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Imperial Preference for India.

The Ottawa Agreement examined

BY

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" Whatever the remoter objects, all tariffs other than tariffs solely for revenue have one common feature. The taxation imposed by them is discriminatory, falling on some articles and not on others, falling on articles produced in one place and not at all or more lightly on the same articles if produced elsewhere. It is intended on the one hand to discourage or prevent consumers from buying as they would like to buy, as they would buy if there were no tariff. It is intended, on the other hand, to encourage producers to produce as they would not produce if there were no tariff. It is both a restriction of the liberty of consumers and a changing of the environment for producers. This effect on production is the most distinctive feature of tariff taxation as compared with direct taxation. A tariff is nearly always intended to influence directly men's lives and livelihoods, to mould the economic structure in which each man must find his niche. That is the intention nearly always. It is always and inevitably the result. "

Tariffs : The case examined. by, a committee of Economists under the chairmanship of Sir William Beveridge (1931) Pp. 34-35.

PREFACE.

There is no need to emphasize the point that the Legislative Assembly will in its November session be faced with a problem of very great importance. The consequences of the adoption of an important tariff policy like that of Imperial Preference h s far-reaching implications the nature of which is made abundantly clear in the passage which we have quoted on the page opposite. It is not a policy which should be adopted light heartedly, without proper enquiry or under the influence of considerations of passing importance. If the Dominions adopt the Ottawa Agreements readily it is because they have clamoured for Imperial Preference for many decades past and as for the United Kingdom, it also is ruled to-day by a party whose faith in this policy is equally old. With India the case however, is entirely different. Lord Curzon's Government definitely repudiated Imperial Preference and even the majority report of the Indian Fiscal Commission does not countenance the adoption of a general preferential tariff such as is contemplated by the Ottawa Agreement. That the leaders of public opinion have been consistently opposed to Imperial Preference was made perfectly clear in the debates on the iron and steel and cotton manufactures duties in 1927 and 1930.

We are, therefore, now being asked to consent to a complete *volte face*; and the consent is to be extorted under pressure without giving any time for deliberation or enquiry. For such an extraordinary decision and such hurried procedure the main excuse that the Indian delegation has offered is the loss that stares us in the face on the 15th of November if we do not ratify the Ottawa agreement. In the body of this publication we have shown that the extent of the loss has been greatly exaggerated and that the large mass of our producers will be entirely unaffected if we do not ratify the agreement. The loss whatever its extent is likely to be chiefly borne by the tea industry and partially by the exports of tanned hides and skins. It is important to note that in the case of selective protection, such as is practised in India, the protective tariff gives, in effect, a subsidy to a particular trade or industry from the consumers of its products. The result of the Ottawa agreement will, however, be the grant of a subsidy to highly loca-

lised industries, especially to the tea industry, from the general body of consumers. It is practically a general taxation measure with a view to favour particular trades.

Apart from the balance of loss or gain the Ottawa agreement raises extremely important issues in other directions. It seeks to mould the direction of our foreign trade and thereby the direction of our economic activity over a large field and it is necessary that we should clearly understand in what direction the change takes us. This is a time of growing economic particularism and Ottawa, falsely advertised as a prelude to world cooperation, is another indication of the same tendency. The recent denouncing by the United Kingdom of the trade agreement with Russia is a clear indication of the direction in which Ottawa leads. The Empire is to be converted into a closed economic system and it needs no deep study of the growth of protectionism during the last century to convince one that once the policy is adopted the system will become more and more closed. The argument that we can denounce Imperial Preference with six months' notice any time is highly specious. But everybody knows full well that once the policy is in operation for some years the vested interests that it will breed will make it extremely difficult to bring about any change. The Empire is a highly artificial economic unit and the adoption of Imperial Preference necessarily involves a considerable deflection of trade from its present channels. The question, therefore, that confronts us is not confined to the balance of loss or gain but extends to a consideration of the desirability of such a re-moulding of economic activities. And with regard to this the testimony of all those who have considered it has been adverse and even the Indian delegation to Ottawa admits that the adoption of a general preferential policy is not in the best interests of India. The best customers for our most important staples are all outside the Empire. There are only two policies or any combination of these, possible for India. We can aim at a more diversified and more self-sufficient economic life for our country or we can aim at specialisation under conditions of as free an international trade as is possible. No reasons, other than purely political ones, can be found to support the policy of an Empire division of labour ; and politically, the future of India is extremely uncertain.

Mere trade bargains are innocuous, nay, they may in a large majority of cases be actually beneficial. And there is no

reason why we should not enter into a trade bargain with any country because it happens to be a part of the British Empire. For example, if the Ottawa delegation had not gone beyond negotiating for a preferance for tea and linseed and free entry for a few products like tanned hides and skins, pig iron or shellac as against, say, the existing preferences on cotton piecegoods and iron and steel, the bargain could have been considered purely on its own merits. It would not have committed us specially towards either the United Kingdom or the British Empire and we could have had an entirely free hand in negotiating with the other countries. But the Ottawa agreement, with its long schedules commits us to a general preferential policy and to the principle of exploring Empire buying as far as possible and the supplementary agreement goes further and holds out the prospect of "rationalisation on Imperial lines"! The voluntary formation of international combines, cartels or trusts, we are all familiar with. But here a tariff agreement between two countries is being specially made so as to bring about such an understanding between the industries of the two countries. If there is to be rationalisation let it be on a world basis or the basis of a single country. Whatever is the special significance of a haphazard unit like the Empire in it ? Either the policy of Imperial Preference is meant to be lasting and in that case there are no advantages to India in joining this economic block and becoming even more dependant on and tied up to the United Kingdom than it is at present. Or the policy is conceived of as a temporary measure preparing the ground for world co-operation. Then in the latter case it is obviously necessary that we do not commit ourselves so deeply as to remould our economic activities on an Empire basis.

Even though we are a protectionist country, there has been some method in our protectionist policy hitherto. We have been deliberate about the grant of protection and the possibility of revision and a definite term to the duration of each measure has been usually provided for. We are now invited to do that in favour of the British industrialist which we have never done for either Indian industry or agriculture in general. We are invited to give the British manufacturer a general measure of protection in our markets without previous enquiry and without an assurance that it will ultimately profit the consumer or that it serves a definite national end. The Ottawa agreement, we have been told,

cannot be treated like the report of a Tariff Board; it must be either rejected or accepted as a whole. After giving detailed consideration to the balance of immediate loss and gain and to the grave implications of the acceptance of a policy of Imperial Preference we have no hesitation in affirming that the larger interests of our country demand the rejection of the agreement presented by the Ottawa delegation.

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