

10771

Dhananjayrao Gadgil Library



GIPE-PUNE-010771

THE INDIAN TARIFF POLICY

CHECKED
2003-04

X9(F68):531.2.N3

G6

10771

All Rights Reserved.

Printed by M. N. Kulkarni, at the Karnatak Printing Press, Karnatak House,
Chira Bazar, Bombay 2, and Published by B. N. Adarkar, 152, Hindu
Colony, Dadar, Bombay.

PREFACE

IN presenting this book to the public, I feel, a word of apology is necessary. Although the Indian Tariff Policy is a subject of great practical interest and my appeal is principally to those practical men of affairs who are to guide the economic destiny of this nation, I am afraid, in my attempt to work out the outlines of the policy from its very fundamentals, I have been led, at times, to follow a process of reasoning which the general reader in this country may, perhaps, find it difficult to assimilate. Of all sciences economics is probably the only one in which concessions have to be made every now and then to the ignorance of the general reader. Writers on economics, therefore, suffer from a peculiar disadvantage, in that their writings can always be criticised as being either too abstruse or too commonplace. I believe, however, that the whole subject of international trade, of which tariff policy forms a part, is itself such that if the reader is really to comprehend the bewildering complexity of its phenomena with anything like scientific precision, a certain amount of patience and forbearance and an acquaintance with the essentials of recent monetary theory are vitally necessary.

I am keenly aware of the shortcomings of this work and would invite criticism from all quarters. To those of my Indian readers, however, who will essay an attack on this book just because it supports a view which is extremely unpopular in India at present, I desire to address a humble plea. It is time for us to realise that not the whole of economics is politics, nor is the whole of politics economics. The argument stated here is based on certain theories which are evolved by people who possess a greater authority on this subject than the politicians of this country, and any intelligent criticism of the argument has to proceed by showing either that the theories are in themselves unsound or that they have been misused or misinterpreted here. The people who claim to be the directive forces behind the Assembly debates and who play upon our political susceptibilities through the medium of the daily paper are exactly the people who are to be trusted least. Because, the science of economics has made a considerable advance in other countries since the time our leaders left their books and now their vanity prevents them from propitiating the economic Muse with the real devotion of a student. The sooner we shake ourselves free from the influence of such leaders and develop the capacity for original thought, the better for the future of this country.

This book does not pretend to be a treatise on the sugar industry. I have merely used the case of that industry to illustrate my argument, because it happens to be of some topical interest at present. The question of continuing the protective duty on sugar is going to be considered by Government in March, 1938, and an inquiry into the position of the industry is expected to be held shortly. I have given a few selected figures bearing on the question in the Statistical Appendix.

September 28, 1936.

B. N. ADARKAR

CONTENTS

CHAPTER	PAGE
I. PROTECTION AS A CURE FOR UNEMPLOYMENT	1
II. PROTECTION AND INDUSTRIALI- SATION	49
III. THE BURDEN ON THE CONSUMER	69
✓IV. SUGAR PROTECTION : THE AGRI- CULTURAL ASPECT	88
V. SUGAR PROTECTION : THE IN- DUSTRIAL ASPECT	114
✓VI. CONCLUSION	137
STATISTICAL APPENDIX	143-153
INDEX	155-161

“**A** SMALL and temporary improvement may really be the worst enemy of a great and permanent improvement, unless the first is made on the lines and in the direction of the second. And so it may if it be successfully palmed off upon a society as actually being the second. In such a case as this, the small reform, if it be not made with reference to some large and progressive principle and with a view to further extension of its scope, may make it all the more difficult to return to the right line and direction when improvement is again demanded.”

LORD MORLEY.

INDEX

- Adams, 50.
- Adolescent industries, 50.
- Agricultural aspect of sugar protection, 88-113.
- Agricultural marketing, 57.
- Anstey, Dr. Vera, 50, 67.
- Area under cane, increase in, 90, App. Table VII ; percentage of total sown area, 99 ; desirability of increasing, 88-90, 107 ; desirability of restricting, 94, 109, 127, 134 ; under improved varieties, 88, 109, App. Table, VII ; situated outside the tropics, 121 ; and irrigation projects, 91, 129, 130, 131 ; in different provinces, 127, App. VIII ; Provincial Government's desire to expand, 91, 128-31, 134 ; control of factories over, 121, 125 ; area required for a factory, 130.
- Austria, duty on sugar in, 44.
- Australia, as a debtor country, 12 ; cost of producing sugar in, 78.
- Australian Tariff Board, 2.
- Balance of trade, favourable, effect on investment and employment, 6-10, 36-38 ; direct and indirect effects, 7 ; and rate of interest, 7, 9, 37 ; Mercantilist theory of, 8 ; difficulty of maintaining, 8, Ch. I, Sec. 2-3, 10-25 ; and foreign lending, 11-17 ; and reduction of external debt, 17-19 ; and inflation in domestic costs, 19-25 ; and deflation in other countries, 20, 24 ; and increase in loan expenditure, 35-36 ; of Russia, 16 ; of U. S. A., 16 ; of South Africa, 16 ; of England, 15.
- Banking Enquiry Committee, Central, 34.
- Bengal, cane area in, App. Table, VIII ; cost of manufacturing gur in, 97.
- Beet sugar, App. Table II, 78.
- Bihar and Orissa, price of gur in, 95 ; cane area in, App. Table, VIII ; cane yield in, 124 ; factories in, App. Table, VIII ; excessive development of sugar industry in, 127, 128, 129, 135 ; Government's views on gur prices, 112 ; Ministers' views on further growth of sugar industry, 94 ; minimum prices for cane in, 100 ; control over cane area, 121 ; congestion of factories, 122 ; sucrose content of cane in, 124.
- Bombay, price of gur in, 95, 96, 97 ; area under cane in, App. Table VIII ; cost of cane in, 97 ; suitability for cane growing, 124 ; irrigation canals in, 130-31 ; factories in, 126, App. Table, VIII ; control over cane area in, 125 ; recovery percentage in, 124 ; cane yield in, 124 ; cultivator's return from gur making, 98 ; import of artificial gur in, 112 ; Government's desire to encourage cane growing, 130-31 ; cost of gur manufacture in, 97 ; working season in, 125 ; working class family budget in, 74.
- British West Indies, 78, 84.
- Burden on the consumer, Chapter III, 69-87, 139, 140 ; and

- increase in national income, 2-5, 69; three methods of estimating, 2, 69; and internal competition, 77; and "labour price" of sugar, 72-73; duty and c.i.f. price, 73; burden on other industries, 73-74; burden of new taxation, 74-80; burden of sugar protection, 78-87; and export of sugar, 81; and freight advantage, 81; burden of revenue duty after protection, 79-82; and advantages of cane growing, 110-11; and period of protection, 50; and self-sufficiency, 60; and increases in sugar duty, 116-7.
- Capital*, 57, 121.
- Capital expenditure, and unemployment, 36, 39; and world recovery, 46-7; and economic development, 50-1.
- Clay, Prof. Henry, 11, 53.
- Commerce*, 5, 26, 71.
- Competitive stage, 79-87, 54.
- Consumer, see *Burden on the Consumer*.
- Consumption, of sugar, 63, 94, 108, 133; of cotton piecegoods, 63; of iron and steel, 63; of matches, 64; of gur, 93-94; of sugar and consumption of other articles, 74 and scope for cane cultivation 108; for sugar protection 133; in Madras, 130; world consumption of sugar, 114 App. Table, II; excess of production over, 114-6; *per capita* consumption in India 132.
- Cost of production, comparison of the effect of protection and subsidies on, 52-4; and scale of industry, 53, 118.
- Cost of production of sugar, effect of depression, 118; effect of protection on, 54-7; cost of cane and, 55, 89, 101; reduction in world cost, 72-3; and burden on the consumer, Ch. III; in different countries, 78; sea-freight as a percentage of, 81; cost of two-thirds of world's supply, 83-87; Indian and Java costs, 83, 118-22; costs of gur, 97.
- Cost of production of cane, 55, 118-9; yield per acre, 89, 119, 97, 121, 125, 126; yield in Java, 119.
- Cotton piecegoods, 63.
- Cuba, 78, 83, 84, 85, 115.
- Cultivation, methods of, 55, 56, 89, 119.
- Customs revenue, 65-68, 74; fall in, not compensated by other taxes, 5, 67; and expenditure on research, 57-8; and national income, 66; position of, in total revenue, 67; and future tariff policy, 66-8; and burden of protection, 74-82; from sugar, 74.
- Czechoslovakia, duty on sugar in, 43.
- Das, Mr. Ajodhya, 106.
- Deccan canals, dependence of on sugar industry, 130, 131.
- Deccan Canals Financial Enquiry Committee, 131.
- Deerr, Mr. Noel, 56-7, 121.
- Dey, Dr. H. L., 64.
- Discriminating Protection, principles of, 83; and rapid industrialisation, 60-64, 140-41; effect on industrial costs, 52-54; effect on revenue, 64-67.
- Dutch East Indies, 40, 41.
- Economies, internal and external, effect of protection on, 51-54; and enlargement of industry, 51; in sugar industry, 54-7, 123.
- Employment, increasing the total volume of, Chapter I; increasing proportion of industrial, Chapter II; cost of increasing, Chapter, III.
- England, as a creditor country,

- 12; foreign lending of, 15; duty on sugar in, 43; expansion of sugar production in, 117.
- Equipment of factories, 122-3.
- Excise duty on sugar, yield of, 74; and loss of customs revenue, 75; as a corrective of high tariff, 132; and growth of sugar, 133.
- Exchange standard, 47-8.
- Exports, effect of import restriction on, 10-48; to Java 40; to Netherlands, 42; see *Balance of trade*.
- External debt, increase in, due to unfavourable balance, 12-15; reduction of, by Australia, 12; by South Africa and Russia, 16; reduction of, and world recovery, 18-19.
- Extraction percentage, in sugar manufacture, 54, 101, 108, 115, 123, 124; in gur making, 97, 98; in India and Java, 119-21.
- Factories, total number of, 133; in different provinces, App. Table, VIII; area required for, 130; division of benefit between cane growers and, 102-3, 105; control over cane area, 121, 125; equipment of, 122-3; See *Sugar*.
- Fair selling price of sugar, 86.
- Family budgets, of working classes, 73.
- Far East, an export market for sugar, 86.
- Fazl-i-Husain, Sir, 94, 107.
- Fiji, cost of producing sugar in, 78, 83.
- Finance Members' views on protection, 25, 68.
- Fiscal Commission, conditions prescribed by, 81, 83, 87; third condition, 77-82; applied to sugar industry, 82-87.
- Foreign balance, see *Balance of trade*.
- Foreign lending, an increase in and favourable balance, 11-19, 30, 35, 36, 44; induced and spontaneous, 13-14; under gold standard, 14; under paper standard, 15; of U. S. 16; of England, 15; net advantage of, 14; and world recovery, 19.
- Freight on sugar, 81; and burden on consumer, 81.
- Formosa, 78, 114, 115.
- Gandhi, Mr. M. P., 70, 71, 5, 77.
- Gold standard, and home investment, 36, 46; and foreign lending, 13-15; and international co-operation, 48; rate of interest under, 37.
- Grigg, Sir James, 25, 68.
- Groombridge, Mr. E. F. 17, 71.
- Gur, prices of, 95, and area under cane, 89; cost of manufacturing, 97; production of, 92, App. Table, IX; and spread of improved varieties, 88; quantity of cane used for, 91; demand for, 93-4; cultivator's return on gur-making, 96-99, 105; extractive efficiency of, 97; relation between gur and sugar prices, 93, 111-13; artificial gur, 112; sugar protection and overproduction in, 88-100; effect of gur prices on minimum prices for cane, 102-5.
- Harrod, Mr. R. F., 21, 23, 26-34, 36.
- Hawaii, 78, 84, 85, 121.
- Holland, 42.
- Home investment as an alternative to tariff, 46; dual influence of favourable balance on, 3-4, 6-10, 35-36, 37-9; increase in, from tariffs and imports, 26-34; effect of interest rate on, 37; under gold standard, 36, 46, 48; multiplier of primary investment, 4, 28-34; under in-

- dependent standard, 47 ; under exchange standard, 47-8.
- Hyder, Syed Nizamuddin, 129.
- Hyderabad, 129.
- Imperial Council of Agricultural Research, 56, 85, 86, 119.
- Import duty on sugar, App. Table, IV ; increases in, 116-9.
- Imports, relation with exports, 10-42 ; of sugar, App. Table, III ; from Java, 39-42 ; from Netherlands, 41 ; ultimate effect of tariff on, 26-34 ; see *Exports, Protection and Tariff*.
- Improved varieties of cane, 54, 56, 88, 92, 108-10, 119, 125.
- Income, see *National Dividend*.
- Indian Fiscal Commission, see *Fiscal Commission*.
- Indian Tariff Board, 50, 55, 57, 63, 69, 78, 82-7, 88-90, 91-6, 99, 100, 107, 109, 112, 120.
- Indian Taxation Enquiry Committee, 67.
- Industrialisation, and protection, Chap. II, 139 ; self-sufficiency, 58-60 ; and discrimination, 60-64, 140-41 ; nature of the task, 65 ; necessity of state aiding 64-67 ; pace of, 50, 139.
- Investment, see *Home Investment*.
- Iron and steel, 55, 63.
- Irrigation canals, 91, 129, 130, 131.
- Irwin canal, 130.
- International capital movements, see *Foreign lending*.
- International sugar Journal, 116.
- Java, 39-42, 55, 78, 83, 84, 85, 86, 114, 115, 116, 119, 120, 121, 122, 125.
- Java sugar, 70-1, 73, 78, 81, 82, 93, 116.
- Japan, 42, 114, 115.
- Kahn, Mr. R. F., 28, 33.
- Keynes, Mr. J. M., 5-10, 14, 15, 21, 22, 28, 33, 37, 39, 45-6, 47.
- Key industries, 59.
- Khaitan, Mr. D. P., 128.
- Labour price of sugar, 72.
- Laissez faire*, 10.
- League of Nations, *World Production and Prices*, 25, 115 ; *International Trade statistics*, 40 ; *World Sugar situation*, 44, 85, 114 ; *Sugar Statistical Abstract for 1935-6*, 116.
- Lending, international, and favourable balance, 11-19, 30, 35, 36, 44 ; and world recovery, 18-19 ; See *Foreign lending*.
- Liquidity preference, 7, 34.
- Loan expenditure and unemployment, 36-39, 46-7 ; see *Capital expenditure*.
- Lownie, Mr. J. M. 118, 133.
- Lyallpur, price of gur in, 10.
- Machinery, in sugar factories, 122-3.
- Macmillan Committee, 35-6, 39.
- Madras, price of gur in, 95 ; cane yield in, 124, 126 ; cost of manufacturing gur, 97 ; cost of production of cane in, 125 ; return to the cultivator on cane used for gur, 98 ; Minister's views on benefit of protection to agriculturists, 106 ; on extension of sugar production, 108 ; suitability for cane cultivation, 124 ; sucrose content of cane, 124 ; recovery percentage in 124 ; factories in, 125 ; App. Table objections to restriction of sugar production, 127-8 ; consumption of sugar in, 130 ; import of artificial gur in, 112 ; Government's views, 130.

- Manures, fall in prices of, 118, 126.
- Marginal disutility of labour, and wages, 22.
- Matches, 64.
- Mercantilists, 8.
- Marketing, Agricultural, 57.
- Midland Bank Monthly Review, 16.
- Mikusch, Dr. G., 85, 115.
- Minimum prices for cane, fixation of, 100-6; formula for, 101; criticism of the principle, 102-6.
- Molasses, 55.
- Multiplier, 4, 28-34.
- Mysore, fixation of minimum prices in, 102; and extension of cane-growing, 130; Government's views, 130.
- National dividend, and protection, Chapter I, 2-5; changes in and the price of sugar, 71.
- Natural rate of interest, 13.
- Netherlands, 42.
- Nizamsagar canal, 129.
- Overproduction in cane, 107-11; in gur, 88-100, 128-32; in sugar, 114-16, 127-36.
- Philippines, 115.
- Pig iron, 63.
- Pigon, Prof. A. C., 22.
- Pillai, Dr. P., 50, 51.
- Prices, of Java sugar, 70-71; wholesale, in India, 72; of gur 95; of cane, 96-100; of Indian sugar, 96; comparison of Java and India, 76; world price of sugar 73, 116, App. Table, I. and wages, 22.
- Production of sugar, world, App. Table, 114-6; Indian App. Table, 117; world production since the war, 115; in Java, 116; increase in, and efficiency, 118.
- Production of cane, 91; of gur, 92; surplus production of cane, 108.
- Protection, as a cure for unemployment, Chap. I, and industrialisation, Chap. II, burden of, Chapter III, effect of on export trade, 11-42; a psychological epidemic, 43; subsidies compared with, 54; and capital expenditure, 36, 39, 46-7; and world recovery, 47; period of protection, 50; see *Discriminating Protection, Employment, Balance of trade and Tariffs*.
- Protection, sugar, see *Sugar Protection*.
- Protective duties, level of, 138.
- Provincial Governments, investment of, in canals, 91; rivalry among, to expand sugar production, 128-32.
- Public revenue, 5, 65-67; and burden on the consumer, 74-87; customs revenue, 74.
- Raju Guru, Rao Bahadur Narasimha, 125.
- Rajagopalachari, Mr. S. P., 129.
- Real wages and marginal disutility of labour, 22.
- Research, 54-57, 114, 135.
- Revenue, see *Public Revenue*.
- Road-making, 66.
- Russia, 16.
- Schuster, Sir George, 68, 106.
- Self-sufficiency, 58-60; in Key industries, 59.
- Shah and Khambata, 34.
- Skene Smith, 2.
- Slater, Dr. Gilbert, 64.
- Small-scale industries, 66, 139.
- South Africa, cost of sugar in, 78; as a debtor country, 12; her favourable balance, 16.
- South African Sugar Journal, 116.
- Srivastava, Mr. J. P., 105, 106.
- Srivastava, Mr. R. C. 56, 82, 115, 118, 119.
- Steel, 55, 63.

- Stocks, 115.
- Subsidies, compared with protection, 52.
- Sugar, production of, in India, App. Table, V, 117; in other countries, 115, App. Table, I; world production and consumption of, App. Table II, 115; consumption of, in India, 63, 94, 108-133; import duty on, Table IV, 116-9; excise duty on, 74, 132, 133; cost of production, 54-7, 118, 89, 101, 72-3, 83-87, 118-22; relation between prices of sugar and those of gur prices of, 70, 71, 73, 76, 96, 116, App. Table, I, comparison of prices of, 76; transport costs of 78.
- Sugarcane, advantages of cultivation of, 88-90, 107-11; area under, 90, App. Table VII; yield of, per acre, 119, 124-6; cultivation in different provinces, 124-31; cost of cultivating, 55, 89, 101; and sugar protection, Chapter IV; extension of, and gur industry, 88-100; price of, 96-100; fixation of minimum prices of, 100-06; improved varieties of, 54, 56, 88, 92, 108-10, 119, 125; desirability of restricting cultivation of, 94, 109, 127, 134; over-production of, 107-11.
- Sugar industry, number of factories, 133; rate of growth, 118; efficiency, 118-24; variation between provinces 124-27; localisation in, 122; desirability of expansion, 127-131; desirability of restriction, 118, 131-7; internal competition, 77; see *Agricultural aspect*, Production, sugar, *Sugar Protection*.
- Sugar Protection, agricultural aspect of, Chapter IV; industrial aspect of, Chapter V; and crisis in gur, 88-96; and return to the cane grower, 96-100; and price of sugarcane 96-100; and cost of sugar effect of, on economics of sugar production, 54-57; and research, 54-7, 136; excise duty as a corrective of, 132; effect of, on customs revenue, 74; desirability of reducing, 132-36; and efficiency of factories, 118-124; and efficiency of cane cultivation, 56; division of benefit between cane grower and factories, 102-3, 106.
- Sugar Committee, proceedings, of the fourth meeting (1931) of, 122; fifth meeting (1933) of, 123.
- Sugar Conference (1933), 106, 107, 125, 128-31.
- Tariffs, see *Industrialisation, Protection, Protective Tariff and Taxation*; and export, 10-42; and employment, 1-48; and economic development, 64-68; and vested interests, 1, 142, and external debt, 10-19; under international standard, 35-39; under independent standard, 47, 15; and wages, 22; ultimate effect on imports, 25-35; and public revenue, 5, 64-8; mercantilist theory of, 8; India not ripe for, 49-51; as an epidemic, 43-44; and economics of production, 52-54.
- Taussig, Prof. F. W., 50.
- Taxation, yield of existing, 5, of new, 67, 68; regressive nature of protective taxes, 67; shifting tax-burden, 67; relative position of different heads of, 67.
- Transport costs, 78; and advantages of tariff protection, 80-81.
- Tungabhadra Project, 129.

- Unemployment, protection as a cure for, 1-48, 69.
- United Provinces, price of gur in, 95; cost of manufacturing gur in, 97; return to the cultivator, 98; factories in, App. Table, sugar industry in, 121, 124-261, 133, 135; minimum price rules in, 100; formula used, 100; prices of gur and sugar, 112; working season, 122; congestion of factories in, 122; compared with other provinces, 124-127; Government's views on benefit of protection, 106.
- United States, protectionist policy of, 49; foreign balance of, 16; cost of sugar in, 78.
- Vakil, Prof. C. N., 61-62.
- Vijayaraghavacharya, Sir, T., 5, 71.
- Wadia and Joshi, 58-60.
- Wages and protection, 22; real, 22.
- Wattal, Mr. P. K., 64.
- West Indian Sugar Commission, 84.
- West Indies, British, cost of sugar in, 84, 78.
- Whale, Mr. P. Barret, 20-22, 23, 34.
- Wheat, 99, 110.
- Working class family budgets, 74.
- World competition, and third condition of Fiscal Commission, 77-82.
- Wright, Mr. P. G., 11, 116.

ERRATUM

On p. 4, line 3, for "The relation between the primary and the secondary increase in employment", read "The relation between the primary and the total increase in employment."

CHECKED
2003-04