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**A STUDY OF INDIAN ECONOMICS**



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# A STUDY OF INDIAN ECONOMICS

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पितृदेवेर श्रीचरणे



## PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different sides to every question in the fairest possible manner. The author has deliberately refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes, M.A. of Cambridge, for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some

typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

#### PREFACE TO THE SECOND EDITION.

IN this edition the book has been thoroughly revised and considerably enlarged. A number of appendices has also been added.

LONDON, *May*, 1915.

#### PREFACE TO THE THIRD EDITION.

THE book has been revised and brought up to date. In the preparation of the third edition of the book the author has received invaluable assistance from Mr. Hirendralal Dey, M.A., Lecturer, Lucknow University, and Mr. Rohini Mohan Chaudhuri, M.A., Lecturer, Calcutta University. He desires to express his sincere thankfulness to these two gentlemen, without whose help it would have been exceedingly difficult for him to prepare this edition. He is also thankful to Mr. Prafulla Chandra Ghosh, M.A., Lecturer, Calcutta University, and Mr. Binay Kumar Chaudhuri, M.A., Professor, Bethune College, for suggestions, and to Mr. Sudhir Kumar Lahiri for reading the proofs.

CALCUTTA, *June*, 1927.

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# CHAPTER I

## INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles  
to the study  
of the  
subject:

The first and the most serious difficulty is to be found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of the science. Mr. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."<sup>1</sup>

Applica-  
bility of  
economic  
principles.

Economics, as it is taught in the west, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a very

<sup>1</sup>Bagehot, *Postulates of English Political Economy*, p. 7.



limited extent.<sup>1</sup> This being so, it would be wrong to import wholesale into India the economic conceptions of the west, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere in all essential

<sup>1</sup>Mr. M. G. Ranade, in his *Essays in Indian Economics*, summed up the position of India in regard to the ordinary economic assumptions in the following words: "With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain pre-determined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the sun to get cold, as reasons for our practical conduct within a reasonable distance of time." Mr. Ranade wrote nearly forty years ago, and since then the situation has undergone considerable change; but his description of the state of things remains true to some extent even at the present moment.

particulars, the same sets of causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions are tending to approach nearer and nearer the conditions of the west, the western economic theories are becoming more and more applicable to Indian affairs. Besides, economic facts of the modern world are so closely interrelated, that it is not possible to study the problems of one country in complete isolation from those of others. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian conditions with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the west is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional

Complexity  
of Indian  
economic  
phenomena.

complexity into the economic problems which present themselves for solution in India.

Want of  
reliable  
data.

Another obstacle with which the student is often faced is the absence of reliable data. There being no independent agencies for the collection and investigation of economic facts, the Blue-books and Papers published by the various departments of the Government form his only source of information. But he cannot always depend upon such information, for the agency by which the statistics are collected is hardly trustworthy, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the understanding and use of these statistics; and unless this is done, the student runs the risk of being led away into wrong generalisations and conclusions.

Personal  
sentiment.

Personal sentiment is another great obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena, and personal likes and dislikes must be wholly set aside. Unfortunately, the position in India is such that those who take part in economic discussions are often led by passion and prejudice to identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth.

These are some of the reasons which account for the neglect of the study of economics in India. The result is that although many capable men have dealt with the details of Indian economic facts,

very few have attempted to grasp the principles or to explain the facts by the aid of theories. For a long time the study of such an important subject was neglected. Mr. Justice M. G. Ranade was the first Indian to pursue the study of Indian Economics in a scientific spirit. He brought his keen intellect, wide knowledge, and deep insight to bear on the study of the subject, and a portion of the results of his inquiry was given to the public in the shape of his speeches and essays. But they were merely an earnest of what people expected from him. Unfortunately, his premature death deprived the country of the services of one of her best and ablest sons.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement of economic science will be followed, with such modifications as the differences in the social and economic organisation suggest, and the theories of General Economics will be examined in the light of Indian facts. No one, the author hopes, will expect a full and exhaustive treatment of the various questions of Indian Economics within the limits of a small volume like this. His object is merely to equip the reader with such knowledge of the economic facts and problems of India as will help him in pursuing a fuller and more detailed study of the different branches of the subject later.

## CHAPTER II

### THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with an investigation of the physical factor. This subject may be considered, for our purpose, under the five heads of the geographical situation, the geological structure, the climate, the flora and fauna, and the facilities of communication.

#### 1. GEOGRAPHICAL SITUATION

*Extent* India extends south and north from latitude  $8^{\circ}$  to latitude  $38^{\circ}$ , and the extreme points on the west and the east are situated respectively at longitude  $61^{\circ}$  and longitude  $101^{\circ}$ . It comprises an area of 1,802,657 square miles. The provinces under British administration comprise 1,093,074 square miles, or 60.6 per cent. of the total. The remainder is included in the Indian States. The Indian

## NATURAL ENVIRONMENT 7

Empire is equal to the whole of Europe, except Russia.<sup>1</sup>

The range of the Himalayas, with its snow-clad peaks penetrating far into the sky, forms the northern boundary of this vast country. On the north-west and the north-east also, it is bounded by lofty mountains which prevent ingress or egress except through a few narrow passes and defiles. On every other side the boundary is the sea. Boundaries

Thus situated, India forms a unit by itself, separated as it is by nature from the rest of the world. And within its own borders the country presents so many marked differences in physical features that it is often described as a continent rather than a country. Natural divisions :

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a length of more than 1250 feet, are the most striking feature in the geography of India. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of the people. Northern India,

<sup>1</sup> Burma is in area somewhat smaller than Germany and slightly larger than France; Bombay is comparable in point of area with Spain; Madras, the Punjab, Baluchistan, the Central Provinces and Berar, and Rajputana, are each larger than the British Islands; the United Provinces and Behar and Orissa than Italy; and Hyderabad and Kashmir than Great Britain, excluding Yorkshire. (Vide *Census of India*, 1911 and 1921.)

Below this great range lies the sub-montane region with its dense forests and an inhospitable climate. Next comes the great plain of Northern India, from about 150 to 300 miles in width, and watered by three great systems of Himalayan rivers,—the Indus, the Ganges, and the Brahmaputra. Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and water-logged, these features reaching their extreme points in Sind and the Great Desert on the west, and in Assam and East Bengal on the east.<sup>1</sup> To the southward lies the peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1500 feet, and is cut into a few deep valleys through which seven great rivers carry their waters to the Arabian Sea and the Bay of Bengal.

Peninsular  
India.

## 2. GEOLOGICAL STRUCTURE

Geology of  
India

In ancient ages,

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented

<sup>1</sup>It is curious to note how physical conditions change along with other circumstances. At the time of Alexander's invasion a good part of the now arid desert consisted of populous towns and prosperous villages. So also, the jungle now known as the Sunderbuns, and inhabited by tigers and other wild beasts, was, a few centuries ago, the seat of a flourishing kingdom.

by the southern peninsula and was connected with Africa by land; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads: (a) Achæan, (b) Vindhyan, (c) Gondwana, (d) Basaltic, (e) Tertiary and Cretaceous, and (f) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general description of the various kinds of soils and minerals which owe their existence to them.

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of Sind, Gujrat, Rajputana, the Punjab, the United Provinces, Bengal, extensive tracts in Assam and Burma, the Godavari, the Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.<sup>1</sup>

Alluvial soils differ in different parts of the country in respect of their physical as well as their

<sup>1</sup> Vide *Imperial Gazetteer of India*, vol. iii. p. 8.



chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour. The chief advantages of porous and light soils are that they are easily worked by the plough and easily permeated by water. They lead to great fertility of the land in places where the atmosphere is moist. But their great defect is that they allow the water to sink into the lower strata, and are unsuitable for the growth of those kinds of plants which require the retention of a great deal of moisture about their roots; and thus they cause infertility of the land in those parts in which showers are not frequent. The alluvial soils are, on the whole, rich in chemical properties. Phosphoric acid, potash, lime, and magnesia are found in sufficient amounts, but nitrates are often in defect. In some places, however, barrenness results from an excessive accumulation of magnesia and soda salts on the surface. A large variety of *rabi* and *kharif* crops is grown on alluvial soils.

**Trap soils.** Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad, and Kathiawar. On the uplands and the slopes of hills, the soils are porous and light, and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker and darker-coloured and more fertile. They are

suited to the growth of cotton, wheat, millets, and pulses.

In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. It is of a dark colour and is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *khariif* crops are also grown in many cases. Cotton, wheat, linseed, and millets are the chief crops. Soils akin to the black cotton soil of the Deccan are found in the river-valleys of a few other districts in Bombay, and also in parts of Madras.

Black cotton soils.

So much about the special varieties of soils. The rest of India may be described as the “crystalline soils tract.” But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them all in one class. They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the most important being rice. The reddish-coloured laterite soils of certain districts in Bombay are rather infertile, being highly porous and dry. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

Crystalline soils.

In the midst of these varying features one characteristic is found to be common to almost all soils, viz., their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.<sup>1</sup>

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

Mineral  
resources ·

The mineral wealth of India has not yet been fully ascertained ; but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources. Mr. V. Ball, in his introduction to the *Economic Geology of India*, quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals," and regards it as absolutely true. He goes on to say, "Were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there cannot be the least doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world

<sup>1</sup> In this respect, Indian conditions differ widely from those of England, where, on account of the presence of an excessive amount of moisture in the land, drainage is the most essential thing in cultivation.

is concerned, of a highly civilised community."<sup>1</sup> The mineral resources are widely distributed over almost the whole of her area, and it will perhaps be useful if we briefly describe the chief kinds.

Coal is the most important of the mineral Coal. products of India. Its quantity is large and the quality is good. It is found chiefly in Bengal, Behar, Assam, and the Central Provinces, and in smaller quantities in Burma, Central India, the Punjab, Kashmir, and Baluchistan. Iron <sup>2</sup> ores of Iron. a superior quality are to be found in abundance in various parts of India. The chief iron areas are Barakar in Bengal, and Singhbhum in Behar; the northern and eastern districts of the Central Provinces; the eastern half of Central India; Mahabaleswar and Malwa in Bombay; and Mysore. It is also found in small quantities in the Punjab and the United Provinces, Kashmir and Rajputana. At present, however, it is nowhere worked to any considerable extent except near Barakar and Asansol in Bengal, and in the district of Singhbhum in Behar. The important discovery of rich iron ores in the Mayurbhunj State makes it probable that future developments in iron and steel industry in India will be concentrated in or near Chota Nagpur.

Petroleum is found chiefly in Assam and Burma, Petroleum.

<sup>1</sup> V. Ball, *Economic Geology*, p. xv.

<sup>2</sup> The importance of iron and coal in the economy of a country is immense. The dominant industrial position of England is due, in a large measure, to her possession of an abundance of these minerals. Coal is important not only as ordinary fuel, but as the indispensable requisite in all productive industries.

and an inferior quality in certain districts of the N.W. Frontier Province, the Punjab and Baluchistan. The petroleum resources of India are confined to the two systems of folded rocks on the eastern and western Himalayas: Rock-salt is obtained in large quantities in the famous Salt Range and in the Kohat district of the Punjab. Tin is found only in Lower Burma and in the Hazaribagh district of Behar ; but the total quantity of output is not large.

Materials for industries. Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Behar, which is the chief source of the compound in India, are ideal, but the production is now diminishing. India is very deficient in her supply of phosphates. The only deposit worth noticing is in the Trichinopoly district of Madras. The export of phosphates in the form of bones is a circumstance to be greatly deplored. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir and Tibet. Soda salts are obtained from the soil in various parts of the country.

Gold. India was, in ancient times, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is gold, which is found in large quantities in the Kolar field in Mysore. Some amount is also found in the mines of Hyderabad and several other places. Of recent years, gold has been found in two parts of the Dhalbum district in Chota Nagpur. Besides, in all the Provinces of India small quantities

of gold are obtained from river gravels by the indigenous process of washing.

Both copper and lead are widely distributed over the whole of India. Copper is found chiefly in Behar, and also in several places in the Central Provinces, Rajputana, Southern India, and the Northern Shan States, and at various places along the Himalayas. Lead occurs in Bengal, Central Provinces, Rajputana, the Karnul district in Madras, the Northern Shan States, and certain districts in Bombay. In some places, silver and zinc have been found associated with lead.

Copper.

Lead.

Silver and zinc.

Of recent years, aluminium has been discovered to occur in abundance in Burma and the whole of Peninsular India, and it is believed that this industry has a great future before it.

Aluminium.

Manganese occurs in such abundance in the Central Provinces that India now alternates with Russia as the first manganese-producing country in the world. Other important deposits occur in Madras, Central India, and Mysore.

Manganese.

Mica is one of the most important mineral products. India turns out more than half of the total mica supply of the world. The main source of production is in the Hazaribagh and Gaya districts of Behar. It also occurs in the Nellore district of Madras.

Mica.

Cobalt is found in Rajputana, and nickel is obtained from the gold-fields of Kolar.

Cobalt.  
Nickel.

Various kinds of precious stones are to be found in different parts of India,<sup>1</sup> important among them

Precious stones.

<sup>1</sup> Kautilya in his *Arthashastra* and the author of the *Periplus* mention a large variety of gems and pearls.

Diamond.  
Ruby.  
Sapphire.

being diamond, ruby, and sapphire. Diamonds occur chiefly in Madras, the Central Provinces, and near Panna in Central India. Ruby-mining is a very profitable and flourishing industry in Upper Burma. The chief seat of sapphire is Kashmir, but the mines are said to be exhausted.

Miscellaneous  
minerals.

Besides these, there are various kinds of miscellaneous minerals. Common stone and marble also are important, they being the chief material used for building and ornamental purposes.

Mineral  
springs.

Numerous hot and mineral springs are found in different parts of India, but their neglect is a curious feature in the situation. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of the Bombay Presidency, and other springs along the foot-hills of the Himalayas.

### 3. CLIMATE

Sharp  
contrasts  
in climate.

The climate of any place is determined by various factors, the chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon,

the country may be divided, for meteorological purposes, into two parts: Peninsular India and Northern India.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

The Peninsula,—  
variations slight.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and during different seasons. In the Punjab and the North-western Frontier Province we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In Bengal and Assam, the winter is mild and the summer is moderately hot. Again, Sind, the Punjab, and Rajputana are exceedingly dry, while the atmosphere of Assam and of East Bengal is always saturated with moisture.

Northern India,—

severe heat and extreme cold.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent



disturbed by the periodical or monsoon winds, of which we shall speak presently.

**The seasons:** The Indian year is divided into six seasons ; but, for economic purposes, it may be divided into two—

**Winter,** Winter and Summer,—the latter being subdivided  
**dry summer** into dry summer (April, May, and June) and wet  
**and rainy** summer (July, August, and September). The seasons  
**summer.** are of the greatest importance in the economy of Indian life, as they are accompanied by an alternation of the meteorological conditions which produces the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

**The** The whole of India lies within the belt of the  
**monsoons.** northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator, and, consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the

cooler air from near the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the Equator, the wind blows as a south-east trade-wind. As this wind reaches the Equator, it finds the barometric pressure higher there than in Northern India. It then swirls round and blows as a south-west wind, accelerating the air-movement which has already begun from the Equator towards India. This is the south-west monsoon. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The south-west monsoon usually establishes itself in Bombay and Bengal about the middle of June, and before the end of the month it extends over practically the whole of Northern India.

South-west monsoon.

The south-west monsoon reaches India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, the Punjab, and a part of the Central Provinces, and the latter to the rest of India and to Burma. India gets nearly 90 per cent. of her annual rainfall from the south-west monsoon. This monsoon usually continues till September.

Two currents: Arabian Sea current, Bay of Bengal current.

In October and November, the temperature over the land in India becomes lower than that over the sea near the Equator; consequently, the barometric pressure is higher, and winds now begin to blow towards the Equator. This is often alluded to as the north-east monsoon, but it is, in reality, the

North-east monsoon.

normal north-east trade-wind. Being of land origin, it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the south-west monsoon, which is wet. The little moisture which it contains is really the residue left by the south-west monsoon, which has been prevented by the Himalayas from passing out of India. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is small. Some amount of rain also falls in the Punjab during the winter months, which is probably due to local storms.<sup>1</sup>

Amount of rain  
determined  
by—

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the south-west monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other

Situation,

<sup>1</sup> The Northern Punjab is outside the belt of regular winds, and, consequently, we should expect more local storms here than in other parts of India.

hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The east coast of Madras does not receive much rain from the south-west monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Thus, the normal rainfall in the Cherapunji hills is 160°, while it is as low as 6·7° in Sind and 9·6° in south-west Punjab.<sup>1</sup>

Height,

Moisture

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has been described by a recent Finance Minister as a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons;

Importance of rainfall.

<sup>1</sup> A tabular statement of the normal rainfall in different parts of India will be found in Appendix D.

and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Influence of climate on physique and character.

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A hot and moist climate tends to cause much fatigue after moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the longevity of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

#### 4. FLORA AND FAUNA

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are : rice, coffee, millet, sugar-cane, cinchona, jute, spices, india-

Vegetable life.

Tropical, sub-tropical, and temperate-zone products.

rubber and gutta-percha; pineapple, bananas, and other kinds of tropical fruits. The chief sub-tropical products grown are: cotton, tobacco, opium, and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber, and indigo.

Animals are of great use for purposes of cultivation as well as of draught. At one time India possessed a fairly adequate supply of good and serviceable cattle. But of late there has been a great deterioration in the quality, and diminution in the quantity, of live stock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases of various sorts; and the question of breeding does not receive the attention from the people which it should.<sup>1</sup> This paucity of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a good size and strength. For this reason, horses are rare in Lower Bengal, the

Animal life.

<sup>1</sup> "Cattle disease," says the Agricultural Adviser to the Government of India, "is so serious an affliction that it ranks in many parts of India as a scourge, and is a direct obstacle to the amelioration of the condition of the cultivator" (*Report on the Progress of Agriculture in India, 1911-12, p 4*).

Carnatic and Coromandel coasts, and Lower Burma. In the drier parts, on the other hand, such as Baluchistan, the Punjab, Rajputana and Kathiawar, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every province. The donkey is a very useful beast of burden, especially in Northern India. The camel is plentiful in the sandier parts of the country, and is a very useful animal for carriage. The region in which good cattle is reared includes the Punjab, Kashmir, Rajputana, and Kathiawar, where rainfall is not excessive.

Animal products

Products obtained from animals, besides milk, are hides and skins, bones, wool, wax, and ivory, all of which are articles of utility and in demand.

Aquatic products.

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint.

##### 5. FACILITIES OF COMMUNICATION

Communication easy in Northern India,

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tribu-

tarries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. The Indus and its tributaries are navigable by small boats, and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. The rivers also are not quite so useful as waterways, all of them being too impetuous in times of flood and too scantily supplied with water at other times.

but difficult  
in the  
peninsula.

The long sea-board of India offers facilities of communication between the coast districts of the country. The number of natural harbours, however, is few, and during the monsoons the Indian Ocean becomes exceedingly rough. But in spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world.

The sea,  
the great  
highway.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of her people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature; but it would be a mistake to suppose that this dependence is absolute. Man

Natural  
advantages  
many, dis-  
advantages  
few.

Dependence  
on nature  
not absolute.



Natural  
obstacles  
surmount  
able.

can, in some measure, modify his environment. And the people of India can, by their intelligence and knowledge, control the forces of nature to a considerable extent. Let us try to understand this point clearly.

The productiveness of the land depends on the fertility of the soil. But natural fertility is increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest; while the worst land can be converted into the most fertile by the application of proper manures and the adoption of a well-regulated method of agriculture. In mining, the extension of knowledge may lead to the discovery of new minerals or the artificial manufacture of useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable; but even here modifications may be secured in various ways. Afforestation may lead to an increase of rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes, and the re-excavation of silted rivers may also affect for the better the climate of the country, the health of the people, and the moisture conditions of the land. The effects of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined partly by the physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new sorts may be made to grow. So also, the breed of cattle may be improved and certain new kinds may be introduced.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Railways have penetrated into places which would otherwise have remained inaccessible. The formidable ocean now affords the easiest and cheapest means of transport, while recent developments in air services bid fair to abolish distance altogether.

# CHAPTER III

## THE SOCIAL STRUCTURE

### THE PEOPLE

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human element.

**Population.** The total population of India is about 318 94 millions, of which British territory contains 247 millions or 77 per cent., and the Indian States 71-93 millions or 23 per cent.<sup>1</sup>

**Density.** In the whole Empire there are on the average 177 persons to the square mile, or much the same as in Europe outside Russia. In British territory the number to the square mile is 226, and in the Indian

<sup>1</sup> India, with an area about half that of the United States, has a population almost three times as large. Burma, in area rather larger than France, has a population about one-third as numerous. The United Provinces, about the same size as Italy, has a rather larger population. Bombay, which resembles Spain in area, has a population equal to that of Spain and Portugal together; while Assam, the smallest of the major provinces, has an area rather larger than that of England and Wales, and a population which compares with that of Switzerland. (Vide *Census Report*, 1921.)

States 101.<sup>1</sup> But in India, distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rainfall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions. The greatest density is to be found in the province of Bengal, which has an average population of 578 to the square mile, and the next densest tract is the Gangetic plain of the United Provinces, with 414 to the square mile. The density is the lowest in Upper Burma, the North-western Frontier Province, and Baluchistan. Between these extremes there is almost every shade of variety.<sup>2</sup>

The people for the most part live in villages. Only 10.2 per cent. of the population is found in towns with over 5,000 persons each, compared with 79 per cent. in England and 44 per cent. in Germany. The proportion of the urban to the total population ranges

<sup>1</sup> Sir A. J. Baines pointed out (in an article in the *Journal of the Royal Statistical Society*, December, 1904), that, in the case of India, "the mean density figure is in itself peculiarly devoid of significance." The population per mile of the United Kingdom is 649; Germany, 332; France, 184; the United States, 32; Russia in Europe, 50; Belgium, 654; Holland, 544; Egypt (Delta), 1,061; Canada, 2.3; Australia, 1.83.

<sup>2</sup> In Assam the density is 130 to the square mile, in Baluchistan 6, Bengal 551, Behar and Orissa 340, Bombay 143, Burma 57, Central Provinces and Berar 33, Madras 297, North-West Frontier Province 64, Punjab 183, and the United Provinces 414.

Towns comparatively few.

from 22·9 per cent in Bombay to only 3·2 per cent in Assam.<sup>1</sup> There are only 30 towns with a population of over 100,000. The number of towns each containing a population varying from 5,000 to 100,000 is 1588.<sup>2</sup> But the number of villages is no less than 685,620. The reason for this is to be found in the fact that the people are, in the main, agricultural. The rural people are generally less progressive in their thoughts, ideas, and habits than the town people, but there is no antagonism between life in towns and that in villages. There was a time when the urban population was much larger, and the social importance of the towns greater. With the decay of the industries, the towns sank in importance, and there was a tendency for a larger and larger proportion of the people to become rural.<sup>3</sup> Of recent years, however, there has

<sup>1</sup> The percentages of the urban population to the total are as follows: Assam, 3·2; Bengal, 6·7; Bombay, 22·9; Burma, 9·8; the Central Provinces and Berar, 9; Madras, 12·4; North-West Frontier Province, 6·6; the Punjab, 11·3; the United Provinces, 10·6; Baroda and Bombay States, 17·3; Cochin, 12·9; Hyderabad, 9·5; Rajputana, 14·3; Kashmir, 8·8; Travancore, 10·1; Mysore, 14·4.

<sup>2</sup> In the last decade, while the towns with populations above 50,000 have increased by over 16 per cent, the increase has been considerably less in those between 5,000 and 50,000. The population of towns between 10,000 and 20,000 has not even kept pace with the progress of the general population of the country. The significance of these comparisons lies in the strong indication which they give of the gradual decadence of the medium-sized country towns and the growth of larger cities and towns under the influence of industrial and commercial development. (*Vide Census Report, 1921.*)

<sup>3</sup> It is now many years since the late Mr. Justice M. G. Ranade mournfully complained in his *Essays and Speeches* of this progressive ruralisation of the people.

become discernible a tendency working in the opposite direction ; and towns are once again beginning to take their proper place as centres of thought, culture, and industry in the life of the nation.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of the female sex in India can hardly be regarded as producers of wealth at all. The social customs prevent females, of the higher and middle classes in particular, from participating in the production of wealth, at least in a direct way. Taking the country as a whole, there is a slight excess of males over females.

Division into sexes

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limits for active work in India may be put at the ages of 15 and 50.<sup>1</sup> The number of persons between these limits is 495 per 1000, or nearly 50 per cent. of the population. If we deduct from this the infirm and sick persons, as well as a large proportion of females who, owing to the *purda* system and other social customs, do not contribute to

Distribution by age

<sup>1</sup> The theory of Sundbarg, the Swedish statistician, that the age group "15-50" contains about half the total population, holds good in India, but the local variations are somewhat greater than in Europe, and the proportions are apt to be disturbed by famine. But his other theory, namely, that the numbers in the two age groups "0-15" and "50 and over" approach equality is not true in India, because, owing to the shorter lives of the people, the rate of mortality amongst persons aged 50 and over is considerably greater than that amongst those under 15. (Vide *Census of India*, 1911.)

the economic life of the people in a direct way, we get the total number of able-bodied persons who are fit to participate in the production of wealth, or, in other words, who form the labour-force of the country.

Health.

The most important factor to be considered when dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of the people in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation. Finally, the influence of heredity helps to perpetuate the evil effects, so that the physical deterioration of the people goes on increasing from generation to generation.

Distribution  
by occupation

The economic condition of the people depends largely on how they earn their living; hence the great importance of the question of distribution by occupation. The most noteworthy fact in this connection is that over 72 per cent. of the population is supported by agriculture. Industries maintain 10.49 per cent., and trade and transport, 5.7 and 1.37 respectively. The rest of the people depend for their livelihood on the following occupations: professions and liberal arts, 1.59; domestic service, 1.44; public administration, .84; public force, .69; extraction of minerals, .17; insufficiently described occupations,

3·51 ; unproductive occupations, 1·04 ; persons living chiefly on their income, ·15.

So much about what may be called the status of the population. But the dynamics of the population are also very important. Changes are affected by three factors : birth, death, and migration. We shall briefly notice each of them.

Dynamics of population.

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Roughly speaking, we may say that religion and social customs favour the marriage almost of every person before the age of puberty is reached. Consequently, the hypothesis that marriages increase with prosperity and decrease with adversity does not hold good in India. As a matter of fact, improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates

Marriage.

is much lower in India than in Europe and America. On the other hand, custom forbids the marriage of widows among the Hindus ; and, moreover, as there is a great disparity in the ages of the husband and the wife, we find a higher proportion of widows here than in European and American countries. The proportion of widowers also is a little higher. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes, and also among the Mahomedans than among the Hindus. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average crude birth-rate in India during the last ten years ranged from 30·7 (in Madras) to 45·5 (in the Central Provinces) per thou-

Birth-rate.



sand of the population.<sup>1</sup> No reliable figures can be obtained of the refined birth-rate, that is to say, of the births compared with the number of women of child-bearing age. But it may be said in a general way that women begin to bear children at an early age and also cease very early.

Death-rate

The increase or decrease of population depends not only upon the birth-rate, but upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rate in other civilised countries. About one-fifth of the children born die within the first twelve months. During the years 1911-1921 the average death-rate varied from 25.6 (in Madras) to 44.2 (in the Central Provinces and Berar) per thousand. In the modern civilised communities, the normal death-rate varies from 13 to 21 per thousand.<sup>2</sup> The high rate of mortality in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage.<sup>3</sup> In bad seasons the population usually decreases ;

<sup>1</sup> Vide *Census Report*, 1921.

<sup>2</sup> In England and Wales, the birth-rate in 1920 was 25.5 per thousand and the death-rate 12.4.

<sup>3</sup> The Famine Commissioners of 1898 said in their Report : " Epidemics may sweep them off by tens of thousands without attracting attention, because these agencies are incessantly at work. Famine, which intensifies their activity, is more conspicuous from its less regular occurrence, but it is really only one, and perhaps not the most deadly, of numerous influences by which at present human life is cut short, and which can be effectually counteracted by the general advance of society in wealth, knowledge, and material resources " (p. 29).

while in good seasons there is an increase of population, this being due not so much to increased birth-rate as to the diminution in mortality. The mortality in towns is a little higher than in the country, probably because of the greater congestion in the former.

According to actuarial calculations, the estimated expectations for male, and also for female lives, for all India are materially below those deduced from English lives at all ages. The Indian expectation at birth is 22.59 years for males, and 23.31 for females, while the English is 46.04 for males and 50.02 for females, the differences being quite marked throughout life. The estimated expectations lie below those of 1891 and 1901 at all ages, which shows that the duration of life of the people is becoming progressively shorter.<sup>1</sup> This is a serious state of things, and it demands the immediate attention of the state as well as of the educated community.

Actuarial  
calculations of  
duration of  
life.

Migration is another factor which affects the size of the population. Migration is of two kinds : internal and external. Internal migration, again, may be casual, temporary, periodic, semi-permanent, or permanent. Casual or temporary movement of the people from one province or district to another goes on continually. For instance, the factory hands in the Calcutta mills are all drawn from up-country. Periodic movements are due to the seasonal demand

Migration-  
internal,

<sup>1</sup> In 1891 and 1901, the estimated values were 24.59 and 23.63 respectively, as compared with 22.59 in 1911. The estimated values for male lives in England rose from 44.07 in 1901 to 46.04 in 1911. These figures have been taken from the Actuarial Report of Mr. T. G. Ackland, included in the *Census of India*, 1911.

for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration, or colonisation, takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of the labour conditions in other parts, all tend to keep them tied to their native villages. One important instance of a permanent movement, during recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab.

external,

emigration,

immigration,

External migration may take the form either of emigration or of immigration. The former serves as an outlet for the surplus population of the country ; but the actual total number of emigrants from India is so small that, for practical purposes, it is not of much importance.<sup>1</sup> The number of permanent immigrants into the country is exceedingly small. The question of emigration as a measure for relieving the pressure of population deserves careful consideration.

The caste system and social customs used in days of old to prevent absolutely the movement of labour

<sup>1</sup> At the time of the last Census, the total number of emigrants from India to other parts of the British Empire was 1,662,000. The present tendency of emigration is to fall in number. In 1900-1 the total number of emigrants who left India was 26,508 ; in 1910-11 it was 15,439. In 1920-21 the number fell to 1,200. These emigrants used to go to the British colonies (Mauritius, Natal, British Guiana, British West Indies, Fiji, etc.), and to Dutch Guiana as unskilled labourers (vide *Statistical Abstract for British India*). The conditions of existence in the Colonies for Indian emigrants are very far from satisfactory. After the passing of the Emigration Act of 1922, emigration has been permitted only to Ceylon, the Straits Settlements, and on a small scale to Mauritius.

from occupation to occupation. The influence of caste and of customs is, however, growing less every day, and restrictions are gradually passing away ; but even now the movement is very far from being free

from  
occupation  
to  
occupation.

In the course of the decade 1911 to 1921 the population of India increased from 315 millions to 318·9 millions. The rate of increase was a little over 1·2 per thousand per year. Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who assert that the pressure of population on the means of subsistence is one of the chief causes of the extreme poverty of the people, and who predict that this pressure, if allowed to grow unchecked, will in the near future produce great misery in the country. As a matter of fact, although the population is growing, it is not increasing as rapidly as in some of the other civilised countries.<sup>1</sup> Moreover, as Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food, but between population and wealth. When population increases, but the produc-

Increase of  
population.

<sup>1</sup>The increase is to be accounted for partly by an increase of area and partly by the adoption of a more careful system of enumeration, besides the actual growth of population. The rate of increase in England and Wales was 12·17 per cent during 1891-1901, 10·91 per cent. during 1901-11. During the ten years 1911-1921 the population of England increased by 4·8 per cent. In India, the rate of increase during 1891-1901 was only 2·4 per cent., and during 1901-1921, 7·1 per cent.

tion of wealth remains stationary or increases in a lower ratio than the growth of population, the only possible consequence is the greater misery of the people. And this has been to some extent the state of things in India in the past. If, on the other hand, wealth and productive efficiency are increased simultaneously with the increase of population, the country will be able to support a much larger population than it does at present. This view of the future is held by, among others, Mr. E. A. Gait, one of the editors of the *Imperial Gazetteer of India*,<sup>1</sup> who says: "Apart from the non-agricultural forms of employment which are rapidly growing in importance, it seems certain that, even in the most crowded tracts, more scientific farming would greatly increase the present produce of the soil. There are, besides, many parts, *e.g.* Burma, where, even under present conditions, ample scope remains for expansion; and many others, such as Western Rajputana, where, with the aid of irrigation, crops might be grown on what is now a sandy desert."

<sup>1</sup> Vide *The Imperial Gazetteer of India*, 1906.

## CHAPTER IV

### THE SOCIAL STRUCTURE—(Continued)

#### SPECIAL FEATURES OF INDIAN SOCIETY

##### 1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

We find it vaguely alluded to in a few passages <sup>Origin,</sup> of the Vedas, and recognised in Manu's code, in the great Epics, and in the Puranas. In the *Bhagavat Gita*, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." This seems to be the correct view of the origin of the system.<sup>1</sup>

<sup>1</sup> M. Senart was perhaps right in saying, "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile aborigines, the Aryans found it necessary to set apart the hardiest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste.

Essential  
feature.

The essential feature of the system is that "birth determines irrevocably the whole course of a man's social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."<sup>1</sup>

Caste tenden-  
cies among  
Mahomedans.

Mahomedanism, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to the Mahomedans, among whom caste tendencies are

Then, as engagement in warfare was found incompatible with the performance of religious ceremonies and the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry, and trade was realised more and more with the growth of civilisation, a third class began to devote their energies exclusively to those occupations; and lastly, the less cultured among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principles underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

A caste is defined in the *Imperial Gazetteer of India* as "a collection of families or groups of families, bearing a common name which usually denotes, or is associated with, a specific occupation; claiming common descent from a mythical ancestor, human or divine; preferring to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community." How far this definition is correct it is not our business to discuss here.

<sup>1</sup> *The Imperial Gazetteer of India.*

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visible. In some places, the social distinctions have become quite marked and well-defined.

The caste-system has undoubtedly many bad features, but it has some good points also which are not often appreciated by careless observers. Whether good or bad, changed conditions have led to a modification of the system. Occupation is not now necessarily the indication of a man's caste. Members of different castes are now-a-days to be found in almost every occupation. Caste rules have now become less rigid than before, and the modern tendency is to eliminate from the system such features as have been found unsuited to the economic organisation of modern society.

Caste-system  
modified.

The chief economic significance of the system is that it fixes absolutely the supply of any kind of labour. The scope given for the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When there takes place any change in the economic world, labour is unable to adjust itself to the altered circumstances and suffers in consequence, sometimes very heavily. Wages and prices have very often to be regulated by custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute subdivision of labour is essential, and which requires the supply of any kind of labour to immediately respond to the demand for it. Under the caste-system the people lose their adaptability to changed circumstances. The system, moreover, has its influence on the

Economic  
significance.

Limitation of  
competition.

Unsuited to  
large-scale  
production.



Capacities not  
put to the best  
use.

character of the individual. Where birth determines the whole course of man's occupation in life, there is little chance of his capacities being always put to the best use, and each profession may have to tolerate many persons who are incompetent or useless in that particular profession but who may perhaps do better in some other. Denying, as it does, equal opportunities to all, it often becomes the source of grave injustice to large classes of the community.

Inherited skill.

The result is a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another great merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. Everyone finds a place in the economic organisation—no one is absolutely helpless.

Caste the pro-  
tector of the  
weak.

Balance of  
merits and  
defects.

Whether or no the merits of the system are greater than its defects is not a question for the economist alone to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages. Some would regard the caste-system as the chief cause of the economic stagnation of the country and the political enslavement of her people.<sup>1</sup>

<sup>1</sup> Mr. C. B. Phipson, in his excellent book, *The Science of Civilisation*, says: "No system could be more opposed to economic freedom than this [the caste system], or any devised more restrictive of economic development. . . . Caste presents

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An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes.

The caste-guild.

Its functions

Its chief objects were to regulate competition among its own members, and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards, and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

Its objects.

The caste-guilds of India were, in many respects, similar to the guilds of mediaeval Europe; but there were many points of difference. These latter were not endogamous, and there was no bar to the admission into the circle of outsiders who had learnt the business. The common occupation was a real tie and a source of strength, not a symbol of

Caste-guilds compared with mediaeval guilds of Europe.

a solid barrier to mental development generally, or, to that enquiry into, or mastery over, the powers of nature without which there can be no rising to the higher levels of civilisation. It leaves, therefore, every people subservient to it at the mercy of whatever more advanced nation is interested in subduing them. . . . [In India] a fairly high level of economic development had been reached before the institution of caste arrested further progress."

disunion in the different parts of society as in the case of the Hindu guilds. Lastly, the European guilds might—as they did—expand and develop, while the Indian system was rigid and stereotyped.

Their impor-  
tance.

There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India,<sup>1</sup> and even where they exist they do not exercise anything like their old influence. But there are trade- or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not half so strong, and they lack the unity of sentiment and efficiency of organisation which ensure the success of the trade-unions of modern Europe and America.

Modern trade-  
guilds.

Mahomedan  
guilds.

The Mahomedans of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. But the democratic organisation of Mahomedan society prevents these guilds from being stereotyped into castes. In some trades the guilds are well organised, and are strong enough to wield considerable influence over the members.

<sup>1</sup> The mention of guilds in Kautilya's *Arthashastra* proves that they existed long before the commencement of the Christian era. The highly-developed guild-system at Ahmedabad still exists.

2. THE JOINT-FAMILY.

In India, the unit of society is not the individual but the family. Among the Hindus, this family includes not only the husband, the wife, and the children, but many more members besides. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Family the unit of society.

Consumption in common.

The Hindu law of property is essentially different from the laws which regulate property in the west. In Europe and America ownership, as a rule, is single, independent, and unrestricted. In India corporate property is the rule, and absolute unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.<sup>1</sup>

Joint property.

Originally, every Hindu family, and all its property, was not only joint but indivisible.<sup>2</sup> Now it has ceased to be so; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or equality of all members.

There is a great deal of divergence in the doctrines of the various schools of Hindu law. The Mitakshara school, which governs the greater

Different schools of law: Mitakshara,

<sup>1</sup> Mayne, *Hindu Law*, p. 293.

<sup>2</sup> *Ibid.* p. 332.

Dayabhaga.

part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school, which governs Bengal proper. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager, and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it.

Merits of the joint-family system.

The Joint-Family system has existed in India for ages, but is now in a state of decay. It is regarded as a blessing by some thinkers and as a curse by others. Looked at from an economic standpoint, it appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. Children are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great advantage to them in their race of life. The aged, the weak, and the infirm are also taken care of, and are made useful members of society.

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But, on the other hand, it should be noted that when the means of subsistence are secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others. Self-reliance—the great virtue without which no economic progress is possible—is thus discouraged. Economic freedom, which is such an important matter in the production of wealth, is also curtailed. Moreover, the burden of a large family makes a man afraid to undertake risks and unwilling to launch on new ventures. He is thus in a manner prevented from making the best use of his capacities.<sup>1</sup>

Defects.

Sometimes, not only consumption but also production is found to be in common. Every member contributes by his labour to the production of the family wealth. In such cases, the members of the joint-family are like the members of a communistic or co-operative society, and the advantages of the joint system are secured without some of its usually attendant evils. The situation is reversed in instances in which only a few work and the rest depend on them for subsistence.

Sometimes, production is common.

As for the balance, the economic gain is in some cases greater, and in others less, than the loss.

<sup>1</sup> Justice Sir Sankaran Nair, comparing the English with the Indian law, says: "The one law is individualistic, and based on the inviolability of contract, with the result that success attended energy and labour. The other was rooted in communistic and family bondage, and was one of status-fostered indolence and stifled all energy" (Article headed "Indian Law and English Legislation" in the *Contemporary Review*, August, 1911).

Whatever may have been its merits in the past, the system is now steadily losing ground.

Mahomedan  
system.

The Mahomedans also generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union, in fact, is not so complete as among the Hindus, and, consequently, the system is far less rigid. The Mahomedan law gives the owner of the property for the time being absolute dominion over it, whether such property be self-acquired or ancestral. He can dispose of it in any way he likes, provided that operation is given to the transaction during his lifetime. It is only in respect of dispositions by will that the donor's power is limited by the rights of his heirs.

### 3. THE LAWS OF SUCCESSION

Succession :

among  
Hindus ;

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children, it passes to the next of kin.

among  
Mahomedans.

Under the Mahomedan law, the property is divided, on the demise of its owner, among a larger

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number of heirs, many of the near relations obtaining shares even when there is male issue.

The law of primogeniture does not exist in India except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. It minimises the distance between the high and the low, and fosters a large middle class. Such a system is admirably suited in one respect to the industrial progress of a country, for it gives to a considerable part of the people something to start business with; and this amount not being large enough to live upon, most people are driven to work in order to be able to live in the standard of comfort proper to their social status. It fosters the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it hinders large-scale production for want of a concentration of capital; and in a country where the Joint-Stock and the Limited Liability Company systems are rare, it tends to arrest industrial progress.

No primogeniture.

Division of property : its advantages.

disadvantages.

### 4. THE VILLAGE SYSTEM

As we have already seen, the great body of the people of India is rural. It is so, not because



the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

Village communities.

Sir Charles Metcalfe's view.

From the very earliest times, the village has always been the unit of administration in India. Here, as in all other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities was developed in many parts of the country, which lasted many hundreds of years. Sir Charles Metcalfe gave an excellent description of these organisations, from which the following lines are worth quoting: "The village communities are little republics,<sup>1</sup> having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same."<sup>2</sup>

<sup>1</sup> In Bombay, it was reported in 1819 that "these communities contain in miniature all the materials of a state within themselves, and are almost sufficient to protect their members if all other governments were withdrawn" (*Elphinstone's Report on the Territories acquired from the Peshwa*, 1819).

<sup>2</sup> Sir Charles Metcalfe continues: "This union of the village communities, each one forming a separate little state in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India, through all the revolutions and changes which they have suffered, and is in a high degree conducive to their happiness, and to the enjoyment of a great

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Although the system of village communities is now in a state of decay, it has not yet been entirely overthrown. It still exists in a state of greater or less completeness in many parts of India, especially in the Punjab and Madras. In Northern India, these villages are usually walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same.

The village

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which hold together the village landholders are not merely physical but social and economic.

Origin.

The bond.

There are two types of villages—the Raiyatwari and the Landlord- or Joint-village.<sup>1</sup> In the first, the village contains a number of cultivating holders who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole

Two kinds:

Raiyatwari,

portion of freedom and independence." So also, in regard to Madras, the Fifth Report, 1812, says: "Under this simple form of Municipal Government the inhabitants of the country have lived from time immemorial. The inhabitants give themselves no trouble about the breaking up and divisions of Kingdoms."

<sup>1</sup> Vide Baden-Powell, *Land Systems of British India*.

belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar; it also originally existed in the Central Provinces and Bengal.

Landlord-village.

In the Landlord-village, the holdings of the cultivating landholders are not separate units; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body<sup>1</sup> is of common descent, and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords).

Principles of sharing.

There are three principles according to which land is divided among the co-sharers: (a) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fraction of the whole which his place in the family 'tree' or genealogical table points out; (b) special customary system of sharing, e.g., sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with

<sup>1</sup>Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution, but Baden-Powell, a great authority on the subject, contests this view (*Vide* Baden-Powell, *Indian Village-Community*).

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reference to shares in water, or shares in wells; and (c) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The Landlord-village system prevails in the United Provinces of Agra and Oudh, the Punjab, and the North-western Frontier Province.

Landlord-villages owe their origin to one of Sources. three principal sources. First, they may have been founded by single persons or grantees or revenue farmers; or they may have been founded by the dismemberment of the houses of ruling chiefs; or thirdly, they may have been created by tribal groups or colonist associations, as for instance, the Jats and the Rajputs.

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). Village officers. The Headman: His office has always been regarded as of great importance. He often exercises petty magisterial his functions in Raiyatwari, powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the landlord-villages the business of the village is entrusted to a punchayet or council of village heads, the leading man among them being selected as the representative of the body and the headman. and landlord-village. He is called the *lumbardar*, and is directly responsible for the revenue of the village.<sup>1</sup>

<sup>1</sup> There may be more than one *lumbardar* in a village.

The Patwari  
his duties.

Another officer of the village is the *patwari* or accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payments by the proprietors or co-sharers, and outstanding balances; of rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to produce and keep the village maps, field-registers, and other records of landed rights, shares, and interests. He fills up the statistical returns of the crops sown and harvested, the number of cattle, and such other things. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the tahsil any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two other petty officers.<sup>1</sup>

✓  
Village  
economy.

Until recently, each village constituted an industrial unit, of which the chief feature was its self-sufficiency.<sup>2</sup> It used to be, to a large

<sup>1</sup> In a deed of gift by the minister of Bukka Raya, King of Vijayanagar, dated A.D. 1187, the following list of village officers is given : (1) Reddi, (2) Karnam (accountant), (3) Purohit, (4) Blacksmith, (5) Carpenter, (6) Money-changer, (7) Policeman, (8) Potmaker, (9) Washerman, (10) Barber, (11) Messenger, (12) Worker in skins.

<sup>2</sup> *Vide* Baden-Powell, *Land Revenue Systems of India*, and Sir T. Morison, *Industrial Organisation of an Indian Province*. In regard to the South Indian village, Mr. T. Ramakrishna says : " It will be seen that this village is a little world in itself, having a government of its own and preserving intact the traditions of the past in spite of the influences of a foreign government and a foreign civilisation. Every member of the little state of Kalem-bakam regularly performs the duties allotted to him, and every-

extent, independent of relations with the outside world, so far as its internal economy was concerned, for within its own boundaries the village possessed all the factors which were requisite for the supply of its few wants. The great bulk of the people is agricultural. The cultivators take lease of small plots of the village land either directly from government or from a landlord (or a body of joint-landlords), to whom they pay rent. They work the land themselves with the aid of their family members and sometimes also of hired servants. They supply the small capital from their own savings or borrow from the village landlord or the money-lender. They are also themselves the managers, organisers, and experts of their petty farms, and they carry their produce to the market—which is held once or twice in the week—to exchange it for other commodities.

Besides the two classes of landlords and cultivators, there is a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supply the needs of the small society, and are recognised members of the village community. The petty shopkeeper performs the important function of exchanging the different products. The money-lender—who also usually combines other functions, especially those of a wholesale grain merchant—is,

Classes in the village.

thing works like a machine. Those that render service for the upkeep of the village constitution are paid in grain or have some lands allotted to them to be cultivated and enjoyed free of rent " (*Life in an Indian Village*, p. 83).

by virtue of his position, a very important member.

The place of competition in village economy.

The services of the artisans, etc., used to be, and to a small extent still is, paid for in kind. In the village economy there is very little competition<sup>1</sup> with the outside world, though within the village the motive of self-interest naturally prompts everybody to find the best advantage for himself. Wages and profits are, to a large extent, governed by custom and are comparatively fixed and inelastic. Division of labour is carried to some extent, but as division depends on the extent of the market it cannot be carried very far. Labour is immobile; and what little capital there is in the village is locked up in the land.

Division of labour.

Immobility of labour.  
Want of capital.

Sense of unity

The different classes in the village are conscious of the fact that each is dependent on the others, and that the interests of each class are bound up with those of the rest. Thus there grows up a strong sense of unity and solidarity which helps to preserve the integrity of the village.

Life in the village,

The villager lives a simple, and in years of good harvest, a contented life. There is very little wealth in the village, but the evils of capitalism are also absent. The cultivator or artisan knows little of the comforts and luxuries of urban life, and does not miss them. He knows that there are things higher than those of this world, and strives to attain them in the way which his religion and traditions point out to him.

<sup>1</sup> Sir Henry Maine says, "Competition, that prodigious social force, of which the action is measured by political economy, is of relatively modern origin" (*Vide* Maine, *Village Communities*).

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Such was the village system in its pure form. But to-day it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simplicity of life.

### 5. STATUS AND CUSTOM

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, in the ancient days, the supreme regulator of his actions and relations in life. The influence of custom is, however, growing less every day. In India, as in every other progressive country, the movement has been and is from status<sup>1</sup> to contract. Yet even now it may be asserted of a majority of the Indian people that their actions are governed more often by custom than by free competition. The late Mr. Ranade said, "There is neither the desire nor the aptitude for free and unlimited competition, except within certain predetermined groups or grooves. Custom and state regulations are far more powerful than competition, and status more decisive in its influence

<sup>1</sup> Status may be defined as the position or standing of a man as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.



than contract."<sup>1</sup> The influence of custom, however, is not necessarily harmful. In many cases it is highly beneficial, for custom often stands forth as the protector of the weak against the strong. It furnishes an alternative principle to that of unlimited competition, which, while it makes the strong stronger, has often a tendency to extinguish the weak. On the other hand, competition helps in bringing out the best in man and nature, while custom not unoften hinders such development.

Under the Hindu as well as the Mahomedan administration, and, to a large extent, during the early days of the British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The government then realised that the effect of unlimited competition would be to injuriously affect the interests of the masses of the people and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits; and the main object of their rent legislation has been to secure to the tenants the rights conferred by custom. Custom thus is still, to a large extent, the foundation of rents in India. The Ricardian doctrine of rent has, practically speaking, little application here; and, consequently, the conclusion drawn from that doctrine, namely, that rent forms no part of the price of agricultural produce, is also inapplicable to the case of India.

on wages, Custom was the chief regulator of wages in India

<sup>1</sup> Vide *Essays in Indian Economics*, by the late Mr. Justice M. G. Ranade.

till the middle of the last century. Nowadays, however, they are governed more by competition than by custom; but still they are not so elastic and responsive to changes of circumstances as in Europe or America. The fluctuations in the rates of wages are slight,—the deviations from the usual wage levels of any particular locality are always confined within narrow limits. In the towns, owing to the ever-increasing demand for labour, competition has now established itself as the determining factor in wages, but in the country, especially in the remote villages, custom continues to govern the earnings of labour to a large extent. The economic theory that wages depend on demand and supply of labour is as true in India as elsewhere, but the law finds here a limited scope for its operation.

Prices also used at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely upon the relations between demand and supply. It is only in parts of the country which are not easily accessible that custom is now found to exercise any considerable influence on prices.

# CHAPTER V

## PRODUCTION

### 1. GENERAL OBSERVATIONS

Special conditions of land, OF the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty farmers. Practically all land utilised for purposes of production is subject to the payment of rent.<sup>1</sup>

labour, Labour is, except in industrial centres, plentiful. Wages are low, but as the workmen are ignorant and mostly unskilled, the out-turn is comparatively small, and, therefore, labour can hardly be said to be cheap. Movement of labour from place

<sup>1</sup> The no-rent margin is in most countries invisible and indefinite; and the hypothesis of no-rent land is true, in practice as distinguished from theory, only in countries where there exists an active competition among the landowners, and where the demand for land has not yet outstripped the supply of it. In India, although there is plenty of land lying waste in unpopulated tracts, yet in the populated parts there is hardly any productive land left unutilised.

to place is very irregular, and that from occupation to occupation is rare. Competition, when it acts, affects the labourer injuriously. The labourer is diligent and sober, but poor, unenterprising, and unambitious. He possesses a natural quickness of intelligence,<sup>1</sup> but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and the business manager, which he is unfit to properly fulfil. The dignity of labour is hardly appreciated by the higher classes of society. Division and differentiation of labour is practised only to a limited extent.

Indigenous capital is not only small in the capital, country, but is also shy.<sup>2</sup> Where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully recognise the necessity of taking risks, and has lost the habit of forecasting the future.

Business organisation, which is perhaps the most organisation, important factor in the success of modern industry, has not yet been developed to any appreciable extent in India. Practical experience—the best school for learning business—has not taught the people how to

<sup>1</sup> Sir John Strachey says, "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe" (*India, its Administration and Progress*, p. 394).

<sup>2</sup> This is believed to be the result of the misrule from which the country suffered in the eighteenth century, and which prevented the accumulation of wealth and dulled the desire of the people to improve their economic condition.

manage big concerns and to properly discharge the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge have been, until recent years, most lamentably neglected. The value of co-operation and combination is not yet fully appreciated. Men of ability and character rarely engage in business, and the result is that those who do, do not inspire the faith and confidence which is the corner-stone of modern industrial activity.

Result.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production is not at all comparable to that of any other civilised nation. The country generally is not in a prosperous condition. There are some who would go so far as to assert that the condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end. A large percentage of the people never have a silver piece in their possession.

Average  
production.

The average farm production per head was calculated at Rs. 40 per year about a quarter of a century ago.<sup>1</sup> In the early eighties of the last century Sir Evelyn Baring (afterwards Lord Cromer) estimated the average *per capita* income at 27s. per head; the Famne Commissioners of 1880 put it at £2. In 1903 Sir Robert Giffen calculated it at about £2 or Rs. 30; and this figure was accepted by the Govern-

Average  
income.

<sup>1</sup> Mulhall, *Dictionary of Statistics*. This is the figure also accepted by Sir Robert Giffen (vide *Economic Journal*, 1904).

ment of Lord Curzon. Mr. William Digby and Mr. Dadabhai Naoroji put it even at a lower figure. The data for the calculation of national income of India are not reliable. Recent investigations into the question of national income have given widely divergent results. The Department of Agriculture in Madras calculated average income in the Presidency to be Rs. 100 (1921). In Bombay the net *per capita* annual income has been estimated at Rs. 100 for urban localities and Rs. 75 for rural areas. Mr. Findlay Shirras puts the income per head as high as 116. There are other authorities who are inclined to bring the figure down to Rs. 60. Accepting the last estimate to be approximately correct, if allowance be made for the diminished purchasing power of money, there does not appear to be any substantial improvement in the income of the people since the days of Lord Curzon. In<sup>1</sup> calculating the income of the ordinary cultivator or labourer, the incomes of the rich and well-to-do classes must be deducted from the total national dividend. This would give us a still lower figure as the income per head of the bulk of the people. The income in India compares very unfavourably with the incomes of the other civilised countries. The average income of the people of the United Kingdom just before the war was, according to Sir Josiah Stamp, £50, or 25 times as great as that of India. The average in the United States was £72; that in France, £38; and in Germany, £30.<sup>1</sup> Since then, the average income in every country has

<sup>1</sup> Vide Sir Josiah Stamp, *Current Problems in Finance and Government*.

considerably increased. The average in the United Kingdom is now about £60.

Wealth.

Reliable statistics of the wealth of India<sup>1</sup> are not available. The average wealth per head of the population has been variously computed at from £10 to £20.<sup>2</sup> The average wealth of the United Kingdom before the war was £334 per head; of France, £252; of the United States, £270; and of Germany, £246.

✓  
Better things  
hoped for in  
future.

This is certainly a very gloomy picture. But it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to an immense improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result

<sup>1</sup> India was celebrated in the earliest ages for her immense wealth. She was at one time the richest country in the world. It was the wealth of India which was the cause of the foreign invasions from the time of Alexander down to the eighteenth century. When Sultan Mahmud of Ghazni sacked the temple of Somanath, the booty was so large that it was impossible to calculate its value. At Kanauj, Mahmud was so much struck by the splendour and magnificence of the city that he declared that "it was only rivalled by the high heavens." The spoil of Nadir Shah was valued at £625,000,000 (*vide* J. S. Cotton, *Colonies and Dependencies*, and Lethbridge, *History of India*).

<sup>2</sup> £10 was the estimate of Sir Robert Giffen in 1903. The aggregate wealth of the different countries was at that date: England, £15,000 millions; the United States, £18,000; Germany, £16,000; France (exclusive of public wealth), £9,000; India, £3,000. According to the estimate of Herr Steinman-Bucher, the national wealth of Germany increases annually by from £550 millions to £600 millions, and now amounts to nearly £20,000 millions.

of circumstances which they are now endeavouring to control and modify. We already find that a wave of enthusiasm for industry is passing over the land. A new spirit of enterprise is abroad. Labour is trying to shake off its lethargy and ignorance; capital is overcoming its shyness; and the people are preparing themselves for a new and vigorous industrial life.

The economic position, so far as production is concerned, may be summed up as follows: The productive capabilities of India are great. She possesses an abundance of natural resources and a plentiful supply of cheap labour; but she lacks capital, enterprise, and organisation. The defects are, however, remediable, and, as a matter of fact, attempts are being made to overcome them.

Summary

## 2. AGRICULTURE AND MANUFACTURE COMPARED

Before passing on to a somewhat detailed description of the agricultural and manufacturing industries of the country, it would be well to note the chief characteristics of a mainly agricultural country as compared with those of a chiefly manufacturing country. They are:

Chief features  
of the two.

(a) In a mainly agricultural country competition, or rather freedom of enterprise—which is the chief feature of modern industry—cannot have its full application. The agriculturist has to go to the land for his work; but raw material can be brought to the manufacturer to be worked on by him.

(b) The agriculturist has to depend very largely



on nature ; he has to adapt his work to the seasons. But the manufacturer is more free in this respect.

(c) Agriculture does not submit to the large-scale system to the extent that manufacture does, and much less specialisation is possible in the former than in the latter.

(d) As the produce of agriculture depends largely on factors which are beyond human control, *e.g.* rainfall and other weather conditions, it is uncertain. In manufactures the produce is sure.

(e) In agriculture, the law of Diminishing Returns applies with full effect. In manufactures, the influence of that law is often more than counterbalanced by the law of Increasing Returns.

(f) In agriculture, there is less scope for the use of machinery than in manufacture. Hence, the most recent advances in scientific knowledge may be utilised with greater advantage in the latter than in the former. But chemical science and electricity may conduce very largely to the improvement of agriculture.

(g) In an agricultural country labour is generally immobile, because it is inconvenient and wasteful to the labourer to move from one plot of land to another ; and where there is peasant proprietorship there can hardly be any movement at all. In a manufacturing country there are no obstacles to mobility of labour beyond the ordinary obstacles of the ignorance, poverty, and conservative habits of the labourers.

(h) As the operations of agriculture are few and simple, there is much less scope for the division of labour in agriculture than in manufactures.

(i) The profits of manufactures are higher than those of agriculture. As a result, when exchange transactions take place between the raw materials of one country and the manufactures of another, although both countries benefit by the exchange, the gain of the latter is greater than that of the former.

(j) The production of wealth being larger in a manufacturing country, it is capable of supporting a more numerous population than an agricultural country.

(k) While agriculture enables a large number of people to live independently, and fosters in them self-reliance and other moral virtues, manufactures under the large-scale system tend to the destruction of the freedom of the workmen and to the loss of some of their higher qualities.

(l) Lastly, it is often said that agriculture is the primary industry, while manufacture is secondary. This distinction does not indicate the comparative importance of the one pursuit as against the other. From the world point of view the two are equally important, although some of the most advanced nations lay greater stress on the growth of manufactures than on the improvement of agriculture.

## CHAPTER VI

### PRODUCTION—(Continued)

#### 1. AGRICULTURE

People mainly engaged in agriculture. <sup>v</sup> AGRICULTURE is, of course, the most important industry of India. It gives employment to two-thirds of the total population of the country, and of the rural population nearly 90 per cent. are connected with it, either directly or indirectly.

Productivity of land. In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that the land is fertile in India.

Land classified. Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli*, or in other words, land which yields one crop in the year and that which gives two.

The actual produce of any year depends on the amount and distribution of the rainfall. The periodicity of the seasons often allows of two, and in a few cases, e.g. the irrigated parts of the Madras deltas, of three, harvests in the year. Double-cropping is possible in about one-seventh of the total cultivated area of India.

Produce depends on rainfall

Harvests :

The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the south-west monsoon commences, and they are reaped between September and November.

*rabi* and *kharif*.

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their growth being different, the character of the two kinds of crops also differs. This difference in character, however, is specially marked in Northern India ; but is less marked in Bengal, and still less in Madras. During the period of their growth they are subject to a considerable degree of cold, which limits the choice of staples. In Bengal and Madras, very much the same kinds of crops may be grown in summer and winter.

The *rabi* less dependent on rainfall than *kharif*

In the Bombay presidency, which gets almost the whole of its rainfall from the S.W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.E. monsoon brings rain to the province. In Northern India the south-west monsoon rain gives the condition

necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Classification  
of crops.

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs, (10) miscellaneous crops, (11) fruits, (12) fodder crops, and (13) root-crops. This division, however, is not strictly logical, as some of the crops fall into more than one of the classes. A brief account of the chief crops is given below, which will perhaps be found useful.

The chief  
crops  
Rice.

About 84 per cent. of the cultivated area is under food-crops. Rice is grown in areas of heavy rainfall, as, for instance, Bengal, Assam, Burma, and the coast districts of Bombay. Not only is it far the most important crop of Bengal, but over 31 per cent. of the cultivated area of India is under rice. The varieties of rice are innumerable. In Bengal there are two main harvests, the *aus*, or early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, and is eaten by the poorer classes alone; but it serves as a provision against famine when there is a failure of the rains. Out of about 24 million acres cultivated in Bengal, about 22 million acres are under rice. The total annual yield is about 28 million tons. Rice is an important crop in Madras, Bombay, and Burma.<sup>1</sup> In the United Provinces and Oudh, it is

<sup>1</sup> Although Bengal is the principal producer of rice, Burma is the largest exporter. Burma contributed 84 per cent., while Bengal contributed 10 per cent., Madras and Sind 2 per cent. each, and Bombay 1 per cent. to the export of rice, which

grown either in damp localities or with the help of irrigation. It is practically the sole crop in Deltaic swamps.

Wheat is grown in more or less quantities in every province. The great wheat-producing tracts, however, are the United Provinces, the Punjab, Behar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop, and wherever possible, it is irrigated. The area under wheat has greatly expanded with the extension of canal irrigation. Towards the end of the last century the area under wheat was 22½ million acres, but it is at present 31 million acres. There are two chief classes of wheat, soft and hard. Indian wheat compares very favourably with the wheats of other countries, and the total annual yield is about 10 million tons. India is, next to the United States, Russia, and Canada, the largest wheat-producing country in the world.<sup>1</sup>

Barley is grown to a small extent all over India, and chiefly in the United Provinces. It serves as food for men as well as animals. Oats are a very minor crop in India.

amounted to over 2 million tons in 1922-23. (*Vide Estimates of Area and Yield of Principal Crops in India, 1923-24, and Review of the Trade of India, 1923-24*)

<sup>1</sup> The total acreage under wheat in the different countries in 1923 was (in million acres): United States, 58; India, 31; France, 13½; Argentine, 17; Canada, 22.6; Germany, 3.6; United Kingdom, 1.8. The yield per acre in bushels in these countries was in 1920-21 as follows: 13.8, 14.1, 15.5, 10.7, 20.1, Canada not known, 23.6, 35.4 respectively; Australia, 7.16.

**Maize.** Maize is grown in most parts of India, but in the United Provinces it forms an important food-crop.

**Millets.** Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being juar, bajra, and ragjuar, which is the staple grain-crop of Southern India. Millets are also cultivated as a fodder-crop.

**Buckwheat** Among cereals is also classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in the Central Provinces and Behar.

**Pulses of various kinds** Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *araha*, *chana*, *musuri*, *urd*, *mug*, and *kalai*. Pulse-crops thrive best in the United Provinces and Behar. In the Deltaic portion of Bengal the quality of these crops is not very good, an excess of ordinary salt being injurious to them. Some of the varieties of pulses are used as fodder for cattle.

**Oil-seeds** Oil-seeds form very important crops in every part of India. Of the total cultivated area, oil-seeds account for 5.4 per cent., and the total yield is about 3.1 million tons. There are several kinds of these, the more important among them being mustard (*rye*, *sorson*, and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and ground-nut. Oil is also obtained from fruits, such as cocoa-nut and mahua, from various flowers, and from cotton-seeds. Of late years, cocoa-nuts<sup>1</sup> and ground-nuts have become important

**Cocoa-nut  
Ground-nut**

<sup>1</sup>“ While little attention has been given to the growth of cocoa-nut by the Agricultural Department, it seems probable that more will be given in future in the provinces where the crop

articles of export, and there has been a sharp rise in their price. Castor-seed is also important because the *eri* silk-worms are reared on its leaf. The enormous export trade in oil-seeds involves a great loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food or manure in the country.

Among the fibre-crops, jute and cotton, of course, *Jute.* are the most important. Bengal holds the virtual monopoly of jute in the world. The area under jute is about 3 million acres. There are extensive areas in some of the other provinces of India also, which may prove suitable for this industry. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are also suitable for jute. It is a very paying crop. The first mention of jute as an article of export was made in 1828. 45 per cent. of the product is now exported out of the country in a raw state; and if jute manufactures are included, the export of the product will account for 80 per cent. of the total production. The out-turn of jute in Bengal is now estimated at 8.4 million bales (of 400 lbs. each). It is now grown in many places where rice used to be grown before; and this is a matter deserving of consideration.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as *Mesta-pat.*

is of importance, as it is one which requires the investment of capital, and is, therefore, suited to the circumstances of land-owners whose sons may profit by education at Agricultural Colleges" (*Report on the Progress of Agriculture, 1912-13*).



- Sunn-hemp* even superior to jute, and *sunn-hemp*. Rhea is  
*Rhea.* another important fibre-crop. Great hopes are entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries.
- Aloe-fibre
- Cotton. Cotton holds a very important place among the agricultural products of India. The total area under cotton is 23 million acres, and the annual yield is about 5 million bales. It is grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the plains of Guzerat and Kathiawar, the Tinnevely, Madura, Combatore, and Ceded Districts of Madras, the highlands of the Deccan, the valley of the Central Provinces, and Behar. They fall into two classes: cotton-crop and tree-cotton; but there are numerous forms of the cotton-crop, and tree-cotton also is of several kinds. In the Deccan the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less. In Sind, Egyptian cotton has been grown for several years, but as it requires more water than other kinds of cotton, American cotton has been substituted for it. In the Punjab, experiments with American cotton have evolved an acclimatised type, which is at present confined to the Canal Colonies. The Indian Cotton Committee anticipates considerable extension of this variety throughout this province.<sup>1</sup> "Cambodia" or "Tinnevely" cotton, which was imported a few

<sup>1</sup> Vide *Report of the Indian Cotton Committee*, p. 37.

years ago, grows well in the red soil of the Madras Presidency. It is superior to the American variety in quality and ginning out-turn. Although the cultivation of indigenous cottons is more remunerative to the farmer in non-irrigated tracts, the prospects of the production of long staple cottons are decidedly favourable in the following parts: Sind, Punjab, Gujrat, Southern Madras, and the Central Provinces. In Sind, on the completion of the Sukkur Barrage and the connected canals, an area of 400,000 acres of long staple cotton is expected. Mr. Arno Schmidt believes that cotton cultivation is capable of being greatly improved, and that "the cotton crop of India can be doubled without interfering with the growing of food supplies."<sup>1</sup>

The simul (silk-cotton) trees (as also the common *Simul and ak* which grows wild in sandy places) yield a silky fibre which can be converted into a valuable vegetable silk of fine quality.

Indigo was at one time one of the chief crops of *Indigo* India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now

<sup>1</sup> Report by Arno Schmidt, Secretary to the International Federation of Master Cotton Spinners' and Manufacturers' Association. In reply to Lord Morley's statement in 1910 that more cotton-growing may mean less wheat and other food-crops, Mr. Schmidt urged the following points: (1) there is a need for specialisation in Indian agriculture, and cotton, being a very remunerative crop, ought to be given the first place in suitable districts; (2) cotton may be grown in rotation with some other crop, and the most suitable rotation crops are jowar and wheat; (3) the increased production of cotton will increase the income of the people, and if the cultivator has the money he can buy food from other parts of the country.

ceased in Bengal, but has been continued in small quantities in Behar and the United Provinces. The chemical dyes are inferior in quality to indigo and other vegetable dyes, and a revival of this crop is not altogether impossible.

**Poppy.** Poppy cultivation is mainly restricted to Behar and districts of the United Provinces north of the Ganges. In British India it is conducted on behalf of the government, and in pursuance with an agreement with China, the area of cultivation has now been greatly reduced. Poppy is also cultivated in some of the Native States of Rajputana and Central India. It is a *rabi* crop.

**Tobacco.** The total quantity of tobacco grown in India is large. It is grown in every district; but the chief places of production are the Tirhut districts of Behar, Rangpur in Bengal, and certain districts of Madras.

**Tea, Coffee, and Cinchona.** The chief tea-growing tracts are Assam, the Darjeeling and Julpaiguri districts in Bengal, the Nilgiris in Madras, Dehra-Dun in the United Provinces, and the Kangra valley in the Punjab. The amount of total production is about 375 million lbs. Of the total production of tea in India more than 90 per cent. is exported, and there is room for further expansion. The cultivation of coffee is confined wholly to Southern India, and it has to face acute competition with Brazil and Ceylon. The two main centres of the cultivation of cinchona are Darjeeling and the Nilgiri hills. It is a government monopoly.

**Table Vegetables.** Of Table Vegetables a large variety is found in India. The most common and important is potato.

It is usually grown after *aus* paddy or jute ; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, brinjals, cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava, called *simulatu* or *sarkar-kanda*. This vegetable sometimes serves as the chief food during a famine. It resists drought and yields a nourishing and palatable food. A more extended cultivation of this and other drought-resisting articles is desirable as a protection against famine.

Nowhere, perhaps, in the world can a larger Fruits. variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If that is done, the quality of the fruits is sure to be improved and the yield greatly increased. New fruits suited to the conditions of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries.

Sugar cane is indigenous in India. It had at one Sugar. time a pre-eminent position in respect of acreage and yield. Sugar was, not long ago, a flourishing industry in India. But it has now greatly declined owing to the importation of foreign sugar. It still possesses, however, great possibilities, and in recent years there have become visible signs of a revival. This view has been endorsed by the Indian Sugar Committee, who say : " It is our opinion that it should be perfectly practicable to produce the whole of the

present import in India itself, and that to the great benefit of India and indirectly to the rest of the Empire." <sup>1</sup> Sugar is regarded as a half-manufactured article. In India it is obtained either from the sugarcane or the palm. The area under sugar is 2.9 million acres, and the annual yield is about 3.2 million tons. The best cane is grown in the United Provinces and in some districts of Behar. Palm-sugar is manufactured either from the juice of the ordinary palm or of that of the date-palm. The date-sugar industry of Bengal, which is now languishing, is capable of being made profitable, as the yield is certain, and very little expense has to be incurred for cultivation.

Spices.

Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the demand, and a great extension of their cultivation is needed.

Lac and  
India-rubber

Among the miscellaneous crops the more important are lac and india-rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, Burma, and the forest districts of the Central Provinces and Nagpur are the chief sources of its supply. The importance of india-rubber as an economic product is being recognised more and more widely every day, owing to the numerous technical purposes for which it is utilised. In India, its principal sources of supply are Assam and Burma. If the cultivation of rubber on a large scale could be made successful in India, it would add materially to the national income.

Sericulture.

Sericulture was once a profitable industry, but

<sup>1</sup> Vide *Report of the Indian Sugar Committee*, p. 10.

towards the middle of the last century it declined. The decay of sericulture in India is attributed to the following causes: (a) low price obtained for the product due to foreign competition, (b) high rent of mulberry land, (c) degeneration of the silk-worm, and (d) disease. The Silk Committee of 1908 were of opinion that pebrine was the main cause of the decline in the production of mulberry silk in Bengal. They observed: "Twenty years ago several firms were engaged in silk reeling, and the silk-producing districts were dotted with filatures in which silk was reeled for export. At the present time a single European firm is engaged in this business."<sup>1</sup>

Of the cocoons produced in Bengal the greater portion is exported in a raw state. Mysore is another silk-producing area. The industry, as it exists, is one that brings in from sixty to eighty lakhs of rupees to the country and gives a subsidiary or whole-time occupation to a large number of people. The Government of Mysore is fostering the growth of this industry along with other industries.

In Kashmere the industry is a monopoly of the State. There is an abundant supply of natural mulberry, and the location and climate are favourable. Seeds are mostly imported and cocoons exported. Assam is an important mulberry silk-producing area, and the bulk of its produce is used locally, and its production is one of the main activities that families there practise in addition to many other occupations.

<sup>1</sup> Quoted in the *Report on an Enquiry into the Silk Industry of India*, 1916, vol. i, p. 11.

The silk industry is now showing signs of a revival. It has great possibilities, and with the adoption of proper methods of rearing, hatching, and reeling, is likely to be a source of wealth to the country. The chief area is in selected parts of Bengal, Assam, the Central Provinces, and Kashmir.

**Fodder-crops.** The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In the Punjab and in Behar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Sugar-cane, as a fodder-crop, is used principally by the European planters in Behar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of trees are frequently very valuable as supplying fodder for cattle. Very little, however, is known of the comparative feeding values of Indian fodders. It is needless to say that the cultivation of fodder-crops is very necessary for the improvement of cattle.

**Agricultural statistics.**

Accurate and reliable statistics regarding the agricultural produce of India are not available. But the following figures<sup>1</sup> will give the reader approximate ideas :

	Million acres.
Net area of land by professional survey,	667
Area under forest, - - - -	85 5
Not available for cultivation, - -	152
Cultivable waste other than fallow, -	154 4
Fallow land, - - - -	47
Area irrigated, - - - -	47·8

<sup>1</sup> The figures are for the year 1922-23. (Vide *Agricultural Statistics of British India*, and *Statistical Abstract for British India*.) Figures are not available for the Indian States.

	Million acres
Net area sown with crops, - - -	224.9
Total area under food-grains, - - -	205
"    "    other food crops, - - -	8.2
"    "    sugar, - - -	2.9
"    "    coffee, - - -	0.1
"    "    tea, - - -	.71
"    "    oil-seeds, - - -	13.9
"    "    cotton, - - -	23
"    "    jute, - - -	2.78
"    "    opium, - - -	0.2
"    "    indigo, - - -	0.1
"    "    tobacco, - - -	.29
"    "    fodder-crops, - - -	2.9

Of the total area under food grains about 40 per cent. is under rice, slightly more than one-fifth under wheat, and about one-fifth under jowar and bajra. The average out-turn of wheat in India is  $15\frac{1}{2}$  bushels per acre, while it is  $35\frac{2}{3}$  bushels in England.

Arboriculture is a science akin to agriculture, though trees can hardly be classed as agricultural crops. The forests in British India are mostly under State control. They are classified, for departmental purposes, into (i) reserved, (ii) protected, and (iii) unclassed or public forest land.<sup>1</sup>

<sup>1</sup> The forests in India are divided into six classes. The *ever-green* forests are found in the West Coast of India, in Burma, in the Andamans, and in the sub-Himalayan tracts to the east. They contain various kinds of large trees. The *deciduous* forests occur in parts where there is a sufficient rainfall; teak and sal are the most important kinds of timber. The *dry* forests are found chiefly in the Punjab and Central India. The *Alpine* forests are in the Himalayas, where deodar, cedar, pine, oak, and other trees grow. The best example of *tidal* forests is the Sunderban in Bengal. The *riparian* forests occur in the Punjab and in Burma.



**Afforestation.**

India is capable of growing various kinds of trees. They grow naturally in places where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, the matter was badly neglected, and many parts of the country were denuded of forests. The serious effects of disafforestation were realised in the latter half of the nineteenth century. It would certainly have been disastrous to the national interests of India if the future development of her natural resources had been sacrificed to the immediate interests of the present generation. A policy of systematic conservation of forests has now been adopted. The propagation of trees which yield starch, oil, sugar, vegetables, and fibres is of vast importance to a country where a failure of agricultural crops through drought or inundation is of frequent occurrence. The Forest Research Institute at Dehra-Dun is engaged in exploring the possibilities of development of India's forest products. Lac, tanning materials, essential oils, turpentine, and resin have established themselves firmly in the markets of the world. But apart from their invaluable uses for food, fodder, and timber, trees are highly useful for their influence on the climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature; and by keeping the atmosphere moist they induce the fall of

**Beneficial  
influence of  
forests.**

rain.<sup>1</sup> Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves, which afterwards fall and get mixed up with the soils. Lastly, they serve as break-winds in localities where high winds are an objection. It is essential, therefore, that by improvements in the method of culture, by concentrating methods of working management, by the development of new uses and markets, and by greater attention to minor forest products, the forests of India should be made a very important source of her national income.

Pisciculture is analogous to agriculture. Fish is Pisciculture valuable as human food and also as manure for agricultural purposes. Fisheries afford employment to a considerable number of men; but the industry is carried on in a very inefficient manner, and can hardly be said to be a prosperous one. If proper methods be adopted, India, with her innumerable rivers, streams, and tanks, as well as

<sup>1</sup>This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests (*vide* N. G. Mukherji, *Handbook of Indian Agriculture*).

her extensive sea-board, ought to have a plentiful supply of fish.

Method of  
agriculture,

small-scale,

extensive,

unscientific  
but not  
inefficient

Agriculturist  
assiduous,  
possesses  
inherited  
experience, but  
is poor.

In India, as we have seen, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. As has been rightly observed, "the average size of the holding in Assam and Bengal, and specially Eastern Bengal, is so small that the cultivation of it is hardly ever too much for the owner himself to accomplish."<sup>1</sup> The same conditions are found in other tracts. Cultivation is almost always extensive; it is only in exceptional instances intensive. It is practised in the different provinces with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of Bengal and Burma, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of the Punjab, and the deserts of Sind and Rajputana require separate modes of cultivation. The Indian peasant is ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land,<sup>2</sup> or selecting good seeds, or leaving his land

<sup>1</sup> *Census Report of India*, vol. i. p. 246.

<sup>2</sup> Social prejudices also sometimes stand in the way of the utilisation of certain kinds of cheap manure, which are thrown away to the great detriment of the soil.

fallow for a season. The implements used are of the simplest kind, but they are well adapted to the needs of the peasant.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on manures, he would purchase better cattle and feed them more properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education is necessary.

Chief want—  
capital.

As agriculture is the chief industry of the country, and as the success of other industries depends on the supply of raw materials, the improvement of agriculture ought to engage the serious attention of every thinker in India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring and proper rotation of crops; and thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator. There is a good deal of truth in the remark made long ago by an Indian daily newspaper, which said, "The native cultivators have nothing to learn so far as

✓  
Improvement  
of agriculture.

Suggestions  
must be  
practical.

unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means ”

Much room for improvement under present conditions.

There is, however, much room for improvement even under the present conditions, and it is believed that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by 15 or 20 per cent.<sup>1</sup> Co-operation among farmers can go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for their common use, or they may join in constructing wells for supplying water to their fields, or they may leave common pasture-land for the grazing of cattle. The Co-operative Credit Societies, if properly worked, are likely to be of immense help to the agriculturists.

Scientific experiments, carried out with a full regard to the circumstances of the country, will prove useful in many ways. Agricultural fairs and shows may be of much use to cultivators by demonstrating the advantages of improved implements and of good seeds and suitable manure.

The peasant not hopelessly conservative

Some agricultural experts despair of the improvement of agriculture because they have taken the Indian peasant to be “ a living emblem of inertia ”. But, in reality, the peasant is not so conservative as

<sup>1</sup> Mr F Smith, Dy Director of Agriculture, Bengal, believes that the average yields per acre of all crops except jute can be doubled, while that of jute can be increased 70 per cent. He thinks that by education and the application of science to agriculture, the annual national income can easily be doubled.

he is often supposed to be <sup>1</sup> He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives <sup>2</sup> As Mr. D. L. Roy observes, "The neatness of the costly and heavy Sibpur plough, the scientific value of artificial manure, the sleek appearance of well-fed cattle have attractions of their own for the amateur, but to the practical agriculturist, the balance of profit is of more importance and far more tempting." <sup>3</sup> "The introduction of Cambodia cotton into the Madras Presidency," says the Director of Agriculture, Madras, "is perhaps one of the most striking

<sup>1</sup> *Vide* Dr. Voelcker, *Improvement of Indian Agriculture*

<sup>2</sup> The scientific system of agriculture is feasible only if undertaken by capitalist-farmers who can afford to commence farming on a large scale. For the scientific method of cultivation, at least a hundred acres (300 bighas) of land is necessary. The advantages of scientific agriculture are —the provision of sufficient water, good manure, selection of good seeds, greater division of labour, the opportunity of raising particular crops according to the suitability of each plot of land, greater rotation of crops, and larger scope for experiments. With these advantages may be compared those possessed by the farmer who works on his own account, viz., the intense interest taken by the cultivator in his work, the spirit of independence and of self-reliance and other moral qualities which the system fosters, as also the social influence which it confers on the possessor of land. It should, further, be considered in this connection whether or not small-scale cultivation is well-adapted to the land-tenure system and the social environment of the country.

<sup>3</sup> D. L. Roy, *Crops of Bengal*, p. 8.

instances in India of how readily the ryot will take up a new cultivation, if once he is satisfied that it pays him to do so.”<sup>1</sup>

Dr. Voelcker's suggestions.

In 1889, the Government appointed Dr. Voelcker to make enquiries into the condition of Indian agriculture, and to suggest possible improvements. He submitted his excellent report in 1893. In his report he recommended the adoption of certain measures, which may be summarised as follows : (1) the spread of general and agricultural education, and the preparation of suitable text-books in the vernaculars for the purpose ; (2) the extension of canals and other means of irrigation to tracts where they are required ; (3) the more energetic working and popularising of the system of *taccavi* advances for well-digging and similar purposes ; (4) the institution by Agricultural Departments of organised enquiry to ascertain the irrigation requirements of each district ; (5) the creation of reserves of wood and fodder (called “ Fuel and Fodder Reserves ”) the planting of trees along canal banks and railway lines, and the further encouragement of arboriculture ; (6) the continuation and extension of experimental research aided by chemical science in reference to new crops, methods of cultivation, manures, etc. ; (7) the trial of new implements at Government experimental farms, and the distribution of approved implements among the cultivators ; (8) the distribution of seed from agricultural farms ; (9) the location of stud bulls at Government farms, and the encouragement of improved breeding of cattle.<sup>2</sup>

<sup>1</sup> *Agricultural Journal of India*, vol. iv. pt. 4.

<sup>2</sup> *Vide* Dr. Voelcker, *Improvement of Indian Agriculture*

The extension of the different modes of irrigation and the adoption of such dry-farming methods as may be found successful by experiment, are likely to increase the area under cultivation, and thus add to the agricultural wealth of the country. A recent bulletin of the United States Department of Agriculture says that dry-farming consists not only in raising crops in regions of moderate but uncertain rainfall by collecting and preserving all the moisture obtainable, but also in raising certain kinds of crops in districts where the rainfall is altogether deficient.

Irrigation and  
dry-farming.

Undoubtedly, agricultural education<sup>1</sup> is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in the science and practice of agriculture in five well-equipped agricultural colleges which have been started at Pusa, Lyallpur, Cawnpur, Poona and Coimbatore. The Pusa Institute is the principal seat of agricultural research in India. The agricultural college at Sabour has recently been abolished. The kind of education which is at present imparted in the Government schools hardly leads to any practical results. As Mr. N. G. Mukherji, late lecturer at the Sibpur College, observed, "Neither the farm-labourer nor the farmer, nor the landed proprietor care, as a rule, for agricultural education." These schools are meant for educated men—graduates of the University, but it is a pity that the passed

Agricultural  
education.

<sup>1</sup> Germany has established agricultural colleges and schools all over the country, and as the result of agricultural education, has achieved marvellous results in improving agriculture.



students of these schools do not start farming on their own account,<sup>1</sup> but try to secure service under the Government. To be really useful, agricultural training should consist of two parts, a higher and a lower, the first for turning out experts and organisers, and the second for assisting actual cultivators in their work. There has lately been a change in the policy of agricultural education in India in some provinces. In the Punjab school education in agriculture is making good progress. Ordinary vernacular middle schools are being utilised for imparting practical training in agriculture to school boys in rural areas.

We have briefly described the chief features of the agricultural industry, and suggested modes of improvement. For agriculture India possesses great natural advantages, and when they are fully utilised they will surely add much to the wealth of the country. Agriculture is important not only in itself, but on it are based all possibilities of the development of manufacturing industries.

## 2. MINING

**Mining.** Akin to agriculture is the mining industry, for both of these are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of every kind ;<sup>2</sup> and there

<sup>1</sup> Mr. F. Smith, some time ago, expressed the opinion that a middle-class young man working on 100 acres of land could earn Rs. 250 a month.

<sup>2</sup> This is the view held by Sir Thomas Holland, lately Director of the Geological Survey of India. *Vide* his paper read before the Industrial Conference, 1905.

is hardly anything which she cannot produce if only capital, enterprise, and technical knowledge are forthcoming.

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India ; it resulted in the almost exclusive development of those minerals which can be consumed by direct processes on the spot, or which, on account of their abundance and cheapness, are suitable for export in a raw state. Nevertheless, during the past few years conditions have been rapidly ripening in India for the successful revival along European lines of industries dependent on the ores and minerals. "There is now," says Sir T. Holland, "a prospect of undertaking the production of iron and steel which form the largest section of the bill for imported metals. Copper, lead, and some of the inorganic chemicals are also attracting the attention of investors, and active prospecting operations are now being undertaken."

Revival of mining.

During the last decade there has been a marked increase in the output of Indian minerals. The total value of the mineral production of India is about 35 crores.<sup>1</sup> Coal is the most important of these products, the value of its production being over 14½ crores. Indian coal has now almost completely displaced imported fuel. Of the total coal consumed in India, 97·7 per cent. is drawn from internal produc-

Total mineral production.

Coal.

<sup>1</sup> The figures given here are for the year 1923 (*Quinquennial Review of the Mineral Production of India, 1919-23*). In 1914, the output of coal in the different provinces of India was - Bengal, 4½ million tons ; Behar, 13 2 ; Punjab, ·06 ; Assam, ·32 ; Belu-chistan, ·04 ; Central Provinces, ·54.

tion and the rest is imported.<sup>1</sup> The coal workings in India are still very shallow, only one shaft having been sunk to a greater depth than 800 feet. Coal is very unevenly distributed over India. Its production is concentrated in what is known as the "Bengal Coal Fields," though by far the largest portion of the total output is now contributed by the mines in Bihar and Orissa. The whole of the coal raised in the province of Bengal comes from the Ranigunje coal-field situated in the Burdwan district. The first working of this field dates from 1820. The Jharia coal-field is situated in the districts of Manbhum and Hazaribagh in the province of Bihar and Orissa. There are important fields in Assam, but the distance of the Assamese coal-fields from the leading industrial centres and the seaports of India prohibits more use of these high-class coals, of which large reserves exist. The other coal-fields are to be found in the Central Provinces, the Punjab and the Rajputana Agency, but they are small both in size and output. In the beginning of the present century the average production of coal was  $7\frac{1}{2}$  million tons, of which the share of the Bengal coal-fields was 84.9 per cent. During the quinquennium 1919-23 production has increased to a little over 19 million tons, of which 91.3 per cent. is contributed by the Bengal coal-fields.

The coal-fields of India are found in deposits much younger than those of Europe, and, generally speaking, it may be said that they belong to the Gondwana

<sup>1</sup> Vide *Quinquennial Review of the Mineral Production of India*.

Age. They invariably follow the river valleys, and to a great extent are basin-shaped.

The Indian coal industry is at the present moment suffering from acute depression. The institution of coal control in 1919, the restriction of transportation facilities, high freights and the dumping policy of South Africa, have deprived India of her command over the foreign market as well as the Bombay market. There has, further, taken place an increase in the cost of production by more than 50 per cent., and the greater part of this increase is attributed to higher wages. As for the other causes, "the requirements of the new Mines Act, the new Boiler Act, together with higher standard demanded in such matters as housing, sanitation, and water supply, have undoubtedly contributed their quota to the enhanced cost of raising coal." <sup>1</sup>

But the most important drawback of the Indian coal industry is the low output of coal per head per annum. "In no country in the world," it is observed in the *Report of the Indian Coal Committee*, "which has a coal industry of any size, is the output per head per annum so low as it is in India." <sup>2</sup> The output per head per annum is 193 tons in Natal, 316 tons in the Orange Free State, 328 tons in Transvaal, but in India it is less than 100 tons. This low output is attributed to the inefficiency of labour which is primarily agricultural, but as a coal-miner merely casual and unskilled. His standard of comfort is low, and the only effect of an increase in wages

<sup>1</sup> Vide *Report of the Indian Coal Committee*, p. 34.

<sup>2</sup> *Ibid.*, p. 35.

is a decrease in output, as he can obtain the amount he needs by working fewer days in a week. The industry is at present demanding protection, and the question is under the consideration of the Tariff Board.

Coal output is the dominating factor in competitive industry, and its importance will be more and more realised as the country advances as a manufacturing producer. "The possession of native coal," says Mr. L. G. C. Money, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented—which can be expressed at will either as light or as heat or as electricity."<sup>1</sup>

Gold. Gold is produced of the value of about 2.55 crores of rupees. The production of gold in the world was valued in 1922 at 72 millions sterling. India contributed only 3 per cent. of the total, and occupied the eighth place among the leading gold-producing countries of the world.<sup>2</sup> The Kolar fields of Mysore produce 99.6 per cent. of the total

<sup>1</sup> The main cause of British industrial progress is the amount of its coal output (264 million tons in 1910). But this also explains the main cause of its relative industrial decline. Since 1875, the coal output of the United Kingdom has increased from 133 million to 264 million tons (1910), whereas the world's output has increased during the same period from 280 millions to 1150 million tons. Thus the United Kingdom's output as percentage of the whole was 48 per cent in 1875 and 23 per cent. in 1910 (vide L. G. C. Money, *Things that Matter*, p. 287).

<sup>2</sup> Vide *Quinquennial Review of the Mineral Production of India*.

output.<sup>1</sup> The attention of European prospectors was directed to this field by the numerous old indigenous workings. During the early eighties a large number of companies was floated with extravagant hopes, but by 1885 they became moribund. By 1887, operations were resumed, and up till 1905 the industry showed uninterrupted progress. The production of gold has in recent years fallen owing to zones of lower grade having been reached. The deepest mines are Champion Reef and Oregum, which have reached a depth of over 6000 feet. Dividends paid by the gold-mining companies reached their maximum in 1905, when they amounted to £1,006,615 on a capital of £1,600,000. Since then there has been a sharp decline in the dividend. Complete returns of alluvial gold-washing, which is practised in many places, are not available.<sup>2</sup>

Petroleum comes second, the value of produce being <sup>Petroleum.</sup> slightly more than 10·5 crores of rupees. The average production of petroleum in India is just below 300

<sup>1</sup> The following table shows the production of gold in the different provinces of India :

Provinces	Quantity (oz) 1923	Value (Rs)
Burma - - - -	67·76	5,806
Madras - - - -	1,519	1,01,016
Mysore - - - -	420,669·1	2,54,29,831
Punjab - - - -	48·8	2,860
United Provinces - -	1·8	125

<sup>2</sup> Dredging operations on a pretty large scale on the river Irawady have resulted in the recovery of considerable quantities of gold every year.

million gallons. During the last two decades there has been a phenomenal increase in the production of petroleum. India contributes a very small portion of the world's supply. In 1923 her output amounted to only .83 per cent. of the world's marketed production. More rapid progress has been made during the past few years in developing the petroleum resources of India than most of the other mineral products. Since the introduction of European drills into the fields some thirty years ago, the production has rapidly risen.

**Manganese.** Of manganese India turns out a larger quantity of high-grade ore than any other country. The value of the annual output is over 3.32 crores of rupees. Formerly, only the high-grade ores were worked, but during the post-war boom, with the phenomenal activity in the steel industry, many deposits of lower grades have been worked at a profit. There being no smelting plant in the producing centres, the ore is exported in bulk exactly as mined.

**Mica.** India has for many years been the leading producer of mica, turning out more than half the world's supply. The value of annual production is about 15.8 lakhs. Practically all the Indian mica is exported to Europe and America. The mica industry suffered in 1921, when a general slump affected all industries. But since 1923 there has again been a brisk demand for Indian mica. The chief mica-mining areas in India are those of Hazaribagh in Bihar and of Nellore in Madras. By far the greater portion of the output of mica is obtained from the Bihar mica belt.

**Other minerals.** The other important minerals produced are salt, jadestone, rubies, lead, tin, and monazite.

Iron ore has at present become an important **Iron.** mineral product of India. The most important iron ore area is situated some 150 to 200 miles to the west of Calcutta. These deposits are remarkable for the high percentage of iron they contain, and will undoubtedly prove to be among the largest and richest in the world.<sup>1</sup> Dr. Fox estimates that the iron ore resources available in India are in the neighbourhood of 300 million tons.<sup>2</sup>

The production of iron ore has largely increased since the establishment of the Tata Iron and Steel Company in 1911. In 1910 the production of iron ore amounted to 42,653 tons only, but in 1923 it rose to a little over 800,000 tons.

The number of mines of all kinds coming under the Indian Mines Act in 1921 was 1035, of which 628 were coal mines, 203 mica mines, and 52 manganese mines. The mines gave employment to an average daily number of 266,743 persons (as against 146,336 in 1911), of whom there were 36 females for every 100 males. The labour material is very unformed, possesses little skill, and requires constant supervision.<sup>3</sup>

Most of the mining industries are in the hands of Europeans. But it is no use complaining against foreigners. What is needed is to find out the cause and to apply the remedy. The real reason for this deplorable state of affairs is to be found in the want of indigenous capital and enterprise, and in the fact

Mining mainly  
in European  
hands.

<sup>1</sup> *Quinquennial Review of the Mineral Production of India*, p. 150.

<sup>2</sup> *Report of the Indian Tariff Board regarding the Grant of Protection to the Steel Industry*, p. 11.

<sup>3</sup> *Statistical Abstract for British India, 1921-22*.



that very little technical and scientific knowledge is available in the country. It is to be hoped that in future capitalists will invest their money in mining industries, and that the State will offer proper facilities for the training of young men in mining.<sup>1</sup>

<sup>1</sup> Sir V. Thackersey, in his presidential address at the Industrial Conference, 1906, earnestly pleaded for the training of young men in mining, so that they may help the development of mineral industries in the country.

## CHAPTER VII

### PRODUCTION—(*Concluded*)

#### ✓MANUFACTURES

At the present moment India is very backward in the matter of manufacturing industries. But there was a time when she was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and skill and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Manufactures  
in ancient and  
mediaeval  
India.

The metal industries, and the cotton fabrics in particular, attained to considerable magnitude in many parts of the country. An able writer says: "In manufacture the Hindus attained to a marvellous perfection at a very early period, and the

Their  
excellence.

courts of Imperial Rome glittered with gold and silver brocades of Delhi. The muslins of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India." <sup>1</sup> In the words of Sir William Hunter, "the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns.

Causes of their decay.

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By the adoption of methods

<sup>1</sup> So also M. Martin in his *Indian Empire* says: "The gossamer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood; brilliant dyed chintzes, diamonds, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture—were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

which saved labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change. The Indian artisans continued to work as their forefathers had worked—without capital, without the assistance of machinery, without organisation. Each man went on working by and for himself as before; the appliances he used were the same as had been in common use before the manufacturing era began; there was no co-operation among the artisans; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. To these defects were added the efforts of the East India Company and of the British Government at home to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by state action. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.<sup>1</sup>

<sup>1</sup> Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics not by fiscal duties but by absolute pro-

Tendency  
towards im-  
provement

All industrial activity and enterprise remained paralysed for a long time. In recent years, however, there has become discernible a tendency to better

hibition. A change of fashion in the West Indies on the abolition of slavery took away the best customer left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American war, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts. . . . And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstance has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

That eminent historian, H. H. Wilson, says: "It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from fifty to sixty per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 or 80 per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she would have retaliated; would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger; British goods were forced upon her without paying any duty; and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms" (*History of India*, vol. I. pp. 538, 539, note).

things. But the situation is still full of difficulties. Modern industry, to be successful, must be undertaken by the educated Indian. But he lacks the practical commonsense of the business-man, and his education has not fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital is wholly inadequate for the starting of business on a proper scale, and there are few banks, if any, which would be ready to lend him money. He cannot command the services of men who possess the requisite knowledge and technical skill. The conditions are so discouraging that he often gives up his idea in despair, or, if he is of a sanguine temperament, goes lightly into foolish schemes which can only end in failure.

Difficulties still great,

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last two decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a new energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam and electricity are superseding hand-power.<sup>1</sup> Attempts

but are being overcome in part.

<sup>1</sup> The Tata Hydro-Electric Works, opened in February 1915, are expected to be of the highest economic importance. Power by the enormous volume of water is transmitted from the Ghats to the city of Bombay. This power will be of great benefit to the cotton and other industries. One noteworthy feature of the

are being made to revive old industries and new ones are cropping up in every direction.

The chief industries.

A brief review of the more important of the industries will give an idea of the present industrial position of the country. The industries are usually classified under the following heads: (1) textile fabrics and dress, (2) food, drink, and stimulants; (3) metals, metallic manufactures, precious stones, and minerals; (4) glass-, earthen-, and stone-ware; (5) building requisites; (6) light, fuel, and forage; (7) vehicles and vessels; (8) wood, cane, leaves, etc.; (9) drugs, dyes, gums, and chemicals; (10) leather, horns, etc.; and (11) articles of supplementary requirements.

Weaving.

Weaving is the most important industry of the country next to agriculture. It is believed that between two and three million handlooms are at work in India, and their annual gross earnings amount to something like fifty crores of rupees.<sup>1</sup> Hand-loom weaving reached a perfection in the production of fine cloths. Indian muslins were once regarded as fabrics of unrivalled delicacy and beauty. The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women.

Ginning, Cleaning, Pressing, and Spinning.

scheme is that it has been financed entirely by Indian capital and executed under an Indian Board of Directors. The electricity supplied by the Cauvery Falls Power Station has been a considerable factor in the success of the Kolar Gold Field. There is no doubt that more enterprises of this nature will be undertaken in the near future.

<sup>1</sup> Vide *Report of the Indian Industrial Commission*, p. 194.

But now hand-ginning has been superseded to some extent by power-gins. Cleaning and pressing are very often combined with ginning in the same factories. Spinning of thread was a domestic industry—the chief occupation of women. Of late, a movement has been initiated to popularise the spinning industry, and various arguments have been advanced in support of this industry. But expert opinion regards hand-spinning as an economically unsound proposition, however great may be the other merits which it possesses. The indigenous method is slow but cheap. Mr. E. B. Havell thinks that this method cannot be materially improved, and recommends the establishment of more spinning mills. Hand-loom weaving has suffered greatly in competition with Manchester, and hundreds of thousands of workers have been thrown out of work. The weavers of Bengal, whose fame at one time extended over Europe, have suffered most from foreign competition. During the *Swadeshi* movement the hand-loom industry received a great impetus. The Industrial Commission pointed out that the hand-loom industry showed a tendency to consume an increased quantity of yarn year after year. Recently it has received further encouragement from the political propaganda inaugurated by Mr. Gandhi.

Effect of  
foreign  
competition

Weaving mills have been established in various parts of the country, but a large proportion of the population is still dependent on hand-loom weaving. Hand-loom weaving is more expensive than power-loom weaving. Experts, however, think that there are several factors in favour of the hand-loom, which



Advantages of  
the hand-loom.

may be summed up as follows : The amount of fixed capital needed is small ; the coarser hand-loom articles are stronger and more durable than those produced by the power-loom ; artistic and richly-ornamented articles can be produced only by the hand-loom ; the hand-weaver possesses considerable advantage in his inherited skill ; he has a low standard of living and combines the industry with other occupations, notably agriculture ; women who, on account of the social customs and the system of seclusion, are generally debarred from working in the factories, can find a place in the industry ; the hand-worker who works on his own account works harder and takes greater interest in his work than the factory labourer.

Views of Mr.  
Havell and Mr.  
Chatterton.

The fact that hand-loom weaving has not entirely died out has led many people to hope that the industry may yet be saved. Mr. E. B. Havell and Sir A. Chatterton think that, by the adoption of improved methods, the hand-loom may successfully compete with the power-loom. This belief, however, is not shared by other experts, who find in the establishment of weaving mills the only means of meeting European competition.

Views of the  
Industrial  
Commission.

The Industrial Commission, on a review of the position of the hand-loom industry of India, remarked : " The workers are usually uneducated and without a knowledge of anything regarding their trade, except what can be acquired locally. Their lack of education denies them access even to the most elementary technical literature, and they can be influenced only by ocular demonstrations in their neighbourhood.

Owing to their lack of contact with the outside world, new ideas do not readily occur to these small workers, and they can receive material help from the supply of new patterns and designs. Much useful work can be done by bringing to the notice of artisans labour-saving devices, or even such complex pieces of mechanism as the Jacquard machines for weaving intricate patterns on hand-looms.”<sup>1</sup>

The hand-loom industry has a distinct sphere of activity. If it specialises in the production of artistic products, and products which can meet the particular demands of a locality, there seems to be no reason why it should not flourish, provided certain improvements are adopted in its technique, organisation, and finance.

Among the means of improving the hand-loom industry which have been suggested from time to time the following are worthy of mention: (a) the spread of elementary education so as to raise the intellectual standard of the community; (b) the use of efficient hand-looms; (c) improvements in preliminary processes; (d) co-operation among weavers; (e) demonstration to the weavers of successful experiments; (f) cheap credit; (g) advances for improved appliances; (h) better touch of the weavers with the customers so that they may know the demand of the market; (i) the establishment of small hand-loom factories and weaving schools.

Suggestions for improvement.

During the last half a century there has been a <sup>Weaving mills.</sup> great development of the mill-weaving industry, especially in Bombay and the Central Provinces. In

<sup>1</sup> *Report of the Indian Industrial Commission*, p. 161.

1881, there were 55 cotton mills. In 1923, the number rose to 312, and they gave employment to 360,600 persons. The produce of these mills is now able to hold its own against foreign produce in quality. But the quantity locally produced falls far short of what is needed to clothe the entire population, and India has to import many crores of rupees worth of cotton goods from abroad. The average consumption of cotton goods during 1913-14 and 1920-21 was about 400 crores of yards, of which 142 crores of yards were imported and an equivalent quantity was produced by Indian mills, and the remainder was produced by hand-loom.<sup>1</sup>

Effects of the  
war.

The last European war interfered with the supply of cotton goods, and brought in its train very high prices. It thus gave a great stimulus to the development of the cotton mill industry in India. In 1914-15 the amount of paid-up capital invested in the industry was 43.57 crores of rupees, but in course of less than a decade it more than doubled itself. The number of looms and spindles during the same period increased from 103,311 and 659,000 to 147,087 and 790,000, and the outturn rose from 276 million pounds to 401 million pounds. The quantity of yarn produced now is more than 600 million pounds, of which about two-thirds is of counts 1-20. India thus produces only coarser yarns and goods and has to import finer products. Attempts should be made in the direction of fine spinning and weaving if our dependence on foreign countries is to be reduced in respect of clothing.

The excise duty on the cotton mill industry imposed

<sup>1</sup> *Vide* Coubrough, *Indian Piece Goods Trade*, p. 2.

in 1894 was a real handicap upon the growth of this industry. The recent abolition of this unpopular duty, aided by the *Swadeshi* sentiment, is likely to lead to a further growth of the weaving industry.

The process of weaving silk is the same as that of Silk-weaving cotton, but it requires greater care, and hence the use of a specialised kind of machinery. The greater part of the silk produce is done by the hand-loom. During the early years of the administration of the East India Company, silk industry in India was in a thriving condition. The import of Bengal silk into England averaged 5,60,285 lbs. during 1776-1785. But the industry has greatly declined. The importation of foreign silk, especially from Japan and China, has greatly affected the silk-weaving industry. The development of artificial silk in foreign countries in recent years is threatening the Indian industry. Indian silk weavers nowadays use large quantities of foreign silk yarn. The industry is mostly carried on as a domestic business, as there are only five mills throughout the whole of India. The main advantage is that it can offer employment to women of the middle class. Expert authorities are inclined to think that there is a considerable scope for the development of silk-weaving as a home industry, provided it is organised on sound lines. "On general grounds of social economy, hygiene, and the like," says Mr. Maxwell-Lefroy, "I am not in favour of any mill development as a solution of the problem; the weaving industry seems to me to be eminently suited to the Indian craftsman working in his own village if his circumstances can be bettered: and if I am correctly informed, the success

achieved by Japan has been due largely to a splendid organisation of cottage weaving centred round factories which only collect and finish the fabrics.”<sup>1</sup> Co-operation is probably the best solution, and the development of weaving on co-operative lines is urgently needed. Mr. Maxwell-Lefroy offers the following suggestions for the improvement of the silk industry. (1) improvement in design, (2) development of commercial organisation, (3) cheapening of raw materials and methods of production wherever possible, (4) production of suitable fabrics and their spread by demonstration, (5) help to local schools with expert advice, and (6) assistance to local efforts with orders and financial facilities.

**Knitting.** Allied to weaving is knitting. This industry has received a great impetus from the new spirit. It can give employment to a large number of women who may be engaged to work with small machines in their own homes for piece-wages. Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *daris* form the subject of an important industry in the United Provinces. Artistic work on dress was at one time very much in demand, but is now in a declining state.

**Woollen industry.** The indigenous woollen industry of Northern India has suffered much in competition with cheap German goods. Attempts have been made during the last quarter of a century to develop the industry on modern lines. In the Punjab and the United Provinces, a number of woollen mills have been started,

<sup>1</sup> *Report of an Enquiry into the Silk Industry of India*, vol. II. p. 142

those at Dhariwal and Cawnpore being the most important among them. Woollen carpets of good quality are made in the United Provinces. The scarcity of raw material of a good quality is an obstacle to the growth of the industry.

Jute supplies the raw material for the manufacture <sup>Jute.</sup> of gunny bags and things of the sort. In Bengal there has been an immense development of the industry during the last three-quarters of a century. The first jute-spinning mill was erected at Rishra near Serampur in 1855. It was followed four years later by the first power-loom factory at Barnagore. Since then, both the banks of the Bhagirathi have been dotted with the smoking chimneys of jute mills. The record of this industry since its establishment is one of uninterrupted progress. Every decade shows an increase in the paid-up capital invested in the industry. In 1901-02, there were thirty-six mills with a capital of 435 lakhs plus £1,741,000. These possessed 16,119 looms and 331,382 spindles, and gave employment to 114,795 persons. The last European war gave a great stimulus to this industry, as jute gunnies were largely required as munitions of war, and the industry paid fabulous dividends. The number of mills increased to 89 in 1923-24, and the capital invested to about 18 crores and £2½ millions. In addition to this, the Americans have invested \$17 million in this industry. The number of looms and spindles has risen to 49,038 and 1,043,417 respectively, and the number of persons employed to 329,700. Among the organised industries of the country, this industry ranks second as regards employment of

labour, but the bulk of this labour is imported from the neighbouring provinces. It is a fact worthy of note that "the Bengali is taking a smaller and smaller share in the openings for manual labour created by the mills, and at the present time not more than 10 per cent. are locally supplied."<sup>1</sup> This industry is almost entirely in the hands of Europeans.

Paper The manufacture of paper was at one time an extensive hand industry, but now it has almost died out. The paper produced in India is now almost wholly machine-made. The production of machine-made paper in India dates from the establishment in 1870 of the Bally Mills on the Bhagirathi. Since that date eight more mills have been established, having a capacity of 37,000 tons of paper a year. The staple material for the manufacture of paper in India has hitherto been *sabai* grass, which grows abundantly in many parts of Northern India. No attempt has yet been made to make paper from Indian wood. The Forest Research Institute at Dehra Dun has made extensive investigations into the possibility of utilising Indian grasses other than *sabai*, and the prospects of some of them have appeared reasonably good. The possibilities of making paper from bamboo are at present being explored.<sup>2</sup> Only one concern in India, viz., the Indian Paper Pulp Company, is at present producing pulp and paper from bamboo.

<sup>1</sup> Vide *Report of the Indian Industrial Commission*.

<sup>2</sup> "It is, I think, a modest estimate to say that from bamboo, taking only that which is available under possible manufacturing conditions, Burma, Bengal and the South-west of India can produce 10 million tons of pulp per annum. . . . India could therefore produce pulp for the whole world." *Raiff, Journal of the Royal Society of Arts, 1921.*

Indian paper industry has had to face acute foreign competition, and recently it sought the assistance of the State in the shape of a protective duty. The Tariff Board, after due consideration, have expressed the opinion that those mills that use *sabai* grass do not deserve any protection ; but " the manufacture of pulp and paper from bamboo might in time become a very important industry in India, and the prospects are good enough to justify the grant of State assistance to the firms who are endeavouring to promote its development." <sup>1</sup> Paper mills are now working at several towns ; but they can hardly be said to be in a flourishing condition. <sup>2</sup>

Dyeing was at one time a very thriving industry, but the Indian dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes. <sup>3</sup> The indigenous dye industry has probably

<sup>1</sup> *Report of the Tariff Board on the Grant of Protection to the Paper and Paper Pulp Industry*, p. 85.

<sup>2</sup> Mr. W. Raitt, Cellulose Expert attached to the Forest Research Institute, Dehra Dun, is of opinion that the waste grasses of Northern and Central India are likely to be of great value in cellulose or pulp-making. He also thinks that pulp made from bamboo will shortly become a staple article for the production of paper in India.

<sup>3</sup> As regards the British dye industry, the Government has given financial assistance in the form of an advance up to a maximum of £1,700,000 secured by debentures, but paying only a low rate of interest (4 per cent.) to a producing association of consumers. It has also given a grant of £1,00,000 for scientific research in respect of the production of synthetic dye stuffs. *Vide Report of the Committee on Commercial and Industrial Policy after the War*, p. 2. There is no reason why the Indian Government should not follow this example.



felt—more than any other—the effects of modern technical progress, and many dyers have had perforce to seek other means of livelihood.<sup>1</sup> Dyes are manufactured from various stuffs, such as indigo, catechu, al, safflower, lac, and turmeric, but nowhere on a considerable scale. Indigo industry has greatly declined since the production of synthetic indigo by Germany.

Rice-hulling,  
Wheat-  
milling, etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries, and biscuit manufactures. Flour mills have of late been started in many towns, but in Northern India milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In Bengal and the Punjab, several biscuit factories have been started.

Sugar.

Sugar used to be one of the important industries of India, but it can hardly be said to be now in a flourishing state. The Indian Industrial Commission remarked: "Although India possesses a larger acreage under sugar-cane than any other country in the world, the imports of sugar have grown in recent years with very great rapidity, and before the war was exceeded only by those of cotton manufacturers."<sup>2</sup> Refined Indian sugar fails to compete successfully with imported sugar. Germany's bounty-fed beet sugar gave the first serious shock to the ancient sugar industry of India. The Indian Sugar Committee have very exhaustively dealt with the question of the pro-

<sup>1</sup> *Report of the Indian Industrial Commission*, p. 195.

<sup>2</sup> *Ibid.* p. 34.

duction of sugar in India. They have pointed out that the production of sugar per acre is extraordinarily low in comparison with other cane-growing countries. The average outturn of sugar in India is 1·07 tons as against 1·96 tons in Cuba, 4·12 tons in Java and 4·61 tons in Hawaii. The problem of the development of the sugar industry hinges consequently on the increase of yield per acre. The yield of sugar depends on agricultural as well as industrial factors.

As regards agricultural factors, the selection of the right variety of cane is perhaps the most important. Experiments are being conducted not only with the indigenous varieties, but also with exotic varieties. At Shahjahanpur Mr. Clarke, by deep tillage, heavy manuring and an ample supply of water for irrigation, has successfully grown exotic varieties of cane, and the yield obtained there was 3·7 tons of *gur* per acre.<sup>1</sup> The question of manure is another important factor. In this connection the Indian Sugar Committee observed : " If the urgent demand for increased food production is to be met and the full benefit of extensions of irrigation is to be realised, it is essential that a supply of fertilisers should be available at reasonable prices." <sup>2</sup>

The possibilities of the introduction of motor tractors should be thoroughly explored. The average cost of cane cultivation with labour-saving machines is 4·7 annas per maund as against 5 to 6 annas with hand-labour in Northern India.

The manufacture of sugar is carried on under very

<sup>1</sup> *Report of the Indian Sugar Committee*, p. 39.

<sup>2</sup> *Ibid.* p. 216.

wasteful methods. Indian cane-crushing mills, which are mainly driven by bullocks, are mostly antiquated. The Industrial Commission estimated that of the sugar grown in India roughly one-third was wasted owing to inefficient and primitive methods of extraction. The Indian Sugar Committee have calculated that the present inefficient methods involve an annual loss of 1,068,960 tons of sucrose in the manufacture of *gur* alone.<sup>1</sup> They have made important suggestions regarding the construction of furnaces, the boiling of the juice, and the refining of sugar, which may with great profit be adopted by the cultivators.

During the last two decades, sugar production on a factory scale has been undertaken in India. In 1925-26 there were 23 factories in India which produced sugar direct from cane. Of these ten were located in Bihar, nine in the United Provinces, and two each in Bombay and Madras. The production of sugar by factories totalled 14,14,523 maunds during the year. These factories are all small in size, and their total outturn does not exceed that of a single factory of Java. Much of the machinery in those factories is of old design, and the manufacturing losses are considerable. The chief difficulty in the case of these factories is in regard to the supply of the raw material, for the production of cane is mostly dispersed. The problem of sugar production on a large scale in India raises important issues on concentration of cane production, transport, irrigation, and improved mechanical processes. With the adoption of improvements in the method of pressing the cane, of boiling

<sup>1</sup> Vide *Report of the Indian Sugar Committee*, p. 263.

down the juice, and of sugar refining, together with an improvement in the production of the raw material, the industry is likely to thrive once more.

India produces enormous quantities of hides and skins, but exports the greater portion of them in a raw or half-manufactured state to foreign countries. The progress of the leather industry has not been on a scale which one would have wished. The indigenous leather industry was in an extremely primitive condition, and only very inferior kinds of leather were produced. The establishment of the Government Harness and Saddlery Factory at Cawnpore in 1860 marked the beginning of the adoption of European methods of tanning.

Leather industry has received a stimulus from the introduction of chrome tanning. A Government factory was started at Madras in 1903 to manufacture leather by chrome tanning as an experimental measure. The success of this experimental factory led to the adoption of chrome tanning in tanneries which used bark only. There are 59 tanneries in India, of which only seven are engaged in producing chrome leather.

During the last war no less than 60 per cent. of the total number of army boots manufactured in England was made of Indian leather.<sup>1</sup> The control of this industry by the now defunct Indian Munitions Board resulted in the production being fully doubled. The Indian Industrial Commission expressed the opinion that the leather industry could be stimulated by the institution of technical training and by experimental

<sup>1</sup> *Journal of Indian Industries and Labour*, Ledgard, "Leather Trades and Shoe Manufacture in India," p. 170

work on a considerable scale. The educational aspect of the problem has for some time past been receiving the attention of the Government, but not much has yet been done in that direction. Three research institutes have recently been started—the Leather Trades Institute at Madras, Government Leather Working School at Cawnpore, and the Calcutta Research Tannery—with the object of helping the development of the local tanning industry by technical research.

Export duty  
on hides.

With a view to making the raw material available at low price, Government in 1919 imposed an export duty of 15 per cent. on hides and skins, with the proviso that a drawback of 10 per cent. should be given in the case of exports to any part of the British Empire. In 1923 the export duty was reduced to 5 per cent. only.

Leather industry is progressing in India at the present moment.<sup>1</sup> Chrome tanning, which was first begun in Madras only a few years ago, has now been adopted in almost every part of the country. Tanneries have been established all over the country, the most important centres of manufacture being Agra, Cawnpore, Calcutta, Bombay, Cuttack, and Madras.

Oils and oil-  
seeds.

Oils and oil-seeds form the subjects of useful

<sup>1</sup> The common belief that leather industries were not practised in ancient India is wrong, for we find the description of a large variety of skins in Kautilya's *Arthashastra*. "Tanneries of considerable size must have existed to supply the harness and saddlery for the enormous number of troops who were kept under arms by the numerous Rajahs, Zaminders, and petty Chieftains of the country." Appendix to the *Report of the Indian Industrial Commission*, p. 56.

industries throughout the country, but there is ample room yet for their further expansion. The cotton-seed industry has materially helped to make the United States one of the foremost among the industrial nations of the world. The export of cotton-seeds involves an immense loss to the country; and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way.

The exports of non-essential oil-seeds from British India for the five pre-war years averaged 1,432,607 tons annually, valued at nearly 24 crores of rupees, and for five years ending 1918-19 averaged 699,255 tons, valued at nearly 12 crores. These figures are sufficient to show both the extent of the loss which India suffers by the export of a valuable by-product which should be returned to the land, and the possibilities of an extension of the oil industry which would enable the oil-cake to be retained in this country.

In the metal industries many of the local handicrafts attain to considerable magnitude. "The high quality of native-made iron," says Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world."<sup>1</sup> The art of smelting iron, of welding it, and of making steel has been known to the Hindu "from time immemorial."

Metal industries.

<sup>1</sup> Sir Thomas Holland rightly says: "In ancient times the people of India seem to have merited their fame for metallurgical skill." (Vide his *Sketch of the Mineral Resources of India*.) Steel was in extensive use in India several centuries before the Christian era.

Iron-smelting was at one time a widespread industry in India. In ancient times the people of India seem to have acquired a fame for metallurgical skill, and the reputation of wootz steel, which was certainly made in India long before the Christian era, spread far and wide.<sup>1</sup>

The wasteful indigenous process of smelting iron in small furnaces with wood fuel was a great drawback to the growth of the iron industry. The manufacture of pig iron and steel in India by European processes was marked by conspicuous failures during the nineteenth century. The first scheme which proved to be a financial success was the Bengal Iron Company. But the growth of this industry is mainly due to the activities of the Tata Iron and Steel Company, which commenced operations in 1912. The total capacity of the Indian iron and steel works is only a fraction of the total amount imported.<sup>2</sup> There is sufficient scope for the development of this industry. It has been rightly observed: "The market is large, and with the expansion of demand, provided there is an adequate extension of transport facilities, there would be room for two or three steel works each with an output comparable to that of the works at Jamsedpur."<sup>3</sup> This industry is suffering greatly from the effects of post-war depression, and has recently been protected and subsidised by an import duty as well

<sup>1</sup> Vide *Quinquennial Review of the Mineral Production of India, 1919-23.*

<sup>2</sup> Vide *Report of the Indian Industrial Commission.*

<sup>3</sup> *Review of the Tariff Board regarding the Grant of Protection to the Steel Industry, p. 15.*

as a bounty. In recommending the case of this industry for protection, the Tariff Board pointed out that

- (1) India possessed great natural advantages for the manufacture of steel owing to the richness and abundance of iron ore deposits and the comparatively short distance which separated them from coal-fields ;
- (2) the continued existence of steel manufacture in India was in grave jeopardy, and unless protection was given there was no prospect of future development ;
- (3) the natural advantages were so great that eventually steel manufacture in India should be possible at as low a cost as in any other country.

Copper and brass vessels which are necessary articles in every household are even now manufactured in every district. The chief centres of manufacture are, however, Murshidabad, Srinagar, Benares, Mirzapur, Moradabad, and Mysore. The artistic and jewellery works of Multan, Cuttack, Madura, Poona, and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more are found in every town and village. Cutleries have been in existence for some years in different parts of the country. The lock-works of Calcutta, Aligarh, and Hathras, have been doing very good business. The manufacture of steel trunks is becoming a very useful industry. The



aluminium industry of Madras has become important during the last twenty years.

Engineering  
Industry.

In India industries based on technical science have been disregarded. The imports of machinery are due to the absence of a complete system of engineering industries based on the large-scale manufacture of iron and steel. There is a fairly large number of engineering workshops and railway workshops to meet the rapid expansion of modern industrial ends. But engineering shops in India are devoted mainly to repair work or to the manufacture, mainly from imported materials, of comparatively simple structures. This is undoubtedly one of the greatest industrial deficiencies of India. If a forward policy of industrial development is to materialise in the future, the development of engineering industries is urgently called for.

Glass.

The manufacture of glass by the indigenous method has existed from very early times. Bangles are made of crude glass obtained from *reh* or saline deposits on barren land. The bangle industry of Ferozabad represents about 50 to 60 factories, with an outturn of *churies* valued at £13,333. But these factories are mostly worked on antiquated methods. Flasks, ink-pots, and such other small things are blown from crude glass. Glass factories were a few years ago started in several places, some of which have had, however, to be closed. The factories in Upper and Western India have to work under one great disadvantage, namely, that coal for the furnace has to be brought from a great distance. The history of this industry is a record mainly of failure, and such

success as has been attained by a certain number of factories has been due to the abnormal conditions created by the war.<sup>1</sup> The other difficulties which the glass industry has to contend with are: want of skilled labour, inexperience of the requirements of the Indian climate regarding furnaces, and difficulty of glass blowing in hot weather.

Glass industry requires high-grade technical knowledge. But the acquisition of such knowledge by the Indian operatives is extremely difficult. It has been remarked: "European glass works where Indian workmen could be trained are not open to receive apprentices who mean to use the skill they acquire for competitive purposes."<sup>2</sup> Mr. Fox thinks that glass factories for the manufacture of glass bangles, bottles, scientific glassware and tableware, if established in the Bengal coal-fields or in Calcutta, have the greatest advantages against imported goods. The reasons are mainly that fuel is cheap, and that a large market for glass is in close proximity. An organisation is wanted to take up the whole problem.

Woodwork and carpentry are still, in the main, hand Carpentry. industries. Saw mills have, however, been established in many parts of the country.

The once flourishing chemical industries of India Chemical Industries. have been almost stamped out by the foreign manufacturer. The foreign chemical product has obtained a supremacy in India, however, not merely because it is cheaper, but mainly because it can be depended on

<sup>1</sup> *Appendix to the Report of the Indian Industrial Commission*, p. 66.

<sup>2</sup> C. S. Fox, *Notes on Glass Manufacture*, p. 48.

for uniformity of quality. India imports chemicals to the value of more than a crore of rupees a year. Simple drugs and extracts are manufactured by some factories on a small scale, but for the greater portion of her requirements she is dependent upon foreign countries. The industrial development of India has been greatly handicapped by the lack of chemical industries in the country. The Indian Industrial Commission observed: "In the absence of any means for producing from purely Indian sources, sulphuric, nitric, hydrochloric acids and alkalis, our manufactures, actual or prospective, of many things such as paper, drugs, matches are dependent upon imports which under war conditions might be cut off."<sup>1</sup>

It is recognised that the manufacture of heavy chemicals is a key-industry, and their development is urgently called for. The Chemical Services Committee have expressed the opinion that there is an enormous field for the production of carbon compounds in India. Dr. Watson has suggested the desirability of establishing the coal tar industry in this country, for it is from coal tar that all countries obtain their high explosives, their synthetic drugs and their synthetic dyes.<sup>2</sup> Several factories—the most notable among them being the Bengal Chemical Works of Calcutta—have during the last few years been doing very good work in the way of reviving the chemical industries of India.

<sup>1</sup> *Report of the Indian Industrial Commission*, p. 53.

<sup>2</sup> *Vide Watson, Chemical Research in India*, p. 187. *Journal of Indian Industries and Labour*.

Perfumes and essential oils are important industries in the United Provinces. Ghazipur, Jaunpur, and Kanauj are famous for the produce of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on western models have been established in Calcutta, Bombay, and some other cities. Soap is manufactured by the indigenous process, and also in factories on modern lines. The soap factories of Calcutta and Meerut do business on a fairly large scale. Perfumes, etc.

The tobacco industry is very extensive. But it is suffering acutely from competition with foreign products, specially American. The technique of cigar and cigarette-making has not been fully studied in India. It is quite vigorous in Burma, where women mostly participate in this industry. Though the competition of the foreign product is increasing largely, adequate steps have not yet been taken to develop this industry on a large scale. Tobacco.

Dairy-farming is more akin to agriculture than to manufacture, and can be profitably practised in association with the former. It ought to be a flourishing industry in India, but unfortunately is now in a languid state. The reason is to be found in the uneconomical method of work, the neglect of hygiene and breed of cattle, and the want of pasture lands. The supply of milk and its products, such as butter, *ghee*, *matha*, etc., has greatly contracted. The best efforts of the people should be directed towards an industry which would supply them with the best and most nutritious kind of food. For this purpose, the improvement of cattle and an increase of grazing Dairy-farming.

fields are absolutely essential.<sup>1</sup> The extension of dairy-farming on co-operative lines should be carefully considered. The problem of milk supply in cities has assumed an acute form, and it is high time that the municipalities of India should move in this direction.

Mills and  
factories.

The total number of factories worked by mechanical power was 5,973 in 1923. A classified list of the more important among them is given below :

Cotton mills, - - - - -	312
Cotton presses, - - - - -	2199
Jute mills, - - - - -	89
Jute presses, - - - - -	110
Woollen mills, - - - - -	14
Paper " - - - - -	8
Arms and ammunition factories and arsenals (Government) - - - - -	15
Breweries, - - - - -	8
Dockyards, - - - - -	21
Iron and brass foundries, - - - - -	84
Lac factories, - - - - -	15
Petroleum refineries, - - - - -	16
Printing presses, - - - - -	247
Railway workshops and factories, - - - - -	109
Rice mills, - - - - -	1088
Flour ,, - - - - -	60
Saw ,, - - - - -	186
Silk filatures and mills, - - - - -	12
Sugar factories, - - - - -	38
Tile and brick factories, - - - - -	113

Of the cotton mills 192 are in Bombay, 20 in the

<sup>1</sup> In Canada, dairy-farming, with the allied industries, is fostered by Government by the employment of experts and the maintenance of dairy schools. The Government of India also might well do something in this matter.

United Provinces, 20 in Madras, and 15 in Central Provinces. Cotton ginning factories largely preponderate in Bombay and Berar. The various branches of the cotton industry give employment to 525,600 persons. Bengal has a virtual monopoly of the jute industry with 83 out of 89 jute mills in the total. Silk mills and filatures are found chiefly in Bengal and Bombay, and woollen mills in the United Provinces and the Punjab. Flour mills mostly occur in the Punjab and Delhi Province, and sugar factories in the United Provinces and Behar. Rice mills and saw-mills are most numerous in Burma, where these are mainly in European hands.

Of the iron and brass foundries (including engineering shops), 50 are in Bombay and 138 in Bengal. The iron and steel industry is located in Bengal and Behar. Indian pig iron now finds a market in Japan, and it is now possible to export it even to England. There are 245 factories belonging to the State and local bodies. Among these there are 34 printing presses, 35 railway workshops, 50 engineering workshops and canal factories, and 12 military arsenals and factories.

The space at our command does not permit us to give a full account of all the industries of India, and we have to content ourselves with a brief and rapid survey of the most important of these. It shows that some advance has been made in the direction of an industrial regeneration.

But the value of the achievement is often exaggerated. Those who look complacently on the enormous increase in the trade returns, forget that

Value of  
achievement  
often  
exaggerated.

the greater part of the industrial development of the country has been due to foreign capital and enterprise. The mining industries, the factory industries, and the more important of the industrial arts are mainly in the hands of Europeans. The profits accruing from these industries, instead of accumulating in the country, are remitted abroad, so that, in the words of Sir A. Chatterton, formerly a high Government official, "the people of India benefit by the establishment of these prosperous undertakings only to the extent that a certain number earn wages in subordinate positions or by doing coolie work."<sup>1</sup> But it is no use fretting over the success of other people. The children of the soil neglected to utilise the vast resources of the country, and they have no right to complain of the exploitation of these by outsiders. Commercial development, like time and tide, does not wait for anybody.

Indian vs.  
foreign capital

This brings us to the much-debated question of Indian *versus* foreign capital. Much of the controversy to which the subject has given rise has been due to a want of clear thinking. On the one hand, it has been held that foreign capital must necessarily do harm to the country. On the other, it has been maintained that its effect is bound in all cases to be beneficial. Sir Vithaldas Damodar Thackersey, a great authority on the subject, and himself a very successful merchant, has attacked the question with great clearness of thought and force of expression. As Sir Vithaldas rightly observes, no country in the world can make much progress in industrial direc-

Sir V.  
Thackersey's  
view.

<sup>1</sup> A. Chatterton, *Notes on Industrial Work in India*, 1905.

tions without plenty of capital. In India, the possibilities of industrial and commercial development are immense, but the amount of indigenous capital is comparatively small. India cannot, therefore, do without foreign capital. It will be a short-sighted policy to reject it on sentimental grounds. But it is necessary to form a clear conception of the limits within which the application of foreign capital is beneficial. The patriots of Japan have been eager to attract foreign capital to their country for purposes of industrial development. At the same time, they have not allowed the profits of industry to go out of the country. While, therefore, we should avail ourselves of foreign capital, whenever necessary, we ought to take care that we do not pay more for it than other nations. There are some enterprises which are necessary for the welfare of the country, but for which enough capital is not available within the country, and in such cases it is desirable to have resort to foreign capital. Railways are an instance of the right use of such capital. "But," says Sir Vithaldas, "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and less favourable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports, after omitting Government transactions. It must be

Foreign capital not necessarily harmful.

Limits of its usefulness.



remembered that so much of this amount as represents merely the interest on borrowed capital should not be regarded in the light of a drain from the country. It is in the huge profits of some investments that we find cause for complaint. In such cases, I cannot but think that it would be to the permanent good of the country to allow petroleum to remain underground and gold to rest in the bowels of the earth,<sup>1</sup> until the gradual regeneration of the country, which must come about under British rule, enables her own industrialists to raise them and get the profits of the industries. A country which maintains a population of thirty crores is not likely to let about one lakh of persons starve, and this is the number of wage-earners benefited by these industries. The price paid is much too great for the advantages accruing from them to the country.”<sup>2</sup>

Sir T.  
Holland's  
opinion.

The same view has been held by Sir Thomas Holland, lately Director-General of Geological Survey to the Government of India. Speaking of the successful exploitation of the petroleum fields of Burma, he observed, “The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry, as in so many other enterprises of the kind, India will continue to pay an unnecessary and undesirable tax

<sup>1</sup> Sir V. Thackersey is undoubtedly right on this point, for the mines are not perennial sources of wealth like the soil; once exhausted, the mines will yield no more.

<sup>2</sup> Sir Vithaldas Damodar Thackersey's Presidential Address at the Indian Industrial Conference, 1906.

as long as those in the country who possess money will not risk their reserve fund in industrial purposes." <sup>1</sup>

In recent years the question has received considerable attention. Arguments which are usually advanced against the inflow of external capital into the country have been summarised by the External Capital Committee as follows :

(a) A certain proportion of the profits will go out of the country.

(b) Investors will always prefer to choose their own directorate, and will naturally be prejudiced in favour of their own nationality. There will be the same prejudice in the selection of the superior staff.

(c) The vested interests created by external capital acquire enormous political influence which is utilised in resisting political progress.

(d) Industries of national importance may be monopolised by foreign capital.

(e) External capital may exploit the natural and irreplaceable resources of the country such as minerals.

The External Capital Committee observe : " As a general principle, the inflow of external capital is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of a country and in increasing its wealth and employment." <sup>2</sup> The Indian Fiscal Commission point out the addi-

<sup>1</sup> Paper read by Sir T. Holland at the Indian Industrial Conference, 1905.

<sup>2</sup> *Report of the External Capital Committee, p. 4.*

tional advantage which will accrue to the country from the employment of foreign capital. They say : " Moreover, apart from the intrinsic benefits of increased supplies of capital, the foreigner who brings his capital to India supplies India with many things of which at present she stands urgently in need. It is, on the whole, the foreign capitalist who imports into the country the technical knowledge and organisation which are needed to give an impetus to industrial development." <sup>1</sup>

Summary.

The position may be summed up in the remark that Indians should utilise foreign capital in the development of the country, and pay the necessary price for it ; but they should not allow the country to be exploited by foreign capital for its own gain. It may happen in many cases that, although the people of the country may not be able to provide all the capital required for a new industry, they may yet be able to supply a portion of it, and thus prevent some part of the profits of the industry from leaving the country. This is important, for the enrichment of a country depends, in the words of Sir Frederick Nicholson, " upon the profits of the industry remaining in the country." <sup>2</sup> Unrestricted admission of foreign capital can by no means be salutary from the point of view of the interests of the nation. The proposal of the majority of the Indian Fiscal Commission does not go far enough. In their opinion the only exception to the free inflow of foreign capital ought to be where Government grants a concession

Suggestion for  
State inter-  
vention.

<sup>1</sup> *Report of the Indian Fiscal Commission*, p. 158

<sup>2</sup> *Indian Fiscal Commission Report*, p. 201.

either in the form of a monopoly or a bounty. But this view is inconsistent. The minority of the Commission point out that bounties and protective duties are two means of attaining the same end, the fostering of industries in India, and if external capital should be controlled in the one case, it would appear to be equally desirable to control it in the other." It is essential, therefore, that Indian capital should have full scope for investment in Indian industries, and that foreign capital should only supplement it to accelerate the pace of industrial development. Unless companies are incorporated in India in rupee capital, the opportunity for such investment will hardly arise. Provision must also be made for the training of Indian apprentices and the reservation of a proportion of seats for Indians on the directorate of each company.

It is difficult to estimate the total amount of foreign capital invested in India. The *Commercial Statistics of British India*, 1924, shows that the number of joint-stock companies registered in countries other than India had in 1923 a paid-up capital of £589 millions. The sterling debt of the Government of India in the same year amounted to £263,800,652. Since then there has been considerable addition both to the capital of foreign companies and to the sterling debt. The total amount of foreign capital may thus be roughly estimated at £1,000 million.

Doubts have been expressed in certain quarters in regard to the possible success of the industrial movement. It is held by some that nature has destined India to be an agricultural, and not a manufacturing,

Agriculture  
vs Manufactures

country.<sup>1</sup> We find it difficult to understand what they really mean. It is true that she possesses certain exceptional facilities for agriculture, which must always continue to be one of her most important industries. But that does not prove that she is naturally unfitted for the development of manufacturing industries. On the contrary, it shows that the natural advantages which she possesses as an agricultural country may be made to serve as aids to the growth of manufactures. And this is what has actually happened in the United States of America, whose agriculture has greatly helped the growth of manufacturing industries. The raw materials of every industry must come ultimately from the land. India has thus a start over other nations in so far as she can produce these raw materials at a comparatively cheap cost. Agriculture and manufactures, instead of being opposed in interest, may, in a large country like India, be really helpful and supplementary to each other.<sup>2</sup> The growth of manufactures will not necessarily mean the neglect of agriculture, but may, on

The two supplementary to each other.

<sup>1</sup> Sir Patrick Playfair, on the occasion of the Annual Dinner of the London Chamber of Commerce, 1912, said: "India must be in the main an agricultural country raising crops in great quantities and of great value." But Sir Theodore Morison replied "The people of India were not content to be hewers of wood and drawers of water. They wished to take their part in manufacture."

<sup>2</sup> Mr. Latifi writes thus in *The Industrial Punjab* (published for the Punjab Government): "In the Punjab, the two (i.e. agriculture and manufactures) are so intimately allied that permanent improvement in either is impossible unless they grow in close interdependence."

the other hand, give a stimulus to its further development. Manufactures will flourish, not by withdrawing from agriculture the factors at present employed in its production, but by bringing into use uncultivated land, unemployed labour, and fresh capital. If the combination of agriculture and manufactures has been found possible in America, there is no reason why it will not succeed in India.

There are others who think that the circumstances which have favoured the growth of industries in European and American countries are not present in India. Let us examine the statement. As for the physical and moral characteristics of the people, they are not the natural monopoly of any nation or race. The superiority, in some particulars, lies with India ; in others, the deficiencies may be overcome with the aid of science. Most of the qualities which make for success in industry are possessed by the people, but they are in a state of quiescence, and a little effort only is needed to make them active. India possesses a great advantage in the extremely low cost of living which prevails here. Three centuries ago, England industrially was very backward as compared with Holland and other enterprising nations of Europe, but to-day she is in the front rank of industrial nations. Germany has worked her way up to her present position in the course of less than half a century. There is thus hope for India yet. The present backwardness of India is due in part to the causes we have mentioned before and partly to its political environment. The Indian Industrial Commission observed : " The course, of

Can manufactures succeed in India ?

industrial development in India has followed very different lines. The political and economic conditions of India in the past have created a large export and import trade, and this trade has brought about the present industrial position.”<sup>1</sup> But it would not be quite unreasonable to expect a gradual modification of the political situation in the near future.

The possibilities of industrial development are indeed immense, and India, with her command of the raw materials, ought not only to supply her own needs but to furnish other countries with manufactured products. But to attain this end, an enormous increase of capital, the proper training of labour, and the adoption of improved methods of work will be necessary.

Large-scale vs.  
small-scale  
production.

From our review of the industrial situation it has become clear that the system of small-scale production still largely prevails in India, but in some of the industries production on a large scale has begun. The question whether the people of India should stick to their old system of handicrafts, or adopt, to the full extent, the new system of production by machinery and large capital, involves so many knotty points that it is not possible, or even desirable, to answer it in an off-hand way. It is undeniable that the efficiency of the productive agents is greater in many ways in large productions than in small ones.<sup>2</sup> But there also

<sup>1</sup> *Report of the Indian Industrial Commission*, p. 49.

Merits and  
defects of  
large-scale  
production.

<sup>2</sup> The advantages of large-scale production may be summarised as follows (1) Better classification of labour according to its capacity; (2) the use of up-to-date and specialised machinery; (3) applied machinery can be so adjusted as to give full employment to the motive powers; (4) improvements can be more readily

are some disadvantages even from the economic standpoint. It is, however, chiefly on moral and social grounds that objection is made to the system of large-scale production. Under that system men tend to become mere machines,—drudgery is destructive of all initiative and individuality. Again, the massing together of large numbers of people leads to physical and moral ill-health. Further, while the system of small-scale production enables a large number of people to live independently, the large-scale system raises a few, often at the expense of the many. Already we find a revulsion of feeling in the west among some of the thinkers. In countries where the capitalistic system has been pushed to an extreme, wide-spread destitution is found in the midst of the greatest abundance. “The tramp,” says Mr. Henry George, “comes with the locomotive, and almshouses and prisons are as surely the marks of ‘material progress’ as are costly dwellings, rich warehouses, and

adopted ; (5) inventions can be encouraged ; (6) expert skill can be employed to a greater extent ; (7) better selection of materials and of processes is possible ; (8) purchases are made in large quantities and hence cheap ; (9) sales are wholesale and hence not troublesome,—and often aggregate profits are higher, though the rate of profits may be low ; (10) competent managers may be appointed for the control of the different departments ; (11) the head of the firm is left free to deal with the larger questions, and to exercise a general superintendence ; (12) bye-products are utilised, and even small things are not thrown away. The economic disadvantages are : (1) very great loss arises from a change in the demand for commodities ; (2) the cost of superintendence is often large ; (3) the interest of the paid managers is much less than that of the small proprietor ; (4) large industries are not possible or profitable unless there is a sufficient demand.



magnificent churches."<sup>1</sup> He goes on to observe, "The association of poverty with progress is the great enigma of our times.<sup>2</sup> It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy grapple in vain."<sup>3</sup>

The industrial  
revolution.

Opinions for  
and against it.

This is undoubtedly a very complex problem. It is obvious that an industrial revolution has commenced in India. Whether such revolution is a desirable thing or not is a question on which opinion is hopelessly divided. There are some who not only welcome the revolution, but are even prepared to hasten it as much as they can; there are others who curse it and wish that it could be stopped. On the one hand, it is believed that the regeneration of the country will come through an industrial revolution; on the other, it is feared that the materialism of the west will destroy the spiritual ideals of the people and deaden the finer elements in their nature. One class of persons look confidently to the change for an economic millennium which will bring untold wealth and immense prosperity into the country; another class are appalled at the prospect of the extreme misery that is likely to come in the train of the revolution.

In the midst of such conflict of opinions, the

<sup>1</sup> Henry George, *Progress and Poverty*.

<sup>2</sup> The distribution of British incomes (in 1904) was thus calculated by Mr. L. G. C. Money: "rich, 1½ million—£585,000,000; comfortable, 3½ millions—£245,000,000; poor, 38 millions—£890,000,000." Since then, the disparity seems to have substantially lessened.

<sup>3</sup> Henry George, *Progress and Poverty*

economist would naturally find himself in a difficult position when called upon to give advice. On a careful consideration of the pros and cons of the matter, he would probably find that an element of truth underlies each of the two rival sets of opinions. He cannot deny that in the west enormous wealth stands side by side with abject poverty. He cannot forget the fact that the Industrial Revolution in England and other European countries was accompanied by great evils—"the tears of homeless women and the cries of hungry children." He would recognise that competitive economics—under which there is a tendency for "the rich to grow richer and the poor to become poorer"—may be unfair in its behaviour towards the weak. He would be alive to the grave danger of the new system affecting the simple life of the people. At the same time he would not overlook the simple facts, namely, that the industrial change has already made its appearance without any invitation from the people, that it is not in the power of anybody to prevent it, that it is bound to grow and expand against all odds, and that if the people of the country will not take advantage of it, others will. The only advice which the economist can, under such circumstances, offer to the people would be to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations, and to try and minimise the evils of an industrial change. He would even try to harmonise the old and the new, by taking the good from each and eschewing the evil.

Element of  
truth in each  
view.

General  
conclusion.

One of the chief means by which the evils of Co-operation,

capitalism may be minimised in some degree is the adoption of the principle of co-operation.<sup>1</sup> Co-operation has produced great results in Europe and America, and there is no reason why it should not succeed in India.<sup>2</sup> Co-operation, however, presupposes the existence of certain qualities, such as business honesty, mutual confidence, and sense of duty; and they must be cultivated by those who wish to engage in business.

Small industries need not die out.

Even if the large-scale system be adopted in India, small industries need not die out. Some of the small industries may be made successful with the help of co-operation. Count Alex Karolyi has defined the aim of all co-operative work as "the attainment of greater social force through co-operation, greater economic knowledge through practical instruction, and a higher moral development through the need of being equitable."<sup>3</sup> In one class of cases, the small manufacturers possess such inherent advantages that they can keep the cost of production at a very low figure, and can thus withstand the competition of large producers. Japan is still a country mainly of

<sup>1</sup> It is true that one of the chief features of the industrial revolution is the substitution of competition for the old regulations which used to control the production and distribution of wealth; but it is open to doubt whether unrestricted competition is likely to be a permanent factor in industry in the future.

<sup>2</sup> For an account of the subject see Fay, *Co-operation at Home and Abroad*, and Holyoake, *Co-operative Movement To-day*. It must be admitted that co-operation has not yet succeeded to the same extent in production as in distribution.

<sup>3</sup> Quoted in the Presidential Address at the South-Bihar Co-operative Credit Conference, 1911.

small industries, although she is fast developing the large-scale system. The success of such industries in Japan, however, is due partly to the efficiency of the workers and partly to the protection given to them by the state through the system of high tariffs. Sometimes small industries may flourish side by side with large ones, either as meeting supplementary demands or as producing goods complementary to those produced by the latter. Speaking of the cottage industries of Switzerland, Mr. Tressler, Director of Industries, Madras, says. "There fully one-third of the industrial population is engaged in cottage industry—chiefly watch and ribbon-making—and if not exactly amassing wealth, is at least maintaining itself in comfort. And all cottage workers are 'linked' with a manufacturer. The manufacturer turns out a very large quantity of finished material in his own mills, but a large quantity is also sent out. The yarn is warped and prepared ready for use, and the cottage worker has thus only to perform those operations in the process of manufacture that experience has shown most remunerative to him; the manufacturer's labour-saving machine does the rest. The worker thus obtains all the advantages of a division of labour, of expert assistance, and of a market as large and constant as a modern sales-organisation can make it."

As economic efficiency is greatly enhanced by education, the subject deserves the earnest attention of all interested in the economic welfare of the people. Industrial education is undertaken in every civilised

Industrial  
education.

In foreign  
countries

country either by the state or under state guidance and control. In the United States every single State has a college where technical education is imparted, which is absolutely free. Germany, France, and England spend large sums annually for this purpose, and Japan is not behind-hand in the matter. But in India the matter has been sadly neglected, and technical education has not yet been undertaken on anything like an adequate scale either by the state or by individual effort.

In the  
States of  
India.

The question is now beginning to engage the attention of the Government, who are collecting information from various sources in order to do something in the matter. Some of the Indian States—the chief among them being the enlightened state of Baroda—have also realised the necessity of imparting a sound system of instruction in the arts and industries, and have been making earnest efforts to remove the long-felt want.

In British  
India.

In 1890 an industrial survey was made in Bengal, and in the report the necessity of technical education was clearly pointed out. The Government instructed some of the district boards and municipalities to start technical schools on a small scale. In Bombay the Victoria Jubilee Institute was started with assistance from the Government. This institution has since then been doing good work in training mechanics for employment in the mills. Technical schools have been started at a few centres in some of the other provinces, but none of them have yet attained to any considerable magnitude.

The Government Engineering Colleges at Roorke,

Sibpur, and Poona, although they can hardly be said to be imparting industrial education, teach subjects allied to it. The Behar School of Engineering imparts instruction in the science of engineering up to a moderate standard. The technical schools at Burdwan, Dacca, Kurseong, and other places, train workmen for workshops.

Independent efforts are also being made in this matter in almost every province. The institutions most worthy of notice are the Association for the Advancement of Scientific and Industrial Education and the Bengal Technical Institute. The former was started in 1904, and since then has been sending out every year young men to foreign countries for industrial training. Many of the students who have returned after a successful career abroad have either started factories on their own account or found employment in existing mills and workshops. The Bengal Technical Institute was started in 1906. It has arrangements for teaching some of the more important branches of technical instruction, such as mechanical and electrical engineering, technological chemistry, sheet-metalling, economic geology, etc. The Indian Association for the Cultivation of Science imparts instruction in practical chemistry and other similar subjects. The Indian Institute of Science—which owes its foundation to the munificence of the late Mr. J. N. Tata,—though not in itself a technical college, is sure to prove very useful for the higher study of technical subjects. The Calcutta University has established a Department of Applied Science. A Technological Institute has been started at Cawnpore.

Independent  
Institutions.

The various railway workshops offer facilities for the training of apprentices. The Nari Siksha Samiti of Calcutta and similar institutions at other centres have set themselves to a very important side of technical education; namely, the training of women in the domestic arts and industries. Much good work is also being done by missionary societies in different parts of the country, but the standard they have kept in view is very low.

Industrial Exhibitions.

Industrial Exhibitions, held from time to time in different parts of the country, besides serving as an advertisement to consumers, produce an educative effect on the minds of producers. They tend to improve the production of goods by helping to expand the craftsmen's ideas. Thus both supply and demand sides derive advantages from such exhibitions.

Partial failure of technical education.

Our brief review discloses the fact that a great deal still remains to be done in the matter of technical instruction. Unfortunately, the little that has been done has not been attended with complete success. This partial failure has been due to several causes. One reason is that technical instruction did not, in the beginning, attract intelligent and earnest young men. Only those who were likely to be hopeless failures in other walks of life sought industrial education, and it is no wonder that they profited little by it. It is, however, a hopeful sign of the times that in recent years a greater attraction for it has become discernible among the better classes of young men in the country. The second reason is to be found in the fact that, owing to the lack of proper facilities for practical training, both in India and abroad, greater

attention has been devoted to theory than to practical work. It is now being realised, however, that a thorough practical training is indispensable for success in industrial undertakings, and attempts are being made to remove the impediments which prevent students from obtaining it in workshops and factories.<sup>1</sup>

The modern system of Technical Education is different from the indigenous system. Under the old system every young man used to go through his period of apprenticeship in the profession of his father, and, on his attaining manhood, became a member of his caste-guild. He could not leave the profession proper to his caste and adopt some other. The new system does not recognise distinctions of caste, but admits young men of all classes and creeds. The system of training under caste-guilds has had its day of success ; but under the changed conditions of the modern age it must give place to a more systematic and scientific method of instruction.

Technical  
education and  
castes.

Another need of the hour is for a proper system of commercial education. Modern business is a very complex affair, and no one can hope to achieve success in it unless he has thoroughly mastered its principles. The would-be captain of industry should, besides

Commercial  
education.

<sup>1</sup> Complaints are often heard to the effect that Indian students encounter greater difficulties in getting admission into workshops and factories in England than in Germany, America, or Japan. It is not too much to hope, however, that the narrow-minded selfishness of factory-proprietors will gradually give place to a more enlightened sense of self-interest. It is satisfactory to note that the matter is now beginning to engage the attention of the India Office.



acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country in regard to the production and exchange of commodities. And a well-conceived method of instruction is needed to give them a sound knowledge of subjects like commercial law and history, banking methods, import and export problems, foreign exchange, transport and freight, company management, and the conditions of the markets in different countries. Commercial education is also necessary for those who intend to occupy the comparatively inferior positions in the business line. In recent years the matter has attracted the attention of some of the Universities, and instruction in commercial subjects has begun to be imparted at Calcutta, Bombay, Lucknow, and Allahabad.

## CHAPTER VIII

### DISTRIBUTION

#### 1. RENT

RENT in India depends on the interaction of three forces—custom, competition, and legislation.<sup>1</sup> In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different provinces, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The rent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large

Factors which determine rent: custom, competition, legislation.

<sup>1</sup> Vide *The Imperial Gazetteer of India*, vol. iii.

extent, the foundation of Indian rents. The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application to those countries. In India, they are conspicuous by their absence; and, consequently, the theory can hardly be said to hold good in India. Here rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation, but is a more or less definite charge. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only one of several factors. Rent is often an element in the cost of agricultural produce.

The relative influences of the factors.

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak, competition has its way, unless it is checked by law. In sparsely-populated tracts, such as Assam, Central Provinces, and Rajputana, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely-populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the land-owner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be

regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant, and tenants were fewer. Rents were, therefore, comparatively low. The population has since considerably increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places, and, consequently, rents have gone up. In the larger cities, rents have risen very high.

Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally they rise considerably after prices. In some cases, however, a rise in prices does not entail an increase of rents at all.

Rise of rents.  
Connection  
between rents  
and prices.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—perhaps not at all. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Cash rents and  
rents in kind.

The systems of tenure under which land is held are various. Roughly speaking, the tenants or

Systems of  
tenure:

- holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases, they are entitled to hold at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord.
- Permanent, Condition of peasants of the two classes.
- Temporary.
- “The magic of property.”
- Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors.<sup>1</sup> Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. “The magic of property,” of which Arthur Young speaks so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally

<sup>1</sup> Cf. J. S. Mill. “The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms” (vide *Principles of Political Economy*).

wretched. The economic and moral value of the system of peasant-proprietorship is immense, and there can be no surer means of improving the condition of the Indian cultivator than to confer on him at least limited rights of property.<sup>1</sup>

So much about the rent of land used for purposes of cultivation and building. The rents of mining lands stand on an entirely different footing.<sup>2</sup>

Rent of mining lands.

In practically all the Feudatory States, the mineral rights belong to the respective Rulers, and concessions are granted for mining and prospecting under rules that involve a certain amount of supervision by the Government of India. In parts of British India the minerals have been ceded with the surface rights by terms of settlement; but in the rest of India, the Government retain rights over the minerals and grant concessions for their exploitation in accordance with the terms of Rules framed by the Government.

By these Rules, *exploring licenses* for one year can be obtained, but they give no exclusive or perpetual rights, and there is no prohibition anywhere against free exploration in unoccupied and unreserved land. *Prospecting licenses* are granted, under certain conditions, over restricted areas for a period of one year, renewable for a second and a third term. Such licenses carry an indefeasible claim for a subsequent *mining* lease for any mineral other than

Exploring licenses.

Prospecting licenses.

<sup>1</sup>In England, a system of peasant-proprietorship is being encouraged at the present moment under the provisions of the Small Holdings Act.

<sup>2</sup> Vide Sir T. Holland, *Sketch of the Mineral Resources of India*

precious stones over the same or a more restricted area.

**Mining leases.** Local Governments have the power to grant *mining leases* for periods of thirty years, which may be renewed for further periods with the sanction of the Imperial Government. Every such lease contains such conditions and stipulations as the Local Government may think necessary in each case.

Under the rules, the *prospecting rent* charged is a moderate rent not exceeding one rupee per acre. Every lessee has to pay a surface rent, the rate being assessable under the Revenue or Rent Law of the Province; or if no such rent is so assessable, the rate which may be fixed by agreement, subject to a maximum of one rupee per acre. In addition to this, he has to pay a *royalty* at certain specified rates. The lessee has also to pay every year after the first year a fixed yearly *dead rent*, but no lessee has to pay both royalty and dead rent in respect of the same lease, but only such one of them as may be of the greater amount.

**Ownership of land.** The question of the ownership of land is one of the many disputed questions of Indian Economics. In Europe and America, nationalisation of land is the favourite ideal not only of Socialists but also of many scientific economists. The influence of this ideal has made itself felt in India, where there is a tendency among the officials to regard the Government as the universal landlord,—the ultimate proprietor of all lands,—and to consider the revenue taken from the people by the state as in the nature of rent. Some would go further and draw the legitimate

conclusion from such a theory that the Government would be justified in demanding as its revenue the whole of the economic rent. An attempt is often made to prove historically the correctness of this view.<sup>1</sup> Without entering upon the discussion of the technicalities of this question we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the landlord or zemindar, and the Government. Besides, the Government itself is the direct owner of large plots of land, such as waste land, land which has been forfeited or lapsed to or purchased by the Government, and all public land. With regard to these, the state stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

## 2. WAGES

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to a large extent; the amount of influence, however, varies according to the nature of the industry and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively fixed. They are not half so elastic and responsive to changes of circumstances as

Wages in  
ancient village  
communities,

in modern  
times.

<sup>1</sup>See chap. xii.



in Europe and America. Wages do, no doubt, fluctuate on either side of the customary rates, but such fluctuations are always confined within narrow limits.

Influence of  
competition.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense.<sup>1</sup> But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, as for instance, in the cities, the scale of wages is high. So also, wherever a demand of labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. On the other hand, in the sparsest parts of the country, wages are exceedingly low, because there is no demand for labour. But though competition is an active factor, the scope given for its operation is limited. Labour is still comparatively immobile. The circumstances which cause the movement of labour are rare; and the low standard of subsistence of the labourer, his social sentiments, and his ignorance are against such movement.

<sup>1</sup>Many economists regard the current doctrine of wages as being founded on a misconception. "In truth," says Mr Henry George, "wages are produced by the labour for which they are paid, and should, other things being equal, increase with the number of labourers." According to Mr. Walker, wages represent the residual share in distribution.

Wage-earners in different employments are classified as skilled and unskilled labourers. In the manufacturing industries, the labourers earn wages mostly as unskilled workmen, skilled labour being in the main supplied by foreigners. In such cases, the remuneration of labour represents a very small proportion of the total produce. This is the injustice of the capitalistic system of production against which labourers are fighting in every country.

Skilled and  
unskilled  
labour.

The wages statistics are incomplete, and admittedly faulty. By far the most important class of labour is agricultural, but the record obtained entirely fails to give a reliable indication of the remuneration of labourers. Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. The regularity of employment also varies greatly, and employment is practically nowhere continuous throughout the year. An average wage, therefore, for India generally has little meaning; but, for purposes of comparison with other countries, it may be calculated at 6 as. per diem for the able-bodied unskilled labourer. The average wage of the child-labourer or woman-labourer is, of course, less.

Average wage.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases, wages are regulated by special contract; in some others, a certain minimum

Kinds of  
wages.

is agreed upon, and if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.<sup>1</sup>

System of  
payment.

The system of payment was formerly in kind ; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are still remunerated, wholly or partly, by a percentage of the crop-yield. There is a tendency, however, everywhere for money wages to be substituted for wages in kind.

Rise in wages,  
real and  
nominal.

During the last fifty years, in response to rise in prices, money wages have substantially advanced. Up till 1920-21 they did not keep pace with the rise in prices. Before the war, during a period of forty years, the wages census showed that in Bengal and the Punjab, the wages of agricultural labourers rose by 29 per cent. and 49 per cent., and those of artisans by 48 per cent. and 50 per cent. respectively. But the rise in the prices of food-grains was much higher proportionally. In 1914 the index-numbers of the prices of rice and wheat showed increases of 154 per cent. and 100 per cent. as contrasted with 1873.

In recent years there has been a marked advance in the wages of all kinds of labourers in India. In the Presidency of Bombay, the daily average wages of field labourers have risen from 4 as. 9 pies in 1913

<sup>1</sup> These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

to 9 annas in 1922, and in the case of unskilled urban labour the rate has increased from 6 as. 3 pies to 9 annas in the same year. In the same Presidency the rate of wages of skilled labour rose from 13 as. 9 pies in 1913 to Re. 1 10 as. 9 pies in 1922. This rise in wages was the result of high prices, which caused great hardships to all classes of labour, and the effects of which on industrial labour were so acute that in many places frequent strikes and lock-outs disorganised industries. The employers were in many cases obliged to concede the demands of labour, with the result that the wages were nearly doubled.<sup>1</sup> More recently, however, there has been a tendency in the direction of a reduction in the cost of living, and a rise in real wages has consequently resulted.

The present level of prices is 154 as compared with 100 of 1914 and 173 of 1921, and this shows that the cost of living has fallen, but there has been little or no reduction in wages. There is evidence to show that in certain industries and in certain parts of the country a substantial margin now exists between the effective wages and the present cost of living.

The question which suggests itself here is—Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same result. The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The

Connection  
between prices  
and wages.

<sup>1</sup> *Report on an Enquiry into the Wages and Hours of Labour in the Cotton Mill Industry*, p. 11.

reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

### 3. INTEREST

Capital mostly  
raised in  
Europe,

and borrowed  
from banks

Rate of  
interest.

The capital of most of the large industries is raised in Europe, and the interest on such capital, together with the profits, has to be paid abroad. The subscribed capital of a firm is never sufficient for the carrying on of the business, and every firm has, therefore, to borrow money on occasions. This they get from the Imperial and other banks.

The rate of interest, although it is theoretically the same for all at any given time and place, depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also differ in different parts of the country. The rates of interest in the interior of the country are considerably higher than the Imperial Bank rate. Even within the limits of the Presidency towns the rates are not uniform, those charged by the smaller indigenous money-lending concerns being higher than the

rates of the Exchange Banks. The Bank rate published by the Imperial Bank represents the charge for a loan on the security of Government paper. This rate varies from day to day according to the demand for money; but it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. As a rule, the Bank rate is the lowest—3 or 4 per cent.—in July and August. In September and October it begins to rise slowly, and the upward movement is continued till in February and March the rate reaches the maximum—usually 8 or 9 per cent. In April it shows a downward tendency, and continues to fall till it again reaches the minimum. The average rate of interest is usually a little higher than in England and other countries of Europe; but it is not so much the average effective rate for the whole year as the maximum rate in each year that is very high.<sup>1</sup> On their Deposit side the Banks keep the moneys, on which they pay interest, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The rate of interest of the last loan floated by the Government is 4 per cent.

Agricultural capital is supplied by the village money-lender. The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, on which he has to pay high rates of interest, sometimes 50 or 60 per cent. The practice of borrowing money is almost universal. It is frequently a part of the bargain that

The money-lender.

<sup>1</sup> Vide J. M. Keynes, *Indian Finance and Currency*.

the produce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes he becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

Opinion of a high official. The money-lender and the creditor  
Usual arrangements.

A high official of the Government once wrote, "A great number of the agricultural community appear to have a kind of running account with the mahajan ; he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for the equally inevitable lawsuit. When the tenant falls on evil days he would advance him rent to save him from ejection. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief ; and the consequence is that a large proportion of the cultivating community is seldom free from the mahajan's influence. When the crops are reaped the greater portion finds its way to his granary ; the tenant retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the mahajan. The system is not without its advantages in hard times ; it is to the interest of the creditor as well as the debtor that the latter should live ; there is a community of interest which secures him from starvation."

Community of interest.

The money-lender does, no doubt, exploit the

misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir F. H. Nicholson says, "On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial."

Sir F. Nicholson's view.

The money-lender a dangerous necessity.

Credit is almost an inevitable condition of small farming. The farmer needs credit for the purchase of land; for permanent improvements, such as the digging of wells; for equipment, including implements and cattle; and as working capital for buying manures, seeds, and fodder, and for paying the labourers. The late Mr. Justice Ranade advocated the establishment of credit institutions all over India, so that agriculturists may get loans at low rates of interest. Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon, for there is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing, and often for purposes other than those which help to increase the volume of production.

Need of facile credit.

its danger.



Measures for  
checking  
peasant's  
indebtedness

Land Allena-  
tion Act,  
Co-operative  
Credit  
Societies.

Check  
for usury.

Various measures have been proposed from 'time to time to check the indebtedness of the cultivator and thus to improve his condition. Two measures have been recently adopted by the Government in this connection, namely, The Punjab Land Alienation Act and the Co-operative Credit Societies Act. The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Raiffeisen and Schulze Delitzsch, on which the Indian Co-operative Credit Societies are modelled, fulfil both these conditions. The principles of action of these associations are those of self-help, co-operation, solidarity, prudence, thrift, and public spirit.

Another proposal is to check usury by legislation. This subject is now engaging the attention of the Government of India, who have invited the opinion of the local Governments and public bodies on the three suggested remedies, namely, (a) the fixing of a legal maximum rate of interest recoverable; (b) the determination of a legal maximum amount of interest recoverable, commonly known as *damdupat*; and (c) the bestowal of authority on the courts to go behind a contract, reopen a transaction, and reduce the rate of interest to what is thought to be equitable. The first remedy seems to most people to be the most suitable, but the opinion of the Government seems to incline towards the

third.<sup>1</sup> The time is certainly ripe for taking action against usury, and any well-conceived measure is sure to receive full public support.

In Bengal, a number of public-spirited gentlemen have established Co-operative Grain Banks (*Dharmagolas*) in several villages, some of which are

Co-operative  
Grain Banks

<sup>1</sup> In regard to the comparative merits and defects of the three suggested remedies, the Government of India say in their circular letter: "The first of these solutions has the authority of various foreign precedents and of certain special local laws in this country, but the Government of India are willing to accept the adverse opinion of the Select Committee of the Houses of Parliament on money-lending which reported in 1898. . . . The rule of *damdapat* has the advantage of being already in force in parts of the country—between Hindus in the town of Calcutta, in Berar and Bombay, and in certain Native States, and it has the authority of the early law-givers. . . . At best, however, the rule is a rough and ready remedy. . . . In the case of *Ram Conoy Andicary vs. Johur Lal Dutt*, Mr. Justice Wilson speaks of *damdapat* as a rule of limitation which only affects the accumulation of interest. . . . This rule also indirectly controls the rate of interest. The third remedy is that embodied in the English Moneylenders' Act of 1900 (for extortionate or unconscionable rates). . . . The Government are disposed to think that legislation on the lines of the English Act offers the best chances of success. The stock arguments against it are: (i) it would interfere with private contract; (ii) it would increase litigation; (iii) it would leave too much to the judge; (iv) it would harass and confuse the ordinary operations of trade; (v) it would tend to raise the interest paid by those who do not resort to the courts; (vi) it would be ineffective. . . . Finally, the Governor-General in Council would only remark that while he fully recognises the benefits which have accrued from the extension of co-operative credit, and the potentialities for good inherent therein, he does not consider that the progress made in this direction affords in itself an adequate remedy of the state of affairs which it is desired to alter."

reported to be working well. The cultivators deposit portions of their produce in these banks, which in times of need they are allowed to withdraw. Needy members are also given loans of grains from these deposits. The chief merits of the system are its simplicity and its accord with the social sentiments of the people. A third advantage is that the value of grain increases in times of scarcity. But its defect is that the grain cannot be invested in any profitable undertaking so as to yield interest and profit. Moreover, there is the risk of loss through deterioration or waste. But the idea is certainly an excellent one, and it ought to be given a fair trial.

#### 4. PROFITS<sup>1</sup>

Profits of  
manufacture  
compared with  
those of  
agriculture.

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-making process, agriculture is not so profitable a business as manufacture. Again, as we have already noticed, agriculture has to depend on several uncertain factors, such as drought or excessive rain, and the profits are consequently more uncertain than in manufacture. Manufacture involves various stages in production, and the profits are thus obtained by a larger number of persons.

Statistics.

Full details regarding the profits of the different industries of India are not available ; but the reports published by the larger business firms give us some idea of the general rates of profits. These may be

<sup>1</sup> Some points relating to this subject have been treated in chapters vi. and vii.

said to range from 8 to 15 per cent. Sometimes, the profits of certain industries go up as high as 30 or 40 per cent., but such cases are exceptional. Profits are generally high in the mining and jute industries. Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who sometimes make very large profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus produce of corn from the cultivators and send it to other parts of the country.

Profits of the  
middleman.

So much for the distribution of the produce. It is not necessary, however, that the shares should go to different persons. Very often, all the factors are controlled by the same person, and in such cases all the shares would go to him. India is a country mainly of small industries which are carried on by the workers on their own account. They supply the labour as well as the small capital required, and they are themselves the organisers. In a large number of cases, therefore, the whole of the produce goes to the same persons and the question of distribution does not arise at all. In the institution of peasant properties also, as we have seen, there is hardly any distribution among different parties. Thus, at present, the economic problems of India are mainly those of

production rather than of distribution ; but with the growth of large-scale industries, the problems of distribution are likely to assume greater importance in future.<sup>1</sup>

<sup>1</sup>The effects of the misdirection and waste of capital and labour due to the inequitable distribution of wealth in the west have been thus generalised by Mr. L. G. Chiozza Money : "The unduly large share of the national dividend possessed by the rich produces in them grave faults of character and purpose which make them indifferent administrators of the capital without which labour is powerless. The unduly small share of the national dividend possessed by the poor is the source of a stream of moral and physical evils which, mingling with the waters of death which descend from the high levels of luxury, produce effects whose causation is only obscure as long as we neglect the study of the Error of Distribution " (*Riches and Poverty*, p. 152).

## CHAPTER IX

### EXCHANGE

#### 1. A BRIEF HISTORY OF INDIAN COMMERCE

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was once "the seat of commerce." Trade in  
ancient times

As early as the sixth or seventh century B.C., India had commercial relations with Italy, Greece, Egypt, Phoenicia, Arabia, Syria, Persia, China, the Malay Peninsula, and the islands of the Indian Archipelago. The Hindus built ships and navigated the ocean as early as the age of Manu's Code. Later, they held in their hands all the threads of international commerce, whether overland or by sea. The unknown author of that remarkable book, the *Periplus of the Erythraean Sea*, describes the commerce in detail,<sup>1</sup> and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea, the Persian Gulf, and the Indian Ocean, and his testimony is corroborated by that of other ancient by sea.

<sup>1</sup> Vide *Periplus of the Erythraean Sea*, and other works by Greek writers, translated by J. W. M'Curdle. The term Erythraean Sea was applied to the Indian Ocean with its bays and gulfs.

historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were : Barygaza (modern Broach), Saurstra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were other commercial towns, some of which also attained to great eminence. The value of this maritime commerce must have been very considerable.<sup>1</sup> The chief articles of export were rich apparels made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics ; and those of import were gold, silver, brass, copper, and tin. A brisk coastal trade was also maintained between the seaport towns.

by land

Trade by land with Central Asia, China, and other parts of Asia, as well as some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by the merchants. Besides, an active internal trade was carried on between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

In mediæval times.

The commercial activities were continued in full vigour till the ninth or tenth century A.D. During the Mahomedan rule, however, maritime commerce was gradually abandoned ; but trade intercourse by land was maintained. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and Europe, so much easier, cheaper, and safer than any that had previously been used, as to completely

<sup>1</sup> Strabo says : " I found that about 120 ships sail from Myos Hormos to India."

change the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was thus once again revived, this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the French, and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the English East India Company was able to practically oust the other companies from the Indian waters. The invention of steamships led to a further increase of the maritime commerce. And lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

In modern times

The foreign trade of India is now steadily increasing, but Indians have very little share in it. The bulk of the internal trade still remains in the hands of Indians, but even in this they hardly display the enterprise, pluck, foresight, and resourcefulness which are essential for success in business.

## 2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with

Indigenous system of internal trade  
The village trader.



Fairs and religious festivals.

articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.<sup>1</sup>

Two kinds of internal trade

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agents in the towns and thence dispatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributed by the same machinery working in the opposite direction. Internal trade may be divided into two kinds: (a) traffic with the ports, and (b) commerce between different parts of the country. The former is largely concerned with the collection of agricultural products for export, and with the distribution of imported merchandise; the latter with supplying the surplus produce of one part to the other parts of the country. Trade passes through the hands of a considerable number of middlemen and is consequently hampered to no small extent.

Growth and decay of towns.

Towns spring up where trade activity increases, and historical cities lose their importance as soon as they cease to be trade centres.

Trading castes.

Employment in trade often gives rise to trading castes. These castes have now lost much of the importance which they once possessed, but they

<sup>1</sup> Vast concourses of people gather at the Kumbha melas which are held at Allahabad, Hardwar, and other places. The car-festival at Puri and the fairs at Harhar Chattra are attended by people from the most distant parts of the country. These fairs serve not only the purpose of marts but also of industrial exhibitions.

still possess a considerable degree of organisation, and retain a good part of the trade of the country in their hands. The Marwaris of Rajputana are found in almost every part of the country. In Madras the Chettis form the most important trading community. In the Bombay Presidency the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India. Among the Mahomedans the most notable commercial classes are the Boras and Khojahs of Bombay and Gujrat.

### 3. TRANSPORT

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels, and asses, or carts drawn by these animals, were the only instruments of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still largely utilised for carrying goods to the towns, ports, or railway stations.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as the Mahomedan rule, roads and canals were constructed,<sup>1</sup> which connected the outlying districts with the capital. Major Briggs, speaking of these

The old system.

Means of communication in early times.

<sup>1</sup> The Jumna Canal, constructed by the Mahomedan Emperors, must be considered as a great achievement for those days.

roads, remarks that for bold engineering skill and wonderful contempt of difficulties, they "deserve to rank with the works of the old Romans." Their number, however, was few and condition not always satisfactory. The great rivers did, no doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up a constant intercourse between the different parts of the country.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy.<sup>1</sup> In the latter years of the Company, however, matters began to improve, and after the Mutiny of 1857 and the assumption of the Government of India by the Crown, the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport. Over thirty-seven thousand miles of railway are now open, and the total mileage of metalled and unmetalled roads maintained by public authority is about 216,000.

The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another.

<sup>1</sup> Vide *Imperial Gazetteer*, vol. iii.

Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Steamship communication.

Lastly, the post office, the telegraph, and the telephone afford wonderful facilities for the communication of intelligence, so that the slightest alteration in trade conditions in a particular place is now almost instantaneously reflected in the most distant parts of the country.

Communication of intelligence.

#### 4. THE PRESENT POSITION OF COMMERCE AND TRADE

In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade with any degree of accuracy. The quantity of total inland rail- and river-borne trade in 1919-20 was shown in the official Blue-books as 65 million tons and the value nearly 1,258 crores.<sup>1</sup>

Internal trade.

The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports, the balance—about a third—is the trade within British Provinces and Native States. The traffic flowing from the port towns to the interior of the country consists principally of foreign merchandise imported by sea, and that flowing to the port towns from the country comprises

<sup>1</sup> Vide *Review of the Trade of India*. In the inland trade of India the same merchandise appears once as exports from one block, and again as imports into another block, and hence trade actually represents a duplication of figures.

chiefly food articles and raw materials.<sup>1</sup> Among the provinces, Bengal's position in the inland trade is high on account of jute, rice and other food grains, oil-seeds, coal, and tea produced in the province. Bihar and Orissa is important for its enormous production of coal. Tea is the staple product of Assam. Cotton, wheat, and seeds of the Bombay Presidency and Sind, cotton and groundnuts in the Madras Presidency, and spring and winter crops (*e.g.*, rice, wheat, gram, linseed, rapeseed, etc.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to Calcutta, Bombay ports, Madras ports, and Karachi. The United Provinces, well served by railways, conduct a larger business in purely inland trade than any other province of India.<sup>2</sup>

The inland trade is more than double the foreign sea-borne trade ; and if to the former be added the trade by rail and river between the internal divisions of each province, as also the coasting, the total comes to three times the foreign trade.

Foreign  
commerce.

The foreign commerce of India, although only a fraction of the trade, is an index to the total value of trade. Nothing can give the reader a more accurate idea of the present position of Indian commerce than a glance at the latest trade returns available. The total value of imports in the year 1923-24 was 290 crores of rupees. Of this, the value of merchandise was Rs. 237 crores, and that of treasure Rs. 53½ crores.

Imports .

<sup>1</sup> " In the inland trade Calcutta holds the premier position as a trading centre amongst the port towns, its trade being much larger than the total trade of all other port towns taken together."

<sup>2</sup> *Review of the Trade of India.*

The largest class of imports was that of articles wholly or mainly manufactured. It formed about 77 per cent. of the total imports of merchandise. The value of cotton piece-goods and manufactures was over Rs. 66 crores, or about 30 per cent. of the total values of imported goods. Of the cotton goods the United Kingdom supplied 75 per cent. of the whole. The value of woollen manufactures was Rs. 2.44 crores, and that of silk goods, Rs. 3.4 crores. Of the woollen goods the United Kingdom held the market to the extent of 80 per cent. of the total values, but Cawnpore and Bangalore competed with shawls woven from Indian wool, decidedly superior in quality to the general level of foreign imports. The imports of silk goods from Japan and China represented 70 per cent. of the total. Glassware and earthenware were imported of the value of Rs. 3.17 crores, and paper and pasteboard and stationery, Rs. 3.6 crores. The value of metals and manufactures thereof was Rs. 34.29 crores. Railway plant and rolling-stock was imported of the value of Rs. 11.72 crores; machinery and mill-work, Rs. 20.22 crores; and hardware and cutlery, Rs. 5.91 crores. Of the articles of food and drink imported, the most important was sugar, of which nearly Rs. 15½ crores' worth was imported. The chief sources of supply of cane-sugar were Java and Mauritius, Cuba and the Straits Settlements, and those of beet sugar were Germany, Holland, Belgium and Poland. It is worthy of note that although India is the second largest producer of sugar in the world, her import of foreign sugar is steadily increasing. The value of imported salt was

Cotton-piece goods.

Woollen manufactures and silk goods.

Glass.

Paper.

Metals and metallic manufactures.

Sugar.

Salt.

	Rs. 110 lakhs, of which by far the largest proportion came from the United Kingdom. The other sources of supply were Spain, Germany, Aden, and Egypt.
Other food articles.	Other articles of food imported were wines and spirits, fruit and vegetables, salted fish, biscuits, bottled provisions, condensed milk, spices, and tea. The import
Raw materials.	of raw materials and articles mainly unmanufactured, amounted to Rs 18·92 crores; and that of miscellaneous and unclassified goods to 9·64 crores.
Exports.	The value of exports, representing 56 per cent. of the total trade, amounted to Rs. 367 crores. The value of Indian produce was 348 crores; and exports of treasure amounted to Rs. 3·67 crores, of which gold was negligible, and silver formed the largest part.
Treasure.	
Raw materials.	Raw materials and articles mainly unmanufactured formed the largest class of exports, representing 51 per cent. of the total exports of Indian merchandise. The total value of exports of this class was nearly Rs. 257 crores. The export of raw cotton amounted to Rs. 99 crores; seeds, Rs. 29·8 crores; raw jute, Rs. 20 crores; raw hides and skins, Rs. 6·93 crores; raw wool, Rs. 3·17 crores; coal and coke, Rs. 22 lakhs.
cotton, jute, seeds, hides and skins, wool, coal and coke.	Articles of food and drink, representing 24·5 per cent. of the exports of Indian merchandise, amounted to Rs. 89·15 crores. Of this, the value of wheat and wheat flour was Rs. 10·25 crores, and rice nearly Rs. 35 crores. India is the most important source of the world's supply of rice. Germany was the chief among the European purchasers of Indian rice, but the exports to the United Kingdom and Austria also were considerable. As regards wheat, the United Kingdom took about 77 per cent. of the total exports,
Wheat.	

Belgium, Germany, and France being the other European purchasers. The export of tea amounted in value to nearly Rs. 31·64 crores. Here, again, the United Kingdom was by far the largest purchaser, the percentage of her purchases being 87 of the total exports. The export of coffee amounted to  $1\frac{1}{2}$  crores.

Tea.

Of the articles wholly and mainly manufactured, jute manufactures had the largest export, the value being Rs. 42·28 crores. Next in importance were the cotton manufactures, which amounted to Rs. 11 crores. The other articles of this class were coir, tanned skins and hides, and lac.

Jute manufactures

Cotton manufactures

The exports of chemicals and drugs amounted to Rs. 3·25 crores. The total value of oil exported was a little less than Rs. 3 crores. The export of metals and manufactures thereof amounted to Rs. 3·44 crores.

Chemicals and drugs  
Oil

Metals.

The re-exports of foreign merchandise amounted to Rs. 13 crores.

Re-exports.

During the last sixty years the total value of the foreign commerce of India (merchandise) has increased from 87·5 crores to over 657 crores; the increase of imports (merchandise) being from  $38\frac{1}{2}$  crores to 237 crores, and that of exports (including re-exported merchandise) from 55·86 crores to 363 crores.<sup>1</sup> The growth of the import trade is thus outrunning that of the export trade.

Progress in commerce.

The total trade with the United Kingdom amounted in 1923-24 to Rs. 222 crores; the trade with British Possessions other than the United Kingdom amounted

Trade with principal countries.

<sup>1</sup> Vide Charts in the Appendix.



to Rs. 65½ crores, and that with foreign countries amounted to Rs. 210 crores. India's imports come mainly from the United Kingdom, while her exports go chiefly to foreign countries. The following statement shows the proportion of India's trade, export and import, with each of the principal countries :<sup>1</sup>

	Export to (per cent)	Import from (per cent.)
United Kingdom - - -	25	57.8
British Possessions - - -	14	7
Germany - - - - -	7	5
China - - - - -	2.9	1.5
United States - - - - -	9	6
Japan - - - - -	14	6
Belgium - - - - -	3.8	2.4
France - - - - -	5.5	1
Java - - - - -	1	6
Austria - - - - -	0.4	0.3

Trade of India compared with that of other countries

The following table is interesting as comparing the trade per head of the Indian people with that of the other countries :

	£	s.	d.
India - - - - -	1	4	0
United Kingdom - - - - -	40	10	0
France - - - - -	21	7	0
Germany - - - - -	10	15	0
Italy - - - - -	7	9	0
United States - - - - -	16	8	0
Japan - - - - -	6	8	0
China - - - - -	1	7	0

Shipping.

The bulk of the carrying trade with India is done by British ships.<sup>2</sup> During the year 1922-23 the tonnage under the British flag was nearly 77 per cent., and including the Indian register, represented about

<sup>1</sup> Vide *The Review of the Trade of India, 1923-24.*

<sup>2</sup> The popular notion that 'trade follows the flag' is true in this case.

80 per cent. of the whole. The number of vessels under foreign flags which entered and left Indian ports was 1466, of which the German and Austrian vessels represented nearly two-thirds. The other countries whose vessels do the carrying business with India are Japan, Norway, Italy, Holland, and France. Vessels belonging to foreign countries are gradually obtaining an increasing proportion of the carrying trade. Unfortunately, vessels belonging to India herself have no share in Indian shipping.

The trade across the land frontiers of India is equivalent to six per cent. of her sea-borne trade. The statistics of this trade are incomplete, and not wholly reliable. The approximate value of the frontier trade was during the year 1923-24 as follows: Imports, Rs. 17.77 crores, and exports, Rs. 15.73 crores. This trade has increased in a very satisfactory way during recent years.

The net value of the coasting trade during the year under review (in merchandise) was 124 crores. The greater part of this trade is between the ports on the east coast and Burma, and along the coast between Bombay and Karachi.

The total value of gold absorbed by India during the ten years 1914-15 to 1923-24 was 141 crores of rupees.

From the foregoing account of the commerce of India it is clear that the exports of India exceed her imports. The excess of exports over imports (including merchandise and treasure) in 1923-24 was 62.05 crores, including Government transactions, and 96.23 crores, excluding Government transactions. In the

pre-war period, 1909-10 to 1913-14, the average annual excess of exports over imports was 42·19 crores ; in the war period, 1914-15 to 1918-19, it was 30·14 crores. But during the years 1920-21 and 1921-22 the balance of trade turned against India. Taking merchandise alone, the extent of unfavourable balance of trade was 77·55 crores in 1920-21 and 20·9 crores in 1921-22. In 1922-23, however, the situation improved, and since then the balance of trade has again been in favour of India. The following explanation in regard to the statement of the balance of trade is interesting : " There are payments due to India for her exports, for the import of capital into India, for remittances from foreign countries to persons residing in India, including tourists. There are payments due by India for imports from abroad, the Secretary of State's drawings, interest on capital invested in India through private channels, investments in other countries of the earnings of European merchants, lawyers, civil servants, etc., in India, the earnings of European steamers employed in the coasting and foreign trade of India, remittances to Indians residing in foreign countries, and premiums and policies issued by insurance companies outside India, etc." <sup>1</sup> India has, normally, a very favourable balance of trade ; but her obligations to the United Kingdom and other countries are large. Consequently, she receives payment in bullion only for a portion of this balance. For the rest she receives no direct return. How far this latter amount is a drain upon the resources of the country will be discussed in a later chapter.

<sup>1</sup> *Vide Review of the Trade of India, 1913-14.*

## 5. PRICES

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency has become more progressive during the last thirty-five years. The decennial average for the period 1901-10 was higher than the average for the previous decennial period, and the average for the period 1911-20 higher than that for the period 1901-10. Prices soared very high between 1917 and 1920, but they have considerably fallen in recent years. The rise has been especially marked in the prices of food-grains. The following statement shows the increase in the year 1924 in the average retail prices of the principal food-grains as compared with those of 1873 (the prices of 1873 being taken as 100) :

	Extent of rise.	Index-numbers.
Rice - - - - -	335	
Wheat - - - - -	246	
Jawar - - - - -	239	
Bajra - - - - -	239	
Ragi - - - - -	380	
Gram - - - - -	195	
Barley - - - - -	207	

The index-number for the seven food-grains taken together was 263. The following table gives the index-numbers of important articles for the years 1920-21 and 1923-24 :

	1920-21.	1923-24.
Food-grains—cereals - - -	154	118
Food-grains—pulses - - -	166	114
Other articles of food - - -	184	207
Oils—seeds, oils, and oilcake - - -	173	140

<sup>1</sup> For details see *Prices and Wages in India*. A statement giving the causes of the rise of prices for every quinquennium will be found in Appendix E.

	1920-21.	1923-24
Textiles—cotton - - -	354	264
Hides and skins - - -	147	147
Other raw and manufactured articles - - -	231	194
Building materials - - -	138	124
General average - - -	204	177

The averages, as shown by simple index-numbers, give only a rough idea—not a wholly correct view—of the general price-level. The system of weighting, that is to say, assigning values to articles according to their importance in the consumption or trade of the country, would be more satisfactory, but this method is not free from difficulties.

Causes of the rise.

Now the question is, what are the causes of this rise in prices? <sup>1</sup> Prices, as we know, are the expression of the relation of commodities to the medium of exchange. A variation can only ensue when there is a disturbance of this relation. A rise in prices can thus be due to one of four causes: (1) an increase in the demand for commodities; (2) a decrease in their supply; (3) an addition to the quantity of the medium; and (4) an increase in the rapidity of its exchange. It is difficult to say exactly to which of these causes the rise in prices is due, or whether it is due to a combination of two or all of these causes, and, if the latter be the case, in what proportion it is due to each of them. The population of the country

<sup>1</sup> The Government of India in 1912 deputed Mr. K. L. Dutt, a high officer of the Finance Department, to investigate the extent and the cause of this rise in prices. His Report was published in 1914, and, whatever view may be taken of Mr. Dutt's conclusions, the Report itself is undoubtedly very interesting reading. A synopsis of the causes of the rise of prices, as given in this Report, will be found in Appendix F.

has increased by nearly 10 per cent. since 1890, and this would account for a part of the rise. The standard of living has slightly risen in the country, thus raising the demand; and there has also been an enormous increase in the demand in other countries for Indian food-products. As for the supply, the statistics published by the Government show that the area of the cultivation of food-crops has diminished only in a few provinces, and increased in others; but these statistics are not wholly reliable, and it is not possible to say with certainty whether the total production of each of the important food-grains has increased or decreased. In any case, it is very probable that the supply has not increased in proportion to the demand, the production of jute, cotton, and other commercial crops for meeting the growing demand in the world markets having prejudicially affected the cultivation of food-grains.<sup>1</sup> As for the medium of exchange, it is a factor of great complexity

<sup>1</sup> This is also the view taken by Mr. K. L. Dutt. But the Government of India, in their Resolution on the Report, observe that "strictly speaking, there has been no substitution of non-food for food-crops in the country as a whole," and "that as far as trustworthy statistical evidence is available, it would appear that the area under food-crops has increased in almost exact correspondence with the growth of population, a fact which must be held to imply the production on the average of a relatively larger and more efficient food-supply, in view of the large extension of irrigation and transport facilities. The statistical data relating to acreage under food-crops do not, however, cover the whole ground, as information is admittedly wanting for large areas; and partly for this reason, and partly owing to the defective character of the information available regarding the other factors involved, no really reliable estimate of the out-turn during the period under review can be framed."

even in a comparatively undeveloped country like India. It consists not only of coins and currency notes, but of bills, cheques, drafts, etc., the amount of which can never be definitely known ; while the rapidity of exchange of the medium is a thing which cannot be measured. No one can, therefore, be sure as to how far the rise of prices is due to the currency system, but it is not improbable that the artificial regulation of the supply of silver currency—which prevents the automatic adjustment of the money supply to the demand—has had something to do with this rise. The rise may also be regarded, though in a small degree, as a part of the world-movement towards a rise of prices which has become manifest during the last few years.<sup>1</sup> The main causes of this world-movement appear to be : a higher standard of living throughout the civilised world, greater development of credit, and increased output of gold. In regard to the last factor, Prof. Seligman says, “ Gold is being turned out in such enormous quantities that it is falling in value. But a fall in the value of gold, other things being equal, is tantamount to a rise in prices.”

Rise in prices  
since the last  
European war.

The abnormal rise of prices during and after the war was mostly due to inflation or artificial creation of currency, accompanied by a shortage of production. The war was financed to a great extent by the

<sup>1</sup>The writer of an article headed “ Prices and Currency ” in the *Pioneer Mail* (April 28, 1911) suggested that the chief cause of this rise in prices was an inflation of the currency, the reasons assigned for such inflation being the absence of a gold standard and the comparatively high rate of interest which prevailed in India.

issue of inconvertible paper currency. Gold was withdrawn from circulation, and was either exported or added to the bank reserves. The major portion of the war bonds had been purchased by banks and private individuals with borrowed funds by way of deposit currency.

During the post-war period the governments of different countries were faced with heavy deficits in their budgets, and these were met by the creation of artificial currency. This inflated currency led to high prices, and high prices led to high cost of production, which in its turn necessitated the creation of more artificial currency. Hence inflation and high prices formed a vicious circle, which was ever enlarging itself further and further. India, too, did not escape the contagion of inflation, and financed her deficit budgets for three years by the issue of paper currency. This factor, coupled with trade interruptions and speculation, caused a rise in price to an unprecedented extent during 1919-20 and 1920-21. Since 1921-22 prices have fallen to some extent in sympathy with the fall of prices in foreign countries.

So far as international commerce is concerned Effects. India has been a gainer by this rise in prices, for she has obtained a larger value from other countries for her exports. But within the country the different sections of the community have been differently affected by it. As all members of society are consumers of food-grains, the rise of prices has affected all to some extent. Taking the case of the agriculturists, who form 72 per cent. of the population of India, those that have had a surplus for sale have



undoubtedly benefited by the high prices of agricultural products. But persons who have had little surplus produce have been unaffected by it. On the other hand, they have had to pay high prices for imported and locally manufactured goods, and the advantage has to some extent been neutralised. As debtors they have gained if the debts were contracted in terms of money, but as in many cases cultivators received advances in grain, it is the money-lenders that have benefited. In general, it may be said, that, as a consequence of the rise in prices, the debtor has reaped an advantage, while the creditor has suffered a severe loss. The trading classes also have benefited by it to the extent that the advance has stimulated the growth of commerce. It has been beneficial to landlords only in those cases in which they have been able to demand higher rents from their tenants in consequence of this rise. Industrial wage-earners and domestic labourers have suffered greatly, as their wages have not always kept pace with the rise in prices. As the Babington Smith Committee have rightly observed: "The large class of persons with fixed incomes, which would include persons living on rents, Government servants, professional men and pensioners have suffered severely from the rise in prices of the commodities they require, and the urban population who are not producers may be placed in the same category." This loss has been serious in cases in which the wages have been more or less customary or where the incomes have been more or less fixed. The rise in prices has placed a heavy burden on the middle classes of society through the increased cost of living.

## CHAPTER X

### EXCHANGE—(Continued)

#### 1. CURRENCY

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is known as the manufacturing and commercial stage. Such a state of society implies exchange, and exchange implies the use of money. Antiquity of money in India,

The great antiquity of Indian money is proved from various sources, the chief amongst which are proved from various sources.  
(a) the most ancient accounts of the population and condition of society in India; (b) the Vedic writings; (c) the code of Manu; (d) the Buddhistic works; (e) numismatic and other archaeological remains; and (f) comparative philology.<sup>1</sup> Various kinds of coins made of gold, silver<sup>2</sup> and copper were in use; and many other substances, such as clay, lacquer, and

<sup>1</sup> Vide Del Mar, *History of Money*, p. 58.

<sup>2</sup> Historians tell us that silver was in the earliest period more valuable than gold.

shells (cowries) were also used for exchange. The Sovereigns had the prerogative of coining gold or silver, though adequate measures were rarely taken to prevent coinage by private persons.

During  
Mahomedan  
rule.

-1

During the Mahomedan rule, a reform of the currency was undertaken, and several interesting monetary experiments were made. The rulers began to enforce the prohibition of coinage by private persons. Mahomed Tughlak entertained a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins. But this bold scheme, which was in reality a forerunner of the modern system of paper money, failed. The discovery of America and increased commercial relations with Europe led to an influx of silver into India in exchange for spices and gold; and Akbar the Great attempted to introduce a uniform standard, but his efforts did not fully succeed.

Under the  
East India  
Company.

In the seventeenth century, the East India Company also began to issue coins for use in their factories. During the remaining years of Moghul rule, coins continued to be struck at various places, and they were of different weights.

In the  
Nineteenth  
Century.

At the beginning of the nineteenth century, some parts of India (*e.g.* Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation; throughout India the coins, whether of gold or silver, differed in denominations as well as in intrinsic value, even within the same

district. In 1806 the Directors of the East India Company gave their approbation to the demand for a uniform coinage, and the first step that was taken was to replace the old miscellaneous coinages by four denominations of rupees and fewer kinds of gold coins. In their Despatch to the Governments of Bengal and Madras, the Directors observed that, while fully satisfied of the silver rupee being the principal measure of value and the money of account, they by no means desired to drive gold out of circulation. Nevertheless, in 1818, the rupee was substituted for the gold pagoda in Madras; and, in 1835, the rupee, which weighed 180 grains, and contained 165 grains of pure silver, was made the standard coin for the whole of British India. It was further enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the Company." The coining of gold mohurs (15-rupee pieces) was authorised by the Act of 1835, and in 1841 a Proclamation authorised officers in charge of public treasuries "freely to receive these coins." A few years later, however, the effect of the Proclamation was found embarrassing to the Government of India, on account of the extensive discoveries of gold in Australia, which resulted in diminishing its value in relation to silver. Consequently, in 1852, the Proclamation of 1841 was withdrawn. In 1864 the Government of India proposed that sovereigns and half-sovereigns coined at any Royal Mint in England, Australia and India, be made legal tender at the rate of one sovereign for 10 rupees, and that Government

currency notes should be exchanged either for rupees or for sovereigns at that rate. The Imperial Government, though unwilling to make the sovereign legal tender, accepted the second proposal.

India a silver-standard country till 1893.

India thus continued to be a silver-standard country.<sup>1</sup> Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many civilised countries caused a heavy fall in the value of silver. From 1871 the exchange value of the rupee fell almost continuously, and in 1878 the Government of India suggested the adoption of a gold standard while retaining the silver currency, but the proposal was vetoed by the Imperial Government on the advice of a Departmental Committee. But the rate fell from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold-standard countries it produced very bad results. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital.<sup>2</sup> Besides, the Government of India suffered

Fall in the value of rupee

Consequences of the fall.

<sup>1</sup> Vide *Report of the Indian Currency Committee*, 1898, pp. 1 and 2.

<sup>2</sup> In 1892, the Bengal Chamber of Commerce represented to the Government that "it was impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise."

great loss in making remittances to meet its obligations in England. The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange-rate of the rupee. The Government had also to pay compensation allowances to British officials to make good the loss which the latter suffered. This rendered necessary a considerable increase of taxation; and the violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly difficult task. In view of this embarrassment, the Government tried for a number of years to promote a system of International Bimetallism. But when their efforts became ineffectual they appointed, in 1892, a Committee, under the presidency of Lord Herschell, to consider the proposals submitted by the Government of India for the closing of the mints to the free coinage of silver, and for the adoption of a gold standard. In accordance with the recommendations of this Committee, the Coinage Act of 1893 provided for the closing of the Indian mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were also issued arranging for (i) the receipt of gold at the Indian mints in exchange for rupees at the rate of 16d. per rupee, and for (ii) the receipt of sovereigns and half-sovereigns in payment of dues to the Government at the rate of Rs. 15 for a sovereign.<sup>1</sup> The

The Herschell  
Committee.

<sup>1</sup> The Herschell Committee recommended that "the closing of the mints to the free coinage of silver should be accompanied by the announcement that, though closed to the public, they

net results of these measures were (1) that the exchange value of the rupee ceased to coincide with the price of silver, and (2) that silver ceased to be the standard of value, though it continued to be used as the chief material of currency. Gold, however, did not yet become legal tender.

The Fowler  
Committee.

In 1898, another Committee was appointed, under the chairmanship of Sir Henry Fowler (afterwards Lord Wolverhampton). The Fowler committee reported in 1899. Their chief recommendations <sup>1</sup>

will be used by Government for the coinage of rupees in exchange for gold at a ratio to be fixed at, say, 1s. 4d. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio" (*Indian Currency Committee's Report*, 1893, para. 156).

<sup>1</sup> "We concur with the Government of India in their decision not to revert to the Silver Standard. . . . Over four-fifths of the foreign trade of India is with Gold Standard countries, and for this reason it is desirable that India should have the same measure of value as those countries. . . . A further and certainly not less important consideration for a country like India is that an established Gold Standard is the simplest and most effective means of attracting capital. . . . We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. . . . Under an effective Gold Standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender. . . . In conclusion, we desire to record our opinion that the effective establishment of a Gold Standard is of paramount importance to the material interests of India

were: (1) that the British sovereign should be made a legal tender and a current coin in India; (2) that the rupee should also continue to be legal tender to an unlimited extent; (3) that the sterling rate for the rupee should be fixed at 1s. 4d.<sup>1</sup>; (4) that the Indian mints should be thrown open to the unrestricted coinage of gold; (5) that the mints should not be reopened to the free coinage of silver; (6) that, though the Government should continue to give rupees for gold, fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public; and (7) that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

The Government of India approved of these recommendations, and proceeded to give effect to them. In September, 1899, the sovereign was declared legal tender, but the rupee also continued

Government's  
approval of  
recommendations.

Not only will stability of exchange with the great commercial countries of the world tend to promote her existing trade, but also there is every reason to anticipate that with the growth of a confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources. For the speedy attainment of the object, it is eminently desirable that the Government of India should husband the resources at their command, exercise a resolute economy, and restrict the growth of the gold obligations. . . ."

<sup>1</sup> The Committee were not unanimous in regard to this rate.



Adoption  
of the Gold-  
Exchange  
Standard.

to be legal tender to an unlimited amount. In 1900, the then Finance Member of the Government of India announced in the Imperial Legislative Council that it had been decided to constitute a branch of the Royal Mint for the coinage of gold,<sup>1</sup> but the scheme was dropped after nearing completion in 1902. The monetary standard which was thus established came to be known as the Gold-Exchange Standard, or, in other words, a gold standard without a gold currency.<sup>2</sup> The gold-exchange standard may be said to exist under the following conditions: (1) gold does not circulate to an appreciable extent within the country; (2) the local currency is not necessarily redeemable in gold for internal use, (3) the Government or the central banks make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency; and (4) the reserves necessary to provide these remittances are kept, to a certain extent, abroad. This system, which was first advocated by Mr. A. M. Lindsay, was adopted by the Government, not as a consistent whole, but piecemeal, as the result of a series of experiments.

Immediate  
effect.

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. In 1893, the rupee stood at 1s. 2½d. The

<sup>1</sup> Sir C. Dawkins added: "India has at length emerged from a period of transition in her currency, has reached a goal to which she has been struggling for years—has established a gold standard and a gold currency" (Speech on the occasion of the Budget Statement, 1900)

<sup>2</sup> The Hilton Young Commission express the view that it should have been called a "sterling exchange standard."

Government set itself to the task of raising its value. In this, however, they were disappointed. The restriction of supply caused apprehension in the minds of the people, and brought into circulation the hoards of rupees, and the quantity which would otherwise have been used for artistic and ornamental purposes remained to swell the total silver currency. Rupees which were outside British India also naturally sought the Indian markets. The first result of the closure of mints, therefore, was that the rupee fell in value.<sup>1</sup> The Government stood out for a while, but in the end was compelled to sell rupees for about 1s. 1½d. During the next few years the policy of abstention from coinage was resolutely persisted in. But the value of the rupee continued to fall, and in January, 1895, it reached the minimum of 12½d. After that date it rose by gradual steps till in 1898 it stood at par. From 1898 to 1916 the value of the rupee did not fluctuate to any important extent, except for a brief period during the crisis of 1907-8, when the rupee fell considerably below specie point.<sup>2</sup>

Further fall in the value of rupee.

The rupee almost steady in value from 1898 to 1916.

This currency experiment was the subject of criticism of various sorts. The admirers of the system claimed for it great and unqualified success.<sup>3</sup>

Criticism.

<sup>1</sup> This immediate result was foreseen by Professor J. S. Nicholson (*vide* his article entitled the "Indian Currency Experiment" in the *Contemporary Review*, 1893).

<sup>2</sup> In 1908, the exchange fell to 1s. 3¾d., but this marked fall was due to the combined effect of the Indian famine and the American monetary crisis.

<sup>3</sup> Prof. Keynes writes in the *Economic Journal* (October, 1914): "The Gold-Exchange Standard, based on a reserve in London, has enabled the Indian currency system to meet the crisis better

Experience showed, they said, that the system was perfectly stable, as had been found at the time of the severe test of the crisis of 1907-8 ; great developments of trade and industry had proceeded under the system ; it had settled the finances of the Government and had made possible the remission of a considerable amount of taxation ; and, lastly, the wisdom of the measure was proved by the fact that many other countries had followed the example of India in this matter.<sup>1</sup> Its detractors pointed to the inelasticity of the system as a great defect. In busy seasons, an increased currency was required, which, in a dull season, led to an inflation of the currency from a want of automatic regulation, and thus raised prices. The gold-exchange standard failed to secure stability of purchasing power. During the period 1893-1923, prices varied more in India than elsewhere. Further, than that of almost any other country. No moratorium has been declared, and the exchange value of the rupee has been maintained throughout between the gold points. Of no other important country can this be said."

<sup>1</sup>The Gold-Exchange Standard has been adopted by the Philippines, Mexico, and the Straits Settlements. The currency systems of Russia, Holland, Japan, and Austria-Hungary also are not very different from the Indian system. The Currency Commission (1914) point out that, "in those countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's Gold Standard Reserve is held in London" (*Report*, para. 51).

they contended that during the crisis of 1907-8 the system was almost on the verge of a collapse,<sup>1</sup> and that in the post-war crisis of 1919-20 it completely broke down. As for the remission of taxation, they argued that there had really been none, for the remitted taxation represented the additional amount that had been taken from the taxpayers by an artificial appreciation of the rupee.<sup>2</sup> Furthermore, it was asserted that our national capital invested in rupees was a wasting asset, inasmuch as the rupee depreciated as bullion. Besides, they held that it was desirable for the Government to interfere as little as possible with the currency. Lastly, the gold-exchange standard was a very complicated mechanism, and in the words of Prof. Cannan, it was "neither fool-proof nor knave-proof."

Now, admitting that the system was not perfect, what were the alternatives to it? Some people, whose number was exceedingly small, advocated a return to the old system; but to do so would have meant a recurrence of the state of affairs which had made the adoption of the Gold-Exchange standard

Alternatives  
suggested

Silver  
Currency

<sup>1</sup> The following question by the Chairman of the Commission and the answer given by Lord Inchcape are interesting in this connection:

Q. 10,185. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price?

A. Things then would be very bad indeed. You would all be "bust" up, if it came to that.

<sup>2</sup> The amount of taxation remitted between 1898 and 1910 was 5 crores of rupees, and this, according to the late Mr. G. K. Gokhale, was the additional amount taken from the people by means of the appreciation of the rupee (G. K. Gokhale's Budget speech, 1910).

**Bimetallism** necessary. Bimetallism<sup>1</sup> was another alternative, but it could be successful only if it was accepted by at least a majority of the civilised nations, which was very unlikely to happen.

**Gold Standard in entirety. Arguments for.**

The third alternative was the adoption of the Gold Standard in its entirety. The chief arguments adduced in favour of this standard were thus summarised by the Finance and Currency Commission of 1913 :

(i) That gold is a more convenient and portable medium of circulation than the rupee.

(ii) That a gold currency is a necessary step towards what may be regarded as the ideal currency, viz., paper backed by gold in reserve.

(iii) That some prestige attaches to the possession of a gold currency, whereas a silver circulation is the mark of less progressive peoples.

(iv) That a large amount of gold in circulation is a strong, and, in the view of some people, the only adequate support for exchange.<sup>2</sup>

(v) That the constant mintage of fresh supplies of rupees is objectionable, and would be obviated by an increasing circulation of sovereigns.

(vi) That until India has a gold currency in active circulation, India will continue to possess an artificial and managed currency.

<sup>1</sup> Prof. J. S. Nicholson, in his *Money and Monetary Problems*, has tried to prove that bimetallism is both advantageous and practicable. On the other hand, an eminent authority like the late Sir Robert Giffen held that bimetallism was unattainable, and, if attained, would be dangerous.

<sup>2</sup> Most of the advanced countries have adopted the gold standard, China being now practically the only civilised country with a silver currency.

(vii) That India should be encouraged to absorb gold in order to protect the world in general from a further rise of prices due to the greatly increased production of gold.

To these arguments the objectors (including the majority of the Commission) replied as follows :

Answers  
to such  
arguments.

(i) The first argument is valid only in so far as large payments are concerned, but even there notes are preferable to gold.

(ii) History lends no support to the second argument, and it is not impossible to reach the ideal system of currency without taking the intermediate step of a gold currency.

(iii) The third argument is the result of a confusion in the minds of some people between a gold standard and a gold currency. In internal circulation, a widespread use of cheques is the most progressive system ; for the cheaper the money-material, the greater is the economy in the use of the precious metals.

(iv) As for the fourth, the opinion of eminent economists and financiers, as well as the experience of the most advanced countries, is against this view ; as a matter of fact, the only support for exchange in a monetary crisis has always been found to lie in the gold reserve of the banks and not in gold in the pockets of the people.<sup>1</sup>

<sup>1</sup> " Gold wanted for exportation is almost invariably drawn from the reserves of banks, and is never likely to be taken from the outside circulation while banks remain solvent " (J. S. Mill, *Political Economy*, bk. iii. ch. 22).

" We only have as an effective circulation that which is required for the daily wants of the people. You cannot tap that to any extent so as to increase your central stock of gold " (Lord Goschen's Speech at the London Chamber of Commerce, 1891).

(v) The fifth argument is met by the reply that rupees are generally used for small payments, and a larger circulation of sovereigns will not obviate the need for the mintage of fresh rupees to any appreciable extent; on the other hand, gold coins will prove a very formidable rival to the note issue, which will be most undesirable.

(vi) In regard to the sixth argument, it may be urged that a "managed" system is not necessarily a bad system, and that it is not possible for the Government of India to manipulate the currency for their own purposes, for they can add to the active circulation of the currency only in response to public demands.

(vii) The last argument is not one of any importance, for the extent to which India should use gold must be decided solely in accordance with India's own needs and wishes, and it would be manifestly unjust to force gold coins into circulation in India on the ground that such action would benefit the gold-using countries of the world.

Chamberlain  
Commission's  
conclusion

The conclusion at which the Commission arrived on this point was that gold in circulation was "wasteful," and "that it would not be to India's advantage to encourage such circulation."<sup>1</sup> This, however, did not dispose of the question of the adoption of a Gold Standard.

<sup>1</sup> Sir James Begbie, however, in his *Note of Dissent* said: "The true line of advance for the currency policy is to discourage an extension of the token currency by providing facilities for the distribution of gold when further increases in the currency becomes necessary," and he advocated the issue of a suitable gold coin from an Indian mint (*Report*, p. 90).

The advocates of a gold currency demanded the establishment of a gold mint in India. In March, 1912, Sir V. D. Thackersey moved a resolution in the Imperial Legislative Council urging that the Indian Mints be opened to the free coinage of gold and that distinctive Indian coins be issued.<sup>1</sup> A vigorous agitation was also carried on by Mr. M. de P. Webb and his supporters to secure the same object.<sup>2</sup> The Chamberlain Commission, after fully discussing the question, remarked: "We cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. If, however, the final decision be against the opening of a gold mint, we recommend that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms."

Suggested  
gold mint  
in India.

<sup>1</sup> The Finance Member, Sir Guy Fleetwood Wilson, in his reply, expressed his sympathy with the proposal, but declined to commit the Government of India to any particular line of policy.

<sup>2</sup> Mr. M. de P. Webb says: "Without an Open Mint, the manufacture of money depends upon the judgment or idiosyncrasy of some individual or individuals holding office under Government. And with the result that, instead of being automatic, in response to the general demands of the public, the manufacture, or delay in manufacturing, or non-manufacture of money is liable to be inspired by the private or class requirements



Breakdown of  
the Gold-  
Exchange  
Standard.

With the outbreak of the war there was a general dislocation of trade and industry, resulting in a weak exchange. This was met by offering sterling bills or reverse drafts up to a maximum of £1,000,000 a week, and the stability of the rupee was maintained till the end of 1916. Towards the end of 1915 the export trade of India revived owing to a persistent demand for India's products at good prices. On the other hand, there was a contraction of her imports, due to the inability of foreign countries to export a sufficient volume of commodities to India. The balance of trade thus turned considerably in favour of India. Normally, her favourable balance is liquidated by foreign countries by the export of precious metals to India and also by the sale of council bills by the Secretary of State for India. The embargo placed on the export of precious metals by the belligerent countries left only one method available for the liquidation of India's balance of trade, namely, the sale of council bills. But the capacity of the Secretary of State for selling council bills depended

of a few influential merchants or big money dealers. Thus (1) the foreign exchanges, (2) the current rates of interest, and (3) the general level of prices may all be influenced by withholding money when it is badly wanted, or issuing it in excessive amounts when there is no real widespread demand for it. The defects and grave abuses inseparable from State management have been so widely recognised, that closed, State-managed Mints have been everywhere abandoned long ago. India, Persia, and China are now the only prominent relics of bygone ages in these matters. It seems hardly fit that India, with its vast internal and external trade, should any longer keep company with Persia and China in their pathetic lack of monetary system " *Advance, India* / (p. 35).

upon his purchase of silver to replenish the rupee resources of the Government of India. Here he was confronted by the high price of silver brought about by heavy demand accompanied by a reduction in the supply. The price of silver rose continually till August 1917, when it was no longer economically possible for the Secretary of State to sell council bills at 1s. 4½d. as he had done hitherto. It is worthy of note that when the price of silver is 43d. per ounce, the exchange value of the rupee is just equivalent to the cost of coining a rupee. Silver rose above 43d. per ounce in August 1919, and it continued to rise till in December 1919 it reached the abnormally high figure of 78d. per ounce. The rate of council bills was consequently raised till in December 1919 it was as high as 2s. 4d. Besides, as sterling had depreciated in terms of gold, the rate for council bills had to be fixed a little higher to make allowance for this depreciation. The Gold-Exchange Standard thus broke down.

The Babington-Smith Committee was appointed to consider the question. They recommended a rate of 2s. (gold) for the rupee. They believed that the price of silver would continue to be high for some years to come, and they thought that the maintenance of the token character of the rupee would be attended with risk unless the exchange-value of the rupee was fixed at a high figure. They also thought that a high rate of exchange would be advantageous, as it would arrest the rising tendency of prices and would incidentally cause a saving in Home Charges. The Committee did not apprehend that this policy would

Babington-  
Smith  
Committee

adversely affect Indian trade, for they believed that the world shortage of raw materials and food-stuffs would enable the Indian producer to obtain a satisfactory rupee price in spite of the high exchange, while the high cost of production in foreign countries would neutralise any advantage that might accrue to them from a high exchange rate in sending goods to this country. The Committee further recommended that during periods of exchange weakness, the Government of India should be authorised to sell reverse councils.<sup>1</sup>

Mr Dalal's  
"Note of  
Dissent"

Mr. (now Sir) Dadiba Dalal wrote a Note of Dissent, in which he strongly criticised the exchange and currency policy which had been pursued by the Secretary of State and the Government of India during and after the war. He urged that the ratio between the gold sovereign (or *mohur*) and the rupee should continue to be 15 to 1, any attempt to fix the rate at 2s. being in his opinion likely to lead to disastrous consequences. He suggested that council bills should be sold only for Government requirements and not for trade purposes, and that "reverse drafts" should be sold only at 1s. 3 $\frac{1}{2}$ d., the proceeds of which were to be kept apart and utilised only for meeting drafts drawn by the Secretary of State. His other chief suggestions related to the free and unfettered exportation and importation of gold and silver bullion and coins and the coining of gold at the Bombay mint. With regard to the monetary standard, he expressed himself in favour of a gold standard, and observed: "India is fairly entitled to a system

<sup>1</sup> Vide *Report of the Babington Smith Committee, 1920.*

of sound money. The gold exchange standard has failed to provide such a system.”<sup>1</sup>

The recommendations of the majority were accepted by the Secretary of State, and Mr. Dalal's note of warning was ignored. The publication of the Report coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2s. gold recommended by the Committee by the offer of reverse councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold, as shown by the dollar-sterling exchange. The rates for reverse councils offered by the Government varied from 2s. 3 $\frac{3}{4}$ d. (sterling) to 2s. 10 $\frac{3}{4}$ d. (sterling). By the Indian Coinage Amendment Act of 1920 the sovereign was made legal tender at Rs. 10. The attempt to hold the rate at 2s. gold led to enormous losses and proved unsuccessful. The Government thereupon tried to maintain exchange at 2s. sterling. This attempt resulted in a further enormous loss. There were protests from all quarters against the squandering of the resources of the country. The attempt was, therefore, abandoned from the 28th September. The blunder committed by the Government in hastily accepting the recommendations of the Babington-Smith Committee at a time when world conditions were quite unsettled involved a loss not only to the Indian Exchequer, but also to the mercantile community. It was not long before the tide of exchange began to turn. Early in 1921 exchange fell below the

Government's  
action.

<sup>1</sup> *Note of Dissent of Sir Dadasa Dalal to the Report of the Babington-Smith Committee, 1920.*

level of 1s. 3d. sterling and 1s. gold. The 2s. ratio, passed in 1920, remained on the statute book, and was ineffective for purposes of tender of gold to the currency office. In January 1923 there was another turn in the tide, and exchange recovered to 1s. 4d. sterling. Exchange showed a general tendency to move upward. In October 1924 it reached the level of 1s. 6d. sterling, which was nearly equivalent to 1s. 4d. gold. From that time till March 1926 the upward tendency of exchange continued. Meanwhile, sterling had been restored to parity with gold about the middle of 1925, and since then the rupee was for a considerable time in the neighbourhood of 1s. 6d. gold. Economic conditions in the world also became more stable, and a Royal Commission, under the presidency of Mr. Hilton Young, was appointed towards the end of 1925 to "examine and report on the Indian exchange and currency system and practice."<sup>1</sup> ✓

The Report of this Commission was published in July 1926. After examining the various aspects of the question, the Commission came to the conclusion that a gold exchange standard was "not the best for India under present conditions," and that, "in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or in other words, that it is necessary to establish a true gold standard." They added, however: "It should be understood that this does not necessarily imply a gold currency. . . .

<sup>1</sup> Vide *Report of the Royal Commission on Indian Exchange and Currency*, 1926.

The essence of the proposal which we propose to develop is that the ordinary medium of circulation should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever." The main feature of the system recommended by them—the gold bullion standard—was that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold was required. The fulfilment by the currency authority of this obligation would, in the opinion of the Commission, secure the stability of the gold value of the rupee and the stability of exchange within the gold points corresponding to the selected parity. They recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability led the Commission to urge the establishment of a Reserve Bank. This Bank was to be given the sole right of note issue for a period of (say) 25 years. The notes of the Bank were to be legal tender, and guaranteed by the Government. The legal right to obtain silver rupees in exchange for notes was to be withdrawn, and the currency

Reserve Bank

authority was to be under a statutory obligation to convert all notes, other than one-rupee notes, on demand into legal tender money, i.e., into notes of smaller denominations, or silver rupees at the option of the currency authority. The other important recommendations related to the unification of the Gold Standard and Paper Currency Reserves and to the re-issue of one-rupee notes.<sup>1</sup>

Str Purushottamdas Thakurdas's "Note of Dissent."

Sir Purushottamdas Thakurdas appended a Note of Dissent to the *Report*, in which he urged, among other things, the establishment of a gold standard proper and the fixing of the rupee at 1s. 4d. With regard to the latter proposal, he apprehended that if the recommendation of the majority to stabilise the rupee at 1s. 6d. be accepted, India would be faced with a very serious disturbance in her economic organisation during the next few years, the consequences of which were likely to be disastrous. "Until adjustment is complete," he said, "agriculture threatens to become unattractive and less remunerative than it is to-day, and industries will have to undergo a painful process of adjustment, unnatural, unwarranted and unavoidable—an adjustment which will be much to their cost, and affect not only their stability and their progress, but in certain cases, their very existence. And should nature have in store for India a couple of lean years after the four good harvests that we have had, during the period of forced adjustment to a rate of 1s. 6d., the steps that the currency authority will have to take to maintain exchange at this rate may deplete the

<sup>1</sup> A summary of the recommendations of the Commission will be found in the Appendix.

gold resources of the country to an extent that may seriously shake the confidence of her people in the currency system recommended.”<sup>1</sup>

Some of the main proposals of the Commission were placed before the Indian legislature in February last. Two Bills amending the Indian Currency and Coinage Acts have since been passed.

To keep up the Gold-Exchange Standard and to prevent great fluctuations in the value of the rupee, two things were essential: firstly, that importers of gold should obtain rupees for their gold; and secondly, that when gold was required for the purpose of remittance, the exporters should get it in exchange for silver. To ensure this, the Government sold and bought rupees in India and in London at the rate of 1s. 4d. the rupee *plus* or *minus*, as the case might be, the approximate cost of transport. And for these transactions, a Reserve, called the Gold Standard Reserve, was kept in London.

In accordance with a recommendation made by the Fowler Committee it was decided that, with effect from the 1st of April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be held as a special reserve.<sup>2</sup> Up to 1906, practically the whole amount was remitted to England and appropriated to the purchase of British Government Securities, the interest realised being added to

<sup>1</sup> Note of Dissent of Sir Purushottamdas Thakurdas to the *Report of the Royal Commission on Indian Exchange and Currency*, 1926.

<sup>2</sup> There is a tendency in some quarters to regard the Gold Standard Reserve as an asset against the Public Debt of India. But this view seems to be unsound and erroneous.



the fund and invested ; but in that year it was decided that a portion of the Reserve should in future be held in silver in India. In 1907-08 and 1908-09, in consequence of a further decision, half the profits on coinage were to be applied to capital expenditure on railways, and about £1,100,000 was actually diverted for the purpose , but this decision was soon reversed. In 1914 the Indian branch of the Gold Standard Reserve was abolished on the recommendation of the Chamberlain Commission. The Currency Committee of 1919 recommended that a portion of the gold in the Gold Standard Reserve, not exceeding one-half, should be held in India ; the sterling investments should, however, continue to be held in London. In 1921-22 the excess over £40 million in this Reserve was used to cancel created securities. Since 1922-23 this excess has been added to the general revenues.

Composition. On the 30th September, 1926, the Reserve stood as follows :

Cash at short notice - - -	£3,940
British Treasury Bills - - -	£3,146,812
Other British and Dominion Government Securities - - -	£36,849,248
<b>Total -</b>	<b>£40,000,000<sup>1</sup></b>

Had it not been for the rash policy of selling reverse councils amounting to over £55 million in the crisis of 1919 and 1920, India would have had a Reserve of over £95 million by this time.

<sup>1</sup> In the interval between the 31st March, 1913, and the 31st March, 1923, the aggregate of the Gold Standard Reserve increased to £40 million

The location and the composition of the Gold Standard Reserve have given rise to much criticism. It has been suggested that the whole of the Reserve should be held in India and not in London, in order to prevent India's financial interests from being endangered in the event of a monetary crisis in England. The usual reply to this suggestion has been that the necessity for the use of the Reserve will arise in London, and to hold it in India would involve the expenses of frequent transfers. Another objection is to nearly the whole of the Reserve being held in Securities which are not realisable in times of need without much loss. On the other hand, it has been urged that the interest accruing from the investment is a gain to the Government of India. This argument is not always correct, for the loss due to a depreciation in the value of the stocks in a crisis is often greater than the gain which accrues in the shape of interest. As a matter of fact, India suffered immense loss owing to the depreciation of Securities during the late war. If any portion of the Reserve can be safely lent out to borrowers for short periods, this should be done in India where there is much dearth of capital. To this reasonable cry of "India's money for India," no exception can be taken.

Location and composition criticised.

The Chamberlain Commission suggested that the gold portion of the Reserve should be immediately increased to £10,000,000 and that the greater part of the Securities should be such as might be easily redeemed. By the 31st October, 1923, considerable changes occurred in the composition of the Reserve. The amount of the gold held in London at that date

Commission's suggestions.

Gold Standard Reserve on 31st Oct., 1923.

was almost nil, and the total of sterling Securities all held in London amounted to £40,043,831, out of which nearly £25 millions consisted of British Treasury Bills maturing within twelve months.

Amount of  
Reserve  
essential.

On the question of the amount of the Reserve which might be regarded as an absolute guarantee against any possible crisis, considerable difference of opinion prevailed. As the Chamberlain Commission pointed out, "the Reserve is required not merely to meet the 'home charges' of the Government of India at a time when an adverse rate of exchange prevents the free sale of Council drafts, but also to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point. On the other hand, the Reserve is not required to provide for the conversion into sovereigns of the rupees in circulation in India. Gold is world's money, and India, like other great countries, needs gold less for internal circulation than for the settlement of external obligations when the balance of trade is insufficient to meet them. That being so, the aggregate amount of rupees in circulation has only an indirect bearing on the question of the Gold Standard Reserve. It is true that the Reserve is built up out of the profits on the coinage of rupees, but its object is not to secure the convertibility on demand of the whole of the rupees in circulation, but only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling. This being the purpose of the Reserve, its amount depends not so much upon

the amount of rupees at any time in circulation as upon the growth of India's trade and the extent of the deficiency which adverse seasons or circumstances may at any time be reasonably expected to produce in the country's power to liquidate immediately its foreign obligations." <sup>1</sup>

In 1896, a reform of the coinage was undertaken. The "1835"-rupees ceased to be re-issued, and in 1901-2 similar orders were given with respect to "1840" rupees. In 1906, bronze coins were issued as tokens for small transactions, and they are now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; and it is now in contemplation to issue half-anna nickel coins.

*Reform of coinage.*

Under the Acts of 1839, 1840, and 1843, the Presidency Banks of Bengal, Bombay, and Madras were authorised to coin Notes payable on demand. But the circulation of the Notes was practically limited to the Presidency towns. An Act of 1861 repealed the previous Acts and provided for the issue of a Paper Currency through a Government Department by means of Notes of the Government of India. Since then, there have been no Bank Notes, the Government having retained a monopoly of Note Issue.

*Paper currency.*

Under the Paper Currency Act, 1905, Paper Currency Notes of the following denominations, viz., Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000, are issued to the public. They are issued without limit in every Paper Currency office against rupees or gold. There are eight circles of issue having their headquarters at Calcutta, Cawnpore, Lahore,

*Denominations of Notes.*

*Circles of issue.*

<sup>1</sup> *Report of the Chamberlain Commission*, pp. 20, 21.

Bombay, Karachi, Madras, Calicut, and Rangoon respectively ; and until 1910, the Notes were legal tender only within the particular circle from which they had been issued. The Government were not legally bound to cash any Notes outside their circle of issue, but as a matter of fact, they were cashed in any Government Treasury (if they were not for very large sums), and also by the Presidency banks. The reason for this restriction was that if Notes were cashable in all circles the cost of carrying rupees from one part of the country to another would fall on the Government, and a considerable reserve would have to be kept at each centre to meet the demands for cash.

The  
universalising  
process.

In 1909, the five-rupee Note, which had previously been made legal tender throughout India, was declared to be legal tender in Burma. The growing popularity of the universal five-rupee Note led the Government to further universalise the Paper Currency, and in 1910 the ten- and fifty-rupee Notes were made universal. The hundred-rupee Note was also declared universal in 1911.<sup>1</sup>

Paper  
Currency  
Reserve.

The law requires that a Paper Currency Reserve shall be held against the Notes equal to their full value. Under the Act of 1861 Notes could be issued against the Securities of the Government of India to a maximum of 4 crores. The issue of Notes against Securities was raised by various Acts, and just before the war it stood at 14 crores, of which 4 crores were British Government Securities and the remainder Indian Government Securities. Till 1898, the whole

<sup>1</sup>The Chamberlain Commission recommended the immediate universalisation of the 500-rupee Note (*Report*, p. 26).

of the remaining portion of the Reserve was held in silver coin in India. But under the Gold Note Act of that year the Government of India obtained authority to hold any part of the metallic portion of the Reserve in gold coin. An Act of 1900 made it legal to hold part of this gold in London. In 1905, the Government was given full power to hold the metallic portion of the Reserve or any part of it, at its discretion, either in London or in India or partly in both places, and also in gold coin or bullion, or in rupees or silver bullion, subject only to the exception that all coined rupees should be kept in India.

The needs of war finance, together with a heavy demand for Council bills, necessitated a large expansion of Note-issue. But the strengthening of the Reserve was rendered difficult by the high price of silver, which prevented the coinage of fresh rupees and the absorption of large quantities in the up-country districts. The result was a large increase in the fiduciary issue. By various Acts and Ordinances the fiduciary issue was increased to 120 crores in 1919 and the percentage of metallic backing to the total issue was 44.6 as against 78.9 in 1914. The currency situation was extremely acute during the first half of 1918, when the silver portion of the Reserve diminished to little more than 4 crores. The situation was, however, saved by the acquisition of silver from the United States Government under the Pittman Act.

Effect of the war on the composition.

The composition of the Paper Currency Reserve is at present regulated by the Act of 1920 as amended by the Acts of 1923 and 1925. Under these Acts the metallic portion of the Reserve should not be less than

50 per cent. of the Currency Notes in circulation. But as it was found difficult to conform to this condition for some time to come, it was further provided that the Securities should be limited to 85 crores, which amount was subsequently increased to 100 crores. On the 31st March, 1923, the value of Notes in gross circulation was Rs. 174·70 crores. The composition of the Paper Currency reserve on the same date was as follows :

Volume of  
Paper  
Currency.  
  
Composition  
of Paper  
Currency  
Reserve.

Gold in London	-	-	-	-	Nil.
Gold in India	-	-	-	-	24·32 crores.
Silver in India	-	-	-	-	87·05 "
Securities of Government of India <sup>1</sup>	-	-	-	-	57·48 "
Securities of British Government	-	-	-	-	5·85 "
<b>Total</b>	-	-	-	-	<b>174·70 "</b>

The composition of the Paper Currency Reserve on the 30th September, 1926, was as follows : Rs.

Notes in circulation	-	-	-	-	1,96,44,81,189
Reserve—Coin and Bullion :					
In India—					
Silver coin	-	-	-	-	94,86,14,267
Gold coin and bullion	-	-	-	-	22,31,93,905
Silver bullion under coinage	-	-	-	-	7,87,00,190
<b>Total coin and bullion</b>	-	-	-	-	<b>125,05,08,362</b>
Securities (Purchase Price) :					
In India	-	-	-	-	57,40,21,946
In England	-	-	-	-	13,99,50,881
<b>Total Securities</b>	-	-	-	-	<b>71,39,72,827</b>

**Grand Total of Reserve - - 1,96,44,81,189**

Suggested  
changes.

The Indian system of Note Issue was formerly

<sup>1</sup> Of the Securities held in India, 49,65,00,000 consisted of Indian Treasury Bills. These were mainly created Securities which were put in the Paper Currency Reserve to fill up the gap caused by the rating of the rupee at 2s.

modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and the restrictions were provided with the object of preventing the abuses attendant on the issue of notes without the backing of a metallic reserve. The result was that in the busy season the money-market became tight and the rate of interest rose very high, while in the slack season money was plentiful and the rate of interest dropped. These fluctuations caused great inconvenience and uneasiness to trade and commerce. To remedy this inelasticity of our Currency the Act of 1920 (amended in 1923 and 1925) made two new departures in our currency practice. In the first place, it provided that 50 per cent. of the Paper Currency Reserve may be held in Securities, so that with every increase in the metallic currency, the scope for the expansion of paper currency would largely increase, and consequently the inelasticity of currency would be more and more remedied. In the second place, it provided for the issue of additional Paper Currency up to 5 crores against bills of exchange or *hundis* maturing within 90 days, to the Imperial Bank of India at a rate of interest not below 8 per cent. The issue of Currency Notes when the bank rate was as high as 8 per cent. involved hardships to the borrowers, with the result that the Act has been so amended as to allow a loan of 4 crores when the bank rate is 6 per cent., and thereafter with every rise in the bank rate by one per cent., an additional issue of 4 crores will be available up to a maximum of 12 crores. This provision corresponds in some measure with the issue of emergency currency by the Bank of



- Location.** England when the banks are in need of temporary accommodation owing to stringency in the money-market. The location of a portion of the Reserve in London has formed the subject of adverse criticism. As the object of the Reserve is the redemption of Notes in India, there seems to be no valid reason why the whole of it should not be held in India. The view that the Paper Currency Reserve should be held as a second line of defence for the support of exchange seems hardly to be sound.
- Amalgamation not desirable** } The amalgamation of the Gold Standard Reserve and the Paper Currency Reserve has frequently been suggested. But as the objects of the two Reserves are different, it would certainly be wise to keep them separate.
- Council Bills.** It may not be out of place to briefly describe here the mode by which remittance is made from India to England. The Secretary of State for India requires money in London for meeting the expenses of his office and various other charges ; and many merchants in England want to send money to India for the purchase of Indian produce for export. The whole transaction is easily made by means of Council Bills, which supersede the necessity of transferring and re-transferring bullion, and thus save the loss in the shape of payments for freight and insurance which would be incurred if the remittances were made by shipments of gold. Every Wednesday the Secretary of State offers for sale through the Bank of England bills on the Indian Government authorities at Calcutta, Madras, and Bombay, and invites tenders from those who wish to remit money to India. The notice

states the limit which the aggregate amounts will not exceed. The Secretary of State does not bind himself to allot the whole amount mentioned in the notice. If there is a brisk demand, the prices realised are comparatively high ; if the demand is dull, the bills are sold at comparatively low rates. The maximum price is fixed by the "specie point," that is to say, the point up to which it is cheaper to buy Council Bills than to ship gold. The bills are sent by the buyers to India, where they are cashed by the Indian Government. Those merchants who want to avoid the delay of sixteen to eighteen days which the bills take to reach India can purchase Telegraph Transfers, for which they have to pay slightly higher rates.<sup>1</sup> "Intermediate" or "special" Bills and Transfers can be obtained on other days of the week at a price not less than  $\frac{1}{2}$ d. higher than the lowest price charged on the preceding Wednesday. Since September 1920 there has been no attempt on the part of the Government to regulate the rate of exchange. Council Bills have been sold according to the rates prevailing in the market. On the 5th October, 1926 the rate of Bills was 1s. 5 $\frac{1}{2}$ d. and of Telegraphic Transfers 1s. 5 $\frac{3}{4}$ d. The Royal Commission on Currency, 1926 recommended the fixing of exchange at 1s. 6d. This rate has now been adopted by an Act of the legislature.

Telegraphic  
Transfers.

The practice of drawing funds from India to meet the Home Charges by means of bills of exchange on

Origin and  
present scope  
of the system.

<sup>1</sup>The price charged for Telegraphic Transfers is ordinarily  $\frac{1}{4}$ d. higher than that charged for Bills, but when the Calcutta or Bombay Bank Rate exceeds 8 p.c., the Secretary of State charges  $\frac{1}{2}$ d. more than the price of Bills.

India was inherited by the India Office from the East India Company; and it was the large surplus of India's net exports over her net imports which made the system both possible and profitable. With the closing of the mints to silver in 1893, the system has assumed new importance, and has become "the central feature of the machinery by which the Indian finance and currency system is at present managed." It was by a temporary cessation of the sale of Council drafts that the authorities first tried to force the exchange value of the rupee to 1s. 4d. Since then, the work of the system has been extended in more than one direction, and it has been utilised in effecting frequent changes in the location and disposition of the resources of the Indian Government.<sup>1</sup> How far the extended scope of the system has been beneficial or otherwise to the interests of India, will be discussed in a later chapter. It will suffice to mention here that during the year 1919-20, the Secretary of State sold bills for over £31 million, though he required only about £21·8 million for his expenses.

## 2. CREDIT

The indigenous system.

Credit is an indispensable factor in business. In the towns there are Indian bankers or *shroffs* who generally do banking business on a small scale. They finance nearly the whole of the internal trade of India, but they rarely, if ever, discount European paper and never purchase foreign or sterling bills. They do, sometimes, lend money on Government paper or similar securities, but the bulk of their business con-

<sup>1</sup> Vide *Report of the Chamberlain Commission*, p. 42.

sists in the discounting of traders' *hoondees* and in advances to cultivators. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people of the neighbourhood. The petty *mahajan* knows the affairs of his constituents intimately, and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*) or pawns of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum.

In no advanced country in the world are banking facilities so inadequate as in India. It has been pointed out that India with a population of 31 crores has only 402 banking offices. Out of 2,253 towns only 165 have such offices. In 1918, the United Kingdom, with a population of 48 millions, had 9,138 banking offices; and Canada, with a population of little more than 8 millions, had 4,000 branches of banks. In the same year, Japan, whose population is one-sixth of that of India, had 2,103 banks and nearly twice the number of branches. It is thus evident how inadequately developed are banking facilities in India, with the result that the "financial power of India is insufficiently mobilised."<sup>1</sup>

The larger banking institutions are constituted on a European model. The most important of these is the Imperial Bank, which was formed by the amalgamation of the Presidency Banks. The Presidency

The Presidency Banks.

<sup>1</sup> Sir D. M. Dalal, Note of Dissent to the *Babington-Smith Currency Committee*.

Bank of Bengal was established in 1806, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally semi-Government institutions. They formerly enjoyed the privilege of issuing bank-notes, which privilege was withdrawn by the Act of 1861. At present, the Government has some direct connection with the Imperial Bank of India.

The constitution and management of the Imperial Bank are regulated by Imperial Bank Act of 1920. This Act prescribes the kind of business which it can undertake. The restrictions which the Act imposes on the Imperial Bank have, besides considerably curtailing its loan business, the effect of preventing it from dealing in foreign exchanges except on behalf of approved banks and private constituents of *bonâ fide* personal needs.<sup>1</sup>

Restrictions on their business.

It is the State Banker to a certain extent.

In accordance with the provisions of agreements

<sup>1</sup> The principal restrictions may be summarised as follows  
 (i) The Bank may not draw, discount, buy, or sell bills of exchange or other negotiable securities *unless they are payable in India or in Ceylon* ; provided that it may, subject to the general or special direction of the Governor-General in Council, discount, buy and sell bills of exchange, payable outside India, for and from or to such banks as the Governor-General in Council may approve in that behalf. It may also deal in foreign exchange. While acting as trustee for the winding up of estates or as commission agents for the purpose of buying, selling, transferring and taking charge of any securities or any shares in any public company ;  
 (ii) they may not lend for a longer period than six months ; (iii) or upon mortgage or in any other manner upon the security of immovable property except in the case of Courts of Wards ; (iv) or upon promissory notes bearing less than two independent names ; (v) or upon personal security ; (vi) or upon goods, unless the goods, or the title to them, are deposited with the Bank as security.

into which the Government of India have entered with the Imperial Bank, it acts as banker for the Government, paying and receiving money on its behalf and managing the public debt; it receives in return a fixed annual payment and a commission on the amount of the public debt which it manages. The Bank holds all the Treasury balances of the Government at its headquarters and branches. This has led to the abolition of the Reserve Treasury System which had been inaugurated in 1876.<sup>1</sup>

The extent and growth of business of the Imperial Bank in recent years may be seen from the following figures <sup>2</sup> :

	31st Dec, 1921 (in lakhs of rupees).
Paid-up capital - - - -	5,62
Reserve and rest - - - -	4,15
Public deposits - - - -	6,80
Other deposits - - - -	65,78
Cash balance - - - -	13,60

Extent of  
business.

On the 5th November, 1926, the affairs of the Imperial Bank stood as follows :

LIABILITIES.	Rs.
Subscribed capital - - - -	11,25,00,000
Capital paid up - - - -	5,62,50,000
Reserve - - - -	4,92,50,000
Public deposits - - - -	10,55,66,000
Other deposits - - - -	79,08,53,000
Loans against securities per contra - - - -	—
Loans from the Government of India under Sec. 20 of the Paper Currency Act, against Inland bills discounted and purchased per contra - - - -	—
Contingent liabilities - - - -	—
Sundries - - - -	1,24,41,000
<b>RUPEES</b> - - - -	<b>101,43,60,000</b>

<sup>1</sup> Until 1876, the year in which the Government Reserve Treasuries were established, the whole of the Government balances were held with the Presidency Banks. There has thus been a reversion to the old system.

<sup>2</sup> Vide *Statistical Tables relating to Banks in India*. For details see Appendix J.

ASSETS.		Rs
Government Securities - - - - -		18,60,55,000
Other authorised Securities under the Act - - - - -		2,16,63,000
Loans - - - - -		11,98,18,000
Cash credits - - - - -		21,43,20,000
Inland bills discounted and purchased - - - - -		4,58,68,000
Foreign bills discounted and purchased - - - - -		16,93,000
Bullion - - - - -		—
Dead stock - - - - -		2,77,56,000
Liability of constituents for contingent liabilities per contra - - - - -		—
Sundries - - - - -		70,31,000
Balances with other Banks - - - - -		15,41,000
		62,57,45,000
Cash - - - - -		38,86,15,000
		101,43,60,000
	RUPEES	

The above balance sheet includes :

Deposits in London - - - - -	£925,700
Advances in London - - - - -	£933,400
Cash and balances at other Banks in London	£104,960
Percentage, 42·75.	Bank rate, 4 per cent.

**Deposits.** The Imperial Bank of India has the use of more than 10½ crores of public money, but the bulk of its funds consists of private deposits, the aggregate of which amounts to over 80 crores. Its percentage of cash to deposits is 42·75. The private deposits were only 6·4 crores in 1870.

**Branches.** The Imperial Bank of India has its branches in different parts of the country. These are under the direct control of the local head offices, and their funds are included in those of the head offices.

**Exchange Banks.** Next in importance to the Imperial Bank of India are the Exchange Banks, which are concerned mainly with the larger operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange

in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks are mostly Europeans, but Indians deposit their moneys with them, on which they get interest at low rates. The most important of such banks are the Chartered Bank, the National Bank of India, the Mercantile Bank, the National Bank of South Africa, and the Eastern Bank. Some of the other larger Asiatic banking institutions also, such as the Hong-Kong and Shanghai Corporation, the Yokohama Specie Bank, the Sumitomo Bank, the International Banking Corporation, and the Bank of Taiwan, do some amount of Indian business.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Some of them are under European supervision, but most of them are managed by Indians themselves. There has been a considerable increase in their number in recent years, and the total amount of their business has also expanded a great deal. At present their business is mainly confined to the financing of the internal trade of the country; but it is to be hoped that they will extend their operations to foreign exchange, and thus take advantage of foreign capital. The number of banking concerns registered under the Indian Companies Act on the 31st March, 1920, was 556. But the number of those which can be called Banks in the proper sense of the term was exceedingly small, and more of them are wanted. An augmentation of the capital of existing Banks is also essential.

Indian Joint-  
Stock Banks.

Unhappily, several bank failures have served as

Bank failures.



a severe check to the growth of Indian banking. The crash came with the failure of the People's Bank in the Punjab, with its 72 branches in the different parts of the country and its crore and a quarter of deposits. Next failed the Credit Bank of India, and the Indian Specie Bank too—the only purely Indian Bank which had a branch in London—was unable to weather the storm. These were followed by thirteen other failures. Various causes contributed to bring about the crisis. The management of some of the banks was in the hands of men who had very little experience of this kind of business, and they often embarked on speculative ventures of a dangerous character. In some cases, the banks had high-sounding titles, but their paid-up capital was very small; they lent money on insufficient security; and the proportion of their cash reserves to their liabilities was exceedingly small. A further cause was the lack of support from well-established banks at a time of stress. The failure of the Alliance Bank of Simla, one of the greatest joint-stock banks in India, in 1923, was due to too large sums having been advanced to Messrs. Boulton Brothers of London, who had indulged in highly speculative ventures. The failures brought misery to large numbers of poor men and women; and future bankers will do well to learn from the experience of the past and avoid mistakes such as those which led to the recent crisis. But it will be a misfortune if these failures have the effect of permanently hindering the growth of Indian banking. "Credit," as the American jurist-statesman, Daniel Webster, puts it, "has done more, a thousand times, to enrich nations

Necessity for  
growth of  
credit,

than all the mines of all the world"; and, in the words of the eminent economist, Mr. McLeod, "it is by the cautious and gradual extension of Banking and the development of Banking habits among the people that the future progress of India in wealth and prosperity is to be promoted." <sup>1</sup>

The deposits of the three Presidency Banks increased from 42·37 crores of rupees in 1913 to 72·58 crores in 1921, and their Cash Balances decreased from 15·38 crores to 13·60 crores. During the same period the deposits in India of the Exchange Banks increased from 31·03 crores to 75·20 crores, and their Cash Balances from 5·58 to 23·57 crores. The Indian Joint-Stock Banks (with capitals of above 5 lakhs) increased their deposits from 22·59 to 76·90 crores, and their Cash Balances from 4 to 15·66 crores. Thus during the period 1913-21, while the Presidency Banks showed an increase of deposits to the extent of 71 per cent. against a 10 per cent. decrease in Cash Balances, the Exchange Banks increased the Cash Balances by 300 per cent. against an increase of 142 per cent. in deposits, and the larger Indian Joint-Stock Banks increased their Cash Balances by 291 per cent. against an increase of 240 per cent. in the deposits. It would, therefore, appear that while the Exchange Banks and the larger Indian Joint-Stock Banks were pursuing a judicious policy of high proportion of cash to liabilities, the Presidency Banks of India, which stood at the apex of the whole banking system of the country, unlike central banks in the West, appeared to be more anxious for larger business

Progress of  
banking  
capital.

• <sup>1</sup> H. D. McLeod, *Indian Currency*, p. 53.

and higher dividends, than for their own reputation for caution and cool judgment as well as for soundness of the Indian banking system.<sup>1</sup>

The Govern-  
ment itself a  
great banker.

The Government itself is also a great banker. Not only does it control the currencies and exchange, but it holds in deposit moneys from the people in its Post Offices and pays interest on them. The total amount of deposits in the Post Office Savings Bank was on 31st March, 1922, over 22 crores of rupees. No special balances are held by the Government against these deposits, they being regarded as part of the Unfunded Debt. The Government also advances loans to cultivators for agricultural improvements and the purchase of land, cattle, etc. This is done on a large scale in times of famine and scarcity. The Co-operative Credit Societies, started under the auspices of the Government, are institutions similar in object and scope to the Agricultural Banks of Europe.

Banker's  
business.

A banker utilises his capital and a considerable proportion of his deposits in making advances. Such

<sup>1</sup> Mr. J. M. Keynes, while discussing the position of the Exchange Banks in 1913, remarked as follows: "Two facts emerge from this table with great plainness—the rapid rate at which in recent years Exchange Banks have been able to increase the funds raised by deposit in India herself, and the slow rate at which they have thought fit to increase their Indian balances." And again, "in such a country as India, where banking is ill-established and hoarding more than a memory, the proportion held in reserve seems somewhat lower than perhaps it ought to be" (*Indian Currency and Finance*, p. 216).

This sober note of warning uttered by that distinguished economist against the Exchange Banks in 1913 ought to exercise a wholesome check upon the policy of undue expansion on the part of the Imperial Bank of India. The percentage of cash to

advances are generally made either by means of an overdraft or a definite loan against security, personal or otherwise, or on a cash credit bond providing for a fluctuating balance within a certain definite amount. Besides, they invest in the discounting of commercial bills and in loans to stockbrokers and others against Negotiable Securities. Loans made on mortgage or against securities form the chief business of the Indian Joint-Stock Banks.

The instruments of credit in India are governed by the Negotiable Instruments Act. A Negotiable Instrument means a promissory note, bill of exchange, or cheque. A promissory note is a written unconditional promise made by one person to pay another a certain sum of money. A bill of exchange is defined as an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money to, or to the order of, a certain person or to the bearer of the instrument. A cheque is a bill of exchange drawn on a banker and payable on demand. Negotiable Instruments may be either inland or foreign. Those drawn or made in British India and made payable in, or drawn upon, any person resident therein, are called inland instruments; those not falling within this definition are foreign instruments. Besides these, some other instruments, passing from hand to hand

Credit  
instruments.

habilities of the Imperial Bank was 12 05 on the 7th March, 1924, 12-72 on the 14th March, 1924, 11-85 on the 18th April, 1925. Although the cash percentage has considerably improved of late, rising to about 40 per cent. in the second half of 1925 (it was 35 95 on the 25th September, 1925), still the figures given above show the tendency of the Bank to forget its heavy responsibilities.

by delivery, have by the system of trade acquired a quasi-negotiable character.

**Bank Rate**

We have already seen that the maximum rate of interest in each year is very high in India—sometimes rising to 8 or 9 per cent. This high rate, however, prevails only for a short period, namely, the winter months, when the exporters need money for purchasing agricultural products. Until recently, it usually happened that, at the time of the greatest stringency of the money market, there were large cash balances lying idle in the Treasuries. To relieve this temporary stringency in the money market, the Government has abolished its Reserve Treasury system and keeps all its cash balances with the Imperial Bank free of charge. The importance of this innovation will be realised from the fact that in August 1924 the Government balances at the Imperial Bank of India amounted to the high figure of about 32 crores of rupees. It has also been provided, as we have seen, that in times of temporary monetary scarcity, the Paper Currency Department may issue 12 crores of emergency currency to the Imperial Bank against internal bills of exchange. This undoubtedly gives some relief to the money market. But it has been found during the last two years that this is not enough to appreciably minimise the seasonal fluctuations in the money market. Thus, in 1923-24, while the maximum and minimum rates of discount on loans on demand at the Imperial Bank of India was 9 and 4, the corresponding rates at the Bank of England were 4 and 3. Similarly, in 1924-25, while the maximum and minimum rates at the Imperial Bank of India stood unchanged at 9 and 4

respectively, the corresponding rates at the Bank of England were 5 and 4. Thus it is clear that there should be a considerable extension of the principle of issuing emergency currency, if the wide margin between the maxima and the minima is to be substantially reduced.

The development of the Indian Banking system on the stereotyped lines of English commercial banking does not fully meet the requirements of India. The supreme need of India at the present moment is the development of her industries, and it is recognised almost universally that the English banking system is unsuited to that purpose. Industrial finance requires to be treated by institutions other than those that finance trade only. Germany and Japan have solved their problems of industrial finance by starting a new type of banks called Industrial Banks. The function of these banks is to help the development of an industry from its very inception, and the part these banks have played in the development of national industries is borne out by the success attained by those countries. India consequently requires inspiration and guidance from German and Japanese examples. The Industrial Commission recommended the establishment of industrial banks in India with large share capital and long-term deposits. But nothing has yet been done in this direction.

Suggestions for  
an Industrial  
Bank

## CHAPTER XI

### CONSUMPTION

Relation  
between con-  
sumption and  
production.

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus seen to be very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent.

Standard of  
life

varies in  
degree,

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life not only differs among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary facts are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary facts of life.

The standard of life, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral well-being. It would be a narrow view of Economics to confine the standard within the limits of physical needs. From our standpoint, it would be more desirable to take the term to include higher ends. We will follow Mr. Marshall, who says: "Let us take the term the Standard of Life to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy and self-respect; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome physically and morally."

According to this view, then, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term 'refinement.' To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not in itself a thing to be regretted. We must,

✓  
The most expensive standard not necessarily the best.

The Indian standard.



however, distinguish between the standard of life which is the aim of the religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

Wants and activities.

In recent years, many artificial wants have made themselves felt in India. It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Classification of articles of consumption

Economists divide articles of consumption into necessities and luxuries. Necessaries, again, are subdivided into necessities for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessities. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessities to some may be luxuries to others.

Statistics of consumption.

Reliable statistics of Indian consumption are not

available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population. But as these commodities are not the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any knowledge of the condition of the different sections of society. It is very much to be desired that a thorough study of consumption in typical towns and villages will be undertaken by some enthusiastic persons on the lines of work of Charles Booth, Seebohm Rowntree, and others.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessities. As Sir William Hunter observed many years back, more than one-sixth of the people go through life on insufficient food. Sir Guy Fleetwood Wilson, lately Finance Member of the Government of India, said: “A large proportion of the people are poor, an appreciable proportion very poor.” As a matter of fact, a considerable proportion of the people are below what is known as the “primary poverty” line, and large numbers of persons hardly get one full meal a day. It is

The first necessities of life:

Food.

Views of eminent officials.

doubtful if all persons belonging to the "middle class" get a sufficient quantity of nutritious diet.

**Clothing.**

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing of course becomes essential, especially in Northern India, where the winter is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle-class people perhaps spend more on their dress than they ought to, but in order to find money for their dress they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress; but they represent only a microscopic minority of the total population.

**House-room.**

As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in Europe and America.

**Effect of inadequate consumption on production.**

The primary wants are necessities for existence. An insufficient supply of these may just enable a person to keep body and soul together, but cannot but be detrimental to his physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve

to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to grow less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.

The stinting of necessaries is always economically wasteful; and there can be little doubt that production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, health, happiness, and morality—not luxury—should be the objects of attainment. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from augmenting

Increased consumption necessary,

but only of wholesome articles.

our capacity, makes us "at once less wealthy, less healthy, and less wise."<sup>1</sup>

Necessaries  
of a higher  
kind: educa-  
tion, sanita-  
tion, leisure,  
recreation.

So much about the physical necessities. But there are necessities of a higher kind which are of as much importance as those we have been discussing, and the failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it may have the greatest influence on happiness and morality. As a celebrated economist has said, "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."<sup>2</sup>

Considerable  
increase of  
income  
needed.

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the first necessities of life. When an increase commences, the first few doses will, therefore, go to make up the deficiency on the score of the primary wants, and the later doses will be devoted to the satisfaction of the higher needs.

<sup>1</sup> Sidney Webb, in his Preface to R. Jones's *Nature and First Principle of Taxation*.

<sup>2</sup> Devas, *Groundwork of Economics*.

## CHAPTER XII

### PUBLIC FINANCE

#### 1. REVENUE

THE revenue of the Government of India is derived from various sources. Several methods may be adopted in classifying these sources. The most natural method would be to divide the State income into four parts: (i) the income derived from the possession of State property, *e.g.*, forests, (ii) the profits of commercial undertakings, *e.g.*, the post office, (iii) incidental gains from administrative departments, *e.g.*, the law-courts, and (iv) taxation. Another and simpler method would be to put the first of these three items in one class, and to divide the revenue into two parts, namely, non-tax-revenue and tax-revenue. No classification can be wholly logical; and it does not matter which one we adopt, provided it does not lead to a confusion of ideas.

Classification

Tax-revenue  
and non-tax  
revenue.

Unlike the tax-systems of some other countries, the only object of the Indian system is the production of revenue. No attempt is here made to

Revenue the  
only purpose'  
of tax-system.

remove or modify through its system of public finance any inequalities that may exist in the distribution of wealth among the different classes of society.

Principles of the distribution of taxation.

The Government of India, in framing their budget, do not professedly adhere to any of the current theories of the apportionment of taxation.<sup>1</sup> As a matter of fact, however, so far as the income-tax is concerned, they have definitely accepted the 'progressive' principle,<sup>2</sup> as we shall see presently.

'Tax' defined.

<sup>1</sup> A 'tax' is defined by Professor Bastable as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." Compare this idea of a tax with that of Kalidasa, the great Sanskrit poet, who says that the king received taxes from the people with the object of benefiting them, just as the sun draws moisture from the earth in order to give it back a thousand-fold.

The different theories of taxation.

<sup>2</sup> Although every student of Economics is supposed to be familiar with the different alternative principles of taxation that have been suggested by thinkers, yet it will not perhaps be out of place to say a few words about them here. The first and the simplest principle is that the amount of service rendered by the State should be the standard by which to regulate taxation. The principal objection to this theory is that it is not possible to distribute the advantages among individuals, and to charge in proportion. The second principle is that of equality of taxation. All are equally benefited by the State; why should not all pay equally for these advantages? This method of equal contributions per head would be impossible politically, besides being extremely unjust. Thirdly, we come to the widely-accepted doctrine which takes 'faculty' or 'ability' as the measure for taxation. 'Ability,' however, is a vague term, and a measure of 'ability' is wanted. This measure may be property, or gross income, or net income. A slight variant of the 'faculty' theory is the 'sacrifice' theory. 'Ability' is objective; 'sacrifice' is subjective. Either of these theories may lead us to two forms of distribution: (1) proportional taxation, in which income is taken as the standard, and the amount of public burdens regulated

It is evident that the tax-system of the Government of India is not unitary—that is to say, it does not consist of a single tax (on real property, land rent, capital, income, or any other substance). It rather inclines to the opposite extreme, viz., the multiple tax-system.<sup>1</sup> The taxes are collected from a fairly large variety of sources.

The tax-system plural }

by it; and (2) progressive or graduated taxation, which places a heavier rate of charge on large than on small incomes, since the ability of the tax-payer is supposed to increase in a more rapid ratio than the increase of his income. The chief merit of the proportional system is its simplicity. It was the accepted doctrine of classical political economy, but progressive taxation is nowadays becoming more popular. The chief objections urged against the latter system are its arbitrary nature, the danger of its evasion, the probability of its harmful effect on the accumulation of wealth, and the relative unproductiveness of the progressive tax. On the other hand, it is held that progressive taxation is more equitable than proportional taxation. One extreme form of the 'progressive principle' would be to substitute 'least sacrifice' for equal sacrifice. The other extreme would be 'greatest sacrifice,' which would lead to socialistic equality. There may be several modifications of the proportional principle, and one of these would be 'degressive' taxation, a system in which a uniform rate of tax is levied beyond a prescribed limit (*vide* Bastable, *Public Finance*, and Seligman, *Progressive Taxation*).

<sup>1</sup> The merits of the 'single-tax' system are that the method is simple, the cost of collection is small, and the incidence on the several individuals and classes is precisely known. Among the many defects of the system may be pointed out the following: Its pressure may be extremely heavy at a particular point; it may be easily evaded; there is no possible room for correction, in case there be any error or miscalculation; it may really prove very complex and troublesome; there is the risk of exciting discontent by raising the required sum in a single payment. The chief advantages of multiple taxation are that it bears lightly on an infinite number of points, heavily on none, and has a tendency



Direct  
and indirect.

The Indian tax-system consists of both 'direct' and 'indirect' taxes. Land revenue and the assessed taxes are direct. Customs and excise duties are 'indirect.' Opium revenue partakes more of the character of profit from commercial transactions than of a tax. It must be remembered in this connection that a hard-and-fast line of division cannot be drawn between 'direct' and 'indirect' taxes.<sup>1</sup> There are

to bring about equality in the burden falling on the people. But the system is open to several objections, namely, that its incidence is not easily ascertained, that it is prejudicial to the development of industry, that it is irksome and inconvenient to the payers, and that it is very costly in collection. The system which finds most favour in modern countries is 'plural taxation,' which combines, to some extent, the merits of the two opposed systems.

<sup>1</sup> A tax is said to be 'direct' when the burden of the tax falls on the person who pays it. It is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance. The great recommendation of 'direct' taxation is its educative influence on the minds of the people. Each citizen knows exactly how much he contributes to the income of the State. If at any time the Government becomes tyrannical or unmindful of the interests of the people, he can refuse to pay taxes; and when an undue burden is put on him, he may resist. Besides, there is the greater facility and lower cost of collection. The drawbacks are: (1) the disagreeable nature of a direct demand and the discontent which an increase of taxation is likely to give rise to; (2) the difficulty of assessment; (3) the difficulty of obtaining a due proportion from the poorer members of society; and (4) its comparative inelasticity. The advantages of 'indirect' taxes are that (1) they are not often felt by the payer, and therefore cause him less annoyance; (2) they supply a facility for taxing the smaller contributors; (3) they are productive, and, in times of prosperity, they are elastic without causing undue pressure; and (4) they are collected at a time convenient to the payer. The disadvantages are the facilities which they offer for smuggling, the probability of a shrinkage in bad

some taxes which stand on the borderland between the two classes—for instance, registration fees and the stamp duties.

Before we pass on to a somewhat detailed account of the various sources of revenue, it would be desirable to state here the generally-accepted chief attributes of a sound system of taxation, so that we may be able to judge how far they are accepted by the Indian Government in their financial system. They are as follows: (1) The revenue-system must be adequate to the just needs of a progressive State; (2) taxation should be productive, for otherwise its very object would be defeated; (3) the State should take as little as possible from the people, consistently with the maintenance of its efficiency;<sup>1</sup> in other words, the total disutility should be at a minimum; (4) taxation should be inexpensive in collection; (5) taxation should not check men's desire to save, and should retard as little as possible the increase of wealth; (6) it should be justly distributed, so that the burden may be equal on all citizens, or, in other words, the marginal disutility for each tax-payer should be at a minimum; (7) it should be certain; (8) it should be elastic; (9) the objects taxed and the periods of years, the possibility of their falling on the poor more heavily than on the rich, the greater expense of collection, and their possible harmful effect in disturbing the course of industry. The proper system of taxation seems to be that in which there is a judicious combination of 'direct' and 'indirect' taxes.

Attributes of a  
sound system  
of taxation.

<sup>1</sup> This was the old theory, when taxation was regarded as a necessary evil. Some of the modern economists, *e.g.*, Mr. Sidney Webb, incline towards the opposite view, holding that the State should take as much from individuals as possible, in order to confer a maximum of benefit on society as a whole.

payment should be such as suit the convenience of the people, and to cause as little vexation and opposition as possible ; and (10) the tax-system should be adjusted as far as possible to the habits and ideas of the people.<sup>1</sup>

Chief sources  
of central  
revenue.

The introduction of the Montagu reforms in 1920-21 led to a complete revision of the system of public finance in India. The budget of the Central Government was separated from the budgets of the Provincial Governments. Provincial sources of revenue were completely differentiated from central sources, and provincial expenditure was made entirely distinct from central expenditure. The chief sources of revenue of the Central Government at present are . (1) customs ; (2) taxes on income ; (3) salt ; (4) opium ; (5) tributes from Indian States ; (6) railway receipts ; (7) receipts from other central departments, such as posts and telegraphs, civil and military departments, and currency and mint ; (8) interest on moneys lent ; and (9) provincial contributions. It is clear that the first three of these heads fall wholly into the class of tax-revenue, and the others either wholly or partly into that of non-tax-revenue.

Customs  
Import Duties.

Customs now form the largest source of revenue of the Central Government in India. Till the commencement of the great European War, the Indian

<sup>1</sup> A corollary that is often deduced from these maxims is that the first necessaries of life should not be taxed. Some economists would also add to the list another attribute, viz. that no tax should be levied, the character and extent of which offer, as human nature is generally constituted, a greater inducement to the tax-payer to evade than to pay. (*Vide* D. A. Wells, *Principles of Taxation* )

tariff was based on the orthodox free trade principles. The customs duties were levied solely for fiscal purposes, and were not protective or preferential in their nature. They were not intended to benefit one class or industry at the expense of another. The financial exigencies of the war, however, introduced considerable changes into the fiscal arrangements of the country. In spite of an avowed free trade policy, the tariff rates were raised several times till at last the duties on cotton piece-goods, sugar, iron and steel manufactures, paper and pasteboard, dyes and paints, and some other articles became moderately protective in character. The customs tariff now acquired an importance which it had never possessed before. Import and export duties, which had produced only 14 per cent. of the central revenue during the years 1909-10 to 1913-14, yielded more than 33 per cent. in 1924-25.

The Indian Fiscal Commission of 1922 recommended the adoption by India of a policy of discriminating protection. Though halting and unsatisfactory in many respects, this Report may be said to mark the beginning of a new fiscal policy in India. The Tariff Board appointed in 1923 investigated the case of Indian iron and steel, and recommended *ad valorem* duties of 15 to 25 per cent. for certain sections of iron and steel, and specific duties varying from Rs. 20 to Rs. 60 per ton for others. This recommendation was coupled with that of a bounty. These recommendations were accepted by the Government. In 1924 the Tata Iron and Steel Company applied for a greater degree of protection. The Government of India,

Discriminating  
protection.

after considering the report of the Tariff Board, granted an additional bounty of Rs. 20 per ton on finished steel produced in India, and earmarked Rs. 50 lakhs for the purpose. The main reason for the grant of this protection is that iron and steel form a "key industry" vitally essential to the economic development of the country and the political safety of the nation.

Free imports  
and low rates.

The customs tariff consists of a long list of articles. Hides and skins, metallic ores, raw cotton and wool, manures, precious stones, wood pulp and other paper-making materials, some agricultural implements and dairy appliances, water-lifts, sugar mill machinery, oil pressers, gold and silver bullion and coins, books, live animals, cinchona bark and its alkaloids are now imported free of duty. There is an import duty of  $2\frac{1}{2}$  per cent. *ad valorem* on grains and pulses, fire-wood, vinegar, copperas, machinery, aeroplanes, printing and lithographic material, racks for the withering of tea leaf, and fodder;  $7\frac{1}{2}$  per cent. *ad valorem* on denatured spirits and some specified mineral oils; 10 per cent. *ad valorem* on old iron and steel, railway materials, telegraphic instruments and apparatus, ships and other vessels.

General and  
special duties.

General import duties, at the rate of 15 per cent. *ad valorem*, are levied on a large number of commodities, of which a revised list of tariff valuations is usually published every December. While iron and steel manufactures are liable to a protective duty at special rates as mentioned above, there are many important articles which are liable to a non-protective duty at special rates. Thus sugar pays a duty of

25 per cent. *ad valorem*, cigars and cigarettes 75 per cent., arms, ammunition and military stores 30 per cent., cotton twist and yarn 5 per cent., cotton piece-goods 11 per cent., and matches Rs. 1-8 as. per gross boxes.

The net revenue contributed by import duties amounted in 1924-25 to about 39 crores.

There are a few articles which are liable to an export duty. Raw jute pays duty at R. 1-4 as. per bale of 400 lbs. ; jute bags, twist, yarn, cloth, rope and twine, at Rs. 20 per ton ; hessians and other jute manufactures at Rs. 32 per ton, rice at 3 annas per maund, tea at R. 1-8 as. per 100 lbs., and raw hides and skins at 5 per cent. *ad valorem*. These duties are in accordance, to some extent, with the principle that the levy of export duties is justifiable on those commodities in which the exporting country has a virtual monopoly of production.

An excise duty of 3½ per cent. *ad valorem* used to be levied on cotton goods and yarn produced by Indian mills. This duty was suspended in December 1925 and abolished in March 1926. The total yield of these duties was nearly 6 crores in 1924-25.

Customs revenue is generally elastic ; it tends to expand with the expansion of trade and industry. Of the various duties, those on salt, matches and petroleum fall on almost the entire community, but more heavily on the poorest than the other classes. The cotton duty is paid by a large proportion of the population, more particularly the middle and well-to-do classes. The tax on sugar, stationery, and paper affects mainly the middle class ; while the heavy

Export duties.

Excise duties.

Character of  
customs  
revenue.

duties on motor cars, silk manufactures, cigars and cigarettes, and jewellery fall on the richer classes who are best able to bear the burden. The high duties on iron and steel, while they press upon important industries and means of communication, have the beneficial effect of safe-guarding an industry of vital national importance. The duty on liquor tends to check, however slightly, the consumption of a deleterious article.

Importance of  
customs.

The customs duties yielded a revenue of Rs. 39·70 crores in 1923-24, Rs. 44·76 crores in 1924-25, and 47½ crores in 1925-26. In terms of the total gross revenue of the Central Government, the share of the customs was nearly 30 per cent. in 1923-24, 33 per cent. in 1924-25, and 34 per cent. in 1925-26.<sup>1</sup> The customs duties have thus come to occupy a very conspicuous place in the finances of the Government of India.

Income tax.

An income tax was for the first time introduced in India in 1860 to meet the financial stringency caused by the Mutiny of 1857-58. It was levied at the rate of 2 per cent. on incomes between Rs. 200 and Rs. 500, and at the rate of 4 per cent. on all incomes above Rs. 500. This tax expired in 1865. It was re-introduced in 1869, and lasted for four years. The income tax found a permanent place on the statute-book in 1886. On this occasion, it was levied on incomes derived from sources other than agriculture, which was exempted. On incomes of Rs. 2,000 and upwards it fell at the rate of 5 pies in the rupee; on incomes between Rs. 500 and Rs. 2,000 at the rate of

<sup>1</sup> The figures in these and the following pages have mostly been taken from the Budget Estimates of 1926-27 and 1927-28.

4 pies in the rupee. In 1903 the taxable minimum was raised to Rs. 1,000. In 1916-17, as one of the measures needed to finance the war, the rates of income tax were completely revised and largely increased ; and the progressive principle was definitely adopted. Another feature of war taxation in India was the imposition of the super-tax in 1917. This was levied in addition to the ordinary income tax on large incomes above Rs. 50,000. Further changes were made in 1922.

The following table summarises the rates of income tax and super-tax which are in force at the present moment :

## INCOME-TAX.

INCOME.	RATE.
When the taxable income is less than Rs. 2,000 -	Nil
When the taxable income is between Rs. 2,000 and Rs. 5,000 - - -	5 pies in the rupee
between Rs. 5,000 and Rs. 10,000 - - -	6 pies in the rupee
between Rs. 10,000 and Rs. 20,000 - - -	9 pies in the rupee
between Rs. 20,000 and Rs. 30,000 - - -	1 anna in the rupee
between Rs. 30,000 and Rs. 40,000 - - -	1 anna 3 pies in the rupee
over Rs. 40,000 - - -	1 anna 4 pies in the rupee

## SUPER-TAX (IN ADDITION TO INCOME-TAX).

INCOME.	RATE PER RUPEE.
In respect of the first lakh of rupees :	
(a) in the case of a Hindu joint family	
(i) in respect of the first Rs. 75,000	Nil
(ii) " " next Rs. 25,000	1 anna



SUPER-TAX, ETC.—*continued.*

INCOME.		RATE
(b) in all other cases		PER RUPEE.
(i) in respect of the first Rs. 50,000		Nil
(ii) " " next Rs. 50,000		1 anna
When the taxable income is		
between 1 and 1½ lakhs	- - -	1½ annas
between 1½ and 2 "	" - - -	2 "
between 2 and 2½ "	" - - -	2½ "
between 2½ and 3 "	" - - -	3 "
between 3 and 3½ "	" - - -	3½ "
between 3½ and 4 "	" - - -	4 "
between 4 and 4½ "	" - - -	4½ "
between 4½ and 5 "	" - - -	5 "
between 5 and 5½ "	" - - -	5½ "
over 5½ "	" - - -	6 "

Yield of  
Income-tax

The revenue derived from the income-tax has increased enormously since the war. During the period 1899-1913, the annual yield was only Rs. 1 95 crores, which increased to 10·70 crores in 1919-20. There was again a great jump forward to Rs. 18·48 crores in 1921, the subsequent variations being 17·99 crores in 1922, 19·07 crores in 1923, 18·24 crores in 1924, 16·47 crores in 1925, and 15·85 crores in 1926.

An Excess Profits Duty was levied in 1919-20 on all incomes made by companies or individuals above the normal standard. This duty yielded a sum of Rs. 11½. It was allowed to lapse in the following year.

Opium.

The production of opium is a Government monopoly in British India. Poppy cultivation is permitted only in parts of Behar and the United Provinces, and is under the control of the Government.<sup>1</sup> Opium grown

<sup>1</sup> The cultivator has to get a license, and is required to deliver the whole of his outturn of the crude opium to the Government

in the semi-independent States, known as 'Malwa opium,' is permitted to enter British territory only on payment of a heavy duty. By agreement with the Chinese Government, as well as under certain international conventions, the Government of India have been obliged to reduce the production and export of opium. The revenue from opium, which was at one time a very important item in the financial resources of the Government, has now dwindled down to about four crores.

The salt tax has always been regarded by the <sup>Salt.</sup> Government as a fiscal reserve to fall back upon in case of financial stringency.<sup>1</sup> The revenue can be increased without any material addition to the cost. For a long time the salt tax held a place second only to the land revenue. The successive reductions in the duty in 1903, 1905, and 1907 resulted in substantially lightening the burden which it imposed on the people. From 1908 to 1916 the tax was levied at R. 1 per maund. In 1916, it was raised to R. 1-4 as. In 1923-4, it was raised to Rs. 2-8 as. in the teeth of popular opposition and by the exercise by the Governor-General of the special powers vested in him. In 1924-25, however, in deference to public opinion, the rate was reduced to R. 1-4 as. per at a fixed price. The excise opium, that is, the small quantity required for consumption in India, is made over to the Excise Department, and a fixed amount per seer is credited to opium revenue. The rest, known as provision opium, is sold by auction, and is intended for export. The exports to China have altogether ceased since 1913.

<sup>1</sup> The production of salt is not a Government monopoly, but private manufacture is prohibited owing to the difficulty of preventing an evasion of the tax.

maund. The salt duty produced  $6\frac{1}{2}$  crores in 1925-26. Salt is a vital necessity to the people, and the tax has often been objected to by popular representatives. But the Government has continued to levy it on the ground that it is the only contribution which the masses of the people make to the revenues of the State.

Revenue  
from railways,  
irrigation, and  
other sources

Of the income derived from sources other than taxation, that from railways forms by far the largest proportion. The net railway receipts amounted to 34.19 crores in 1924-25 and 34.40 crores in 1925-26. The net receipts minus interest and miscellaneous charges would give the net profits. Since 1925-26 the railway budget has been separated from the general budget. It has been arranged that out of the net profits a sum of Rs. 5.09 crores is to be annually contributed to the general revenues. From the balance the sum of Rs. 3 crores is to be transferred to the railway reserve. Further, one-third of the surplus left after the transfer to the reserve is to accrue to the general revenues. In 1924-25, the total contribution of the railways to the general revenues was Rs.  $5\frac{2}{3}$  crores, and in 1925-26 it amounted to  $5\frac{1}{2}$  crores. Posts and telegraphs used at one time to be a source of considerable profit to the Government, but at present these departments can hardly be said to be revenue-earning. Tributes from the Indian States amounted to  $84\frac{1}{2}$  lakhs in 1925-26; military receipts,  $4\frac{1}{2}$  crores; interest,  $4\frac{1}{4}$  crores; mint and currency,  $4\frac{2}{3}$ ; and miscellaneous items, 54 lakhs.

Provincial  
contributions

Another important source of revenue consists in

provincial contributions, which amounted to Rs. 9-20 crores in 1923-24 and Rs. 6-24 crores in 1925-26. When it was decided to separate the sources of central revenue from the sources of provincial revenue, it was found that the revenue allocated to the Central Government would fail to balance the central expenditure. Accordingly, on the recommendation of the Meston Committee it was settled that a total sum of Rs. 9-83 crores be initially contributed by the provinces to the central exchequer in different proportions. This sum was, however, to be gradually reduced as the central finances improved, till at last the provincial contributions should cease altogether. As nearly all the provincial governments suffered from financial stringency during the first three years of the reformed régime, there was an insistent demand from the provinces for the remission of their respective contributions so that they might spare some funds for the benefit of the transferred departments, and thus give a fair chance to the working of dyarchy. The Central Government itself was in acute financial distress, and it was not possible for it to accede to the requests of the provinces till 1924-25. In that year the finances of the Government of India improved sufficiently to enable it to begin the policy of reduction. In the budget of 1926-27 further reductions were made. Bengal's contribution of 63 lakhs has not been levied since 1921-22, in view of the specially difficult position in which this province was placed as the result of the Meston settlement.

The total Gross Revenue amounted in 1924-25 to about 138 crores, and the Net Revenue to about

Total revenue.

91 crores.<sup>1</sup> The revenue has thus largely increased during the last fifty years.

Now, the question which suggests itself is, How far does this expansion of revenue furnish evidence of increasing prosperity? This question is answered differently by different individuals and parties. The officials say that general prosperity has undoubtedly increased; some Indian publicists, on the contrary, suggest that the increase of revenue has been due to the rapacity of the Government.

✓  
The burden of  
taxation.

According to official calculations,<sup>2</sup> the incidence of taxation per head of the population is R. 2 11-3 as. (3s. 7-3d.) per year. If land revenue be excluded,

<sup>1</sup> In the figures relating to Gross Revenue and Expenditure, all receipts are included in the total of revenue and all outlay in the total of expenditure, with the one exception that the working expenses of railways are treated not as expenditure but as a deduction from revenue. In Net Revenue and Expenditure, the interest charges as well as the working expenses of railways, the interest charges and working expenses of irrigation works, the cost of the cultivation and manufacture of opium, and the charges against other revenue-earning departments are treated as deductions from revenue, and the receipts of spending departments are treated as deductions from expenditure.

<sup>2</sup> The figures are taken from *The Statistical Abstract for British India*. It is not known by what process of calculation these figures have been obtained. Our own calculations give us Rs. 3 3 as., and if the land-revenue be excluded, for which we don't see any earthly reason, R. 1 15 as. In this connection, Lord Cromer, in an article on "Indian Progress and Taxation" contributed to the *Quarterly Review*, wrote in 1913: "It would be an error to suppose that the incipient industrialism of the past decade has resulted in any accretion of wealth so as to increase the tax-paying power of the people" By reason of the poverty of the Indian people, he said, it was the least potentially tax-paying community in the world.

the burden would be R. 1 7·8 as. (ls. 11·8d.). The proportion of taxation to the average income is nearly 9 per cent.<sup>1</sup>

## 2. EXPENDITURE

In Public Expenditure the basic principle should be public advantage. It should be so apportioned between the different heads that the public may derive the maximum utility from each.

The gross annual expenditure amounts nearly to 132 crores, the net expenditure to over 86 crores. In preparing his annual budget, the Finance Member usually attempts to balance the two sides, and, if possible, to secure a surplus.

The chief heads of expenditure are: (1) Debt Services, (2) Military Services, (3) Direct demands on

<sup>1</sup> I have purposely omitted the discussion of the difficult and complex question of the shifting of taxation. Most of the taxes are shifted, wholly or partly, by the person on whom they fall to somebody else. There are two kinds of taxes, however, which remain where they are imposed. These are taxes on economic rent and pure profits, or, to use a term which includes both elements, economic surplus. A tax on surplus can never be shifted, because surplus is not a part of the cost of production, but is the result of the process of production. In India, there is hardly any economic rent, and, therefore, a tax on rent may affect the prices of agricultural produce and may thus be shifted. The stamp duties on inheritance, gifts, etc., cannot be shifted. All other taxes tend to be shifted, until they fall ultimately on the surplus. Customs duties, for instance, are almost always shifted, though not necessarily to the full extent. In actual life, there is so much of economic friction that it is seldom possible to accurately measure the incidence of any tax on the classes or individuals of a community. (*Vide Seligman, Incidence and Shifting of Taxation.*)

the Revenues, (4) Civil Administration, (5) Railway Expenditure, (6) Civil Works, and (7) Miscellaneous Charges.

✓ Debt services.

The debt services include : interest (i) on the ordinary debt, (ii) on railway debt, (iii) on irrigation debt, (iv) on other obligations, and reduction or avoidance of debt. The total expenditure under this head is a little over 18½ crores of rupees.

✓ National Debt.

The amount of debt on the 31st March, 1914, was 551·29 crores.<sup>1</sup> This increased to Rs. 1,013·71 crores on the 31st March, 1925. Of the debt outstanding on that date, Rs. 501·93 crores were held in England, and 511·78 (converted at the rate of Rs. 15 to the £) in India.<sup>2</sup>

The classification of the debt outstanding on the 31st March, 1925, was as follows :

In India :	/	Crores.
Loans - - - - -	-	370·18
Treasury Bills in the hands of the public	-	—
Treasury Bills in the Paper Currency		
Reserve - - - - -	-	49·65
Post Office Savings Banks - - - - -	-	25·92
Cash Certificates - - - - -	-	13·02
Provident Funds, etc. - - - - -	-	43·16
		<hr/>
Total Loans - - - - -	-	419·23
Total other obligations - - - - -	-	82·70
		<hr/>
Total in India - - - - -	✓	501·93

<sup>1</sup> Mr G K. Gokhale once said : " Against this (public debt) the Government of India have their railways and irrigation works, their loans and advances to local bodies, native states, and cultivators, and their cash balances."

In England (at Rs. 15 to the £1) :	Crores.
Loans - - - - -	395-33
War Contributions - - - -	28-20
Capital value of liabilities undergoing redemption by way of terminable railway annuities - - - - -	88-25
<b>Total in England</b> - - - -	<b>511-78</b> <sup>6</sup>
<b>TOTAL DEBT</b> - - - -	<b>1,013-71</b> <sup>1</sup>

The National Debt is, again, divided into Funded and Unfunded. The Funded Debt consists of the Sterling and Rupee Loans, and the Unfunded of Savings Bank Deposits, Deposits of Service Funds, and Treasury Bills.

The National Debt appears to be rather large for a poor country like India. But nearly 72 per cent. of it can hardly be regarded as a burden, as the State derives income from the undertakings financed by such loans. On the question whether the State should undertake industrial operations or not, opinion, of course, is divided. But there is one advantage. When the money required for such undertakings is borrowed by the Government, the State can get loans at cheaper rates of interest.<sup>2</sup>

Burden of  
debt.

<sup>1</sup> Vide *Financial Statement*, 1925-26.

<sup>2</sup> The bulk of the public debt is at 3½ per cent. Mr. Gokhale, in his speech in the Viceregal Council, February, 1911, compared this rate of interest with the rates paid by some other countries, and tried to prove that the credit of India was excellent. "Japan," said he, "borrows at from 4 to 7 per cent.; Russia borrows at about 5 per cent.; Turkey borrows at 5 per cent. and over; China borrows at between 4 and 7 per cent., 4 per cent. in a few cases, 6 and 7 per cent. being the usual rate."



Sir Guy F  
Wilson's view

As for the amount of debt, 107 crores were inherited by the Indian Government from the East India Company ; and it is sometimes argued that the debt incurred by a commercial body should not have been fastened on the people of India. That amount steadily grew by successive additions. Between 1914 and 1925, there was an addition of Rs. 462·42 crores to the public debt. This great increase was brought about, firstly, by the war, to the expenses of which India contributed directly Rs. 150 crores and various other sums in an indirect manner ; and, secondly, by five successive post-war deficits, aggregating about 100 crores of rupees. With the increase in the amount of debt the interest charges also grew. Between 1888 and 1907, the unproductive portion of the debt was steadily reduced. "The unremunerative debt," said Sir G. Fleetwood Wilson in 1907,<sup>1</sup> "has shrunk in the last twenty years from being nearly one-half to being just over one-seventh of the total volume of our outstanding loans."<sup>2</sup> This policy was continued till the commencement of the war. Since 1916-17, however, there has been a huge addition to the unproductive debt. Of course, no Indian would object to the incurring of debt for a purpose which was likely to contribute directly to the welfare of the people.

Loans or  
taxes ?

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows : (a) the Government should meet all ordinary expenditure out of the

<sup>1</sup> *Vide* Sir G. Fleetwood Wilson's Budget speech, 1907.

<sup>2</sup> The critics of the Government argued that inasmuch as the productive public works were likely to deteriorate in value in the course of time, this was an over-estimate.

ordinary revenues ; (b) they should not place the burden on posterity for any improvements which tend to benefit the present generation ; (c) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure out of a loan ; and (d) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it would be better to have recourse to a loan. In all circumstances, it is advisable to keep the national debt down at as low a figure as possible.

The net expenditure under the head of military services amounts annually to over 56 crores, or about 60 per cent. of the total net revenue.<sup>1</sup> During the eleven years 1913-14 to 1924-25, the net military expenditure nearly doubled itself. This huge expenditure has always been criticised by Indian statesmen as an exceedingly heavy burden on the people ; but the government seem to view it as necessary. The question whether the country is or is not paying too high a price for the peace and security it enjoys is answered differently by different people. Critics of the government think that the expenditure under this head can be curtailed a good deal without running any risk.<sup>2</sup> It is the English portion of the army that

Military  
services.

<sup>1</sup> See *Financial Statement, 1926-27*.

<sup>2</sup> Sir George White, Commander-in-Chief of India, said on one occasion, " We maintain that the Indian army does supply a great addition of military power to England, that a part of the British army is trained at the expense of India, and that the whole of the men passed into the reserve has been maintained out of

accounts for the greater part of the expenditure, and if a part of it could be replaced by Indian soldiers, there would be an appreciable relief to the Indian Exchequer. In 1922-23, there were 6,684 British officers as against 3,956 Indian officers, or in the ratio of 63 to 37. There were 69,208 British rank and file as against 166,599 Indian rank and file. The proportion of British officers is evidently unduly high. Again, a British officer costs from Rs. 10,000 to Rs. 14,000 a year, while an Indian officer costs only from Rs. 2,100 to Rs. 2,500. The cost of a British officer is thus 5 to 6 times as great as that of an Indian officer. Further, a British private (infantry or cavalry) costs us Rs. 2,500 a year, while an Indian soldier costs only Rs. 630 to Rs. 670. Thus the cost of a British soldier is four times as great as that of an Indian soldier.<sup>1</sup> The Retrenchment Committee of 1922-23 recommended that the defence expenditure should be brought down to 50 crores. This was an exceedingly cautious suggestion. The League of Nations has recently recommended that the military expenditure of a nation should not exceed 20 per cent. of its revenue. According to this view, our military expenditure should be considerably less than 20 crores.

the Indian revenues." It is argued that if a part of the Indian forces be really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance. India has fought the wars of England in the past both with her blood and her treasure, and she will do so in future, but she has the right to expect equitable treatment from England in return.

<sup>1</sup> Vide *Report of the Indian Retrenchment Committee, 1922-23, Appendices A, C, and D.*

Of the total expenditure under this head, over 51 crores is the army charge, effective and non-effective, and over 5 crores is spent on the navy, military works, and special defences.

The charges of collection constitute the bulk of what is shown in the Accounts as Direct Demands on the Revenues. This is, of course, an absolutely necessary item of expenditure. It comes up to about 5½ crores of rupees, or about 6 per cent. of the total net revenue. There seems to be some room for the practice of greater economy in this matter.

The next head is that of Civil Administration. The expenditure under this head amounts to about 10½ crores.<sup>1</sup> During the last ten years, the civil expenditure has increased by more than 1½ crores. So far as this increase represents outlay on measures tending to the benefit of the community, nobody has any reason to grumble. But, as a matter of fact, a

Collection of revenue

Growth of expenditure.

Causes.

The main sub-heads are :	Crores of rupees (1925-26).
(i) General Administration . . . . .	1-55
(ii) Audit . . . . .	-84
(iii) Justice . . . . .	-13
(iv) Jails and Convict Settlements . . . . .	-35
(v) Police . . . . .	-95
(vi) Ports and Pilotage . . . . .	-32
(vii) Ecclesiastical . . . . .	-31
(viii) Political . . . . .	3 36
(ix) Scientific Departments . . . . .	-80
(x) Education . . . . .	-32
(xi) Medical . . . . .	-29
(xii) Public Health . . . . .	-13
(xiii) Agriculture . . . . .	-27
(xiv) Industries . . . . .	-85
(xv) Aviation . . . . .	-1
(xvi) Miscellaneous . . . . .	-23

very large part of the increase has been due to an unnecessary multiplication of offices and departments.<sup>1</sup>

During the years 1901-06, the Government of India were under the demoralising influence of fat surpluses, which enabled them to indulge in increasing the recurring expenditure. This soon afterwards became a serious matter, and compelled the Government, faced with deficits on account of the decrease of the opium revenue, and the creation of the new (now defunct) Province of Eastern Bengal and Assam, to have recourse to fresh taxation. A second period of increased expenditure and increased taxation began with the outbreak of the war in 1914-15. Another new factor responsible for a further growth in this period was the introduction of the reforms. During the seven years 1914-15 to 1920-21, the expenditure of the Central Government increased by more than 100 per cent., *i.e.* from 78·83 crores to 161·64 crores. This great and sudden increase in expenditure was met

<sup>1</sup> "The tendency," wrote a high official some years ago, "especially of late years, has been to overdo this superintending and checking system, and the almost invariable remedy for an alleged defect has been the creation of a new department, or the appointment of a special commissioner. It has always seemed to me that reforms should commence at the bottom instead of the top, and that endeavours should be made to strengthen and improve the position of those who are called upon to do the actual work at first hand." For the reduction of public expenditure the following among other measures may be suggested: (1) reduction in the number of officers whose duties are of a supervising, as distinguished from an executive, character; (2) abolition of Commissionerships of Divisions; (3) abolition of unnecessary posts, *e.g.* those of the Inspector-General of Excise, Sanitary Commissioner with the Government of India, etc.; and (4) substitution of Indian for European agency.

partly by increased taxation and partly by budgeting for deficits. During the five years 1918-19 to 1922-23, there was a cumulative deficit of 100 crores, or 20 crores per annum. Besides, since 1913-14, fresh taxation amounting to a total annual sum of 49 crores had been imposed. In 1922-23, the fifth successive year of a deficit budget, in response to an emphatic demand by the Central Legislature, the Governor-General appointed a Retrenchment Committee under the chairmanship of Lord Inchcape. Its members were all eminent men of business. This Committee subjected the expenditure of the Central Government to a searching scrutiny, and unanimously recommended a net reduction in expenditure amounting to Rs 19½ crores, part of which was to be effected gradually in a number of years. The expenditure for 1922-23 was Rs. 136.43 crores, while that for 1925-26 was Rs. 130 crores. Thus during the four years which have elapsed since the publication of the Inchcape Committee's Report, a net reduction of less than Rs. 6½ crores has been effected in the expenditure of the Central Government.

The Miscellaneous Charges include Territorial and Political Pensions (.29 crores), Superannuation Allowances and Pensions (2.89 crores), Stationery and Printing (.34 crores), and Miscellaneous (.70 crores). The total sum amounts to 4.25 crores, of which over 3 crores is spent in England. Other items charged to Revenue are Railways (28.91 crores), Irrigation (.20 crores), Civil Works (1.60 crores).

Retrenchment ought to be the watchword of the Government; for if they check their expenditure in

Inchcape  
Retrenchment  
Committee.

Miscellaneous  
Charges.

Need for  
retrenchment.

other directions, they will have no difficulty in finding money for the real needs of the people, namely, education, sanitation, and social reform.

Welby  
Commission  
Minority  
Report.

The Minority Members of the Welby Commission thus summarised the views of Indian statesmen regarding the management of Indian expenditure, and the direction in which improvements might be effected to the advantage of the Indian people.<sup>1</sup>

“1. That Indian expenditure is not always exclusively, or even mainly, governed by Indian considerations, as is illustrated by—

(a) Indian Defence ; Indian frontier policy in its varying phases—adopted in furtherance of Imperial schemes of trans-frontier territorial expansion more than for India’s defence—tending only to weaken her natural defences and loading her with indefinite and ever-increasing liabilities ;

(b) Railway extensions forced on without due heed to the country’s needs or means—apparently intended to advance her industrial development, but unaccompanied by other and larger necessary measures which alone could make them serviceable to the proposed end ;

(c) Continued concessions, in respect of pay, promotion, pension, etc., to the European services, both civil and military—concessions lending colour to the view that the country exists for the services, and not the services for the country.

The greater part of the increase of expenditure in recent years falls under these heads, and this fact

<sup>1</sup> Vide *Report*, Cd. 131 of 1900.

bears out the contention of the Indian people that Indian interests are often subordinated to considerations of Imperial expansion, British commerce, and the European services.

2. That due care is not exercised, nor is strict economy enforced, in the spending of India's money, as may be seen from the following:—

(a) Comparatively little is yet done in the way of substituting qualified indigenous agency for foreign agency in the various departments of the civil administration (*e.g.* judicial, police, medical, post, telegraph);

(b) Overgrowth of controlling and supervising central establishments (*e.g.* sanitation, police, jails, stamps, registration, etc.);

(c) Organisation and maintenance of the Indian armies permanently on a war footing, without the necessary supports of reserves and militia—a system of national defence long since discarded as wasteful in European countries;

(d) Disproportionately large numbers of British troops as compared with Native;

(e) The officering of the Native army—over-recruiting of the Staff Corps and an increasingly restricted employment of Indian officers, the question having an important bearing on finance;

(f) Railway contracts and concessions to railway companies.

3. That there is a faulty distribution of expenditure of Indian money—

(a) Comparatively more is spent on so-called



national defence, and less on the material and moral development of the country and the improvement of the civil administration ;

(b) More is spent on Imperial purposes and less on provincial purposes than is desirable in the present circumstances of the country, the provincial purposes being intimately connected, and the Imperial purposes only remotely, with the immediate well-being of the people ;

(c) More is spent on improvement of communications, and less on the improvement of the condition and capacity of the people themselves.

The present scale of India's expenditure is also open generally to objection on the ground that it is much beyond the capacity of the country to bear."

Though more than a quarter of a century has elapsed since these views were expressed, yet they remain, to a large extent, true even at the present time.

### 3. HOME CHARGES

Home Charges.  
Details.

The details of the expenditure incurred in England on account of India are as follows : <sup>1</sup>

	£ Millions (in 1923-24)
(i) Railway debt—interest, annuities, sinking funds - - - - -	10·2
(ii) Interest on ordinary debt - - - - -	6 26
(iii) Management of debt - - - - -	·1
(iv) Stores for India - - - - -	2·83
(v) Military and Marine - - - - -	10·70
(vi) Expenditure in connection with Civil Departments in India - - - - -	1·5

<sup>1</sup> Vide, *Statistical Abstract for British India*.

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	£ Millions (in 1923-24)
(vii) India Office and High Commissioner's Office - - - - -	.23
(viii) Furlough and Pensions, etc. (Civil) - - - - -	2.0
(ix) Unclassified - - - - -	.33
	34.15

The receipts in England amount annually to about £4 million. The net expenditure in England is thus about £30 million.

The Home Charges have for many years past been the subject of much adverse criticism. They have been regarded by many Indian as well as English statesmen as one of the main causes of Indian poverty. Further, some have described them as a tribute levied by England upon India; and Mr. J. S. Mill's statement that "international payments for which no equivalent in commodities or money is paid have all the effects of a tribute" has been quoted in support of this view. Sir George Wingate observed many years ago, "The taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another. . . . In this case they constitute no mere transfer of a portion of the national income from one set of citizens to another, but are an absolute loss and extinction of the whole amount drawn from the taxed country." Sir Thomas Munro also expressed a similar opinion.

Considered from the standpoint of the economist, the Home Charges present two aspects—one political and the other economic. As is evident from the analysis given above, about one-third of the total

Are Home Charges a tribute?

Political and economic aspects.

amount is spent in England owing to the political relations of that country with India, and the remaining two-thirds represent payments which are really transactions of an economic character. It would be a mistake, therefore, to regard the whole amount of the Home Charges as a drain upon the resources of the country. But, however legitimate and justifiable some of the payments may be in themselves, there is no denying the fact that a large portion of the total net revenue of India goes out of the country without any direct return. This certainly is not satisfactory. Every effort ought, therefore, to be made, not only to check the further growth of the Home Charges, but to reduce as much as possible their present size. In regard to civil expenses, army and marine charges, furlough allowances, pensions and gratuities, Indian politicians are of opinion that the aggregate amount can, and ought to, be greatly reduced by the substitution in a large measure of Indian for British agency in the administration as well as the defence of the country. As for the debt services, they urge that serious efforts must be made in future to raise the capital for productive public works as far as possible in India, and that the debt now held in England be gradually redeemed and, if possible, replaced by a rupee debt. Regarding the purchase of stores, it may be noted that in deference to a strong public opinion, there has recently been established in India a Stores Department, which is intended to bring Government purchasers into effective touch with local manufacturers. Textile goods and engineering materials worth nearly 1½

✓  
Suggestions  
for reduction.

crores were purchased through this department in 1923-24. This must be regarded merely as a beginning. With the gradual expansion of the scope of this department, it ought to serve the two-fold purpose of reducing the Home Charges and encouraging indigenous industries.

#### 4. CASH BALANCES

In order to be able to carry on their operations, the Government must have working balances in hand. On the basis of experience it has been estimated that the minimum balance required in London is 6 crores (4 millions) and that in India 18 crores (12 millions). During the years 1919-20 to 1921-22, however, the balances in London were very much in excess of the normal requirements. They were £12, £7·2, and £9 millions respectively in London, and £17·65, £9·22, and £17·11 millions respectively in India. The large balances held in London formed the subject of much adverse criticism. Government money, it was said, had been moved unnecessarily from India in order that it might assist the London merchants. It was also pointed out that while the Government were borrowing with one hand, they were lending with another at lower rates of interest to "approved borrowers" in London. Although the critics went too far in accusing the authorities at the India Office of acting from unworthy motives, the position was manifestly unsatisfactory. If the Government have in hand moneys for which they have no use, they ought to utilise them either in initiating measures

Minimum  
amounts of  
Balances  
required.

Balances in  
recent years

tending to the benefit of the people, such as universal education and sanitation, or for the reduction and avoidance of debt. If they have any moneys which they can safely lend out temporarily, the people of India ought to have the benefit.<sup>1</sup>

### 5. PROVINCIAL FINANCE

History.

Direct  
control by  
Supreme  
Government

Originally, the whole of the revenue of India was treated as a single fund to be collected into a central account, and from thence doled out piece-meal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast. Besides, as they had no motive for economy, the system led to much extravagance. Moreover, there were constant disputes between the Central and Provincial Governments. Even the minutest items of expenditure had to be reported for the orders of the Government of India. In 1871,

<sup>1</sup> Since 1921, it has been provided that the Government balances, instead of being locked up in the Reserve Treasuries as before, will be deposited, free of interest, with the Imperial Bank wherever it has an office. The Government still maintains its treasuries in those places where the Imperial Bank has no branch. The Imperial Bank may, under certain conditions, lend out the Government balances to trade and industry. On 31st March, 1922, the balances in India were distributed as follows :

In the Imperial Bank	-	-	-	-	20 08	crores
In the District Treasuries	-				5 58	„
					<hr/>	
					25 66	crores

This is undoubtedly a great improvement on the previous system.

certain departments were made over to the Provincial Governments, and they were credited with departmental receipts together with a lump sum. From 1877 to 1907, there was a system of provincial contracts, which were revised every five years, and which proved to be a fertile cause of friction, improvidence and waste. In 1911, the financial settlement with each of the major provinces was made permanent: succour to a distressed province was to be given only in case of a wide-spread famine. On the other hand, the Central Government would call upon the provinces for aid in case of a war or in a grave financial crisis. Opium, salt, customs, post office, telegraphs, mint, exchange and State railways were wholly Imperial. Land revenue, irrigation, stamps, excise, assessed taxes and forests were divided heads of revenue. On the expenditure side, the charge for military services, debt services, and certain minor heads were entirely Imperial. General Administration was divided, while most of the important heads of expenditure were wholly provincial. Subject to certain contingencies, the settlement was fixed, rigid and permanent.

Provincial  
Contracts.

Permanent  
Settlement.

With the introduction of the Reforms, this state of affairs passed away. There was a complete separation between the finances of the Central Government and those of the Provincial Governments. The system of divided heads of revenue was altogether done away with. Land revenue, irrigation, excise and stamps were wholly provincialised. The provinces were also to get a very small share of the growing income-tax. As under this arrangement the Government of India's resources were somewhat curtailed, it was

arranged that in 1921-22, the Provincial Governments should contribute 983 lakhs to the Government of India. This, however, was regarded as a transitional measure, the ultimate aim being to dispense with provincial contributions altogether.

Provincial  
Contributions.

For the year 1921-22, the fixed contributions in lakhs of rupees were : Madras, 348 ; Bombay, 56 ; Bengal, 63 ; United Provinces, 240 ; Punjab, 175 ; Burma, 64 ; Central Provinces and Berar, 22 ; and Assam, 15. Afterwards, as the finances of the Central Government would improve, the provincial contributions were to be reduced. It was arranged that the provinces whose contributions reached certain standards would have preference in the reduction. During the last two years, considerable reductions were effected, and in the budget for 1927-28, no provision has been made for provincial contributions.

Powers of  
Taxation and  
Borrowing.

As an integral part of the scheme of financial autonomy, some independent power of taxation was also conferred upon the provinces. They may, without the sanction of the Central Government and Legislature, impose taxes, fees or duties on (1) land put to non-agricultural uses, (2) succession, (3) betting or gambling permitted by law, (4) advertisements, (5) amusements, (6) any specified luxury, (7) registration, (8) stamps other than those of which the amount is fixed by Indian legislation. They were also given the right to borrow, under certain conditions, on the security of their revenues.

Financial  
distress in the  
Provinces

Unfortunately, since the separation of Provincial from Central finances, both Central and local Govern-

ments have had to pass through a period of acute financial distress. As in the Central Government, so also in the provinces, expenditure considerably increased, owing partly to high prices and partly to the increased cost of administration. A large portion of the provincial revenues was annually swallowed up by the reserved departments. Very little was left for meeting the growing demands of the nation-building departments, *e.g.* sanitation, education, industry, agriculture, etc., which are transferred subjects under the reforms. There was dissatisfaction in all the provinces on account of the Meston Award, under which the revenues were divided between the provinces and the Central Government and the provincial contributions were fixed. On the other hand, as we have already seen, the Central Government also was faced with a series of budget deficits, and was unable to come to the relief of the provinces by remitting the provincial contributions. This handicap seriously endangered the success of the Reforms, inasmuch as the ministers could not effect those improvements in the nation-building departments which were eagerly and insistently demanded by public opinion.

In 1921-22, it was found necessary to remit the contribution of Bengal (63 lakhs per annum) for three years. The case of this province was exceptional, and it had been recommended to the especial consideration of the Government of India by the Joint Select Committee of Parliament. This concession naturally led other provinces also to make a demand for a similar remission. In 1922-23, the position of



the provincial administrations became serious. Out of nine provinces, seven had to budget for a deficit, the aggregate deficits amounting to 352 lakhs. The Central Government having failed to come to the rescue of the provinces, these latter were compelled to impose new taxation and retrench expenditure. In 1922-23, Madras imposed new taxation to the extent of 78 lakhs, Bombay 60 lakhs, Bengal 140 lakhs, and Assam 3 lakhs. Retrenchment Committees were appointed in several provinces. The Bengal Committee recommended a saving of 190 lakhs, the Punjab Committee 37½ lakhs, and the Bombay Committee 88 lakhs. These strenuous efforts improved the provincial finances considerably in 1923-24. In 1925-26, the Central Government was in a position to remit provincial contributions to a certain extent. While Bengal was granted a further respite for three years, Madras got a permanent remission of 126 lakhs, United Provinces 56 lakhs, and Burma 7 lakhs.

Revenue and  
Expenditure  
of the  
Provinces

The gross Revenue and Expenditure for 1923-24 (Budget Estimates) in crores of Rupees were as follows :

Revenue	-	-	-	-	-	88-53
Expenditure	-	-	-	-	-	93-77

## 6. LOCAL FINANCE

Local Government <sup>1</sup> may be considered under three heads : Municipalities, District and Local Boards, and Port Trusts.

<sup>1</sup> The system of Local Self-Government in India was introduced by Lord Mayo and Lord Ripon. The municipal bodies are in general partly elected and partly nominated. They are subject

The aggregate income of all the municipalities taken together was about 28½ crores in 1921-22. About 67 per cent. of this was provided by Calcutta, Bombay, Madras, and Rangoon. Municipal revenue is derived from various sources: Rates and taxes, realisations under special Acts, proceeds of municipal property, and grants from the Government. Of the taxes, the most important are those on houses and land and octroi duties. The octroi duties, which used to form a chief source of revenue, have now become unpopular, and are gradually sought to be replaced in most provinces by some sort of direct taxation.

Besides these, there are taxes on animals and vehicles, taxes on professions and trades, tolls on roads and ferries, water rate, light rate, conservancy rates, and other minor taxes. Under special Acts the municipalities derive income from cattle-pounds, hackney carriages, and licenses for the sale of spirits and drugs. Most of the municipal bodies also derive income from rents of lands and houses, sale proceeds of municipal property, receipts from markets and slaughter-houses, fees from educational institutions, etc. Their income is often supplemented by grants from the Government.<sup>1</sup>

to Government control in various ways. In 1922 there were 751 municipalities in India, containing within their limits about 18.8 million people, or about 7 per cent. of the total population. Their functions are similar to those of the Borough Councils and Urban District Councils of England, but their constitutions are less democratic.

<sup>1</sup> The incomes, excluding opening balances, of the municipalities of Calcutta, Bombay, Madras, and Rangoon in 1921-22 were about 2 crores, 3½ crores, 58 lakhs, and 85 lakhs respectively.

**Expenditure.** The main objects for which municipal funds are spent are : Lighting, police, public health and convenience, including water supply, drainage, conservancy, hospitals and dispensaries, vaccination, prevention of plague, markets and gardens, the construction and maintenance of roads and buildings, and public instruction.

The total expenditure of the municipalities often slightly exceeds their ordinary income, and these bodies have frequently to apply to the Government for special assistance.

**Incidence of  
Municipal  
Taxation**

The incidence of the municipal rates and taxes on the population has been calculated at Rs. 4 9 as. per head.<sup>1</sup>

**District and  
Local Boards.**

In rural areas, District and Local Boards<sup>2</sup> perform duties similar to those assigned to municipalities in urban areas.

**Income.**

The funds of District and Local Boards are largely derived from rates or cesses levied upon agricultural land over and above the land revenue. From April, 1908, the accounts of the Boards have been excluded from the general provincial accounts, and their funds treated independently in the same way as municipal funds. The Boards have also other sources of income, such as cattle-pound receipts, educational

<sup>1</sup> *Statistical Abstract of British India, 1921-22, p. 228.*

<sup>2</sup> The Boards contain a varying proportion of elected members. In 1921-22, there were 1340 Boards (including 578 Union panchayats in Madras) with 9364 elected members and 8946 *ex-officio* and nominated members. In recent years, the number of Local Boards and Union Boards has increased appreciably in some of the provinces.

receipts, medical receipts, tolls on ferries and bridges, and contributions for specific purposes from the provincial funds. Their aggregate income (exclusive of debt items) is about 11 crores.

The expenditure of the Boards is chiefly for roads and bridges, hospitals, vaccination, conservancy, drainage, water supply, primary education, markets, and rest-houses. Expenditure.

The incidence of the Boards' rates and cesses is  $7\frac{1}{2}$  as. per head of the population.<sup>1</sup> Incidence of  
Boards'  
Taxation.

Recently, Union Boards and Panchayat Committees have been established in some of the provinces for the local administration of villages.

The administration of the larger ports is placed by various Acts in the hands of Port Commissioners, who are charged with the provision of suitable dock accommodation, and other services necessary to shipping. The Port Commissioners are empowered, subject to the control of the Government, to levy dues on shipping and goods, to charge fees for services rendered, to contract loans for port improvement, to maintain the harbour and its approaches, and to erect warehouses, jetties, harbour lights, and docks, for the convenience of traders and shipping. Port Trusts.

The chief Indian ports are Calcutta, Bombay, Karachi, Rangoon, and Madras. The approximate incomes of these ports are nearly 2·19 crores, 2·25 crores, 65 lakhs, 75 lakhs, and 25 lakhs respectively. Chittagong is also gradually rising into importance as a port. Chief ports.

<sup>1</sup> *Statistical Abstract for British India, 1921-22, p. 310.*

## CHAPTER XIII

### THE STATE AND ECONOMICS

SOME of the economic functions of the Government have been discussed in the last chapter. The object of these functions, however, is more political than economic. In the present chapter, a brief account will be given of some of the more direct relations which economic phenomena bear to the State in India.

#### 1. STATE-LANGLORDISM

Tendency among officials to regard Government as universal landlord.

As we have already seen, there is a tendency among Indian officials to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. Attempts are often made to prove the correctness of the view by a reference to past history. The *Imperial Gazetteer* says, "Throughout the periods of native rule, for which we have any historical data, the prevailing custom was for the cultivator to deal direct with the representative of the State, and the whole of the economic rent passed straight from the one to the other. Even when there was an intermediary

and when that intermediary enjoyed, to a greater or less degree, the other incidents of proprietary right, he seldom received any substantial share of the profits of cultivation, and such dues as he might intercept would more fittingly be classed as *fees* or perquisites than as *rent* in the proper sense of the term. As the several provinces passed under British rule, the Government at first continued the native practice of taking as land revenue the whole or nearly the whole of the economic rent. When the intermediaries were few or weak, the Government dealt direct with the cultivator, *e.g.* in raiyatwari tracts; where, on the other hand, the intermediaries were numerous and powerful, as in the zamindari tracts of Bengal and the provinces, the Government dealt with these intermediaries, leaving them to collect the rents from the cultivators, and, when paying the proceeds to the State, to retain a small proportion, generally 10 per cent., for their own use. It is from this percentage that payments now representing the net rental have developed." It goes on to say: "The peculiarity of Indian rents lies, therefore, in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."

If this theory of State-landlordism be correct, two results will legitimately follow—(a) the landlords will sink into the position of a merely superior kind

Legitimate conclusions from the theory.

of tenants, and (b) the Government will be justified in demanding as its revenue the whole of the economic rent.<sup>1</sup>

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land and to its right to an economic rent. As Mr. B. H. Baden-Powell, a great authority on the subject, says: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."<sup>2</sup> The Government, as a matter of fact, bases its claim to land revenue on "the ancient right of the State to a share of the produce of the soil"—that is to say, on the historical fact that the rulers of successive Governments in India have at all times raised the greater part of their State income by levying a tax on the land.<sup>3</sup>

Mr. Baden-Powell's view.

His standpoint.

Mr. Baden-Powell looks at the matter from a

<sup>1</sup> The Rt. Hon. E. S. Montagu, in a lecture delivered at the Liberal Colonial Club, London, in February, 1914, said: "The Government of India has succeeded to the position of premier partner in the land, not only with the rights but the corresponding duties of that position. I have shown how, in areas under a temporary settlement, it has been able to take in the form of revenue a large share of the unearned increment from the land; this is, of course, devoted to public purposes, the benefit of which is ultimately shared by the agriculturists."

<sup>2</sup> Baden-Powell, *Land Systems of British India*.

<sup>3</sup> This share usually varied from one-sixth to one-tenth during the Hindu period, but was liable to be increased in time of war or of special necessity. Akbar raised this share to one-third of the produce.

practical point of view. He says, "The British Government has everywhere conferred or recognised a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is, then, impossible to say broadly that the State takes a *rent* from the landholders regarded as tenants. The Government is certainly not owner. . . . The utmost it does is to regard the land as hypothecated to itself as security, in the last resort, for the land revenue assessed upon it." He adds in the same strain: "After the Government has so distinctly conferred proprietary rights in land, any later use of the term 'universal landlord' applied to Government can only be in the nature of a metaphor. The only function of a landlord that the Government exercises is the general care for the progress of the State, making advances to enable the cultivator to sink wells or effect other improvements, advancing money for general agricultural purposes, suspending or remitting the demand for revenue owing to famine or calamity of season." Mr. Baden-Powell gives his final decision in the following sentences: "The land revenue cannot, then, be regarded as a rent, not even in the Raiyatwari lands. . . . I should be inclined to regard the charge as more in the nature of a *tax* on agricultural incomes."<sup>1</sup>

The Land Revenue a "tax."

Regarded from this standpoint, then, the Government is not the ultimate proprietor of all lands.

<sup>1</sup> Baden-Powell, *Land Systems of British India*.



No absolute property in land.

Now, the question arises, can we point to any class which has absolute proprietary rights to the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but there are various grades of proprietary rights, each of a series of persons having some of the characteristics of a landowner.

Various grades of proprietary rights.

The proprietary rights may be divided into five main classes :

- (i) The Government may be the direct owner.
- (ii) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.
- (iii) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.
- (iv) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.
- (v) The Government may recognise certain sub-proprietary rights, *e.g.* patni, dar-patni, etc.

Land tenures in India are largely the result of changes and growths. It very often happened that one set of rights was superimposed upon another, and thus the various grades came into existence.

## 2. PERMANENT ZAMINDARI SETTLEMENTS

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to continually increase the land-tax. A remedy against famines, like the one of 1869-70, which carried off one-third of the population of Bengal and Behar and turned large areas of cultivated land into wild jungle, was also greatly needed. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis. Three possible methods of settlement in Bengal were open to the Government: (a) a settlement with the raiyats, (b) a settlement with the farmers of revenue, and (c) a settlement with the zemindars. Mr. (afterwards Sir John) Shore advocated the last method as being the only one consistent with good government and the improvement of the country.

The Permanent Settlement was introduced in Bengal in 1793, and extended to Benares in 1795. In promulgating the measure, the Government had two objects in view: (1) the security of the revenue; and (2) the improvement of the land. The hope was entertained that if the land revenue

The early settlements

Three possible methods.

The Permanent Settlement introduced, 1793, Objects.

were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the State. Further, it was expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

Views of  
earlier  
officials.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure had been attended with great success. The Commissioners of the Agra province in a circular letter said, "The Permanent Settlement concluded in the Bengal Provinces has notoriously been attended with the happiest success, and the flourishing state of those provinces must, we think, be ascribed, in an eminent degree, to that wise and salutary measure." They, therefore, recommended the extension of the measure to the Agra province. Many other officials also held the same view, and desired that the Permanent Settlement should be extended to the whole of India.

The present  
official  
attitude.

Later, however, the official view underwent a change, and at the present moment there is almost an unanimity of opinion among officials regarding the failure of the system. The present attitude of the Government towards the measure has been clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of the late Mr. R. C. Dutt. The Note says: "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the

Permanent Settlement, a contention which appears to them to be disproved by history; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "As regards the condition of cultivation in Bengal . . . there is still less ground for the contention that their position owing to the Permanent Settlement has been converted into one of exceptional comfort and prosperity. It is precisely because this was not the case, and so far from being generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, that the Government of India felt compelled to intervene on his behalf."

"As for the allegation that the Permanent Settlement has been the means of developing in Bengal an exceptional flow of public-spirited and charitable investment, while the Government of India are proud of the fact that there are many worthy and liberal-minded landlords in Bengal as there are also in other parts of India, they know that the evil of absenteeism, of management of estates by unsympathetic agents, of unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between the zemindar and the cultivator in many and various degrees are at least as marked and as much on the increase there as elsewhere; and they cannot conscientiously endorse the proposition that, in the interest of the cultivator, that system of agrarian tenure should be held up as a public model, which is not supported by the experience

The experiment a failure.

of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the State has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in temporarily-settled areas."

Independent opinion.

Independent opinion is divided in respect of this question. One view is that it has most effectually safeguarded the economic welfare of the people. Mr. R. C. Dutt says, "If the object of the Permanent Settlement of 1793 was to create a thoroughly loyal class of landlords and a prosperous class of peasantry in Bengal, that object has succeeded beyond all expectation."<sup>1</sup> The earlier generations of Indian statesmen favoured this view; but the modern trend of Indian opinion seems to be to look upon the measure as a mistake. It has deprived the State of the unearned increment of the land, and has not conferred a proportionately large benefit on the great bulk of the people. Some people think that it would have been an ideal measure if it had been introduced without the intervention of zemindars.

J. S. Mill's view.

Mr. J. S. Mill wrote, "The measure proved a total failure as to the main effects which its well-meaning promoters expected from it. They flattered themselves that they had created throughout the Bengal provinces English landlords, and it proved that they had only created Irish ones. They did

<sup>1</sup> R. C. Dutt, *Famines in India*.

nothing for the improvement of their estate, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist, and other families, mostly the descendants of Calcutta money-lenders, now occupy their place, and live as useless drones upon the soil which has been given up to them. Whatever the Government has sacrificed of its pecuniary claims for the creation of such a class has at the best been wasted.”<sup>1</sup>

Mr. James Mill, in his *History of India*, said: James Mill's  
opinion.  
“Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate cultivators of the soil. For the rights of the zemindars a complete compensation might have easily been made.”<sup>2</sup>

So much for the defects of the system; but it One good  
feature.  
undeniably has one good feature. As Mr. J. S. Mill says, “In this ill-judged measure there was one redeeming point. The ryots were reduced to the

<sup>1</sup> Vide J. S. Mill, *Principles of Political Economy*.

<sup>2</sup> In England the land-tax was made perpetual in 1798, when William Pitt the Younger was the Prime Minister. According to Mr. R. C. Dutt, the English settlement has benefited the landed classes only, but the Bengal settlement has conferred a share of the benefit on the agricultural community.

rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue; but along with the evil the good also has been left undone."

The defects of temporary settlement system.

Though the Permanent Settlement is open to objection, the system of temporary settlements is not without its defects. The latter not only means expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing State demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, fifty years, so as to avoid the defects of both the extremes.

Practical solution : Long-period Settlements.

The zemindar's right to the soil.

Before leaving this subject, a few words may be said about the zemindar's right to the soil. A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense, or only farmers and collectors of revenue. In the great Rent Case of 1865, an authoritative opinion was delivered by the Calcutta High Court, in which the judges held the view that the Bengal zemindars were, in their origin, not true landowners, but revenue-farmers. Some Indian statesmen, however, regard them as having been real owners of the land, and, in some cases,

rulers of portions of the province. The view of the Government of Bengal was clearly expressed in their letter to the Government of India, dated the 24th of June, 1901, in which they said, "But the truth probably lies between the position adopted by the advocates of the two sides of the question, and while there were large numbers of middlemen suddenly converted into landholders, there were also hereditary chiefs with all the attributes of proprietorship that were known in their time in India."<sup>1</sup>

Thus whatever may have been the original status of the zemindars, in practice they are and must be regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue, and of the tenant to whatever rights are vouchsafed to him by law and custom.

The zemindar  
a limited  
proprietor.

### 3. LAND-REVENUE SETTLEMENTS.

With reference to the land revenue, the tenures are divided into two kinds, *zamindari* and *raiyatwari*. When the revenue is assessed by the State on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as *raiyatwari*. Under either system, there may be rent-paying sub-

*Zamindari*  
and *raiyatwari*  
tenures.

<sup>1</sup>Vide *Note on the Land Revenue Policy of the Government, 1902.*



tenants. The former system prevails in almost the whole of Bengal, in the United Provinces, the Punjab, the Central Provinces, and parts of Madras; while the latter is found in Bombay and Sind, Burma, Assam, Berar, and the greater part of Madras.

The Revenue Settlements: permanent and temporary.

The Revenue Settlements may be either permanent or temporary. The permanently-settled districts cover most of Bengal and parts of Madras and the United Provinces; while in the rest of India the settlement is for a period varying from ten to thirty years. About 20 per cent. of the total area is held by permanently-settled and 33 per cent. by temporarily-settled zamindari proprietors; while the remaining 47 per cent. is held by temporarily-settled raiyats (or peasant proprietors).<sup>1</sup>

Nature of land revenue.

The land revenue appears to the ordinary person to be a tax on rent. But the officials hold a different view; they rather regard the rent as a deduction from the revenue. "The peculiarity of Indian rents lies in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."<sup>2</sup>

Principles of assessment.

Assessment methods vary according to the kind of estate and its mode of working. But two general principles are found to underlie these methods. One

<sup>1</sup>The merits and demerits of the Permanent Settlement have already been discussed.

<sup>2</sup>*Imperial Gazetteer of India.*

is to fix empirical rates, which are first ascertained only as maximum rates, on the basis of those actually paid in the past, but with such increase as can now be taken with reference to the rise in prices and progress in prosperity, and then to apply those rates in a sliding scale, according to the productivity of particular lands. The other principle is applied to all varieties of landlord estate where there are tenants; it consists in finding out the rents which the tenants actually pay, and then demand from the landlords a fixed proportion of such rents.<sup>1</sup> Except in Bombay (where the assessment is not fixed in terms of produce), the land revenue is assessed so as to represent a share, not of the gross, but of the *net* produce (or net assets).<sup>2</sup>

In the temporary zamindari settlements, the Government usually takes about 50 per cent. of the rent as revenue; and in the permanent settlements about 25 per cent. of the rental on an average. The rates of revenue vary greatly with the productive power of the soil, advantages of climate and irrigation, and facilities for marketing produce.<sup>3</sup>

The question of the burden of the land revenue is one of the most controversial questions in Indian economics and politics. Many of the Indian patriots hold that the burden is oppressive, that it is one of the causes of the extreme poverty

Assessment rates.

The burden,

<sup>1</sup> B. H. Baden-Powell, *Land Revenue in British India*, pp. 47, 48.

<sup>2</sup> *Moral and Material Progress and Condition of India*, 1914, p. 28.

<sup>3</sup> For details of the incidence of Land Revenue, see Appendix.

of the masses of the people, and that it is a contributory cause of famines. On the other hand, the officials maintain that the land revenue is not excessive, and that latterly it has become increasingly liberal.<sup>1</sup> It has been calculated that the burden of

<sup>1</sup> *Vide* R. C. Dutt, *Open Letters to Lord Curzon and the Land Revenue Policy of the Government of India*, 1902. A memorial was submitted by a number of retired high officials of the Government in which they urged that (i) where Land Revenue is paid directly by the cultivators the Government demand should be limited to 50 per cent. of the value of the nett produce, after a liberal deduction for cultivation expenses has been made, and should not ordinarily exceed one-fifth of the gross produce; (ii) where the Land Revenue is paid by landlords, the principle adopted in the Saharanpur Rules of 1855, whereby the Revenue demand is limited to one-half of the actual rent or assets of such landlords, should be universally applied; (iii) no revision of the Land Tax of any province or part thereof should be made within thirty years of the expiration of any former revision; (iv) when such revision is made there should be no increase in the assessment except in cases where the land has increased in value (a) in consequence of improvements in irrigation works carried out at the expense of the Government, or (b) on account of a rise in the value of produce; and (v) that a limit be fixed beyond which it may not be permissible to surcharge the land-tax with local cesses. The official reply to these recommendations was the following: (1) The suggestion that the land-revenue should be fixed at a share of the produce is impracticable, and would, if accepted, lead to the placing of burdens on the shoulders of the people, from which, under a less rigid system, if sympathetically administered, they are exempt. (2) The Saharanpur Rules, issued in 1855 (so called because they were issued in connection with the resettlement of the land revenue in the Saharanpur district of the United Provinces), laid down "not that the revenue of each estate is to be fixed as one-half of the net average assets, but in taking these assets with other data into consideration, the Collector will bear in mind that about one-half, and not

the land revenue per head of the population of British India is under Re. 1 4 as. (1s. 8d.).<sup>1</sup> per head.

#### 4. TENANCY LEGISLATION<sup>2</sup>

The object of the tenancy laws of the government in India is to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom. As a large

✓  
Object of  
Tenancy Laws

two-thirds as before, of the well-ascertained net assets should be the Government demand," and the Rules do not prevent them from demanding more than 50 per cent. (3) The considerations which determine the term of settlement are: "Where the land is fully cultivated, rents are fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are re-adjusted once in thirty years, i.e. once in the lifetime of a generation, and where the opposite conditions prevail, where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways, or canals, or to an increase of population, or to a rise in prices, the postponement of re-settlement for so long a period as thirty years is both injurious to the people, who are unequal to the strain of a short enhancement, and unjust to the general taxpayer, who is temporarily deprived of the additional revenue to which he has a legitimate claim." (4) To deny the right of the State to a share in the unearned increment of land would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted partly from the actions of the Government and partly from a rise in the standard of civilisation. (5) The aim of local taxation is the benefit of the community, and to place an absolute limit to such taxation would be against the interests of the people.

<sup>1</sup> *Moral and Material Progress of India*, 1914, p. 28.

<sup>2</sup> *Vide* Baden-Powell, *Land Systems of British India and the Tenancy and Rent Acts of the different Provincial Governments*.

proportion of the population is connected with the land, a summary of the legislative provisions relating to land will perhaps be found useful.

Origin of tenures.

We have already seen that landlord and overlord rights grow up over, and often at the expense of, other rights in land. As time goes on, some of the landlords become predominant, and the rest of the original landholders tend more and more to sink into non-proprietary cultivators or tenants. A certain number of such tenants, however, succeed in asserting themselves, and wresting from the landlords permanent tenures.

The twelve years' rule in Bengal and Agra province.

It is very difficult to draw a line between the tenants who represent the old landowners and those whose position is due to contract. In Bengal and the Agra Province the legislature has avoided the difficulty by enacting a general rule that where any tenant has continuously held land in the same village for twelve years, he should be regarded in all cases as an Occupancy Tenant. In the Punjab and Oudh, however, the twelve years' rule does not apply; and in the Central Provinces it is only applied in a special and limited way. But in these provinces a number of privileged landholders are recognised as sub-proprietors.

In Bengal three classes of tenants: (1) Tenure-holders, (2) Ryots, (3) Under-ryots. Ryots subdivided into (a) Ryots at fixed rates, (b) Occupancy ryots.

The tenancy law of Bengal divides tenants into three classes: (1) Tenure-holders; (2) Ryots; and (3) Under-ryots. The ryots, again, are divided into (a) Ryots holding at fixed rates (that is, either at a rent fixed in perpetuity or a rate of rent fixed in perpetuity); (b) Occupancy-ryots, that is, ryots having a right of occupancy in the land held by

them; and (c) Non-occupancy ryots. There is, in addition, another class, namely Settled Ryots, that is, those who have for a period of twelve years held as ryots lands situated in any village.

(c) Non-occupancy ryots.

A Tenure-holder is a person who has acquired from a proprietor or from another tenure-holder a right to hold land for the purpose of collecting rents or bringing it under cultivation by establishing tenants on it; and the term includes the successors in interest of persons who have acquired such rights.

Definitions of the terms.

A Ryot is a person who has acquired the right to hold land for the purpose of cultivating it by himself or by members of his family, or by hired servants, or with the aid of partners; and the term includes the successors in interest of persons who have acquired such rights.

Under-ryots are tenants holding land, whether immediately or mediately, under a Ryot.

In Bengal, ryots at fixed rates are the highest class of tenants, and have practically very much the same privileges as the tenure-holder. The rent cannot be enhanced and the holder cannot be ejected, except for some express breach of the conditions of tenancy. All other privileged tenants are grouped together as occupancy tenants. The rest of the tenants are tenants-at-will, who have only the benefit of some protective provisions, *e.g.* notice of ejection of not less than six months, etc.

Privileges of Ryots at fixed rates.

In the permanently-settled districts of the Agra province, there are certain tenants at fixed rates, just as in Bengal. All other tenants, if they have

Tenant law in Agra province.

held the same lands for twelve years, are occupancy tenants. Tenants of less standing are tenants-at-will. There is also another class, namely, ex-proprietary tenants, who are occupancy tenants in possession of land of which they had once been proprietors; and they have the privilege of a reduced rent (which is usually 25 per cent. below that of ordinary tenants).

in C.P.,

In the Central Provinces, the landowners or Malguzar proprietors have a strictly limited control over a large part of the tenantry, both as regards raising of rents and ejection. Ejection of the tenants of the privileged classes can only be effected by a decree of court on very special grounds, and enhancement of rent is restricted. The Central Provinces Tenancy Act mentions specifically *absolute occupancy tenants* who cannot be ejected for any cause whatever, and whose rent must be fixed for the term of settlement. The next class is that of the *ordinary occupancy tenants*. The rights of this class, however, are not growing as in Bengal and the Agra Province. Tenants holding land as a remuneration for village service are specifically recognised in this Act. Ordinary (that is non-occupancy) tenants are protected in various ways.

in the Punjab,

In the Punjab, the occupancy right is purely of natural growth. The Punjab law defines as *occupancy tenants* those who for two generations have paid neither rent nor service to the proprietor, but only shares of the land-revenue, those who are ex-proprietors, those who had settled along with the founder and aided in the first clearing, and those

who had been revenue-assignees and had remained in possession of the land. These naturally-entitled classes are given different degrees of privilege.

In Madras, every tenant is allowed to have in Madras, whatever privilege he can prove. There is no artificial rule about the rate of rent or the limit of enhancement. All contracts, express or implied, are enforced. If there is no contract, the rate is to be that of the Government assessment, or, failing that, the customary rate of the locality. Tenants in general can only be ejected pursuant to a decree of court, but they can always relinquish the land at the end of the year.

In Bombay, the holder of the land is either in Bombay, a direct occupant paying revenue to the Government, or is an inferior occupant paying rent to some superior. In the latter case, if there is an agreement, the terms alone determine the features, rent-charges, and liabilities of the tenancy; if not, then the usage of the locality is referred to.

In Oudh, an attempt was at first made to intro- in Oudh. duce the policy of the Agra Province of ignoring the overlords and dealing with the villagers as proprietors, but after the Mutiny a settlement was made with the Talukdars. This necessitated an elaborate series of provisions as to the protection to be afforded to tenants in the Taluks. The rights of the tenants are recognised and protected by the tenant law of 1886 as amended by Act IV. of 1921, which ensures permanent occupancy to hereditary tenants, and the limitation of their rents.



## 5. FAMINES : RELIEF AND PREVENTION.

History of  
Famines :  
Hindu Period.

During the Hindu period of her history, India did not enjoy absolute immunity from famines. But judging from the infrequency of allusions to these calamities in the ancient Sanskrit works, as well as the testimony of foreign travellers,<sup>1</sup> it would not be unsafe to make the assertion that famines were exceptional occurrences in ancient India. When they did occur, adequate relief measures were undertaken by the State. Chanakya, in his *Arthasastra*, mentions the following among other remedial and relief measures : (i) remission of taxes, (ii) emigration, (iii) the granting of money and grain from State funds, (iv) construction of artificial lakes, tanks, wells, etc., and (v) the importation of grain from other places.<sup>2</sup>

Mahomedan  
Rule.

The historians of the Mahomedan period have left records of several famines, four of which were very severe. The first occurred in 1343, when the well-meaning but half-insane Muhammad Tughlak was the sovereign of Northern India. The distress was of a most acute character, but the Sultan was not slow to organise relief measures on an extensive scale. He "ordered provisions for six months to be distributed to all the population of Delhi."<sup>3</sup>

<sup>1</sup> Megasthenes says: "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food" (M'Crdle, *Ancient India as described by Megasthenes and Arrian*).

<sup>2</sup> Kautilya, *Arthasastra*, bk. 4, ch. 3.

<sup>3</sup> "The Judges, Secretaries, and other Officers inspected all the stores and markets, and supplied to every person provisions for half a year" (Elliott, *History of India*).

During the reign of Akbar, "there was a scarcity of rain throughout the whole of Hindustan, and a fearful famine raged continuously for three or four years." The King ordered that alms should be distributed in all the cities; and Nawab Sheikh Farid Bokhari, being ordered to superintend and control their distribution, did all in his power to relieve the general distress of the people."<sup>1</sup> The fifth year of the reign of Shah Jehan witnessed one of the greatest famines recorded in history. It afflicted almost the whole of India, and, in spite of the vigorous measures of relief adopted by the Emperor, a prodigious mortality ensued. There was another great famine in the reign of Aurangzebe. James Mill thus writes of the measures adopted to cope with this calamity: "The prudence of Aurangzebe, if his preceding actions will not permit us to call it his humanity, suggested to him the utmost activity of beneficence on this calamitous occasion. The rents of the husbandmen, and other taxes, were remitted. The treasury of the Emperor was opened without limit; corn was bought in the provinces where the produce was best, conveyed to those in which it was most defective, and distributed to the people at reduced prices."

During the rule of the East India Company, "India suffered, in one part or another, from twelve famines and four severe scarcities."<sup>2</sup> The first of these was the dreadful calamity of 1770, "by which more than a third of the inhabitants of Bengal

East India  
Company's  
Rule.

1770.

<sup>1</sup> Dowson, *History of India*.

<sup>2</sup> *Report of Famine Commission, 1901, p. 1.*

were computed to have been destroyed."<sup>1</sup> Although signals of the impending disaster had been received in 1769, nothing had been done to check the famine, and even when distress became acute, no relief measures on an adequate scale were adopted.<sup>2</sup> In Madras, 1781 and 1782 were years of severe scarcity; and in 1784 a severe famine devastated the whole of Northern India. A drought in Madras and Hyderabad in 1791 was followed by an intense famine the next year. It was on this occasion that relief-works were first opened by the Madras Government for the support of the famine-stricken. In 1802-3 a failure of rains led to famine in Bombay and scarcity in Madras, which were followed the next year by a widely extended famine in the North-Western provinces and Oudh. The measures adopted on this occasion consisted in making remissions of the revenue, in giving loans and advances to land-owners, in offering a bounty on all grain imported into Benares, Allahabad, Cawnpore and Fatehgarh. In 1806-7, there was a severe scarcity in some districts of Madras.<sup>3</sup> The next great famine was

<sup>1</sup> James Mill, *History of India*.

<sup>2</sup> The price of common rice rose from 40 seers per rupee to 3½ seers. In the plentiful year of 1714, coarse rice had sold at 120 seers the rupee, and wheat 90 seers. *Vide* Col. Baird Smith's *Report*, Sect. II., p. 29.

<sup>3</sup> This scarcity gave the occasion for a discussion regarding interference with private trade. The Government at the outset declared against any interference, but in the end they conceived it necessary to purchase grain, guaranteeing a minimum price to importers. The principle of non-intervention in trade was followed in 1812-13 and 1824-25.

that of 1833, known as the "Guntur famine." It 1833.  
 affected the northern districts of Madras, and parts  
 of the Southern Mahratta country, and of Mysore  
 and Hyderabad. The severity of the calamity was  
 not recognised by the Government till it was too  
 late, with the result that 200,000 persons died in  
 Guntur out of a population of 500,000.<sup>1</sup> In 1837 1837.  
 there was a severe famine in Upper India. Public  
 works were opened at several centres, but the work  
 of relieving the helpless and the infirm was left in  
 the hands of the charitable public. The mortality  
 was great, and the extremity of suffering endured by  
 the people was such as to leave behind a wide-  
 spread and lasting recollection of the horrors of the  
 calamity.<sup>2</sup> In 1854, a famine, severe, though limited 1854.  
 in area, visited Northern Madras.

Since the transfer of the administration of India Direct British  
 adminis-  
 tration  
 from the Company to the Crown, there have been  
 ten important famines, besides a large number of  
 severe scarcities. The first famine occurred in  
 1860-61, the chief area affected being that between 1860-61.  
 Delhi and Agra. This was the first famine in  
 British India during which poor-houses were used  
 as a means of relief; and it was also the first occasion  
 on which the authorities thought fit to enquire into  
 the causes, area, and intensity of the famine, as  
 well as the measures to be adopted to cope with  
 distress, Col. Baird Smith being placed on deputa-  
 tion for the purpose. A drought in 1865 was 1865.  
 followed the next year by a severe famine. The

<sup>1</sup> *Report of Famine Commission*, 1880, p. 10.

<sup>2</sup> *Report of Famine Commission*, 1880.

- calamity fell with the greatest intensity on Orissa. hence its name, the "Orissa famine"; but it also affected Madras, Northern Bengal and Behar. The officials, although forewarned, took no steps to meet the approach of the calamity, so that when it came they were absolutely helpless. It was estimated that about a million persons died in Orissa alone.
1868. A year had hardly elapsed before Northern and Central India was visited by one of the most widespread and grievous famines on record. The conditions were the worst in Rajputana and Central India, where there was an entire loss of crops as well as of fodder and grass, besides a dearth of water; and to add to the miseries of the people, an epidemic of cholera broke out and spread in all directions. Prompt action was taken by the Government to relieve distress, but the relief given was hardly commensurate with the magnitude of the distress, and there was considerable loss of life.
1873. In 1873, Behar and the eastern districts of the United Provinces were afflicted with a famine. The Bengal Government, however, took prompt action, and carried out relief measures on a scale and with a thoroughness which had never been equalled before. The total cost of the relief measures amounted to nearly 10 crores. The great
- 1876-78. famine of 1876-78 was, in respect of the area and the population affected, as well as the duration and the intensity of the distress, the most grievous calamity experienced since the beginning of the nineteenth century. It affected Madras, Bombay

the United Provinces and the Punjab. The relief measures on this occasion were insufficient and imperfectly organised. The Government refused to recognise their responsibility for saving human lives, and declared with cynical calmness that "the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition."<sup>1</sup> Small wonder that a fearful mortality was the result of the adoption of such a policy!

Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in varying degrees of intensity, the population sorely afflicted being estimated at 34 millions. In addition to the opening of public works at various centres, gratuitous relief was given extensively, and in many parts of the country people were relieved in their own homes. The relief operations were conducted with a fair measure of success, except in the Central Provinces where the death-rate rose very high above the normal.<sup>2</sup> The total cost of relief measures was 7·27 crores.<sup>3</sup>

<sup>1</sup> Vide *Report of the Famine Commission, 1901*.

<sup>2</sup> *Famine Commission Report, 1898*, p. 196.

<sup>3</sup> "Relief was given to 821 millions of persons at an average cost of 1·42 annas a day for each person relieved" (*Report of the Famine Commission, 1898*).

1899-1900. Following closely upon this came another calamity of the severest type, namely, the famine of 1899-1900. The area and population affected were, roughly, 189,000 square miles and 28 millions respectively. The authorities failed and, in some cases, refused to open relief works in the early stages of the famine; and when they were opened, such vast numbers came on them that the system almost completely broke down in many cases. The total expenditure amounted to 10 crores, and the excess of mortality over the normal was 1,236,855. Several famines and scarcities of a local character occurred after 1900, those of 1906-7 and 1907-8 being the most important. It was not, however, considered necessary to adopt any large scheme of relief on any of these occasions.

1906-7.  
1907-08.

Famines  
recurring  
calamities.

From this brief sketch it is evident that famines are frequently recurring calamities in India. It was estimated by the Famine Commissioners of 1880 that, on an average, there are two bad seasons to seven good, and one-twelfth of the population may be approximately taken as the portion affected by each famine. Some provinces are more liable to these calamities than others, but hardly a year passes in which some part or other of the country does not, in some degree, suffer from a famine or a scarcity. The more important famines come at irregular intervals,<sup>1</sup> though not without warning.

Signals.

The first signal of an approaching famine is a

<sup>1</sup> It has sometimes been suggested that famines occur in cycles, but, as the Commission of 1880 remarked, our knowledge of the periodicity of past famines does not enable us to calculate such cycles.

failure of rains, followed by a failure of crops. Prices rise high, and the less efficient among the labourers, finding no employment, swell the ranks of beggars. At the same time there is a contraction of credit and of private charity. Theft and robbery increase, and a general restlessness is visible among the people. There is also a deterioration in the health of the people, which often leads to epidemics of a serious kind.

In order to cope with famines, all the provinces have their Famine Codes,<sup>1</sup> which, differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be permanently maintained in ordinary times, and the steps to be taken when the information received indicates the imminence of scarcity or famine. They also lay down the duties of all officers concerned when famine or scarcity is actually present, and the various measures of relief to be adopted.

As soon as the Local Government are able to read the first signals of an approaching famine or scarcity, it is their duty to take the necessary steps for meeting it. The Famine Commissions recommended a plan of work which may be briefly described thus: During the first stage

(i) liberal advances should be given for the construction of temporary, and the repair of permanent, wells, and for other village improvements;

(ii) non-official co-operation should be enlisted and the organisation of public charity should be vigorously taken in hand;

<sup>1</sup> In 1883, the provincial famine codes were first promulgated. Since then, they have undergone several revisions.



(iii) liberal advances should be given for the purchase of seed for the ensuing crop ;

(iv) the police should be supplied with funds to relieve wanderers in distress ;

(v) test works should be started, and poor-houses should be opened at the chief centres of population ;

(vi) inquiries as to suspensions of revenue should be begun ;

(vii) relief circles should be organised, and the necessary inspections should be made ;

(viii) preliminary lists should be drawn up of persons eligible for gratuitous relief ;

(ix) if there are threatenings of a scarcity of fodder or drinking water, steps should be taken to meet it and to encourage private enterprise to import fodder and to develop the water-supply.

Second stage.

Relief Works.

The object of test works is "not to relieve famine, but to test the presence of it: not to relieve hunger, but to find out whether people are hungry." Directly the numbers attending test works indicate that further relief measures are necessary, test works should be converted into relief works, which are the backbone of famine-relief administration. All who apply and are capable of working should be admitted to relief works, and tasks and wages should be graduated according to their respective strength and physical requirements. The fundamental principle of the famine wage is that "the lowest amount sufficient to maintain health" should be given. Relief works should be of two kinds, public works and village works. The former would be works under the control of the Public Works Department, and

would engage large numbers of people. The latter would be under the revenue authorities and would be local works of use to a particular village or group of villages.

The distribution of gratuitous relief should also begin when test works are converted into relief works; and care should be taken to see that all persons entitled by the Code to receive it are brought upon the list. These are persons having no relatives able and bound to support them, who are incapacitated by physical infirmity, or by their presence at home being necessary to attend on sick or infant children, from earning a subsistence on relief works. Gratuitous relief.

Poor-houses also should at the same time be started at all convenient centres for the reception of persons unfit to work, who either have no homes or cannot conveniently be sent to their homes, and of persons in need of relief who, though fit, refuse to labour.<sup>1</sup> Poor-houses.

Of the minor measures of relief, the most important is that of kitchens, intended mainly for the dependents of persons engaged on the relief works. The other measures are (a) gratuities or semi-gratuitous relief to *purdanashin* women, (b) relief to respectable men, (c) relief to artisans, (d) relief to weavers, and (e) temporary orphanages. Kitchens and minor measures.

Before the rains break, and in time for the Last stage.

<sup>1</sup>The Famine Commissioners of 1901 observed in this connection: "We were struck by the failure of the local officers in Bombay in this respect . . . a failure which was one of the causes of the great mortality in Gujrat" (*Report*, p. 20).

prudent use of the money, large *takavi* advances should be given for cattle and seed, and Charitable Fund donations should be distributed. At the beginning of the monsoon, people may be induced to leave the relief works, provided the necessary pressure is used with the greatest caution and safeguarded by a large extension of gratuitous relief. After the necessity for State relief has completely ceased with the growth of new crops, all relief operations should be closed.

Foresight, energy, and sympathy essential for success.

The rules recommended by the several Famine Commissions and embodied in the Famine Codes leave very little to be desired. But in practice the success of operations depends very largely upon the foresight, energy, and sympathy of the executive officers of the Government. In this connection three things are necessary to be borne in mind: first, that it is desirable to take steps for warding off a calamity, if possible; secondly, that it is ultimately economical to start relief operations early; and thirdly, that for preventing loss of life and preserving the health and strength of the people, relief ought to be given liberally.

Causes and Remedies  
(i) Physical.

We ought not, however, to rest content with mere palliatives. Prevention is always better than cure, and it would certainly be wise to find out the root-causes of these calamities and to adopt the necessary preventive measures. Of course, the most obvious and direct cause is drought, that is to say, the late commencement, or insufficiency, or early cessation of the monsoon rains. Disforestation has been pronounced by experts as a cause of

insufficient rainfall; and a more perfect system of afforestation than has hitherto been practised will, it is believed, go a long way towards preventing drought. The artificial supply of water by means of irrigation is of even greater importance; and although much has been done in this matter, there is still room for more work. The Famine Commissioners of 1901 said: "All provinces do not, indeed, present practicable schemes for the construction of great canals; but the possibility of smaller protective works has in no province been exhausted, while in some provinces they have as yet hardly been examined. For storage tanks, reservoirs, and, above all, irrigation wells, the scope and the necessity are very great." Improved methods of agriculture and the adoption of a system of "dry cultivation" are also needed to ensure the production of crops. Sometimes, crops are destroyed by floods, against which an efficient system of drainage is the only safeguard. Insect pests have also been known to be destructive to crops, but with the aid of science it ought not to be very difficult to check this evil.

Important as these physical causes are, the chief (ii.) Economic cause of famines is an economic one. Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas, but the main reason for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power. The Famine Commissioners of 1880<sup>1</sup> held that there was enough food

Crop famines  
or Money  
famines?

<sup>1</sup> *Report of Famine Commission, 1880, p. 59.*

in the country to feed the entire population, even in the worst years; and the Famine Commissioners of 1898 concurring in this view, remarked, "We think that the surplus produce of India, taken as a whole, still furnishes ample means of meeting the demands of any part of the country likely to suffer from famine at any one time, supposing such famine to be not greater in extent and duration than any hitherto experienced."<sup>1</sup> The calamities which devastate the country from time to time are not, therefore, crop famines, but money famines. It is not the lack of food which the people suffer from, but the want of resources with which to buy food. Speaking of the poverty of the cultivator, the Famine Commissioners of 1901 said, "In good years he has nothing to hope for except a bare subsistence; in bad years, like last year, he falls back on public charity." But there is a class of persons whose condition is much worse than that of cultivators, namely, the landless labourers. This class is, in fact, the first to succumb to the effects of a famine. And it is not only these sections of the community but almost all sections that are affected, in a greater or less degree, by famines.

General  
poverty the  
main cause.

Whatever differences of opinion may exist about the improvement in recent years of the material condition of the people, that there is still a dense mass of poverty is admitted on all hands. Now this general poverty can be traced to several causes. The great bulk of the people are dependent on agriculture; and agriculture as a profession is not

<sup>1</sup> *Report of Famine Commission, 1898, p. 358.*

so remunerative as manufactures are. Most of the old handicrafts have died out, and only a few modern industries have as yet been established. The population of the country has considerably increased, but it has not been accompanied by a proportionate increase in the wealth of the country. Again, a costly system of administration has necessitated the imposition of a heavy burden of taxation, and the annual drain of wealth leaves the country poorer and poorer as one year succeeds another. Lastly, litigation, the custom of early marriage, and those social habits which prompt improvident expenditure in ceremonial functions, add largely to the miseries of the people.

Several measures can be suggested for combating the poverty evil. Besides introducing improvements in the method of agriculture and extending the cultivated area, every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts,—large-scale industries, as well as small handicrafts and cottage industries. As Sir H. S. Cunningham said, "The direct, deliberate and systematic promotion of industrial enterprise is not a less important duty, and its thorough recognition by the State would, I believe, be the most important administrative reform of which the Indian system is capable." A reduction of public expenditure and of the amount of the annual drain is urgently needed so as to make a reduction of taxation possible. Greater moderation in the assessment of the land revenue,

Measures for  
combating  
poverty.

together with less rigidity in its collection in bad years, and, if possible, a definite limitation of the share of the State in the income derived from the land, will ensure to the cultivator the fruits of his labour and greatly improve his economic condition. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. The establishment of Arbitration Courts will decrease ruinous litigation. And, lastly, it is to be hoped that the leaders of society will take active steps to root out evil customs, wherever prevalent.

Effects of  
famines.

In some quarters there is a tendency to regard the famine question as identical with the question of unemployment. A famine does, no doubt, throw workers out of employment; but, unlike the unemployment which one finds in England and Germany, it affects millions of men, and the magnitude of the distress which ensues is unimaginable in modern Europe. Hundreds of thousands of people succumb to starvation or to diseases which lie in the wake of famines, and those who are left behind remain in a condition more miserable than before,—their resources crippled, health shattered, and capacity for work greatly impaired. A famine also means much to the Government. Loss of revenue and increase of expenditure combine to dislocate its finances. It would be extremely unwise, therefore, to minimise the importance of this serious question. And if science and state efforts have succeeded in

Prevention  
necessary  
and possible.

making famines an impossibility in modern Europe, there is no reason why they should be allowed to continue their ravages in India.

#### 6. THE CO-OPERATIVE MOVEMENT

Reference has already been made to the existence of indebtedness among the agriculturists of India, but no serious attempt has been made to measure its extent and magnitude.<sup>1</sup> The investigations carried on by some responsible individuals disclose the existence of appalling indebtedness under which the peasantry of the country groan. In the Punjab it has been pointed out by Mr. Darling that only 17 per cent. of the people are free of debt, and the average debt per indebted proprietor is Rs. 463.<sup>2</sup> In Bengal it was calculated by Mr. Jack that in the district of Faridpur, 45 per cent. of the cultivators were in debt, and the average debt of each family was Rs. 121.<sup>3</sup> In the Bombay Presidency the Famine Commission of 1901 estimated that at least four-fifths of the cultivators were in debt. Dr. Harold Mann remarks about this Presidency: "This economic enquiry into the condition of the people of a typical dry Deccan village is disheartening. The debts are a crushing load on the people." He has estimated that the average debt of the cultivators of a Bombay village is about Rs. 130.<sup>4</sup> In Southern India, in the Cochin State, it is

<sup>1</sup> Vide chapter on "Distribution."

<sup>2</sup> Vide Darling, *The Punjab Peasant in Prosperity and Debt*, p. 5.

<sup>3</sup> Vide Jack, *Economic Life of a Bengal District*, p. 98.

<sup>4</sup> Vide Mann, *Land and Labour in a Deccan Village*, p. 130.



pointed out that nearly 75 per cent. of the agriculturists are in debt.<sup>1</sup>

To what extent this state of things is due to thriftlessness or extravagance on the part of ryots cannot be definitely asserted, but there is no denying the fact that there is an inherent defect in the credit organisation of the country. The dependence upon the village money-lenders and the usurious rates of interest charged by them are sapping the foundations of the rural prosperity of the country.

Credit an absolute necessity in India.

It is a recognised fact that credit is an absolute necessity in all agricultural countries, and particularly in India. Easy and cheap credit, however, has a great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of Raiffeisen and Schulze-Delitzsch have proved the most successful. Many years ago, Sir William Wedderburn, Mr. Justice Ranade and other statesmen advocated the establishment of credit institutions in India on the lines of these societies. In 1892, the subject attracted the attention of the Government of India, and they appointed Mr. (afterwards Sir) Frederick Nicholson to enquire and report on the matter. His Report was submitted in 1895. He said in the Report: "The lesson of universal agricultural history is that an essential of agriculture is credit. Neither the

Sir F. Nicholson's Report.

<sup>1</sup> *Vide Slater, Some South Indian Villages, p. 137.*

condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact, that agriculturists must borrow. This study assumes as axiomatic that the peasantry of India have, by the very conditions of their existence in tenure, to borrow, and borrow freely, annually, and continuously."<sup>1</sup>

Mr. Nicholson suggested the introduction of Co-operative Credit Societies on the German model, for he realised that the State or Central Banks would of necessity be situated far away from the village, and thus would not possess the advantages which are possessed by Village Banks.<sup>2</sup> These are :

Advantages of  
Village Banks.

- (i) Absolute proximity to the borrower.
- (ii) Their ability to excite local confidence and consequently to draw in local capital.
- (iii) Their exact knowledge of the clients and their influence over them as co-villagers.
- (iv) Their ability to work cheaply—almost gratuitously—and thus to provide cheap credit.
- (v) Retention of local capital and all profits thereon within the village.
- (vi) Their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities.
- (vii) Their capacity for acting as village granaries.
- (viii) Their ability to act as intermediaries between

<sup>1</sup> For an account of the co-operative societies in Europe, see Wolf, *People's Banks*.

<sup>2</sup> *Vide* Sir F. Nicholson's Report.

the State and the individual in agricultural or industrial developments, or in times of seasonal stress.

(ix) Their power of influencing borrowers towards the true use of credit and of watching the utilisation of loans in accordance with contract.

(x) Their ability to prevent fraudulent default.

(xi) Their steady educative influence in matters of thrift, association, and self-help.

(xii) Their tendency to develop high forms of individual capacity, public life, and national character.

When the Government of India became fully convinced of the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904, with the hearty approval of all sections of the community. This Act divided the Societies into (1) Central, (2) Urban, and (3) Rural. The Act of 1912, however, substituted for the distinction between Urban and Rural Societies the division of Societies into (i) those with Limited Liability and (ii) those with Unlimited Liability. It also authorised the registration of co-operative associations for purposes other than credit. Under its provisions, unless the Local Government by general or special order otherwise directs,

(i) The liability of a society of which a member in a society is limited ; and

(ii) The liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists,

Co-operative  
Credit Soci-  
eties Acts, 1904  
and 1912.

Limited and  
Unlimited  
Liability  
Societies

and of which no member is a registered society, is unlimited.

The conditions of registration are (i) that not less than ten persons can form a society, (ii) they must be above the age of 18 years, and (iii) they must either reside in the same town or village or group of villages, or must belong to the same tribe, class, caste, or occupation. Registration.

The management of these societies is democratic. It is in the hands of the members themselves, who appoint from their own body a Committee to do the work for one year. The members of the Managing Committee receive no remuneration for their work. No member has usually more than one vote; but where the liability is limited, a member may have more than one vote, if prescribed by the bye-laws. Management

The accounts of every Society are audited by, or by order of, the Registrar, who at all times has access to all the books, accounts, papers, etc. Audit and Supervision.

The main privileges of these Societies are : Privileges.

(a) They are bodies corporate, that is to say, they have perpetual succession, common seal, legal right to make contracts, etc.

(b) A registered Society is entitled in priority to other creditors to enforce any outstanding demand due to the Society from a member or a past member (subject to any prior claim of the Government in respect of Land Revenue).

(c) The shares are not liable to attachment.

(d) On the death of a member, his share is transferred to his heir.

(e) The Societies may be exempted from the payment of income-tax, stamp duty, and registration fees.

**Liabilities.**

As the members have privileges, they have liabilities. These liabilities are limited or unlimited, according to the class into which a Society falls. A past member is liable for the debts of a Society for a period of two years, and the estate of a deceased member is liable for one year.

**Restrictions on work**

There are certain restrictions on lending and borrowing. No Society with unlimited liability is permitted to lend money on the security of movable property. The Local Government may also impose other restrictions. Borrowing must be made to such an extent and under such conditions as may be prescribed by the bye-laws.

**Investment of Funds.**

The funds of the Societies may be invested in the Government Savings Banks, in any of the institutions prescribed by the Indian Trusts Act, in the shares or on the securities of any other registered Society, with any Bank or person approved by the Registrar, or in any other way permitted by the bye-laws.

**Use of Profits.**

No part of the funds may be divided by way of *bonus* or *dividend* or otherwise among its members ; provided that after one-fourth of the net profits in any year has been carried to a *Reserve Fund*, payment from the remainder of such profits and from profits of past years may be made among the members to such extent and under such conditions as may be prescribed by the bye-laws ; provided also that in the case of a Society with unlimited liability, no distribution of profits may be made without the order of the

Local Government. Such Societies may, with the sanction of the Registrar, after one-fourth of the net profits has been carried to a Reserve Fund, contribute an amount not exceeding 10 per cent. of the remaining profits to charitable purposes.

The Co-operative Societies in India were from the very beginning handicapped for lack of funds. The growth of deposits was not encouraging, nor was it possible for Societies to borrow from the general money-market. In order to finance the Co-operative Credit Societies a new type of banks was felt necessary to link them with the money-market, and central agencies developed as a consequence. The Act of 1904 did not provide for the registration of Central Banks, which was, however, remedied by the Act of 1912. These Central Banks, as the Maclagan Committee have suggested, should confine themselves to financing primary societies and serving as their balancing centre. But this wholesome advice has not been followed in all cases, with the result that mixed central banks are frequently to be found. The Mofussil Central Banks have now been linked with a Provincial Co-operative Bank located in the chief money-market centre of the province. Thus an organisation has been built up through which the funds of the commercial centres may percolate to the villages to finance the vital industry of the country.

The potentialities of the Co-operative movement have been amply demonstrated by the steady growth of Societies among the rural population of India. In 1914 the Government of India said with a sense of pride: "Ten years ago there was nothing beyond a

Financing of Societies.

Progress of Co-operative Credit.

few scattered experiments to indicate the presence of the Co-operative movement in India. To-day there are over 12,000 Societies with nearly 600,000 members with a working capital of 5 crores of rupees, and co-operation has firmly established itself as a powerful factor in the material and moral welfare of the people.”<sup>1</sup> In 1923-24, the number of Societies rose to 61,106, the amount of capital to 35.54 crores, and the membership to 21.02 lakhs. The Co-operative movement has thus taken firm root in India. But as yet it has hardly touched the fringe of the problem, for we have now an average of just over 23 Societies for every one hundred thousand inhabitants in British India and 21 Societies for the same number in the Indian States.<sup>2</sup>

Economic  
benefits.

In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the Co-operative Societies instead of from the village money-lenders, are saving a large amount. Besides, with the progress of co-operation and with credit democratised, money that had lain in hoards has been produced and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and old debts have been paid and old mortgages have been redeemed. Co-operation has placed within reach of the cultivators cheap manures and implements, it has tended to help the improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated. In the Punjab,

<sup>1</sup> *Vide* Resolution dated 17th June, 1914.

<sup>2</sup> *Vide India in 1924-25*, p. 251.

Co-operative Societies are undertaking the task of consolidation of holdings and the marketing of agricultural produce. Thus at Lyallpur Co-operative Commission Sale Shops have been started, which advance 75 per cent. of the value of the gain brought to them. In Bengal, Co-operative Milk Societies, Anti-malarial Societies, Supply and Sale Societies have been started. Co-operative irrigation work is also being attempted in some districts. In Bombay, societies for the hire of cane-crushers, for the maintenance of oil engines for lifting water, have been established. It will thus be interesting to watch the progress of co-operative activities in directions other than credit.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for literacy. The criterion for admission into these Societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts, has acted as a powerful check on expenditure for unproductive purposes. Self-restraint, punctuality, straightforwardness, self-respect, and discipline have been encouraged. In some places, litigation has markedly decreased. In others, funds have been used to start schools, to provide scholarships, to supply drinking water, and to clean roads. The managing bodies have frequently been entrusted with the arbitration of disputes and with other duties which belong to panchayats, and there is some reason to think that the continuity of aim and solidarity of

Intellectual  
and moral  
benefits.



feeling inherent in the movement may lead to a revival of the corporate village life which has been so much weakened by the disintegrating influence of modern times.<sup>1</sup>

Dharmagolas.

A proposal was made some time ago that *Dharmagolas* might be registered under the Co-operative Credit Societies Act. Sir Daniel Hamilton suggested that the cultivators or the zemindars might provide the grain capital necessary to set the *dharmagola* a-going. The grain would be lent out at a grain rate of interest, the profit with the original grain being dumped into the gola for the benefit of the village. "The Dharmagola," said Sir Daniel, "might in time be developed into a village gram store in which the villager could deposit his crop and draw advances thereon at a reasonable rate of interest, instead of, as he now does, throwing his entire crop in a lump on the market or into the hands of the friendly Bunia, and getting the low price which must result from the whole of the crop being dumped on the market at one time."

#### 7. STATE BANK

The proposal for the establishment of a State or Central Bank in India has been the subject of considerable discussion in recent years. Germany, France, Japan, Russia, and many other civilised

<sup>1</sup> Sir Fred. Lely in his *Note for the Industrial Conference, 1906*, said, "As the old English guilds have been succeeded by the modern Friendly Societies, so from the village commune may arise a brotherhood which shall harmonise the modern sense of individual right with the need of mutual help."

countries have their State Banks, and the establishment of a Central Bank is now under consideration for the United States. Why then, it is asked, should India be without a central banking institution under the control of the Government? The following advantages, in the opinion of the advocates of the scheme, are likely to accrue from such an institution : <sup>1</sup>

I. To the Government :

Advantages.

(i) The existing "Independent Treasury System," by which, whenever the Government balances are swollen, deliberately or not, large sums are taken off the Money Market, is done away with by the removal of the cause of this system, namely, the absence of a large public or semi-public institution with which large balances could be safely and properly deposited, together with the difficulty of employing Civil Servants in a policy of discretionary loans out of the balances.

(ii) The objections to holding large sums at loan for short periods in the London Money Market are avoided by the method of dealing with sterling resources through the Bank.

(iii) A Bank, responsible for the management of the note issue, has greater opportunities than are open to Government for pushing the circulation of notes and for popularising them by an increase in the facilities available for convertibility.

(iv) The responsibility of Government officials for a variety of financial and semi-financial business is greatly reduced by handing over to a Bank all

<sup>1</sup> Vide *Annex to the Report of the Chamberlain Commission*, p. 79.

questions of balances, note issue, remittance, and loans on the London Market.

(v) The Government has at its command the services of officers of the highest position, trained in financial and banking business, instead of Civil Servants who, however full of adaptability and intelligence, have been selected and trained mainly for other purposes.

(vi) A buffer is placed between the Secretary of State and vexatious criticism on small details of financial business.

#### II. To the business world :

(i) In addition to the partial release of Government balances through their deposit in a central institution, a considerable amount of funds is made available by the reform of the note issue.

(ii) The present wide fluctuations of the bank rate and its normal high level in the busy season may be somewhat moderated.

(iii) The increase of branches, which the union of Government and banking business should promote, would gradually bring sound banking facilities to many parts of India, where they are now almost entirely wanting, both directly and by supplying a basis, in reliance on which private and co-operative banking could be built up.

(iv) The introduction of re-discount facilities, while probably not of the first importance in the immediate future, might greatly aid the eventual development of Indian banking on the most desirable lines which European experience has so far evolved.

III. To the people.

It is expected that the proposed State Bank will be of much benefit to the people, for it will help the development of Indian Joint-Stock Banks and will finance the Co-operative Credit Societies.

The objectors, on the other hand, point out the following demerits of the proposal:<sup>1</sup> Disadvantages.

(a) There is, first, the difficulty of choosing a place for the head office of the Bank. If one of the Presidency towns be selected, the others will not tolerate the Bank. If Delhi be made the headquarters, it will be out of touch with the Indian financial world.

(b) In a vast country like India it is impossible to manage and control banking business from one centre. The various provinces have different methods of credit and different ways of carrying on their business.

(c) Far from lightening the burdens of the Government, it will increase them. In times of financial crisis, it will create great difficulties, for the Government would find itself saddled with responsibility unaccompanied by control.

(d) It will create disputes between the Government of India and the Secretary of State.

(e) It would mean the ruin of the Exchange Banks, which have so far handled the business and the trade of India well and economically.

<sup>1</sup> These were some of the objections taken by Sir Shapurji Broacha, one of the members of the Chamberlain Commission. Vide *Capital* (Calcutta), March, 1914.

Views of  
eminent  
economists  
and financiers

The opinions of experts seem to be almost equally divided on the question of the desirability or otherwise of a State Bank. Mr. J. M. Keynes and some other economists are in favour of the proposal, while eminent financiers like Sir Guy Fleetwood Wilson, Sir Felix Schuster, and Lord Inchcape are against it. Sir Guy considers the difficulties and dangers very great, and says, "You would increase friction, and you would render the position of the Finance Minister nearly untenable." Sir Felix Schuster does not think that the State can delegate certain responsibilities and duties to any Bank. Lord Inchcape is very strongly of opinion that "there is nothing to be gained either from the point of view of the Government or from that of the trade of the country." The Chamberlain Commission say in their Report, "We are not in a position to declare either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early and careful consideration." The Government of India have always shirked the question, but they have now brought forward a Bill for the establishment of a Reserve Bank, the main provisions of which will be found in the Appendix.

### 8. RAILWAYS

Until the time of Lord Dalhousie, the construction of railways in India was neglected. After the Sepoy Mutiny the strategic importance of railways was fully realised, and railway construction proceeded at a very rapid pace. The following

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table gives the length of railway lines open on the 31st March, 1924, together with the capital outlay on them :

CLASS	Length of Line	Total Capital Outlay.	Classes, mileage, and capital.
<i>All Gauges.</i>	Miles.	Thousands of Rupees.	
1. State lines worked by the State	7,877.56	185,97,58	
2. State lines worked by Companies - - - -	19,286.21	452,86,56	
3. Branch line companies' railways under guarantee terms, worked by branch line companies - - - -	196.6	1,43,56	
4. Branch line companies' railways under guarantee terms, worked by main line -	114.65	81,06	
5. Branch line companies' railways under rebate terms, worked by main line - - -	1,980.99	13,84,82	
6. Branch line companies' railways under guarantee and rebate -	166.60	1,81,85	
7. Companies' lines subsidised by the Government of India -	2,169.79	17,15,67	
8. Companies' lines subsidised by the Local Government -	137.09	1,75,16	
9. Unassisted Companies' lines -	69.70	38,42	
10. District Board lines - - -	271.27	1,48,62	
11. Companies' lines subsidised by District Boards - - -	360.10	1,50,53	
12. Indian State lines worked by Indian States - - -	3,054.18	15,86,43	
13. Indian State lines worked by the main line - - -	1,780.25	11,24,39	
14. Companies' lines guaranteed by Indian States - - -	754.47	9,63,60	
15. Lines in foreign territories worked by British-Indian railway companies - -	73.60	2,14,67	
Total of all railways - -	38,038.52	7,17,93,03 <sup>1</sup>	

<sup>1</sup> Vide the Report of the Railway Board, 1923-24.

Object of  
railways,  
strategic and  
administra-  
tive  
Economic  
effects  
equalisation of  
population,

equalisation of  
prices,

mitigation of  
the horrors of  
famine,

Impetus to  
economic  
activity

Social, moral,  
and political  
effects

Disadvan-  
tages.

Though the primary objects of the construction of railways were strategic and administrative, their economic effect has been immense. Cheap, easy, and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour alone is needed to make the soil yield bountiful harvests. There the people can turn their labour to better account and command higher rates of remuneration. The railways have helped to equalise to a large extent prices in the different parts of the country. Under their influence, the whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Famines are rarely universal throughout India. Generally, they affect particular tracts, and it often happens when one area is suffering, another has an abundant harvest. Now the railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They thus greatly help in mitigating the sufferings of the starving population. Besides, the railways have given a great impetus to the economic and other activities of the people. The influence of railways on the moral and social life of the people has also been considerable. Their political effect is seen in this that they have made possible an efficient system of centralised administration.

On the other hand, by facilitating export, they have caused prices to rise; and by promoting the importation of foreign goods they have hastened the decay of indigenous industries. Besides, the obstruc-

tion caused to natural drainage by high-level railroads and the formation of stagnant pools on both sides of the railway lines, have most prejudicially affected the health of the people.

Indian railways show a remarkable diversity of conditions in respect of ownership and control. When the first proposals for the construction of railways were mooted it was agreed that railways should be constructed by companies incorporated in England for the purpose. But the early companies were hesitating, as they were under an apprehension that the poverty of the country would not make such a venture profitable. They therefore insisted on a guarantee by the East India Company of a specified return. Two contracts were made in 1849, but it was not until 1854 that the policy of entrusting generally the construction of railways to private companies was definitely adopted. The main reason for this policy was "that the conduct of commercial undertakings did not fall within the proper functions of any government, and least of all within the functions of the Government of India, since the dependence of the population on the Government was, in India, one of the greatest drawbacks to the advance of the country, and that the country would therefore benefit by the introduction of English energy and English capital for railway purposes, with the possibility that such energy and capital would in due course be encouraged to assist in the development of India in other directions."<sup>1</sup>

<sup>1</sup> Vide Ainscough, *General Review of the Conditions and Prospects of British Trade in India, 1919-21*, p. 314.



The system which was introduced for the purpose of railway construction in India is known as the Guarantee System. Under it, the East India Company agreed to provide land free, and guaranteed interest on the capital at the rate of five per cent. per annum. Half of any surplus profits earned was to be used towards repaying to the Government any sums by which it had been called upon to supplement the net earnings of any previous period in order to make good the guarantee of interest ; and the remainder was to belong to the company. The companies in all respects, with the exception of choice of staff, were placed under the supervision and control of the Government. Further, at the expiration of the term of 99 years the land and works were to become the property of the Government, the rolling-stock and other moveable property being paid for at the market value ; and the Government had the option of purchasing the line after the first 25 years on paying off capital by granting annuities.

The construction of railways under this system was by no means economical, as there was little incentive to economy. The relations between the Companies and the Government could not be expected to be harmonious, and conflicts were bound to arise. The financial loss to the Government under this system was enormous. Attempts were made between 1862 and 1867 to encourage the construction of railways in India by unguaranteed companies with fixed subsidies, but the terms which were offered failed to attract capital. After 1869 the Government itself undertook the construction of railways, as it was

realised that the credit of the Government would enable it to borrow the necessary capital on easier terms than a company. The famines which overtook the country in the seventies, and the havoc they caused, brought the question of railway construction to the forefront again. The Famine Commission of 1880 impressed upon the Government the necessity for accelerating the pace of railway construction as a protection against the recurrence of famines. This led to the re-introduction of the Guarantee System with terms more favourable to the Government, and several lines were constructed under this system. In the case of some guaranteed lines the Government exercised the option of purchase, and in some cases the option was not exercised. The resulting consequence of this has been that railways in India are managed under diverse conditions, and they may be classified into three broad classes :

- (1) State lines worked by the State.
- (2) State lines worked by a company.
- (3) Company lines worked by a company.

Having thus briefly traced the history of railway construction, let us examine the relations which subsist between the Government and companies at present. These relations may be stated as follows :

Relations  
with the  
Government.

- (a) The lines that they work are the property of the State.
- (b) The greater part of the capital is the property of the Government, either through originally having supplied it or through subsequent acquisition.
- (c) When the funds are required for further capital expenditure, the Government has the option of either

providing them or of calling on the company to provide them.

(d) The contracts are usually terminable at the option of the Secretary of State.

The Government also exercises a considerable amount of administrative control over them. In the first place, the company is bound to keep the line in good working order and fully supplied with rolling-stock, plant and machinery. Secondly, the Secretary of State may require the company to carry out any alteration or improvement in the line for the safety of the public. Thirdly, he may require a company to enter into agreement with other companies for the interchange of traffic. Fourthly, he has a general control over rates, and can fix the maximum and minimum rates. Lastly, companies are bound to keep their accounts in proper form and submit them to the Government.

Suggestion of future construction only by private companies.

As railways now connect the different parts of the country with one another, Indian politicians are of opinion that no more lines should be constructed either by the State with borrowed funds or under the guarantee system. As the capital is mostly raised in Europe, India has to part with a large sum of money every year in the shape of the interest and profit of such undertakings. It is, therefore, urged that the future construction of railways be left to private, and, if possible, local enterprise, and that State funds be applied in a larger measure than has hitherto been the case, to irrigation.

State vs. private ownership of railways.

A few words may be said here about the advantages and disadvantages of the State ownership of railways.

The points in favour of such ownership are :

- (i) Profits accruing from railways help to swell the State income ;
- (ii) On State-owned railways the convenience and the safety of passengers are first considerations ; and
- (iii) Rates are fixed on a fair basis, and may, whenever necessary, be so adjusted as to help the economic development of the country.

The objections are :

- (i) The fear of uneconomical management owing to the want of interest on the part of the railway officials, and
- (ii) The apprehension that State interference with industry may be prejudicial to industry itself.

In 1921 an expert Railway Committee under the chairmanship of Sir William Acworth made important recommendations in regard to the future railway policy of India. The majority of this Committee condemned the existing system of the company management of State railways as essentially unworkable. But the minority favoured the continuance of the system of both State and company management, and desired that the Government should not be committed to a policy of State management only for all railways. It is true that company management of a railway line has in some countries been found more economical, efficient, and business-like than State management ; but the conditions in India are very different. The Government is the owner of the property entrusted to the management of the Companies, and as such it is bound to be responsible politically, financially and morally for its working, so

Acworth  
Committee.

as to secure the best interests of the country. From past experience it cannot be unhesitatingly said that the Companies have looked to the interests of the country in the same way as they ought to have done. This is the reason for the insistent Indian demand for the management of Indian railways by the Government. Further, a system of dual control where none had the power of an effective initiative was bound to result in great inefficiency and failure.

Secondly, the majority recommended that the whole of the capital for the future development of the Indian railways should be raised directly by the State, and loans should be floated both in England and in India. But the Committee further recommended the establishment of a systematic organisation to familiarise the population of India with the idea of subscribing to Government loans, and for this purpose they suggested that the assistance of banks in India should be enlisted.

But the most important and far-reaching recommendation of the Committee was the separation of the railway budget from the general budget. The Committee recommended that the Finance Department should cease to control the internal finance of the railways. The grounds for this important change have been stated by the Committee in the following words: " Apart from the successive stages of discussion and estimating already indicated, there are frequent revisions and reviews of the figures and estimates which are necessitated mainly by the inclusion of the railway figures in the general budget of the country. The grants intimated to the railways at the end of March, that is, just before the commence-

ment of the year to which they relate, are far from being 'fiscal' except in name. Changes are frequent throughout the year; they are sometimes necessitated by the developments in the railway position, which lead to increased demands which could not have been foreseen, or to the surrender of funds which for one reason or another has proved impracticable to spend advantageously within the period covered by the grant. But they are also occasioned by the considerations of an extraneous nature; grants may be cut down during the year because the Finance Department has to meet increased demands from other Departments, or they may be increased unexpectedly at a later stage of the year because of some unforeseen windfall." <sup>1</sup>

During the last European war the financial embarrassment of the Government of India compelled them to exercise the utmost economy and stringency in providing money for depreciation and renewals, with the result that the assets did not represent the full value as was found on paper. The railways in India had, further, no reserve fund from which they could draw in times of difficulty. They should be run as a commercial proposition and not as an appendage to the general finance of the country. To remedy these defects the Committee recommended the separation of the railway budget from the general budget, and the recommendation has been accepted by the Government. The terms on which the railway budget has been separated from the general budget rest upon a convention agreed to by the Assembly in September,

<sup>1</sup> Vide *Acworth Committee's Report*.

1924. According to this convention Central Revenues are entitled to receive from the railways a contribution equal to 1 per cent. of the capital at charge in the penultimate year plus one-fifth of the surplus profits in that year. The Assembly also stipulated that if after payment of the contribution so fixed the amount available for transfer to Railway Reserves should exceed 3 crores, one-third of the excess over 3 crores should be paid to General Revenues.<sup>1</sup>

In 1924-25 the contribution from the Railways to the General Revenues amounted to 564 lakhs. In regard to the separation of the Railway Budget from the General Budget, the Honourable Mr. (now Sir) Clement Hindley remarked : " What this measure of independence will ultimately mean in affording freedom to the Railway Board and the railway administrations to deal with the business of the railways on sound commercial principles, and with due forethought and consideration for the transportation needs of the country, can hardly be foreseen. This much is at least certain, that funds for ensuring efficiency, for introducing improvements and for further development, will solely depend on the ability of the railway property as a whole to pay its way as a commercial concern." <sup>2</sup>

Railway  
Organisation

Until recently, the Government of India discharged its functions of railway administration through its member in charge advised by the Railway Board. The Acworth Committee recommended the appointment of a chief commissioner and four other com-

<sup>1</sup> Vide *Budget for 1925-26*, p. 4 (Speech of the Honourable Sir Charles Innes).

<sup>2</sup> Vide *Budget for 1925-26*, p. 29.

missioners, of whom one should be in charge of finance and three other commissioners should be in charge of three respective geographical divisions, Western, Eastern, and Southern. A Chief Commissioner of Railways has been appointed, who is solely responsible under the Government of India for arriving at decisions on technical matters, and for advising Government on matters of railway policy. His powers are wider than those exercised by the President of the Railway Board. There have also been appointed a Financial Commissioner and a Chief Mechanical Engineer.

The Committee laid stress on the importance of giving to the Indian public an adequate voice in the management of their railways, and for this purpose they recommended the establishment of Central and Local Advisory Councils. It is to be observed that the Indian public have always been insistent in their demand for a voice in the railway administration, to ventilate their grievances as regards the convenience and comfort of passengers, as also for a more judicious and impartial distribution of wagons for traffic, but their demand went hitherto unheeded. It is undoubtedly a matter of satisfaction that the Government have ultimately yielded to this legitimate demand of the children of the soil, and have set up Central and Local Advisory Councils at Delhi and the various railway headquarters. Although they have no legal powers, they are, if properly constituted, likely to exercise great influence over the Railway Administration in the formulation of a judicious policy for the country.

Advisory  
Councils.



Third-class  
Passengers.

The Indian public have, for a long time past, protested against the treatment generally accorded to the third-class passengers. They constitute by far the greater part of the coaching earnings and nearly one-third of the entire railway revenue. Nevertheless, their interests have received much less attention than those of the organised trades and the more vocal classes of passengers. There is, therefore, a very strong feeling in India that improvement of the travelling facilities of third-class passengers has a priority of claim.

Another insistent demand of the Indian public has been for the Indianisation of the superior ranks of the railway services. None of the highest posts are occupied by Indians, very few even of the higher. The Acworth Committee suggested that early steps should be taken to accelerate the pace of Indianisation. At the same time, greater educational facilities should be provided in order to enable Indians to equip themselves for the higher positions in the technical branches of the railway services.

Railway  
Rates.

The question of railway rates has long agitated the public mind in India. The Industrial Commission pointed out that there were complaints to the effect that Indian railway policy did not tend to foster the industries of the country.<sup>1</sup> As an instance, they mentioned the case of hides. "The grant of port rates," they said, "nearly 50 per cent. less than the internal rates has certainly discouraged Indian tanning, and aided certain foreign industrialists to obtain a hold on a class of raw material of which India

<sup>1</sup> Vide *The Report of the Indian Industrial Commission*, p 205

possesses a partial monopoly." The governing principle in railway rating should be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports. Imported manufactured articles from the ports are often carried at a lower rate. The Industrial Commission, in substantiating this charge, mentioned the case of sugar, "the increased import of which coincided with the reduction rates brought about by railway competition."<sup>1</sup>

Another charge against railway rating lies in the "block rates" or higher mileage charges for short lengths imposed on traffic moving from a station near a junction with another system towards the junction, in order to travel a much longer distance over that other system. Further, each railway treats the length on its own system as the sole basis for its charges.

That the railways in modern times wield tremendous powers in the development of the industries of a country need hardly any comment. That they can develop one centre at the expense of another can hardly be gainsaid. One important factor in the industrial development of Germany has been a judicious manipulation of the railway rates. There seems to be no reason why a judicious rates policy should not be followed in India with an eye to the development of her industries, especially in view of the fact that the largest railways are owned by the State. To deal with this difficult problem the

<sup>1</sup> Vide *The Report of the Indian Industrial Commission*, p. 207.

Acworth Committee recommended a Rates Tribunal consisting of three members, an experienced lawyer as chairman and two other members to represent railways and commercial interests respectively. The Rates Tribunal has recently been constituted.

Quinquennial  
Programme

There has been worked out a quinquennial programme of capital expenditure amounting to Rs. 150 crores. This money is being chiefly spent in the rehabilitation and improvement of the existing lines. Attention is being paid to the greater development of Southern India, and a number of other projects are being examined.

## 9. IRRIGATION

Necessity of  
Irrigation.

We have already seen that in many parts of India the normal annual rainfall is very defective ; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the seasons or the requirements of the crops. In all these parts, irrigation is necessary for the growth of crops.

Irrigation  
practised from  
remote ages.

Irrigation has been practised in India from very early times <sup>1</sup> The remains of the canals constructed by Hindu monarchs as well as by Mahomedan rulers are still to be found in many parts of the country.

<sup>1</sup> Lt -Col. Tyrrell, in his work on *Public Works Reform in India*, says, "It is, I believe, too common an idea in England, that the natives of India are without an engineering history, that there are no works extant of their engineering skill, and that they owe to us all that they possess in that department. such is not the case. India *has* an engineering history; not written in splendid palaces and lofty structures, yet still marked by works whose usefulness may vie with works of any other nation—works on which her life depends."

But the chief works executed by Hindu kings were tanks of which there are thousands,—many silted up, many in ruins, many dry by destruction of the supply channels. The whole of Southern India is still covered by a network of old tanks, and millions of acres are still irrigated by them. These tanks vary in size from a few acres to ten square miles of water surface. In some places there is the chain system, where the surplus of one tank flows into the one below. In Upper Burma, also, there is a large number of tanks. Well-irrigation has always been very important in Northern India.

During the early years of British rule, the subject of irrigation was much neglected, and to this neglect was due <sup>1</sup> the destruction of many noble works. The repair of old storage works and the construction of canals were strongly urged by Sir Arthur Cotton, but it was not until the middle of the last century that the matter engaged the serious attention of the Government.

*Neglect during early years of British rule.*

The simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals.<sup>2</sup> They are formed by making shallow cuts through the river bank, into which the water flows when the level of the river is

*Inundation canals.*

<sup>1</sup> Lt.-Col. Tyrrell says, "In the Nagpur and Hyderabad country of the Deccan, the ruins of extremely large tanks exist, now in the midst of jungles, formerly the sites of a rich cultivation and a busy population."

<sup>2</sup> *Vide* Buckley, *Irrigation Works of India*, from which much of the information here recorded has been gathered.

"In the Gujranwala district there are traces of many old canals which have fallen into disuse many years ago" (Buckley).

raised by the floods. These are mainly to be found in the basin of the Indus and its tributaries. It is, at best, a precarious system of irrigation.

Perennial  
canals.

Remains of  
old works.

Early effects.

Important  
canal  
schemes.

Cauvery Delta  
system.

The most important system is that of perennial canals. Many of the weirs in Madras were constructed by the Hindu monarch, Krishna Raya, early in the sixteenth century. The earliest in Upper India were the Jumna Canals. The one on the west bank is attributed to Firoz Shah in the fourteenth century ; it fell into disrepair and was restored by Akbar and Shah Jehan. The eastern Jumna Canal was originally commenced by Shah Jehan, and restored and improved by the British Government. The early efforts of the British Government in India were directed to the improvement of the existing indigenous works rather than to the construction of new irrigation projects. In the first quarter of the nineteenth century three important improvement schemes were taken in hand, viz., the Western Jumna Canal in the Punjab, the Eastern Jumna Canal in the United Provinces, and the Cauvery Delta system in Madras. The famine of 1832-33 led to a vigorous construction of irrigation channels, but these were executed in haste upon imperfect information or bad alignments. The Cauvery Delta system in Madras is of far greater antiquity than the two Jumna systems, and irrigates over a million acres. This system comprises some 1500 miles of main canals and branches and nearly 2000 miles of distributaries.

The first serious attempt in the construction of canals for irrigation may be said to have commenced about the year 1840, when the project for the Ganges

Canal was submitted. But the construction of this canal was greatly delayed owing to political and financial difficulties. As Mr. Harris remarks, "from the beginning, however, the shadow of war lay heavy over the canal works, and neither the attention of the higher authorities nor the funds required for the rapid prosecution of construction were forthcoming to any adequate extent."<sup>1</sup> In 1844, Sir Arthur Cotton reported on the question of irrigating the Godavari Delta, and the work was sanctioned in 1846. This system has been of untold value to the tract it irrigates. During the fifties and the sixties of the century the great inundation canal systems of Sind were restored, enlarged and brought into working order. In the Bombay Presidency storage works were undertaken, and the Mukti Tank was constructed in 1869. Efforts were made during this period to construct combined irrigation and navigation works by private enterprise, and these ended in failure involving a huge waste of capital and interest. But the most important move in the direction of pushing irrigation works came when the Secretary of State for India accepted the principle of financing productive works by loans raised in the open market. So long as heavy capital expenditure had to be incurred from revenues the progress of irrigation works was bound to be slow. Under this policy five works of great magnitude, viz., the Sirhind, Lower Ganges, Agra, Lower Swat and Mutha Canals, and several smaller ones were taken in hand.

The Cauvery system is the largest delta system

<sup>1</sup> Vide *Irrigation in India*, p. 22.

- and is the most profitable of all the works in India. There are seven similar delta systems in Madras, and one in the delta of Mahanady in Orissa.
- Bari Doab Canal.** The Bari Doab Canal was the first of the modern works in the Punjab, commenced in 1850. This system consists of 369 miles of main and branch canals and nearly 1200 miles of distributaries. The Sirhind Canal, which emanates from the Sutlej, was commenced in 1869, and first brought into operation in 1882. The Chenab Canal is the largest of the Indian systems, consisting of 400 miles of main canals and 1200 miles of distributaries. The Jhelum Canal, which commands a million and a half acres, was completed in 1901. The Upper Chenab Canal and the Lower Bari Doab Canal were opened in 1913. The Triple Canal Project, which was completed a few years ago, is now regarded as one of the most brilliant feats of canal engineering in India. Under this scheme, the excess waters of the Jhelum are taken off and carried to the Chenab and discharged into that river, and what remains after is carried to the Rair and poured over the Lower Bari Doab. This system irrigates nearly two million acres.
- Ganges and Lower Ganges Canals.** In the United Provinces, the Ganges and the Lower Ganges Canals are the two principal perennial systems, consisting respectively of 440 miles of main and branch canals and 2700 miles of distributaries, and 558 miles of canals and 2400 miles of distributaries.
- Sone Canal.** In Behar, the Sone system consists of 370 miles of main and branch canals, and 1200 miles of dis-

tributaries. The Orissa Canals are also important. In Bengal, the only irrigation system is the Midnapur Canal.

Midnapur  
and Orissa  
Canals.

The demand for storage works is the greatest in Bombay and Madras, where most of the rivers have short courses, and the rain, which frequently falls in heavy but brief storms, passes away rapidly. The reservoirs and tanks in the Bombay Presidency are constructed in hilly ground. The most important of these are Lake Fife and Lake Whiting, near Poona. In Bombay, the irrigation works have been unremunerative; but there is no province in India more liable to famine, and the extension of protective irrigation is urgently needed there. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India.

Storage  
works.

There are only three canal systems in India which have been constructed for the sole purpose of navigation. These are the Circular and Eastern Canals in Bengal, the Orissa Coast Canal (including the tidal canal), and the Buckingham Canal in Madras.

Navigation  
Canals.

For official purposes, irrigation works were formerly divided into two main classes—Major Works and Minor Works. Each of these main heads was again subdivided into two subsidiary ones—(i) Productive, and (ii) Protective. Those which were financially remunerative fell under the first sub-head; while those works were called protective, the revenue derived from which did not cover the interest on the capital expended. These latter were works which it was considered desirable to construct in order to help in producing food-grains as a protection against

Major and  
Minor Works.

Productive  
and Protective  
Works.



famine, and they were financed out of the Famine Relief and Insurance Grant of a crore and a half set apart every year.<sup>1</sup> With the introduction of the reforms, two important changes were made in regard to the classification of Government irrigation works. In the first place, irrigation was given the status of a provincial reserved subject. In the second place, the old and somewhat cumbersome classification of the individual works was given up. All works are now classified as productive or unproductive. Productive works are such as satisfy the conditions that within ten years of the completion of construction they produce sufficient revenue to cover their working expenses and the interest charges of their capital cost. All other works are classed as unproductive. The average cost per mile of irrigation work varies from Rs. 3,000 to Rs. 50,000, and the percentage of net receipts on capital outlay is over 7 per year.

Canal  
Colonies.

Irrigation in the Punjab has turned arid deserts into fertile fields. Before the construction of the Chenab Canal, the tract which it commands was almost entirely waste, with an extremely small population. Two million acres of wilderness have now been turned into sheets of luxuriant crops, and a new population of a million people have found

<sup>1</sup> Mr. Buckley said many years ago, "The financial test is not the only—or, indeed, the ruling—one which should be applied in order to determine whether a particular irrigation work should be constructed or not." The classification of irrigation works into productive and unproductive no longer relates to the source from which funds for their construction were provided. *Vide India in 1922-23.*

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homes in this area. The Jhelum Canal Colony occupies some 900 square miles of State land. Colonisation began here in 1902, and the present population is nearly two lakhs. The other Colonies are the Chumien on the Bari Doab, and the old colonies of Sohag-para and Sidhuai. Colonisation has now commenced in the Punjab Triple Canal area. Sir G. F. Wilson, referring to these Colonies, said that they were calculated to be "the richest granaries of Asia, and afford scope for the rise of large and important industries among the sturdy and practical races of India."

The following tabular statement will give an idea of the position of irrigation works in 1921-22 :

Province.	Net area cropped (Thousand acres).	Area irrigated by Govt irrigation works (Thousand acres).	Per cent. of area irrigated to total cropped area.	Capital cost of Govt irrigation works (in lakhs)	Estimated value of crops raised on areas irrigated by State works (in lakhs)
Madras - -	37,533	7,229	19.3	1,189	4,139
Bombay Deccan	23,628	422	1.8	778	479
Sind - -	4,238	3,251	76.7	346	1,144
Bengal - -	23,701	105	0.4	367	70
United Provinces -	33,697	2,673	7.9	1,402	2,481
Punjab - -	31,020	10,461	33.7	2,278	6,721
Burma - -	14,205	1,537	10.8	346	745
Behar and Orissa - -	8,874	1,003	11.3	626	584
Central Provinces -	16,690	437	2.6	428	286
North-West Frontier Province -	2,876	439	15.3	282	336
Rajputana -	240	24	10.0	35	10
Baluchistan -	177	21	7.3	44	5
<b>Total -</b>	<b>196,879</b>	<b>27,604</b>	<b>14.0</b>	<b>8,121</b>	<b>17,000</b>

**Irrigation  
Revenue.**

Irrigation used to produce a net revenue of about  $1\frac{1}{2}$  crores a year to the Government of India. It is now an important source of revenue to some of the provinces, *e.g.*, the Punjab, Madras, and the United Provinces. Its total yield now amounts to 6.1 crores. The revenue is derived from the supply of water for the crops, besides certain subsidiary receipts, such as tolls for navigation, rents of fisheries, etc. The income from navigation is considerable in Bengal and Madras, but is insignificant in the other provinces. The amount of revenue charged for irrigation does not depend on the volume of water supplied, but on the nature of the crop and the area irrigated. In the provinces of Upper India, and in parts of Bombay, the irrigation revenue is not assessed with the land revenue, but is distinct from it. It is assessed by irrigation officials, and consists of (i) occupier's rate, (ii) owner's rate, and (iii) enhancement of land revenue due to canals. In Madras, the system of consolidated rates—including both the land and the irrigation revenue—is followed. The average incidence of the irrigation rate per acre irrigated is Rs. 3.53.

**Benefits of  
Irrigation.**

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the outturn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively small cost. The land-owners derive benefit from the works by the increased rentals they obtain. The advantages to the country as a whole are that they protect large areas from the effects of famine, and increase the total food-supply

of the people. Lastly, they are beneficial to the Government in that, besides bringing increased revenue into its coffers, they help to lessen the miseries of the people, and thus remove the chief causes of popular discontent.

The survey made by the Irrigation Commission of 1902 showed that  $19\frac{1}{2}$  per cent. of the total cultivated area was ordinarily irrigated; and of the area irrigated, 42 per cent. was watered from State works, and the rest from private works, of which more than half was from wells. On March 31st, 1922, the total area irrigated by State works was  $27\frac{1}{2}$  million acres, and the total capital outlay was over 81 crores.

Extent of existing works.

The largest scheme at present under construction is the Sutlej Valley Project in the Punjab—the direct outcome of the great Triple Canal Project. It is expected to irrigate 5,108,000 acres, or nearly 8000 square miles, and yield a return of  $12\frac{3}{4}$  per cent. Another project of great magnitude is the Sarda Canal and Sarda Kichha Feeder in the United Provinces. Two great reservoir projects, the Bavara and Nira Right Bank Canal Projects, are at present under construction in the Bombay Deccan.

New Projects.

But the most important work now on hand is the Sukkur Barrage (proposed to be called the Lloyd Barrage) in Sind. This project is designed to give an assured flow of water to the numerous inundation canals which draw their water from the Indus. It is to be accomplished by constructing a barrage across the Indus below Sukkur, and will be by far the biggest work of its kind. The total cost of the scheme is estimated at £18½ million, of which the

Sukkur Barrage.

barrage accounts for £5 $\frac{3}{8}$  million and the canals for £12 $\frac{3}{8}$  million. The scheme will irrigate an area of 5 $\frac{1}{2}$  million acres, which, it is expected, will be available for the cultivation of long staple cotton in India.

By the time the projects now under construction are completed, a total irrigated area of 40 million acres may be expected.

Need for  
more  
Irrigation.

Although great progress has been made in irrigation, much yet remains to be done. Only a small percentage of the total supply of water has been utilised for the benefit of man.<sup>1</sup> In order to prevent the water of rivers and streams from flowing uselessly into the sea, many more canals and storage works will be needed. Agriculturists, too, should be encouraged with loans and grants to construct wells and reservoirs. It is also to be hoped that greater attention will be given to the improvement of internal navigation.<sup>2</sup>

#### 10. THE STATE AND INDUSTRY.

The East India Company was "primarily a trading corporation, whose role was to exchange as far as possible the manufactured products of England for the products of India."<sup>3</sup> But when the Company

<sup>1</sup> This observation made by the Irrigation Commission of 1902 remains substantially true to the present day.

<sup>2</sup> Lieut.-General Sir Arthur Cotton said many years ago, "If 1000 yards of cubic water can be made use of at a cost of 6d., and if its value, so applied, is 10s., there is no gold mine in the world that can be compared to an irrigation work" (*Lecture on Irrigation Works in India*, p. 1).

<sup>3</sup> *Report of the Indian Industrial Commission*, p. 1.

attempted to improve the existing industries of the country, by organising and financing, " their policy met with opposition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended, and that the Company should instead concentrate on the export from India of the raw materials necessary for manufacturers in England." <sup>1</sup>

Besides, the acceptance of the policy of *laissez faire* or economic individualism in England kept the Government more or less aloof from the industrial affairs of the country. It was held that what was good for England was beneficial to India as well, even though the circumstances of the two countries were quite different. The efforts of the State were confined to improving communications and facilitating the flow of trade. The result was that the old industries of the country gradually decayed owing to their inability to withstand an unequal competition, and the artisans were compelled to leave their old occupations and take to the cultivation of land. This increased the pressure of population upon land, as was pointed out by the Indian Famine Commission of 1880. In many parts of the country the numbers who had no other employment than agriculture were greatly in excess of what was really required for the thorough cultivation of the land. Another consequence was that India was gradually converted into an exporter of food-stuffs and raw materials, and an importer of foreign manufactures.

The Famine Commission of 1880 directed the

<sup>1</sup> *Report of the Indian Industrial Commission*, p. 75.

attention of the Government to a policy of diversification of industries as a remedy against the recurrence of famines. About the same time, thoughtful Indians felt that the existing conditions were unsatisfactory, and insisted that the State should take an active part in promoting the industrial development of the country. The first step taken by the Government took a two-fold form, namely, a very imperfect provision of technical and industrial education, and the collection and dissemination of commercial and industrial information. The Calcutta Exhibition of 1884-85 was an expression of this policy. There was also an examination of the resources of India by the Reporter on Economic Products, and the publication of a number of monographs on Indian industries. The creation of the Department of Commerce and Industry in 1905 foreshadowed the pursuit by the Government of India of a definite policy of industrial development. But in 1910 its activities were curtailed by a decision of the then Secretary of State for India. Some of the Provincial Governments had, however, taken practical steps in the matter. The Madras Government took the initiative in experimenting with the production of aluminium hollowware, in the improvement of handloom weaving, and in the introduction of chrome processes of leather manufacture. The Government of the United Provinces established a Pioneer Oil Mill, and granted loans for the establishment of a sugar factory. This policy was disapproved by Lord Morley, who, in a despatch, said: "The policy which he was prepared to sanction, was that State funds might be expended upon familiarising the people

with such improvements in the methods of production as modern science and practice of European countries could suggest. Further than this the State should not go, and it must be left to private enterprise to demonstrate that these improvements could be accepted with advantage." It goes without saying that this was characterised by a lamentable lack of foresight on the part of an able statesman like Lord Morley. His dictum had a deadening effect on the initial attempts made by the Government for the improvement of industries.

Lord Crewe, while re-affirming the decision of his predecessor, said: "There is no objection to the purchase and maintenance of experimental plant for the purpose of demonstrating the advantages of improved machinery or new processes, and for ascertaining data of production." He limited the functions of the Directors of industries in Madras and the United Provinces to the following kinds of work, namely, (1) to collect information as to existing industries, their needs, and the possibility of improving them or of introducing new industries; (2) to carry out and direct experiments connected with such enquiries; (3) to keep in touch with local manufactures, to bring the results of experiment to their notice, and to obtain their co-operation in the conduct of operations on a commercial scale; (4) to supervise the training of students; and (5) to advise Government with regard to technical matters involving legislation.<sup>1</sup>

Meantime, Indian public opinion had begun to

<sup>1</sup> Vide *Report of the Indian Industrial Commission*, p. 79.



demand a forward policy in regard to industrial development. The Partition Agitation in Bengal with its programme of boycott of British goods impressed the people of the country with their helpless industrial situation. Private efforts were made to start industries and to equip the younger generation with mechanical and scientific training. These efforts in many cases failed, but they made manifest the real industrial position of the country. The Industrial Conferences organised by a body of prominent Congressmen and industrialists riveted the attention of the country upon the possibilities of industrial development in the country. The example of Japan showed what an Asiatic country could do in the matter of industries, provided the government supported its activities. But the policy of the Government was one of hesitancy and non-interference. The result was that the last European war showed clearly and vividly the industrial shortcomings of India, which proved a source of weakness both to India and the Empire. The Industrial Commission expressed their regret in these words : " Much valuable time has been lost, during which substantial advances might have been registered, and the outbreak of the war, which should have proved an opportunity to reap the fruits of progress, has served mainly to reveal and accentuate startling deficiencies."<sup>1</sup> In March, 1916, the Honourable Sir Ibrahim Rahimtoola moved a resolution in the Imperial Legislative Council urging the appointment of a Committee to consider and report what measures should be adopted

<sup>1</sup> *Vide Report of the Indian Industrial Commission*, p. 82.

for the growth and development of industries in India. This led to the appointment of the Industrial Commission under the chairmanship of Sir Thomas Holland. The Commission, discussing the industrial deficiencies of India, laid special emphasis on the fact that while India produces nearly all the raw materials necessary for the requirements of a modern community, she is unable to manufacture many of the articles essential alike in times of peace and war. For instance, her great textile industries are dependent upon supplies of imported machinery, and would have to shut down if command of the seas were lost. It is vital, therefore, for the Government to ensure the establishment of those industries whose absence is likely to expose the country to great danger in the event of war. The Commission pointed out that the formulation of a definite industrial policy rested upon the acceptance of two important principles : (1) that in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material ; and (2) that it is impossible for the Government to undertake that part, unless it is provided with adequate administrative equipment and forearmed with scientific and reliable technical advice. The Commission suggested that State aid to industries might be rendered in various ways. Among these may be mentioned research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, direct financial assistance, and local

purchase of stores. For those purposes an organisation, as yet inadequate, has since been created.

Under the Reforms Scheme the development of industries has become a provincial transferred subject, and this has led to a division of the functions of the Imperial and Provincial Governments in regard to industrial activities. The Imperial Department of Industries is now responsible for the general direction of the accepted industrial policy of the country, including technical and industrial education. The other duties of the Department consist in the initiation and running of any Imperial pioneer and research factories which may be needed ; the management of full-scale Government factories ; the supply of stores ; the collection and dissemination of commercial and industrial intelligence. In other words, subjects of Imperial or all-India interest have been kept in the hands of the central authority. The Provincial departments are charged with the duty of rendering advice and assistance to local industries of all kinds in technical matters and giving direct financial aid. They also collect industrial and commercial information. They have under them a fairly large staff, including engineers, technological chemists, specialists in various industries, craftsmen and technical and industrial teachers of various grades.

The financial difficulties of the post-war period rendered the schemes of many Provincial Governments infructuous, and consequently progress in this direction has been extremely slow. In Madras, a Textile Institute and a Leather Institute have been established. Under the provisions of the State Aid to

Industries Act, 1923, power has been taken to grant loans to industries under certain conditions. At Cawnpore, in the United Provinces, a Technological Institute has been started with the object of imparting instruction in dyeing and in the chemistry of oils and fats. A Leather Institute has also been started for the training of foremen. The Board of Industrial Loan Commissioners are dealing with applications for financial assistance to new industrial undertakings. In Behar and Orissa, for the training of young men in the iron and steel industry, a Metallurgical Institute has been established. A School of Mines has been established at Dhanbad, while a railway workshop has been started at Jamalpur. In Bengal, the Government Research Institute is making experiments in chrome tanning. Some amount of spade-work has thus already been done, but few large schemes have as yet been taken in hand.<sup>1</sup>

Among the most important of the proposals of the Industrial Commission was one which recommended the local purchase of government and railway stores. The Government in its different departments, commercial as well as administrative, is a large purchaser of industrial products. It is almost an invariably common practice among all advanced countries to purchase Government stores from local manufacturers to the furthest possible extent, and even to encourage and assist the establishment of necessary industries for the supply of various articles. In India, however, for a very long time, the Government took no steps to encourage the local production and purchase of

Purchase of  
Stores.

<sup>1</sup> *Vide Ainscough's Report.*

stores. All the necessary stores, amounting in value somewhere between 10 to 15 crores of rupees per annum, were purchased through the India Office in England. Similarly, the Indian railways also purchased large quantities of materials costing 10 to 12 crores a year from England. The Munitions Board, established during the war, met with considerable success in encouraging local purchase. Large quantities of chemicals and leather and textile products were purchased in India. It is also worthy of note that the Tata Iron and Steel Company rendered invaluable service to the Government by supplying large quantities of rails and sleepers for military railways in Mesopotamia, Palestine, East Africa and Salonika. The experience gained from the successful operations of the Munitions Board brought into prominence the desirability of establishing a Stores Department in India, with the object of diverting to Indian mills and workshops the large indents which were usually sent to London.

In 1919, an expert Committee recommended the constitution of an Indian Stores Department with a view to bringing Government buyers into effective touch with local manufacturers and executing Government indents in an increasing degree in India. The Department was set up in 1922, and immediately took up the purchase of textile goods for the Army and other departments in India. The two organisations for inspection and test—the Metallurgical Inspectorate at Jamshedpur and the Government Test House at Alipore—were incorporated as part of this Department.

The Government has thus begun to recognise its responsibilities in the matter of industrial development. What is now wanted is the adoption of a vigorous policy. One important aspect of the question should not be lost sight of. A high Government official wrote some years ago: "With the spread of education, to which a stimulus is now being applied, and the desire which exists of improving the condition of the people, corresponding assistance seems called for in the sphere of economic development. Unless this is given, a condition of affairs will be created wherein the better educated will not have suitable material to which to devote their minds, and there will result the anomalous spectacle of a highly educated people in an undeveloped country."<sup>1</sup>

#### 11. PROTECTION OR FREE TRADE ?

The abstract question whether Free Trade or Protection should be adopted by a State in its commercial policy would form more fittingly the subject of discussion in a treatise on General Economics than in a work on Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problem. The advocates of Free Trade point out the following advantages of the system : (1) International trade is like internal trade ; the freer it is, the greater are the advantages to both

Merits of Free Trade

<sup>1</sup> Report on the Progress of Agriculture of the Agricultural Adviser to the Government of India (1911-12), pp. 5 and 6.

parties ; by allowing trade to be absolutely unfettered, every one is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum ; (2) every nation is in a position to develop its natural advantages to the utmost, and then the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion ; and (3) Free Trade means goodwill among nations and among sections of a community. To these arguments the opponents of the system would reply that the analogy between internal trade and international trade is not quite correct ; that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the first that the world's wealth is being augmented at the cost of its own ; and that, far from promoting goodwill, Free Trade may produce the result of placing one country in economic subjection to another.

not recognised  
by Protec-  
tionists.

Merits of  
Protection.

The reasons that have been usually advanced in favour of Protection are the following : (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country ; (2) protection is beneficial to agriculture as well as to industry because the resulting increase of wealth and population is likely to afford a larger market for the food and raw material of the neighbourhood ; (3) protection has a tendency to increase wages and to raise the standard of living of the labourer ; (4) it furthers an all-round economic development and secures national industrial independence ; and (5) under the fostering care of the

State, infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The usual objections to Protection are : (1) In principle, it is destructive of all <sup>Defects.</sup> foreign trade and the moral and intellectual benefits resulting therefrom ; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of protection ; (3) it does not really protect, because it destroys as many industries as it artificially fosters ; (4) it diverts capital from its natural channels ; (5) it tends to demoralise the industrial classes and to render industry unproductive ; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few ; (7) it involves interference of the State with trade and industry, and it often produces political corruption ; and (8) it causes national animosities.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that in their enthusiasm for their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by the extremists on each side is untenable, there is an <sup>Element of truth in each theory.</sup> element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free Trade means rivalry among the industries of different countries, and when such industries are on a footing of equality, it helps to



Mill's concession in favour of Protection.

make each of them stronger. But when the struggle is between a strong industry and a weak one, the latter is sure to be pushed out of the field unless it is backed up by the State. Even such an ardent supporter of Free Trade as Mr. J. S. Mill admitted that in the infancy stage of an industry protection was useful. "The only case," he said, "in which, on mere principles of political economy, protective duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country." Mill further said: "A protecting duty continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers be ever allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."<sup>1</sup>

List's views

List was an ardent advocate of the infant industry argument. "A nation," said List, "which only carries on agriculture is like an individual who in his material production lacks one arm."<sup>2</sup> He laid great

<sup>1</sup> Mill, *Principles of Political Economy*, Bk. V., ch. x.

<sup>2</sup> List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions,

stress on productive power, and held that the power of producing wealth was "infinitely more important than wealth itself." The productive powers of all nations are not equal, and the differences are largely the result of natural and acquired advantages. The superiority of one country over another may be due to acquired advantages, and List rightly urged that "the less advanced nations must be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated." He also regarded the value of manufacturing industries, from the point of view of civilisation, as very great. Without them a nation must remain relatively unprogressive.

Professor Taussig also supports the infant industry argument. His view does not simply rest on List's "doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage." He goes a step further when he says: "I am disposed to admit that there is scope for protection to young industries even in such a late stage of development. Any period of transition and of great industrial change may present an opportunity."<sup>1</sup>

Taussig's  
opinion.

The fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. All customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and of liberty, characterise, on the contrary, a state devoted to manufacture and commerce."

<sup>1</sup> *Vide* Taussig, *Some Aspects of the Tariff Question*.

the industrially advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundation of the industrial greatness of England. Germany, France, the United States, the British Colonies, and Japan maintain the policy of protection.

The Right  
Fiscal Policy  
for India.

It has already been pointed out that India is mainly an agricultural country exporting raw materials and food-stuffs and importing manufactured products. Producing only raw materials, she imports manufactured goods, and is thus, in the words of the great economist, "like an individual with one arm, which is supported by a foreign arm." Besides, the exportation of agricultural products means the sending away of the soil. It increases the tendency to the operation of the Law of Diminishing Return in an intensified form. Further, a purely agricultural country, dependent on the mercy of the monsoons, must always remain subject to periodical visitations of the spectre of famine. It should also be remembered that agriculture is not a sufficiently remunerative occupation, and a people devoted almost exclusively to it can never hope to make any great progress in material civilisation.

It is, therefore, obvious that industrial development is one of the most essential conditions of national progress. The question now is whether a judicious application of the policy can hasten the pace of industrial advancement of the country. India can at present be said to be in the same inevitable stage of transition from the agricultural and extractive stage

to the manufacturing stage as List found in America and Germany. There is, therefore, a considerable scope for the application of the 'infant industry argument' for protection to her case. But in order that the trouble and expense may not go in vain, it is desirable, at the outset, to consider whether or not India satisfies the conditions essential for the successful development of manufactures. The Indian Fiscal Commission laid down the following three conditions for the protection of an industry :

(1) the industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, and a large home market ;

(2) the industry must be one which without the help of protection is not likely to develop as 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.

Apart from the cases to which these general principles should be applied, there are two classes of industries which deserve special consideration. In the first place, there are some industries which are essential for purposes of national defence, and these should be protected irrespective of the general conditions mentioned above. Secondly, there are industries of which the products are utilised as raw materials by numerous other industries—these are called key industries—and of which any cessation of import would bring other industries to a standstill.

The Indian Fiscal Commission recommended a policy of "discriminating protection." An "all-

round, all-pervasive " protective system cannot possibly be advantageous or beneficial to the country. It is argued by some enthusiastic supporters of a protective policy that an indiscriminate use of protection is necessary in order to create an atmosphere favourable to industrial development. But they forget to count the cost of such a policy, or to estimate its probable ultimate gain or loss.

The Government of India have accepted the policy of " discriminating protection " as recommended by the Indian Fiscal Commission. They have created a Tariff Board to consider the case of every industry that puts forward a claim for protection. The first industry that came under the examination of the Tariff Board was the steel industry. The Tariff Board found that this industry satisfied all the conditions insisted on by the Indian Fiscal Commission, and recommended the grant of protection to it. This led to the Steel Industry Protection Act of 1924. Under this Act not only the import duties on steel bars were increased, but bounties were given on the production of steel rails and fish-plates in India. Among the other industries which were examined by the Tariff Board were paper, cement, and coal. The manufacture of paper in India from bamboo pulp has been protected. The coal industry has been refused protection on the ground that imports are insignificant. Nor has it been considered desirable in the economic interests of the country that the source of power should be taxed to the injury of other manufacturing industries.

Thus India has been committed to a policy of

protection, and the fiscal autonomy granted by the British Parliament to India may perhaps be regarded as one of the greatest landmarks in the economic history of India. It is yet to be seen how this power is exercised by the Indian legislature without creating powerful vested interests and without stereotyping inefficient methods of production.

The cotton industry has for a long time been the chief subject of fiscal controversy. It is, therefore, necessary to say a few words about the duties on cotton manufactures. The early commercial policy of England in regard to India had a two-fold object, namely, the production of raw materials for British industries and the consumption of British manufactures by the people of this country. The highly-developed cotton industry of Lancashire required a market for its products, and India supplied the best market. The import duties on cotton piece-goods and yarn were kept unduly low in order to encourage importation from England. But the growth of the cotton industry in India during the second half of the last century aroused the jealousy of Lancashire manufacturers, who in 1874 demanded the abolition of the 5 per cent. import duty levied on cotton goods for revenue purposes. The ground of the complaint was that the duty was protective in character, and gave an advantage to the Indian mill industry in competition with the English industry. A Committee appointed by the Government found the demand unreasonable. But Lord Salisbury, Secretary of State, insisted on the repeal of the duty. The Government of Lord Northbrook opposed the pro-

posal on the ground that the proposal would involve a sacrifice of a large amount of revenue. But when Lord Northbrook resigned the Viceroyalty, Lancashire manufacturers found an ardent supporter of their interests in his successor, Lord Lytton. In 1878, the Government of India exempted from payment of duty the coarser classes of goods which competed successfully with the Manchester goods. In 1882, the whole of the cotton duties were abolished along with the other general import duties. The question was reopened in 1894, when the Government of India, faced with a heavy deficit, was compelled to re-impose cotton duties. A duty of 5 per cent. on imported piece-goods and yarns was levied, and this was accompanied by an excise duty of an equivalent amount on Indian yarn of counts above 20s. The concession of a duty on yarn did not satisfy Manchester, but only egged it on to further demands. In 1896, two bills were passed in the teeth of non-official opposition both in and outside the Council chamber, by which a direct excise duty of  $3\frac{1}{2}$  per cent. was levied on all cotton piece-goods woven by Indian mills, and the import duty of 5 per cent. was reduced to  $3\frac{1}{2}$  per cent.<sup>1</sup>

The cotton excise duty gave rise to a considerable amount of discontent in the country. In 1916, during the war, the Government of Lord Hardinge gave a definite pledge that this duty would be abolished as soon as financial considerations permitted. In 1922, the Fiscal Commission observed: "The existing

<sup>1</sup> For a fuller discussion of the subject, see the author's *Fiscal Policy in India*.

cotton excise duty should, in view of its past history and associations, be unreservedly condemned." Agitation in favour of its abolition continued. In 1925, the duty was suspended by an Ordinance of the Governor-General, and in March, 1926, it was abolished.

## 12. INDIA AND IMPERIAL PREFERENCE

We now come to an important practical question allied to, and yet different from, the one we have just treated. Since the eighties of the last century the subject of Imperial Preference has come into great prominence as a subject of practical politics. The idea of Imperial Preference originated with that eminent statesman, the late Sir Joseph Chamberlain. The reasons which move the advocates of Imperial Preference are partly economic and partly political. Economically speaking, the idea is that the British Empire, with its multifarious resources, must be a self-contained organic unit, each part of the Empire acting as an economic complement, as it were, of the other parts. On the political side, it is thought that the solidarity of the Empire and the Imperial sentiment will be greatly strengthened by a policy of 'give and take.' Some four decades ago, Sir Joseph had declared: "The establishment of commercial union throughout the Empire would not only be the first step, but the main step, the decisive step, towards the realisation of the most inspiring idea that has ever entered into the minds of British statesmen." The strength of these arguments was very greatly enhanced



during the last war, which revealed the weakness of the Empire's dependence on foreign countries for important commodities essential both for peace and war. At the same time, the Imperial sentiment, the pride of belonging to a great Empire received added emphasis in the tense atmosphere of the war. In 1917, the Imperial War Cabinet passed a resolution, later on approved by the Imperial War Conference, to this effect: "The time has arrived when all possible encouragement should be given to the development of Imperial resources, and specially to making the Empire independent of other countries in respect of food supplies, raw materials and essential industries."

The subject of Imperial preference had been formally put before the Colonial Conference of 1902, when the principle was for the first time recognised as one of general application. The resolution passed by the Conference was as follows:

"1. That the Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty's Dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire.

"2. That the Conference recognises that, in the present circumstances of the Colonies, it is not practicable to adopt a general system of free trade as between the Mother Country and the British Dominions beyond the seas.

"3. That with a view, however, to promoting the

increase of trade within the Empire, it is desirable that those Colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

“4. That the Prime Ministers of the Colonies respectfully urge on His Majesty’s Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the Colonies, either by exemption from or reduction of duties now or hereafter imposed.

“5. That the Prime Ministers present at the Conference undertake to submit to their respective Governments at the earliest possible opportunity the principle of the Resolution, and to request them to take such measures as may be necessary to give effect to it.”

The chief points in the above resolution may be summarised as follows: A policy of inter-Imperial Preference would facilitate mutual commercial intercourse, and by developing the resources of the different parts, would strengthen the whole. On the other hand, however, the Dominions would only grant such preference on a purely voluntary basis as was consistent with their own economic interests, even to the extent of fully maintaining their own protectionist policy. The United Kingdom also should, in her turn, try to reciprocate the preference as far as possible.

Canada was the first Colony to give effect to the principle of preference. In 1897, Canada reduced her duties on British goods. In 1898, the preference was fixed at 25 per cent. of the ordinary rates, and it was

Steps taken  
by the  
Colonies and  
the United  
Kingdom.

extended to such British Colonies as gave her a favourable treatment. In 1900, the preference was raised to  $33\frac{1}{3}$  per cent. In pursuance of the resolution of 1902, New Zealand and South Africa in 1903, and Australia in 1907 gave preference to the United Kingdom. Both in 1903 and 1907, the United Kingdom definitely rejected a policy of preference, as it would involve a taxation of food. Thus all the Dominions gave preference to the United Kingdom at such rates as they could, consistently with their own interests. Besides, New Zealand extended her concessions to the whole Empire, Canada to New Zealand, India and the Crown Colonies, while Australia and South Africa adopted the principle of reciprocity with regard to the other parts of the Empire. But whatever the rate of preference, it was not allowed to interfere with the degree of protection considered necessary for the home industries. The United Kingdom, which had consistently refused to give effect to the policy of preference, at last adopted it in 1919 as a result of the resolution passed at the Imperial War Conference; and without altering the general tariff policy, granted to the whole Empire preference to the extent of  $\frac{1}{3}$ th or  $\frac{1}{3}$ rd on nearly all dutiable articles.

In all the earlier discussions about the Imperial Preference, India had been practically left out of account. In 1903, however, at the invitation of the Secretary of State for India, the Government of India discussed the question at some length, and concluded that India had very little to gain by joining a scheme of inter-Imperial Preference; and that she had a good deal to lose or risk. The subject was dropped

for the time as being outside the range of practical politics. But since the War, the movement has become a general one throughout the Empire. All the parts of the Empire have either joined the scheme of Imperial Preference, or are seriously considering the subject with a view to giving practical effect to the principle. India, therefore, has found it difficult to ignore the movement. And since 1917, the question has presented itself to the Government of India in some form or another.

As a matter of practical policy, preference to Empire goods may be given by admitting Empire goods at lower rates of duties than non-Empire goods. Now, the economic effect of these differential rates would depend upon the varying conditions of supply of the articles affected. When the preferred country supplies only a fraction of the market, the result would be that prices would be affected by the higher rates, and the sacrifice of the consumer would only mean a subsidy to the Empire producer, without any corresponding gain to the Treasury. On the other hand, when the Empire goods supply the major portion of the article affected, the result is that the prices of all articles are affected by the lower rates, with the likelihood that the preferred producer may ultimately capture the whole market. This involves no loss to the consumer, but only to the non-favoured foreign producer.

In 1923-24, Indian imports amounted to over 227 crores, out of which over 174 crores or about 77 per cent. consisted of manufactures. On the other hand, out of her total exports valued at 348 crores, only 20 per cent. consisted of manufactures, while raw

Economic effect of preferential duties.

India and the Imperial Preference.

materials contributed 54 per cent., and 'food, drink and tobacco' 26 per cent. Now the economic advantage of a preference tends to be greater in the case of manufactures than in the case of raw materials and food-stuffs. For, while the former meet with a keen competition in foreign markets which have to be strenuously captured and developed, the latter find their market ready-made. Accordingly, although India can confer a large measure of benefit upon the United Kingdom, she herself stands to gain little from a scheme of Imperial Preference.

When we enter into details, we find that there are only three articles of any importance which are admitted into the United Kingdom at preferential rates, amounting to five-sixths of the general rates. These are tea, coffee and tobacco. Now, so far as tea is concerned, nearly 90 per cent. of the British market is supplied by India and Ceylon. But since both the important competitors are equally favoured, and since between them they supply the major portion of the market, the price to the British consumer is regulated by the lower rate of duty, and Indian tea derives no benefit of a bonus in the shape of a differential price. The only advantage likely to accrue to India is that she, along with Ceylon, might capture the remaining 10 per cent. of the British market for tea. With the export of coffee, however, the situation is different. India supplies a very small portion of the British market, and prices of coffee are, therefore, regulated by the higher rates. So it is probable that the coffee-planters derive a bounty from the British consumers. But coffee is an unimportant thing, both

in point of export and production. Lastly, the duty on tobacco is charged by weight and not by value. The result is that Indian tobacco, which is poor in quality and value, suffers greatly in the English market. So even with the preference, the Indian tobacco is at a disadvantage relatively to other tobacco. The preference in the case of tobacco might, however, be of real value if the system of assessment was changed from specific to *ad valorem* rates. It is, therefore, clear that though the British Government has done all it can within its existing tariff, India derives only a small gain from preference.

On the other hand, as most of the imports of India are manufactures, she could possibly confer substantial benefits on British products by granting preference. But the effect of preference would, in general, involve great loss to the consumers in India. When we bear in mind that the policy of protection on which she has embarked recently would by itself place an unavoidable burden on the general mass of population, it would be unjust to call upon them to bear further additional burden for the protection of interests primarily not Indian. In the second place, it should be observed that those British industries which command a large market in India are strong and energetic, and hardly stand in need of any preference in the Indian market. Nevertheless, during the post-war period of economic readjustment, there have sprung up in that country a number of important industries, which stand temporarily in need of some assistance in the period of initial growth. In our import trade, England's most serious com-

No exclusive grant of preference to British products practicable.

petitors are U.S.A.; Germany, Japan and Belgium. This competition affects the import of dyes, iron and steel, cotton fabrics, machinery, hardware and cutlery, instruments, apparatus and appliances, motor cars, tobacco and rubber goods. Of these, again, those which are produced or are likely to be produced in the near future in India, and which may require to be fostered by means of protection, must for the present be left out of account. Dyes, motor cars, machinery, cigarettes, and rubber goods—these are the five articles in which India might possibly give some amount of preference without any serious loss to herself. Of these, again, dyes and machinery present some difficulties which must be properly considered before arriving at a definite conclusion. Both of them are essential requisites for many industries in India, and these may be seriously handicapped either by reason of inferior quality as in the case of British dyes, or higher prices as in the case of machinery. Cigarettes are an article of luxury, and most of the imports come from the United Kingdom. A differential increase of  $33\frac{1}{2}$  per cent. on the present duty of 75 per cent. against non-British cigarettes would help the British industry to capture the whole market without inflicting much injury on the Indian consumers. In the case of rubber goods, too, the British industry supplies the major portion of the market, and an increase of  $33\frac{1}{2}$  per cent. on the present rate of 15 per cent. against foreign rubber goods would benefit the British industry without bringing much loss to the Indian consumers or the Indian Treasury. In motor cars and motor cycles, again, the United

Kingdom and Canada between them supply about 60 per cent., and U.S.A. and others 40 per cent. of the market in India. Here, also, similar differential rates might be adopted with similar effect. Thus it is apparent that India can possibly give preference to British articles only to a small extent. In 1923-24, the total imports from the United Kingdom amounted to 132 crores, and the import of the three articles considered above only 2.25 crores. In other words, India may at best give preference in respect of only 1.7 per cent. of the British imports into this country.

In 1903, the Government of India held that the adoption of a preferential tariff in favour of the British imports might provoke foreign countries into taking retaliatory measures against our exports. In 1917, however, the Government of India changed its views and thought that as a supplier of raw materials, many of which were monopolies or semi-monopolies, India had a strong position, and there was really very little danger of any foreign country taking retaliatory measures which would be economically disadvantageous for themselves.

The danger of retaliation.

So far with regard to the grant of preference to the products of the United Kingdom. The Dominions, on the other hand, must be treated on a different basis. In many of the Dominions, especially in South Africa and Canada, the due rights of Indians lawfully domiciled have been denied. Indian public opinion is, therefore, very strongly in favour of boycotting the products of South Africa as a measure of retaliation. As our trade with the Dominions is quite insignificantly small, any retaliatory measure against

India and the Dominions.



any one of them would produce little effect. On the other hand, we cannot ignore the fact that Canada has voluntarily extended to India the advantage of the preferential tariff, which is likely to be of some benefit to the tea industry of this country. Accordingly, it would be a wise and prudent policy to enter into preferential agreements with the Dominions and Colonies on the basis of separate negotiations in every case individually.<sup>1</sup>

<sup>1</sup> For a further study of the subject read the *Report of the Indian Fiscal Commission*, chap. xiii., and the author's *Fiscal Policy in India*, chap. vii.

## APPENDIX A

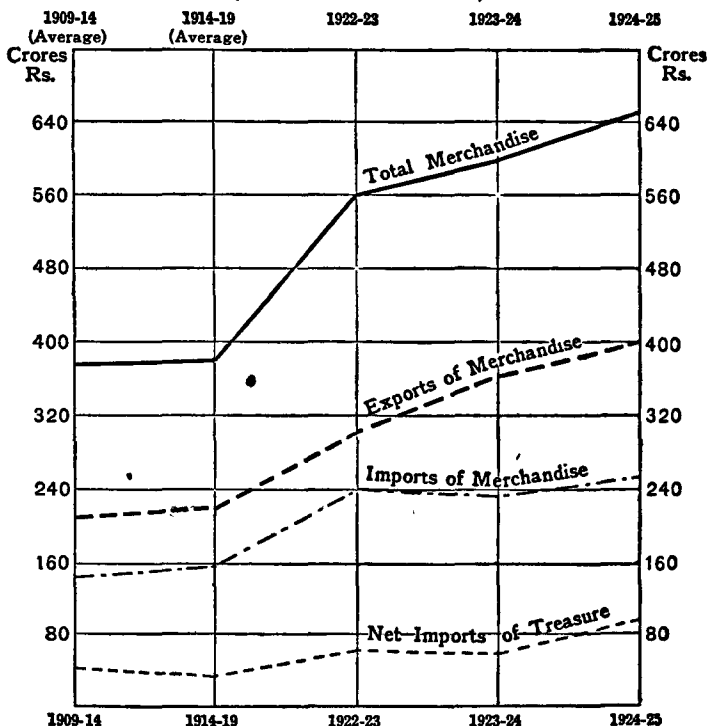
### INDIAN CURRENCY

1 Pie	= $\frac{1}{16}$ anna.
4 Pice	= 1 anna.
1 Rupee (16 annas)	= 1s. 6d.
	= 0.324 dollar.
	= 0.65 yen.

A lakh (lac) is 100,000 Rupees, and a crore is 100 lakhs.

## APPENDIX B

**THE FOREIGN SEA-BORNE TRADE OF BRITISH INDIA  
DURING THE LAST THREE YEARS AS COMPARED WITH AVERAGES OF THE PRE-WAR  
AND WAR PERIODS  
(PRIVATE AND GOVERNMENT)**

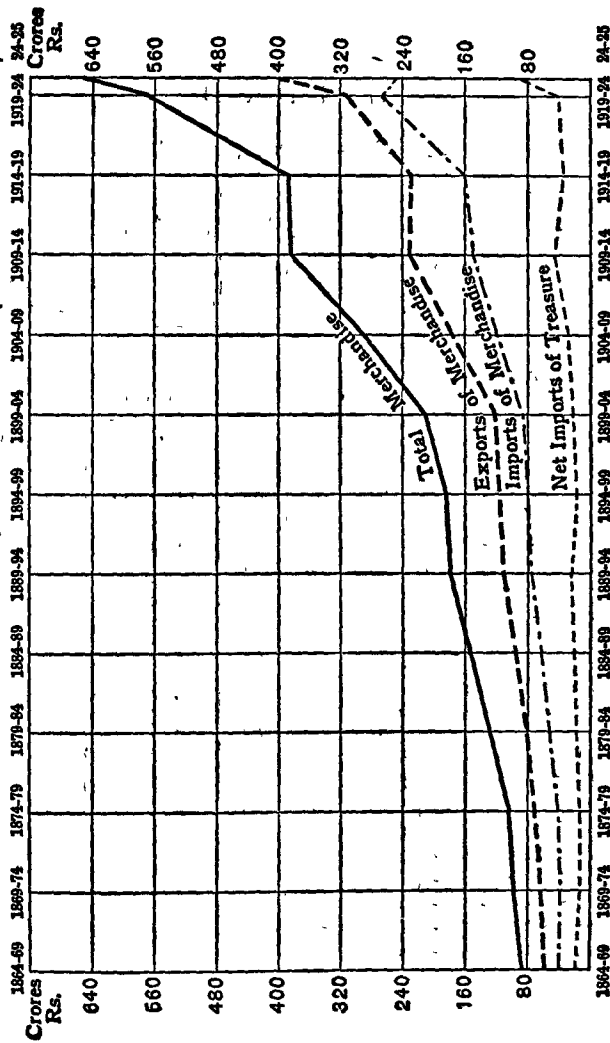


- Note.*—1. In Appendix B the curves are based on averages of 5 years.  
 2. Total merchandise includes Imports and Exports, both private and Government.  
 3. Imports of merchandise are inclusive of Government Stores.  
 4. Exports of merchandise are inclusive of re-exports and Government Stores.  
 5. Net imports of treasure are the imports minus the exports of gold and silver, both private and Government, and also of currency notes from 1922-23. The exports of treasure are ordinarily very much less than the imports. From the *Review of the Trade of India, 1924-25.*

## APPENDIX C

### THE FOREIGN SEA-BORNE TRADE OF BRITISH INDIA

DURING THE LAST 61 YEARS, 1864-69 TO 1924-25. QUINQUENNIAL AVERAGES (PRIVATE AND GOVERNMENT)



From the *Review of the Trade of India, 1924-25.*

## APPENDIX D

### DENSITY, WATER-SUPPLY, AND CROPS<sup>1</sup>

PROVINCE, STATE OR AGENCY	Mean density per square mile of total area.	PERCENTAGE OF TOTAL AREA.		PERCENTAGE OF CULTIVABLE AREA.		Percentage of gross cultivated area which is irrigated.	Normal rainfall in inches.
		Cultivable.	Net cultivated.	Net cultivated.	Double cropped		
1	2	3	4	5	6	7	8
INDIA.	175	64	38	59	8	17	—
			(a) By	Provinces.			
Ajmer-Merwara - -	185	—	—	—	—	—	19
Assam - - - -	115	76	18	24	2	1	116
Baluchistan - - -	6	—	—	—	—	—	8
Bengal - - - -	551	70	50	71	17	4	70
Bihar and Orissa -	344	73	52	71	13	12	53
Bombay - - - -	145	63	38	61	2	14	46
Burma - - - -	53	42	13	32	1	7	95
Central Provinces and Berar - - - -	122	65	39	60	4	3	48
Coorg - - - -	111	30	14	45	4	3	127
Madras - - - -	291	58	38	65	9	30	43
North-West Frontier Province - - - -	164	55	31	56	8	23	21
Punjab - - - -	177	57	33	58	10	32	31
United Provinces -	427	72	53	74	15	28	42
Baroda State - -	248	83	73	87	4	5	—
Central India Agency -	121	47	25	53	3	5	32
Cochin State - -	675	57	56	97	17	4	103
Hyderabad State -	162	60	54	89	—	6	30
Kashmir State - -	37	5	4	84	17	24	24
Mysore State - -	197	45	33	72	3	15	38
Rajputana Agency -	82	—	—	—	—	—	22
Travancore State -	452	61	45	74	7	18	85

<sup>1</sup> From the *Census of India, 1911.*

## APPENDIX E

### AREA (ACRES) OF IMPORTANT CROPS

*From Estimates of Area and Yield of Principal Crops in India, 1924-25.*

Crops.	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	- 1924-25
Rice - -	50,855,000	50,067,000	56,051,000	70,252,000	79,519,000	81,328,000
Wheat - -	22,649,000	25,518,000	26,565,000	30,550,000	30,499,000	31,788,000
Sugarcane - -	(a)	2,258,000	2,302,000	2,383,000	2,656,000	2,580,000
Tea - -	467,000	525,000	540,000	593,000	664,000	716,200
Cotton - -	13,866,000	16,652,000	21,321,000	23,221,000	21,861,000	26,465,000
Jute - -	2,035,000	2,335,000	3,264,000	3,058,000	2,631,000	2,770,000
Linseed - -	2,869,000	3,547,000	3,061,000	3,852,000	3,157,000	3,695,000
Rape and Mustard - -	4,541,000	5,598,000	6,056,000	6,416,000	6,169,000	6,376,000
Sesamum - -	4,019,000	4,903,000	5,016,000	5,177,000	4,450,000	5,167,000
Groundnut - -	(a)	431,000	827,000	1,610,000	1,785,000	2,838,000
Indigo - -	1,280,000	722,000	354,000	216,000	475,000	111,900
Coffee - -	..	..	..	..	..	(b) 135,600
Rubber - -	...	...	...	...	...	129,500

(a) Not available.

(b) Excluding certain tracts in Madras for which figures are not available.

# APPENDIX F

## YIELD OF IMPORTANT CROPS

From Estimates of Area and Yield of Principal Crops in India, 1924-25.

Crops	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	1919-20	1920-21	1921-22	1922-23	1923-24	1924-25
Rice - tons	21,486,000	21,550,000	22,291,000	28,389,000	32,017,000	32,024,000	27,856,000	33,145,000	33,703,000	28,188,000	31,097,000
Wheat - "	6,029,000	7,676,000	8,092,000	9,663,000	9,288,000	10,122,000	6,706,000	9,830,000	9,974,000	9,860,000	8,702,000
Sugarcane "	(a)	2,049,000	2,030,000	2,411,000	2,864,000	3,089,000	2,522,000	2,614,000	3,045,000	3,317,000	2,537,000
Tea - lbs.	158,375,000	201,389,000	242,386,000	290,060,000	374,265,000	377,055,600	345,339,600	274,969,800	311,638,900	375,855,700	375,255,900
Cotton (b) bales	3,303,000	3,203,000	3,996,000	4,370,000	4,412,000	5,799,000	3,800,000	4,468,000	5,073,000	5,161,000	6,070,000
Jute - "	5,771,000	7,036,000	8,136,000	9,068,000	7,992,000	8,461,300	5,915,000	3,985,000	5,408,000	8,401,000	8,062,000
Linseed - tons	352,000	416,000	333,000	508,000	484,000	419,000	270,000	436,000	533,000	463,000	541,000
Rape and Mustard "	915,000	1,011,000	992,000	1,226,000	1,072,000	1,153,000	859,000	1,108,000	1,209,000	1,149,000	1,172,000
Seamum "	848,000	465,000	458,000	471,000	421,000	449,000	382,000	518,000	482,000	441,000	504,000
Groundnut "	(a)	(a)	358,000	695,000	982,000	822,000	1,022,000	969,000	1,236,000	1,084,000	1,450,000
Indigo - cwts	156,000	100,000	49,000	37,000	74,000	43,300	43,700	67,300	52,100	34,800	21,700
Coffee - lbs	..	..	..	..	..	21,325,000	22,453,700	20,487,900	25,459,400	22,716,500	29,313,900
Rubber - "	..	..	..	..	..	13,615,000	13,788,900	9,056,400	11,912,900	14,462,500	15,801,300

(a) Not available.

(b) A bale contains 400 lbs.

(c) Excluding certain tracts in Madras for which figures are not available.

Note.—Figures for 1924-25 are subject to revision.

## APPENDIX G

### WAGES<sup>1</sup>

A scheme was recently introduced for quinquennial wage-census to be taken in the various provinces, and the results of such censuses taken in 1911 are now available; in some cases a preliminary census was taken at an earlier date, and the comparison is instructive. The results obtained are stated to be more reliable than the wage statistics hitherto available.

*Bengal* (as it stood in 1911).—A preliminary census was taken in 1908 and a regular census in 1911; but the exceptional conditions in the former year, which was a time of great scarcity, makes comparison difficult. The usual daily wage of an unskilled agricultural labourer in 1911 varied from 2d. in Chota Nagpur to 4d. in the Burdwan and Presidency divisions. Urban unskilled labour receives from 2½d. to 5d.; rates for skilled labour are so varied that no general statement is possible. Masons get from 6d. to 8d., and in Calcutta up to 11d. In Calcutta a blacksmith or carpenter can get as much as 1s. 4d. a day.

*Eastern Bengal and Assam*.—In Eastern Bengal the average daily wage of an agricultural labourer varies from 6d. in Dacca to 11d. in the Chittagong Hill tracts (the latter figure, however, is a temporary figure due to seasonal migrations). In Assam they run from 5d. to 8d.

*United Provinces*.—A census was taken in 1906 and again in 1911. Unskilled agricultural labour shows an all-round rise in the Western districts, while in the Eastern districts the rise is less apparent and in

<sup>1</sup> Taken from the *Moral and Material Condition of India*, 1914.



Bundelkhand there has been little change. The daily rates vary from about 1½d. in the East to about 4d. in the Hill tracts. These rates, however, are probably abnormally low, owing to a bad autumn harvest. Urban wages ranged from 3d. to 6d. for unskilled, and 6d. to 2s. for skilled labour. The rise of urban wages is almost universal.

*Punjab.*—A preliminary census was held in 1909 and a regular census in 1912. Rural wages rose in the interval in almost every district. The old customary rate of 2d. a day survives only in Gurgaon; elsewhere the most common rates range from 4d. to 8d., being lowest in the East.

*North-West Frontier Province.*—The rates are, on the whole, higher than for the nearest districts in the Punjab, probably owing to the demand for labour due to the extension and improvement of cultivation.

*Central Provinces.*—For the three agricultural years 1910-11 to 1912-13 fairly reliable figures have been returned. They show a slight but continuous rise both in urban and rural wages. The latter range from about 3d. a day in Chhattisgarh to 4d. a day in Berar and Nagpur. The considerable irrigation and railway programmes, and the gradual improvement of agriculture, account for these rises, which, however, are partly counteracted by the rise in prices since 1911.

*Burma.*—In the rapidly developing districts of Lower Burma (except the Arakan littoral), and in the north of Upper Burma, where conditions are backward and labour difficult to maintain, wages are high, rising to as much as 1s. 4d. a day for agricultural labour. On the Arakan littoral, and in the Upper Burma dry zone, the wages are lower, though considerably higher than in most parts of India proper, the minimum being 4d. a day. Daily wages are only paid for minor agricultural operations, the majority of agricultural labourers being paid by the season. An extraordinary amount of the field work is done by women.

*Madras.*—There was a general rise of wages between 1908 and 1911. The minimum daily rate for rural

unskilled labour ranges from 1½d. in the Deccan to 2 annas in all other wage-tracts; the maximum from 4d. in the Deccan to 8d. in the South. During 1912-13 the price of labour rose with the price of food grains.

*Bombay.*—Only one census has been taken—in 1911. Plague has decreased the available supply of labour, and the existence of a mill industry, together with the progress of large schemes of dock and railway extension, the Tata Hydro-Electric Works, etc., has a beneficial effect on agricultural wages, which in most districts average about 4d. a day, except where the presence of primitive tribes results in lower rates. In Sind wages are higher.

AVERAGE RATES OF WAGES PAID IN SELECTED  
INDUSTRIES IN 1913.<sup>1</sup>

		£ s. d.
Cotton - - - - -	Month	1 0 8½
Wool - - - - -	"	1 2 1½
Paper - - - - -	"	1 6 4
Rice - - - - -	"	3 10 10
Brewing - - - - -	"	1 0 1½
Jute - - - - -	Week	0 5 0½
Mining (coal) - - - - -	Day	0 0 6½
Tea { Act coolies - - - - -	Month	0 6 4½
{ Non-act coolies - - - - -	"	0 5 5½
{ General average - - - - -	"	0 5 9½

<sup>1</sup> *Review of the Trade of India, 1913-14, p. 84.*

## APPENDIX H

### AVERAGE MONTHLY WAGES (IN RUPEES) IN THE DIFFERENT PROVINCES IN 1873 AND 1909<sup>1</sup>

	1873				1909				
	Able-bodied agricultural labourer.	Menial (eyeo).	Common Mason, Carpenter, or Blacksmith.	Able-bodied agricultural labourer.	Menial (eyeo).	Common Mason, Carpenter, or Blacksmith.	Able-bodied agricultural labourer.	Menial (eyeo).	Common Mason, Carpenter, or Blacksmith.
Burma, -	13·5 to 14·3	13 to 14·1	26·5 to 30·7	13·9 to 15·6	12·36 to 14·2	26·6 to 33·5			
Ebessam, -	6·5 to 6·6	5·8 to 6·3	9·6 to 14·6	9·61 to 10·9	8·3 to 9·3	15·6 to 24·3			
Bengal, -	4·2 to 4·33	4·72 to 4·83	7·53 to 9·83	6·8 to 7·3	6·2 to 6·8	11·9 to 15·2			
United Provinces, -	3·8	4·4	9·5	Not given	Not given	Not given			
Oudh, -	3·5	4·5	7·4	"	"	"			
Rajputana, -	5	5·5 to 5·8	10·2 to 12·8	3·52 to 4·5	4·7 to 7	11·7 to 21			
Central India, -	4·5 to 5	5·5 to 6	12 to 12·5	7·5	5·5 to 6·5	18·8 to 19·7			
Punjab and N.-W. F. Province, -	5·2	5·6	12·8	10·8	7·8	25			
Sind, -	10 to 12·5	8 to 10	22·5 to 25	12·5	12·5	23·5 to 30			
Bombay, -	7·3	8·5	18·3 to 24·2	9	9	19·5 to 24·1			
Central Provinces, -	4	5·3	12·6	5·7	7 to 7·7	22·5 to 26·7			
Barar, -	5	7	19·5	10	10	22·5 to 30			
Hyderabad, -	5·1 to 8	6 to 7	12·8 to 15	8 to 11	8 to 12	20 to 25			
Madras, -	3·9	5·7	12·7	4·5	6·3	13·8 to 15·5			
Mysore, -	5·8 to 7·8	5·1 to 6·1	14 to 18·8	9·5	9	17·5 to 22·5			
Coorg, -	7·5	8	22·5	7 to 9	8 to 10	19 to 30			

<sup>1</sup> Wide Prices and Wages in India, 1910. The wage statistics are unsatisfactory and not wholly reliable.

## APPENDIX I

### JOINT-STOCK COMPANIES IN 1914-15 AND 1923-24.<sup>1</sup>

	1914-15. Number.	1923-24. Number.	Paid-up Capital (in lakhs of rupees).
Banking and loan - - -	436	809	13,41
Insurance - - -	182	63	3,16
Navigation - - -	24	25	3,72
Railways and tramways -	44	47	14,85
Other transit and transport	—	144	3,47
Trading and manufacturing companies - - -	754	1959	76,91
Tea - - - -	208	384	8,38
Other planting companies -	29	69	1,12
Coal mining - - -	140	254	11,60
Gold mining - - -	8	4	8,21
Other mining and quarrying companies - - -	57	96	29,44
Cotton mills - - -	205	262	36,77
Jute mills - - -	34	54	17,31
Mills for wool, silk, hemp, etc.	13	23	3,32
Cotton ginning, pressing and baling - - - -	—	120	2,58
Jute presses, etc. - - -	139	28	1,69
Flour mills - - -	30	28	99
Estate, land and building -	32	98	6,18
Sugar - - - -	22	39	1,91
Other companies - - -	123	324	17,56
Total - - -	2480	4821	2,54,56

<sup>1</sup> *Statistical Abstract for British India, 1914 to 1923-24.*

## APPENDIX J

**CAPITAL AND RESERVE AND DEPOSITS OF THE IMPERIAL BANK OF INDIA, EXCHANGE BANKS, AND INDIAN JOINT-STOCK BANKS, IN EACH YEAR FROM 1916 TO 1925.**

YEAR.	IMPERIAL BANK OF INDIA.				EXCHANGE BANKS.		JOINT-STOCK BANKS.		TOTAL OF ALL BANKS.	
	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits (in India)	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits.
	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)
1916	7,95,99	49,91,45	37,93,10	38,03,88	5,24,29	25,72,23	50,53,38	1,13,67,61	50,53,38	1,13,67,61
1917	-	7,42,52	75,43,02	32,98,20	53,37,53	5,21,09	32,16,21	45,31,81	45,31,81	1,60,96,76
1918	-	7,19,58	59,62,03	39,44,90	61,26,33	6,65,12	42,14,83	53,29,60	53,29,60	1,63,03,19
1919	-	7,32,81	75,93,61	53,07,00	74,35,90	8,38,31	61,27,96	68,78,12	68,78,12	2,11,57,47
1920	-	7,52,79	87,04,53	90,21,70	74,80,71	11,73,85	73,48,10	1,09,48,34	1,09,48,34	2,35,33,34
1921	-	9,76,78	72,58,00	1,11,63,20	75,19,61	13,39,89	80,15,65	1,34,79,87	1,34,79,87	2,27,93,26
1922	-	9,95,57	71,16,30	1,12,22,06	73,39,44	11,74,54	65,01,75	1,33,92,17	1,33,92,17	2,09,56,49
1923	-	10,17,71	82,76,45	1,40,10,30	68,44,28	10,84,78	47,69,32	1,61,12,79	1,61,12,79	1,98,90,05
1924	-	10,42,58	84,21,48	1,30,46,40	70,63,48	11,77,80	55,17,05	1,52,66,78	1,52,66,78	2,10,02,01
1925	-	10,55,23	83,29,77	1,38,31,10	70,54,57	11,78,13	57,90,76	1,60,64,46	1,60,64,46	2,11,75,10

## APPENDIX K

### SUMMARY OF CONCLUSIONS OF THE REPORT OF THE ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE, 1913.

“For convenience of reference we summarise our conclusions as follows :—

(i) The establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India. (Para. 8.)

(ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to, than in all respects directly in pursuance of, the recommendations of the Committee of 1898. (Paras. 7 and 44 to 46.)

(iii) These measures worked well in the crisis of 1907-8, the only occasion upon which they have been severely tested hitherto. (Paras. 48, 49.)

(iv) The time has now arrived for a reconsideration of the ultimate goal of the Indian Currency system. The belief of the Committee of 1898 was that a Gold Currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last 15 years shows that the Gold Standard has been firmly secured without this condition. (Paras. 47, 50.)

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation. (Para. 64.)

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal

needs of India consists of rupees and notes. (Paras. 55, 76.)

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint: provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. (Paras. 69-73.)

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency. (Para. 73.)

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged. (Para. 76.)

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling. (Para. 76.)

(xi) No limit can at present be fixed to the amount up to which the Gold Standard Reserve should be accumulated. (Para. 86.)

(xii) The profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve. (Para. 89.)

(xiii) A much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about £10,000,000 in gold can be at once secured. This total should be raised as opportunity offers to £15,000,000, and thereafter the authorities should aim at keeping one-half of the total Reserve in actual gold. (Paras. 93 to 100.)

(xiv) The Indian branch of the Gold Standard Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold. (Para. 98.)

(xv) The proper place for the location of the whole of the Gold Standard Reserve is London. (Paras. 90 and 100.)

(xvi) The Government should definitely undertake to sell bills in India on London at the rate of 1s.  $3\frac{2}{3}$ d. per rupee whenever called upon to do so. (Para. 101.)

(xvii) The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries plus one-third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. (Paras. 112 and 113.)

(xviii) We recommend the immediate universalisation of the 500-rupee note and the increase of the facilities for the encashment of notes. (Para. 115.)

(xix) The aggregate balances in India and London in recent years have been unusually large. This has been due mainly, though not entirely, to accidental causes and to the exceptional prosperity of India. (Paras. 125, 126.)

(xx) Caution is justifiable in framing Budgets in India, but has been carried rather further than was necessary in recent years. (Paras. 126 and 128.)

(xxi) A change in the date of the commencement of the financial year from the 1st April to the 1st November or the 1st January would probably enable the Government of India to frame more accurate Budgets. Such a change would also enable the India Office to fix the amount of their borrowings in London with closer regard to immediate needs. We commend this proposal for favourable consideration. (Paras. 128 and 190.)

(xxii) The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use, for this purpose or for actual



reduction of debt, of the balances from time to time accumulated in his hands. (Paras. 130 to 133 and 179.)

(xxiii) But the recommendations which we make as regards loans by Government in India may lead to a revision of the occasions, though not of the extent, of transfers of money to London. (Para: 133.)

(xxiv) The independent Treasury system of the Indian Government is not an ideal one. It is partly responsible for the stringency which recurs annually in the Indian money markets. (Paras. 137 to 143.)

(xxv) We recommend that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks. (Paras. 150, 163, 164.)

(xxvi) In deciding upon the location of surplus balances, the Government of India and the Secretary of State should act in consultation, and, while the transmission of the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors including the possibility of utilising surplus balances for loans in India. (Paras. 159 to 161.)

(xxvii) In carrying out these recommendations, the authorities should proceed tentatively and with caution. (Para. 165.)

(xxviii) We recommend that the amount of the annual rupee loans in India should be increased as much as possible. The figures of recent loans appear to have been somewhat over cautious. We call attention to the questions of relaxing present regulations in regard to endorsements on rupee paper and of creating new forms of securities. (Paras. 167 to 169.)

(xxix) The Secretary of State sells Council Drafts, not for the convenience of trade, but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf. (Para. 186)

(xxx) The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the

London balance was in no need of replenishment, but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of drafts sold or the rate at which they are sold, provided that it is within the gold points. The amount and occasion of sales should be fixed with reference to the urgency of the Government's requirements and the rate of exchange obtainable, whether the drafts are against Treasury balances or against the Reserves. (Paras. 181 to 185.)

(xxx) There has been some excess of caution in the renewal of debt by the India Office during recent years. (Para. 192.)

(xxxii) The system of placing portions of the India Office balance out on short loan with approved borrowers in the City of London is on the whole well managed, but we draw attention to—

(a) The term for which loans are made.

(b) The desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers.

(c) Some defects in the list of approved securities and especially its narrow range. (Paras. 196 to 200.)

(xxxiii) There is no ground for the suggestion that the City members of the Secretary of State's Council showed any kind of favouritism in placing on deposit with certain banks, with the directorates of which they were connected, a part of the India Office balance at a time when it was too large to be placed entirely with the approved borrowers. But we call the attention of the Secretary of State to the desirability of avoiding as far as possible all occasion for such criticism, though it may be founded on prejudice and ignorance of the facts. (Para. 202.)

(xxxiv) We observe that in our opinion the time has come for a general review of the relations of the India Office to the Bank of England. (Para. 203.)

(xxxv) The working of the present arrangements for the remuneration of the Secretary of State's broker

should be watched, and if necessary they should be revised. (Para. 204.)

(xxxvi) We record our high opinion of the way in which the permanent staff, both in India and in London, have performed the complicated and difficult financial duties placed upon them. (Para. 7.)

(xxxvii) We recommend a continuance of a Finance Committee of Council as providing the machinery most suitable for the work required. (Para. 208.)

(xxxviii) The Finance Committee should, if possible, contain three members with financial experience, representing—

- (a) Indian Official Finance.
- (b) Indian Banking and Commerce.
- (c) The London Money Market.

In any case there should be at least one member with Indian financial experience. The absence of any representative of Indian finance on the Committee since 1911 has resulted in giving undue prominence to the representation of London City experience. (Para. 210.)

(xxxix) While we suggest that the changes recently proposed and now under discussion in the constitution of the India Council may require some modification in order to provide for the continuance of a Finance Committee of Council, we are in sympathy with the desire for expediting financial business, which is one of the objects in view. (Para. 214.)

(xi) The present arrangement under which the Assistant Under Secretary of State, having financial experience, is able to share with the Financial Secretary the responsibility for financial business in the India Office has many advantages. For the future we recommend that either (1) the Under Secretary or Assistant Under Secretary of State should have financial experience as at present, or (2) there should be two Assistant Under Secretaries, of whom one should have financial experience. (Para. 216.)

(xli) We are not in a position to report either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early

and careful consideration, and suggest the appointment of a small expert committee to examine the whole question in India, and either to pronounce against the proposal or to work out in full detail a concrete scheme capable of immediate adoption. (Paras. 221, 222.)”

## APPENDIX I

### COMMITTEE ON INDIAN EXCHANGE AND CURRENCY (1920). SUMMARY OF CONCLUSIONS

87. We now proceed to summarise the main conclusions at which we have arrived.

(i) It is desirable to restore stability to the rupee and to re-establish the automatic working of the Indian currency system. (Para. 36.)

(ii) The reduction of the fineness or weight of the rupee (Para. 38), the issue of 2 or 3 rupee coins of lower proportional silver content than the present rupee (Para. 39), or the issue of a nickel rupee (Para. 40) are expedients that cannot be recommended.

If the legal tender limit of one rupee for the 8 anna nickel coin should prove an obstacle to its free circulation the question of raising the limit to R.5 or R.10 should be considered. (Para. 40.)

(iii) The maintenance of the convertibility of the note-issue is essential, and proposals that do not adequately protect the Indian Paper Currency from the risk of becoming inconvertible cannot be entertained. (Para. 41.)

(iv) The rise in exchange, in so far as it has checked and mitigated the rise in Indian prices, has been to the advantage of the country as a whole, and it is desirable to secure the continuance of this benefit. (Para. 50.)

(v) Indian trade is not likely to suffer any permanent injury from the fixing of exchange at a high level.

If, contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of

production in India fail to adjust themselves with equal rapidity to the lower level of prices, then it might be necessary to consider the problem afresh. (Para. 51.)

(vi) The development of Indian industry would not be seriously hampered by a high rate of exchange. (Para. 52.)

(vii) The gain to India of a high rate of exchange for meeting the Home charges is an incidental advantage that must be taken into consideration. (Para. 53.)

(viii) To postpone fixing a stable rate of exchange would be open to serious criticism and entail prolongation of Government control. (Para. 58.)

(ix) The balance of advantage is decidedly on the side of fixing the exchange value of the rupee in terms of gold rather than in terms of sterling. (Paras. 56-7.)

(x) The stable relation to be established between the rupee and gold should be at the rate of R.10 to one sovereign, or, in other words, at the rate of one rupee for 11.30016 grains of fine gold, both for foreign exchange and for internal circulation. (Para. 59.)

(xi) If silver rises for more than a brief period above the parity of 2s. (gold) the situation should be met by all other available means rather than by impairing the convertibility of the note-issue. Such measures might be (a) reduction of sale of Council bills; (b) abstention from purchase of silver; (c) use of gold to meet demands for metallic currency. If it should be absolutely necessary to purchase silver, the Government should be prepared to purchase even at a price such that rupees would be coined at a loss. (Para. 59.)

(xii) Council drafts are primarily sold not for the convenience of trade, but to provide for the Home charges in the widest sense of the term. There is no obligation to sell drafts to meet all trade demands; but, if without inconvenience or with advantage the Secretary of State is in a position to sell drafts in excess of his immediate needs, when a trade demand for them exists, there is no objection to his doing so, subject to due regard being paid to the principles governing the location of the reserves.

Council drafts should be sold, as now, by open tender at competitive rates, a minimum rate being fixed from time to time on the basis of the sterling cost of shipping gold to India. At present this rate will vary; but when sterling is again equivalent to gold, it will remain uniform. (Para. 61.)

(xiii) The Government of India should be authorised to announce, without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reserve Councils (including telegraphic transfers) during periods of exchange weakness at a price based on the cost of shipping gold from India to the United Kingdom. (Para. 62.)

(xiv) The quantity of gold taken by India for all purposes in the period before the war was not disproportionately large having regard to her social customs and economic position; but more productive methods for employing wealth should be encouraged. (Paras. 63-4.)

(xv) The import and export of gold to and from India should be free from Government control. (Para. 65.)

(xvi) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold; but gold can be employed to the best advantage in the Government reserves, where it is available for meeting the demand for foreign remittance.

It would not be to India's advantage actively to encourage the increased use of gold in the internal circulation, but it may for some time be difficult to meet all demands for metallic currency in rupees, and a more extensive use of gold may be necessary. In order that confidence may not be disturbed by exceptional issues, the issue of gold coin in moderate quantities should be one of the normal methods of meeting demands for currency. (Para. 66.)

(xvii) The Bombay branch of the Royal Mint should be re-opened for the coinage of sovereigns and half-sovereigns and facilities should be afforded to the

public for the coinage of gold bullion and for the refining of gold. (Para. 67.)

(xviii) The obligation of the Government to give rupees for sovereigns should be withdrawn. (Para. 68.)

(xix) Opportunities should be afforded to the public to exchange sovereigns in their possession at the rate of 15 rupees per sovereign at the time of the introduction of the new ratio. Similar opportunities should be given to holders of the gold mohur which should eventually be demonetised. (Para. 69.)

(xx) The prohibition on the import of silver should be removed as soon as is convenient. (Para. 70.)

(xxi) When the prohibition on the import of silver is removed the import duty should also be removed, unless the fiscal position demands its retention. (Para. 71.)

(xxii) The prohibition on the export of silver should be retained for the present with a view to the protection of the silver currency from depletion by export.

If the silver mined in India should cease to be purchased by the Government, its export should be permitted under licence. (Para. 72.)

(xxiii) Improved banking facilities and increased opportunities for the investment of savings should be afforded. (Para. 73.)

(xxiv) No recommendation is made for modifying the present practice regulating the purchase of silver for coinage. (Para. 74.)

(xxv) The statutory minimum for the metallic portion of the Paper Currency Reserve should be 40 per cent. of the gross circulation.

As regards the fiduciary portion of the reserve, the holding of securities issued by the Government of India should be limited to 20 crores. The balance should be held in securities of other Governments comprised within the British Empire, and of the amount so held not more than 10 crores should have more than one year's maturity, and all should be redeemable at a fixed date. The balance of the invested portion above



these 30 crores should be held in short-dated securities, with not more than one year's maturity, issued by Governments within the British Empire.

The existing permissive maximum of 120 crores should be retained for a limited period.

The sterling investments and gold in the Paper Currency Reserve should be re-valued at 2s. to the rupee. The depreciation which will result from this re-valuation cannot be made good at once, but any savings resulting from the rise in exchange will afford a suitable means for discharging this liability in a limited number of years. (Paras. 78-79.)

(xxvi) With a view to meeting the seasonal demand for additional currency provision should be made for the issue of notes up to five crores over and above the normal fiduciary issue as loans to the Presidency Banks on the security of export bills of exchange. (Para. 80.)

(xxvii) The silver and gold in the Paper Currency Reserve should be held in India except for transitory purposes. (Para. 81.)

(xxviii) As soon as circumstances permit, free facilities for the encashment of notes should be given, and the restrictions imposed during the war should be withdrawn. The Government should have the option of redeeming its notes in full legal tender gold or silver coin. (Para. 82.)

(xxix) No limit can yet be fixed to the amount up to which the Gold Standard Reserve should be accumulated, and when profits again accrue on the coinage of rupees they should be credited in their entirety to the reserve. (Para. 83.)

(xxx) Under present conditions Government should hold such gold as they obtain in the Paper Currency Reserve rather than in the Gold Standard Reserve. The Gold Standard Reserve should when practicable contain a considerable proportion of gold; but the most satisfactory course at present lies in keeping the reserve as liquid as possible by the holding of securities with early dates of maturity.

The amount of securities in the reserve with a maturity

exceeding three years should not be increased, and the aim should be to hold all the invested portion of the reserve in securities issued by Governments within the British Empire (other than the Government of India) and having a fixed date of maturity of not more than 12 months. (Para. 84.)

(xxx) A portion of the gold in the Gold Standard Reserve, not exceeding one half, should be held in India; the sterling investments should continue to be held in London.

## APPENDIX M

### ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE, 1926.

#### SUMMARY OF RECOMMENDATIONS.

221.—(i) The ordinary medium of circulation should remain the currency note and the silver rupee, and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold, but gold should not circulate as money. (Para. 54.)

(ii) The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involves the establishment of a Central Banking system. (Paras. 83-85.)

(iii) The Central Banking functions should be entrusted to a new organisation, referred to as the Reserve Bank. (Paras. 89, 90.)

(iv) Detailed recommendations are made as to the constitution (paragraphs 91-102) and functions and capacities of the Bank. (Paras. 139-164.)

(v) The outlines of a proposed charter are recommended to give effect to the recommendations which concern the Reserve Bank. (Paras. 139-164.)

(vi) Subject to the payment of limited dividends and the building up of suitable reserve funds, the balance of the profits of the Reserve Bank should be paid over to the Government. (Paras. 99, 100.)

(vii) The Bank should be given the sole right of note issue for a period of (say) 25 years. Not later than five years from the date of the charter becoming operative, Government notes should cease to be legal tender except at Government Treasuries. (Para. 141.)

(viii) The notes of the Bank should be full legal tender, and should be guaranteed by Government. The form and material of the note should be subject to the approval of the Governor-General in Council. A suggestion is made as to the form of the note. (Paras. 138, 149, 155.)

(ix) An obligation should be imposed by statute on the Bank to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. (Paras. 59-61, 150, 151.)

(x) The conditions which are to govern the sale of gold by the Bank should be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. The method by which this may be secured is suggested. (Paras. 64, 150.)

(xi) The legal tender quality of the sovereign and the half-sovereign should be removed. (Paras. 65, 66.)

(xii) Government should offer "on tap" savings certificates redeemable in three or five years in legal tender money or gold at the option of the holder. (Paras. 67, 68.)

(xiii) The paper currency should cease to be convertible by law into silver coin. It should, however, be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency, and of the Government to supply coin to the Bank on demand. (Paras. 69-71, 152.)

(xiv) One-rupee notes should be re-introduced and should be full legal tender. (Para. 72.)

(xv) Notes other than the one-rupee note should be legally convertible into legal tender money, i.e. into notes of smaller denominations or silver rupees at the option of the currency authority. (Para. 73.)

(xvi) No change should be made in the legal tender character of the silver rupee. (Para. 74.)

(xvii) The Paper Currency and Gold Standard Reserves should be amalgamated, and the proportions and composition of the combined Reserve should be fixed by statute. (Paras. 75-77.)

(xviii) The proportional reserve system should be adopted. Gold and gold securities should form not less than 40 per cent. of the Reserve, subject to a possible temporary reduction, with the consent of Government, on payment of a tax. The currency authority should strive to work to a reserve ratio of 50 to 60 per cent. The gold holding should be raised to 20 per cent. of the Reserve as soon as possible and to 25 per cent. within ten years. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape. Of the gold holding at least one-half should be held in India. (Paras. 78, 79, 131, 132, 153.)

(xix) The silver holding in the Reserve should be very substantially reduced during a transitional period of ten years. (Paras 80, 133-136, 145.)

(xx) The balance of the Reserve should be held in self-liquidating trade bills and Government of India securities. The "created" securities should be replaced by marketable securities within ten years. (Paras. 81, 116, 136, 145.)

(xxi) A figure of Rs. 50 crores has been fixed as the liability in respect of the contractibility of the rupee circulation. Recommendations are made to secure that an amount equal to one-fifth of the face value of any increase or decrease in the number of silver rupees in issue shall be added to or subtracted from this liability, and the balance of profit or loss shall accrue to or be borne by the Government revenues. (Paras. 82, 120-123, 146-148.)

(xxii) The Issue Department of the Reserve Bank should be kept wholly distinct from its Banking Department. (Paras. 137, 143.)

(xxiii) The Reserve Bank should be entrusted with all the remittance operations of the Government. The Secretary of State should furnish in advance periodical information as to his requirements. The Bank should be left free, at its discretion, to employ such method or methods of remittance as it may find conducive to smooth working. (Paras. 103-109, 111, 140.)

(xxiv) During the transition period the Government should publish a weekly return of remittances made. A trial should be made of the system of purchase by public tender in India. (Para. 110.)

(xxv) The cash balances of the Government (including any balances of the Government of India and of the Secretary of State outside India), as well as the banking reserves in India of all banks operating in India, should be centralised in the hands of the Reserve Bank. Section 23 of the Government of India Act should be amended accordingly. (Paras. 111, 112, 140, 161, 162.)

(xxvi) The transfer of Reserve assets should take place not later than 1st January, 1929, and the Bank's obligation to buy and sell gold should come into operation not later than 1st January, 1931. (Para. 165.)

(xxvii) During the transition period the currency authority (*i.e.* the Government until the transfer of Reserve assets and the Bank thereafter) should be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the exchange. This obligation should be embodied in statutory form, of which the outline is suggested. (Para. 166.)

(xxviii) Stabilisation of the rupee should be effected forthwith at a rate corresponding to an exchange rate of 1s. 6d. (Paras. 168-213.)

(xxix) The stamp duty on bills of exchange and cheques should be abolished. Bill forms, in the English language and the vernacular in parallel, should be on sale at post offices. (Paras. 116, 216.)

(xxx) Measures should be taken to promote the development of banking in India. (Para. 214.)

(xxxi) Every effort should be made to remedy the deficiencies in the existing body of statistical data. (Para. 217.)

## APPENDIX N

### A BILL TO ESTABLISH A GOLD STANDARD CURRENCY FOR BRITISH INDIA AND CONSTITUTE A RESERVE BANK OF INDIA

Establishment  
and  
incorporation  
of Reserve  
Bank.

3. (1) A Bank to be called the Reserve Bank of India shall be constituted for the purpose of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

#### SHARE CAPITAL

Share capital.

4. (1) The original share capital of the Bank shall be fifty million rupees divided into shares of five hundred rupees each, which shall be fully paid up.

(2) Of the original share capital of the Bank the Imperial Bank of India shall be given the option of subscribing three-tenths and the remainder, together with any shares not taken up by the Imperial Bank of India under this option, shall be offered for public subscription.

(3) If the full amount of the share capital is not so subscribed, the Governor General in Council shall take up the remainder of the shares at par, and shall subsequently dispose of the same by sale to the public within three years.

Increase and  
reduction of  
share capital

5. (1) The share capital of the Bank may be increased by the Board with the previous sanction of the Governor General in Council.

(2) Every such increase shall be fully paid up, and the price at which such further shares may be issued shall be fixed by the Board with the like sanction.

(4) The share capital of the Bank may be reduced by the Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

#### HEAD OFFICE, BRANCHES AND AGENCIES

6. The Head Office of the Bank shall be established in Bombay, and the Bank shall have branches in Calcutta, Madras and London and may establish branches or agencies in any other places, whether in India or elsewhere.

Branches and agencies

#### MANAGEMENT OF THE BANK

7. The general superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

Management.

8. Save as expressly provided in this Act, no person may be a Director who is an officer of Government or a member of the Indian or a local Legislature or is a director, officer or employee of any other bank.

Certain persons disqualified for directorships.

9. (1) The Board shall consist of the following Directors, namely :

Composition of Board.

- (a) a Governor and a Deputy Governor, who shall be appointed by the Governor General in Council for a period of five years and shall devote their whole time to the affairs of the Bank and shall receive such salaries and allowances respectively as may be determined by the Board ;
- (b) nine Directors elected by the shareholders, each of whom shall be the registered holder in his own right of not less than twenty unincumbered shares of the Bank, and of whom two shall be elected to represent business interests in



Calcutta, two to represent business interests in Bombay, one to represent business interests in Madras, and two to represent business interests in British India exclusive of Calcutta, Bombay and Madras,

(c) three Directors nominated by the Governor General in Council to represent the interests of commerce, industry and agriculture, respectively; and

(d) an officer of Government appointed by the Governor General in Council.

(2) The Directors nominated by the Governor General in Council under clause (c) of sub-section (1) shall hold office for such terms respectively, not exceeding three years in any case, as he may direct at the time of nomination, but any such Director whose term of office has expired may be re-nominated.

(3) The Director appointed under clause (d) of sub-section (1) may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote on any question arising at any such meeting.

(4) Of the nine Directors elected under clause (b) of sub-section (1), three shall retire annually by rotation, but shall be eligible for re-election; the order of the retirement of the nine Directors first elected shall be determined by lot.

(5) Any casual vacancy in the office of a Director elected under clause (b) of sub-section (1), shall be filled by the Board, but all such appointments shall be subject to confirmation at the next general meeting. A person appointed to fill a casual vacancy shall hold office for the unexpired portion of the term of office of his predecessor.

#### BUSINESS OF THE BANK

Business which  
the Bank may  
transact.

14. The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:

(1) the accepting of money on deposit without interest

from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, banks and other persons ;

- (2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, payable in India and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a bank, and maturing within ninety days from the date of such purchase or rediscount ;
- (b) the purchase, sale and rediscount of bills of exchange and promissory notes, bearing two or more good signatures, one of which shall be that of a bank, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount : provided that the face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fifth of the total face value of all bills and notes purchased or rediscounted by the Bank ;
- (c) the purchase, sale and rediscount of bills of exchange and promissory notes, bearing the signature of a bank, and issued or drawn for the purpose of holding or trading in Government securities, and maturing within ninety days from the date of such purchase or rediscount ;
- (3) the purchase from and sale to banks and persons approved by the Board, in amounts of not less than the equivalent of one hundred thousand rupees, of the currencies of gold standard countries, and of bills of exchange (including treasury bills) drawn in or on any place in a gold standard country, and maturing within ninety days from the date of such purchase ; and the keeping of balances with banks in such countries ;
- (4) the making of loans and advances for fixed periods not exceeding ninety days against the security of—
- (a) stocks, funds and securities (other than immove-

- able property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor General in Council or the Indian Legislature ;
- (b) gold coin and bullion or documents of title to the same ;
- (c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank : provided that loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not exceed one-fifth of the total loans and advances made by the Bank ;
- (d) such bills of exchange as are eligible for purchase by the Bank under clause (3) ;
- (e) promissory notes of any bank mentioned in the First Schedule, supported by documents giving title to goods which have been transferred, assigned or hypothecated to any such bank as security for a cash credit granted for *bonâ fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops : provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force :
- (5) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made ;
- (6) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches ;
- (7) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any gold standard country ;
- (8) the purchase and sale of securities of the Government of India of any maturity for the purpose of holding

the same in the Reserve or for the purpose of the investment of the staff or superannuation funds ;

(9) the purchase and sale of securities of the Government of India of any maturity or of securities of a Local Government maturing within five years from the date of their purchase, for the purpose of investment of the share capital of the Bank or of the Reserve Fund ;

(10) the purchase and sale of securities of the Government of India or of Local Governments or of local authorities in British India for any purpose other than those referred to in clauses (8) and (9) :

Provided that the total value of such securities so purchased shall not at any time exceed two-fifths of the liabilities for the time being of the Banking Department in respect of deposits, and of such total value an amount not exceeding one-fifth of such liabilities may be represented by securities maturing after six months and within ten years from the date of their purchase (of which, however, securities representing at least half that proportion shall be securities maturing within one year from the date of their purchase) and the remainder shall be represented by securities maturing within six months from the date of their purchase ;

(11) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;

(12) the sale and realisation of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;

(13) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government in the transaction of any of the following kinds of business, namely :

(a) the purchase and sale of gold or silver ;

(b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;

- (c) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares ;
- (d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;
- (e) the management of public debt ;
- (14) the purchase and sale of gold coin and bullion ;
- (15) the opening of an account with, and the acting as agent or correspondent of, any other bank ;
- (16) the making and issue of bank notes subject to the provisions of this Act ; and
- (17) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business hereinbefore specified.

Power of  
direct discount

15. After such date as the Governor General in Council may fix in this behalf, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) of section 14, purchase, sell or discount any bills of exchange or promissory notes arising out of *bond fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount.

Business which  
the Bank may  
not transact.

16. Save as otherwise provided in sections 14 and 15, the Bank may not—

(1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims : provided that all such interests shall be disposed of at the earliest possible moment ;

(2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares ;

(3) advance money on mortgage of, or otherwise on the security of, immoveable property or documents of title relating thereto, or become the owner of immoveable

property, except so far as is necessary for its own business premises and residences for its officers and servants ;

(4) make unsecured loans or advances ;

(5) draw or accept bills payable otherwise than on demand ;

(6) allow interest on deposits.

### CENTRAL BANKING FUNCTIONS

#### RELATIONS OF THE BANK WITH THE SECRETARY OF STATE IN COUNCIL AND THE GOVERNOR GENERAL IN COUNCIL

17. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the Government of India Debt, on such conditions as may be agreed upon.

Obligation of  
Bank to  
transact  
Government  
business

18. (1) The Governor General in Council shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all his money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all his cash balances with the Bank :

Bank to have  
the right to  
transact  
Government  
business.

Provided that nothing in this sub-section shall prevent the Governor General in Council from carrying on money transactions at Government treasuries or sub-treasuries at places where the Bank has no branches or agencies, and the Governor General in Council may hold at such treasuries and sub-treasuries such balances as he may require.

(2) The Governor General in Council shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the Government of India Debt and with the issue of any new loans.

## NOTE ISSUE

Right to issue  
bank notes.

19. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period of one year from the date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

Issue  
Department

20. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 29.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

Denominations  
of notes.

21. Bank notes shall be of the denominational values of 5, 10, 50, 100, 500, 1000 and 10,000 rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

Form of  
bank notes.

22. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council.

Legal tender  
character of  
notes.

23. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount

expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

24. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled, and any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue. <sup>Re-issue of notes.</sup>

25. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall be entitled to recover from the Bank the value of any lost, stolen, mutilated or imperfect bank note : <sup>Recovery on notes lost, stolen, mutilated or imperfect.</sup>

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such bank notes may be refunded as of grace.

#### PROHIBITION OF ISSUE OF PRIVATE BILLS OR NOTES PAYABLE TO BEARER ON DEMAND

26. No person in British India other than the Bank or, as expressly authorised by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person : <sup>Issue of demand bills and notes.</sup>

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on bankers, shroffs or agents by their customers or constituents in respect of deposits of money in the hands of those bankers, shroffs or agents and held by them at the credit and disposal of the persons drawing such cheques or drafts.



**SUPPLY OF COIN, AND OF DIFFERENT FORMS OF  
LEGAL TENDER CURRENCY**

**Delivery to  
Government of  
surplus rupee  
coin**

31. The Bank may deliver to the Governor General in Council all rupee coin held by it in excess of the amount which the Issue Department is permitted to hold as part of the Reserve under section 28, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

**Purchase of  
rupee coin.**

32. When the amount of rupee coin for the time being held in the Reserve does not exceed two hundred and fifty millions or one-tenth of the total amount of the Reserve, whichever is greater, the Bank may demand delivery of rupee coin from the Governor General in Council, on payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

**Obligations of  
Government  
and Bank in  
respect of  
rupee coin.**

33. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 31 nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

**Obligation to  
supply  
different forms  
of currency.**

34. The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for rupee coin, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 32, supply such rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligation to supply such coins to the public.

## OBLIGATION TO SELL GOLD

35. (1) The provisions of this section shall have effect <sup>Sale of gold</sup> from such date, not later than the 1st day of January, 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint.

(2) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta or Madras and pays in legal tender currency the purchase price as determined under the provisions of this section, gold bullion for delivery, at the option of the purchaser, either in Bombay or at such place in a gold standard country as may be notified in this behalf by the Governor General in Council :

Provided that no person shall be entitled to demand an amount of gold bullion containing less than 1065 tolas of fine gold.

(3) The price of gold bullion for delivery at the notified place shall be twenty-one rupees, three annas and ten pies per tola of fine gold with the addition of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that place, including interest on its value during transit.

(4) The price of gold bullion for delivery in Bombay shall be twenty-one rupees, three annas and ten pies per tola of fine gold with an addition representing twice the normal cost per tola of transferring gold bullion in bulk from Bombay to the notified place, including interest on its value during transit :

Provided that no such addition shall be made when the rate at which the currency of the country in which the notified place is situate can be purchased in Bombay for immediate delivery at that place is such that the equivalent of the price at which the principal currency authority of that country is bound by law to give gold in exchange for currency is equal to or less than twenty-one rupees, three annas and ten pies per tola of fine gold after deduction of the normal cost per tola of transferring

gold bullion in bulk from Bombay to the notified place, including interest on its value during transit.

(5) The Governor General in Council shall from time to time determine in accordance with the provisions of sub-sections (3) and (4) the prices at which the Bank shall sell gold bullion for delivery in Bombay and the notified place respectively, and shall notify the prices so determined in the Gazette of India. Such notification shall be conclusive as between the Bank and any other person as to the price which the Bank shall be entitled to charge in respect of any sale of gold bullion.

Interim  
provisions.

36 (1) The provisions of this section shall cease to have effect on the date appointed by the Governor General in Council under sub-section (1) of section 35.

(2) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta or Madras and pays the purchase price in legal tender currency, at a rate equivalent to twenty-one rupees, three annas and ten pies per tola of fine gold, the currency of such gold standard country as may be notified in this behalf by the Governor General in Council in the Gazette of India, for immediate delivery in that country :

Provided that no person shall be entitled to demand an amount of currency of less value than that of 1065 tolas of fine gold.

(3) For the purpose of determining the equivalent rate applicable to the sale of currency under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in that currency as is required to purchase one tola of fine gold in that country at the rate at which the principal currency authority of that country is bound by law to give gold in exchange for currency, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that country, including interest on its value during transit.

(4) The Governor General in Council shall from time to time determine the equivalent rate in accordance with

the provisions of sub-section (3), and shall notify the rate so determined in the Gazette of India.

#### OBIGATION TO BUY GOLD

37. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta or Madras, gold bullion for delivery in Bombay at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold, if such gold is tendered in the form of bars containing not less than 1065 tolas of fine gold :

Obligation of  
Bank to buy  
gold.

Provided that the Bank shall be entitled to require such gold bullion to be melted and assayed, by persons approved by the Bank, at the expense of the person tendering the bullion.

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