

INTRODUCTION
TO
THE STUDY OF
INDIAN ECONOMICS.

(FOURTH EDITION)

BY

VAMAN GOVIND KALE, M. A.

Professor of History & Economics, Fergusson College, Poona,
Member, Council of State.

AUTHOR OF

*Indian Administration, Gokhale and Economic Reforms,
India's War Finance, Currency Reform in India,
Indian Industrial and Economic Problems,
The Reforms Explained, The Dawn of
Modern Finance in India.*

POONA :

ARYABHUSHAN PRESS

1922

First Edition, June, 1917.

Second Edition, May, 1918.

Third Edition, August, 1920.

Fourth Edition, September, 1922.

Printed and published by Anant Vinayak Patvardhan
at the 'Aryabhushan Press,' Poona City.

PREFACE.

THE warm reception which the first three editions of this book met with at the hands of students and the general public all over the country, testified to its having satisfied a real want, and the author felt encouraged to bring out a fourth edition in an enlarged and thoroughly improved form. This opportunity has been fully availed of to give effect to many of the friendly suggestions which had been received. The text has been revised throughout, and considerable additions have been made to it in several places. The effects of the war and the depression succeeding it, upon capital, labour, finance, currency, exchange, banking, prices and consumption, have been of a far-reaching character, and they have been appropriately indicated. And the problems of food supply, poverty, Imperial preference, railway management and finance, trade unionism, international labour organization, recurring deficits, public debt, provincial finance, foreign exchanges, increased taxation &c. have been exhaustively dealt with. The latest facts and statistics have been given everywhere; and no pains have been spared to bring the book up to date and to render it helpful to different classes of readers. The tables, charts and diagrams introduced for the purpose of effective illustration, will not fail to add to the utility of the volume. The bulk of the book has increased a great deal as a result.

Fergusson College, }
Poona. }
30th October, 1922.

V. G. KALE.

INTRODUCTION.

By some 'Indian Economics' is regarded as a meaningless and an awkward term. The contention that unless you can construct an altogether new economic science out of Indian social phenomena, you can not label Economics as 'Indian' solely on the ground that you are dealing with Indian economic conditions, is full of force and deserves respectful consideration. But a moment's reflection will show that the objection is merely a fight about words. The term 'Indian Economics' enjoys the advantage of having had a long vogue and concisely expresses the meaning it is intended to convey, viz. its being a special study of Indian economic conditions, conducted with a view to discover the working of economic laws and to indicate efficient and beneficial methods of economic progress. Thus understood, Indian Economics has its place well defined and secure and there ought to be no ground for dispute, at least among economists, as to its scope, purpose and nomenclature, at least until another and a better term is suggested. Political Economy and Economics and several terms used in the exposition of the science, are themselves not free from objection, and there is absolutely no harm in using the well-defined and well-understood term 'Indian Economics.' An exposition of economic conditions prevailing in England and a study of economic problems peculiar to that country, have been thus characterised as 'English Economics;' and there is no reason why any one should boggle at 'Indian' Economics.

With regard to the study of Economics in this country it is stated that the usual teaching of the subject in our Colleges is based upon western conditions and experiences and that it is not properly correlated to Indian social phenomena. Wherever this complaint may be well-founded, it is obviously the fault of the teacher who must illustrate principles by referring to indigenous conditions and evolve conclusions from them. Right educational methods require that in order that the study of Economics may prove stimulating and fruitful, it

should be intimately associated with the surroundings and the observations of the learner. To a certain extent it is true that the average University student does not feel disposed to travel beyond his text books and to observe and analyse things for himself. The educational system in which he is brought up, is mainly responsible for this. But if the interest of students in their surroundings is roused by methods of teaching which stimulate observation and provoke reflection, they are found to go wide and deep into their work and to realise that examination is only a by-product and not the chief aim of their activities. Economics must not, therefore, be taught and studied apart from local and national conditions as if it was a foreign science without much relation to Indian life except in its aspects of modern industries, foreign trade exchanges and currency.

Economic phenomena like trusts, competition, socialism, Malthusianism, speculation and the like, may appear strange in India; and Indian students may find it difficult to understand them second hand. But we do not refrain from teaching the British or the American constitution to our students on similar grounds. The above phenomena have, besides, actually appeared in India; and their study has a special interest and value at the present stage of the country's development. Nothing can, however, render superfluous a specialized and intensive study of Indian economic conditions and problems, and our University has done wisely in including 'Indian Economics' in its curricula for the B. A. and M. A. examinations. The economic evolution of the Indian communities under the stress of modern developments and the urgent requirements of progress, demand earnest investigation and suitable action; and it is necessary that the number of educated people who can take an intelligent interest in economic problems should steadily increase in India. It is the main object of this book to help the student to observe and interpret the facts and tendencies of Indian life, to assimilate economic principles and to apply them to his own experiences and observations. It is likewise designed to assist the general reader to secure a working knowledge of India's economic evolution, position and prospects. The book is thus calculated to appeal as much to the large public of intelligent and educated Indians, who have to take part in and guide national affairs, as to University students.

The general order of treatment usually found in text-books on Economics, has been followed with a view to conduce to the convenience of the student, but in doing so, care has been taken to bring into prominence chief among the peculiar economic problems which require careful study and demand a solution in this country. The elementary principles have been briefly indicated in each place, and their application to Indian conditions has been pointed out. The economic changes which have taken place and which are in progress, have been traced, and the situation in India is compared with the development and position in Western countries. The economic evolution which has been going on slowly, and at times, imperceptibly, is indicated and the basic ideas underlying institutions and activities are pointed out. Very few people in India realize the nature and working of even the simple laws which govern the production, exchange, distribution and consumption of wealth or are acquainted with the modern machinery of trade, currency, credit and finance. This ignorance lands people into curious mistakes when they try to tackle economic problems; and well-directed attempts at the promotion of progress, are rendered difficult. Equally dangerous is the easy optimism of those who are led away by appearances and draw comforting conclusions both from the contrasts and the analogies presented by Indian conditions when compared with those prevalent elsewhere. This book, it is hoped, will supply a corrective to both these tendencies, and will afford a true insight into the economic situation of India.

The author has freely stated his own views on each question—this was inevitable and even necessary—and has also given reasons why he holds them. He has taken every care, however, to place the pros and cons in each case before the reader so as to stimulate thought and rouse a spirit of enquiry, and to help him to form an opinion for himself. The reader is referred, in each chapter, to the literature he may consult if he wishes to prosecute his studies further, and the student will find the references helpful in acquiring a more intimate acquaintance with the subjects of study. Only very recently has the importance of economic studies come to be appreciated, and the provision made for them is yet far from adequate. The text-books are very few and the information pertaining to

different subjects is scattered through a large number of blue books, reports, monographs &c. The methods of teaching require considerable improvement, investigation and study have to be directed along right lines and the equipment essential for the attainment of this object has to be amplified. The purpose of writing this book will be fully served if it succeeds, in a measure, in diffusing enlightenment, exciting a desire to know more and in creating a taste for investigation and independent thinking.

CONTENTS.

	PAGES.
INTRODUCTION	... 1-14
CHAPTER I.	
National Economics :—	
1 Economics in India	... 1-3
2 What is Indian Economics ?	... 3-4
3 Peculiar Conditions	... 4-7
4 Economic Policy	... 7-9
5 Importance of Economic Studies	... 9-12
6 Theory and its Application	... 12-14
7 Economic Problems	... 14-16
8 Nationalism	... 16-18
9 Internationalism in Economics	... 18-20
10 Conclusion	... 20-22
CHAPTER II.	
Indian Out-look :—	
11 Progress	... 23-24
12 Wealth and Welfare	... 24-26
13 Ethics and Economics	... 26-28
14 No Conflict	... 28-30
15 India no Exception	... 30-32
16 Evidence of History	... 32-34
17 Religion and Material Progress	... 34-36
18 East and West	... 37-40
19 Reconciliation	... 40-43
20 Indian Spiritua ism	... 43-47
21 Indian Sociology	... 47-48
22 The Economic Motive	... 48-50
CHAPTER III.	
Gifts of Nature :—	
23 Importance of Production	... 51-54
24 Physical Features	... 54-56
25 Striking Characteristics	... 56-58

26 Climate and Crops	58-64
27 Forests	... 64-65
28 Mineral Wealth of India	... 65-69
29 Motive Power	... 69-71
30 Land	... 71-74
31 Pressure on the Land	... 74-76
32 Fertility of Soil	... 76-78
33 Value of Land	... 78-80

CHAPTER IV.

Human Effort :—

34 Value of Labour	... 81-82
35 The Labour Factor	... 82-85
36 Cheapness and Efficiency	... 85-87
37 Different Classes of Labour	... 87-91
38 Agricultural Labour	... 92-93
39 Village Economy	... 94-95
40 Factory Labour	... 96-97
41 Traditional Training	... 97-99
42 Present Requirements	... 99-100
43 Technically Trained Men	... 100-102
44 Prospects	... 102-103
45 Shortage of Labour	... 103-105
46 Potential Supply	... 105-106
47 Criminal Tribes	... 106-107
48 Wastage and Economy of Labour Power	... 107-109
49 Adaptation to needs	... 109-111
50 Conclusion	... 111-112

CHAPTER V.

Capital :—

51 What is Capital ?	... 113-115
52 The Rayat's Means	... 115-116
53 Agricultural Capital	... 116-119
54 The Cattle Problem	... 119-122
55 Improved Implements	... 122-124
56 Manufacturing Capital	... 124-126
57 Existing Facilities	... 126-127
58 Hoarding Habit	... 127-129

CONTENTS.

iii

59 Conditions of Saving	... 129-131
60 Capital as a Power	... 131-132
61 Foreign and Indigenous Capital	... 132-134
62 Capital and Banks	... 134-137

CHAPTER VI.**Organization of Production :—**

63 Industrial Evolution	... 138-140
64 Home Industries	... 140-142
65 Large-scale Production	... 142-144
66 Joint Stock Principle	... 144-146
67 Industrial Enterprise	... 146-149
68 Small Industries	... 150-151
69 Vitality of Cottage Industries	... 152-153
70 The old and the New	... 153-154
71 Lines of Evolution	... 154-160
72 Caste	... 160-162
73 Ancient Indian Guilds	... 162-163
74 Guilds and Castes	... 163-166
75 Farming	... 166-168
76 Subdivision of Land	... 168-170
77 Urban and Rural Industries	... 170-172
78 The Future	... 172-174
79 A Collective View	... 174-176
80 The Charkha Movement	... 177-179
81 Limitations and Possibilities	... 179-181

CHAPTER VII.**Production and Population :—**

82 Increase of Population	... 182-183
83 Varying Conditions	... 184-185
84 Malthusian Doctrine	... 185-187
85 Application to Indian Conditions	... 187-190
86 Is there great Pressure ?	... 190-191
87 Food Supply	... 191-195
88 Population and Food	... 195-196
89 Food Production	... 196-198
90 Wanted more Food	... 198-200
91 Famines	... 200-202

92 The Cause and Cure	...	202-204
93 The Outlook	...	204-206
94 Remedies	...	206-207
95 Indian Attitude	...	208-209
96 Changed Conditions	...	209-211
97 Vicious Circle	...	211-213
98 Aggregate Production	...	213-215
99 Significance of Estimates	...	215-217
100 Conclusion	...	217-219

CHAPTER VIII

The Economic Revolution :—

101 Exchange	...	220-221
102 Markets and Fairs	...	221-223
103 Ancient Indian Commerce	...	223-226
104 Under Company Government	...	226-228
105 Railways and Irrigation	...	228-229
106 Features of Foreign Trade	...	230-232
107 War and Foreign Trade	...	232
108 Industrial Revolution	...	233-235
109 Theory of Exchange	...	235-236
110 Effects of the Revolution	...	236-238
111 Chief Characteristics	...	238-246
112 India's Gold Hunger	...	246-249
113 Trade Organization	...	249-250
114 Means of Communication	...	250-254
115 Trade of the Ports	...	254-256
116 Trade of the Interior	...	256-258
117 Extinction of Indigenous Shipping	...	258-261
118 Foreign Shipping and Subsidies	...	261-264

CHAPTER IX.

Commercial Policy :—

119 Freedom of Trade	...	265-266
120 Mercantilism	...	266-267
121 Reaction	...	267-268
122 Colonial Policy	...	268-270
123 The Controversy	...	270-273
124 The Indian View	...	273-276

CONTENTS.

125 Indian Protectionists	... 276-279
126 Policy for India	... 279-281
127 Indian Protectionism	... 281-282
128 State's Attitude	... 282-285
129 Fiscal Controversies	... 285-287
130 Imperial Preference	... 287-289
131 Indian Government's Attitude	... 289-290
132 Fundamental Principles	... 290-292
133 Difficulty of Solution	... 292-295
134 Recent Developments	... 295-296
135 Fiscal Autonomy	... 296-298
136 Industrial Policy	... 298-300
137 Immediate Future	... 300-302
138 The Fiscal Commission	... 302-305

CHAPTER X.

The Currency System :—

139 In Ancient Times	... 306-308
140 Pre-British Period	... 308-310
141 Under East India Company	... 310-311
142 Bimetallic System	... 311-312
143 Difficulties in India	... 313-315
144 Herschell and Fowler Committees	... 315-317
145 Currency Schemes	... 317-319
146 Opposition to Change of Standard	... 319-321
147 Change Effected	... 321-323
148 Gold Exchange Standard	... 323-324
149 Criticism	... 325-327
150 Indian Conditions	... 327-328
151 A Gold Mint for India	... 329-330
152 Gold Standard Reserve Fund	... 330-332
153 Recommendations of Chamberlain Commission	... 332-333
154 Paper Money	... 333-335
155 Regulation of Issue	... 335-338
156 Currency Reserve	... 338-340
157 Note Circulation	... 340-343
158 Currency Operations	... 344-345
159 War and Currency	... 345-347
160 Break-down of the Standard	... 347-349

161 Babington Smith Committee	... 349-351
162 Chief Recommendations	... 351-353
163 Criticism	... 353-355
164 The latest Phase	... 355-356
165 Gold, silver and the Currency Reserve	... 356-358

CHAPTER XI.

Foreign Exchange and Finance :—

166 Mechanism of Exchange	... 359-361
167 Foreign Exchange	... 361-362
168 Rate of Exchange	... 362-365
169 Indian Exchange	... 365-367
170 Development of the System	... 367-368
171 India's Balance Sheet	... 368-370
172 The Trade Balance	... 370-372
173 Liquidation of the Balance	... 372-374
174 The Balance Sheet	... 375-379
175 Adjustment of Trade Balance	... 380-381
176 Council Bills	... 381-384
177 Remittance Liabilities	... 384-385
178 Regulation of Council Drawings	... 385-387
179 Rate of Council Drafts	... 387-389
180 Government and Exchange	... 390-391
181 Abnormal Rise in Exchange	... 391-393
182 Dear Silver and Exchange	... 393-395
183 Course of Exchange	... 395-397
184 High Exchange	... 397-398
185 High Prices and Exchange	... 399-401
186 Recommendations Accepted	... 401-402
187 Reverse Councils	... 402-400
188 The Conditions of the Experiment	... 404-407
189 Exchange Left to itself	... 406-409
190 The Aftermath	... 408-409

CHAPTER XII.

Banking and Credit :—

191 Origin of Banking	... 410-412
192 Indigenous Banking	... 412-414
193 Rise of Modern Banking	... 414-415

194	The Presidency Banks	...	415-417
195	Their Business	...	417-420
196	Exchange Banks	...	420-424
197	Joint Stock Banks	...	424-426
198	Bank Failures	...	426-430
199	Proposed Restrictions	...	430-431
200	Land and Agricultural Banks	...	431-433
201	Industrial Banks	...	433-434
202	Their Possibilities	...	434-436
203	The Bank Rate	...	436-438
204	The Hundi Rate	...	438-439
205	Reserve Treasury System	...	440-442
206	Government's Policy	...	442-444
207	Savings Banks	...	445-448
208	State Bank	...	448-450
209	The Amalgamation of Presidency Banks	...	450-451
210	Outline of the Scheme	...	452-454
211	The Bank Act of 1920	...	454-457
212	India's Banking Position	...	457-459
213	The Prospects	...	459-461

CHAPTER XIII.

The Co-operative Movement :—

214	Principle of Co-operation	...	462-464
215	Advantages of Co-operation	...	464-465
216	The Problem in India	...	465-467
217	Failure of Early Efforts	...	467-469
218	Beginning of Co-operation	...	469-471
216	Co-operative Societies Act	...	472-474
217	Progress Achieved	...	474-478
218	Prospects	...	478-479
219	Some Noteworthy Points	...	479-481
220	A Dilemma	...	481-482
221	Land Banks Controversy	...	482-485
222	Maclagan Committee's Report	...	485-492
223	Co-operative Problems	...	492-493
224	Their Solution	...	493-495
225	Co-operative Finance	...	495-491
226	Other Questions	...	497-499

CHAPTER XIV.

Profit and Interest :—

227 National Dividend	... 500-501
228 Wealth Distribution	... 502-509
229 Profit	... 503-505
230 Agricultural Profits	... 505-507
231 Industrial Profits	... 507-508
232 Dividends	... 508-510
233 Interest	... 510-511
234 Rate of Interest	... 511-513
235 Hindu Law	... 513-514
236 Usury	... 514-515
237 Usurious Loans Act	... 515-517
238 The Position and Prospects	... 517-518

CHAPTER XV.

Rent, Landlord and Tenant :—

239 Rent from Land	... 519-521
240 Hiring out Land	... 521-522
241 State Land-lordism	... 522-524
242 Alleged Hindu Theory	... 524-526
243 Right of Proprietorship	... 526-527
244 Different Tenures	... 527-529
245 Effects of the System	... 529-532
246 Reform Needed	... 532-534
247 Protection of Tenants	... 534-535
248 Tenancy Acts	... 536-538
249 Bombay Tenures	... 538-540
250 Redemption of Rent	... 540-541
251 Income from Land	... 542-543

CHAPTER XVI.

Workmen and Wages :—

252 Remuneration of Labour	... 544-545
253 Position in India	... 545-547
254 Chief Features of the Problem	... 547-549
255 Labour Contract	... 549-550
256 Indenture System	... 550-553

257 Rise in Wages	...	553-556
258 War and Wages	...	556-557
259 Causes of the Rise	...	557-558
260 Factory Life	...	558-559
261 Factory Acts	...	559-561
262 Labour Organization	...	561-563
263 Employers' Duty	...	563-565
264 Housing and Sanitation	...	565-567
265 Other Needs	...	567-568
266 Welfare Work	...	568-569
267 Government Action	...	569-571
268 India and International Labour	...	571-573
269 The Factory Act of 1922	...	573-575
270 Trade Unions and Legislation	...	575-577
271 Position and Prospects	...	577-579

CHAPTER XVII.

Taxation—

272 What is a Tax ?	...	580-582
273 Indigenous Tax-System		582-583
274 Present System of Taxation	...	583-587
275 Financial Statistics	...	587-590
276 Burden of Taxation	...	590-592
277 The Land Tax	...	592-594
278 Permanent Settlement	...	594-596
279 Non-tax Revenue	...	596-598
280 Railways	...	598-599
281 Railway Policy	...	600-602
282 Railway Budget	...	602-604
283 Irrigation Works	...	604-605
284 Customs	...	606-609
285 Recent Increase	...	609-610
286 Excise and Salt	...	610-612
287 Income Tax	...	613-617
288 Directions of Reform	...	617-618
289 Financial Decentralization	...	619-620
290 Local Finance	...	620-621
291 Land and Local Finance	...	621-623
292 Public Debt	...	623-626

293 War Loans	...	626-628
294 Reduction of Debt	...	628-631
295 Provincial Finance	...	631-633
296 The Meston Committee	...	633-634
297 Provincial Contributions	...	634-635
298 Financial Adjustment	...	635-638
299 Taxes on Income	...	638-640

CHAPTER XVIII.

Prices and Consumption :—

300 Price Levels	...	641-642
301 Quantity Theory of Money	...	642-644
302 Course of Prices	...	644-646
303 High Prices in India	...	647-648
304 Currency and Prices	...	648-649
305 Inflation of Currency	...	649-651
306 Effect of High Prices	...	651-653
307 Speculation and Prices	...	653-655
308 Standard of Living	...	655-656
309 Consumption and Prosperity	...	657-660
310 The Masses and Consumption	...	660-661
311 Villager's Life	...	662-663
312 Variety in Consumption	...	663-665
313 Saving and Investment	...	665-666
314 Charity	...	666-668
315 Simplicity and Luxury	...	668-670
316 Conclusion	...	670-672

Appendices—

I. Fiscal Commission's Report	...	673-686
II. Imperial Bank of India	...	687-689
III. Gold Standard Reserve	...	690
Index	...	I-VIII