the Indian Finance Act, 1939. The increase was effected mainly as a revenue measure, but was also defended on the ground that it would, incidentally, encourage the growth of long-staple cotton in India.

The duty on silver, including the surcharge of 1931, had reached a high figure of $7\frac{1}{2}$ annas per ounce, but the proceeds from this duty were fast diminishing mainly because of the strong incentive it gave to smuggling and also because of the fall in imports due to the reduction in the purchasing power of the masses. It was, therefore, thought advisable to reduce the duty by $2\frac{1}{2}$ annas. The change was effected by the Indian Finance Act, 1934. The proposal was also in harmony with the general silver policy of the Government which, particularly after the conclusion of the Silver Agreement of 1932, was one of co-operation with other countries and especially with the United States of America in measures designed to improve the price of silver.

The Matches Excise Duty Act, 1934, imposed an excise duty on matches. The import duties on matches had, therefore, to be revised so as to maintain the existing measures of protection for the Indian industry. The excise duty was imposed in order to make up for the loss of revenue caused to the Central Government by the decision to hand over half the proceeds of the jute export duty to the jute producing provinces.

In 1935, the import duty on silver was reduced to 2 annas an ounce. This was also dictated by the same considerations as the reduction effected in 1934 which experience showed to be inadequate to discourage smuggling.

In 1937, the excise duty on sugar was raised from Rs. 1-5-0 to Rs. 2-0-0 per cwt., as a result of which a minor adjustment became necessary in the import duty. The increase in the excise duty, which was dictated primarily by revenue considerations, was justified as a measure which was capable of exercising a restrictive effect on the unhealthy growth of the sugar industry, without imposing a heavy burden on the consumer of sugar, which had already fallen heavily in price. The Finance Act of 1934, which first imposed the excise duty, had left the import duty 3 annas higher than the total of the excise duty and the protective duty of Rs. 7-4-0 recommended by the Tariff Board, with the object of providing additional protection to the industry against the fall in the price of the imported sugar.* In 1937, however, the Indian sugar was being sold so far below the imported sugar that it was considered unnecessary to continue the additional protection and hence the import duty was fixed exactly at the level equivalent to the total of the excise and the protective duty of Rs. 7-4-0 to which the industry was entitled till March 1938 under the Sugar Industry Protection Act, 1932.

The duty on silver had again to be raised in 1937 from 2 annas to 3 annas an ounce for meeting the revenue needs. It was thought that the duty was capable of bearing this small increase without encouraging smuggling.

Revenue changes for specific purposes.

Certain changes in tariff, although apparently intended for raising revenue, are to be distinguished from the ordinary revenue changes, inasmuch as the additional revenue derived from such changes is allocated to a specific purpose and is not utilised for general expenditure. The increase in the import and excise duties on motor spirit made in 1929 is an example of such a change. In 1929, in pursuance of the recommendations of the Indian Road Development Committee, the Government decided to make use of the duties on motor spirit to provide funds for the provinces for purposes of developing road communications. Both excise and import duties on motor spirit were raised from 4 annas to 6 annas a gallon with effect from 28th February 1929, and out of the additional revenue so derived a Road Development Fund was set up, with the object of making disbursements to Provincial Governments from time to time for expenditure on road development schemes. The additional revenue was estimated at Rs. 88 lakhs in 1929-30.

The Indian Tariff (Wireless Broadcasting) Amendment Act, 1932, is another example of an amendment of the same type. The Act increased the import duty leviable on wireless reception instruments and apparatus and component parts thereof to a special rate of 50 per cent. *ad valorem*; with the specific object of providing funds to enable Government to continue wireless broadcasting in India. This duty was exempted from the surcharge of 25 per cent.

Miscellaneous Tariff Amendments.

In 1924, Government stores were made subject to import duty. This step was recommended by the Tariff Board. Under the Stores Purchase

Rules the duty was to be taken into account when the prices of imported goods were compared with the prices of articles produced in India. The Tariff Board, however, had received complaints that these rules were overlooked. Under the new procedure no such violation of rules was possible because of the fear that any extra cost involved by importing articles which were produced in India, would be reflected in the accounts of the spending departments and would receive publicity.

Under the Indian Tariff (Amendment) Act, 1925, specific duties were imposed on sugar in place of the former *ad valorem* rate. This was intended partly as a revenue measure and partly as a measure of protection for the indigenous industry. Owing to the overproduction of sugar all over the world, there was a rapid and continuous fall in the price of sugar and the imports of sugar into India had shown an abnormal increase. The new specific duties had the effect of mitigating the fall in the price of sugar and also safeguarding the revenue.

The same Act reduced the duty on silk mixtures from 30 to 20 per cent.

On 30th March 1925, the *ad valorem* duty of 75 per cent. on cigarettes was replaced by specific duties of Rs. 7 per thousand, on those of value not exceeding Rs. 10-8-0 per thousand and Rs. 10-8-0 per thousand on those valued at Rs. 10-8-0 per thousand or more.

With effect from April 1926, the duty on saccharine (except in tablets) was reduced from Rs. 20 per lb. to Rs. 5 per lb. and the duty on sacharine tablets from 25 per cent. *ad valorem* or Rs. 20 per lb. to 15 per cent. *ad valorem* or Rs. 5 per lb. From the same date, the duty on certain textile machinery was lowered from 15 per cent. to 2½ per cent. *ad valorem* and specific duties were imposed on mineral oils used for batching and also on those used for lubrication. A specific duty of Rs. 9 per ton was imposed on Portland cement in place of the *ad valorem* duty of 15 per cent., and on grounds of tariff equality, the duty on printer's ink was increased from 2½ per cent. to 5 per cent. Stick or seed lac and hay presses were exempted from duty.

Under the Indian Tariff (Amendment) Act, 1928, the duty on white Portland cement was changed from a specific duty of Rs. 9 per ton into 15 per cent. *ad valorem*.

The Indian Tariff (Amendment) Act, 1930, imposed the saccharine duty on substances of a like nature or use, equalised the duty on all domestic refrigerators at 15 per cent., exempted pilot cores of insulated copper cables from conditions as regards size for assessment purposes, and equalised the duty on all kinds of bangles, beads and false pearls at 30 per cent. *ad valorem*.

The Indian Tariff (Second Amendment) Act, 1933, imposed a duty (including the additional duty and the surcharge) of 3 annas 9 pies per Imperial gallon on mineral oil, other than kerosene and motor spirit, which is suitable for use as illuminant in wick lamps. The Act came into force from the 23rd December, 1933.

The Indian Tariff Act, 1934—A consolidating measure.

Prior to 1935, changes in tariff were effected by amendments to the Indian Tariff Act, 1894. The long succession of amendments which were made over a period of forty years had made the Act very inconvenient to

read and it was necessary to refer to a multiplicity of enactments for finding out the actual rates of duties in force. The Indian Tariff Act, 1934, was, therefore, passed to consolidate the tariff laws. It came into force on the 1st January 1935. The schedule of duties appended to the Act shows as far as possible the actual rate of duty payable on each article. The tariff items, moreover, were rearranged in accordance with the scheme of classification evolved by the Economic Committee of the League of Nations. Among the earlier enactments which were repealed by this Act, there were sections 3 and 4 and Schedules I and II of the Indian Finance Act, 1931, and sections 3 and 4 and Schedule I of the Indian Finance (Supplementary and Extending) Act, 1931. The additional duties and surcharges which were imposed by these provisions were incorporated in the rates of duties shown in the schedules appended to the new Act.

SECTION VI.**Export Tariff.**

The changes made in the export tariff since 1924 have already been referred to above at several places. It may, nevertheless, be convenient to group them here together. Since 1924, the Government has made little further use of export duties for revenue purposes. The list of export duties, has, therefore, been very short. In 1924, the only articles liable to export duty were raw jute and jute manufactures, raw hides and skins, rice, husked or unhusked, including rice flour, and tea. There were only four changes in the export tariff since 1924. Under the Finance Act, 1927, the export duty on tea was abolished; the Finance Act, 1930, reduced the export duty on rice from 3 annas to 2½ annas a maund; and the export duties on raw hides and raw skins were removed under the Finance Acts of 1934 and 1935, respectively. The only export duties now remaining are those on jute, raw and manufactured, and rice.

APPENDIX.

List of Tariff Acts passed since 1924.

1. The Indian Finance Act, 1924.
2. The Sea Customs (Amendment) Act, 1924.
3. The Steel Industry (Protection) Act, 1924.
4. The Indian Tariff (Amendment) Act, 1925.
5. The Indian Finance Act, 1925.
6. The Bamboo Paper Industry (Protection) Act, 1925
7. The Indian Finance Act, 1926.
8. The Indian Tariff (Amendment) Act, 1926.
9. The Indian Finance Act, 1927.
10. The Steel Industry (Protection) Act, 1927.
11. The Bamboo Paper Industry (Protection) Act, 1927.
12. The Indian Tariff (Cotton Yarn Amendment) Act, 1927.
13. The Indian Tariff (Amendment) Act, 1927.
14. The Steel Industry (Protection) Act, 1928.
15. The Indian Tariff (Amendment) Act, 1928.
16. The Match Industry (Protection) Act, 1928.
17. The Indian Finance Act, 1929.
18. The Indian Tariff (Amendment) Act, 1929.
19. The Indian Finance Act, 1930.
20. The Steel Industry (Protection) Act, 1930.
21. The Indian Tariff (Amendment) Act, 1930.
22. The Cotton Textile Industry (Protection) Act, 1930.
23. The Steel Industry (Protection) Act, 1931.
24. The Gold Thread Industry (Protection) Act, 1931.
25. The Indian Finance Act, 1931.
26. The Salt (Additional Import Duty) Act, 1931.
27. The Wheat (Import Duty) Act, 1931.
28. The Indian Finance (Supplementary and Extending) Act, 1931.
29. The Heavy Chemical Industry (Protection) Act, 1931.
30. The Wheat Import Duty (Extending) Act, 1932.
31. The Wire and Wire-Nail Industry (Protection) Act, 1932.
32. The Bamboo Paper Industry (Protection) Act, 1932.
33. The Indian Tariff (Wireless Broadcasting) Amendment Act, 1932.
34. The Salt Additional Import Duty (Extending) Act, 1932.
35. The Sugar Industry (Protection) Act, 1932.
36. The Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932.
37. The Indian Finance Act, 1933.
38. The Cotton Textile Industry Protection (Amendment) Act, 1933.
39. The Wheat Import Duty (Extending) Act, 1933.
40. The Salt Additional Import Duty (Extending) Act, 1933.
41. The Indian Tariff (Ottawa Trade Agreement) Supplementary Amendment Act, 1933.
42. The Indian Tariff (Amendment) Act, 1933.
43. The Safeguarding of Industries Act, 1933.
44. The Cotton Textile Industry Protection (Second Amendment) Act, 1933.

45. The Indian Tariff (Second Amendment) Act, 1933.
46. The Indian Tariff (Amendment) Act, 1934.
47. The Cotton Textile Industry Protection (Amendment) Act, 1934.
48. The Wheat Import Duty (Extending) Act, 1934.
49. The Steel and Wire Industries Protection (Extending) Act, 1934.
50. The Indian Finance Act, 1934.
51. The Salt Additional Import Duty (Extending) Act, 1934.
52. The Matches (Excise Duty) Act, 1934.
53. The Indian Tariff (Textile Protection) Amendment Act, 1934.
54. The Mechanical Lighters (Excise Duty) Act, 1934.
55. The Iron and Steel Duties Act, 1934.
56. The Indian Tariff Act, 1934.
57. The Indian Finance Act, 1935.
58. The Indian Tariff (Amendment) Act, 1935.
59. The Salt Additional Import Duty (Extending) Act, 1935.
60. The Indian Tariff (Amendment) Act, 1936.
61. The Salt Additional Import Duty (Extending) Act, 1936.
62. The Indian Tariff (Second Amendment) Act, 1936.
63. The Indian Finance Act, 1937.
64. The Indian Tariff (Amendment) Act, 1937.
65. The Indian Tariff (Second Amendment) Act, 1937.
66. The Sugar Industry Protection (Temporary Extension), Act, 1938.
67. The Indian Tariff (Amendment) Act, 1938.
68. The Indian Tariff (Amendment) Act, 1939.
69. The Indian Finance Act, 1939.
70. The Indian Tariff (Second Amendment) Act, 1939.
71. The Sugar Industry (Protection) Act, 1939.
72. The Indian Tariff (Third Amendment) Act, 1939.

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T. E. GREGORY,
Economic Adviser
to the Government of India.

SIMLA;

The 20th September 1939.

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SIMLA;

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CHANGES IN THE OCCUPATIONAL DISTRIBUTION OF THE POPULATION.

The object of this enquiry is to examine the changes in the Occupational Distribution of the population during the last thirty years. The Imperial and Provincial Census Reports constitute the main sources of information on the subject and as they can be supplemented by the various Annual Reports on Factories, Industries and Agriculture, it is possible to obtain a fairly comprehensive notion of the main tendencies regarding changes in occupations during the last few decades.

The manner of treatment which will be followed here is to divide the subject into three parts dealing respectively with:—

- I. The Changes in Classification and the General Value of Occupational Statistics for Comparative Purposes.
- II. The Occupational Distribution of the Population and Occupations by the main orders and groups.
- III. Special Questions connected with Occupations.

I.—THE CHANGES IN CLASSIFICATION AND THE GENERAL VALUE OF OCCUPATIONAL STATISTICS FOR COMPARATIVE PURPOSES.—

Although the Census statistics constitute by far the most important source of information regarding occupations, great care has to be taken in comparing the figures of one year with those of another, since the occupational statistics as they stand are not always strictly comparable. This is due to the changes that have been introduced during successive census enumerations both in the character of the information collected and in the manner of tabulating it. It is necessary, therefore, to examine some of the more important of these changes, with a view to drawing attention to the factors which have to be taken into account in a comparative study of the occupational returns.

Information about occupations was first tabulated in the Census of 1881
Census of 1881. when only the occupation of principal earners was returned. A single column headed "Occupation of men, also of boys and females who may do work" was provided for this return; and only the principal earners were included in that column.

The above method was rejected in the Census of 1891 and it was
Census of 1891. decided to record not the occupation of principal earners only, but also the means of subsistence of the whole population. But if a person had two occupations, only the principal one was entered, except in the case of a person who owned or cultivated land in addition to another occupation, when both were returned. The difficulty in connection with this system was that it was found inconvenient to record the subsidiary occupation of agriculturists in the same column with the main occupation, as there was no

separate column for subsidiary occupations. The Census of 1891 did not thus distinguish between subsidiary and principal occupations and recorded only the means of subsistence while ignoring the distinction between actual workers and dependents.

In order to show precisely the difference between the procedures adopted in 1881 and 1891 respectively the rules for filling in the entries are reproduced below:—

1881	1891
Occupation of men, also of boys and females who may do work.	Occupation or means of subsistence.
<p><i>Instructions :—</i> Only such persons are to be shown in this column as actually do work contributing to the family income. Mere employment in such domestic occupations as spinning will not entitle women to be shown in this column unless the produce of their labour is regularly brought to the market, &c. &c.</p>	<p><i>Instructions :—</i> Enter here the exact occupation or means of livelihood of all males and females who do work or live on private property such as house rent, pension, etc. In the case of children and women who do no work, enter the occupation of the head of their family, or of the person who supports them. If a person has two or more occupations, enter only the chief one, except land in addition to another occupation, when both should be entered.</p>

But the procedure adopted in 1891 of recording simply the means of subsistence and ignoring the distinction between workers and dependents was not altogether satisfactory. Although it is important to know the number of persons supported by each occupation, from an economic view point, it is even more important to know the number of actual workers occupied in it. In the Censuses of 1901, 1911 and 1921, therefore, three columns, as noted below, were provided for the record of occupations—two for principal and subsidiary occupations of actual workers and the third for the means of subsistence of dependents or persons supported by the labour of others.

Occupations or Means of Subsistence of Actual Workers.		Means of subsistence of Dependents on Actual Workers.
Principal.	Subsidiary.	
9	10	11

This scheme of classification had the advantage of distinguishing between principal and subsidiary occupations not only in the case of agriculturists, but in all cases. But it will also be seen from the following statement that in tabulating the information thus obtained, statistics regarding subsidiary occupations were compiled only when agriculture was one of the occupations.

Statement showing the method adopted for the Record of Occupations in the Censuses of 1901, 1911, and 1921.

Occupation Group. A, B, etc.				
Total Workers and Dependents.	" Actual Workers ".		Partially Agriculturists.	Dependents.
	Males.	Females.		
1	2	3	4	5

In the Census of 1931 an attempt was made for the first time to obtain a detailed census of subsidiary occupations, because it was realised that they also play a very important part in the economic life of the country; and in tabulating occupational returns, statistics regarding subsidiary occupations of *all the principal earners*, whether agriculturists or otherwise, were therefore compiled. The 1931 figures for subsidiary occupations cannot, however, be compared with those of the previous years, since they have been compiled on an altogether different basis. Whereas the earlier censuses give figures for the subsidiary occupations of those who follow agriculture as one of their occupations, the 1931 figures give a detailed census of the subsidiary occupations of *all the principal earners*. The following analysis of occupational changes is therefore based primarily on the number of "principal earners" occupied in each group of occupations; because except in the case of agriculture, the figures in respect of the total number of persons following Industry, Transport, Trade, etc., as a subsidiary occupation are not even approximately comparable*. None the less it is important to bear this factor in mind when considering the proportion of workers in a specified group of occupations to the total working population, and wherever possible, great care should be taken to examine the other sources of information regarding subsidiary occupations with a view to obtaining an accurate impression of the occupational changes in general.

The Census of 1931 also introduced another change in the method of classification. It was found that the previous distinction between "workers" and "dependents" was altogether too vague; according to instructions to enumerators in the earlier censuses, "a woman who looks after the house and cooks food is not a worker but a dependent; but a woman who collects and sells firewood and cow-dung is thereby adding to the family income and should be shown as a worker". Thus, "women and children who work at any occupation which augments the family income must be entered in column 9 (for workers) and not in column 11 (for dependents)". It will be seen from these instructions that the only test for deciding whether a person was a worker or a dependent was whether that person augmented the family income or not. In an agricultural country like India, labour is very much in demand during such busy seasons as harvesting, ploughing, etc., and almost every member of the family goes to the farm to help the principal earner during such seasons. But during

*See below pages 21 and 25.

the rest of the year there is comparatively no work on the land and the labour of the principal earner is generally sufficient for the requirements of the small farm that obtains in India. It was, therefore, extremely difficult for an enumerator to decide whether a person was a worker or a dependent; and the test whether a particular person augmented the family income or not was really no guide to deciding this question, since almost every adult member of the family does augment the family income by some work or at some time.

The Census of 1931, therefore, made a distinction between "working" and "non-working" dependents. A person whose earnings were too casual and insignificant as compared with the requirements of the family was treated as a non-working dependent or a dependent, pure and simple. Such a dependent may augment the family income by occasional assistance to the principal earner, but such assistance did not entitle him to be treated as a "working dependent". A "working dependent" on the other hand, was one who actually followed some occupation but whose earnings, though fairly regular, were yet too small for setting up a separate household. In order to emphasise this distinction between working and non-working dependents, elaborate instructions were given to enumerators during the Census of 1931. But, as the report for the Central Provinces points out, "the distinction between workers and dependents, however clear to the trained intelligence, is very liable to be misunderstood by the average enumerator and requires much explanation. Even when an enumerator has mastered the definitions involved, it is often a problem for him to extract from the villagers the information needed to ensure accuracy of the record; and obviously there are dangers of mistakes occurring in the records prepared by the less zealous census officials".*

In a comparative study of the occupational statistics of 1931 with those of the earlier Censuses, it should always be realised that this distinction between "working" and "non-working" dependents is one of fundamental importance and has greatly influenced the occupational statistics of that year. In the first place, it made the term "working dependent" so narrow that a large number of persons who would have been returned as "workers" by the standards adopted for the earlier Censuses were returned as dependents, pure and simple, by the standards adopted for 1931; or, in other words, the number of actual workers during the censuses of 1901, 1911 and 1921 was unduly inflated by the inclusion of a large number of children and females who according to instructions laid down for the 1931 Census would have been classified merely as "dependents". It will be shown below that the 1931 figures in respect of the total number of persons occupied do not therefore show the increase that would have been expected in view of the growth of population and economic activity during the post-war period†. Secondly, it will also be shown below that the number of working females shows a very large decline in almost every province, which can largely be attributed to the fact that the instructions to enumerators were so interpreted that a woman was generally returned as a dependent, pure and simple, unless it was definitely proved that she was engaged as an "earner" or a "working dependent" in some specified occupation.** Moreover, there is overwhelming evidence to show that this distinction

*Page 223.

†See below Table I, page 18.

**See below pages 18-18.

created a great deal of confusion in the minds of the enumerators and therefore gave rise to a great many mistakes which would have been avoided if this distinction had not been introduced.***

The following statement shows the method adopted for the record of occupations in the Census Schedule of 1931; and it will be noticed from this that since the "actual workers" of the Censuses of 1901, 1911 and 1921 also included those who were termed as "working dependents" in 1931, it is necessary to regard the "actual workers" of the previous censuses as equivalent to the "principal earners" plus the "working dependents" of 1931.

Statement showing the method adopted for the Record of Occupations in the Census of 1931.

Occupational Group A, B, etc.

Total following Occupation.	As Principal Occupation.		As Working Dependents.		As Subsidiary to other Occupation.	
	Males.	Females.	Males.	Females.	Males.	Females.

Apart from the distinction between "non-working" and "working" dependents and the changes in recording subsidiary occupations, the system of classifying occupations recorded in the Census Schedules has also varied greatly. In 1881, the English classification was adopted with a few minor changes, but actual experience showed that it was unsuited to Indian conditions. An entirely new classification was, therefore, designed in 1891 and with a few modifications it continued up to 1901.

But the question of classifying occupations had for some years been engaging the attention of European statisticians, partly because no country was entirely satisfied with its existing system and partly because the schemes adopted in different countries varied from each other to such an extent as to make any international comparison of occupational statistics almost an impossible task. An entirely new scheme of classification was therefore evolved in 1911 which was based on a system devised by Dr. Jacques Bertillon and approved by the International Statistical Institute. This system was adopted in India during the census of 1911 and has with

***For example, "The question whether a particular person was an earner or a dependent gave rise to considerable difficulty.....and personally I would abolish altogether the column dealing with occupation of dependents".

—Assam Report, pp. 115-16.

Madras Report, paragraph 5, page 192.

Central Provinces Report, p. 223.

Bihar and Orissa Report, p. 184, paragraph 8.

certain minor modifications, continued to this day. According to it occupations are divided into four main classes, twelve sub-classes and 195 groups, as follows:—

Classes.	Sub-classes.	Groups.
A.—Production of Raw Materials.	I. Exploitation of Animals and Vegetables.	41 groups.
	II. Exploitation of Minerals	
B.—Preparation and Supply of Material Substances.	III. Industry	111 groups.
	IV. Transport	
	V. Trade	
C.—Public Administration and Liberal Arts.	VI. Public force	32 groups.
	VII. Public Administration	
	VIII. Professions and Liberal Arts	
D.—Miscellaneous	IX. Persons living on their Income	11 groups.
	X. Domestic Service	
	XI. Insufficiently described occupations.	
	XII. Unproductive	

It will be noticed that under the Bertillon System the Census staff has to distinguish between 195 different groups of occupations; and in dealing with a population of over 350 millions, it is possible that a number of occupations may be returned which do not fit in exactly with any of the 195 groups enumerated in the Census Schedule. This system of classification therefore provides a whole sub-class for "Insufficiently Described Occupations", and the more thorough is the method of taking the Census, the greater naturally must be the number returned under this sub-class. For this reason the increase in the Insufficiently Described Occupations was more than 30 per cent. in 1931, as shown in the marginal figures*. The importance of this large increase has however been frequently overlooked; and it will be shown below that the smallness of the increase in occupations connected with Agriculture and Industry may to some extent be attributed to this increase in the Insufficiently Described Occupations.

The Number of Workers Occupied in occupations which are Insufficiently described.

(The figures are in Lakhs).

1911	1921	1931
51	59	78

Before proceeding to an analysis of occupational changes, it is also necessary to examine some of the inherent limitations of the occupational statistics as derived from a decennial Census. In the first place, it should be remembered that the basis of all the occupational statistics is the unverified statement of the householder relating to the occupations of members of his household; and that "occupied" does not necessarily mean employed. A man who is out of work, ill or too old for regular work all the year round

* The figures relating to the Insufficiently Described Occupations for 1911, 1921 and 1931 are strictly comparable to each other.

will be returned under whatever occupation he has followed, so that the number of occupied persons will generally be greater than that stated in other publications concerning organised industries. Moreover, occupation is limited to those working for payment or profit and excludes full-time students, women engaged in housework in their own houses and other busy but unremunerated persons. Secondly, the occupational statistics cannot take into account the seasonal changes in the number of occupied persons, but merely record the occupational distribution at a given date, and as several occupations are seasonal in character, the number returned under some heads is likely to be unduly inflated or deflated. For instance, the Census Report for 1911 points out that the number of persons occupied in the milling of rice in Rangoon or the grazing of herds in the North West Frontier Province had been unduly inflated because the Census time coincided with seasonal activity in those occupations.* Thirdly, it is generally accepted that the returns for subsidiary occupations in India are very much underestimated. The Indian villager, for instance, is often a day labourer, a casual industrial worker, a domestic servant, and so on. Although no great difficulty is experienced in determining the principal source of livelihood in the case of a large majority of persons the particular head under which the subsidiary occupation of an individual is shown is often a matter of chance, since the Census schedule provides for only one subsidiary occupation and even if a person has got two or more only one can be recorded.** But, perhaps, the greatest drawback of occupational returns lies in the fact that the Census cannot indicate the extent of dependence of different workers on a particular occupation. Thus, a man who is only casually employed and who earns the barest minimum for existence from a certain occupation has to be classified with another who has been a steady earner over a period of years. Thus, though the Census returns furnish the number of persons occupied, say, in agriculture, they fail to give any idea regarding the number who are only temporarily so engaged or the extent to which they are under-employed. For these reasons, the note of warning sounded in the Census Report of 1921 should always be borne in mind. "The occupational statistics collected in the population schedule give at best only a general sketch of the functional distribution of the people and are too vague and imperfect to afford the detailed information required for public and administrative purposes".† The following analysis of occupational changes will therefore be directed towards indicating only the main tendencies at work during the last thirty years, since it would be misleading to deduce more than this from the data as it exists at present.

THE NUMBER OF DOMESTIC SERVANTS IN MADRAS IN 1931.

Another important point to be borne in mind in respect of the occupational statistics of 1931 is the excessive increase in the number of domestic servants in the Presidency of Madras. The following table shows that whereas the total number of persons occupied in most other provinces in 1931 shows an absolute decline as compared with 1921, the Province of Madras alone shows an enormous increase of 58 lakhs or about 80 per cent.

*Census Report 1911, page 242.

** Bihar and Orissa Census Report, 1931, para. 7, pages 182—83.

† Page 238.

TABLE I.

Table showing the Number of Persons occupied in each Province.

	1911	1921	1931
	lakhs.	lakhs.	lakhs.
All India (including the Indian States and Provinces)	1489	1464	1539*
Assam	31	35	39(a)
Bengal	162	164	144
Bihar and Orissa	167	167	156
Bombay	97	88	86
C. P. and Berar	83	81	83
N. W. F. Province	8	8	9
Punjab	77	73	83
U. P.	243	243	236
Madras	210	202	260

It will also be noticed from the following table that this increase is mostly confined to female workers who show an increase of about 60 lakhs taking the Presidency and the States of Madras together.

TABLE II.

Table showing the total number of Persons, Males and Females, employed in the Province of Madras plus the Madras States.

	1911	1921	1931
	lakhs.	lakhs.	lakhs.
Males	142	143	155
Females	99	82	138
Total	231	225	293

It is therefore necessary to make a critical study of the occupational returns for 1931 with a view to finding out the causes of this discrepancy. It will be seen from the following table that the total number of persons occupied in domestic service in India during 1931 shows an increase of 84 lakhs over the corresponding figures for 1921; and that this increase is confined mostly to female domestic servants whose number has also increased by 80 lakhs.

TABLE III.

Table showing the number of Domestic Servants employed in India including Burma and the States.

	1911	1921	1931
	Thousands.	Thousands.	Thousands.
Females	993	822	8,804
Males	1,733	1,710	2,094
Total number of persons	2,726	2,532	10,898

*As given in the Census Report, although, for reasons given below, it would be more accurate to estimate it as 1469 lakhs.

(a) See below footnote on page 29 which accounts for the apparent increase in Assam

It will also be noticed from the following table that except in Bengal, Hyderabad and Madras, the number of domestic servants has actually decreased in all other provinces. The increase of about 4 lakhs in Bengal may at present be ignored;* but the increase of 72 lakhs in the Presidency of Madras alone constitutes by far the most important feature of the occupational returns for 1931.

TABLE IV.

Table showing the Number of Domestic Servants in each Province.

000's omitted.

Province.	1911.			1921.			1931.		
	Males.	Females.	Total Persons.	Males.	Females.	Total Persons.	Males.	Females.	Total Persons.
Assam	22	6	28	29	8	37	24	7	31
Bengal	250	111	361	334	116	450	384	420	804
Bihar & Orissa	216	208	421	172	110	282	88	92	180
Bombay	147	53	200	124	50	174	128	55	183
Burma	49	11	60	43	8	51	35	10	45
C. P. & Berar	61	40	91	74	36	110	56	39	95
N. W. F. Province	19	3	21	8	2	10	11	8	14
Punjab	168	50	218	196	47	243	198	36	234
United Provinces	816	224	540	276	166	463	298	184	477
Baroda	1	1	2	2	3	5	5	3	8
Hyderabad	141	76	217	108	72	180	279	196	475
Madras Presidency	62	47	109	54	40	94	238	6,172	6,410
Madras States including Travancore and Cochin	7	6	13	7	6	13	33	606	939
Total Madras and Madras States	69	53	122	61	46	107	271	7,078	7,349

The Census Report for India fails to account for this discrepancy and commenting on the decrease in the number of persons occupied in agriculture merely observes that:—

“it should be clear at the outset that the decrease in Class A (Production of Raw Materials) is apparent rather than real. The change is due to the number of females, 535 per 10,000 workers, who have returned their occupation as domestic service. In 1921 these would have appeared as workers mainly, if not entirely, agricultural”.

(Page 421).

But such an assertion is not borne out by the statement given above, since it shows that, except in Madras, there is a decline in the number of domestic servants in most other provinces and that there is only a small increase in Bengal, Hyderabad, etc. It follows therefore that the increase of 84 lakhs in the All-India figures relating to this group is almost entirely due to an increase of over 72 lakhs in the Presidency and the States of Madras alone. It would appear that this aspect of the problem was overlooked by the Census Report for India and the assertion that the increase in Domestic Service is largely responsible for the apparent decline in Agriculture cannot therefore be substantiated. It is possible that such a change may have occurred in Madras only but there is no ground for believing that a similar change took place in other provinces also, since the above statement shows that there has been no large increase in Domestic Service in any other province.

* See below pages 92-93.

The Census Report for Madras however explains that enumerators were instructed that "housekeeping might be entered among the occupations of dependents". "This" as the Report states "gave rise to much trouble and misconception which.....is reflected in the statistics themselves. Housekeeping is undoubtedly an occupation.....but it is extremely difficult to confine entries to the correct interpretation. As a result the domestic service entries seem enormously swollen as compared with those for 1921 and no true comparison is possible".* It is therefore clear that the view held by the Census Report for India is completely unfounded; and the only reasonable explanation of the enormous increase in Domestic Service lies in the fact that in Madras females who would have been returned as "dependents" during the previous censuses were erroneously classified as domestic servants in 1931. This view is further borne out by the following table which shows that over 95 per cent. of the domestic servants in Madras are females who have been classified as "working dependents" in Domestic Service.

TABLE V.

Table showing the number of Persons employed in Domestic Service in the Province and the States of Madras, 1931.

	As Princip- al Earners.	As Work- ing Depend- ents.	Total Workers.
	(000)	(000)	(000)
Males	117	154	271
Females	182	6,896	7,078
Total	299	7,050	7,349

Moreover the marginal table shows that except in the case of domestic

TABLE VI.

The total number of Persons occupied in the various Occupations in the Presidency and the States of Madras taken together

	1911.	1921.	1931.
Production of Raw Materials.	lakhs.	lakhs.	lakhs.
Preparation and supply of Material sub- stances.	164	160	141
Public Administration and Liberal Arts.	47	41	43
Insufficiently Describ- ed Occupations.	6	6	6
Domestic Service	11	14	28
Domestic Service	1	1	74
Total	231	224	294

service there is practically no change in the number of persons engaged in the various occupations in Madras during the last three censuses. It will also be observed that the increase of 70 lakhs in the total number of persons occupied in the province in 1931 is practically offset by the increase of 73 lakhs in the number of domestic servants. It is thus clear that a large majority of the 74 lakhs of females in domestic service have been so classified because the meaning of the term "domestic service" was misconstrued; and women who in all probability did housework in their own homes were mistaken for domestic servants who work in other people's houses for a regular wage.

But since the unduly swollen figures for Madras vitiate the all-India returns in the sense that the latter also appear to be unduly inflated, it is essential that some allowance should be made for this discrepancy in comparing the 1931 returns with those of the previous years. Throughout the following pages, it will therefore be assumed that the 70 lakhs of females classified as "working dependents" on domestic service in Madras should not have been so classified, but should instead have been treated merely as "dependents". The number of actual workers in 1931 would thus work out at (1,539 minus 70 lakhs) 1,469 lakhs and not 1,539 lakhs as given in the Census Report. Similarly the number of domestic servants

The Number of Domestic Servants India.

The Figures are in lakhs.

1911.	1921.	1931.
27	25	39*

in India would work out at (109 minus 70) 39 lakhs and not 109 lakhs as given in the Report. It should also be noticed that even after allowing for the 70 lakhs, the 1931 figures for domestic service show an increase of 56 per cent. over the corresponding figures for 1921.

(II).—THE OCCUPATIONAL DISTRIBUTION OF THE POPULATION.

We may now proceed to examine the occupational distribution of the

(TABLE VII.)

Table showing the proportion of Actual Workers to the Total Population.

	1911.	1921.	1931.
Total population (in lakhs.)	3151	3189	3528
Number of Actual Workers (in lakhs.)	1489	1464	1469
Actual Workers per 1,000 of the population.	472	459	417

population during the past thirty years. It would appear from the marginal table that the proportion of actual workers per 1,000 of the population shows a progressive decline and that the decline between 1921 and 1931 was much greater than the decline between 1911 and 1921. But it would be

misleading to attach any undue importance to this decline which is more apparent than real, because, as has already been mentioned, it is more than probable that the changes in the methods of classification and the more rigid distinction between "workers" and "dependents" in 1931 led to the classification of a large number of persons as "dependents", who would have been classified as "workers" according to the standards adopted for the earlier censuses.

* It will be seen from the statement on page 9 that the increase of 14 lakhs in 1931 is due to :—

- (i) Increase of 3½ lakhs in Bengal ;
- (ii) Increase of 2 lakhs in Hyderabad ;
- (iii) Increase of 2½ lakhs in Madras, even after allowing for the increase of 70 lakhs in the number of working dependents from domestic service ; and
- (iv) A miscellaneous increase of 3 lakhs in minor states and Provinces.

But, from an economic point of view, the proportion between workers and the total population does not convey any particular meaning, since a certain number of children and aged persons are altogether incapable of doing work. The proportion of workers between the ages of 15 and 60 years to the population in the same age-group is therefore of much greater importance. The Indian occupational returns do not, however, give the distribution of occupations according to the ages of workers and it is not possible to estimate the proportion of workers between the ages of 10 and 60 years as well as between 15 and 60 years to the population within the same age-groups. The following table, showing the proportion of *workers of all ages* to the population between the ages of 10 and 60 years as well as that between 15 and 60 years, gives a rough indication of the number of adults who have been returned as having some occupation. It will be seen that the number of male workers per 1,000 of the male population between the ages of 15 and 60 years appears to be more than 1,000. This is due to the fact that some persons outside these age-groups also have an occupation.

TABLE VIII.

Table showing the proportion of Actual Workers of All Ages to the Population between the ages of 15 and 60 years and of 10 and 60 years.

	1911.			1921.			1931.		
	Males.	Females.	Total Persons.	Males.	Females.	Total Persons.	Males.	Females.	Total Persons.
Total Number of Actual Workers (in lakhs)	1,015	474	1,489	1,006	458	1,464	1,059	419	1,469
Total Population between the ages of 15 to 60 years (in lakhs)	902	864	1,766	904	851	1,755	1,012	946	1,958
Proportion of actual Workers per 1,000 of the population between the ages of 15 to 60 years	1,125	550	843	1,112	538	834	1,037	443	749
Total Population between the ages of 10 to 60 years (in lakhs)	1,098	1,020	2,118	1,119	1,028	2,147	1,238	1,147	2,385
Proportion of actual Workers per 1,000 of the population between the ages of 10 to 60 years	924	437	703	899	446	682	849	365	616

CHANGES IN OCCUPATIONS ACCORDING TO SEX AND AGE.

It would appear from the marginally noted figures, which are a summary of the above table, that the proportion of workers per 1,000 of the population capable of doing work has been falling during each successive census. Whereas the proportion of all workers of all ages per 1,000 of the population between the ages of 10 to 60 years and 15 to 60 years was 703 and 843 respectively in 1911, it has fallen to 616 and 749 respectively in 1931. The fall in the number of workers in 1921 may to a large extent be attributed

to the influenza epidemic of 1918-19 in which the incidence of mortality was highest among adults between the ages of 20 to 40 years; and it has been estimated that about 9 million persons between the ages of 15 to 60 years died as result of the epidemic. But, as has already been explained, the decline in the number of workers in 1931 was largely due to changes in classification.

It will, however, be seen from the following table that, even allowing for the changes in classification, the fall in the proportion of female workers to the female population is much greater than the fall in the proportion of male workers to the male population.

The number of Male and Female workers of all ages per 1,000 of the Male and Female Population between ages of 10 to 60 and 15 to 60 years.

	Proportion of Male and Female workers of all ages per 1,000 of the Male and Female Population between ages of 10 to 60 years respectively.		Proportion of Male and Female workers of all ages per 1,000 of the Male and Female Population between ages of 15 to 60 years respectively.	
	Males.	Females.	Males.	Females.
1911 . . .	703	843	1125	550
1921 . . .	682	834	1112	538
1931 . . .	616	749	1037	443

The large and continuous decline in the proportion of female workers cannot be wholly attributed to changes in classification, since these changes must have affected the number of male and female workers to about the same extent. But the 1931 figures clearly show that this is not the case, and that whereas the total number of male workers shows an absolute increase of over 4 per cent., the number of female workers shows a decline of about 9 per cent.

Total Number of Males and Females Occupied.

	Males.	Females.
1911 . . .	1015 lakhs.	474 lakhs.
1921 . . .	1006 "	458 "
1931 . . .	1050 "	419 "

It will also be seen from the following table that the tendency for the number of female workers to decline is noticeable in most of the main classes of occupations.

TABLE X.
The number of Males and Females occupied in various Occupations.

	Males.			Females.		
	1911	1921	1931	1911	1921	1931
	lakhs.	lakhs.	lakhs.	lakhs.	lakhs.	lakhs.
Actual Workers	1015	1006	1050	474	458	419
Production of Raw Materials .	723	724	747	342	337	288
Preparation and Supply of Raw materials.	191	180	187	89	77	69
Public Administration and Liberal Arts.	39	37	38	5	5	4
Domestic Service	17	17	21	10	8	18
Insufficiently Described Occupations.	31	36	46	20	24	32

Although this decrease in the proportion of female workers did not fail to attract the attention of the various Census Superintendents, the explanations given regarding its causes have not been uniform. Commenting on the existence of this "apparent" tendency, the Punjab Report for 1921 observes that:

".....A very large part of the apparent want of female labour arises from the fact that the classification of occupations was drawn up by men and not by women; many women appear as unemployed when they should be classified as workers engaged in domestic duties, cooking food..... In fact the occupational tables will have to be completely revised before a fair comparison of the extent of male and female occupations can be drawn up".*

The Bombay Report for 1921 suggests that the increase in the number of dependents and the decrease in the number of female workers is due to the fact that with the increasing prosperity of India less females go to work and that wage-earning tends to commence later in life and cease earlier. (P. 212).

The Report for C. P. and Berar for 1931 attributes the fall in the number of female workers to changes in classification and comes to the conclusion that a large number of females whose occupation it was difficult to judge were returned as dependents in 1931 instead of being treated as workers as would have been the case in the previous censuses.

The reports for Bengal, Bihar and Orissa and Madras, on the other hand, only admit the existence of the tendency without attempting any explanation regarding its causes.

Statement showing the Proportion of females per 1,000 males employed under the Factories' Act of 1911.

	India.	Bom- bay.	Ben- gal.	U.P.
Average for 1919-24 .	184	251	151	93
Average for 1924-30 .	207	267	160	81
Average for 1930-35 .	185 <i>10%</i>	217 <i>20%</i>	143 <i>13%</i>	48

The marginal table which summarises the following Statement regarding the average daily numbr of persons employed in factories coming under the Factories' Act, also shows that the tendency for the number of females to decline has become even stronger since 1930. But it cannot be argued that this

is the result of the depression and that the proportion of females displaced from employment is greater than the proportion of males so affected; since it is clear from the following statement that total employment during the depression did not show any appreciable decline and that in some years, it actually showed a definite increase. Apart from changes in classifications, the decline in the number of female workers employed has therefore to be attributed to some other causes.

Statement showing the number of Males and Females Employed in Factories falling under the Factories' Act.

	Whole of India.			Bombay.			Bengal.			United Provinces.		
	Average Daily Number of Males employed. (000s)	Average Daily Number of Females employed. (000s)	Proportion of Females Per 1,000 Males.	Average Daily Number of Males employed. (000s)	Average Daily Number of Females employed. (000s)	Proportion of Females Per 1,000 Males.	Average Daily Number of Males employed. (000s)	Average Daily Number of Females employed. (000s)	Proportion of Females Per 1,000 Males.	Average Daily Number of Males employed. (000s)	Average Daily Number of Females employed. (000s)	Proportion Females Per 1,000 Males.
1919.	928	177	179	243	61	257	359	54	151	57	5	83
1920.	986	185	185	259	65	248	374	56	150	58	0	103
1921.	1,011	188	188	271	66	244	373	56	150	61	6	98
1922.	1,087	207	198	280	68	243	418	68	151	64	6	94
1923.	1,114	221	198	276	69	250	421	67	159	67	6	90
1924.	1,148	235	159	272	73	268	436	72	165	70	6	86
Average for 1919-24	1,044	202	184	267	70	261	396	66	154	63	6	93
1925.	1,161	248	210	284	78	254	443	74	167	71	6	85
1926.	1,209	250	207	294	81	275	450	78	162	77	7	91
1927.	1,223	253	208	295	80	271	460	78	159	80	7	88
1928.	1,216	252	208	276	75	272	471	75	159	79	6	76
1929.	1,249	257	206	287	75	261	489	78	160	84	6	68
1930.	1,233	255	206	288	78	271	476	74	156	85	7	82
Average for 1925-30	1,202	253	207	288	77	267	464	74	160	80	7	81
1931.	1,173	231	197	304	73	240	411	62	151	86	6	63
1932.	1,172	226	193	313	74	236	389	59	152	97	6	56
1933.	1,169	217	183	289	66	211	394	57	145	107	5	47
1934.	1,248	221	177	308	66	190	419	57	136	120	5	42
1935.	1,360	236	173	348	71	309	452	59	131	133	5	38
1936.												
Average for 1931-35 or 36	1,209	226	185	313	70	217	413	59	143	108	5	43

It is also significant to note in this connection that there has been a large decline in the number of children employed in factories falling under the Factories' Acts of 1911 and 1934.

TABLE XI.

Statement showing the number of children employed in some of the provinces.

Year.	Bombay.	Bengal.	U. P.
1923	11,411	35,359	1,571
1924	9,779	35,040	1,379
1925	8,460	33,851	1,866
1926	7,078	27,803	1,770
1927	6,322	26,437	1,606
1928	5,183	24,422	1,076
1929	4,527	23,036	1,109
1930	4,389	16,630	863
1931	3,841	7,281	641
1932	2,792	5,087	586
1933	2,112	4,471	376
1934*	2,147	3,789	387
1935*	1,941	2,326	464
1936*	922	1,862	364

The decline in the number of children employed in organised factories may partly be attributed to the increased difficulties of certification under the Factory Acts and to the more rigid enforcement of these Acts; but even allowing for this, the decline in the number of children occupied is very largely due to the fact that the age at which wage-earning commences has tended to increase during recent years. // It is therefore possible to suggest that the increase in the age at which wage-earning of the children commences and the decrease in the number of female workers are the result of one and the same phenomenon. As the standard of living increases, female workers tend to concentrate more on house-work than on wage-earning, since owing to social custom there is always a reluctance on the part of the male earner to let his womenfolk go out to earn a living. And when conditions are better and the standard of living tends to rise, perhaps the first result is that women who previously worked outside the home with a view to augmenting the family income tend to confine themselves to the home. Similarly with the spread of primary and secondary education* and the attainment of a better standard of living children tend to stay longer at school before they actually set out to earn a living. The most reasonable explanation of the increase in the number of adult male workers at

*Statement showing the total number of Scholars in Schools.

	1911- 12 (000's).	1920- 21 (000's).	1930- 31 (000's).	1936- 37 (000's).
Primary Schools	4,988	6,328	9,454	10,309
Secondary Schools	924	1,254	2,285	2,422
Total All Schools and Colleges.	6,781	8,317	12,689	13,816

*Factories' Act of 1911 as amended in 1934.

the expense of female and child workers would therefore appear to lie in the social changes resulting from an increasing standard of living during recent years, although it is possible that the coming Census may throw more light on this question and furnish some other explanations apart from the one given above.

OCCUPATIONAL DISTRIBUTION BY MAIN ORDERS AND GROUPS.

Having analysed the changes in the occupational distribution of the population in respect of age and sex, it is now necessary to proceed to an examination of the changes according to the main classes of occupations. The following table shows the total number of persons occupied in each class and the number of persons occupied in each class per 1,000 of the total number of workers.

TABLE XII.

Table showing the number of Actual Workers in various Occupations.

	1911.		1921		1931	
	Total Number of persons occupied (in lakhs)	Number of persons occupied in each occupation per 1,000 of the total number of workers.	Total Number of persons occupied (in lakhs)	Number of persons occupied in each occupation per 1,000 of the total number of workers.	Total Number of persons occupied (in lakhs)	Number of persons occupied in each occupation per 1,000 of the total number of workers.
Total Workers	1489	1000	1464	1000	1469	1000
Production of Raw Materials.	1065	718	1061	724	1035	706
Preparation and Supply of material substances.	280	187	258	176	256	174
Public Administration and Liberal Arts.	44	30	41	28	42	28
Domestic Service.	27	18	25	17	39	27
Insufficiently Described Occupations.	51	34	60	42	79	53
Unproductive	21	14	19	13	18	12

It will be noticed from the above figures that there is no appreciable change in the number of persons occupied in each class of occupations, except in Domestic Service and Insufficiently Described Occupations, which show an increase of 14 and 18 lakhs respectively in 1931, over the corresponding figures for 1921. Agriculture, on the other hand, shows a decline of 24 lakhs; but it is more than probable that much of the increase in Insufficiently Described Occupations is accounted for by agriculturists who have failed to return their occupation correctly. Considering also the vagueness of the term Domestic Service and the changes in the method of classifying occupations, it may be inferred that there is no considerable change in the proportion of workers occupied in each class of occupations to the total number of persons occupied. The fact that the total number of persons occupied does not show the increase that would have been expected in view of the increase of about 11 per cent. in the total population has, as has already been mentioned, to be attributed to the changes in classification and the more rigid distinction between 'workers' and 'dependents'.

But it should always be borne in mind that the occupational distribution according to sex has altered considerably during the last thirty years. It will be noticed from the following table that in every group of occupation, except in Domestic Service, there is a progressive decline in the number of females occupied, and that the decline in 1931 as compared with 1921 is much greater than the decline in 1921 as compared with 1911. It has already been shown that this decline, particularly in 1931, is largely due to changes in classification by which a large number of women who would have been returned as 'workers' in the earlier censuses were shown as 'dependents' in the census of 1931. But the significance of this decline lies in the fact that although the total number of persons occupied does not show any appreciable increase in 1931, there is a large increase in the number of males occupied at the expense of the females occupied.

TABLE XIII.

Table showing the number of Female Workers per 1,000 Male Workers in various Occupations.

	1911	1921	1931
Total All Occupations	467	455	366
Production of Raw Materials	473	521	380
Preparation and Supply of Material Substances	461	425	368
Public Administration and Liberal Arts	128	111	105
Domestic Service	588	471	851
Insufficiently Described Occupations	645	667	889
Unproductive	588	590	538

CLASS I, THE PRODUCTION OF RAW MATERIALS.

Class I includes all occupations concerned with the Production of Raw Materials, the main sub-divisions of this class being (i) Pasture and Agriculture, (ii) Cultivation of Special Crops, and (iii) Exploitation of Minerals. This Class constitutes by far the most important group of occupations and occupies about 72 per cent. of the workers in India. The following table gives the distribution of the population as occupied in the three main sub-divisions of this Class.

TABLE XIV.

Table showing the number of Persons occupied as Principal Earners in the main sub-division of Class I.

	1911 (000's)	1921 (000's)	1931 (000's)
I. Pasture and Agriculture—			
Males	71,463	71,527	73,763
Females	33,873	33,417	28,691
Total	105,336	104,944	102,454
II. Cultivation of special crops—			
Males	706	847	1,039
Females	496	603	654
Total	1,202	1,450	1,693
III. Exploitation of minerals—			
Males	211	235	260
Females	98	113	86
Total	309	348	346

SUB-DIVISION I: PASTURE AND AGRICULTURE.

It will be noticed from the above figures that there is practically no change in the total number of persons following Pasture and Agriculture as a principal source of livelihood during the last three censuses. But this should not be taken to mean that in spite of the growth of population, the capacity of Indian agriculture to absorb more men has come to an end. It has already been shown that the apparent lack of increase in this sub-division is due to changes in classification which resulted in increasing the number of persons occupied in Domestic Service and Insufficiently Described Occupations and also to the changes in the classification of 'workers' and 'dependents' in 1931. This is further borne out by the fact that the number of males occupied in this sub-division shows in 1931 an increase of about 25 lakhs over the corresponding figures for 1921, whereas the number of females shows a decline of over 55 lakhs. It will however be noticed that the number of persons following Agriculture as a subsidiary occupation in 1931 shows a large increase. As has

already been mentioned, the figures for subsidiary occupations for 1931 are not strictly comparable with those of the earlier censuses.* Whereas the earlier censuses give the number of those following Agriculture as a primary and also as a part-time occupation, the 1931 census gives the number of those following Agriculture as a primary and as a subsidiary occupation. For the purposes of a comparative study, however, it may be assumed that the part-time Agriculturist of 1911 and 1921 is more or less the same as the person following Agriculture as a subsidiary occupation in 1931. It may therefore be assumed that the number of persons following Agriculture as a primary and as a part-time occupation in 1911 and 1921 may be compared with the number of persons following Agriculture as a primary and as a subsidiary occupation in 1931.

TABLE XV.

Table showing the number of Persons following Pasture and Agriculture as a Primary and Subsidiary means of livelihood.

		As Principal Occupation. (000's)	As Subsidiary or Part-Time Occupation. (000's)	Total following the Occupation. (000's)
1911	Males	71,463	371	71,834
	Females	33,873	105	33,978
	Total	105,336	476	105,822
1921	Males	71,527	297	71,824
	Females	33,417	108	33,525
	Total	104,944	405	105,349
1931	Males	73,763	6,111	79,874
	Females	28,691	1,165	29,856
	Total	102,454	7,276	109,730

If the total number of persons following Agriculture as a primary and principal occupation be taken together, the number of persons occupied in Pasture and Agriculture shows a considerable increase over the preceding years. The increase in the number of persons following Agriculture as a subsidiary occupation is partly due to changes in classification, but it is also partly due to the development of small scale industries in the countryside. The importance of these industries as an instrument for raising the standard of living has now been generally appreciated; and the Provincial reports of the Registrars of Co-operative Societies and Directors of Industries show that the concerted efforts on behalf of the Provincial Governments at fostering these industries are being met with increasing success. The factors which are now favourable to the development of small-scale rural industries are (1) an increasing population, (2)

*See above page 3.

increased facilities for technical advice and the financial support of the Provincial Governments, (3) better facilities for marketing through co-operative and other marketing organisations, and (4) changes in fashion by which the produce of such industries is becoming popular in the urban middle-classes. It is probable that all these factors will continue to operate for a long time and, therefore, it is also probable that the development of such industries will not only help to raise the standard of living, but also provide an increased scope for subsidiary occupations to a larger number of people living in the countryside.

(ii) THE CULTIVATION OF SPECIAL CROPS.

It will also be noticed from the above figures that the number of persons occupied in the cultivation of Special Crops shows a progressive increase during the past thirty years. The Special Crops are mainly tea, coffee, fruit and vegetables, tea being commercially the most important crop in this sub-division and accounting for about 25 per cent. of the total number occupied. The increase in this sub-division together with the increase in the number of persons following agriculture as a subsidiary means of livelihood gives a rough indication of the changes in social habits and in the methods of agriculture. In the first place the increase in these crops shows that the people are now consuming larger quantities of tea, coffee, fruit, vegetables, etc.* Secondly, it is also significant to notice that the increase in special crops which generally fetch a higher price than the ordinary crops like rice, pulses, etc., and the increase in subsidiary industries are important factors which tend to raise the standard of living of the cultivator and which also tend to lower the pressure on the soil.

(iii) EXPLOITATION OF MINERALS.

The third sub-division, Exploitation of Minerals, does not show any appreciable change in 1931 as compared with 1921, though it shows an increase of about 40 thousand as compared with 1911. But the number of females shows a decline of about 27 thousand or about 25 per cent, as compared with 1921. Apart from changes in classification, this is probably due largely to the prohibition under regulations framed under the Indian Mines Act of the employment of females underground in certain mines and their gradual elimination from underground employment in other mines.

* Although it is not possible to deduce figures to show an increase in the consumption of other special crops, the large increase in the consumption of tea may be taken as indication of this fact.

Tea available for Consumption in India.

Average for years.	Millions of Pounds.
1918-22	40
1923-26	43
1927-30	49
1931-33	66
1934-37	72

The reports of the Chief Inspector of Mines under the Indian Mines Act of 1923 are a more reliable guide to this sub-division than the census reports. The Census defines the "Exploitation of Minerals" in its broadest sense and includes petroleum wells, preparation of bricks, clays, tiles and earthen pots, the cutting of stone and the manufacture of salt from sea-water. The reports of the Chief Inspector of Mines on the other hand deal with the mines in British India as defined in the Indian Mines Act, with the exception of petroleum wells and certain small mines which have been exempted from the operation of that Act. But the figures regarding the average daily number of persons employed in these mines are more reliable, as they have to be submitted periodically under statutory enactment.

In the first instance, the following table shows that the census returns in respect of this sub-division are an under-estimate, because it is only natural to believe that the total number of persons following this occupation must be far in excess of the average daily number of persons employed. But the census returns for the total number of persons following the mining occupations do not show any appreciable increase over the average daily number of persons employed in mines under the Indian Mines Act of 1923. Secondly it will be noticed that even during the worst years of depression the total number of persons employed showed practically no decline, and finally it should also be noticed that although mining as an occupation is practically insignificant as compared with the total population, it has been affording increasing scope for employment to male workers during recent years.

TABLE XVI.

Table showing the number of persons occupied in the Mining Occupations as shown in the Census Reports and the number of Persons Employed in such Mines in British India as come under the Operations of the Indian Mines Act of 1923.

		Males. (000's).	Females. (000's).	Total. (000's).
Census Returns for the number of persons occupied in the mining occupations in British India.	1911*	178	89	267
	1921	176	96	272
	1931	191	79	270
Figures regarding the average daily number of persons employed as given in the Reports of the Chief Inspector of Mines.	1927	191	79	270
	1928	190	78	268
	1929	199	71	270
	1930	205	57	262
	1931	183	48	231
	1932	166	38	204
	1933	171	36	207
	1934	192	37	229
	1935	214	43	254
	1936	227	43	270
	1937	220	48	268

* Including Petroleum Wells for which no separate figures are available; they are therefore excluded from other years.

PREPARATION AND SUPPLY OF MATERIAL SUBSTANCES.

Next to Pasture and Agriculture, Class II, the Preparation and Supply of Material Substances, constitutes the most important group of occupations. The main sub-divisions of this group are (i) Industry, (ii) Transport, and (iii) Trade. The census definition of Industrial employment is any "employment on wages in company with any other person by a third person". This definition therefore covers many forms of non-industrial employment, but in the process of compilation and tabulation only those industries are included which are known to be of any importance in a given locality. Moreover, in the general schedule, the occupation entered is that of a particular individual and not the industry in connection with which he is employed. Thus, a carpenter or mechanic in a jute mill, for instance, is shown as a carpenter or a mechanic as the case may be and not as an employee of a jute mill. In other countries, statistics regarding organised labour and industrial production are obtained by means of a separate form or a series of forms, which the employers of labour are required to fill in; but in India, special returns from establishments employing organised labour are not called for, and for reasons of economy the 1931 Census did not even attempt to compile separate tables for organised industries. The figures relating to the average daily number of persons employed in factories falling under the Factories Act are, however, published in the Statistical Abstracts for India and they may be taken as indicative of the changes in industrial production and employment since 1911. Similarly, the term "Transport" is defined in the Census in its broadest sense and includes any activity which is directed towards the carrying of goods or passengers from one place to another. Thus, a coolie engaged on road repairs, a porter on the railway station and a villager plying his bullock-cart for hire are all regarded as workers under Transport. Trade includes all wholesale and retail dealers as well as bankers, money-lenders, etc.

TABLE XVIII.

Table showing the number of Actual Workers occupied in the Preparation and Supply of Material Substances.

	1911.	1921.	1931.
	(000)	(000)	(000)
<i>Industry—</i>			
Males	11,503	10,685	10,798
Females	6,012	5,040	4,555
Total	17,515	15,725	15,353
<i>Transport—</i>			
Males	2,157	1,766	2,100
Females	238	205	242
Total	2,395	1,971	2,342

TABLE XVIII—contd.

	1911.	1921.	1931.
	(000)	(000)	(000)
Trade—			
Males	5,464	5,577	5,785
Females	2,637	2,472	2,128
Total	8,111	8,049	7,913
Total for Group II—			
Males	19,125	18,028	18,683
Females	8,887	7,717	6,936
Total	28,012	25,745	25,619

It will be noticed from the above figures that the total number of workers occupied in this group in 1931 does not show any appreciable change as compared with 1921 and shows an absolute decline of 4 per cent. as compared with 1911. But the 1931 figures show a considerable increase in the number of male at the expense of female workers as compared with 1921. The fact that the total number of persons occupied in this group does not show the increase that would have been expected in view of the growth of population and industry can be attributed to the changes in classification, and also to the large increase in the Insufficiently Described Occupations which has been noted above.* As in the case of the "Exploitation of Minerals" group, it is also possible that the 1931 figures relating to this group are a serious under-estimate. And finally, the changes in the method of recording subsidiary occupations are also largely responsible for this apparent lack of increase. As has already been mentioned, statistics regarding the number of persons following industry as a subsidiary occupation are not available for 1911 and 1921. But, as in the case of Agriculture, it is probable that if the number of persons following Industry as a subsidiary occupation in 1911 and 1921 were also available, the 1931 figures for principal earners *plus* those following Industry as a subsidiary occupation would have shown a considerable increase over the corresponding figures for 1911 and 1921. As it is, the apparent decline in the number of persons occupied in this group gives a very misleading picture of the situation, and, for the various reasons given above, it would be erroneous to attach any significance to this apparent decline.

This conclusion is further strengthened by the fact that there has been a progressive increase in the average daily number of persons employed in Industries falling under the Factories' Act. And considering that the number of persons attached to an occupation is normally much greater than the average daily number of persons employed in it, the actual increase in the total number of persons following Industry as an occupation would appear to be much more substantial than is shown by the census figures.

* See above page 6.

† See above pages 21—23.

*Statement showing the Average Daily Number of Persons Employed in
Factories falling under the Factories' Act.*

Years.	000's.	Years.	000's.
1911-14	909	1927	1,533
1919	1,172	1928	1,520
1920	1,239	1929	1,553
1921	1,266	1930	1,528
1922	1,361	1931	1,431
1923	1,409	1932	1,420
1924	1,456	1933	1,405
1925	1,497	1934	1,487
1926	1,518	1935*	1,611
		1936*	1,652
		1937*	1,676

INDUSTRY.

Most of the large-scale industries fall under this sub-division which occupies about 11 per cent. of the total workers in India. But textiles constitute the largest single industry and occupies about 25 per cent. of the total workers in this sub-division. The following table shows the number of persons occupied in each of the separate industries falling under this sub-division and the percentage variation over 1921.

TABLE XX.

Table showing the number of workers occupied in Industry.

	1911.	1921.	1931.	Percentage variation 1921-31.
	(000).	(000).	(000).	
Textiles	4,449	4,031	4,192	+1.8
Wood	1,731	1,581	1,632	+3.2
Metals and Ceramics	1,896	1,811	1,738	-5.0
Food Industries	2,134	1,653	1,478	-10.7
Industries of Dress and Toilet	3,748	3,404	3,381	-0.7
Furniture Industries	18	12	21	+50.1
Building Industries	962	812	619	-23.8
Construction of Means of Transport	25	23	29	+27.4
Production and Transmission of Physical Force	7	11	24	+117.0
Total all Industries	17,506	17,716	16,362	-2.3

* Figures for the year 1935, 1936 and 1937 relate to Factories' Act of 1934.

As has already been mentioned, the figures for 1931 do not show the increase that would have been expected had the methods of classification remained the same as in 1911 and 1921. But there is all the same a very marked decline in the Building and Food Industries which cannot altogether be explained by changes in classification. It is nevertheless difficult to believe that the number of persons occupied in the Building

* Figures showing the total number of Occupied Houses.

	In Towns (000).	In Villages (000).	Total (000).
1911	6,037	57,673	63,710
1921	6,765	58,433	65,199
1931	7,936	63,126	71,062

since 1919.† The only possible

† The Average Daily Number of Persons Employed in British India in Food Industries.

	(000's).		(000's).
1919	85	1928	183
1920	89	1929	186
1921	109	1930	185
1922	109	1931	186
1923	141	1932	197
1924	161	1933	210
1925	163	1934	232
1926	171	1935	250
1927	171	1936	262

Industries should have declined when the total number of houses have increased by about 10 per cent. from 1921 to 1931*. Similarly, the decline in the Food Industries is hard to explain in view of the fact that the reports of the Chief Inspector of Factories regarding the average daily number of persons employed in Food Industries show a progressive increase since 1919.† The only possible explanation of the apparent decline in these industries therefore lies in the fact that there has been a grave understatement in respect of them similar to that in the "Exploitation of Minerals" group noted above.

There is on the other hand a large increase in (a) Construction of means of Transport and (b) Production and Transmission of Physical Force. This increase would have been even greater had the methods of classification remained unaltered. But as it is, this increase shows the changes in occupations resulting from changes in social habits which necessitate increased facilities for transport and the use of gas and electricity for private and municipal purposes.

DISTRIBUTION OF THE INDUSTRIAL POPULATION ACCORDING TO PROVINCES.

Although the total number of industrial workers in India exceeds 15 millions it will be noticed from the following table that the industrial population is very unevenly distributed as amongst the various Provinces. Whereas the United Provinces, Madras and the Punjab each occupy 2,630, 2,270 and 1,577 thousand workers respectively, the other provinces, excepting N.-W. F. Province and Assam, each occupy about 1,100 thousand workers only.

TABLE XXI.

Statement showing the Number of Persons, Males and Females, occupied in Industry in each Province.

	1911.			1921.			1931.		
	Males.	Females.	Total persons.	Males.	Females.	Total persons.	Males.	Females.	Total persons.
	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).
Assam	54	36	90	54	32	86	72	221	293
Bengal	1,124	540	1,664	1,231	411	1,642	982	289	1,271
Bihar and Orissa	721	629	1,350	648	501	1,149	632	398	1,030
Bombay	868	335	1,203	838	284	1,122	821	195	1,016
C. P. and Berar	503	296	799	452	254	706	466	190	656
Madras	1,789	894	2,683	1,529	673	2,202	1,672	598	2,270
N.-W. F. P.	79	8	87	106	8	114	103	6	109
Punjab	1,374	396	1,770	1,258	303	1,561	1,317	280	1,577
U. P.	1,854	1,197	3,051	1,608	1,014	2,622	1,742	888	2,630
Total	8,366	4,331	12,697	7,724	3,480	12,004	7,807	3,045	10,852

The tendency for the total number of 'occupied' female workers to decline during each successive census has already been noticed. The marginal Number of Females Occupied in Industry. table shows how strongly this tendency is at work in Industry. Every province, except Assam,* shows a progressive decline in the number of females occupied in this group. The decline in 1931 as compared with the figures for 1921 is, however, much greater than the decline in 1921 as compared with the figures for 1911. As has already been pointed out, this decline is more apparent than real and can very largely be attributed to changes in classification which during each successive census involved a more rigid distinction between "workers" and "dependents".

	1911 (000's).	1921 (000's).	1931 (000's).
Assam	36	32	221
Bengal	540	411	237
Bihar & Orissa	629	501	388
Bombay	335	284	185
C. P. & Berar	296	254	190
Madras	304	373	598
Punjab	386	303	230
U. P.	1,197	1,104	888
Grand Total { including Assam	4,331	3,480	3,035
{ excluding Assam	4,295	3,448	2,864

* But the large increase of 189 thousands of females in Assam can be attributed only to errors in classification. It will be seen from the following table that this increase is solely due to the increase of 195 thousand females classified as working dependents on Textiles.

The number of females occupied in textiles in Assam.

	As Principal Earners.		As Working Dependents.		Total Actual Workers, i.e., Earners plus Working Dependents.		
	Males.	Females.	Males.	Females.	Males.	Females.	Total.
	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).	(000's).
1911 . . . . .	..	..	..	..	2	9	11
1921 . . . . .	..	..	..	..	2	11	13
1931	2	9	2	195	4	204	208

The Census Report for Assam, 1931, points out that there had been considerable confusion in the minds of enumerators regarding entries in Textiles. Almost every house-wife in Assam plies a loom and seeks to obtain home-spun cloth for her domestic use. In the previous censuses this kind of work would have been treated as any other kind of domestic work, but in 1931 it was erroneously treated as a definite occupation, and returned as such in the Census Schedule.—Assam Census Report, 1931, p. 118.

It will also be noticed from the following table that the number of male workers does not show any appreciable decline in 1931 as compared with 1921 and that in many of the provinces there is an absolute increase in their number.

TABLE XXII.

Table showing the number of Males occupied in Industry in each Province.

	1911.	1921.	1931.
	(000's).	(000's).	(000's).
Assam	54	54	72
Bengal	1,124	1,231	989
Bihar and Orissa	721	648	632
Bombay	868	838	821
C. P. and Berar	503	452	466
Madras	1,789	1,529	1,672
N.-W. F. Province	79	106	103
Punjab	1,374	1,258	1,317
U. P.	1,854	1,608	1,742
Total	8,366	7,724	7,807

It would therefore be misleading to attach any great importance to the apparent decline in the number of persons employed in Industry.* This decline arises mainly from the large decline in the number of female workers; and considering that it is more difficult to determine, in the case of females, whether a particular person is a "worker" or a "dependent" than in the case of males, it is probable that the margin of error is much greater in the former than in the latter case. Moreover, there are reasons to believe that the underestimation of female workers was even a little greater than that of male workers during the census of 1931.† The increase in the number of male workers in 1931 as compared with 1921 may therefore be taken as an indication of the fact that general employment in industries is also rising, although it is not possible from the census statistics alone to estimate the exact measure of this increase.

* See pages 24-25 ante.

† See pages 13-17 ante.

shows the changes in the distribution of workers according to provinces and industries:—

TABLE XXIII.

showing the number of persons occupied in the various industries falling under Group III or Industry.

(The figures are in thousands.)

1931.	Hides, Skins and Materials from Animal Kingdom.			Wood.			Metals and Ceramics.			Chemical Products and Transmission of Physical Force.			Food Industries.			Industries of Dress and Toilet.			Total All Industries.		
	1911.	1921.	1931.	1911.	1921.	1931.	1911.	1921.	1931.	1911.	1921.	1931.	1911.	1921.	1931.	1911.	1921.	1931.	1911.	1921.	1931.
208(a)	1	1	1	19	20	27	14	12	12	2	1	1	12	12	10	16	15	16	90	85	298
481	21	16	12	168	167	42	185	222	94	55	66	41	313	236	177	210	211	171	1664	1652	1269
149	4	9	4	135	123	118	200	198	171	86	79	78	259	208	166	300	259	249	1348	1149	1081
408	18	28	18	114	120	102	115	110	84	26	26	27	111	59	86	198	169	185	1202	1122	1016
181	6	5	18	97	79	78	106	97	74	20	20	16	57	27	67	182	173	134	799	706	657
601	51	30	41	280	207	278	214	169	186	30	24	58	297	238	222	622	566	588	2688	2201	2270
16	1	1	1	5	14	13	8	18	14	2	8	8	10	11	10	25	31	30	87	114	109
858	26	19	12	156	150	171	184	174	177	39	47	45	128	77	76	378	377	394	1770	1561	1568
498	58	38	94	218	189	181	315	274	284	146	127	150	486	257	232	697	600	621	3051	2622	2629

(a) See above footnote page 29.

As has already been explained, the numerous changes in classification and in the methods of recording subsidiary occupations have so greatly detracted from the usefulness of the 1931 statistics that their value as a basis for comparison with previous years has lost much of its importance. It is not therefore necessary to submit the figures in the above statement to a further analysis and what will be done here is to examine some of the outstanding changes that may be apparent from the above statement.

Assam.

The large increase of 208 thousand workers in Assam is almost entirely due to the inclusion of 193 thousand females who have been entered as working dependents on Textiles. This, as has already been pointed out, is due to errors in classification*; and no importance need therefore be attached to this great increase in Assam.

Bengal.

The number of persons occupied in Bengal shows a very large decline. Whereas the total number of persons occupied in Industry in 1921 was 1,652 thousands, it had declined by about 25 per cent. to 1,269 thousands in 1931. The Census Commissioner for Bengal does not attempt to explain the causes of this large decline and merely observes that "some part at least of the decrease is genuine". (Report 1931, page 275.)

Apart from the changes in classification, it will appear from the following table that the increase in Domestic Servants and Insufficiently Described Occupations in 1931 is also partly responsible for the apparent decline in Industry and Agriculture. But the most probable explanation of this decline would appear to lie in the fact that the definition of "workers" and "dependents" were made so rigid in Bengal in 1931 that a great many persons who would have been classified as "workers" according to the 1921 and 1911 standards were then classified as "dependents".

TABLE XXIV.

Distribution of workers in Bengal.

	1921.	1931.
	(000's).	(000's).
Exploitation of Animals and Vegetables	11,805	9,856
Industry	1,652	1,269
Transport	365	279
Trade	969	928
Professions and Liberal Arts	250	280
Domestic Service	450	804
Insufficiently Described and Unproductive Occupations	739	869

* See above page 29 foot-note.

Madras and United Provinces.

An interesting feature of the industrial statistics for Madras and the United Provinces lies in the fact that, unlike most other provinces, the Madras and the United Province figures show an increase for almost every industry. In a large country like India, much of the most important work connected with the census must necessarily be decentralised and the chances of discrepancies arising out of different interpretations of definition are very great. The figures in the above statement show that there was a tendency on the part of Bombay, Bengal and Bihar and Orissa Census officials to interpret the terms "workers" and "dependents" in such a way that a large number of persons who would have been classified as "workers" according to previous censuses were then classified as "dependents", while, on the other hand, the U. P. and Madras censuses did not insist on an equally rigid distinction.

TRANSPORT.

It will be seen from Table XVIII* that transport is the only occupation that shows an increase in Group II, the Preparation and Supply of Material Substances in 1931. The following table shows the number of workers under each head under Transport:

	1911.	1921.	1931.	Percentage Variation 1921-31.
	(000's).	(000's).	(000's).	
Transport by Air . . . . .	..	335	306	-8.7
Transport by Water	482	350	362	+3.5
Transport by Road	1,365	1,011	1,260	+24.6
Transport by Rail	474	532	636	+19.5
Post Office, Telegraphs and Telephone services.	77	77	84	+7.9
Total for Transport	2,375	1,970	2,341	+18.8

Since the figures under this head can be assumed to suffer from under-estimation to the same extent as do the figures for Industry, it is probable that the real increase in Transport is much greater than the 19 per cent. noted above. The importance of the increase under this group cannot be ignored, since it shows how new channels for employment are created with the economic development of the country. With the development of trade and commerce, the country requires increasing additions to its roads and railways and better facilities for its postal and goods traffic. It is thus clear that with the growing economic development of the country an increasing number of persons will find occupations connected with Transport, and the figures for 1931 show that this tendency has already begun to operate.

TRADE.

Almost every activity connected with the distribution of goods and services falls under the census definition of Trade. The instructions to enumerators lay down that "where a person both makes and sells, he is classed under the industrial head; and the commercial one is reserved

* On pages 24-25.

for persons engaged in trade pure and simple". But in India and particularly in the Indian countryside, the producer or maker of goods is generally himself the seller and the two are practically interchangeable in a vast majority of cases. "For this reason and also because of the fact that most shopkeepers sell a wide assortment of articles and their classification is somewhat arbitrary and because there exists a large indefinite category of 'general shopkeeper and unspecified shopkeeper' it is not worth while to scrutinise in detail the comparative figures".* Under this group of occupations therefore it is not possible to notice anything beyond certain important tendencies regarding changes in trades and the relative importance of some of the trades as a means for affording occupations to the population.

It will be noticed from the marginal table that the 1931 figures relating to the total number of persons occupied in Trade show a decline of 135 thousand, or about 1 per cent. But it is significant to note that the number of males shows a progressive increase since 1911 and that the number of females shows a decline similar to that which has already been noticed in respect of Agriculture and Industry. This increase in the number of males and the decline in the number of females can be attributed to the changes in the method of classifying "workers" and "dependents" and it is probable that if they had remained the same, the 1931 figures would have shown a considerable increase over the previous years. It will also be seen from the following table that, apart from trades in Food Stuffs and Building Materials, most of the other trades show a considerable increase and that the decline of 422 thousand or 10 per cent. in trade in Food Stuffs, the causes of which will be discussed below, more than accounts for the decline of 135 thousand or 1 per cent. in Trade in general.

TABLE XXV.

Table showing the number of persons occupied in Trade.

Year.	Males (000's).	Females (000's).	Total (000's).
1911	5,464	2,637	8,101
1921	5,577	2,472	8,049
1931	5,786	2,128	7,914

Trade show a decline of 135 thousand, or about 1 per cent. But it is significant to note that the number of males shows a progressive increase since 1911 and that the number of females shows a decline similar to that which has already been noticed in respect of Agriculture and Industry. This

TABLE XXVI.

Table showing the number of persons occupied in various trades.

	1911.	1921.	1931.	Percentage variation, 1921-31.
Banks, Money-lenders, Credit Establishments, etc.	393	436	329	-25
Trade in Textiles	513	493	459	-7
Trade in Skins, leather, furs, etc.	115	88	89	+1
Trade in Wood	109	105	139	+32
Trade in Metals	23	25	27	+8
Trade in Pottery, Bricks, Tiles, etc.	54	34	46	+35
Trade in Building Materials	40	39	22	-44
Trade in Chemical Products	77	50	63	+26
Hotels, Cafes, Restaurants	352	349	490	+43
Trade in other Food Stuffs	4,477	4,258	3,836	-10
Trade in Articles of Luxury	235	199	221	+11
Trade in other sorts	969	1,342	551	+15

* Census Report, India, 1921, page 259.

Since trade in Food Stuffs forms the most important single trade in this group and occupies about 50 per cent. of the total number of persons occupied in Trade in general, it is necessary to analyse the causes of the decline of 422 thousand or 10 per cent. in this trade. The Census report for Bengal points out that changes in instructions in 1931 resulted in reducing "group 132 to dealers in animals specifically sold for food" and that this led to the reduction of the 180 thousand in this group in 1921 to about one thousand in 1931.* Whereas the number of persons occupied in Trade in Food Stuffs in Bengal was 583 thousand in 1921, the changes in classification reduced it to 177 thousand in 1931. It has already been pointed out that the number of domestic servants in Bengal shows an increase of 3½ lakhs in 1931.† and it is probable that the decline in the number of persons occupied in this trade accounts for the increase in the number of domestic servants in that province. In a country like India where shopkeeping is a domestic concern it is extremely difficult to make a hard and fast distinction between a shop assistant and a domestic servant, since their duties are more or less identical and can always be interchanged. The Punjab Report points out that the general village shop-keeper who sold grain, sugar, etc., along with cloth, oil, etc., was entered in group 134, i.e., "trade in other food grains" in 1921, but in 1931 instructions were issued to the effect that only a grain-dealer pure and simple should be classified in group 134, and that the general shop-keeper should be entered under group 150, i.e., "general shop-keeper".‡ The reports for Bihar and Orissa, the Central Provinces and the United Provinces also comment on this decline and point out that since most of the hotel-keepers, sweet-meat sellers, grain merchants, etc., are also members of the family, as opposed to paid employees, it is possible that a large number of persons who would have been classified as traders in Food Stuffs according to the 1921 census were treated as "dependents" in 1931. The

Number of Persons Occupied in Trade in Food Stuffs in Various Provinces.		
	1921 (000's).	1931 (000's).
Assam	167	11
Bengal	583	177
Bihar and Orissa.	491	167
Bombay	272	272
C. P. and Berar	292	175
Madras	745	471
Punjab	247	146
U. P.	704	814

Number of Persons Occupied in Trade in Food Stuffs in Various Provinces. The discrepancies between the 1921 and 1931 figures relating to trade in food-stuffs are so great that it is almost impossible to distinguish clearly between a trader in food-stuffs on the one hand and a domestic servant on the other; or between a trader in food-stuffs on the one hand and a dependent or a non-working member of the family on the other.

Apart from Trade in Food Stuffs, there is also a decline of 5 thousand in Trade in Building Materials. It has

Trade in Building Materials.		
	1921 (000's).	1931 (000's).
Trade in Bricks, pottery, tiles, etc.	34	46
Trade in Building Materials.	39	22
Total	73	68

* Bengal Report, 1931, pages 269-70.

† See above, page 11, footnote.

‡ Punjab Report, 1931, page 229.

error in classification.* In view of the fact that the total number of houses has increased by about 10 per cent. during 1921 to 1931, it is difficult to believe that the number of persons occupied in trades relating to Buildings Materials should have declined. It is probable therefore that there has been some error in classification and the decline in Building Industries and in trade in Building Materials should not therefore, be taken seriously.

But, apart from trades in Food Stuffs and Building Materials, most of the other trades show a large increase. It is significant to note that the increase in hotels, cafes, etc., is very well-marked and that this increase shows a certain change in social habits. Trade in articles of luxury also shows a marked increase, indicating that a larger number of persons can now afford such articles and are availing themselves of them.

It was pointed out in connection with the increase in Transport that with the growth of population and the economic development of the country new needs for personal and commercial services will arise and that they will create new channels of employment in the old industries and will also give rise to different and new forms of industries. In spite of the changes in the methods of classifying "workers" and "dependents" and in spite of the apparently large decline in trade in Food Stuffs, the 1931 figures show that there is already a large increase in the number of persons occupied in activities connected with the distribution of goods. Thus, the increase in Trades in (a) Articles of Luxury, (b) Chemical Products, (c) Bricks, Pottery, Tiles, etc., (d) Cafes, Hotels, and restaurants, and Trade in Miscellaneous Articles shows the changing requirements of the people arising from changes in social and economic habits.

PUBLIC ADMINISTRATION AND LIBERAL ARTS.

The most important groups of occupation falling under Public Administration and Liberal Arts are (i) Public Force, (ii) Public Administration, (iii) Law, (iv) Medicine and (v) Instruction; and the number of females occupied under this head is practically insignificant.

PUBLIC FORCE.

It will be noticed from the marginal figures that there is a decline of about 20 per cent. in the number of persons occupied in public force in 1931 as compared with 1921. This is mainly due to the decrease in the Army, the total number having fallen by about 30 per cent. from 440 thousand in 1921 to about 317 thousand in 1931.

	1911	1921	1931	Percentage variation
	(000's),	(000's).	(000's),	1921-31.
Army	384	440	317	-29
Total Public Force	1069	1040	841	-19

* See above page 27.

PUBLIC ADMINISTRATION.

There is a decrease of about ten thousand in Public Administration. Much of this decline can be attributed to a decrease of 52 thousand in group 162, "village Officials and Servants, other than Watchmen", though, as some of the Census Reports point out, this is also due to the policy of retrenchment in the various provinces.

Table showing the number of Persons Occupied in Public Administration.

1911 (000's).	1921 (000's).	1931 (000's).	Percentage variation, 1921-31.
971	1,005	995	-1

LAW, MEDICINE AND INSTRUCTION.

But the decline in Public Administration would have been even greater but for the fact that in spite of economy and retrenchment in Government services, the number of school teachers has increased very greatly in all the Provinces. The following table shows the number of persons occupied in Law, Medicine and Instruction as non-officials and it will be seen from these figures that every group shows a large increase in 1931 as compared with 1921. This increase is again very significant, because it shows that with a growing and economically developing population, new channels of occupations will always arise as a result of changing social conditions. Thus, the increase in the number of persons following Medicine and Instruction as an occupation is more or less a direct outcome of changes in social habits and an increased demand for medical and educational services. The increase in Law can be partly attributed to the same causes, though it is also largely due to the unemployment in the educated middle classes. ●

Table showing the Number of Persons Occupied in Law, Medicine and Instruction.

	1911.	1921.	1931.	Percentage Variation, 1921-31.
	(000's).	(000's).	(000's).	
Law	82	98	133	+36
Medicine	270	255	319	+25
Instruction	272	337	502	+49

MISCELLANEOUS.

According to the Bertillon System of Classification, the fourth group consists of miscellaneous occupations. These are (i) Persons living on their Income, (ii) Domestic Service, (iii) Insufficiently Described Occupa-

tions and (iv) Unproductive Occupations. The following table shows the number of persons occupied in each of these sub-divisions:—

	1911.	1921.	1931.	Percentage Variation, 1921-31.
	(000's).	(000's).	(000's).	
Persons living on their Income	206	184	216	+17
Domestic Service	2,726	2,532	3,898	+56
Insufficiently Described Occupations	5,068	5,946	7,779	+31
Unproductive (such as inmates of Jails, Asylums, Beggars, Prostitutes and Vagrants).	2,071	1,855	1,626	-12

PERSONS LIVING ON THEIR INCOME.

Commenting on the increase of 17 per cent. in the number of Persons Living on their Income, the Census Report points out that this increase is primarily due to changes in classification and due to the general tendency during the 1931 Census of recording a more definite occupation in the absence of which a person was frequently returned as a 'dependent'. In any case the number of persons living on their income, apart from pensioners, is almost infinitesimal and it is not necessary to analyse this increase any further.

DOMESTIC SERVICE.

The question of Domestic Service has already been discussed at considerable length* and the large increase of 56 per cent. has been attributed to the changes in classification and to a general tendency on the part of females to give a preference to this occupation in the absence of a more definite one. The term "Domestic Service" is nevertheless so vague and so liable to various interpretation that it would always be difficult to deduce any economic generalisations from a decrease or increase under this head. According to the Indian system of classification private motor-drivers, cleaners etc., are returned in a separate sub-division under Domestic Service and it should be noticed that their number has increased greatly since 1921. This increase is consistent with the increase under Transport noted above. Thus:—

The number of Persons Occupied as Motor-drivers, cleaners, etc.

1921	18,800
1931	68,217

* See above pages 7-11.

INSUFFICIENTLY DESCRIBED OCCUPATIONS.

The importance of the enormous increase of 1,833 thousand in this group in 1931 has often been overlooked. The foregoing analysis shows that a large number of persons who would have been returned under Agriculture and Industry in 1921 were returned under Insufficiently Described Occupations in 1931, with the result that the 1931 figures for the former did not show the increase that would have been expected in view of the growth of population and the increase in industrial production. In a comparative study of the occupational returns for 1931, the importance of this large increase in Insufficiently Described Occupations should therefore be borne in mind and great care should be exercised in drawing conclusions regarding any apparent lack of increase in other groups.

UNPRODUCTIVE.

This group includes (i) Inmates of Jails, Asylums, etc. and (ii) Beggars, Vagrants and Prostitutes. The marginal figures show that there is a decline of 12 per cent. in this group and that the most significant decline comes from the sub-group of Beggars, Vagrants and Prostitutes whose number has declined by 400 thousand or 21 per cent. This very large decline in this group can be wholly attributed to a dislike for returning disreputable occupations, since there is no reason to believe that the numbers in this group have appreciably declined since 1921, which, from an economic point of view, was even a worse year than the year 1931.

Table Showing the number of Persons, occupied in unproductive occupations.

	1921 (000's).	1931 (000's).	Percentage variation 1921-31.
Inmates of Jails Asylums, Alm- houses	125	176	+41
Beggars, Vag- rants and Prostitutes	1,847	1,450	-21
Total Unproduc- tive	2,071	1,626	-12

table occupations, since there is no reason to believe that the numbers in this group have appreciably declined since 1921, which, from an economic point of view, was even a worse year than the year 1931.

III.—SPECIAL QUESTIONS CONNECTED WITH OCCUPATIONS.

The inherent limitations of occupational statistics as derived from a decennial census should always be borne in mind in discussing any question connected with changes in occupations. Apart from such limitations, the Indian census returns in respect of occupations have lost a great deal of their usefulness for comparative purposes as a result of the numerous changes in classification which have been introduced during each successive enumeration. It was mentioned therefore that it would be erroneous to attach any undue importance to changes in a particular group or groups of occupations; and the foregoing analysis was therefore directed only to an examination of such general tendencies as may have been at work.

It has also been pointed out that there has been a progressive decline in the number of females occupied and that this decline is particularly well-marked in respect of the 1931 figures. It is this decline which gives the impression that the total number of persons occupied has also been declining, although the number of males occupied shows in every census and in every occupation a considerable increase. As has already been mentioned, this decline in the number of females is very largely due to changes in classification which also affect the increase in the number of

males occupied. If the methods of classifying "workers" and "dependents" had remained the same in 1931 as in 1911 and 1921, it is certain that the total number of persons in each occupation would have shown a much greater increase than it actually does in 1931. Moreover it is probable that in respect of certain occupations, namely, Exploitation of Minerals, Preparation and Supply of Material Substances, Trade in Food Stuffs and Building Materials, etc., the 1931 figures are a considerable underestimate. The importance of these changes should therefore be borne in mind in making a comparative study of the occupational changes and due allowance should be made for them.

But the growth of population and the apparent absence of a large increase in 1931 in group II (the Preparation and Supply of Material Substances) have created a general impression that the pressure on the soil has been increasing continuously during the past few years. The foregoing analysis shows that such an assertion cannot be substantiated by the available material on the subject. In the first place, the methods of recording subsidiary occupations were changed to such an extent that it is not possible to compare the 1931 figures with those for 1921 or 1911. But all the available evidence shows that there has been an enormous increase in the number of subsidiary occupations connected with Industry and that an increasing number of agriculturists are now devoting their time to such occupations with a view to supplementing their income from the land during slack seasons.⁽¹⁾ Secondly it has also been shown that the changes in the definitions of "workers" and "dependents" and the changes in the methods of recording subsidiary occupations have been largely responsible for the apparent lack of increase in group II, the Preparation and Supply of Material Substances.⁽²⁾ Thirdly, it has been pointed out that the 1931 figures in respect of Mining and some of the Industrial Occupations have been greatly underestimated.⁽³⁾ In view of the large increase in the mineral and industrial production in India during the post-war period, it would only be natural to believe that industrial employment should have also increased to the same extent. The following table shows that this is what has actually happened, and, assuming that the average daily number of persons employed in factories falling under the Factories' Act gives a rough indication of the total industrial employment, the index number of employees also shows a considerable increase.

The index numbers of mineral and industrial production in the following table have been taken from the paper read by Sir David Meek before the Royal Statistical Society.* The method adopted by him for mineral production consisted of forming index numbers of the annual production of individual minerals, using the pre-war five years as a base period, and of combining them into a single index number of mineral production by employing weights proportional to the average annual output of each mineral in the base period. The same method has been followed in respect of industrial production but only such industries as cotton, jute and wollen manufactures, paper, breweries and iron and steel have been included because the statistics with regard to their production are the most reliable. The index numbers for employment have been obtained by taking 1911, 1912 and 1913 as the base period for the average daily number of persons employed in factories falling under the Factories' Act.

(1) See above Table XV, page 21.

(2) See above pages 22 and 25.

* Journal of the Royal Statistical Society, Vol. C, Part III, 1937.

Table showing the Index Numbers of Mineral and Industrial Production in India.

	Index Number of Mineral Production.	Index Number of Industrial Production.	Index Number of Industrial Employment.
Average for 5 years 1909 to 1913	100	100	100
1919	147	114	136
1920	138	120	138
1921	138	122	149
1922	133	116	152
1923	141	120	149
1924	150	120	155
1925	152	137	160
1926	162	136	167
1927	172	142	167
1928	174	156	169
1929	180	137	171
1930	182	162	168
1931	170	149	157
1932	158	160	156
1933	169	160	155
1934	179	174	164
1935	189*	..	179
1936	191*	..	182
1937	210*	..	185

It will be noticed from the above figures that industrial employment has been increasing at a rapid rate during the past twenty years or so. It is true that the figures in the above table relate only to organised labour, but they may be taken as indicative of general employment both in organised as well as unorganised industries. Moreover the emergence of numerous small industries in urban and rural areas during recent years clearly shows that there has been a considerable progress in industrial activity, and, there is every reason to believe that the forces now favourable to industrial development will gather greater strength during the next few years.

* These figures have been compiled on the same method as that followed by Dr. Meek for the previous years.

In most of the discussions about occupational changes, the fact that industrial occupations have been increasing progressively has been generally overlooked and attention has been concentrated only on the large numbers of people occupied in agriculture. It is argued that the large increase in population during recent years and the absence of a correspondingly large increase in industrial occupations, as shown by the census figures for 1931,* must inevitably result in reducing the standard of living; and that the larger the growth of population, the greater, in the absence of industrial development, must be the poverty of the people. Such impressions are based on a rather confused notion that the only alternative to agricultural overcrowding lies in the transfer of large numbers of people from the Agricultural into the Industrial Occupations. But it is not yet properly understood that with the further development of the country there will follow an increased demand for personal and professional services (in the form of Trade and Transport) which will create new occupations and fill in the gap between the growth of population and industrial employment, without increasing the pressure on the soil.

In this connection, it is also significant to note that India is not the only country which with a well-developed agriculture is faced with the problem of a rapidly increasing population. In the United States of America, the population has been growing even at a more rapid rate, as the following figures show:—

TABLE XXXI.

Table showing the increase in Population and the increase in the number of Persons "Gainfully Occupied" in the United States of America.

(Figures relate to the Continental States only).

Year.	Population.		Gainfully Occupied Persons..	
	Total Population (millions).	Percentage Rate of increase over the preceding census.	Total Number of Persons "Gainfully" Occupied (millions).	Percentage Rate of increase over the preceding census.
1910	92	21	38	..
1920	106	15	42	11
1930	123	16	49	17

* But it has been noticed in the U. S. A. that "the farm population has been declining while at the same time the industrial population..... has been increasing at a rate lower than that at which the entire

* It has already been shown that changes in the methods of classifying subsidiary occupations, changes in the definition of "working" and "non-working" dependents and various other factors combine together to give an impression that the occupational statistics for 1931 do not show an increase over the 1921 figures in respect of Industry; but the foregoing analysis has shown conclusively that taken by themselves the 1931 figures are apt to be seriously misleading as a basis for comparison with the 1921 figures..

population has been growing. The reason for this apparent inconsistency is probably found in the very rapid increase in the number of those rendering personal service and those engaged in the distribution of goods. Estimates based upon compilations of the Census of Occupations indicate that the number of persons employed in the service industries (*i.e.*, transportation, trade, finance, public service, professional service and personal and domestic service) increased from 35 per cent. of the total number of persons gainfully employed in 1920 to 42 per cent. in 1930.** The following table shows the changes in the percentage distribution of occupations in the U. S. A. in 1910, 1920 and 1930:—

TABLE XXXII.**

Table showing the Percentage Distribution of Workers in United States of America.

	1910.	1920.	1930.
Agriculture, Fishing etc.	33.1	26.3	22.0
Mining Quarries	2.5	2.6	2.0
Industry	27.9	30.8	28.9
Commerce and Trade	10.3	10.9	13.2
Transport	7.0	7.4	7.9
Public Administration	0.9	1.2	1.5
Professional Occupations	4.5	5.2	6.3
Clerical Services	4.5	7.5	8.2
Domestic Services	6.1	7.5	9.4

The Occupational Problem in India need not therefore be considered only from the point of view of transferring large numbers of people from Agriculture into Industry. It has already been shown that there is every ground to believe that industrial occupations will continue to increase for the next few years; but it is highly unlikely that, even under the most favourable conditions possible, the proportion of industrial workers per 1,000 of the working population will be *very much* higher than to-day.

* Economic Tendencies in the United States of America. National Bureau of Economic Research No. 21, pages 418-19.

** Compiled from the Statistical Year-Book, of the League of Nations, 1934-35, page 42.

As it is, the marginal table shows that, judged by the test of the total number of persons occupied in Industry, India is easily the first among the industrial countries of the world. The following table also shows that in most of these countries there is a general tendency for the proportion of industrial workers per 1,000 of the total occupied population to decline. Even assuming that Indian industries have not yet reached the maximum limit of expansion,

Country and the year to which the figures relate.	Number of Industrially Occupied Persons.	
		Lakhs.
India 1931		153
U. S. A. 1930		141
Germany 1933		117
England and Wales 1931		60
Japan 1930		51
Italy 1931		50

there is no ground to believe that the forces which tend to lower the proportion of industrial workers in other countries, will not, after a certain stage of development, begin to operate in India also.

TABLE XXXIII.*

Table showing the total number of Persons "Gainfully Occupied" and the percentage of Persons so Occupied in Industry to the Total number of Persons "Gainfully Occupied".

Country and Year to which the Figures relate.	Total Population gainfully occupied.	Total Population so Occupied in Industry.	The Percentage of the Industrial Population to the total working population.
	Lakhs.	Lakhs.	
<i>U. S. A.—</i>			
1910	382	107	27.9
1920	416	128	30.8
1930	488	141	28.9
<i>England and Wales—</i>			
1911	163	69	42.1
1921	172	55	32.3
1931	189	60	31.7
<i>Germany—</i>			
1925	320	122	38.1
1933	323	117	36.3
<i>Japan—</i>			
1920	273	53	19.4
1930	292	53	18.1
<i>Canada—</i>			
1921	32	8	23.8
1931	39	7	17.3

* Compiled from the Statistical Year-Book of the League of Nations, 1933-34.

The fact that industrialisation will not greatly increase the proportion of the industrial workers to the total occupied population does not however justify the pessimism that has so often been felt on this score. The foregoing analysis shows that there has been a considerable increase in occupations connected with the distributional services and also with personal and professional services. The following table, which summarises the changes in occupations connected with these services, shows that the tendency now operating in the U. S. A. and most of the highly developed industrial countries of the world has to a considerable extent begun to operate in India also.

The Number of Persons Occupied in 1921 and 1931 in some of the Occupations.

	1921.	1931.	Percentage variation between 1921-31.
	(000's).	(000's).	
CULTIVATION OF SPECIAL CROPS LIKE TEA, TOBACCO ETC.	1,450	1,693	+17
INDUSTRIES :—			
(a) Wood	1,581	1,632	+3
Furniture	12	21	+75
Construction of Means of Transport	23	29	+3
Production and Transmission of Physical Force.	11	24	+118
TRANSPORT : (Total)	1,971	2,342	+16
Transport by Water	350	362	+3
Transport by Road	1,011	1,260	+24
Transport by Rail	536	636	+19
TRADE :—			
Trade in Wood	105	139	+32
Trade in Pottery, Bricks	34	46	+36
Trade in Chemical Products	50	63	+26
Cafes, Restaurants etc.	349	490	+43
Trade in Articles of Luxury	199	221	+11
Trade in other sorts	1,342	1,552	+15
LIBERAL ARTS :—			
Law	98	133	+36
Medicine	255	319	+25
Instruction	337	502	+49
DOMESTIC SERVICE	25	39	+55
MOTOR-DRIVERS, CLEANERS ETC.	18	68	+277

It is thus clear that the popular belief that industrialisation will continue to absorb an indefinitely large number of people is completely unfounded. It should nevertheless be realised that Industrial Occupations are not the only avenues for absorbing the growing population of India. There are already definite indications of the increase in Industrial Occupations, although it is probable that the proportion of industrial workers to the total occupied population will never rise to such an extent as to absorb the whole of the increase in population. But the foregoing analysis also shows that the increase in Agricultural Occupations has not been so great as the increase in population during 1911-31 and that the proportion of agricultural workers per 1,000 of the occupied population has not been increasing at a very rapid rate.* Moreover all the available material on the subject shows that there has been no increase in the pressure on the soil and that the economic condition of the cultivator has been improving during recent years as a result of the growth of small-scale rural industries and the various other measures devised for his benefit both by the Provincial Governments and the Government of India.

The gap between the growth of population on the one hand and the absence of a correspondingly large increase in Agricultural and Industrial Occupations on the other has, to a large extent, been made up by the increase in the distributional and other Services. It is more than probable that the tendency which now calls for increased occupations in these services will gather greater force in course of time. It would therefore appear that much of the dissatisfaction caused by the apparent lack of a large increase in industrial employment has been due to an undue emphasis being placed on the possibilities of Industrial development as the only solution of the problems of unemployment or under-employment in Agriculture. The concentration of attention on the Industrial aspect of the problem, to the exclusion of all others, is also responsible for the general impression that the growth of population and the "excessive dependence on agriculture" are gradually lowering the standard of living. But the foregoing analysis shows that the occupational problem is not so gloomy as it has often been depicted to be, and, that with the further economic development of the country, there will be an increased scope for almost all the occupations and that new channels connected especially with distributional and other Services will arise which will continue to absorb a larger proportion of the growing population.

* See above table XII, page 18, which shows that there has been a large decline in the number of agricultural workers per 1,000 of gainfully occupied persons.

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