

# INDIAN TARIFF BOARD

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Enquiry regarding the Grant of Protection

TO THE

## PRINTERS' INK INDUSTRY

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EVIDENCE TENDERED BY THE

APPLICANT FOR PROTECTION.

*(The Hooghly Ink Company.)*



CALCUTTA : GOVERNMENT OF INDIA  
CENTRAL PUBLICATION BRANCH

1924

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## Press Communiqué.

In a communiqué dated the 17th April 1924, the Tariff Board outlined the procedure they had decided to adopt in their enquiries into the industries referred to them in the Resolution of the Government of India in the Commerce Department No. 38-T., dated the 10th April 1924. The first stage was to obtain the evidence of the applicants for protection, and the second to publish this evidence—whether written or oral—so that all interested might give their opinions after they had had an opportunity of considering the case put forward. The evidence tendered by the applicants for protection in the Printers' Ink industry has now been published and copies may be obtained from the Manager, Central Publication Branch, 8, Hastings Street, Calcutta, price, Eight annas.

2. Only one firm—The Hooghly Ink Co.—has addressed the Board regarding Printer's Ink, and the written and oral evidence tendered by them is now published. The request made is that the Company should be exempted from the payment of duty on certain imported materials on which 15 per cent. is levied, whereas imported ink pays only 2½ per cent., or, in the alternative, that the duty on imported ink should be raised to 15 per cent.

3. The Board will be glad to receive written representations from all Public Bodies, Associations, firms or persons who desire to be heard regarding the grant of protection to the Printers' Ink industry.

Oral evidence will be taken as follows:—

At Calcutta, between the 21st August and the 6th September.

At Bombay, between the 9th and the 30th September.

As Madras, between the 1st and the 14th November.

At Rangoon, between the 19th November and the 2nd December.

It is necessary that those who desire to supplement their written representations by oral evidence should inform the Board with the least possible delay, so that the dates for taking evidence may be definitely fixed. This is particularly important for those who desire to be examined at Calcutta, where oral evidence will first be taken. The Board will leave Simla on the 29th July and, after visiting Dehra Dun, Lucknow and Katni will arrive at Calcutta on the 10th August. The following dates have been fixed by the Board as the latest dates for receiving written representations or requests for taking oral evidence:—

Requests for oral examination at Calcutta. 12th August.

Submission of written representations by those who desire to be examined orally at Calcutta . . . . . 19th August.

Requests for oral examination at Bombay.	22nd August.
Submission of written representations by those who desire to be examined orally at Bombay . . . . .	1st September.
All other written representations . . . . .	30th September.

The programme for oral examination at Madras and Rangoon will be arranged later. All requests for oral examinations should be addressed to the Secretary to the Board, No. 1, Council House Street, Calcutta, and should be despatched so as to arrive on or after the 1st August, the date on which the Board's office will open at Calcutta.

## APPENDIX I.

Table showing quantity and value of imports of type metal into India during the past three years (1925-26 to 1927-28).

	Quantity.			Value.		
	1925-26.	1926-27.	1927-28.	1925-26.	1926-27.	1927-28.
	Cwts.	Cwts.	Cwts.	Rs.	Rs.	Rs.
Bombay . . . . .	(Collector of Customs reports that separate figures for type metal are not available in respect of Bombay.)					
Bengal . . . . .	614	762	1,161	22,708	26,163	34,432
Sind . . . . .	60	62	20	2,821	2,162	637
Madras . . . . .	920	1,170	1,180	33,543	41,598	38,557
Burma . . . . .	...	40	70	...	1,322	2,265
Total imports . . . . .	1,594	2,034	2,431	59,072	71,245	75,891

## APPENDIX II.

Table showing quantity and value of imports of printing type into India during the past three years (1925-26 to 1927-28.)

	Quantity.			Value.		
	1925-26.	1926-27.	1927-28.	1925-26.	1926-27.	1927-28.
	Cwts.	Cwts.	Cwts.	Rs.	Rs.	Rs.
Bengal . . . . .	892	523	...	1,21,742	90,855	...
Bombay . . . . .	433	914	...	70,821	1,36,871	...
Sind . . . . .	119	88	...	23,147	18,516	...
Madras . . . . .	255	235	...	29,018	45,269	...
Burma . . . . .	345	147	...	65,959	28,731	...
Total imports . . . . .	2,044	1,907	1,899	3,10,637	3,10,292	2,34,057

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# TARIFF BOARD

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## The Protection of Young Industries

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Representation submitted to the  
Tariff Board by the Tata Iron and  
Steel Company, Limited.

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*Jamshedpur, August, 1923.*



CALCUTTA.  
SUPERINTENDENT<sup>s</sup> GOVERNMENT PRINTING, INDIA  
1923

# The Protection of Young Industries.

## I.

The proposal that temporary protection should be afforded in India to the Steel Industry as a young and struggling industry is in no way repugnant to the doctrine of free trade.

Self-determination is to-day an accepted principle of nationality. Every people is held to be acting rightly in desiring to govern itself even though such a Government may in the beginning be less efficient and less economical. But the desire to promote and foster industries of national importance may be just as much an effect of the national spirit as the desire for self-government and the cry of "Home Steel" for a country as reasonable and as right as the cry of "Home Rule" provided that the industry is economically sound. Even the staunchest adherents of Free Trade have admitted this. The argument cannot be stated better than it has been stated by John Stuart Mill himself in his *Principles of Political Economy*.

"The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field; and besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional. 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 ever be 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."

## II.

The same doctrine has been very carefully examined by Professor Taussig with special reference to the growth of the steel industry under protection in America. His conclusions are given in his book "Some aspects of the Tariff Question" published in 1918, and as Professor of Economics at Harvard University his opinions are entitled to great weight.

"The form in which the argument most commonly appears in connection with our recent industrial development is the statement that protection ultimately lowers prices. It is admitted (grudgingly perhaps—and sometimes questioned or even denied) that the first effect of the imposition of a duty is to raise the price of the dutiable article. But domestic competition ensues, it is said, and eventually price goes down. And when it is asked why the domestic producer, if he can bring his commodity to market after all at the lowered price, really needs a protecting duty, the answer is that he needs

it at first, during the early stages. He needs to learn; he needs time to develop the full possibilities. All this, it is obvious, is simply the young industries argument."

\* \* \* \* \*

"A different question, and one not so simple, is whether there is any prospect of gain from protecting young industries in a country as fully developed as the United States has been since 1860; whether, for so robust and full grown a social body as this has become, ridicule is not a sufficient answer, whatever the terms in which the argument is stated. In that earlier formulation of the argument which won a respectful hearing from the fair-minded, stress was laid on the general conditions of the country imposing protective duties. It was a young country that was spoken of by Mill, rather than one having young industries. List's well-known plea rested on his doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage, and on the advantages of protective duties for furthering and easing this transition. He found the United States in this stage of development when he was sojourning here during the period of our early protective movement. On his return to Germany, he found his own country in a similar stage, and agitated for nurturing protection there also. The possibility of good results from protective duties under such conditions is now denied by few. But does the same possibility exist when this particular period of transition is past, when the manufacturing stage has been fairly entered, when the question no longer is whether manufacturing industries shall be established at all, but whether some particular kinds of manufactures shall be added to others already flourishing?"

"Notwithstanding early prepossessions to the contrary, I am disposed to admit that there is scope for protection to young industries even in such a later stage of development. Any period of transition and of great industrial change may present the opportunity. No doubt the obstacles to new ventures were greater during the first half of the nineteenth century than they have come to be in the modern period. The general diffusion of technical knowledge and technical training, the lessening of secrecy in trade processes which is the inevitable result of large-scale operations, the cessation of regulations like the early British prohibition of the export of machinery, the greater plenty of expert mechanics and machinists—all these factors tend to facilitate the establishment of industries whose difficulties are no more than temporary and transitional. None the less the early stage of any new industry remains difficult. In every direction economists have come to recognise the immense force of custom and routine, even in the countries where mobility and enterprise are at the highest. Departure from the habitual paths of industry brings unexpected problems and difficulties, false starts and initial losses, often a fruitless imitation of familiar processes before new and better ones are devised. All this is made more trying when a young competitor is striving to enter the market against a producer who is established and well equipped. The obstacles in the way of promising industries though doubtless not so great as they were a century ago, remain great. The experiences of the United States during the last fifty years, some of which will be described in the following pages, indicate that there remains in modern times at least the possibility of acquiring a self-sustaining industry by aid during the early stages."

\* \* \* \* \*

"Further, the length of time to be allowed for the experiment should not be too brief. Ten years are not enough; twenty years may be reasonably extended; thirty years are not necessarily unreasonable. When writing of the earlier stages of United States tariff history, I intimated that the first sharp break, in 1810—20, from the established ways of industry, and the very first ventures in new paths, were sufficient to give the needed impetus, and that thereafter protection might have been withdrawn. An opinion of this sort I should not now support. What has already been said of the



tenacity of old habits and the difficulties of new enterprises justifies the contention that a generation, more or less, may elapse before it is clear whether success has been really attained."

### III.

The arguments in favour of initial protection put forward by Professor Taussig apply with even greater force to the present condition of India, and the arguments against it in the same passage have no application. This country is in the same inevitable stage of transition from the agricultural and extractive stage to the manufacturing stage that List found in America and requires the same nurturing protection that he advocated in Germany to ease this transition. The steel industry here is really an "infant industry." If the war years during which artificial protection was afforded to the steel industry in India and which actually did great harm to the plant then installed in the country owing to the constant strain placed on both men and machinery are excluded, the industry in this country may fairly be said to have just entered on the manufacturing stage, and even the search and development of the necessary raw materials has not yet been completed. Nor, a very important point, have the railways as yet afforded that intensive and economical development of transportation which has been so marked a factor in the development of the great steel industry of America. For the manufacture of steel, India still has to import skilled labour. It still has to compete with that immense force of custom and routine, of which Professor Taussig speaks, and which is well known to be the greatest problem of Indian manufacture. If the reasoned conclusion of an enquirer such as has been quoted is that the giant American industry required protection even after its firm establishment before 1900, how much greater is the force of such an argument when applied to the present condition of the Industry in India? And how great a benefit may we expect to the country from its application?

### IV.

The principle is not new. It is admitted by all civilised Governments in the application of the patent laws which are intended to provide that an initial privilege to the producer of a new thing or of an old thing in a new manner and a consequent burden on the consumer will be balanced by ultimate gain. One thing is certain and that is that in Germany and America the two greatest examples of the application of protection to this industry as a growing industry there has been an extraordinary advance in all the technique and organization of manufacture since the adoption of protection with a consequent reduction in price. India which possesses the same natural advantages should be given the same opportunities. The burden on the consumer, if the import duty of 33½ per cent. which has been suggested is adopted, can hardly be weighed in the scale against the certain ultimate advantage.

### V

But it does not by any means follow that the whole tax will fall upon the actual consumer. As Professor Taussig points out in his review of the effect of protection on steel rails in America, it would be hazardous to reckon how far the tariff system in keeping up the price of rails brought a burden on the general public, how far it simply lessened the profits or increased the losses of railway promoters and investors. The same considerations will apply to many Indian industries. Also the relation between the cost of constructing railways and the rates charged for railway service is a loose and uncertain one and steel rails were a cardinal factor during precisely these years in enabling railway traffic to be conducted more effectively and charges to be lowered. Also had rails not been produced within the country, the increased demand would have led to a great increase in the price of

imported rails which would probably not have been less and might have been considerably higher than the duty imposed. A similar condition existed in India after the War. Had the country not been able to make steel rails within its own territories, exorbitant prices would have been extracted for it during the years 1918—20 and either must have been paid or the essential minimum necessary to keep its transportation system alive must have been abandoned. Although we cannot hope to see in the immediate future any such development of railway communications in India as occurred in America during the last quarter of last century, these considerations must be given full weight.

## VI.

Growth of  
the Iron and  
Steel  
Industry in  
America.

No economic development of the last century is so striking as the rise of the American steel industry. Whatever the ultimate cause this rise has occurred simultaneously with the enforcement of a protective tariff so rigorous as to be for many years practically prohibitive. If the free trader argues, as he commonly argues, that this has not followed as a result of the protective duty, but in spite of it he cannot at any rate deny the fact, and the obvious inference is that whatever else a protective tariff may have done, it has at any rate not damaged the industry or the industries dependent upon it for supplies of raw materials, a point of which much has been made in this country and on which many gloomy prophecies have been delivered. Such prophecies commonly proceed as do the majority of the arguments on any fiscal question from a lively appreciation of the prophet's own interests. Commonly also they entirely ignore the actual facts of the world's economic history and are based on purely deductive and inaccurate reasoning, a method which has now been largely discredited with economists in favour of the more accurate system of testing economic hypotheses by actual results as in other branches of science. It cannot be proved with certainty that the rise of the American Steel industry has been due to the tariff. No economic fact can be proved with certainty, but it can be shown that there is a very strong probability that protection during the initial stages was one of the principal if not the principal contributing cause to that extraordinary phenomenon of economic history.

## VII.

The facts are plain enough. In 1870 Great Britain was by far the largest producer of pig iron. It may be explained here that most of the pig iron produced in the world is eventually converted into steel. America and Germany followed a long way behind and yet America had been manufacturing for nearly half a century. The point is important because it shows that the industry in America had by that time long passed the 'Young Industry' stage to which the Indian industry has hardly yet even attained. The actual figures in thousands of tons of production were these:—

	Great Britain.	United States.	Germany.
1870 . . . . .	5,963	1,665	1,391

The subsequent comparative development in these three countries of which the first enjoyed a long start in the traditional processes of manufacture and the advantages of free trade and the others endeavoured to counter these advantages by the imposition of a tariff is instructive.

	Great Britain.	United States.	Germany.
1880 . . . . .	7,749	3,835	2,729
1890 . . . . .	7,904	9,203	4,658
1900 . . . . .	8,960	13,789	8,348
1910 . . . . .	10,012	27,304	14,556

That is to say in the free trade country which started with the enormous initial advantage possessed by a country that has commenced an industry and made a success of it long before its competitors and which controls the world's market and the world's freights as Great Britain did in 1870, the increase in production was less than 100 per cent. In one of the countries in which the tariff was used to foster the industry, the increase in production was over 1,600 per cent. and in the other over 1,000 per cent. Figures such as these can hardly be explained away by deductive reasoning. "If, as the extreme protectionists contend, the growth of domestic industry is in itself proof of the success of their policy, a degree of success was attained in this case that could admit of no cavil." (Professor Taussig, *loc. cit.*)

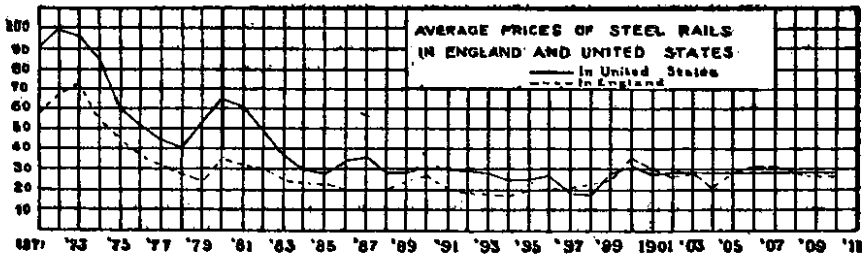
How far was this growth due to protection? On pig iron the actual duty imposed from 1870 to 1894 was seven dollars per ton: from 1894 to 1909 it was four dollars per ton. On steel rails the rate was twenty-eight dollars per ton from 1870 to 1883: seventeen dollars from 1883 to 1890: about thirteen and a half dollars from 1890 to 1894 and seven dollars and eighty-four cents from 1894 to 1909. Throughout the initial period from 1870 to 1897 the duties were levied by weight and were highly protective. On rails the duty was about one hundred per cent. on the foreign price from 1870 to 1897 and between fifty and eighty per cent. from 1883 to 1894. No such prohibitive duty has been asked for in this country although our industry is in a very backward condition compared with that of the industry in the United States in 1870. At that time the production of the United States was more than one-quarter that of Great Britain. The production in India to-day is only about one-twentieth of the production of Great Britain.

VIII.

The increase in the production of steel rails in America which occurred during these years has been beyond all precedent. It has risen from no production at all in 1870 to one million tons annually in 1880 to nearly two million tons in 1890, and after that it has been regulated solely by the needs of the rails. It is true that there has during this period been enormous railway development, but the rails could have been obtained from foreign markets and at the start could have been obtained more cheaply from them. The United States preferred the development of their native industry to the policy of buying in the cheapest market with the results that have been shown.

IX.

That they were justified in adopting this policy is proved by the fall in domestic prices. The following chart shows this very clearly:—



For the first twenty-five years until about 1895 the gap between the prices of foreign rails and domestic prices is great, and so great a difference could not have persisted had it not been for the high duty. For a long time the purchaser of all rails paid a tax because of the duty, and that difference

in price represents the initial sacrifice made by the American nation in return for the ultimate advantage which they have gained. From the year 1896 the domestic price fell to the level of the British price, for a time it even fell below it, and at no time since has it been substantially above this price until the recent depreciation of exchanges upset the prices of the whole world. For many years the American price remained perfectly steady. Here again the protectionist will point with pride, and this time with pride more clearly justified. The object of protection to young industries—the ultimate fall in price to the foreign level—seems to have been obtained. The course of events which thus is sharply defined for rails is typical of what has happened with all the cruder forms of iron and steel: extraordinary increase of domestic production: domestic prices at first higher than the foreign: continuance of imports for a while then their cessation; reduction of the domestic price; finally equality of price for the foreign and American products. To repeat the outcome seems to have been precisely that predicted by the advocates of protection to Young Industries. True the term 'Young Industries' is rarely applied to such a giant as the American Iron industry. But as has been pointed out, the contention that protection operates in the end to lower prices is simply the young industries argument in a different turn of phrase. Substantially it is this argument which has been advanced and which seems to be verified by the actual course of events. The protectionist may point with pride to the final outcome. In the end his object was attained; the industry became self-sufficing need no further props, eventually supplied its product as cheaply as could be done by the now fairly beaten foreigner. No one can say with certainty what would have been and the bias of the individual observer will have an effect on his estimate of probabilities. The free trader impatient with the fallacies and superficialities of current protectionist talk will be slow to admit that there are any kernels of truth under all this chaff. What gain has come will seem to him a part of the ordinary course of progress. On the other hand, the firm protectionist will find in the history of the iron trade conclusive proof of brilliant success. And very possibly those economists who, being in principle neither protectionists nor free traders, seek to be guided only by the outcome in the ascertained facts of concrete industry, would render a verdict here not unfavourable to the policy of fostering "national industry."

## X

That this judgment is fair will be admitted by all who prefer to argue from facts rather than from prejudice. The history of the economic development of the steel industry in Germany is practically the same. The present position of India is very similar to that existing in those great countries when they first started on their successful campaign for the development of this national industry. India has the same enormous reserves of iron ore, coal and suitable fluxes. It is in the same stage of transition from agriculture to manufacture. It is faced by the same competition from foreign producers and it has the same expectation of large railway and industrial development ultimately within its own country. Moreover, at its doors are the large and constantly growing markets of the far East where already Indian pig iron has opened a large and increasing export trade.

## XI.

### The Effect of Foreign Competition.

The growth of the iron industry in Europe and the States of America, the long start obtained by them has placed those countries in a position that makes the development of this young industry in India almost impossible or at least very precarious without assistance from the country. As John Stuart Mill says, it cannot be expected that individuals should at their own risk or rather to their certain loss introduce a new manufacture and bear the burden of carrying it on until the producers have been educated up to

the level of those with whom the processes are traditional. Yet this is precisely what has been done in India hitherto. It is extremely doubtful whether the producers in India can continue to bear this heavy burden in the present disturbed condition of the world with the depreciated exchanges, the dislocation and inefficiency of domestic traffic conditions, and the intensive dumping that have followed on the War.

## XII.

The history of the American iron trade after 1870 has been to a very great extent the history of transportation. Compare the position in that country with this. In both the cheap carriage of the ore and coal is the indispensable condition of the smelting of the one by the other. In America, in the carriage of iron ore and coal the methods of railway transportation were developed to the utmost. Every possible use has been made of water transport and the transfer from rail to ship and from ship to rail on the great lakes, the carriage in the ship itself and the handling of the materials is effected at astonishingly low cost. At every stop direct manual labour has been excluded and the use of machinery enables the producer to move enormous quantities of raw materials as cheaply as possible. The railways have been raised to the maximum efficiency for the rapid and economical carriage of bulky freight; the plant has been made larger and stronger, the paying weight increased in proportion to the dead weight, the ton mile expense lessened by heavier rails, larger engines, longer trains and easier grades, the mechanism for loading, unloading, and transhipping perfected to the last possible degree. Compare with this the present condition of the Indian Railways, nineteen-twentieths of the capital in which belongs to the people of the country. Even now the raw materials required by the industry cannot all be carried by the railways; coal costs have increased out of all reason largely owing to the dislocation of traffic that followed on the War; and freights have actually been raised while other prices are falling. If a comparison is made with conditions in the older countries, the difficulties of the industry in competing with these are at once apparent. And another condition that applies peculiarly to this country are the giant combinations and trusts in the older countries. Owing to their size and organization these can always produce more cheaply than, apart from any question of dumping, a young industry growing up under the conditions that we have described in India. They will not be able to do so permanently. They will probably not be able to do so for very long, but undoubtedly they can do so at the start and until the steel industry in this country is firmly established.

## XIII.

The original doctrine of free trade presupposed a fair and normal exchange and distribution of the world's wealth. It certainly took no account of the abnormal conditions existing at present which largely result from the desire of all producing countries to recover and extend their markets after the dislocation caused by the War. In these abnormal conditions the depreciation of the foreign exchanges have played a very large part. But legislation intended deliberately to foster and preserve the industries of the producing countries threatened by total extinction as a consequence of the War has also contributed greatly. Bounties and freight concessions have been granted in some countries for export trade, in others, and in fact practically in all countries except England and India, customs barriers have been erected to prevent unfair competition from abroad, full use has been made by the exporting countries of the depreciation in their currencies, and even in England prices for export have ruled consistently for over a year considerably below the prices for domestic consumption. All this is very unlike the conditions for the exchange and distribution of production between the various countries of the world contemplated by the Free trader, and it is not at all

Dumping and  
Depreciated  
Exchange

impossible that the leading exponents of that doctrine confronted with conditions which had never occurred when they laid down its principles and which they could not have anticipated might have altered those principles to meet the altered conditions. The War has changed much for our generation, but there is hardly any sphere of human activity where the change has been so marked and so unprecedented as this. It is all very well to advise a country to buy in the cheapest markets, but in these abnormal conditions there is no saying which is the cheapest market or indeed that if it abandons its own industries it will eventually be able to obtain its needs from those countries which are now eager to supply it on any terms even though these may mean their own economic ruin within a very short space of time. It is the abnormal and temporary nature of this constantly recurring crisis through which the world is passing that justifies countries in endeavouring to prevent the unfair competition that has resulted from it. Even before the War such a doctrine was accepted by leading economists. The problems of dumping have been dealt with from a free trade point of view in Professor Taussig's Presidential address to the American Economic Association in 1904. In this he has laid particular stress on the principle that where dumping is temporary and will not continue indefinitely, the harm it does to the country that suffers from it will ordinarily be much greater than the advantage which that country will obtain by buying in the cheapest market.

#### XIV.

" 'Dumping,' he said on that occasion, 'I take to mean the disposal of goods in foreign countries at less than normal price.' It can take place, as a long-continued state of things, only where there is some diversion of industry from the usual conditions of competition. It may be the result of an export bounty, enabling goods to be sold in foreign countries at a lower price than at home. It may be the result of a monopoly or effective combination, which is trying to keep prices within a country above the competitive point. Such a combination may find that its whole output cannot be disposed of at these prices, and may sell the surplus in a free market at anything it will fetch—always provided it yields the minimum of what Professor Marshall happily calls 'prime cost.'

" Now, if this sort of thing goes on indefinitely, I confess that I am unable to see why it can be thought a source of loss to the dumped country; unless, indeed, we throw over all our accepted reasoning on international trade and take the crude protectionist view *in toto*. If one country chooses to present goods to another for less than cost; or lets its industrial organization get into such condition that a monopoly can levy tribute at home, and is then enabled or compelled by its own interests to present foreign consumers with goods for less than cost—why should the second country object? Is not the consequence precisely the same, so far as that other country is concerned, as if the cost of the goods had been lowered by improvements in production or transportation, or by any method whatever? Unless there is something harmful *per se* in cheap supply from foreign parts, why is this kind of cheap supply to be condemned?

" The answer to this question seems to me to depend on the qualification stated above—if *this sort of thing goes on indefinitely*. Suppose it goes on for a considerable time, and yet is sure to cease sooner or later. There would then be a displacement of industry in the dumped country, with its inevitable difficulties for labour and capital, yet later when the abnormal conditions ceased, a return of labour and capital to their former occupations, again with all the difficulties of transition. It is the temporary character of dumping that gives valid ground for trying to check it.

" A striking case of this sort has always seemed to me to be that of the European export bounties on sugar which for so long a period caused continental sugar to be dumped in Great Britain. These bounties were not established of set purpose. They grew unexpectedly, in the leading countries,

out of a clumsy system of international taxation. They imposed heavy burdens on the exchequer, as well as on the domestic consumer, in the bounty-giving countries; and they were upheld by a senseless spirit of international jealousy. Repeated attempts to get rid of them by international conferences show that the cheap supply to the British Consumer, and the embarrassment of the West Indian planter and the British refiner, rested not on the solid basis of permanently improved production, but on the uncertain support of troublesome legislation. It might well be argued that these conditions would come to an end sooner or later. The longer the end was postponed, the worse was the present dislocation of industry and the more difficult the eventual return to a settled state of things. No doubt these were not the only considerations that in fact led Great Britain, the one great dumping ground, to serve notice that she would impose import duties equal to the bounties, unless these were stopped. Perhaps this decisive step would have been taken even if it had appeared that the bounties were to continue as a permanent factor in the sugar trade. But it is in their probably temporary character that the sober economist finds justification for the policy that led to their abolition. At all events there is tenable ground for arguing that Great Britain, in causing them to be stamped out, acted not only in the interests of the much abused consumers of sugar on the Continent, but in the permanent interests of her own industrial organization."

#### XV.

The principles stated in this extract apply very clearly to the conditions of the import trade in Iron and Steel into India during the past two years. The dumping due to depreciated exchanges which has led to such extraordinarily low prices of steel coming from Belgium and the continental markets cannot go on indefinitely. In Germany where the currency has fluctuated in the past 15 months from 350 marks to the £ to 25 million marks to the £. it is obvious that the producing and dumping country has reached a stage of economic disorganisation which cannot possibly continue without collapse. In Belgium, although the fluctuation has not approached this, there has still been a steady and continual depreciation of the currency and each fall has been followed by lower and yet lower prices for the Indian export trade. This has naturally re-acted upon English competition. The dumping which has been proved in the case of English steel by the continuance of lower prices for export than for home consumption is also the result of the same state of affairs and cannot continue indefinitely. This is conclusively proved by the fact that during the last two or three months on the cessation of the competition from the Continent owing to the disorganization caused by the occupation of the Ruhr Valley, this difference in price between import and export prices ceased altogether for two or three months and for that period the prices were the same. Continental competition, however, is now re-asserting itself as a result of the further depreciation of the German and Belgian currency and at once the English manufacturer has again commenced meeting such competition by selling for export at a price below the domestic price. As steel cannot be produced in England at the prices at which it is exported to this country (apart from other evidence this has been recently admitted by the Chairman of a large English Company in public), it is plain that this dumping also cannot continue indefinitely and is intended deliberately to meet the depreciation of the continental exchanges in foreign markets.

#### XVI.

Here, therefore, is exactly the case given in Professor Taussig's statement of the evils of dumping. It may be expected that unless it is checked, such dumping will continue until India is unable to carry on its normal industries. There will then be in this country the displacement of industry of which

he speaks with its inevitable difficulties for capital and labour, and the effect will be so disastrous as to far outweigh any temporary advantage which the country can obtain by buying for a short time in the cheapest market. It is this temporary character of the dumping that gives valid ground for checking it, and, as we have shown, it must, by its very nature, be temporary. But in using the word 'temporary,' it must be remembered that, as Marshall has pointed out, no accurate results can be expected from the application of any economic principle unless a considerable period of time is taken into account. By 'temporary' here is meant five or ten or fifteen years as opposed to a hundred. It is the long view that must condition all economic theory. The same system of bounties exists in the shape of direct bounties for export, special reductions in freight, purchase of coal and coke, etc., in depreciated marks from Germany, in Belgium and on the Continent generally for the export of iron and steel as the export bounties on sugar, to which Professor Taussig refers. Just as Great Britain in that case was the one great dumping ground for continental sugar, so is India the one great dumping ground for steel in the world by reason of its large demand, the cheap freight available owing to the fact that it is a large exporter of food grains, and the fact that practically every other country in the world, including the self-governing ones, has already erected a wall against such unfair competition.

#### XVII.

Direct bounties for export can be proved easily enough. But it is impossible to prove accurately the indirect concessions and advantages which we have indicated. They are no evidence of superior natural advantages or of superior manufacturing skill. The longer the end is postponed the worse will be the present dislocation of industry and the more difficult the eventual return to a settled state of things. Owing to the difficulties of getting at the facts it is impossible for India to do what Great Britain did in the case of the sugar bounties and to put a stop to those conditions by imposing countervailing duties, but this country can and should do this indirectly by raising the protective tariff against countries with depreciated exchanges, and if the suggestion for a duty of 33½ per cent. is accepted, this could be raised to 50 per cent. in the case of such countries or a sliding scale imposed as in the case of Canada which would vary as the exchange rose and fell from normal. Such a sliding scale might well be provided in all cases as exchange is an important factor in the problem.

#### XVIII.

It has been shown that there is strong *prima facie* ground for holding that the extraordinary development of the iron and steel industry in America during the last quarter of the last century was the direct result of the system of protection afforded. It would be easy to multiply such instances. Similar facts might be proved for other industries in the United States. Many similar examples can be found in the economic history of other countries, Germany, Canada and Japan, and in fact there is no producing country in the world with the single exception of England which has not sought to develop this national industry and succeeded in developing it by some form of protection. England would probably have adopted it were it not that by reason of the advantage which it possessed in starting the industry before other countries it was already a large exporting country before competition arose. It has been shown that such protection afforded to a young industry is not opposed to the doctrine of free trade and is indeed advocated by its principal adherents. It has also been shown that the position of the industry in India is peculiarly similar to that of the industry in America and Germany when protection was first adopted by those countries and that similar results, although not on so large a scale or in so short a time, may be confidently

Summary



expected to follow its adoption in this country. It has also been shown that time must be given for the effect of such measures and that the measures which have been advocated are far lower than those adopted by other countries. In the first pamphlet the Indian Steel Industry as represented by the Tata Iron and Steel Company has been dealt with specifically, but the arguments adduced here are applicable to all young industries in the country whose development is economically sound and are put forward confidently in order to show that protection in this shape and for this purpose is not opposed to the general doctrine of Free Trade and is indeed approved by it.

# TARIFF BOARD

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## The Protection of Young Industries

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Representation submitted to the  
Tariff Board by the Tata Iron and  
Steel Company, Limited.

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