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POLICY OF PROTECTION IN INDIA

A RETROSPECT

BY
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POLICY OF PROTECTION IN INDIA

A RETROSPECT

Personal Note

[When I was invited by Prof. Gadgil to read a paper on the 'Policy of Protection in India' before the Gokhale Institute of Politics and Economics, I readily accepted the invitation, firstly, because I thought it a great honour to be given an opportunity to address the members of the Institute which is associated with the name of Gopal Krishna Gokhale, who was the first man in this country to use Economics as a powerful instrument for the formulation of public policy and who thus imparted a vigorous impetus to the study of Economics on realistic lines; and, secondly, because Prof. Gadgil's contribution to the advancement of knowledge in many departments of Applied Economics in this country has been so great and his selfless devotion to that cause so remarkable that I almost intuitively felt that it was an obligation on my part to respond to his call. But I soon found that, having been actively associated with the administration of the policy of protection for a period of over four years and still continuing to do so, I would be required by the rules of propriety to set definite limits to what I could say in regard to the actual working of protective tariffs during the last four or five years. This, however, should not debar me from expressing my views as an Economist on the administration of the policy of discriminating protection in the pre-war period and also what I consider to be an appropriate policy for the future. As regards the period during which I have been associated with the administration of protective policy, I have also attempted to explain the working of the tariff-making machinery as fully as possible and pointed out the limitations under which it has had to function.]

I. Fiscal Autonomy and Discriminating Protection (1919–39)

As part of the Constitutional Reforms introduced in 1919, India obtained for the first time a limited measure of fiscal autonomy by virtue of a convention which laid down that the British Government would not interfere in the formulation and administration of India's fiscal policy in so far as there was complete agreement between the Government of India and her legislature. But, whereas the Government of India consisted of the Governor-General and Members of his Executive Council, all of whom were appointed by, and responsible to, the British Government, the Legislative Assembly consisted of a majority of elected members. The two organs of Government being thus responsible to two wholly distinct and divergent bodies, they could not develop a complete unity of purpose on fiscal questions. The views of the Government of

India, even though they might be arrived at independently of the British Government, could not become finalised without the prior approval of the latter. And, before such approval was given, the British Government were bound to examine if the proposed changes would adversely affect British commercial interests to a serious extent. Consequently, the extent of fiscal freedom that India could exercise depended upon the attitude of the British Government from time to time. The position created by the convention might, therefore, be regarded as only a half-way house between complete British control on the one hand and complete Indian autonomy on the other. In practice, however, there was a good deal of give-and-take between the two parties, and the principle underlying the convention, on the whole, worked fairly well. Protection was granted to a number of important industries, but the injury to British industry and commerce was kept to the minimum by rigidly restricting the scope and amount of protection and also by the grant of direct and indirect preferences in favour of imports from Great Britain.

2. The acceptance of the fiscal autonomy convention was followed by the appointment of the Indian Fiscal Commission in March 1921. The majority of the Commission recommended a policy of discriminating protection, which was approved by the Government of India and the Legislative Assembly in the famous Resolution of 16th February 1923. Under that policy, discrimination was to be exercised in the selection of industries to be protected and in determining the amount and the period of protection to be granted, so that the inevitable burden on the community might be as light as possible, consistently with the due development of industries. The appointment of a Tariff Board was to be an integral part of the scheme, and the Board was required to see that an industry claiming protection satisfied the following conditions before its claim was granted :—

> "(1) The industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, *or* a large home market."
>
> "(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country."
>
> "(3) The industry must be one which will eventually be able to face world competition without protection."

The three conditions stated above were the basic conditions laid down by the Commission for determining the eligibility of an industry for protection. They further recommended that industries essential to national defence should be protected even if they did not fulfil any or all of the three conditions. A specially favourable treatment was also recommended for basic or key industries.

3. In pursuance of the policy of discriminating protection, a Tariff Board was appointed to examine the claim of the Indian steel industry for protection. Though the Commission had recommended that the Tariff Board should be constituted on a permanent basis in order that there might be consistency and continuity of policy, the Government of India appointed an *ad hoc* Tariff Board for investigating the case of the steel industry. The practice of constituting a new Tariff Board in each fresh case was repeated on subsequent occasions, though part of the personnel of the Board was sometimes continued for two, three or four inquiries. Each Board, as a rule, consisted of a senior member of the Indian Civil Service, an economist, and a business man. The status of the Tariff Board was that of a fact-finding and advisory body. It could only investigate such cases as were referred to it by the Department of Commerce, Government of India, which would make a preliminary scrutiny of all applications for protection and refer to the Board only those applications which in the opinion of the Department had established a *prima facie* case for protection. When an application was thus passed on to the Tariff Board, it would make an elaborate inquiry regarding costs of production, imports and possible effects of protection on the consumers or subsidiary industries. The Board would then record its findings and state its recommendations in the form of a report to the Government of India.

4. Each report of the Board was usually subjected to a close examination by the Department of Commerce, Government of India. In a small number of important cases, Government found themselves unable to agree with the findings of the Board or accept its recommendations. There is, for instance, the notable case of the glass industry, which was referred to the Tariff Board in October 1931. Of the two important raw materials required by the industry, namely, silica and soda ash, there were ample supplies of the former in the form of sand of good quality while there was no indigenous supply of soda ash. The industry had also considerable advantage in respect of an extensive home market, a plentiful supply of skilled labour, and a wide geographical distribution. The Tariff Board, therefore, held the view that the industry had a good prospect of becoming independent of protection in spite of the absence of an indigenous supply of soda ash and recommended its protection. Government, however, found themselves unable to accept the findings and recommendations of the Tariff Board, and refused to grant any assistance or protection to the industry beyond giving a small relief by way of rebate of the import duty on soda ash. A second important case was that of the woollen industry. In 1935, the Tariff Board recommended protective duties on different classes of woollen and worsted goods, but Government did not accept the proposals on the ground that the worsted branch was dependent on imported raw material and that an important section of the woollen branch had not tendered any evidence before the Board. In a number of cases, Government generally accepted the Board's

findings but granted somewhat lower rates of duty or bounty either because they found some small flaw in the estimates of the Board or because the prices of imports had gone up since the receipt of the Board's report. In the majority of cases, however, the recommendations were wholly accepted and acted upon by Government. In every case where Government decided to grant protection, they would put up their proposals in the form of a Bill before the Legislature, where it would be discussed and sometimes amended before it finally emerged as an Act of the Legislature. Each Act contained a clause empowering the Governor-General-in-Council to adjust the amount of the duty to the changing prices of imports so as to maintain the degree of protection intended by the Legislature. And this power to increase or decrease the protective duty was frequently exercised by Government.

5. Under the policy of discriminating protection followed in India during the period 1929–39, only nine industries were protected, *viz.*, steel, cotton textile, sericulture, paper, sugar, silver thread and wire, magnesium chloride, heavy chemicals, and matches. The steel industry had been under protection since 1924, cotton textile and paper since 1927, matches since 1928, silver and gold thread and magnesium chloride since 1931, sugar since 1932 and sericulture since 1934, while heavy chemicals were protected from 1st October 1931 to 31st March 1933. The protective duties in respect of these industries were due for revision at various dates during the war, but the period of protection was extended from year to year until, one by one, all the industries (except matches) came up for review in the post-war period.

6. In assessing the results of the policy of protection followed in India in the pre-war period, we must guard ourselves against the rather common mistake of mixing up two important issues, namely, first, what should have been the appropriate policy of protection for India, and second, whether or not the policy actually adopted was properly and successfully executed. As regards the first, it has been argued with considerable force that the scope of the policy adopted was extremely restricted, that the procedure followed in its execution was unduly rigid and dilatory, and that, consequently, its results have fallen far short of what might have been achieved with a more generous outlook on the problem and a higher tempo in the execution of policy. In particular, it has been suggested that there was no planned programme and that what development has taken place has been of a piecemeal character. But this line of criticism would seem to overlook several important facts which governed the actual formulation of the policy. In the first place, India did not then enjoy that constitutional status and political power by which alone she could draw up and execute a planned programme of industrial development. She was a dependency of Great Britain and her fiscal autonomy was of a limited character. Secondly, there could be no question of economic planning for the country in the absence of a

National Government. Thirdly, the background against which her fiscal policy was actually formulated in 1922 was one of free enterprise and not that of a mixed economy. It is true that since that time public policy has moved a good deal towards collectivist economy in other parts of the world. But such a movement would have been almost impossible and perhaps also highly undesirable in the peculiar constitutional and political set-up of the country. For, an irresponsible bureaucracy, itself subordinate to a distant foreign Government, did not possess the courage and power required for economic planning on a national basis. Nor could it inspire sufficient confidence and enthusiasm among the people for them to make the great sacrifice required for economic planning.

7. We will now turn to the second question, namely, whether or not the policy, even with its restricted scope, was properly and successfully executed. It must be conceded at once that the policy of protection enabled a few big industries e. g., steel, sugar, paper and cotton textile, to survive foreign competition. It is also worthy of note that these industries could expand even during the period when industries all over the world were passing through a depression. During the seventeen years, 1923–40, the production of steel ingots expanded from 131,000 to 1,070,000 tons, cotton piece-goods from 1,725 million to 4,013 million yards, sugar (direct from cane) from 24,000 to 1,242,000 tons, and paper from 24,000 to 70,000 tons. Due credit for this enormous expansion within a comparatively short period must be given to the policy of protection. Moreover, three of the protected industries, *viz.*, steel, cotton textile and magnesium chloride, had practically become independent of protection by 1939, though protection was formally withdrawn in the cases of steel and cotton textiles in March 1947 and magnesium chloride in December 1948. Furthermore, during the last few years, indigenous steel and cotton manufactures have been sold at appreciably lower rates than the imported articles; and the progress of the magnesium chloride industry has been so remarkable that it has been able to develop a considerable export trade to the U. K. and Holland. Of the five remaining protected industries of the pre-war period, paper was de-protected in March 1947, silver and gold thread in January 1949 and sugar in March 1950, sericulture and matches being the two industries which still continue to enjoy protection. Judging by this record of progress of the protected industries, it can be truly said that the policy of discriminating protection, within its limited scope, has achieved a fairly large measure of success. Nevertheless, there is some justification for the criticism that the procedure followed in India in the execution of the policy was unduly cautious and dilatory. For one thing, the three basic conditions laid down by the Fiscal Commission for determining the eligibility of an industry for protection were interpreted in a somewhat narrow and rigid sense. Thus, as regards the first condition, it was insisted that an industry must possess all the principal raw materials before it could

qualify for protection. This attitude was sharply brought out in the cases of the glass and woollen industries. What the Fiscal Commission intended was that the prospects of an industry should be assessed by reference to the totality of its comparative advantages and disadvantages, such as raw materials, market, labour supply, source of power, etc. They took particular care to make this clear by stating as follows: "Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed." It was, therefore, clearly wrong for the tariff-makers in India to require that an industry must possess all the principal raw materials before it could prove its claim for protection. The cotton textile industry of Great Britain does not have the advantage of domestically produced raw cotton and yet it is one of the greatest among British industries. The silk industry of the U. S. A. has become a great industry, even though the country does not produce any raw silk. It is, of course, true that an industry can be successfully established in the face of foreign competition only when it has some comparative advantage. But the initial advantage may lie in the existence of a big home market, or in respect of freight (*e. g.* heavy chemicals), or in a supply of cheap labour, or in cheap and abundant raw materials, or in a combination of two or three or more of these. Even if an industry is handicapped by certain permanent disadvantages, *e. g.*, lack of raw material, those disadvantages may be more than outweighed by its advantages. Or, it may happen that the raw material will soon be grown within the country or some substitute will be discovered. In assessing the prospect of an industry, it is proper and necessary that a dynamic view of the future should be taken. The tariff administration in India was, therefore, wrong in that it was based on a rather static view of the condition of an industry.

8. It has also been suggested that it was improper for Government to disregard the recommendation of the Fiscal Commission that the Tariff Board should be appointed on a permanent basis. Such a permanent Board could have developed a certain consistency and continuity of policy and procedure. It could have accumulated a large fund of experience. It could also have maintained a steady watch over the effects of protective tariffs on different industries. Besides, the existence of a permanent Tariff Board would have been a positive proof that Government had a settled policy on the subject of protection. There would have also been much saving of time in conducting successive inquiries. Moreover, the members of a permanent Board would have possessed that independence of spirit and sense of authority, which would be engendered by security of tenure and which could inspire confidence in the public mind. All these advantages were partially lost, because Tariff Boards were appointed temporarily on an *ad hoc* basis, even though in a few cases, part of the personnel of the Board was common for a number of inquiries. This

criticism does not, however, imply that the pre-war Tariff Boards did not carry out their duties honestly and efficiently. As a matter of fact, the reports of the Tariff Boards would invariably show a high standard of impartiality, thoroughness and precision and they would compare favourably with similar reports issued by analogous bodies in other countries. What the criticism does suggest is that the Boards' short term of office was a severe handicap but for which their usefulness would have been much greater still. Besides, Government sometimes took an unduly long time in formulating their conclusions on the reports of the Tariff Board. The Board's report on the glass industry, for instance, was presented to Government in March 1932, but Government took as long as thirty-nine months in publishing the report and announcing their decision to reject the application. Obviously, such a delay was extremely undesirable, because it had left the industry for long in a state of suspense and uncertainty. Again, in a number of cases, Government modified the recommendations of the Board, because new facts had come to light in the meantime, or because the Tariff Board had been a little liberal in allowing for certain items of cost of production, or because c. i. f. prices of imports had gone up during the interval between the presentation of the report and the formulation of Government's conclusions on it. Such modifications in most cases were of a small order, but, even so, they exposed Government to the charge of niggardliness towards industry and also detracted not a little from the weight of the findings of the Tariff Board as a semi-judicial tribunal.

II. Post-War Interim Policy

9. Early in 1940, the Government of India announced that industries promoted with their direct encouragement as part of war efforts would receive protection or assistance in the post-war period against unfair competition from outside India, provided such industries were run on sound business lines. Specific assurance of protection or assistance was given to the following industries:

(a) bichromates;
(b) steel pipes and tubes up to a nominal bore of 4 inches;
(c) aluminium;
(d) calcium chloride;
(e) calcium carbide; and
(f) starch.

10. On 23rd April 1945, Government issued a statement of their industrial policy in the course of which it was announced that, pending the formulation of a long-term tariff policy appropriate to the post-war needs of India, they would soon set up a machinery to investigate the

claims of war-time industries. Besides the industries covered by the announcement of 1940, there were others which had been started or developed by private initiative and enterprise but which had helped to sustain the national economy during the war period. It was felt that, after the termination of hostilities, these industries also would be urgently in need of assistance or protection against foreign competition. A Press Communique issued on the same date invited industries to address their claims to Government, and thirteen industries soon submitted their applications for assistance or protection. They included, among other things, non-ferrous metals, caustic soda and bleaching powder, phosphates and phosphoric acid and rubber manufactures.

11. For the purpose of investigating the claims of those industries which had already applied or might later apply for protection or assistance, a Tariff Board was appointed by the Government of India in their Resolution dated 3rd November 1945. The Board was directed to inquire and report in each case whether the industry was eligible for protection or assistance, and if it was, what measure of protection or assistance should be taken, and for what period, not exceeding three years, such measures should remain in force. The eligibility of an industry for protection or assistance was to be determined by reference to the following conditions:

"(1) that it is established and conducted on sound business lines; and

(2) (a) that, having regard to the natural or economic advantages enjoyed by the industry and its actual or probable costs, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(b) that it is an industry to which it is desirable in the national interest to grant protection or assistance and that the probable cost of such protection or assistance to the community is not excessive."

In making its recommendations, the Board was also to "give due weight to the interests of the consumers in the light of the prevailing conditions and also consider how the recommendations affect industries using articles in respect of which protection is to be granted." It was further requested to complete its inquiry as expeditiously as possible so that the necessary relief could be granted to industries before it was too late.

12. It may be noted that the present Board's terms of reference are somewhat different from those of previous Tariff Boards. Apart from the fact that the criterion of 'national interest' is applicable to a very large class of industries and gives wide discretionary powers to the Board in the

selection of industries to be protected, the Board has also attempted to interpret its terms of reference in the context of India's status as a sovereign nation and in the light of Government's industrial policy which is formulated in the statement of 23rd April 1945 and which marks an important departure from their pre-war attitude, which was one of *laissez-faire*, modified by partial intervention through the policy of discriminating protection. The three-fold objects of the new policy are stated to be:

"(1) To increase the national wealth by the maximum exploitation of the country's resources."

"(2) To make the country better prepared for defence", and

"(3) To provide a high and stable level of employment".

It is also stated that "Government have decided to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible." The policy statement of 23rd April 1945 was reaffirmed by a Resolution dated 6th April 1948, in the following words: "The dynamic national policy must . . . be directed to the continuous increase in production by all possible means side by side with measures to secure its equitable distribution." It states further: "The tariff policy of Government will be designed to prevent unfair foreign competition to promote the utilization of India's resources without imposing unjustifiable burdens on the consumer".

13. The main function of the interim Tariff Board, as laid down in the Government Resolution of 3rd November 1945, is to inquire into the claims of wartime industries for protection or assistance. There were, however, certain pre-war industries which had been enjoying protection for a number of years and whose cases could not be reviewed during the war period. As already stated, the period of protection for these industries was extended from year to year until March 1946 when Government put up a proposal before the Assembly to extend the period by one more year. In the course of a debate on the subject, some members of the Assembly demanded that the necessity and desirability of continuing protection to these pre-war industries should be examined and Government gave an undertaking that they would ask the Tariff Board to undertake such an inquiry before 31st March 1947. Accordingly, by a Resolution dated 20th January 1947, Government authorized the Tariff Board also to investigate the claims of pre-war industries for the continuance of protection. The Board was re-constituted in November 1947, and by a Resolution dated 26th November 1947, was entrusted with two more functions, namely:

"(1) to report to Government, as and when required, factors that lead to an increase in the cost of production of Indian manufactured goods as against imported articles; and

(2) to advise Government, as and when required, on measures whereby internal production may be secured on the most economical cost basis".

By a Resolution of 6th August 1948, the Board was also directed to maintain a continuous watch over the progress of protected industries by conducting inquiries, as and when necessary, on the effect of the protective duties or other means of assistance granted, advise Government regarding the necessity or otherwise of modifying such protection or assistance and keep a careful watch to ensure that the conditions attached to the grant of protection were fully implemented and that the protected industries were being run efficiently. By the same Resolution, the Board was authorized to exercise certain other functions, namely:

"(1) to inquire, as and when required by Government, into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices, and to report on the same;

(2) to recommend to Government, as and when required, measures necessary for the protection of India's industries from dumping from abroad;

(3) to undertake studies, as and when necessary, on the effects of *ad-valorem* and specific duties and tariff valuations on various articles and the effects of tariff concessions granted to other countries; and

(4) to report to Government, as and when necessary, on combinations, trusts, monopolies and other restraints on trade, which may tend to affect the industries enjoying protection by restricting production, or maintaining or raising prices and to suggest ways and means of preventing such practices."

On 4th November, 1948, Government adopted yet another Resolution stating that, pending the formulation of a tariff policy appropriate to the long-term needs of the country and the establishment of a permanent machinery for this purpose, claims for protection from important basic industries, as listed in paragraph 7 of the Resolution on Government's industrial policy dated 6th April 1948, should also be examined by the Tariff Board on the same basis as those of war-time industries. Such basic industries are defined as those whose location must be governed by economic factors of all-India import or which require considerable investment or a high degree of technical skill and which will be a subject of a central regulation and control in the national interest. Eighteen industries, as

listed below, are, in the first instance, specified as belonging to this category;

(1) salt,
(2) automobiles and tractors,
(3) prime movers,
(4) electrical engineering,
(5) other heavy machinery,
(6) machine tools,
(7) heavy chemicals, fertilisers and pharmaceuticals and drugs,
(8) electro-chemical industries,
(9) non-ferrous metals,
(10) rubber manufactures,
(11) power and industrial alcohol,
(12) cotton and woollen textiles,
(13) cement,
(14) sugar,
(15) paper and newsprint,
(16) air and sea transport,
(17) minerals, and
(18) industries related to Defence.

Though the list of functions assigned to the Tariff Board is an extensive one, the Board has so far been specifically directed to carry out only three of these functions, namely:

(a) investigation of claims for protection or assistance from pre-war, wartime and post-war industries;

(b) maintaining a continuous watch over the progress of protected industries and advising Government regarding the necessity or otherwise of modifying or terminating the protection or assistance granted, and

(c) determination of fair prices for controlled commodities.

14. As stated above, the first interim Tariff Board was appointed in November 1945. It had a President, one Member-Secretary and two other Members. The first meeting of the full Board was held on 21st November 1945, and its first public inquiry in March 1946. The effective period of its working was a little over 20 months ending 15th August 1947, by which date the President had resigned, one Member had been transferred to the Central Secretariat and another Member had opted out for Pakistan. Within this period of 20 months, the Board completed its inquiries and submitted reports on the claims of 39 industries for

protection or continuance of protection. The list included, *inter alia*, a number of large-scale industries, such as cotton textiles, iron and steel, paper, sugar, aluminium, bicycles, non-ferrous metals, machine tools and electric motors. The Board was re-constituted in November 1947, with a President and two Members. In February 1949, a third Member was added and in July 1949, a fourth Member, but both these additional Members were transferred elsewhere in October 1949, the Board thereafter being left with the President and the two original Members. Within the period of 2 years and 3 months, *i. e.*, from November 1947, to February 1950, the present Board has completed 47 inquiries. Of these, five were concerned with the determination of fair prices for (i) cotton textiles, (ii) pig iron, (iii) steel, (iv) paper and (v) superphosphates. The remaining 42 were tariff inquiries and the list included, among other things, silver thread and wire, artificial silk, sericulture, plastics, cotton textile machinery, glass, soda ash and sugar. Besides, as required by the Government Resolution of 6th August 1948, the Board took up in July 1949 the duty of maintaining a continuous watch over the progress of the protected industries and ensuring that its recommendations were implemented by Government as well as the industries concerned. It has already completed such reviews in respect of bicycles, hurricane lanterns and motor vehicle batteries and secured valuable statistical data regarding changes in output, cost structure, c. i. f. prices of imports, selling prices of indigenous and competitive imported articles, sales, stocks, raw materials, transport facilities and the burden on the consumers. In a number of cases, it has drawn the attention of the industry as well as that of the Government Departments concerned to their failure to implement some of the important recommendations of the Board. And it has often succeeded in persuading Government and the industry to implement its recommendations other than those in respect of tariff protection. Further, on receipt of complaints from dealers and/or consumers that a protected industry was charging higher prices than those determined by the Board, the Board has inquired into the matter and communicated its findings to Government as well as to the parties concerned. Early in 1949, in pursuance of the policy of disinflation, Government placed a large number of imported articles on Open General Licence. Heavy importation of a number of articles followed and a strong representation was received from certain protected industries, stating that their position had been jeopardised and that, therefore, there should be a re-imposition of import control and/or an enhancement of the protective duty. Under Section 4 (1) of the Indian Tariff Act of 1934, Government are authorised to increase or decrease, by executive orders, the rate of protective duty so as to maintain the degree of protection as recommended by the Tariff Board and/or as intended by the Legislature. In order that the necessary inquiries in such cases might be expeditiously carried out and remedial measures taken without delay, Government, on 26th February, 1949, issued a Resolution authorizing the Tariff Board to receive

applications and conduct necessary inquiries into cases falling under Section 4 (1) of the Tariff Act. The Board has so far made inquiries and submitted its Reports on seven such cases.

15. In drawing up a suitable procedure for its inquiries, the Board had to keep two essential requirements prominently in view, namely (i) expedition and (ii) the necessity of collecting and sifting all basic data relating to the comparative efficiency of an industry and its future prospects. Accordingly, the Board evolved a procedure which was designed to enable it to collect all essential data as quickly as possible. This procedure may be briefly described as follows: Before an application for protection or assistance is remitted to the Board for inquiry, an inter-departmental committee of the Central Secretariat makes a preliminary scrutiny of the case on the basis of such data as may be given in the application. The data relate to the history of the industry, its organization and structure, the position regarding raw materials, the number of employees, output, costs of production, and the nature and extent of competition from imports. If the committee is satisfied that there is a *prima facie* case for inquiry, the matter is remitted to the Board for investigation. As a rule, a number of cases are simultaneously referred to the Board and the reference is made through a Government Resolution. Immediately on receipt of a reference, the Board proceeds to take the following routine steps:

(a) A press communique is issued for the information of the interests concerned;

(b) from the Directorate-General of Industry and Supply, names and addresses of known producers, important consumers and importers are obtained;

(c) different questionnaires, which have been drawn up for the use of producers, importers and consumers, are then issued;

(d) these questionnaires are also sent to State Governments, manufacturers' organizations, Chambers of Commerce and recognized trade associations, requesting them to furnish to the Board their views on the subject;

(e) information regarding the rated capacity, actual output, capital employed by the main producers is obtained simultaneously, to enable the Board to fix its programme of inquiries and select the factories which have to be visited by the Members of the Board and its officers and costed by its Cost Accounts Officer;

(f) at the same time as the case of an industry is referred to the Board, the Ministry of Commerce requests the Ministry of Industry and Supply to furnish the Board with a memorandum on the industry whose

case is under investigation. This memorandum generally contains the following information:—

(i) names of all known firms in the industry and their standing;

(ii) history of the industry;

(iii) statistics regarding imports;

(iv) estimated demand;

(v) c. i. f. prices of imported articles and the maximum and minimum selling prices of indigenous articles;

(vi) cost of production of the indigenous articles;

(vii) quality of imported and indigenous products;

(viii) existing rate of customs duty;

(ix) handicaps from which the industry suffers;

(x) protection or assistance which is already enjoyed by the industry; and

(xi) departmental recommendations regarding protection, if any, to be afforded;

(g) statistics of imports, production and c. i. f. prices relating to the industry are simultaneously compiled in the Board's office from Government publications and from information received from the Director-General of Commercial Intelligence and Statistics and the Collectors of Customs;

(h) the Board's Cost Accounts Officer, assisted by its Technical Adviser, examines the financial accounts and the cost data of the factories selected as representative of the industry as a whole and draws up a Cost Report incorporating the details of cost and also giving an independent estimate of what the current and future costs of production should be; and

(i) when all relevant data has been collected and after visiting the factories, where such visits are considered necessary, the Board notifies the public inquiry to all the interests concerned by post and to the public through the press. Oral evidence at the public hearing is stenographically reported. The evidence, both written and oral, is, however, not printed, but is made available for perusal at the Board's office, except information which is confidential.

16. The Board has so far submitted ninety reports relating to tariff revision and five on price fixation. Out of the ninety tariff inquiries, forty-six were new cases and the remaining forty-four related to the continuance or modification of protection. The average rate of progress was

two reports per month. In order to make such expeditious work possible the President appoints Panels of the Board; and each Panel, as a rule, consists of the President and one Member, and, in the more important cases, two Members. In each Panel again there is a Member-in-charge (the President may also be such Member-in-charge), who has to draw up a detailed plan for the inquiry, direct and supervise the compilation of data by the secretariat and select representative factories for cost investigation. He has also to scrutinize the Cost Accounts Officer's report and satisfy himself that the estimate of cost has been made on the right lines. If he notices any abnormal feature in the cost structure, he discusses the matter with the Cost Accounts Officer and the Technical Adviser, calls upon the manufacturer to explain the reason for it, and then forms his own conclusions. At the public inquiry, however, the President and the Panel Member sit together to take oral evidence. A public inquiry is like a Conference, where representatives of the different interests present are invited to state their views on the trend of demand, rated capacity and production, the availability of raw materials, source of imports and their c.i.f. prices, costs of production, freight disadvantage, if any, quality of the indigenous product, and the necessity or otherwise of protection. This open discussion is intended, first, to elicit information on points on which conclusive data are not available or evidence is conflicting; second, to find out whether the manufacturers have any reasons to give as to why the quality of their products is below the standard of the imported articles; and, third, to explore whether the differences between the views of the manufacturers on the one hand and those of the importers and consumers on the other, can be reconciled or, at any rate, narrowed down. Ordinarily, the assessment of demand, rated capacity of factories, c. i. f. prices, freight disadvantage and quality is made by the Board in the light of the views and estimates as given at the Conference by the representatives of the different parties. It has also been found that the mere coming together of the different interests at such a Conference goes a long way to reconcile their divergent points of view. After the public inquiry, the Member-in-charge reviews the evidence, forms tentative conclusions and draws up a report for the consideration of the Panel. The Panel discusses the whole report part by part and adopts it, with or without modifications. This final report, duly signed by the Panel Members, is then forwarded to Government for their consideration.

17. Out of the ninety cases of tariff inquiry, the Board has recommended the grant of protection or continuance of protection in as many as sixty cases. In the remaining thirty cases, the Board has rejected the claim for protection or continuance of protection or for increase in the rates of duties. In assessing the claims of war-time industries for protection or assistance, the Board has invariably made sufficient allowance for the facts that most of these industries had to be hurriedly set up to meet defence requirements or fill serious gaps in the supply of essential goods for civilian consumption; that the machinery used by the

new industrial units was necessarily either old or improvised; that the accessories, raw materials and technical personnel were in short supply; that the majority of workers employed by them lacked training and skill; that the movement of raw materials and finished goods was slow and uncertain; and that there were strong inflationary forces at work, making it extremely difficult for the manufacturers to keep down the costs of production. Such being the situation, the Board decided at the very outset that its investigations should be primarily directed to finding out whether, in the face of the above-mentioned special handicaps, the industry concerned was being conducted with reasonable efficiency. If the Board was satisfied on this point, it would recommend the grant of adequate protection and assistance so as to give an opportunity to the industry to raise its efficiency and improve the prospects of its survival in normal conditions of international competition. At the same time, the Board had a definite idea that, when economic conditions became fairly normal and stable, the protected industries should be required to submit to a more rigorous examination of their claims for the continuance of protection. The progress of a number of such industries has already been reviewed by the Board, and it has been found that, with a few minor exceptions, the industries concerned have installed better machinery, introduced new processes, achieved a larger output, eliminated waste and improved the quality of their products. The Board has, therefore, come to the conclusion that the initial short-term protection granted to these industries has been justified and that it should be continued until economic conditions within and outside the country become more or less normal.

18. Besides recommending de-protection of six pre-war industries *viz.*, cotton textile, iron and steel, paper and paper pulp, silver thread and wire, magnesium chloride, and sugar, the Board has rejected the claims of twelve war-time industries and recommended the discontinuance of protection for three war-time industries. The pre-war industries were de-protected because they had been largely stabilized and/or because they had no serious competition to face, at any rate, for the present. The claims of twelve war-time industries for protection were rejected because the price of the imported article was appreciably higher than that of the indigenous product, or because the industry had not been established on a sound and economic basis, or because the quality of the indigenous product had proved to be wholly unacceptable to the consumers. One such interesting case came up before the Board in 1946. A certain firm in the Punjab had applied to the late Department of Commerce, claiming protection for butter colour, that is, some sort of a liquid used for imparting artificial colour to butter; and the case was duly remitted to the Board for investigation. The only data furnished to the Board was the name and address of the manufacturer, and there was none regarding the equipment of the factory, its rated capacity and actual production, the raw materials required or the process of manufacture. However, the

case having been remitted by Government, presumably after a preliminary scrutiny, it had to be investigated by the Board. Accordingly, a Member was deputed to visit the factory and collect basic information on the spot. On arriving at the given specified address, the Member was taken round by the manufacturer to see the factory, and the 'factory' actually shown to him was a corner of a small and dirty bed-room, where a few pots and pans containing some sorts of liquid constituted the sole equipment. The manufacturer could not give any details about the materials used for the manufacture of the liquid, and there was no trace of any hygienic precaution having been taken to ensure that the liquid was free from infection so as to be suitable for use as a colouring medium for an article of food like butter. This was, of course, an extreme case, but there have been quite a few cases where factories were housed in ramshackle unhygienic buildings, equipped with inadequate and inefficient machinery and operated without any regard for economy of cost or the quality of the product. Obviously, such units had not the remotest chance of establishing the industry on a sound and stable basis. In all such cases, therefore, the claim for protection was rejected by the Board.

19. Undoubtedly, the most important point of the Board's inquiry is to determine the fair selling price of the indigenous article for which protection is claimed, because it is on the basis of a comparison between such fair selling price and the landed cost of the corresponding import that the Board decides whether there is any need for protection, and if so, what the amount of such protection should be. But, in the context of the present-day economic conditions in this country as well as all other countries of the world, the determination of such a price involves so many variable factors that there is always a risk that the Board's estimate may go wrong by a large margin, which would vitiate its findings on the question of the appropriate amount of protection. We may discuss some of these factors in order to show the nature of the difficulties that are met with in estimating the fair selling price. In the first place, with a few notable exceptions, most of the firms do not follow a scientific system of cost accounting or maintain adequate and satisfactory cost data. This is the case not merely with the wartime industries; it applies almost equally well to many of the established major industries in the country. Such being the position with regard to the cost data, the Board has to frame its own estimate of cost in the light of standards as given in the technical books or simply on the basis of a detailed discussion with the manufacturer in respect of every important item of cost. In this connection, it may be mentioned that, in selecting representative factories, the Board has to consider, among other things such as productive capacity, efficiency, and location, also the nature of the accounts maintained by the firm concerned. In the second place, owing to shortage in the supply of raw materials and stores and uncertainties regarding the import control policy, the manufacturer cannot correctly forecast what the demand will be and what production he can achieve in the next two or three years.

And if there is any large deviation from the expected figure of production, the allocation of overheads as an element in cost would go all wrong. In the third place, with a highly unstable price-wage structure, it is extremely difficult to estimate how the rates of payment for the different factors are going to vary. Apart from such difficulties which are caused by the extreme variability of the main elements of cost, there are certain other factors which are indeterminate in character and which call for the exercise of discretion on the part of the Board. Thus, for instance, in assessing the value of the fixed assets or fixed capital of a manufacturing establishment, the correct procedure would be to take the current replacement value of the assets as they stand today. In periods of stable costs-prices structure, replacement value would be equated to the original value of the assets *minus* the amount of depreciation which has been written off to date. But in times of inflationary costs and prices, the determination of the correct rate of depreciation would itself be an extremely difficult task and, consequently, also the assessment of the replacement value. Since, however, no scientific or satisfactory method of solving this problem has been evolved in India or elsewhere, the Board has adopted the practice of assessing the fixed assets at their original book value and allowing depreciation at rates which are allowed for income-tax purposes. It cannot, of course, be claimed that this is the right solution of the problem, but this particular procedure has been found to yield tolerably satisfactory results in practice, and it has been generally approved by a large majority of the manufacturers. As regards working capital, the Board examines the requirements item by item and fixes an amount on the basis of three, four or six months' expenses of production. And, normally, the practice of the Board is to allow for interest on such working capital at the rate of four per cent. per annum. As to profits, this is provided for as a certain percentage on the original value of the fixed assets. In the case of war-time industries, the figure is 10 per cent. and in the case of pre-war industries it varies from 6 to 10 per cent. according to the nature of the industry. In the recent inquiry into the case of the sugar industry, for instance, the rate of profit allowed was 10 per cent. and it was found that, after deduction of taxes, the balance available for managing agency commission, reserves and dividends would work out to 6·65 per cent. on the paid-up capital. The fair selling price includes two other special elements, *viz.*, freight disadvantage and allowance for prejudice. Freight disadvantage arises from the fact that whereas the importer can, without incurring any railway freight, land his goods at all the principal ports, which are also the principal consuming centres, the indigenous manufacturer has to bear such freight to despatch his goods to all the ports other than the one where his factory is situated. The extent of such disadvantage is estimated on the basis of the actual proportion of sales in the different markets and the estimated differences in the freight rates in respect of such markets. As to prejudice, this will be discussed in the next paragraph along with the question of quality.

20. In assessing the claim of an industry for protection or assistance, the Board has to inquire whether the article produced by such industry is of a sufficiently good quality to make it acceptable to the consumers. The quality may have several aspects, such as serviceability, durability, finish and appearance. In a majority of cases of war-time industries, the quality of the indigenous product is found to be below the standard of the imported article. This may be due to inexperience or lack of skill and proper technical guidance or non-availability of suitable raw materials or insufficient and antiquated machinery. The Board, therefore, attempts to ascertain what is the nature and extent of the inferiority and what is its cause. If the Board finds that the inferiority is of a minor or superficial nature, which may be easily remedied, the quality is judged to be satisfactory. Secondly, if it is found that the article is not so defective as to be seriously harmful to production or altogether unsuitable for consumption, then, it is certified to be acceptable. In arriving at a conclusion in this matter, the Board depends primarily on the evidence of the consumers and users and, to some extent, on the advice of technical experts. The Board also attempts to find out how far the manufacturer has taken steps to remove the defects of the article and whether there has been a steady improvement in that regard. In a large number of cases, it has been found that consumers would not agree that the quality of the indigenous product is satisfactory or even tolerable, whereas the manufacturer would claim that his product is practically as good as the imported article, but that the consumers' opinion is prejudiced by the fact that the indigenous article is new and unfamiliar to them. For purposes of coming to a fair conclusion on the subject of quality, the Board has adopted a few working rules. If the consumers are unanimous that the quality is unsatisfactory and unacceptable, and if such opinion is also supported by technical experts, the Board has no alternative but to dismiss the case. On this basis, the Board rejected the claim for protection for fire hoses. If, on the other hand, a reasonable number of consumers approve the quality and technical experts endorse their view, the Board gives the benefit of the doubt to manufacturers. Thus, for instance, in the important case of cotton textile machinery, while the opinion of cotton mills on the question of quality was divided, the majority of the experts declared that the manufacturing process actually followed was correct and that the quality of machines was satisfactory. The Board decided that the industry was eligible for protection in so far as the quality of its products was concerned. Incidentally, it is intersting to note that the cotton mill industry, which was in the vanguard of the fiscal autonomy movement and which had itself been benefited by the policy of protection, is found to be generally unsympathetic to the claims for protection made by the manufacturers of ancillary articles, such as bobbins, starch, pickers, etc., which began to be produced in India during war-time to meet the essential requirements of the cotton mill industry itself. However, there are quite a few cases where the evidence regarding the quality of the product is inconclusive. In all such cases, the Board

has recommended that the Indian Standards Institution should evolve suitable specifications for such products and that an article which conforms to such specifications should be automatically regarded as having the requisite quality. Necessary specifications have been already laid down by the Institute in respect of a few articles. But, for a majority of cases, such standards are yet to be evolved; the process will take a considerable time but, in the meantime, the dispute regarding the quality will persist. In such cases, the Board has attempted to persuade the manufacturers and the consumers to establish a liaison through a joint committee and attempt to solve the problem in a co-operative spirit. One such case was that of jute mills *versus* jute mill bobbins. In this case, the Board suggested that the two parties should form a joint committee, which would inspect the bobbin factories, draw up a list of approved manufacturers, make an estimate of their productive capacity and invite jute mills to purchase their requirements of bobbins to the limit of the capacity of such factories. Such a committee was appointed and it drew up a list which included only two or three factories. The bobbin manufacturers held that the selection was unduly strict and arbitrary and did not accept the committee's recommendation. A similar dispute has also been going on for the last three or four years between the tea gardens and plywood tea-chest manufacturers. It may be noted that tea and jute manufactures being the two largest dollar earners at the present time, precaution has to be taken to guard against the risk of their production and trade being adversely affected by the use of unsuitable tea chests and bobbins respectively. One special source of difficulty in this case is that both the tea gardens and jute mills have their long-standing trade connections with the British tea chest and bobbin manufacturers respectively and that it is to the personal advantage of the managers concerned that the article should be purchased in the U. K. The best solution of the difficulty in such special cases is to lay down standard specifications for the ancillary articles and appoint qualified inspectors to ensure that such specifications were being adhered to, so that the consuming interests, namely, tea gardens, jute mills, etc., can have no legitimate excuse for not patronising the Indian-made articles. However, the fact remains that the consumers as a rule have a prejudice against the articles manufactured by the war-time industries. In consequence of such prejudice, which may be based on real or fancied differences in quality, they are prepared to pay a higher price for an imported article than for the corresponding indigenous product. In determining the amount of protective duty, the Board provides for this fact or by an enhancement of the duty to the necessary extent. The prejudice is generally rated at a certain percentage of the price of the imported article. Thus, for instance, if the Board's finding is that the allowance for prejudice should be 10 per cent., such percentage would be added to the duty which would be otherwise required to equate the landed cost of imports to the fair-selling price of the indigenous article. The purpose of this extra duty is to enable the indigenous manufacturer to sell his

article 10 per cent cheaper than the imported goods. In a number of cases, the allowance for prejudice is as high as 25 per cent, but the Board is fully satisfied on the basis of evidence that such an allowance is necessary for effective protection.

21. The amount of protection granted to an industry is so determined that it may equate the duty-paid landed cost of the imported article to the fair selling price of the indigenous product. In the majority of cases, it was found that the then current revenue duty would be adequate to protect the industry. In such cases, the Board merely recommended the conversion of the revenue into a protective duty. Even though the rate of the duty was not increased, its conversion into a protective duty served to give an assurance to the industries concerned that Government would not allow their position to be jeopardised by unfair foreign competition. Moreover, so long as an article is on the protective list, its manufacturer is entitled to demand a revision of the duty under Section 4(1) of the Indian Tariff Act, if and when there is an appreciable fall in the price of the imported commodity. Consequently, such conversion of a revenue into a protective duty has been acknowledged by the industries to be necessary and helpful to them. From November 1945 to January 1949, thirty-seven industries were granted protection ; of these, 31 were cases of conversion of the revenue into a protective duty. Notable cases of an appreciable increase in duty were :—

(1) grinding wheels, the duty being raised from 10 to 80 per cent. ;

(2) preserved fruits, the duty being raised from 30 to 80 per cent. ;

(3) alloy, tool and special steels, the duty being raised from 12 to 30 per cent. ; and

(4) motor vehicle batteries, the duty being raised from 45 to 87½ per cent.

In such cases, the Board has estimated that the incidence of the increase in the duty on the consumer would not be appreciable. Considering the serious inflationary situation in the country during the last five years, it is not surprising that high duties had to be imposed in a few cases. On the contrary, it is rather remarkable that in more than 80 per cent. of the cases examined by the Board, the duties required to protect Indian industries did not exceed the general rates of revenue duties. In a few cases of basic commodities as, for example, caustic soda, aluminium and soda ash, the scheme of protection provides for the payment of a subsidy combined with an increase in the duty ; the scheme is so devised that the additional revenue realizable from the increased duties would be sufficient for the payment of the subsidy. Protection by such a method imposes a smaller burden on the consumer, but it deprives the State of the benefit of the

additional revenues and it is also not administratively feasible in many cases. Besides recommending protection by means of a duty or subsidy, the Board has also, in a large number of cases, proposed the grant of other assistance, such as the refund of the import duty on raw materials, adequate supply of steel, special facilities for transport, allotment of Dollar Exchange for the purchase of machinery from the U. S. A. and preferential treatment for protected articles in the matter of stores purchase. Moreover, in quite a few cases, the Board has recommended that, so long as import control has to be continued for balance of payment considerations, it should be utilized as far as practicable for the benefit of protected industries. On a review of the measures of protection adopted during the last four years, it can be said that such protection has, on the whole, been fairly moderate in degree.

22 During the years 1946 and 1947, the interval between the submission of a Report by the Board and the announcement of Government decision thereon was from six to twelve months. There was then the Congress-League Coalition Government at the Centre and, as is well-known, due to lack of unity and cohesion in the Cabinet, the machinery of Government did not move with anything like normal speed. After the attainment of independence on 15th August 1947, the Ministries were far too engrossed in tackling urgent and abnormal problems arising out of the partition to attend to the business of dealing with current economic questions. Since the beginning of 1948, however, there has been a notable improvement in this regard and Government have taken only one or two months in announcing their decisions on the Board's Reports. Such Reports, in the first instance, are considered by an inter-departmental committee of the Ministries of Commerce, Industry and Supply, Finance and, in appropriate cases, as for example, starch, preserved fruits and sugar, also of the Ministry of Agriculture. If the committee agrees with the Board's recommendations, the Ministry of Commerce, with the formal approval of the Cabinet, issues a Resolution, stating the main recommendations of the Board and Government's decision thereon.

23. Government have so far invariably accepted the recommendations of the Board on the main question of the grant of protection to different industries and, with the exception of three or four cases, they have also accepted the Board's specific proposals regarding the extent, form and period of protection and assistance. In a few cases, however, *e. g.*, grinding wheels, preserved fruits and motor vehicle batteries, in which the Board had recommended protection for three years, Government reduced the period to one year in the first instance, because they thought that the duties proposed by the Board were abnormally high and could possibly be reduced or replaced by subsidies at a later stage. In all such cases, however, when the initial period of one year had elapsed, Government found that it would not be feasible to reduce the scale of duties or grant a subsidy in lieu of duties, and ultimately, accepted the Board's original

recommendation regarding the form and period of protection. In this connection, it may be mentioned that, during the last three years, there has developed a convention to the effect that the Board should be regarded as an independent, semi-judicial body and that, except where Government have come into the possession of substantial facts which were unknown to the Board at the time of the inquiry or where there are overriding considerations of policy, the Board's recommendations should be accepted as a matter of course. In such exceptional cases as are indicated above, Government invariably place before the Board their own points of view supported by relevant facts and ask the Board to reconsider its original recommendations. In a few such cases, the Board has modified its original recommendations in the light of the new facts furnished by Government, but in other cases, where the Board was unable to agree to the Government proposals, a compromise formula was evolved and agreed to. It is only fair to state that, during the last few years, there has been an increasing recognition in the highest quarters that it is desirable in the public interest that such independence on the part of the Board should be respected.

III. Future Policy.

24. Government have recently constituted the Planning Commission. The main function of the Commission will be to draw up a comprehensive plan for optimum utilization of the material and human resources of the country and for the expansion of its social services, and suggest ways and means for its implementation with as great speed as may be practicable from time to time. It may be taken for granted that, in such a plan, an integrated development of basic engineering and chemical industries as well as large-scale and small-scale consumption goods industries, will have a high priority. It may also be assumed that, in the context of the overall plan, the Commission will proceed, at an early stage, to review the working of Government's industrial policy and re-formulate its scope and implications in fuller detail than has been hitherto done. More particularly, the Commission will have to demarcate the province of State undertakings from that of private enterprise and also enunciate the principles which should govern the future State policy regarding the nationalization of the more important industries which are at present under private ownership and management. In the meantime, however, we may proceed on the basis that the plan will provide for a comparatively small sector of State undertakings and a very large residual sector of private enterprise, and lay down at different successive stages the order of priorities in respect of both the sectors. The question will then arise—what will be the ways and means of ensuring that the targets of production are achieved within the period that may be fixed at each stage of the plan? In discussing this subject of ways and means, we have to

keep clearly and steadily in view three important limiting conditions: first, that the plan will be governed by the necessity to have its working justified before the Parliament and the electorate, more particularly with regard to its economic results; second, that it will provide for a large private sector operating side by side with a public sector; and, third, that it will have to comply with the minimum requirements of an international economic order. We may point out two important implications of the limiting factors stated above: First, in speeding up the development of industries according to the plan, we shall have to confine ourselves to the use of such methods as are sanctioned by international usages and conventions That is to say, we shall be permitted to employ mainly protective duties and subsidies to stimulate the growth of industries. Second, each public undertaking will have to justify itself primarily by passing the test of economic efficiency on the same basis as applies to private enterprise, and the most effective test for this purpose will be to examine what amount of protection or assistance would be required to equate the fair selling price of its products to that of the competitive import. From what has been said above, it would follow that the implementation of the plan for industrial development will require the aid of protective tariffs and subsidies. That being so, it is necessary for us to discuss what the policy of protection should be in the proposed system of planned economy.

25. As indicated in the preceding paragraph, the scope of protection should include both the public and private sectors. Since, however, the order of priorities will be laid down by the Planning Commission, tariff investigation will not be concerned, with the task of deciding whether a particular industry deserves to be speedily developed and the main point of the investigation will be to ascertain whether the industry requires portection and, if so, what should be the extent, form and period of such protection. Such an investigation will also bring out whether the industry was being run on sound and economic lines, what its shortcomings are, and what steps should be taken to remove such defects. If the industry is one falling within the public sector, the tariff investigation will show whether the undertaking was being managed by the State Corporation with a reasonable degree of efficiency and, if not, what the reasons were. In the past, the scope of protection was limited to industries which were already established, and it did not extend to unborn or embryonic industries. There may be certain industries which involve the investment of considerable capital and entail high risks, and it may be that the necessary funds for starting such industries will not be forthcoming without a prior assurance being given of State assistance on an adequate scale. The automobile industry, ship-building, synthetic dyestuffs and machine tools, for instance, may be placed in this category. In such cases, therefore, it will be necessary to decide in advance what amount of assistance was likely to be required and whether such assistance would be given in case such industries were started. The proposal to

increase the rate of revenue duty on certain automobile parts and accessories by 30 per cent. (*i. e.*, from 60 to 90 per cent. for the standard rate and 54 to 84 per cent. for the British preferential rate), which was recently put up in the current Budget Session of the Parliament, is a case in point. Certain automobile assembly factories proposed to undertake the manufacture of these parts and accessories but, in the absence of a prior assurance of adequate assistance from the State, could not undertake the heavy outlay of capital, because it would involve considerable risk. To meet the requirements of the case, Government proposed to increase the rate of revenue duty in the new Finance Bill, but the special procedure adopted by Government was strongly objected to by several Members in the course of the debate on the subject. It may be that the measure of assistance proposed to be given in this case is justifiable, but it is desirable that the grant of such assistance should in future be based on the findings of an independent inquiry and that it should be given in the form of a protective duty or subsidy. However, this case shows that the scope of protection should also be extended to embryonic industries. As regards the determination of the amount, form and period of protection or assistance, the technique of investigation evolved by the Tariff Board has been found to be sound and suitable, but there is room for improvement in its application. Such improvement will, however, depend primarily on the availability of satisfactory statistical and cost data.

26. Judging by the experience of tariff-making in the U. S. A. and the British Commonwealth, the function of determining the extent, form and period of protection should be assigned to an expert tariff-investigating authority Such a body should also have all the other functions which are exercised by the present Tariff Board. Another function which may be properly given to it, will be to tender technical advice to Government in connection with tariff negotiations and undertake a periodical review of the working of trade agreements. To ensure that tariff inquiries are conducted with complete impartiality, it is necessary that such an authority should be distinct from and independent of the administrative and legislative organs of Government in so far as its fact-finding function is concerned. In other words, it should have an autonomous and semi-judicial status. Further, for the sake of consistency and continuity of policy, it should be permanent. Furthermore, in order that it may be endowed with the necessary authority to summon witnesses and order production of documents, it should be statutory. An independent statutory body will have sufficient prestige to attract men of high calibre to serve on it. It will also be able to inspire public confidence. The work of such a tariff-investigating authority, which may be a Tariff Commission or a Tariff Board, will be invested with high importance for the welfare of our young democracy which is about to embark upon a great adventure of economic and social planning.

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