

OUR FISCAL POLICY.

BY

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Appendix A.

The following Summary of Recommendations given in the Report of the Indian Fiscal Commission is reprinted here for convenience of reference.

Reference.

“To examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations”.

Preliminary Conclusions.

That the industrial development of India has not been commensurate with the size of the country, its population, and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole. (Chapter IV).

Principal Recommendations.

1. (a) That the Government of India adopt a policy of Protection to be applied with discrimination along the lines indicated in this Report. (Chapter V).

(b) That discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries. (Chapter VI).

(c) That the Tariff Board (see below) in dealing with claims for protection satisfy itself :—

- (i) That the industry possesses natural advantages;
- (ii) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable; and

(iii) That it will eventually be able to face world competition without protection. (Chapter VII).

(d) That raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible. (Chapter VII).

(e) That industries essential for purposes of National Defence, and for the development of which conditions in India are not unfavourable, be adequately protected if necessary. (Chapter VII).

(f) That no export duties be ordinarily imposed except for purely revenue purposes, and then only at very low rates (Chapter XI); but that when it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition. (Chapter XII).

2. That a permanent Tariff Board be created whose duties will be, *inter alia*, to investigate the claims of particular industries to protection, to watch the operation of the Tariff, and generally to advise Government and the Legislature in carrying out the policy indicated above. (Chapter XVII).

3. (a) That no general system of Imperial Preference be introduced; but

(b) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(c) That, if the above policy be adopted, its application be governed by the following principles:—

(i) That no preference be granted on any article without the approval of the Legislature,

- (ii) That no preference given in any way diminish the protection required by Indian industries.
- (iii) That preference do not involve on balance any appreciable economic loss to India.
- (d) That any preferences which it may be found possible to give to the United Kingdom be granted as a free gift.
- (e) That in the case of other parts of the Empire preference be granted only by agreements mutually advantageous. (Chapter XIII).

4. That the existing Cotton Excise Duty in view of its past history and associations be unreservedly condemned, and that Government and the Legislature start again with a "clean slate", regulating their excise policy solely in the interests of India. (Chapter X).

Subsidiary Recommendations.

5. That the proviso to Section 20 of the Sea Customs Act be repealed, and that Customs Duty be ordinarily levied on goods belonging to Government (paragraphs 285-288).

6. That difficulties in the shape of shipping rebates (paragraph 132), or unfair advantages like dumping (paragraph 133-139), depreciated exchanges (paragraph 140), bounty-fed imports from abroad (paragraph 141), be investigated and, where possible, removed.

7. That industrial development be promoted by giving a more industrial bias to primary education (paragraph 122), and providing opportunities for training apprentices (paragraphs 123-124), and organisations for increasing the mobility of labour (paragraph 125).

8. That no obstacles be raised to the free inflow of foreign capital, but that Government monopolies or

concessions be granted only to companies incorporated and registered in India with rupee capital, such companies to have a reasonable proportion of Indian Directors, and to afford facilities for training Indian apprentices. (Chapter XV).

9. That the Tariff be not ordinarily employed for retaliation, or as a means of aggression (paragraphs 280-284).

10. That the Tariff be elaborated with a view to remove ambiguities, and that the system of specific duties and tariff valuations be cautiously extended, (paragraphs 266-278).

Appendix B.

SUMMARY OF THE MINUTE OF DISSENT.

Causes of Dissent.

1. The main recommendation of the Report has been hedged in by conditions and provisos which are calculated to impair its utility.

2. In places, the language employed in the Report is half-hearted and apologetic.

3. The minority are unable to agree with the view of their colleagues on Excise, Foreign Capital, Imperial Preference and the constitution of the Tariff Board (paragraph 1).

Protection.

There should be an unqualified pronouncement that the fiscal policy best suited for India is *Protection*. (paragraph 2).

Excise.

Excise Duties in India should be restricted to alcohol, tobacco, and such other articles, the consumption of which it is desirable to check in the interests of the community, and to a few articles of luxury. (Chapter 2, paragraph 18).

In accordance with this principle, the Minority hold the emphatic view that for maintaining India's self-respect it is necessary to abolish the Cotton Excise Duty. (Chapter 3).

Imperial Preference.

The minority are in favour of the principle of Imperial Preference, on the distinct condition, that India should in this matter be put on the same footing of freedom as is

enjoyed by the Self-Governing Dominions, and that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary and withdraw preference as may be necessary in the interest of India in all its aspects.

That the condition precedent to any agreement with a British Dominion in trade matters on the basis of reciprocity should be, the recognition of the right of the Indian people to a status of complete equality, and the repeal of all anti-Asiatic laws so far as they apply to the people of India. (Chapter 4, paragraph 44).

Foreign Capital.

The following conditions should apply to foreign companies taking advantage of the tariff protection to industries in India :—

1. Such companies should be incorporated and registered in India in rupee capital.
2. There should be a reasonable proportion of Indian Directors on the Board.
3. Reasonable facilities should be offered for the training of Indian apprentices. (Chapter 5, paragraph 51).

Tariff Board.

The Board should consist of three members and two assessors :—

1. The chairman should be a trained lawyer who has had experience for a reasonable time on one of the High Courts in India.
2. The other two members should be elected by the non-official members of the Indian Legislature; and

3. Two assessors representing trade, commerce and industry by election by the leading Chambers and Mercantile Associations in India.

The assessors should only be called at the discretion of the Board when in their opinion the presence of such assessors will be helpful to the Board in the investigation of any particular question. (paragraph 60).

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PREFACE.

The first part of this work is a reprint with a few changes of my brochure entitled "Our Fiscal Policy", which was published in January 1922, and copies of which were submitted to the Indian Fiscal Commission at the request of the Secretary. A greater portion of this brochure formed a small part of the research work in Indian Finance done by me under the guidance of Professor Cannan at the London School of Economics during 1919-21, as Bombay University Research Scholar in Economics. It was first published in the form of articles in the Journal of the Indian Economic Society in September and December 1921.

In the second part, which deals with "Some aspects in Dominion and British Fiscal Policy", I have made a free use of the standard authorities on the subject. I am particularly indebted to Keith:—Responsible Government in the Dominions; Imperial Unity and the Dominions; War Government in the Dominions; Porritt:—Fiscal and Diplomatic freedom of the British Oversea Dominions; Jebb:—The Imperial conference, and periodical reports of the Tariff Commission, in addition to Parliamentary Papers on the subject.

The Report of the Indian Fiscal Commission was reviewed by me in the Journal of the Indian Economic Society for September 1922. That review has been revised and considerably enlarged and forms the third part of this book.

DEPARTMENT OF ECONOMICS,
UNIVERSITY OF BOMBAY,
January 1923.

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C. N. VAKIL,

OUR FISCAL POLICY.

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INTRODUCTION.

This work is divided into three parts—historical, comparative and constructive. Each part is complete in itself and all three together are intended to provide material for an introduction to the study of our fiscal problems.

The history of Indian Fiscal Policy given in the Report of the Indian Fiscal Commission does not give more information than what was contained in my brochure, "Our Fiscal Policy". In several respects the history reprinted from that brochure in the first part of this work is more exhaustive; it gives the exact references to original sources of information, and contains important extracts from the original correspondence on the subject. For the sake of convenience, especially in presenting statistics, the history has been divided into several periods as under:— First period—1861 to 1874; Second period—1875 to 1898; Third period—1899 to 1913; and Fourth period—1914 to 1920.

The second part deals with some aspects in Dominion and British fiscal policy. We talk of a Dominion status for India. Political and fiscal freedom in the Dominions have advanced side by side. A study of the main features of Dominion fiscal policy and especially of the struggles which the Dominions had in achieving fiscal independence is, therefore, of great interest to us at this juncture in our history. Important changes in fiscal ideas and practice in the dominant partner of the Empire are bound to have some effect on the other parts of the Empire, and it is therefore necessary for us to have some idea of the chief landmarks in British fiscal policy. With this general view in mind, without attempting an exhaustive study of British and Dominion Fiscal Policy, I have given in this part

those of its leading features which in my opinion are of value to us in the future determination of Our Fiscal Policy.

I tender no apologies for giving long extracts from the original correspondence between the Dominions and the British Government regarding Dominion Fiscal Policy. In the first place, they are an interesting contrast to the similar extracts relating to Indian Fiscal Policy given in the first part. Secondly, they are a good guide to the nature of the struggle which we may anticipate before India obtains complete independence in fiscal matters. Thirdly, they show the close connection between political and fiscal freedom.

The third part contains a critical review of the Report of the Indian Fiscal Commission and chiefly of its constructive proposals. Adequate consideration has been given to both the majority and the minority recommendations.

Whether the interests of India alone have been the determining factor in framing Our Fiscal Policy—this should be the test of the future fiscal arrangements of our country. Such an attitude need not be inconsistent with the duties of India towards the Empire as a whole. Those who have followed the discussions at the Imperial Conferences and elsewhere, will realise that no member of the Empire, including England, has been in the past or is now, willing to subordinate her national interests, for the sake of what is known as Imperial unity. Every member is ready to do her part for such a unity, without doing injury to her national interests. The reasons for India to adopt such a policy are stronger than in the case of the other and smaller members of the Empire.