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HISTORY

OF

INDIAN TARIFFS

THESIS APPROVED FOR THE DEGREE OF DOCTOR OF
PHILOSOPHY IN THE UNIVERSITY OF LONDON.

BY

N. J. SHAH, B. A., Ph. D., (Econ.), London, F. S. S.

**SIR RATAN TATA PROFESSOR OF INDIAN ECONOMICS,
THE HINDU UNIVERSITY, BENARES.**

WITH A FOREWORD

BY

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WORD.

The importance of research work in the different branches of learning is not fully appreciated in our country as yet. The reason seems to be that on the one hand there are not adequate facilities in this country either for doing research work or for publishing that which may be done, and, on the other, the number of people, who can take a real interest in such work and make use of it in the advancement of the country, is very limited.

Dr. N. J. Shah's thesis on "History of Indian Tariffs" promises to be an exception to the latter part of what is mentioned above. The subject is of great importance at present in view of the general interest in the question of the fiscal policy of the Government of India. Dr. Gregory of the University of London is of opinion that it is "a nearly first rate piece of research work which I think will be of permanent scientific value". For a person who cannot claim to judge this work from a scientific point of view, it will be certainly welcome as almost the first effort at giving a complete and authoritative account of the evolution of the fiscal policy of the British Government in India from the earliest times. It is more a history of the past than an expression of the author's opinions on the present problem, on which diametrically opposite views are held by the two commercial communities in India. I have no doubt that the public and especially the members of the Legislatures, Central and Provincial, will appreciate this work.

The Committee of Shri Mahavira Jaina Vidyalaya, Bombay, are to be congratulated on having made such a good selection as that of Dr. Shah to one of their scholarships, and the gentlemen who have rendered help to publish this work will soon have the satisfaction of seeing

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the fruit thereof. But for this ~~the~~ the facts and figures on this important question which are to be had in such an authoritative form would not have been available to the Indian public at such an opportune time.

Malabar Castle,
Malabar Hill,
BOMBAY, 18th Dec. 1924.

} PURSHOTAMDAS THAKURDAS.

PREFACE.

This book is the result of the Research work done by me on the subject under the guidance of Dr. T. E. Gregory D. Sc. (Econ.) at the London School of Economics and Political Science during 1921—23 for the Ph. D. Degree of the London University in the faculty of Economics. The work has been based mainly upon the original and authoritative sources of information, such as, Official Publications of the Government of India, Parliamentary Papers and Government Records, which I could freely consult at the India Office Record Department. The standard authorities on general matters of the subject under consideration have also been freely made use of in the work. The correspondence between the Governments in India and the Home Government and some Reports, relating to the subject during the period before 1813, are unpublished. Some gaps were found, even in the chronological links of the published material. By the courtesy of the head of the India Office Record Department, I was permitted to go through this manuscript material, whenever necessary.

The difficulty was not the paucity or the inaccessibility of the material to work upon but the necessity of selection. The marshalling of facts, arguments, evidence etc. in the general plan of the book has led to certain amount of unavoidable repetition. Digressions at some places are, I think, quite excusable in view of the impossibility of avoiding reference to matters of general or Indian Economic History while writing a Tariff History of India, since both are so closely related to each other. No apology is necessary for giving long but important extracts from the original Correspondence, Evidence and authoritative criticism on the subject. Lastly I solicit the indulgence on the part of the readers for the mistakes of misprints that may have been overlooked, inspite of all precautions.

I am indebted to Dr. Gregory for valuable suggestions and guidance on matters of general principles and for the constant and encouraging interest he took in my work. My special thanks are due to the Hon. Sir Purshotamdas Thakurdas for the Foreword which he kindly consented to write for this book and also for the encouraging interest he took in the publication of this book. I am also thankful to my friend, L. C. Robbins, who kindly read through the whole book in manuscript, made some corrections and helped me by critical discussion at several points. I must express here my acknowledgments to the officials from the top to the bottom in the India Office Record Department, where I usually worked, for the readiness with which they allowed me free access to all the Government Records and Publications and supplied me with necessary material and other facilities.

I am much obliged to the authorities of Shri Mahavira Jaina Vidyalaya (Bombay) who, owing to the help of some philanthropic gentlemen, have found it possible to publish my book—the first fruit of a student of that Institution. It is only because of this that my book sees the light much earlier than it would have been otherwise possible. This grateful acknowledgment of mine will be greatly appreciated by those who are aware of or have experienced the serious difficulties of “getting a book out,” in the absence of enterprising professional publishers in India where this business has not yet developed to any appreciable extent.

DEPARTMENT OF ECONOMICS,
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Benares, January 1924.

N. J. SHAH.

ABBREVIATIONS.

C. of D.	=	Court of Directors.
F. S.	=	Financial Statements.
H. of C.	=	House of Commons.
H. of L.	=	House of Lords.
S. of S.	=	Secretary of State.
P. P.	=	Parliamentary Paper.
C. or Cd. or Cmd.	=	Command Paper.

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INTRODUCTION.

Various considerations make the historical study of the Indian Tariff very interesting. Besides its economic importance, it supplies a clue to the constitutional development of the country; for Fiscal Autonomy is the essential step in the grant of Self-Government to the Dependencies—Fiscal Autonomy and Self-Government are almost identical terms. The determination of the future fiscal policy is a burning question in India. India is on the eve of a definite and important change in her traditional tariff policy, which will finally mark the termination of the long old period during which British interests predominated, and which will usher in a new era with high hopes and momentous consequences. The grant of domestic fiscal autonomy and the appointment, for the first time, of an Indian Fiscal Commission (1921-22) for the revision of the time-honoured tariff policy of India, according to Indian interests, have already opened new chapters in it. It is, therefore, necessary to take stock of the past before a new venture is entered upon.

Some so-called practical people may shun such an idea; but it must not be forgotten that the past explains the present and guides the future. This work is an attempt to provide a full, continuous and, so far as possible, non-partisan history of the development of tariff policy in India and of the forces, political and economic, that have determined its course. The plan, as originally intended, was to include within the scope of this work, not only the historical survey of the Indian tariff policy but also the consideration of present problems, such as, Free Trade versus Protection and Imperial Preference, in the light of Indian conditions and of the financial and industrial needs of the country. But having entered upon the work, I realised that inadequate attention had been paid to the historical aspect of the subject and also that the mere enumeration and description of historical changes would constitute somewhat unintelligible reading, unless supplemented by constructive criticism. I, therefore ultimately decided to confine myself in this volume to a critical survey of the whole historical ground of the subject, leaving the question of the future fiscal policy for a later attempt.

No systematic and complete study of the history of Indian tariff exists. Short attempts* have been made to study the subject at different times and from different points of view; but some of them are incomplete, some are inaccurate and one-sided, and some are superficial. Consequently,

* The most important of them are as follows :—

- (a) "Economic History of India" by Dutt.
- (b) "Trade Relations between England and India" by Hamilton.
- (c) "Our Fiscal Policy" by C. N. Vakil.
- (d) "Fiscal Policy in India" by P. N. Banerjee.

exaggerated and divergent views have been expressed on the subject. There is, therefore, room and also need for a full and exhaustive study of the history of the Indian tariff policy, not only for its own intrinsic value but also for the light that it would throw on various controversial points connected with it. It is hoped that this book will meet such a necessity.

It is unnecessary to summarise here the net results of this historical survey. The conclusions that have been arrived at from this investigation have been fully set out at the end of every chapter. Those who think it unnecessary or are disinclined to go through details are well-advised to depend, for a general knowledge of the subject, upon the concluding paragraphs of every chapter. The general plan of the book, however, requires some explanation. The subject has been classified into periods according to the problems which dominated them.

As a necessary introduction to the British Period, the first chapter deals with the native customs system, especially under the Mogul Rule. Therein I have shown that customs duties at the ports did not exceed 5% *ad valorem*, and that there was also an elaborate system of inland transit duties which obstructed the trade of India—an evil which was immensely intensified by the dissolution of the Mogul Empire. It was from the *debris* of this system that the British Government built up a new customs system for British India. The second chapter, therefore, which deals with the period between 1765 and 1833, describes the British attempts at fiscal reconstruction on provincial basis. The new inland duty systems which the British evolved during this period, though representing a considerable improvement upon the chaotic conditions of the last period, were not less oppressive to the trade and industry of the people, and in certain respects were worse than the native system. Moreover, in pursuance of the British national policy a strong preference was given to British interests in India as against foreign and Indian interests by means of a complicated system of differential duties. By the middle of the 19th century Great Britain adopted a free trade policy. Accordingly, during the period between 1833 and 1857, dealt with in the third chapter, many of the most pressing reforms on similar lines had been introduced in the customs system of India. As a result there was established at the end of the period a low, simple and uniform tariff system for the whole of India. The fourth chapter sets out at length the forces—political and economic—that determined the course of the tariff history of India from 1765 to 1857, examines the utility of the actual policy that was practised and suggests a better alternative which the Government should have and could have adopted in the circumstances then existing.

Incidentally the fourth chapter will elucidate a controversial point connected with the early history of the tariff policy. On one hand, Dutt whose writings on the subject of Indian Economic History have profoundly influenced educated Indian public opinion, contends that the decline of Indian manufactures and specially the textiles, early in the 19th century was due to the selfish commercial policy of the British Parliament, which discouraged them in order to encourage similar rising manufactures of Great Britain and that the invention of the mechanical methods of production in the West, only completed this decline (Economic History of India, Vol. I. p. VIII). On the other hand Prof. C. J. Hamilton maintains that it must be explained by reference to the Industrial Revolution in Europe and not to the hostile devices of the British commercial policy, which, he thinks, did not play any important part in determining the outcome ("Trade Relations between England and India"—pp. V, VI). Both these views are one-sided and inaccurate interpretations of history. The truth lies midway between the two.

A dispassionate study of the following facts, elaborated in Chapter IV, will clear up the whole point. The foreign trade of India was regulated for the benefit of Great Britain and to the detriment of both foreign and home interests. British imports into India were either free or only nominally taxed. The staple products and manufactures of the country were heavily taxed in the home market with oppressive inland duties. Their exports to foreign countries were obstructed by heavy differential duties. Their imports into Great Britain were either heavily taxed or positively prohibited. Since the beginning of the 19th century, the Industrial Revolution in the West had menaced the flourishing state of Indian manufactures. But for many years their decline was accelerated by the unequal competition under the British Fiscal Laws, until they were finally replaced by British manufactures in both their foreign and domestic markets. These restrictions were removed too late and only when they ceased to be necessary for the original purposes. When by 1830 this process of replacement was nearly complete, the British Government gradually developed a policy in India, the main characteristics of which were:—(1) *Laissez faire* in all manufacturing industries, (2) the systematic encouragement of commercial colonisation in India and capitalistic exploitation of Indian resources by Europeans, and especially the British, and (3) the intense desire to increase continuously British Trade with India, which practically meant the exchange of Indian raw materials and food stuffs with British manufactured goods. Internally, the basis on which the whole policy was built up consisted of a wide-spread agricultural policy of improved cultivation, extension of irrigation, and improved means

of communication, in an atmosphere of general peace and order in the country. The Industrial Revolution in Europe was thus the natural cause of the early industrial decline in India. Instead of attempting to revive the old Indian manufactures or start new ones, on improved lines, under the fostering care of the State and thus remedying the evil, as done by other countries under similar circumstances, the hostile devices of the British commercial policy discouraged them and thus intensified the evil. The policy of the British Government, on whom India had become dependent, is thus responsible for what it did to the disadvantage of Indian manufactures and for what it omitted to do for them.

During the second half of the 19th century Free Trade had become the established policy of the British Parliament; and the policy which was accepted as desirable for England was also inconsiderately applied to India, because a huge market would thereby be kept open to British manufactures which were then strong enough to defy any foreign competition. Accordingly in the fifth, sixth, and seventh chapters which cover the period between 1857 and 1896 it will be noticed that, with the main object of encouraging the interests of British trade and industries, the principles of free trade were practised in India, with the utmost rigour, irrespective of all financial and industrial needs of the country, often against the strong and continuous protests of the Government of India and always against an unanimous public opinion. "Ireland and India" said Dr. Cunningham, "have been forced under compulsion to submit to Free Trade without being consulted and for the sake of English interests." ("Case against Free Trade" p. 87).

In the fifth chapter (1857-1874) only certain of the tendencies towards such a policy will be noticed. The policy reached its climax in the next period (1874-1896), treated in chapters VI and VII, which fully describe and discuss, from all points of view, the so-called "Cotton Duties Controversy" and which, it is hoped, will enable readers to form a correct judgment about the issues involved therein. Moreover, in these three chapters, the whole policy, its objects and the measures taken thereunder have been examined at length on financial and commercial grounds and in the light of some authoritative opinions on the subject; and the forces that were responsible for it have also been clearly explained and fully illustrated.

The eighth chapter has been devoted to the tariff changes between 1896 and 1922. By the end of the 19th century strong foreign competition created a reaction against Free Trade in England. In India it will be noticed that free trade principles, so rigidly enforced during the last period, were, at times, during this period, set aside when British or Imperial interests were thereby served against foreign. Otherwise, the old policy of rigid

free trade continued, until 1914. The financial stress of the war and its after-effects caused large increases in the low pre-war tariff of India. During this period, Imperial Preference became a subject of serious discussion and the Indian movements for a Protective Tariff and Fiscal Autonomy greatly developed. This chapter will also acquaint the reader with the present state of affairs.

In the ninth chapter, the subject of the freedom of internal trade both in British India and Native States, that is, the subject of "Customs Union" has been treated historically; the British policy, its objects and methods, and the existing arrangements have been stated; and the problems—constitutional and economic,—which will require attention in the future, have been introduced and briefly discussed. The existence of the numerous Native States in India is a constitutional and economic phenomenon of unparalleled importance and interest; yet, all the treaties on the subject of the Indian customs system have altogether neglected this question.

The last chapter deals with the constitutional question of fiscal autonomy. Therein, the story of the fiscal dependence of India in the past and the Indian movement for fiscal freedom has been narrated, and the recent constitutional change, *viz*: the grant of a measure of fiscal independence to India has been discussed in all its aspects, pointing out its present deficiencies and the possibilities of the future.

Apart from its historical interest, the Indian tariff has attained in recent years an unprecedented importance in the eyes of the Government. In the past, "Customs Revenue" was deliberately relegated to an insignificant position in the financial system of India, while the recurring financial stringency of the Government of India led to some inexpedient and oppressive methods for raising additional revenue. But the financial burden of the War and the post-war financial embarrassments of the Government introduced great changes in the old tariff of India. With the phenomenal increase in the foreign trade of India and with the recent enhancements in the tariff, "Customs Revenue" rose to a place of first rate importance in the Indian Budget. The present tariff, though imposed for purely revenue purposes, is not entirely free from protective effects. The existing state of affairs may be said to mark the transition from the old free trade policy to a policy of protection. In any case, there is no hope for a large scale reduction in the tariff, that is in force, in the near future. With the increasing financial necessities of the country, with Land Revenue having ceased to be a source of income to the Central Treasury, since the recent constitutional change, and with the future certainty of the discontinuance of the Provincial contributions to the Central Exchequer, the

Government of India will be compelled to place increasing reliance on "Customs Revenue" as the mainstay of Indian Finance.

From the point of view of the public, the fundamental importance of the subject lies in their growing desire to use the tariff as an instrument for the industrial progress of the country. The growth of Nationalism, the long-felt need for intense industrialisation, the distrust in the efficacy of the tariff policy actually followed by the Government, and the example of other advanced countries have given rise to a wide-spread public opinion in favour of tariff protection to Indian industries. Whether Indian industries should be protected by customs duties is a question which has been excluded from the scope of this historical study. In any case, one thing is certain that there should not remain even a shadow of doubt as to the practical freedom of India, as of the other British Dominions, to determine her own future tariff policy. Let her commit mistakes if she so chooses. Because of the past history and associations of the subject, British interference will be strongly resented, and British advice may be misunderstood. On the other hand, with the grant of a measure of fiscal independence to India, Great Britain expects that in the interests of economic unity and solidarity of the Empire the future Indian tariff system should adopt the principle of Imperial Preference. Thus the present problems of the Indian Tariff are (1) the financial needs of the Indian Treasury, (2) Protection to Indian Industries, and (3) Imperial Preference.

The need of revising the fiscal policy of India for the purposes both of revenue and protection to home industries had long been felt in India. The public demand for it was as strong and wide-spread as it was persistent and pressing. This continuous and insistent demand had its root in the growing desire for the intense industrial development of India. In 1916, in response to the unanimous Indian opinion for the State encouragement of Indian industries, the Government appointed a Commission to investigate the suitable and adequate measures for that purpose. But the consideration of the future fiscal policy was, for Imperial reasons, excluded from the scope of the inquiry. The authors of the Report on Indian Constitutional Reforms strongly emphasised the need of hastening the Industrial development of India and recommended the Government of India to abandon their time-honoured *Laissez faire* policy in favour of an active encouragement. The Reformed Constitution recognised and appreciated the educated Indian opinion on the subject and granted some freedom of action to the Government of India in determining their own fiscal policy.

Accordingly, on 19th Feb. 1920 the Government of India appointed a Committee* "To examine the trade statistics and to consider and report

* Proceedings of the Council, 19th Feb. 1920, pp. 765-798.

to the Governor-General-in-Council (1) whether or not it is advisable to apply to the Indian Customs Tariff a system of preference in favour of goods of Empire origin and (2) as to the best methods of considering the future fiscal policy of India." With some provisional suggestions, the Committee recommended the appointment of a strong and representative Commission to examine the whole question of the future fiscal policy of India.*

Consequently, in 1921 the Government of India announced the appointment of a Fiscal Commission with powers "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference and to make recommendation."

The Report of the Commission, which was published in 1922, recommended, with other supplementary measures, a policy of Protection to be applied with discrimination on the lines suggested therein. The minority in the Commission who signed the Report, subject to a minute of dissent, considered that the principal recommendation of the majority "has been hedged in by conditions and provisos which are calculated to impair its utility" and that "the language employed in the Report is half hearted and apologetic." They, therefore, recommended that "there should be an unqualified pronouncement that the fiscal policy best suited for India is protection."

The Report of the Indian Fiscal Commission was considered by the Indian Legislature in 1923. On 16th Feb. 1923, in a resolution which was accepted by the Assembly after a good deal of discussion, the Government of India declared, as their future tariff policy, that they accepted "in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India," that this principle of protection must be applied with discrimination and proper safeguards and with due regard to the financial needs of the country and to the general well-being of the Community, and that in order to give effect to this policy a Tariff Board would be provided as a purely advisory and investigating body. Except for this change of principle, no alteration has been made by the Budget of 1923 in the actual tariff.

With the appointment of the Indian Fiscal Commission, we reach a convenient point for bringing a historical study of the Indian Tariff to a close. A critical study of the Report of the Commission raises problems regarding the future fiscal policy of India, which should properly be excluded from the scope of this work.

* Supplement to the Gazette of India April 17, 1920. C. 907.

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