

**STUDIES IN INDIAN ECONOMICS**

# STUDIES IN INDIAN ECONOMICS

A SERIES OF LECTURES DELIVERED  
FOR THE GOVERNMENT OF BOMBAY

BY

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## NOTE

PROFESSOR LEES SMITH's book on "India and the Tariff Problem" (Constable & Company, Ltd.) is based largely upon the following lectures, but it devotes special chapters to the proposals for preferential tariffs, and makes recommendations to Indian administrators and publicists as to their attitude towards these proposals.

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PROFESSOR LEES SMITH FOR THE  
GOVERNMENT OF BOMBAY IN THE  
BYRANJEE JEEJEEBHOY INSTITUTE  
DURING 1908 AND 1909

## I

### INTRODUCTORY

(The Hon. Mr. Muir Mackenzie, Senior Member  
of Council, occupied the chair.)

Mr. Chairman and Gentlemen :

I should not have lightly missed the opportunity which has been afforded me of delivering this series of lectures. I believe that the object which they have in view is of profound importance to the future commercial life of this Presidency. I need scarcely say that for an Englishman, accustomed to speak to academic audiences, to find himself facing such an assembly as that which I see before me now

must certainly be one of the great experiences of his life. Moreover, the readiness that I felt in accepting the invitation to lecture here was increased by the fact that in coming to Bombay I have returned to the land in which I was born.

#### DIVERSITY OF INDUSTRY.

This evening I shall confine myself to a series of general statements. I wish to make it clear that in India commercial education is likely to be of much more than commercial importance. In order to fulfil my purpose, I must begin by a slight survey of the present industrial conditions of this country.

From two-thirds to three-quarters of the population of India are engaged in agriculture. Of the remainder a large proportion are weavers, blacksmiths, carpenters, and other village artisans who are just as dependent upon the chances and fluctuations of agriculture as are the tillers of the soil. There is one result which the history of other nations would enable an onlooker to predict with regard to a country in this position. No sooner are Western ideas introduced into such a country, than there sets in a reaction against the position in which it finds itself of being an almost entirely agri-

cultural nation. The United States, Germany, and our own self-governing colonies have all taken steps to avoid remaining the "hewers of wood and drawers of water" for the other nations of the world. It is, indeed, one of the ironies of economic development that as long as a nation is mainly agricultural its leading thinkers continually say, "We must build up our manufactures," but that when, as in England, they have succeeded in building up their manufactures, then the cry arises, "Town-bred populations contain the seeds of national decay." In England at the present time there is no more popular cry than that of "Back to the land." This brings me to a truth upon which I shall have to insist continually. There is an urgent need that some one or some group of men should set about trying to create a distinctly Indian political economy. The difference between the problems of England and those of this land must show you that there can be no greater danger than that of blindly following the writings of English economists. They are writing for a country in which the conditions are entirely different to those which obtain here, and they have at the back of their minds problems which are everything to them, but which are little or

nothing to you. In England, at the present moment, the economist has his mind full of the dangers arising from the growth of urban populations, the warfare between massed capital on the one side and organised labour on the other, and the difficulty of maintaining a high standard of physical efficiency in a city-bred population. It is strange for me, with my mind full of the housing question, socialism, and the fear of physical degeneration, to come to a land where the one desire seems to be to force the country into a position in which those problems, now unknown, will come sweeping to the front. There is, however, no great reason for anxiety on your part. You have begun your manufacturing development later than other nations, and for that very reason will reap a certain advantage. Let us hope that by the time that you have built up your manufactures to such an extent as to make these problems pressing in this land we in England and other Western countries will have found a solution of the difficulties which have been created.

I have spoken of the tendency of all countries in the same position as India to adopt the principle of diversity of industry. There is this special fact to be remembered about India.



If Germany, the United States, and our own self-governing colonies have been justified in making this principle the main feature of their economic policy, your country is justified to a much greater extent. Agriculture in India is a peculiarly precarious resource. These other countries have not been oppressed to the same degree as you have been by the continual fear of drought and famine. It is therefore particularly necessary in this land that the livelihood of the people should be drawn from the greatest possible variety of sources. This subject is so momentous in its issues that I must not leave it without special consideration.

#### FAMINE.

The outstanding fact in the problem of famine is that it is no longer insoluble. It has been transferred into a problem of acute unemployment. Drought will never be prevented, but we look forward to the time when deaths from famine in India will be as unnecessary as deaths from unemployment in Great Britain. This transformation has been effected within the last fifty years. Before that period a severe drought meant inevitable death. There was no food and, owing to the "immobility of

food-stuffs," all the wealth of the world could not procure it. When crops failed in one district death from starvation was certain, although harvests might be abundant a hundred miles away. The position now is altogether different. Food is dear, but food is to be had. The difficulty is not lack of food, but, owing to the fact that all are thrown out of their usual employment, lack of money. Hence the problem is soluble, for the people can be given money, whereas previously no human power could give them food.

The secret of the change is to be found partly in irrigation, but chiefly in the development of railways. In India, as in the rest of the world, they are visibly altering not only the economic but also the political outlook and the social life of the country. At the outbreak of the Mutiny there were only 270 miles of railway lines in India. The only roads were military ones. Off these roads there were nothing but unmetalled tracks impassable in the monsoons. The railway mileage of India now amounts to over 30,000 miles. The result is that the districts where the crop has not failed can come to the help of those that need their aid.

These "great reserves of the country at large" are readily attracted to the districts which need them by the ordinary economic force of a rise in price. One of the most remarkable features of the famines which have occurred since 1896 has been the slightness of the difference in the price of food all over the country.

Nevertheless, although the problem is soluble, it still remains one of intolerable difficulty. This is due to the enormous numbers that have to be relieved at the same time. These numbers have on one occasion reached a total of 6,500,000 persons. Thus we are brought back to the cry for the development of Indian manufactures. It is claimed that India, more than other countries, needs "diversity of industry." The famine problem might then be brought within manageable proportions, for the numbers confronted by starvation would not be so overwhelming. This reasoning is not confined to Indians, but has been adopted by the Government. The Famine Commissioners in the Report of 1880 laid it down that "No remedy for present evils can be complete which does not include the introduction of a diversity of occupations through which the surplus population may be

drawn from agricultural pursuits and led to find the means of subsistence in manufactures or some such employment." In all Government Reports issued since that date this policy has been accepted.

#### POLITICAL EFFECTS OF ECONOMIC CHANGE.

I shall now proceed to explain how the subjects that we shall consider have applications and consequences which lead you far outside the purely economic sphere. The great economists who originally thought out the reasoning on which the principle of "diversity of industry" was based, Alexander Hamilton in America and List in Germany, did not attach undue importance to its merely economic consequences. Let us examine some of the non-economic considerations that they urged upon their countrymen.

They argued that it was not good for a country that the type of its inhabitants should be principally agricultural. They pointed out that if any nation is to keep its place in the march of humanity it must be open to new ideas and must be ready to adapt them to its own conditions. Their opinion of agricultural populations was that, although they might possess many virtues, they were not progres-

sive; that they were too much bound down by the traditions of their forefathers; that they could not originate fresh thought; that, in short, they were the kind of men likely to be left behind in the progress of nations. On the other hand, it was urged that if you build up a manufacturing population, working in the town amid social intercourse and stimulated by the contact of brain with brain, you obtain a progressive people able to adapt themselves to new conditions.

The general proposition that economic changes alter the national type in a country is peculiarly well exemplified in the case of the British people. If you look back at the economic position of England a century and a half ago you will find that it was chiefly an agricultural nation. But in the space of about half a century there arose a great series of inventions of machinery, the most wonderful the world had ever seen. The result was that at the end of that period which is known as the "Industrial Revolution" England stood forth as the great manufacturing nation of the world and as the supreme embodiment of the principle of production on a large scale. This was the effect of economic changes, and they extended to the very physical and mental

characteristics of the population. The English illustrated papers are still in the habit of portraying the typical Englishman by the picture of "John Bull." But there is no nation on earth which has now less right to describe the great body of its inhabitants as burly farmers and ruddy-cheeked ploughmen than the English people. It would be almost as true to describe them as coal miners, and truer still to describe them as factory operatives. The changes which appeared at first to be only commercial and economic have given the Englishman of to-day a new appearance, a new shape to his body and a new personality.

I might suggest even deeper issues which will not affect this land for many a year to come, but which will prove how wide are the collateral transformations caused by the policy of building up manufactures. I doubt whether List and Alexander Hamilton realised the full political effects which would follow the policy that they urged. It is now being understood, whether you consider England, Germany, or any other Continental nation, that wherever you get vast aggregations of urban population there you get the rise of democratic sentiment. In England one of the

chief political developments of the past few years has been the rise of the Labour and the Socialist party. This comes from just those towns which are the products of the industrial revolution. The position is the same in Germany and other Continental countries. It is the habit in England to point to the policy of certain past administrators of this country and to say that they entered upon their policy without realising its distant effects. India is now entering upon an economic policy. Let it not be said generations hence that you did not foresee what the ultimate consequences might be.

I will even venture to make a prediction which may appear extravagant to those who cannot easily imagine the growth of new forces. The Indian peoples possess, as the caste system proves, a marvellous power of acting in groups, where they are held together by the class sentiment due to employment in the same occupation. This is just the condition needed for the development of trade unions. I have no doubt that as soon as a distinct factory population has been evolved in this land—a process which has already begun—there will arise trade unions of peculiar tenacity and strength.

WESTERN ENTERPRISE AND INDIAN  
CHARACTERISTICS.

I now come closer to the subject with which I have to deal. Your hope is that a system of urban industries will be built up among the Indian peoples. I shall take one of the difficulties which lie in the way of creating industries in this land and make it the introduction to the main part of my next lecture. In reading what has been written and said by a number of Indians on economic questions, I have been impressed by one fact above all others. They are continually pointing out that in order to obtain a system of manufacturing industry their fellow-countrymen must develop certain qualities in which they are at present weak. The Gaekwar of Baroda, for example, speaking at the Industrial Conference at Calcutta, said—

“The pursuit of new truth is the first concern of every stalwart mind of the West, while the mass of our people are content to live stolid conventional lives, blindly following the precepts of their fathers, rather than emulating the example that they set of intellectual independence and constructive energy.”

It would be unfair to leave this subject



without pointing out that such statements need not make Indian patriots too despondent. The genius of the Indian peoples has not in the past been in the direction of Western scientific methods. Their system of caste has concentrated their best trained minds upon speculation while industry has been regarded as an inferior calling. Providence has entrusted the British race with the task of guiding them in the unfamiliar paths of Western industry. Mr. Ranade, although he was addressing his own countrymen, pointed Englishmen to a high conception of their duties. "It cannot well be a mere accident that the destinies of this country have been entrusted to the guidance of a nation whose characteristic strength is opposed to all our weaknesses, whose enterprise in commerce and manufacture knows no bounds, whose capital overflows the world, whose view of life is full of hope and whose powers of organisation have never been surpassed."

The extent to which the industries of India are controlled by her own sons will be the measure of the degree to which we have fulfilled our trust. We have no right to expect, however, that, on the unfamiliar road which they are now treading, they should easily

strike out into fresh directions. The capacity of the Indian people to adapt themselves to Western methods can only be judged after they have had full time to assimilate them. One means of preparing them is by commercial education. I shall proceed to this subject in my next lecture.

NOTE.—Professor Lees Smith's recommendations on commercial teaching were subsequently summed up in an address to the Senate of the University of Bombay. This address, therefore, follows instead of his second lecture.

## II

### COMMERCIAL EDUCATION

(An Address to the Senate of the University of Bombay.  
Mr. Justice Chandavarkar, Vice-Chancellor of the  
University, in the chair.)

IN order to introduce what I have to say, I will begin by summarising the reasons which have prompted the provincial universities of Great Britain to include the subject of commercial education in their courses. The faculties of commerce are the product of the new universities. It is worth your while to observe that the position of a university such as Bombay is a good deal more similar to that of these new universities than it is to the Universities of Oxford and Cambridge. Most of us Englishmen come from Oxford and Cambridge, and we therefore like to introduce our own methods wherever we find ourselves. Nevertheless the class of students with whom you have to deal here does not consist of young men of leisure or young men possessed

of private means, but of those who approximate far more to the type of the students of the provincial universities. Your needs and your limitations are reproduced in the universities established in the great commercial centres of Great Britain much more closely than in the older universities. Now, in what position did these provincial universities find themselves? They found that, situated as you are in Bombay, in the midst of great industrial communities, if they were to reach the public for whom they were founded, they would have to touch altogether new strata of society. Up to that time the universities did not consider that they had any special business with the commercial world. Commercial men had naturally reciprocated by expressing a considerable contempt for university education. But in Birmingham, in Leeds, in Manchester and in Liverpool it was found that, unless methods were to be devised of getting into touch with the commercial community, the bulk of the middle class would stay away from the universities altogether. At the same time a similar movement was set into operation from the opposite direction. Commercial men who wanted to educate their sons were beginning to inquire whether it was a

law of Nature that business men should never be as fully educated as barristers or doctors or other professional men. They were wondering why, because their sons were going to follow them in their own occupation, they should be condemned to cease their education at the age of sixteen or seventeen. They began to ask whether it was always going to be the case that the only alternatives which they would have would be either to keep their sons away from the universities or to send them there with the knowledge that the training they received would have very little practical bearing upon the work of their lives. When this question was asked, it soon became evident that it was possible to do in Great Britain what had already been effected by her great commercial rivals of Germany and the United States. The British universities began to understand that they could devise schemes of study which would be a liberal education, but which would, at the same time, prepare men for the wider activities of commerce and business life.

#### THE STUDY OF PUBLIC ADMINISTRATION.

I have devoted a good deal of attention, during the time that I have been in Bombay,

to preparing a curriculum of a similar kind suited to the needs of your own community, and one object of my address to you this evening is to outline the scheme which I have drawn up. Before doing so, however, there are one or two highly important general considerations to which I wish to draw your attention.

It happens that just at the period when I find myself in this land a new epoch is opening out in the political life of the country. The changes which are being introduced into Indian institutions must impose new tasks upon the Indian universities. If you look at Oxford and Cambridge you will find that one of their claims has always been that they educated the men who were going to count in the public life of the country. As a result of this claim there has always been in their courses a very considerable amount of purely political teaching. If this task was incumbent upon Oxford and Cambridge in England it is far more incumbent upon the Indian universities. Indian universities dominate the political outlook of the middle classes in a manner to which Oxford and Cambridge can lay no claim. Much, therefore, of the progress under the new reforms will depend upon whether the Indian universities regard it as one of their duties to

prepare their students for the scientific study of political institutions. In England, all the newer universities have now come to the conclusion that this is one of their functions, and they have attached this class of teaching to the faculties of commerce. They take it for granted that leaders of commerce are likely to play a very considerable part in influencing the political destinies of the country. From them, in particular, are drawn the men into whose hands the conduct of local government is especially likely to fall. My suggestion therefore is that in order to introduce an element of liberal culture into the faculties of commerce in this country the plan which is already being adopted in England should be followed, and the study of political institutions and political theory should be an essential part of the teaching in the new departments. For this reason I would suggest that you should do here what has been done in Manchester. If the faculty is established, call it not merely a faculty of commerce, but a faculty of commerce and *administration*.

#### ELASTICITY OF CURRICULUM.

I come now to the second general consideration. When once the faculty is established,

it will be found that a great variety of students, with a great diversity of needs, will wish to take advantage of it. The curriculum, therefore, must be very elastic. There must be a basis of general compulsory subjects, which all the candidates must undertake, but quite half of the work of the second and third years should be devoted to a wide diversity of optional subjects. The candidate who looks forward to a business career will thus find that the field of choice of subjects is so wide that by a proper combination of them he can devote half his time to studies which will have a direct bearing upon the occupation by which he hopes to obtain his livelihood.

#### THE SCHEME OF STUDIES.

I shall now proceed to explain the curriculum which I have drawn up:—

(1) *English*.—This should include not only literary English but commercial English. The student who has taken a degree in a faculty of commerce should be able to write a thoroughly good business letter.

(2) *Economics*.—By this I mean more than the economics of the ordinary English textbook. One of the truths which every economist now realises is that there is neither perpetualism



nor cosmopolitanism in economics. Economic truths and economic principles which are true in England at the present time are not perpetual. They were not true for England a hundred years ago, and they may not be true for her a hundred years hence. If you act on the assumption that economics is a science which has the elements of both perpetualism and cosmopolitanism, and insist upon teaching Indian students nothing but the economics of the modern British university text-book, it is difficult to determine whether the amount of falsehood that they will learn is greater or less than the amount of truth. The principles of economics are abstract enough, but they are supposed to be explained by the illustrations in the text-books. I can well imagine, however, that to the students of the Mofussil the illustrations, drawn, as they are, from British industrial conditions, must be more abstract than the principles. I suppose that the final result is usually that the question of striking a balance between the amount of falsehood and of truth does not arise, because the theories of the English text-books are forgotten more rapidly than they were learnt. There is, therefore, an urgent need for an "Indian Economics." I should suggest that the first

year of the student's time should be occupied not by an English text-book, but by a descriptive examination of Indian economic conditions. When, therefore, he was reading the orthodox theories and principles he would have in his mind a picture of the country to which they were being applied, and this would form a very valuable corrective to any false impressions which he might otherwise receive. I must, however, point out that at the present moment there is no text-book of Indian economics. This represents an extraordinary gap in the writings of this country. The book that I have in mind would be easy to compile. Year after year the Government publishes whole volumes of statistics and whole masses of Blue-books. To the student approaching them in the spirit of research they present a perfect mine of information—an absolute treasure of knowledge. Up to the present the mine has been almost entirely unworked. But the man who will devote time to reducing to a popular text-book that mass of information which is contained in the Government publications will perform one of the most valuable services possible to the economic teaching of this country.

(3) *Commercial Geography.*

(4) *Political Institutions and Theory.*—I

combine institutions with theory because the danger of the study of political science is very much the same as that of economics. The student is inclined to read the subject merely as an abstraction, without properly realising that none of the principles and doctrines which are laid down are universally true, but that they must be examined in their application to the actual life and conditions of the community in which he lives. If instead of studying political theory by itself you study it in connection with actual institutions, you introduce an element of concrete work which prevents the theory from becoming unpractical. These four subjects, then, (1) English, (2) Economics, (3) Commercial Geography, and (4) Political Institutions and Theory, represent the work of the first year.

Coming to the second and third years, the subjects here would include, first, all the subjects of the first year studied to a higher stage. Next would come

(5) *Accountancy*, and next

(6) *Commercial Correspondence, Business Methods, and the Technique of Trade*.—The student should understand the actual instrument by which commerce is carried on. He should leave the university familiar with bills of exchange, promissory notes, bills of lading,

the methods of insurance and company formation, and with an amount of other practical information which even the majority of us would probably be very thankful to possess. The actual subjects which I have in view would cover the syllabus which the Board of Education in England issues on commercial correspondence and office routine. Our next subject is

(7) *Commercial Law.*

Now I proceed to the optional subjects. Here the student will have the opportunity of selecting any two subjects.

First (a) one *Foreign Language, European or Asiatic.*—If it is Asiatic, the language must not be the candidate's own vernacular.

Second (b) *Science.*—A young man proposing to enter a business often needs, in order to understand it, a knowledge of the science which bears upon it. He sometimes needs a knowledge of more than one science, and I therefore add

Third (c) a *Second Science.* — We come next to certain special industries for which the faculty of commerce would afford a preparation.

Fourth (d) *The History, Theory, and Organisation of Banking.*

Fifth (e) *The History, Theory, and Organisation of Foreign Trade.*

Sixth (f) *The Structure and Organisation of a Selected Industry.*—To take an example of this particular subject. In Manchester University the majority of students choose the same industry that would probably be selected in Bombay. This is the cotton industry, and they pass an examination which compels them to acquire a thorough knowledge of its organisation in all countries where it is established.

Seventh (g) *Any of the Compulsory Subjects to a More Advanced Stage.*—To this I should make one exception—"Commercial Correspondence, Business Methods, and the Technique of Trade" do not form a subject sufficiently large to justify its inclusion in the optional group.

I have now completed the list of subjects with which I should propose that you begin. When, however, the faculty has been established, other subjects could easily be added to the optional list. In order to illustrate my meaning, I will read to you a few subjects which might be included later.

(h) *The History, Theory, and Present Organisation of Transport.*

(i) *Life Insurance*.—In this subject you might take as the outline of the curriculum the syllabus of Parts I. and II. of the examination for the Institute of Actuaries. Students who have done well in this subject would straightway have a considerable market value. A parallel subject is

(j) *Fire and Marine Insurance*. Finally, for those who wish to take part in the conduct of Indian institutions, I should introduce such subjects as the

(k) *Theory and Practice of Statistics*, so that the student should understand Government Blue-books, and

(l) *Psychology*.

When the full meaning of these subjects has been understood, it will be evident that the student who has taken his degree in the faculty of commerce will not only have a liberal education, but the means of earning a good livelihood.

#### ANSWER TO CRITICISMS.

I must now consider some of the objections which naturally arise to the minds of business men. They are inclined to say, "Would it it not be better, instead of wasting time over a university education, to keep to our old-fashioned methods? Our fathers, who built up

great businesses, did not need the universities. Their method was to go to work at fourteen, fifteen, or sixteen, to begin by sweeping out the office, and by obtaining practical knowledge of every detail of the business to equip themselves to hold positions of responsibility." To those who argue in this way there are a good many replies to be made. First, there is no reason why you should not combine the practical work inside a business with a university education. I shall come back to this; but let me now enter into a deeper issue. When you take up such an attitude you are deliberately saying that commercial men ought to be cut off from the best education that the country affords, and that between professional men and commercial men a great gulf is to be fixed, for professional men are to have their intellectual faculties fully developed, whereas the commercial men belong to an occupation where it is quite safe to leave their intellectual capacities stunted. The whole purpose of a university in a city such as Bombay is opposed to this view. Its object is that the university should be open to any one who is going to occupy a position of any sort of responsibility.

Now look at the question from the point of view of the development not of a

man but of a business. Try to imagine the equipment which a young man will have if he has passed through the faculty of commerce and has made proper use of his opportunities. He will be able to write a good business letter in two modern languages, to criticise a balance-sheet and draw one up himself, to understand the sciences which enter into the industry in which he is engaged, and to follow intricate financial discussions. He will have a scientific insight into many subjects which the ordinary business man only understands dimly as the result of years of experience. Take such a man and compare him with a man of equal ability who went into business at fifteen. For two or three years the university man will not know the technical details of the trade. But he will have had the best intellectual training that the country can give, and as a result he will learn those technicalities twice as rapidly as the man who started without preparation. When once he has learnt them he will be level with his "rule of thumb" competitor, and ever afterwards he will be in front of him, for he will have an intellectual equipment which the other has never been given the opportunity to acquire. The idea that leaders of commerce do not require the



best kind of education is a relic of the old notion that business only demands the most commonplace qualities. On the contrary, it needs men of the highest administrative capacity, who are able to deal with new situations, to formulate policies, and to control labour. No education, of course, will create these powers in the wrong kind of man, but faculties of commerce will develop capacities which without them might for ever lie dormant.

#### EVENING CLASSES.

There is another answer to those who consider that the entrance into business ought not to be postponed until a man is twenty-one years of age. This need not happen, because the university education and the work in the business can run side by side. In Bombay the majority of those who will become students in the faculty of commerce may not be able to defer the earning of a living until they have been through the university. The policy might, therefore, be adopted of encouraging them to take their degrees through evening classes. Their experience of actual affairs will to some extent correspond to the laboratory work of the students of science and medicine. At the London School of Economics and

Political Science the number of those working for their degrees in the evenings is far larger than those who have the whole day to spare. In the examination for the degrees I have been careful to compare the work of the two groups. The evening students, of course, take longer to prepare for the examinations, but my impression is that the standard of their work is slightly higher than that of the others. This need not surprise you, for it is an example of the common phenomenon that those who have to do a thing in the midst of great difficulty often do it better than those for whom everything is made smooth.

There is one other suggestion. In order that the faculty of commerce should keep closely in touch with the realities of industry and the needs of Bombay, its control should be in the hands not only of academic lecturers but also of business men.

### III

#### A SURVEY OF INDIAN INDUSTRIES

I POINTED out in my last lecture that it was quite misleading for Indian students to learn their economics solely from English text-books, and advised them to begin the study of the subject by obtaining a knowledge of the actual circumstances of India. There is, however, no text-book from which this knowledge can be derived. I shall, therefore, devote the remainder of this course to an attempt to meet the deficiency and to indicate what is meant by "Indian Economics."

I shall first inquire into the special difficulties which confront India in her efforts to build up her manufactures. The question whether India will succeed in becoming an industrial country will be largely determined not by the acts of man but by the dictates of Nature. We must therefore first examine her mineral resources.

## COAL.

This is the mineral most essential to India, and, fortunately, its production shows, up to the present, the best record of expansion. The coal-bearing strata, lying chiefly in the central districts of the peninsula, cover about 35,000 square miles. This is not a very extensive area—considering the vast size of India—but within this area the coal is by no means poor. The output during the last ten years has increased steadily from 4,600,000 tons in 1898 to 11,200,000 tons in 1907.\* These figures may appear insignificant compared to those of Great Britain, but they mean that India now produces for herself practically all the coal that she uses. Its importance to Indian manufacture can be estimated from the fact that the great jute industry of Bengal, in spite of its overwhelming natural advantages in possessing the practical monopoly of raw jute, remained undeveloped until the opening up of the Bengal coalfield. The smallness of the area from which the supply comes is a grave defect, as the cost of carriage from Bengal to distant parts of India is heavy. The essential fact, however, remains, that for a considerable

\* "Statistical Abstract for British India for 1908," p. 260.

period into the future India can rely upon the supreme advantage of indigenous coal.

#### IRON AND STEEL.

Proceeding to the other fundamental minerals, the story of India's production of iron is one of many vicissitudes. Her manufactures of steel and wrought iron had reached high perfection at least two thousand years ago. The famous iron pillar at Delhi, which is certainly fifteen hundred years old, is still a marvel to those who see it, and consists of a mass of wrought iron which within modern times could only have been produced by the largest factories. Damascus blades were fashioned from iron brought from a remote Indian village which has now passed into obscurity. Indian steel was at one time used for cutlery even in England. Yet in a commercial sense there is, at the present moment, nothing but the beginnings of an iron industry. There seem to have been two causes for its disappearance. The first was that by the time that India had to face the competition of modern systems of production the methods which had created the iron pillar at Delhi had been lost. The other cause recalls the history of the trade in England. Indian furnaces always used charcoal.

This was very expensive, and the Indian trade died out, as the English one was in danger of doing during the seventeenth century, on account of the scarcity of the same fuel. At the present time, however, high hopes are being felt for the future of the industry. As in England it was saved by coal, so in India there is every prospect that it will be revived by the opening up of the Bengal coalfields. There is a great abundance of iron ore, while limestone and fireclay usually accompany the coal formation. The failure of a number of undertakings during the last half-century has taught the lesson that success can only be achieved by a firm which commands vast capital and can undertake all processes up to the finished steel. The recently established Tata Works—the greatest single enterprise in India—fulfil these conditions. Their success will largely determine the progress of Indian industry in the near future.

These are the fundamental minerals, and the others can be considered more shortly. Sir V. Ball in the “Economic Geology of India” points out that “were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there

cannot be the least doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as mineral wealth is concerned, of a civilised community."

Nevertheless, it will be seen that India at present derives from her own soil only a small proportion of the minerals she needs.

#### PETROLEUM.

The development of this commodity during the last ten years has been more rapid than that of any other mineral product. The production has risen from 19,000,000 gallons in 1898 to 152,000,000 gallons in 1907, an increase of 800 per cent.\* Almost the whole supply comes from Burma and the remainder from Assam. The impetus to the trade was given by the annexation of Burma, as a result of which the methods of the hereditary oil diggers were supplanted by those of the Burma Oil Company. In spite, however, of the progress made, India still imports mineral oil to a total value more than twice as great as that of her own output. If, therefore, the sources of the supply hold out, there are great

\* "Statistical Abstract for 1908," p. 260.

possibilities of expansion, at the expense chiefly of Russia and the United States.\*

#### MANGANESE.

Sixteen years ago no manganese was produced in India. To-day in the production of this metal she stands second in the world. In spite of this, however, the smallness of the industry is indicated by the fact that only about 7,000 men are employed in quarrying the ore.†

#### MICA.

In the production of this mineral, India is first among nations and is responsible for more than half the world's supply. Again, however, the fact that only 10,000 men are employed in mining it should prevent any exaggerated idea of its importance. The future of this industry depends largely upon the enterprise of those who control it. The system of working in Bengal is primitive, and the most profitable veins are being exhausted. Modern methods will therefore have to be introduced if the remaining veins are to be profitably exploited.

\* "Statistical Abstract for British India for 1908," pp. 169 and 260.

† "Statistical Abstract for British India for 1908," p. 260



## SALTPETRE.

At one time India was the source of the world's supply of this mineral, and as it was an essential element of gunpowder, it gave the country a peculiar political importance. But other explosive compounds have now been discovered. The potassic nitrate of India has been largely displaced by the sodic nitrate of Chili. The result is that, although it still employs 50,000 men,\* the production and exports of it show a tendency to diminish.† Its prospects depend largely upon the possibility of turning it to its natural use as a fertiliser. Experiments in this direction are being made by the Agricultural Department. If they are successful, the future is assured, for the conditions for its production in Behar, from which almost all of it comes, are pronounced by geologists to be ideal.‡

\* "Statistical Abstract for British India, 1908," p. 258.

† See (1) "Financial and Commercial Statistics of British India for 1907," p. 450. (2) "Statistical Abstract for British India for 1908," p. 156.

‡ See the Paper by Sir Thomas Holland at the Benares Industrial Conference, 1905 (*Indian Press*, Allahabad).

## SALT.

Between a third and a fourth of the salt consumed in India is imported.\* The imports are chiefly to Bengal and Burma.\* Bengal at one time produced salt for itself, but it is at a disadvantage owing to the dampness of the climate and the amount of fresh water discharged into the Bay of Bengal from the Ganges and the Brahmaputra. Cheshire supplies Bengal with nearly half its salt. Import and Excise duties are levied on this article and furnish a revenue which has varied during the last ten years from four million to six million pounds.

## COPPER.

Not an ounce of this metal is produced at present, but it is included in this survey because it illustrates a very important factor in the prospects of Indian industry. Many chemical industries are only rendered profitable by the utilisation of by-products. Copper smelting furnishes an example. Copper ores occur in India in large quantities,

\* "Financial and Commercial Statistics of British India for 1907," p. 38.

and were once extensively smelted. Several attempts to revive the industry have been made where the lodes were reputed to be rich. The lodes have not been disappointing and yet the attempts have failed. The reason is that no effort has been made to utilise the copper sulphates, whereas elsewhere the ores have only been worked successfully by the sale of these by-products. In England, for example, during the last 70 years the price of sulphuric acid has been reduced to about one-sixth its previous level. The difficulty in India is that there are not enough local industries which demand sulphuric acid. In order again that such industries should be established, others which demand their by-products must also be present. Hence chemical and metallurgical industries need to exist in family groups. The group is gradually being completed in India. The development of industries connected with cotton, jute, and paper form a market for chemical by-products. The increase of bleaching works, for example, raises the demand for sulphuric acid and soda ash. In the chemical and metallurgical industries, therefore, after a certain stage is reached the expansion may be unexpectedly rapid.

The remaining minerals of India are tin, graphite, rubies, jade, and gold. The production of tin and graphite, however, is so insignificant that they do not merit a special description.\* Rubies are, at present, the most profitable of Burmese minerals next to petroleum. The Burma Ruby Mines Company has had a chequered career, but new conditions were introduced into its lease in 1899, and it has since become more prosperous. The value of the rubies produced in 1907 amounted to £115,000.† Burma is also the centre for jade. The production is increasing gradually, and in 1907 its value reached £74,000.‡ The Mysore gold mines, from which almost the whole of the Indian supply is derived, are well known on the stock exchanges, but this commodity is not of importance to the subject that we have to consider.

#### SUMMARY.

Our review will have made it clear that, comparing the mineral wealth of India with the vast area over which it is distributed,

\* See "Financial and Commercial Statistics of British India for 1907," pp. 456 and 458.

† "Statistical Abstract for British India, 1908," p. 261.

‡ "Statistical Abstract for British India, 1908," p. 260.

she has not been as richly endowed as such a country as Great Britain. It is difficult to believe that she can ever become a great manufacturing nation in the British sense of the term, or that the average wealth of the population can approach that of the people of England. This conclusion is not, however, a depressing one. She can secure a reasonable diversity of industry and a large enough manufacturing population to form a fertile soil for new ideas without becoming so entirely urbanised as Great Britain. Nature, moreover, has endowed her with a climate which should enable her people to lead full and worthy lives with much less wealth than is necessary in the United Kingdom.

I shall now proceed to a survey of the present position of Indian industries. I shall first enter upon certain general considerations, and then proceed to examine each of the important industries by itself.

#### INDIAN FACTORIES AND INDIAN LABOUR.

India is still witnessing the struggle, in England now long since past, between the artisan working in his own home and the factory. In cotton weaving, for example, the weaver working at home with a loom very

little better than that which was used hundreds of years ago still holds his own tenaciously against the Bombay mill equipped with the latest machinery from Lancashire. The same conflict is being waged in silk weaving, dyeing, tanning, boot and shoe manufacture, oil pressing, rice cleaning and husking—in fact throughout the whole range of Indian manufactures. In England the conflict has been long decided in favour of the factory system. But in India the more primitive methods still hold the field. Home work, and not production on a large scale, is the typical manufacturing system here. If the cotton and jute trades be excluded, there is no factory industry throughout India which employs 20,000 hands.

There is, at present, one serious obstacle to the rapid development of a factory system. Labour is very difficult to secure. The Indian labourer is not readily adapting himself to the modern methods of production. In factories, in hand-loom workshops, and in coal mines there is the same complaint—that the wages are higher than can be earned anywhere, and that yet there is a strange unwillingness to be tempted by them. In order to induce an Indian workman to enter a factory he has

to be allowed a freedom from discipline which will soften the contrast with his older methods of work. A visitor to a Bombay cotton mill at any hour of the day will find a large number of the hands smoking in the compound. The Report of the Indian Factory Labour Commission of 1908 points out that "meals are generally eaten during the working hours of the factory. The midday interval is sometimes devoted to sleep, and the operative leaves his work frequently throughout the day in order to eat, smoke, bathe, and so on. In the cotton textile mills in India the average operative probably spends from one and a half to two hours each day, in addition to the statutory midday interval, away from his work."\* In the same Report it was calculated that, taking the whole staff of a cotton spinning and weaving mill, one hand in Lancashire will produce more than two and a half times as much as a hand in India.† The average output of the workmen employed in the Indian coal mines for 1902 was 75 tons,‡ whereas for the rest of the British Empire

\* "Report of Factory Commission," 1908, p. 20 (*Government Press, Simla*).

† Page 19 of the Report.

‡ "Imperial Gazetteer of India," Vol. III., p. 164.

it was 285 tons, or almost four times as much.

In spite of these facts, there is every reason to believe that the Indian operative will eventually adapt himself to modern conditions. A distinct class of factory workers detached from the older conditions is beginning to be created. In some of the older mining districts a separate population with mining as their caste occupation is in process of formation.

A good deal of the inefficiency in the cotton mills is due undoubtedly to the excessive hours of labour. The average in most of them is at present from thirteen to thirteen and a half hours a day. Moreover, the Factory Labour Commission pointed out that "in the latter portion of the year 1905 the Bombay mills worked for fourteen and a half hours a day. There is no guarantee that this long tale of working hours will not recur again, and indeed we find it prevailing permanently in the mills in Agra and other industrial cities in Northern India." It is a sound instinct of self-preservation that under these conditions prompts the operative to loiter over his work. The workers in the Calcutta jute mills working short hours by shifts do not idle away time to anything like the extent noticed in Bombay. In the



engineering shops throughout India, where an eight hours day is the rule, there is very little idling. The Factory Labour Commission comes to the conclusion that "where the hours are short and the supervision is good, the operative can be trained to adopt fairly regular habits of working."\* We may therefore expect with confidence that Indian labour will gradually adapt itself to its new tasks. Indeed, one of the witnesses before the Factory Commission considered that the Indian labourer would become a better textile operative than any in the world except the Lancashire mill hand.

\* Report, p. 21.

## IV

### A SURVEY OF INDIAN INDUSTRIES (*continued*)

I SHALL in this lecture consider the industries of India one by one, and shall deal first with those which may be described as "Mill and Factory" industries, although in most of these the part played by the factory system is still small. The remainder consist of tea, coffee, sugar, indigo, and tobacco, which may be classified as "industries connected with agriculture."

#### COTTON SPINNING AND WEAVING.

Although this is the premier mill industry in India, nine-tenths of the cotton weavers are still working in their own homes under the "artisan system." A number of those who wish to preserve them from being crushed out by the factories are trying to devise improved hand-loom to displace the present exceedingly primitive contrivances. Most of those who are following the subject predict with confidence that the experiment will succeed. It

is not unlikely that the effects of this success will be the opposite of those intended. A new competitor, the hand-loom factory, is now entering the field. This is an example of "the workshop system," which in Great Britain still competes with the factory system in the clothing trade, boot and shoe making, and other industries. In India the cheapness of labour power gives it a much greater chance of holding its own in the conflict with steam than it has in England. Improved hand-looms will stimulate hand-loom factories just as much as they will the weaver in his own home. These factories, working with the advantages of collective production, may prove to be yet another competitor tending to drive the old hand-loom weaver out of existence. Already young men are being urged to embark on the new system. The need of India at the present juncture in her development is that her sons should devote themselves to commerce instead of crowding into professions already overstocked. Hand-loom factories offer an opportunity for young Indians to prove their mettle. The capital required is small, and to increase it beyond a narrow limit will bring no corresponding advantage. This field is not therefore likely

to attract British firms, which usually prefer to work on a large scale.

These remarks, however, are speculations. When we turn to the mill industry we find a record of accomplished results. Forty years ago there were only thirteen cotton mills in India. At present there are 212,000 hands employed in the cotton mills.\* The progress has been steady and continuous. This is the more creditable as the trade has met with a number of reverses which were no fault of its own. Within the last few years, for example, it has suffered from the effects of famine, as well as from one of the fiercest plagues of modern times which almost stopped the working of the mills. Yet throughout the years during which these calamities occurred the capital invested in the industry has steadily increased. Another feature which is a cause of legitimate pride is that, in contrast to the jute trade, the capital and management are in Indian hands. Three-fourths of the production issue from Bombay—the home of Indian enterprise. There is still, however, a large home market to be captured, as the Indian output amounts to only about a

\* "Statistical Abstract for British India for 1908," p. 257.

quarter of the imports. The chief weakness is in the production of the higher counts of yarn. But the outlook is promising. The production of yarn is steadily rising, and this increase is due mainly to the growth in the counts above twenty.\* The future of the industry depends largely upon whether it is possible to introduce a high class of cotton into Sind. Although the area under this crop is expanding,† the cotton is of low grade and short in the staple. The Bombay Government is now experimenting with the introduction of Egyptian cotton into Sind. It will be realised how much these experiments mean to the future of the trade.

#### JUTE.

This is the only other great mill industry that India possesses. Bengal is the home of the jute trade. In contrast to the cotton trade, the bulk of the capital and of the management is in British hands. Lately, however, the proportion of Indian capital has been increasing. Here again the conflict between the artisan and the factory system is to be witnessed, but in this case the victory of the factories is almost

\* "Statistical Abstract for British India for 1908," p. 257.

† "Statistical Abstract for British India for 1908," p. 123.

complete. Their progress has been as uninterrupted as that of the cotton mills. The number of persons employed has risen during the last ten years from 95,000 in 1897 to 167,000 in 1906.\* At the same time it should be pointed out that progress would have been difficult to avoid. The jute industry has no severe competition to face in the Indian market. There have been no outside causes of disturbance such as have harassed the cotton trade in Bombay. Most important of all, Bengal has a practical monopoly of the world's supply of raw jute. With all these advantages it is probable that Calcutta will ultimately hold the world's markets in the coarser kinds of manufacture. During the last nine years the value of the exports rose from £4,000,000 in 1897-8 to £10,500,000 in 1906-7.†

One danger, however, looms ahead. The fact that all the raw jute of the world is found in Bengal indicates that the supply of it is not very great. Even during the last few years

\* "Statistical Abstract for British India for 1908," p. 257.

† A part of this increase is accounted for by a rise in price. But if, instead of values, the quantities of jute bags and jute cloths exported are considered, the growth is nearly as great.

there has been a significant rise in the price. If this were to continue, other fibres could be substituted for the purpose now fulfilled by jute.

We have now considered the only important factory industries in India. Those to which we proceed may contain great possibilities, but their present scale is insignificant.

#### TANNING AND LEATHER MANUFACTURES.

These should be among the most flourishing of Indian industries, for their natural advantages are unusual. India produces quantities of raw hides and skins and her exports of them constitute one of her staple trades. The skins are of the best quality, but the proportion of first-class hides is not so great. Her supply of the other necessary materials, acacia pods, bark, cutch, Indian sumach, tanner's cassia, mangroves and myrobalans, is also excellent. Yet her exports of tanned hides and skins are small and practically stationary,\* while on the other hand those of raw hides and skins are great and have more than doubled in the last

\* The exports of tanned hides and skins amounted to a value of £2,500,000 in 1897-8, and nine years later, in 1906-7, to a value of £2,900,000. "Statistical Abstract for British India for 1908," p. 187.

nine years.\* The explanation is to be found in the notorious crudity of the methods of tanning. Again we come upon the conflict between the artisan and the factory system, but here the artisan system holds the greater part of the field. Village tanners yearly convert vast quantities of fairly good hides into inferior leather. The annual waste of materials for which they are responsible amounts to hundreds of thousands of pounds. Tanneries of the factory type have, however, made their appearance, chiefly in Madras, and are beginning to supplant the indigenous ones. In 1906 they employed 10,000 men.† Even these, however, have no great reputation for enterprise.‡

For the same reason that we should expect a flourishing tanning industry we should also look for large leather manufacture. Yet, while the imports of them are increasing and a

\* The exports of raw hides and skins have increased during the last nine years from a value of £3,000,000 in 1897 to over £7,000,000 in 1906-7. "Statistical Abstract for British India for 1908," p. 187.

† "Statistical Abstract for British India for 1908," p. 258.

‡ See "Chrome Tanning in Madras," by Mr. Alfred Chatterton, Director of Industries in Madras. A paper read before the Calcutta Conference in Madras, 1906.



considerable internal demand is growing up for cheap machine-made boots and shoes, the factory system is still in its infancy. Even the factories which exist are largely dependent upon the support of the military and other Government departments. On the other hand, there are immense local manufactures of boots and shoes produced under the older system. Almost every village has its shoemaker, while in the large towns the trade occupies entire streets.

#### SILK MILLS.

The competition between the different methods of production is clearly shown in silk weaving. The home-workers, with one or two looms, still represent the dominant system, and are to be found all over the country. The beginnings of a factory system, of which Bombay seems to be likely to be the centre, are to be seen in four large silk mills worked by steam power. The workshop system is represented by about thirty hand-loom factories, most of them in Bengal, which do not employ European machinery. In spite of the high skill of the Indian weavers the industry is losing ground. The exports of silk manufactures have shown a continuous decline

during the last decade,\* while the imports are rapidly increasing.† Silk filatures also show a tendency to decline in numbers.‡

#### WOOLLEN MILLS.

There are only six woollen mills throughout India, and the trade shows no signs of expansion. Even the existing mills produce chiefly for the army and the police. Yet the demand for woollen goods in India is appreciable, and the imports are increasing rapidly.§

#### PAPER MILLS.

This industry is in much the same position as the woollen trade. There are eight mills in India, and the trade gives little indication of growth.|| The Government supports the existing mills by obtaining from them most of

\* The value of the exports have diminished from £86,000 in 1897-8 to £45,500 in 1906-7. "Statistical Abstract for British India for 1908," p. 155.

† The imports of "piece goods" and "mixed" have increased from 14,000,000 yards in 1897-8 to 20,500,000 yards in 1906-7. "Statistical Abstract for British India for 1908," p. 150.

‡ "Imperial Gazetteer of India," Vol. III., p. 209, and "Statistical Abstract for British India for 1908," p. 250.

§ During the last nine years their value has increased from £750,000 in 1897-8 to £1,350,000 in 1906-7.

|| "Statistical Abstract for British India for 1908," p. 258.

the foolscap, blotting paper, notepaper, and envelopes required for the public offices. The trade has every opportunity for expansion, as is shown by the fact that the imports have doubled within the last nine years.\* Until the industry adopts more modern methods and materials than it relies upon at present, it cannot hold its own against the cheap wood-pulp paper imported from Europe.

The remaining industries which come within the category with which we are at present dealing are not of sufficient importance to deserve any detailed description. They consist of iron and brass foundries, railway works, breweries, dyeing works, chemical works, tile factories, rice mills, cotton ginning and cleaning mills, lac factories, soap works, pottery works, aluminium works, printing presses, rope works, glass works, and works for the production of matches, umbrellas, and felt caps.

We now come to the second division into which the industries of India may be classified—those connected with agriculture. The industries coming under this head consist of sugar, indigo, tea, coffee, and tobacco.

\* The imports of paper and pasteboard have increased in value from £220,000 in 1897-8 to £534,000 in 1906-7. "Statistical Abstract for British India for 1908," p. 148.

## SUGAR.

The history of this industry during the last few years is full of surprises, which are by no means creditable to the Indian producers. The consumption of sugar in India is rapidly increasing. Yet the area under cultivation is stationary, with a tendency to diminish.\* On the other hand, the imports are increasing rapidly so as to capture the expanding Indian market.† The explanation at one time appeared simple. The foreign bounties given to beet sugar were held to be responsible. The Government of India therefore passed the countervailing Sugar Duties Act of 1899, by which, in addition to the ordinary duty, a special duty was imposed in the case of bounty fed sugar of the same amount as the bounty. This counter-stroke was expected to revive the Indian production, but the subsequent events were surprising. The following statistics

\* The area under cultivation during the last nine years has diminished from 2,648,000 acres in 1897-8 to 2,623,000 acres in 1906-7. "Statistical Abstract for British India for 1908," p. 123.

† The imports have increased during the last nine years from a value of £3,200,000 in 1897-8 to £5,800,000 in 1906-7. "Statistical Abstract for British India for 1908," p. 149.

explain them:—Value of imports of sugar 1899-1900, £2,250,000 (countervailing duties imposed); value of imports of sugar 1900-1, £3,700,000; value of imports of sugar 1901-2, £3,900,000.\*

The imports, therefore, instead of declining, were actually increasing more rapidly than before. Again the explanation appeared easy. The foreign manufacturers were bringing into play “cartel” bounties, by which the advantage secured to them in their home markets by their high import duties was used for assisting the sale of the sugar abroad. Again the Government stepped in and in 1902 imposed further countervailing duties. What followed is explained in the statistics:—Value of imports of sugar 1902-3, £3,300,000; value of imports of sugar, 1903-4, £4,000,000; value of imports of sugar, 1904-5, £4,600,000; value of imports of sugar, 1905-6, £5,200,000; value of imports of sugar, 1906-7, £5,800,000.\*

Thus the imports still continue to increase and are now higher than ever before, while throughout the period the home production has remained stationary. How can these results be explained? The failure of the

\* “Statistical Abstract for British India for 1908,” p. 183.

Indian industry to take advantage of its opportunities is not due to causes which tariffs can cure, but to its own notorious want of enterprise. On the other hand, the beet sugar manufacturers have not relied upon their bounties. Those who ascribe their progress to bounties alone should remember that by scientific work the sugar which the beetroot yielded has been increased from 9 per cent. to 16 or 18 per cent. The best machinery has been adopted for extracting the sugar; chemical processes obtain the last traces of crystallisable sugar from the molasses; and the waste products — at one time a positive expense—are converted into salts of potash, ammonia, and other valuable chemical products.\* The Indian industry is now demanding protection, but the best remedy for its misfortunes will be to accept the warning of the Surat Industrial Conference, that “it is absolutely necessary to encourage the cultivation of healthier and more prolific varieties of cane, to employ greater care in cultivation, to use more economical processes for extracting

\* See a paper on “The Development of the Mineral Resources of India,” read to the Benares Industrial Conference, 1903, by Sir Thomas Holland. Nateson & Co., Madras.

the juice, and, above all, to adopt the most modern and efficient methods of refining.”

### INDIGO.

This industry presents a gloomy picture, but not, as in the case of sugar, through faults of its own. Indian vegetable colours have for centuries held a foremost place in the markets of the world. But, again, we are met by the competition between old world methods and the results of modern science. The story of the extraction of a wonderful colouring material from coal tar is one of the romances of modern industry.

The effect of the competition of this new product is seen from the fact that the area under indigo in India is now less than one-third the area of nine years ago.\* The Committee appointed in 1900 did not conceal its view that the days of the industry were numbered.†

\* In 1897-8 the area under indigo was 1,400,000 acres. By 1906-7 it was reduced to 450,000 acres. “Statistical Abstract for India for 1908,” p. 123.

† “Without taking too pessimistic a view of the future of indigo, it is reasonable to anticipate that the competition of synthetic indigo will prevent any future increase in the price of vegetable indigo, that it will soonest and most injuriously affect the finest and most expensive indigo, which is that of Behar, and cause a further reduction of

## TEA.

We now come to an industry whose future is full of hope, and whose growth during the last generation has been remarkable. In 1885 the area under tea in India was 440 square miles. By 1903, a little less than twenty years later, it had increased to 820 square miles.\* The expansion, in fact, was so rapid as to lead to a fall in prices which involved the trade in great difficulties. The difficulties were in this case a stimulus to progress, and vigorous efforts to push the sale of Indian tea were undertaken. For this purpose a small duty on tea has been imposed and the proceeds of it are used by a representative committee to open up new markets. Large plantations have been established and machinery has taken the place of manual labour. One result has been that the freedom of Indian tea from the adulteration

price which would hardly clear the planter in a good season, while a bad season would be ruinous to him. In the end, though we trust the end is a long way off, the competition of synthetic indigo may bring about the supersession of vegetable indigo, as the competition of alzarine dyes ended in the supersession of madder." See the decennial "Statement exhibiting the Moral and Material Progress of India," p. 232, issued in 1903.

\* "Imperial Gazetteer of India," Vol. III., p. 57.



and impurity incidental to Asiatic hand labour has enabled it practically to oust Chinese tea from the British market.

#### COFFEE.

The prospects of this industry are by no means so bright as those of tea. There is only a small home demand for it, while the foreign markets have been devastated by the competition of the cheap Brazilian coffee. The average London price sank, for example, from a hundred and one shillings per cwt. in 1894 to forty-seven shillings per cwt. in 1901.\* The effect of this competition is shown by the steady decrease of the area under coffee. This has shrunk during the last nine years from 151 acres in 1897-8 to 96 acres in 1906-7.†

#### TOBACCO.

The area under tobacco has remained stationary during the last nine years at about a million acres.‡ The exports are increasing steadily.§

\* See the decennial "Statement exhibiting the Moral and Material Progress of India for 1903," p. 233.

† "Statistical Abstract for British India for 1908," p. 122.

‡ "Statistical Abstract for British India for 1908," p. 123.

§ The value of the exports has risen from £197,000 in 1897-8 to £206,000 in 1906-7. "Statistical Abstract for British India for 1908," p. 123.

It has, moreover, a considerable prospect of an expanding home consumption. Indians often smoke from early youth, but the "hukka" is gradually being abandoned for cigars and cigarettes. These are imported in great quantities, and the prospects of the Indian tobacco depend largely upon its success in taking their place. The exports to Great Britain are, at present, insignificant.\*

\* See "Annual Statement of the Sea-borne Trade and Navigation of British India for 1907," Vol. I., pp. 441, 442.

## V

### SWADESHI AND INDIAN PROTECTIONISM

PUBLIC opinion in India is overwhelmingly protectionist. If she were granted her fiscal freedom, there is no doubt that she would use it to erect a high tariff which, from the nature of her trade, would be directed chiefly against British goods. Among the educated and commercial classes Free Trade is regarded as a policy forced upon India against her best interests by Great Britain. Those who sympathise with the reasons given in the first lecture for building up manufactures will not be surprised at this attitude. The latest expression of it is to be found in the Swadeshi movement. This has received the support of "moderates," "extremists," the business community consisting of non-political men, and even of the Government. As the term, however, is used in more than one sense, an explanation of its real significance is needed. Swadeshi means strictly "my own country." This spirit chiefly manifests itself in practice

by the purchase of home-made articles in preference to foreign ones. Swadeshi, therefore, is voluntary protection. It seeks to secure by the willing action of patriotic purchasers what nations with fiscal freedom secure by means of protective tariffs. The fact that Indians of all shades of thought are unanimous in accepting this doctrine indicates the strength of the protectionist sentiment. I shall quote a number of the statements of the Swadeshi principle from various schools of Indian thought. The point of view of those who are interested in economic rather than in political questions is best expressed by the Industrial Conference which meets annually. I have, therefore, selected the passages bearing on this subject from the presidential addresses delivered at the last three sessions of the Conference.

Mr. Romesh Chunder Dutt argued, in the presidential address at Benares in 1903, that British politicians were themselves advocates of the Swadeshi principle. "The Swadeshi movement is one which all nations on earth are seeking to adopt in the present day. Mr. Chamberlain is seeking to adopt it by a system of protection. Mr. Balfour seeks to adopt it by a scheme of retaliation. France, Germany, and the United States and all the British

Colonies adopt it by building up a wall of prohibitive duties. We have no control over our fiscal legislation and we adopt the Swadeshi scheme, therefore, by a laudable resolution to use our home manufactures, as far as practicable, in preference to foreign manufacture. If we succeed in this noble endeavour, we shall present to the world an instance unparalleled in the history of modern times of a nation protecting its manufactures and industries without protective duties."

Sir Vithaldas Damodar Thackersey presided over the next Conference held in Calcutta in 1906. He pointed out that Swadeshi was not peculiar to India. "Swadeshi is enforced in many civilised countries by means of prohibitive tariffs and bounties to home producers. We are only following the example of those nations by making voluntary efforts to encourage indigenous industries. There is nothing wrong in this. On the contrary, it is all the more creditable to us that what in other countries requires to be enforced by the State is undertaken here by the spontaneous action of the people."

Similarly, Dewan Bahadur Ambalal Desai, the president of the third Conference, held at Surat in 1907, argued as follows: "The

protection of new or nascent industries by means of high import duties and by bounties is held to be allowable by some of the highest authorities of the Free Trade school. If the State in India had been identified in economic interests with the Indian people, some measure of protection might have been adopted by it long ago. But the Government in India being the representative in India of Free Trade, Britain is not at liberty, at present, to afford economic protection in any form to Indian industries. The people of India ought, therefore, to step into the vacuum and do by voluntary protection what the State might have achieved in an easier way by tariffs and bounties."

Turning to a leader of political thought, M. G. K. Gokhale bases his defence of Swadeshi on the orthodox argument from "infant industries." "By ensuring the consumption of indigenous articles in their early stage, when their quality is inferior and their price is higher, or when they labour under both these disadvantages, we can do for our industries what Protectionist Governments have done for theirs by means of State Protection. . . . In course of time the quality of Swadeshi articles is bound to improve and

their cost of production to become less and less." \*

While in this way Swadeshi encourages home producers, it at the same time enjoins upon them the need of rising to their opportunities. I have pointed out, and shall have to do so again, that the essential weakness of Indian industry is lack of initiative. Swadeshi preaches the courage and mutual confidence which will enable Indians to strike out fresh paths for themselves. Although many of the enterprises started under its stimulus have failed, and doubtless will fail, the first step towards overcoming a fault is to recognise its existence.

#### INDIAN PROTECTION.

The argument for Protection in India is now easy to state. It is in fact contained in what I have already said. In the first lecture it was explained that there is one conclusion which forms a common ground for all schools of thought in India—that the manufactures of the country must be built up. To the highest

\* From an address at Lucknow in 1907. See "Speeches of the Hon. M. G. K. Gokhale," p. 818. Nateson & Co., Madras.

type of Indian thinker the economic reason does not come first. His eyes are fixed upon the distant day when his countrymen, no longer a subject race, will be in their country what an Englishman or a Canadian is in his. There is no hope of achieving this high purpose until Indians have infused Western ideas into all departments of national life. They must not, however, adopt them blindly, but must so mould them to their own national characteristics and ancient civilisation as to transform them into truly Indian ideas. Such a task cannot be carried out by a purely rural population. India needs the quick intelligence and the progressive spirit developed by industries of the modern type. The Government, on the other hand, bases its opinion upon the economic reason. If a large proportion of the agricultural population can be diverted into manufactures, it will be easier for future administrators to grapple with the awful problem of famine. The question then arises as to how the manufactures are to be created. The answer in India is the same as in all other countries in a similar position. While they are "infant industries" they need the shelter of protective tariffs. After they have secured the advantages of production on a large



scale, they will be able to stand upon their own feet.

The arguments used are derived chiefly from List, as will be seen by the following quotations. The first is from the late Justice Ranade. "Commerce and manufactures are, if possible, more vital in their bearing on the education of the intelligence and skill and enterprise of the nation than agriculture. In a purely agricultural community there is a tendency to stagnation and absence of enterprise, and the retention of antiquated prejudices. The function of the State is to help those influences which tend to secure national progress through the several stages of growth, and adopt Free Trade or Protection as circumstances may require. A due co-ordination of the three-fold forms of industrial activity (*i.e.*, commerce, manufacture, and agriculture), even if it be not immediately most advantageous to individuals, in any one period, is a permanent national insurance against recurrent dangers, and as such is economically the most beneficial course in the interests of the community." \*

My other quotation is from Mr. Gokhale.

"The destruction of hand industries is a necessary stage through which an industrially

\* Ranade's "Essays in Economics," pp. 21 and 28.

backward country must pass before she can take rank with those that use steam and machinery, and advanced scientific processes. When hand-made goods are exposed to the competition of machine-made goods it is inevitable that the former should perish. But when this stage is reached, there comes in the duty of the State. The State, by a judicious system of Protection, should then ensure conditions under which the new infant industries can grow up. Until the new industries can stand on their own legs, it becomes the duty of the State to have a protective wall around.” \*

NOTE.—The remainder of this lecture was occupied by a discussion of the general principles of international trade, which is summarised in the opening passages of the next lecture.

\* The Hon. M. G. K. Gokhale. See Speeches, p. 803. Nateson & Co., Madras.

## VI

### AN EXAMINATION OF INDIAN PROTECTIONISM

A DISCUSSION of Indian protectionism must start from certain generally accepted truths which here must be merely stated. Those who wish to examine them further will find them explained at length in any text-book of economics. An industry which secures Protection obtains the right of levying a tribute upon the community. It is enabled to increase the price of its product and so to lay a burden on the consuming public. The argument that this does not happen because the protective duty is paid by the foreign producer will not bear examination. If the foreign manufacturer pays the duty and sends the goods at the same price as before, there is no advantage to the industry which is being protected. If it was being undersold before, and the price is not raised, it is being undersold still, and the protective duty has failed in its object. Protection, therefore, can only

be effective in so far as it raises prices.\* Whatever efforts are made to escape from this conclusion when only argument is at stake, its truth is always tacitly accepted when the practical business of devising a tariff has to be faced. In the existing Indian tariff, for example, coal, raw wool, raw cotton, wood pulp, machinery, and many other articles are placed upon a free list. The reason is, of course, that it is taken for granted that an import duty will raise their price, and they are too important to other industries to permit this to occur. For the same reason iron, steel, and many articles made from them are admitted at nominal duties.

The chief remaining argument in the armoury of popular protectionism is that it "gives employment." This doctrine is, of course, recognised as a fallacy by all instructed opinion. Nevertheless, its hold upon the public mind is so powerful that it has swept before it the

\* No economist would deny that there are numerous cases in which protective tariffs fall, to a greater or lesser extent, upon the foreign manufacturer, and that therefore the prices are not raised to the full extent of the duty. These instances are of importance when duties for revenue are being considered. They are not, however, of importance when duties for protective purposes are under consideration, for in this case, in so far as they fail to raise prices, they fail to give protection.

democracies of all countries except the United Kingdom. In India, however, its absurdity ought to be plain. There is no need to "give employment," for the industries of the country are already crying out for labour which they cannot obtain.

#### INFANT INDUSTRIES.

Indian protectionists do not deny the truth of these arguments. Their answer to them is that they only ask that their industries should be protected during their "infant" stages. The tribute, it is argued, is worth paying for this short period, and should be regarded as an investment of capital. When the industries have grown to maturity they will be able to stand by their own strength. The country will then be repaid many times over for the tribute that has been exacted from it, because a new industry will have grown up whose products the public can obtain more cheaply than if they were still dependent upon foreign supplies.

This argument does not contain any such logical impossibilities as are found in the case for popular Protection. Nevertheless, Indian thinkers do not yet realise how perilous it is. Infant industries do not grow to maturity.

The argument has always been merely the thin edge of the wedge. When it has served its purpose in overcoming the opposition to Protection it has been stultified, for the industries have been treated as if they remained "infant industries" for ever. The difficulties which confront a Government which wishes to use the argument honestly are indeed overwhelming. Behind the tariff wall there establish themselves a number of industries which can never, perhaps, exist without it. It is better that they should perish than live to be a burden upon the nation. But the agitation on their behalf is very strong. Similarly even those industries which can stand by themselves have become inflated beyond their natural limits. The removal of the tariff will mean the extinction of the weaker firms and a heavy blow to others. If, for example, the Indian cotton mills had obtained a protective duty of 20 per cent. twenty years ago, does any one believe that it would have been taken away now that the industry has secured all the advantages of production on a large scale? Those who are threatened with ruin form a compact interest bringing concentrated pressure to bear upon the Government. On the other hand, the interests of the public are diffused over too

wide an area to be powerful as a political force. The tribute which each consumer pays is so small that it is not worth the while of an organised body to press the Government very hard. The temptation of the Government to follow the line of least resistance is increased by the fact that it has grown to depend upon the protective duties as a source of revenue. One industry after another imposes a permanent burden on the community. Finally the "infant industry" argument is forgotten and popular Protection has established itself.

#### INDIA'S SPECIAL DANGERS.

When we consider the special conditions of India the dangers appear more serious still. Protection tends to sap the vitality of industry. Economic progress is dependent upon the pressure of keen competition. Industries which are in a position of unhealthy security, because they are sheltered behind a tariff wall, lose the spirit of improvement. The advocates of Indian Protection are in the habit of pointing to the United States, Germany, and the self-governing colonies. Their position, however, does not furnish a true analogy to that of India. Each of them is a nation remarkable for the natural

vigour of the people, and it is difficult for even Protection to damp their energy. The position of India is exactly the opposite, for her great danger is inertia. The resources of the country are not being opened out by Indian initiative. Indian manufacturers follow faithfully in the paths already trodden by British enterprise. Everywhere there is a noticeable desire to depend upon the Government rather than upon personal effort. Indian thinkers are continually pointing out these weaknesses to their fellow countrymen. No one insisted upon them more strongly than Justice Ranade.

“Our habits of mind are conservative to a fault. Capital is scarce, immobile and unenterprising. Co-operation on a large scale of either labour or capital is unknown. The desire for accumulation is very weak, peace and security having been almost unknown over large areas for any length of time till within the last century. Our laws and institutions favour a low standard of life and encourage subdivision and not concentration of wealth. The religious ideals of life condemn the ardent pursuit of wealth as a mistake to be avoided as much as possible. These are old legacies and inherited weaknesses. Stagnation and dependence, poverty and depression — these are written



in broad characters on the face of the land and its people." \*

The demoralising effects of Protection have not yet been mentioned by Indians in their discussions of the subject. Yet the survey that I made of the chief industries of the country showed that in most of them the greater part of the production is still carried on by obsolete methods. This conservatism is the fundamental weakness of the trade of India. If it can be overcome her industries will develop without any protective tariff quite as fast as is healthy in the present unprepared condition of her labour. This conservatism is, however, the very fault which Protection is calculated to perpetuate.

I shall now take the chief industries of India and examine the probable effects upon each of Protection. The survey which I made in my last lecture of the conditions of these industries renders the task an easy one.

#### THE PROBABLE NATURE OF AN INDIAN TARIFF.

Before it can be undertaken, however, some forecast must be attempted of the probable

\* Ranade's "Essays in Economics," p. 26.

nature of an Indian protective tariff. It could be drawn up on one of two principles. It might be either a general tariff on imports as a whole or a special tariff for the benefit of only a few industries with peculiar claims. The foundations of a tariff on the first principle have already been laid. India possesses a general tariff of 5 per cent. which, although it has been levied for revenue, has within its limits a distinctly protective effect. Moreover, the modifications necessary to it have also been worked out. There is a free list for commodities essential to other industries—such as coal, machinery, raw cotton, cotton twist and yarn, wood pulp, raw wool, and railway materials, while, on the same principle, commodities almost but not quite as necessary—such as iron and steel—are admitted at a nominal rate.\* A protective tariff would naturally follow the lines already laid down. The preliminary work has been accomplished, and the Government would scarcely be willing to relinquish revenue by freeing the commodities already paying duty. An idea of the protective system which India would probably adopt can therefore be obtained by imagining

\* "The Statistical Abstract for British India for 1908," p. 226.

that the duties in the existing tariff are raised from 10 to 20 per cent., and that the unpopular Excise duties on cotton manufactures are repealed.

If, therefore, on the second principle, a special tariff to protect selected industries is adopted, it will probably be as a supplement to the one which has just been sketched. The "infant industry" argument, indeed, leads to the conclusion that these nascent manufactures which give special promise of eventual success ought to be granted special protection. At the end of the lecture I shall be able to select the industries to which the argument applies in India.

#### EXPORT DUTIES.

An Indian protective tariff, however, would not consist solely of import duties. India is in a specially favourable position for imposing export duties, as she produces certain commodities of which the exports are large and of which she is practically the only source of supply. An export duty has already been laid upon rice, in order to meet the needs of Indian revenue. This, however, is by no means the most suitable article that could have been

selected. At one time, perhaps, India and Burma enjoyed something like a monopoly of its supply for the European markets. But this is no longer the case, while other grains are being substituted for rice in distillation and the manufacture of starch. On the other hand, raw jute fulfils all the conditions needed for an effective export duty. India possesses the practical monopoly of it while it is the raw material of industries which compete with her own jute manufactures. As a source of revenue it should be more profitable than the duty on rice, for the value of the exports on raw jute amounted in 1906-7 to nearly £18,000,000, while those on rice reached only £12,500,000.\* Moreover, the chief danger to the future of the jute industry is the possibility that the supply of raw jute may not prove equal to the demand for it. The price has already been rising in a significant manner. If, therefore, India were granted her fiscal freedom it is probable that she would substitute a duty on jute for the existing one on rice. Lac and til are also commodities which suggest themselves as suitable for export duties. In 1906-7 the

\* "Statistical Abstract for British India for 1908," p. 155.

value of the exports of lac was £2,300,000 and of til £1,700,000.\*

In considering the chief industries separately, I shall adopt the same order as in my original survey, and examine the effect of a protective system, first upon the development of India's mineral resources, next upon her manufactures, and lastly upon the industries connected with agriculture.

### MINERALS.

The minerals which were included in the survey were coal, iron and steel, petroleum, manganese, mica, saltpetre, salt, copper, tin, graphite, rubies, jade, and gold.

(1) No protection is feasible for coal, saltpetre, manganese, mica, graphite, rubies, and jade, as the imports of them are either very small or non-existent.

Coal, moreover, is an essential to industry, on which no duty would be tolerated. It is on the free list of the existing tariff. Saltpetre is a mineral of which the production certainly needs to be stimulated, as it shows a tendency to decline. The stimulus cannot,

\* "Statistical Abstract for British India for 1908," pp. 155 and 186.

however, be applied by Protection, as the imports in 1906-7 only reached a value of £50.\*

(2) Iron and steel only pay nominal duties of 1 per cent. in the existing tariff. They are of such importance to other industries that the Indian Government has not ventured, in the past, to impose effective duties upon them. It has, however, given them Protection in the form of subsidies. If the Tata Works fulfil the hopes of their founders this policy might be revived.

(3) Salt is a necessity to the masses of the Indian peoples. It is already subject to an Excise duty and to a corresponding import duty. But these are watched with the utmost vigilance, and an additional import duty for protective purposes is scarcely within the bounds of discussion.

(4) The output of tin is on too insignificant a scale to entitle it to protection, while no copper at all is produced.

(5) We are thus left with petroleum. Although its output has increased more rapidly during the last ten years than that of

\* "Statistics of the Sea-borne Trade and Navigation of British India, 1907," Vol. I., p. 121.

any other mineral product, India's imports of it are still twice as valuable as her own production. A protective tariff, therefore, might reduce the value of imports.

#### FACTORY INDUSTRIES.

Turning to the second group—the factory industries—the only ones which have, at present, reached a scale which is more than insignificant are cotton, jute and silk manufactures, tanning, boot and shoe making and leather manufacture, woollen weaving, and papermaking.

In spite of the remarkable advance of the cotton trade India still imports cotton goods to four times the value of her own output.\* A protective duty, therefore, might lead to an expansion of this industry.

The jute manufacturers, on the other hand, have little to expect from Protection. The total value of the imports of jute goods in 1906-7 amounted to less than ninety thousand pounds.† As the exports for the same year amounted to ten and a half million pounds, it

\* See Lecture III.

† "Statistics for the Sea-borne Trade and Navigation of British India for 1907," Vol. I., p. 199.

will be seen how small a proportion of the trade would be affected by a duty.\*

Tanners and leather manufacturers would probably insist that their "infant industries" had a special claim for protection. Our survey of their position has, however, shown that they deserve little sympathy. Nature has showered its advantages upon their trade, but they fail to rise to their opportunities. Their weakness is due to causes which Protection will only encourage. I realise, however, that such considerations are not likely to be taken into account in the clamour when a tariff is being drawn up, and these industries would doubtless be included with the rest.

Similar reflections arise when we consider the woollen and paper mills. They already receive a species of Protection, as they are largely dependent upon Government support. They would certainly claim and obtain their share of protective duties, but the methods of both are unprogressive. Silk manufacture also would doubtless be included in the general scheme, although the factory system is in its infancy and the bulk of the production is carried on by less advanced methods.

\* "Statistical Abstract for British India for 1908," p. 184.



## INDUSTRIES CONNECTED WITH AGRICULTURE.

We are now left with the third group of industries—those connected with agriculture—consisting of sugar, indigo, tea, coffee, and tobacco. Those which, at first sight, have the strongest claim to protection are indigo and coffee, declining industries whose misfortunes are continually being impressed upon the public of India. An examination of their imports, however, proves that tariffs will be practically useless. India consumes only the inferior grades of indigo, and the value of the imports in 1906-7 came to only £6,500.\* Similarly there is little demand for coffee, and in 1906-7 the imports were valued at only £18,000.†

The sugar planters are already demanding Protection, not as part of a general scheme, but as a privilege apart from other producers. No industry deserves it less. The demand is an attempt to throw upon the public the penalty for the faults of the planters themselves. It has been shown that they have signally failed to take advantage of the

\* "Annual Statement of the Sea-borne Trade and Navigation of British India for 1907," Vol. I., p. 134.

† "Annual Statement of the Sea-borne Trade and Navigation of British India for 1907," p. 47.

countervailing duties which were imposed for their protection. The remedy does not lie in further protection, but in their own efforts. If, however, a general tariff is adopted, this particular industry is not likely, in the common agitation, to be excluded.

The two remaining industries are tea and tobacco. The tea planters, in contrast to the sugar planters, have equipped their estates with the most modern machinery, and by such means have already driven China tea almost entirely out of the British market. The home market also is likely to expand, because the tea-drinking habit is growing among the town population of India. Protection, however, would be of little assistance here, as the imports are very small in comparison to the total production. In 1906-7 their value amounted to only £2,500,000,\* while the output of Indian tea reached over 260,000,000 lbs.† As the home market is growing, a duty might lead to a further expansion of the Indian industry. The tobacco growers also might receive considerable assistance from a tariff.

\* "Annual Statement of the Sea-borne Trade and Navigation of British India for 1907," p. 89.

† "Statistical Abstract for British India for 1906-7," p. 123.

Vast quantities of cheap cigars and cigarettes are imported, the place of which might be taken by the products of India herself.

#### CONCLUSION.

From this survey it appears that the industries which a tariff might assist are those which produce petroleum, cotton manufactures, tanned hides and skins, leather goods, silk and woollen manufactures, paper, sugar, and tobacco. But the arguments of Indian protectionists have no application to petroleum, cotton manufactures, and sugar. These are established industries already enjoying the full benefits of production on a large scale. Any advantage that they received would merely represent the proceeds of a tribute levied from the public without the excuse that they were in the "infant stage." Our survey, therefore, leaves us with tanned hides and skins, leather, silk and woollen manufactures, paper, tobacco, and perhaps iron and steel. These may claim to come within the category of nascent industries. If a tariff on the second principle that I described were adopted, these are the trades which would be selected for it. But, as was pointed out in my survey, the tanning and leather industries are being kept back by their

own inertia, while silk and woollen manufactures and papermaking also suffer from the conservatism of their methods. Protection will merely pander to these weaknesses ; so we are reduced to tobacco, and perhaps iron and steel, as the industries which emerge from our examination.

My general conclusion is that India needs a strong Free Trade school among her thinkers and administrators. The tangible benefits of Protection reduce themselves on examination to such small proportions that they do not justify running the serious risks which the policy entails. Nevertheless, if India were once granted her fiscal freedom, I have no doubt that Protection would be adopted. The movement of opinion is already so strong, and the example of other countries whose position appears, at first sight, to be similar to her own is so powerful, that no arguments seem likely to hold her back. There is, however, no reason why the present uncritical protectionism should hold the field for want of opposition. Nowhere in the Indian literature on the subject are the weaknesses that we have been discussing pointed out frankly. Here would be the work of a Free Trade school. If, then, a protective tariff were adopted they could free it from its

worst abuses. India, with her eyes open to the dangers of her course, would be left with no excuse for stultifying the "infant industries" argument by allowing one trade after another to become a burden on the community. Under present conditions no industry should remain in the infant stage for more than fifteen or, at the most, twenty years. It should be clearly laid down from the beginning that this was to be the limit of the period of protection. India indeed may prove to be the one country strong enough to consistently carry out a policy of this kind. Her Government, because it is still to a large extent absolute, can override the clamour of selfish interests more firmly than is possible in more democratic States. If it used its strength without fear or favour, Protection would be robbed of many of its possibilities of evil.

NOTE.—A discussion of the proper attitude for Indian thinkers to adopt towards the proposals for Preferential Tariffs within the British Empire is contained in "India and the Tariff Problem," by Professor Lees Smith (Constable & Co.).

## VII

### THE INDIAN BANKING SYSTEM\*

INDIAN banks can be roughly divided into categories corresponding to those of Great Britain. In Great Britain banks can be divided into two main classes, *i.e.*, private banks, which are slowly disappearing, and joint-stock banks, which have the future before them; lastly, the Bank of England stands in a class by itself. In this country you have a system of shroffs and sowcars who can be regarded as largely corresponding to the English private bankers. But there is a sharp distinction. In England there is a clear line drawn between the moneylender and the private banker, while here the division is not so marked. Some shroffs or sowcars appear to be the ordinary moneylenders charging exorbitant rates of interest, while others are private bankers who not only lend their own capital, but receive money on deposit and act as its transmitters. In Great Britain the

\* The first part of this lecture was occupied by a discussion of the general principles of banking.

private banks, during the last generation, have been one after the other eliminated or absorbed by the great joint-stock banks. It may be that eventually a similar process will come into operation in India, but there will certainly be a stiff conflict first, for the private banker possesses advantages which are of peculiar importance in this land. A joint-stock bank has, indeed, huge reserves of capital, and can therefore command confidence in a way which puts the private banker at a disadvantage. On the other hand, a joint-stock banking company cannot be very elastic, for it has to work through a body of officials and by means of fixed rules. A private banker is responsible to no one but himself. He knows the conditions of his district, is familiar with his customers, and is thus able to take risks to which joint-stock banks are not adapted. These advantages enable him to undertake a large class of loans which are outside the scope of the joint-stock system.

#### THE EXCHANGE BANKS AND THE PRESIDENCY BANKS.

There are at present ten exchange banks, that is, banks dealing in foreign bills. Of these all have their headquarters outside India, with

the exception of one which has been comparatively recently established. The greater share of the discussion on banking subjects within recent years has been taken up by the Presidency banks in Bombay, Madras, and Calcutta. They correspond, so far as any bank in this country does, to the Bank of England. To a small extent they perform the same functions as that famous Bank. The Government in England keeps the whole of its deposits with the Bank, while in this country the Government keeps part of its deposits in the Presidency banks. But there are many differences. First, the Presidency banks are much more dependent for their cash balances on the Government account than the Bank of England. In certain busy seasons the Government account represents between 80 and 90 per cent. of the cash balance of the Presidency banks. On more than one occasion it has happened that the cash balance in these banks has actually fallen below the amount of the Government accounts. It has once even occurred that the Government when in need of its deposits was unable to withdraw them from the Presidency banks lest it should precipitate a crisis. In the case of the Bank of England, although the Government deposit represents a



considerable proportion of its cash balance, unless there were a grave crisis due to other causes, the Government deposit could be withdrawn and still leave the Bank of England in a position to command the complete confidence of the commercial community.

Another distinction is due to the geographical position of this country. The Bank of England has within its call the great monetary centres of the world. Even if the Government suddenly withdrew its deposits and the Bank of England were put to severe straits in order to obtain sufficient cash, it could obtain gold from a dozen different sources. But India is cut off by its geographical position from the possibility of rapidly obtaining sufficient supplies of actual metal to make up quickly its depleted resources. This examination is enough to indicate that the attitude of the Government of this country towards the Presidency banks cannot be the same as that of the Government of the United Kingdom towards the Bank of England. I have, for instance, mentioned that the Government keeps only a part of its balance in the Presidency banks. At one time it kept the whole, but, owing to the experience that I have narrated, the system was changed and part of

the balance is now kept in provincial and district treasuries belonging to the Government.

The reason that the Presidency banks have to work under special restrictions which have no parallel in England is also clear. Even in England there is a demand that the Bank of England should not be allowed to operate in exactly the same manner as any other joint-stock bank. There is a certain divergence between the interests of the shareholders of the Bank and the interests of the general public. The general public look to the Bank of England as the institution which holds the final cash resources of the country, and they regard it as the duty of the Bank to maintain those resources at the highest possible level. On the other hand, the larger the resources kept by the Bank of England the smaller are the dividends earned by its shareholders. The governor and directors of the Bank of England in their public pronouncements insist that they are a banking company like any other, and that the public has no right to expect them to diminish their dividends continually by keeping larger and larger resources. In reality, however, the historic prestige of the Bank of England is such that a position on its

directorates is regarded as a public office involving public responsibility.

The old Bank of Bombay was at one time in the position of the Bank of England in so far that it kept the Government balance, but allowed the Government no share in its control and worked without restrictions. It was the failure of this bank which led to the restrictions imposed upon the Presidency banks by the Act of 1876, such as those limiting the kind of security in which the banks may invest. But while restrictions of this kind make for security on the one hand, they diminish the utility of the banking system on the other. The object of the Presidency banks is to provide capital for the trade of this country. The greater the number of investments that you close to them the less able are they to provide money for building up Indian industries. There has, therefore, been a continual and legitimate agitation for the loosening of these restrictions. In response to this agitation many of them were relaxed two years ago.

#### THE NOTE ISSUE.

I come to another distinction between the English and the Indian systems. Whereas one of the great functions of the Bank of

England is to supervise the note issue, here this particular work is done by the Government itself. This was not always the case. Until half a century ago the privilege of issuing notes was allowed to the Presidency banks as it is now allowed to the Bank of England. They did not take much advantage of this privilege, nor did their notes circulate very widely outside their own Presidencies. In 1861 the Government appropriated the privilege to itself. It imposes upon itself regulations of a character exactly corresponding to those which regulate the Bank of England. The Government lays down the general rule that so far as it issues notes it must have in its treasuries cash of a corresponding value. But just as the Bank of England is privileged to issue notes up to £18,400,000 without having the corresponding millions in its coffers, the Government of India takes to itself the privilege of issuing notes up to Rs. 12 crores on the same system. These 12 crores are set free for purposes of investment. Taking the average of the last three years, the Government of India has as the interest on those 12 crores received some 35 lakhs per year. This is an example of the increase of the wealth of a nation created by the system of issuing notes.

## A CENTRAL BANK FOR INDIA.

The last subject that I shall consider is the possibility of there being established in this country an institution corresponding to the Bank of England. The proposal was first seriously discussed some years ago, and, though no immediate action was taken, the Government expressed its official approval of the principle. The suggestion was that the three Presidency banks should be amalgamated into one central institution corresponding to the Bank of England. It would have been an inevitable development for the privilege of note issue to be transferred from the Government to the central bank. The present position is as follows. A central bank must be an institution of undoubted stability, but the combined capitals of the three Presidency banks together are not sufficient to make it really secure. The Government calculation was that to do this an additional £3,000,000 capital was required. But, for reasons which any economic text-book will make plain, it is not profitable for banks to increase their capital if once they have sufficient to command confidence. The Presidency banks pointed out that if they were to be compelled to find £3,000,000 extra capital there would be a very serious

reduction in their dividends and they claimed compensation. The calculation at the time was that the Government would have to give compensation at the rate of 5 per cent. on the extra capital. The banks claimed a much higher sum, but this was the maximum accepted by Sir Edward Law. That would have amounted to £150,000 a year, and the conclusion reached was that the advantages of a central bank did not justify the expenditure of so large a sum.

One of the tasks which lie before you is to form banking habits in your community and to train up a class of bank managers from among your own peoples. Of all the large joint-stock banks in Bombay there is only one which has an Indian manager. Yet banking ought to be specially suitable to the industrial characteristics of the Indian peoples. I have frequently spoken of the fact that lack of initiative is one of the main difficulties in the path of your industrial progress. But banking demands caution and security above all other qualities, and is therefore one of the first occupations in which you ought to win your spurs.

## VIII

### THE INDEBTEDNESS OF THE RYOTS

IN my survey of Indian industries I explained that there are at the present moment two main types of industrial organisation struggling against each other. There is a similar conflict between the two main types of agricultural organisation. In India you possess the type which corresponds to the artisan system in industry, while in England we have the type corresponding to the factory system. The typical Indian farm would be described in England as the "small holding." Here the actual tiller of the soil himself provides the capital, himself either owns the land or rents it direct, and himself directs the operations of agriculture. In England the agricultural labourer is merely a hired worker like the mill hand. The capital, the direction, the organisation, and the enterprise are furnished either by the landlord himself or by the farmer who rents the land from him. More than half the total area of the United Kingdom is owned

by less than three thousand people. It will not be of great profit to you for me to discuss the British system. Its main advantage is that it leads to greater enterprise than the system of peasant proprietorship, because the capital and the enterprise are in the hands of those who are not compelled to concentrate most of their attention on manual labour. The result is seen in the fact that the British farmer has pioneered the way in most of the important agricultural improvements. The best land in Great Britain produces a larger output than the best land anywhere else in the world, except the Netherlands. Nevertheless you will find that the eyes of British politicians are continually turning to the Indian system of small holdings. The latest important act of agrarian legislation in Great Britain has for its object the elimination of the landlord and the large farmer. The reason for this is partly political, as the semi-feudal system of landlord and tenant is difficult to reconcile with the increasingly democratic structure of British society. The economic argument is that a man who owns his own land will labour with an intensity which is unknown to the man who is working for some one else. "The magic of property turns sand into gold. Give a man



secure possession of a bleak rock and he will turn it into a garden. Give him a nine years' lease of a garden and he will turn it into a desert."

#### THE INDEBTEDNESS OF THE RYOTS.

If, however, you examine the system in its actual working you find that always there is one fundamental difficulty that makes it impossible to realise the expectations which have been formed of it—the want of capital. All the others flow from this central source. There have been frequent calculations of the average capital on the holdings of the ryot in this country. Including the capital represented by ploughs, oxen, agricultural implements, seed, fodder, tanks and wells, it comes to something between eight rupees and four hundred rupees. This is ludicrously small compared with the amount of capital invested in a British farm. Now watch the results of this lack of capital. Everywhere agriculture is an industry which is subject to peculiar fluctuations and chances of loss. Here you are always fearing drought, while in Europe the farmer has to contend with diseases of crops, a lack of warmth, excessive hail and rain, and occasionally also with drought.

Agriculture therefore is an industry in which in the ordinary course of events the man without much capital will be driven to borrow capital in abnormal years. The village moneylender is under such circumstances a necessary evil. Nothing can be gained by abusing him until you put forward some other agency to perform his functions. There is, moreover, no reason to believe that the Indian ryot is more heavily in his debt than the peasant proprietors of European countries.

I come now to certain questions of great significance. You naturally ask, Why is it that the ryot does not borrow on reasonable terms from a joint-stock bank? The answer is that the joint-stock banking system has never yet succeeded in adapting itself to his requirements. It has its merits, but it is not elastic. It has to work by fixed rules and it cannot lend money in those minute doses which the ryot requires. The security which a ryot can offer, although under proper conditions it can be rendered absolutely safe, does not come within banking rules. On the other hand the private moneylender is on the spot and lives in daily contact with his clients. He has his eye on them and their work and he can lend

money in small or large doses as is required. He does not need to work by fixed banking rules because he can rely upon his own knowledge of the district.

The result of the indebtedness of the peasantry is that the very advantage which is claimed for peasant proprietorship disappears. Its supreme worth is supposed to be that a man owns his own land and works under the stimulus which arises from personal possession. But if you examine the facts you find that two-thirds of the peasant proprietors do not really own their own land either here or in Europe. I have found that there is a general impression that the indebtedness of the ryots is growing heavier and not lighter. As far as I can ascertain, there are no facts or statistics by which comparisons can be made. But to one who has followed the legislation passed here during the last few generations such a result would not be surprising. When once the moneylender is established and the borrowing habit has been formed, peasant proprietors are inclined to borrow just as much as they can. The baffling result follows that legislation to increase the value of their land actually defeats itself. The greater the value of their land, the greater

grows their indebtedness. In most parts of India the general course of legislation has been in the direction of giving the ryot a greater fixity of tenure and granting him occupancy rights. Here you have one of those cases in which legislation, unless other safeguards are introduced, may bring about just the opposite effects to those which were intended. Give a man a greater fixity of tenure and his land becomes a more valuable asset on which money can be raised. The danger, therefore, is that the advantage is reaped not by the peasant, but by that section of the community which reformers are endeavouring to eliminate.

#### THE GOVERNMENT AND THE INDEBTEDNESS OF THE RYOTS.

Now let us consider the attempts which have been made to free the peasant proprietors from the grip of the moneylender. I shall speak chiefly of co-operative banks. But in order that you should view them in the right perspective, I must first show that they are only the latest of a number of attempts to solve the problem of indebtedness. The first attempt followed the line of least resistance. Since the peasant proprietor insists upon using

whatever assets he has merely for borrowing money, and his most important asset is his land, the most obvious method of saving him is to prohibit him from mortgaging his land by making it inalienable. This principle has been adopted in Europe and it has been applied to this country in the Punjab Land Alienation Act of 1900.

Another method is for the Government itself to step in and eliminate the moneylender by itself lending at a reasonable rate of interest. Even this plan has certain dangers. Cheap credit, whether from the Government or any one else, makes it easier for the peasantry to indulge the borrowing habit. If in the end, instead of owing say Rs. 200 at 8 per cent., he owes Rs. 400 at 4 per cent., his second state is worse than his first. In order that this system may avoid such a result it is necessary to make it a condition that the money shall be productively employed. This discussion explains some of the most important recent legislation of this country. In 1883 there was passed the Land Improvements Loans Act, and in 1884 the Agricultural Loans Act. By both of these the Government becomes the ryot's banker and lends him money at a fair rate of interest. But, because of the dangers which I have

explained, the Government has insisted that the money must be expended on directly productive purposes. The money advanced under the Land Improvements Loans Act of 1883 must be spent on the improvement of the land ; under the Agricultural Loans Act of 1884 it must be used for seed, cattle, and similar purposes. During the ten years from 1891 to 1901, £5,000,000 were advanced under these two Acts. The loan is absolutely secure, and it has been found in practice that the amounts not recovered are negligible. These figures are fairly satisfactory ; but, strange to say, they represent a mere fraction of the money borrowed in the same period at exorbitant interest from private moneylenders. What is the explanation ? My own impression is that the Government suffers to an extreme degree from the difficulties of joint-stock banks. It cannot be elastic, and has to act on more or less rigid rules. A Government is from its nature distant and official ; and the ryot apparently prefers to go to the man with whom he is familiar. In reading the reports on the subject, I find that the officers who are in charge of this department of Government work are always being urged to attempt to increase the elasticity of its administration.

We are now in a position to lay down definitely the conditions which need to be fulfilled in order to free the peasant from the moneylender. There is needed an agency which will (1) lend money on easy terms. This the Government does. (2) It should grant small sums or large sums as the circumstances of the case require. This the Government is not so well able to do. (3) It should insist that the loans are properly spent. This the Government does so far as rigid rules are able to enforce the ideas which lie behind the Acts. (4) It must make the repayment of the loans absolutely secure. Here again the Government is successful. (5) It must be elastic and come closely into touch with the day to day life of the ryot. This is the most important condition, and here the Government fails.

This discussion has been leading up to the description of one of the greatest industrial discoveries of the last century. There is one organisation which combines the elasticity of the moneylender with the cheapness of the Government. This is the general body of the dwellers in a village. A man's fellow villagers know his character and standing just as well as the moneylender. They can see from day to day how his money is being spent and they

know the amount that he requires. If they make themselves jointly responsible for him, they can borrow cheaply because their security is thoroughly good. It is for these reasons that the co-operative agricultural banks have swept the field in Germany and have been eliminating the moneylender with a rapidity which is perfectly extraordinary. It is not long since the first bank was established there, and yet at the present moment there are nearly 11,000 of them with almost a million members.



## IX

### CO-OPERATIVE CREDIT SOCIETIES

AT the close of my last lecture I was explaining what singularly perfect instruments co-operative credit societies are for meeting the difficulties of the ryot population. Let me now enter more deeply into the subject. Money at a low rate of interest is needed. Co-operative credit societies, when once they are fairly established, can lend cheaply because they can borrow cheaply. Why can they borrow cheaply? Because for the first time they have succeeded in bringing into play a force which had hitherto been lying unused—the force of “collective credit.” The individual credit of a humble ryot is small indeed, but the collective credit of the whole body of villagers furnishes a security as sound as any that can be found. A single peasant may not be able to meet his obligations, but it is highly improbable that a whole village will fail at the same time. There is no single case in Germany in which a co-operative credit bank has gone bankrupt.

Next we need to be sure that the man who borrows money does not borrow more than is good for him. I have explained the danger that as credit becomes cheaper debt may grow heavier. In the co-operative credit societies those who determine how much shall be lent consist of the borrower's neighbours and are just the men who are best able to judge how much he can properly spend. Next we need to be certain that the money will not be spent on marriage feasts or extravagance. Again, who can watch the manner in which a man spends his money so closely as those who work day by day by his side? You will now understand why I described co-operative credit societies as one of the great industrial discoveries of the last century.

#### THE GERMAN SOCIETIES.

I have spoken up to the present of general principles. I shall devote the remainder of this lecture to explaining the actual organisation and working of these societies. First mark the title. They are *co-operative* credit societies and are, therefore, self-governing bodies. In the rural societies in Germany the ultimate governing body is the General Assembly, consisting of all who belong to the

society. Within the General Assembly there is a Committee of Supervision elected by the members of the General Assembly. Again, within the Committee of Supervision there is a smaller body—the Directors—consisting of those who actually conduct the day to day operations. It is at the weekly meetings of the Directors that such vital questions as whether a man is to be trusted, whether he is asking for too much, or whether a loan shall be recalled are determined. Finally, there is the executive officer—the Accountant—whom Raffeisen described as the soul of the society. The next point to be noted is that one of the fundamental conditions of a co-operative society is the principle of unlimited liability. It is because those who invest their money in these societies can draw upon the total property of the members that they become such extraordinarily secure investments.

We now come to the first question which a society has to face: Where is the money for beginning its operations to be found? Here there was a cleavage among the German founders of the system. Raffeisen, dealing with the conditions of village life and having to consider men who not only had no money but many of whom were in debt, saw that to

insist on a share capital would be to prevent the societies from ever coming into existence. On the other hand, Schulze Delitzche, dealing with small shopkeepers and others who had a certain amount of capital, was able to insist on shares being taken. Failing, however, to realise that a principle applicable to a town might not be applicable to a village, he agitated until the Raffeisen societies were forbidden by law to admit anybody who had not taken a certain number of shares. The result has been that, although Raffeisen societies have nominally complied with the law, the shares in some of them are worth about one anna apiece. In the agricultural societies, therefore, there is practically no share capital. The money with which they conduct their operations consists entirely of deposits. A beginning is made by a few of the more important and well-to-do men of the district placing money on deposit. When once the process has been set into operation, their example is followed throughout the country districts, and the peasant invests his savings in the agricultural societies with as much confidence as if they were Government securities.

We now have to consider the security on which the societies advance money. In 70

per cent. of cases the society merely demands a personal pledge. One or two of a man's friends stand guarantee that if he does not meet his obligations they will take his place. The result is that he has close to his side men who are keenly interested in seeing that he spends the money productively. These guarantors act as the watch-dogs of the society. Here we come to a feature of the German system which has not deliberately been introduced into the country at present. Raffeisen laid it down that, whatever security a man offered, he should not be admitted into a society unless he bore a good character. For example, he might be a good worker and easily able to meet his obligations, but if he were a drunkard he would not be admitted into the society. Raffeisen always worked through the religious sense, and his chief supporters were the village priests. He lays it down as the first article of the creed of these societies that their object is to improve the situation of their members both materially and morally.

Now let me proceed to the urban societies. I have explained that there were various disputes between the adherents of the two schools owing to the different conditions that they had to face. Firstly, the management of

the town societies is rather different to that of the agricultural ones. There is in both a General Assembly and an inner body called, in the urban societies, The Council of Control. Instead, however, of a group of unpaid directors there is a "college" of three salaried members who control all the detailed administration. This difference is necessary because town banks are very much larger in their operations than village banks. The village society is a humble institution whose offices often consist of one room in a little cottage. The urban society, on the other hand, possesses fine buildings which would sometimes compare with those of the banks of this city.

As in the case of the rural societies, the first question to be asked with regard to these urban societies is, Where does their capital come from? Schulze Delitzche, as I have explained, had to deal with men who were not deeply involved in debt and who could bring together a little capital. Moreover, he always insisted that no one should enter his societies without giving evidence of thrift. He therefore laid down the principle that a share must be taken. The shares are not very large. The average value at the present time is

about Rs. 90, which can be paid up by gradual instalments. As one would expect, the bulk of the deposits in the urban societies consists of small savings. These deposits are from their nature steady and are not liable to withdrawal, because when once a man has invested his savings he probably does not withdraw them for the rest of his life. The society, therefore, can operate with these savings without any great fear that a large proportion of them will be called for. You can obtain some indication of the society's security by noticing how small an interest they pay for these savings. They obtain the great mass of them at an interest of from 3 to  $3\frac{1}{2}$  per cent. There are also a certain proportion of deposits of the usual kind, capital placed in the charge of these societies in order that it may earn interest. In Germany it is only the larger urban societies which deal with this class of deposit. Their liability to sudden withdrawal renders the society less secure in operating with them, and, therefore, a small society which has not quite established itself refuses to receive them. Finally, there is a considerable volume of current accounts.

These are the sources from which the capital of these societies is derived. How is this capital lent? The average rate of interest at

which it is lent to urban societies amounts to a little over 5 per cent. It should be noted that Germany has borrowed the cash credit system from Scotland. Many of the largest fortunes in Scotland have been built up by men who obtained their capital through this method. It has also been established on a small scale in this country. It consists of allowing a man just beginning business to assume that he has a deposit of a certain amount. In Scotland it is usually about £200 (Rs. 3,000). One or two of his friends go security that this amount will be forthcoming if he does not meet his liabilities, and of course he pays the ordinary interest on it. A man, therefore, who has no capital of his own practically begins with a capital of Rs. 3,000.

#### THE INDIAN SOCIETIES.

I can now proceed to the co-operative banks of India herself. I have frequently heard it said that India can have very little to learn from countries with such different industrial conditions as Germany and other European lands. On the contrary, India, from the very nature of her conditions, ought to be a far more fertile field for these societies than



European countries. The great bulk of the people of India consist of just that class amongst which the societies have been successful in Europe. In Europe, after all, although there are a large number of small holders, they do not constitute the most important section of the population. But India is a land of small holders. When you deal with them you deal with two-thirds of the population of the country.

One result is that the number of urban societies is likely to be always smaller than the number of rural societies. Yet, even in their case, you will find that the class of men among whom urban societies operate is far larger in proportion to the total urban population in India than in Germany or in other European countries. Urban societies are needed chiefly to help the small business man. The proportion of small industrialists is far higher here than in Europe, because the system of production on a large scale has not proceeded so far.

There is one striking distinction between the Indian and the European societies. In Europe the movement has been the result of private initiative, whereas in India it comes from Government. In Germany the names

of Raffeisen and Schulze Delitzche are household words. In India, if you wish to recall the names connected with the movement, all that you can think of is the Co-operative Credit Societies Act of 1904. If, however, you look at the actual working of the societies you find that, as in Germany, a great number of inconspicuous men are behind them. No movement goes forward without hosts of men who will do the day to day work without much public recognition, and, fortunately for the prospects of the movement here, a considerable proportion of quiet workers have already appeared.

Now let us look more closely into the Indian societies. The whole movement is necessarily still on a tiny scale, but the results of even the last twelve months show that it has a future full of hope. I have collected the latest figures from the report of the Registrar of Co-operative Credit Societies. Taking first the rural societies, at the end of 1906 there were 740 ; at the end of 1907 there were 1201. At the end of 1906 they had 54,000 members ; at the end of 1907 there were 93,000. The capital at the end of 1906 amounted to Rs. 1,000,000, and at the end of 1907 to Rs. 2,100,000.

These rural societies demand no share capital for the same reasons that impressed themselves on Raffeisen. They adopt, however, the principle of unlimited liability, and thus bring into play the great force of collective credit. The result is that already the investment of capital in them is sufficiently secure to enable them to obtain money at an interest of between 6 and 7 per cent. You will recall that the rate in Germany is between 3 and  $3\frac{1}{2}$  per cent. The average rate which is charged to members for loans in the Bombay Presidency is between 9 and 15 per cent. The average rate for Germany is a little over 5 per cent. The comparison between the Bombay and the German rate may not appear very favourable. On the other hand, the comparison between the rate charged by these societies and that charged where they do not exist is remarkable. Calculations show that the prevailing rate at which villagers borrow money in this country is about  $37\frac{1}{2}$  per cent. In some cases it amounts to 75 per cent. Mr. Day, the Registrar for Assam, even mentions a number of cases in which he found the rate to be 150 per cent.

Let me now turn to the urban societies. At the end of 1906 there were 89 ; at the end

of 1907 there were 149. At the end of 1906 they had 33,000 members ; at the end of 1907 they had 55,000. At the end of 1906 they had capital worth Rs. 1,100,000 ; at the end of 1907 it was worth Rs. 2,000,000. These figures show a record of continual progress, and the future is full of the widest possibilities.

As in Germany, so here, certain differences of method are needed because of the different circumstances of the two classes of societies. Whereas the Co-operative Credit Societies Act lays it down that a rural society must be conducted on the principle of unlimited liability, it very wisely has made no such stipulation with regard to an urban society. Members of an urban society, residing in a town, have not that intimate knowledge of what everybody else is doing that is possessed in a village. They cannot therefore commit themselves to unlimited liability for comparative strangers. Again, for the same reason as in Germany, there is a share capital for urban societies. But in order that they might remain people's societies and not fall into the hands of a few wealthy men, the Act lays it down that no one may hold more than Rs. 1,000 worth of shares.

The chief difficulty which confronts the movement at present is that of obtaining capital. The task before you is to educate the general public to understand that, owing to the principle of collective credit, these societies, humble though their members are, afford thoroughly good investments. The discussions now proceeding with regard to the establishment of central banks to finance the societies go to the heart of the situation.

Before leaving this subject I must point out one consideration of the highest importance. The curse of drought, which nature has laid upon this land, will compel these societies to face crises such as are improbable in Germany and other European countries. The Government will consequently have for many years to play a larger part in protecting them than is necessary where these special difficulties are not present.

#### CO-OPERATIVE SOCIETIES AND LORD MORLEY'S REFORMS.

I explained in my first lecture that most of the economic questions which we are considering have effects which extend far outside the merely economic sphere. The advocates of

co-operative agricultural banks have not yet pointed out their ultimate importance to the political life of this land. The beginnings of representative institutions are among you. Political philosophers have insisted that in order that a people may acquire the qualities needed for representative government they must be provided with the opportunity for continual experience in the conduct of self-governing institutions. This is the reason that Lord Morley, speaking in the House of Lords, pointed out that the object of local self-government is not merely efficient administration, but political education. If you examine any of the countries where representative institutions have been successful, you will find that the people have built up for themselves great voluntary self-governing organisations which are independent of the State. A country does not prove itself to be adapted to representative institutions by merely confining itself to those imposed upon it by the Government. The great test as to whether the people of a country will respond to self-government lies in the answer to the question, Do they, apart from what the Government does, of their own inherent genius, create self-governing institutions for themselves ?

The secret of the success of representative government in Great Britain is that the most active of the artisans spend their time, night after night, year in and year out, in taking part in the conduct of some great self-governing institution. These are not institutions which Parliament has conferred upon them, but those which the natural genius of the British people has built up without external assistance. It is from the co-operative societies, the friendly societies, the trade unions, the working men's clubs, and the great self-governing organisations attached to the religious bodies that the capacity for representative government arises.

In India the corresponding institutions are the co-operative societies. The young Indian who is seeking to devote his life to the service of his land will find no higher work than that of doing for India what Raffeisen did for Germany. He will be not only an economic but a moral reformer, for he will introduce independence and self-respect into the lives of millions of his countrymen. He will be a great political evangelist, for he will do far more than any politician to lay the foundations upon which self-governing institutions can be reared.

## FAREWELL.

This series of lectures has now come to a close, and with it there draws to an end my residence in this land. The time that I have passed among you has revealed to me the difficulty which an Englishman experiences in understanding the character of the Indian peoples. I have learnt that you possess many qualities which deserve the admiration of the Western races. You have a sense of gratitude which is touching to experience, and a patience which is a marvel to me. You enjoy a family affection of a wider kind than I have known before. What you need is confidence—confidence in each other and in yourselves. Confidence is the test of civilisation, for you will never act in co-operation without mutual trust. The man who by sharp practice in business weakens the mutual trust of the Indian peoples is an enemy of your development. You need to do things for yourselves instead of always depending upon the Government. If you can learn these truths you will be able to teach mankind a lesson ; because you have it in your power, if you are careful of your own characters, to acquire that in which Great Britain is strong—her confidence



and her enterprise—and at the same time to avoid the heartlessness and the cruelty of the industrial struggle which disfigure Western civilisation. Do this, and you will have cause to be among the proudest peoples of the earth.