

# INDIA BEFORE THE CRISIS

# India Before the Crisis

*By*

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## PREFACE

I should be very ungrateful if I did not thank Prof. Chiranjiva Lal of the Dyal Singh College, Lahore, for kindly reading the entire MS. of this book and suggesting improvements, and Dr. Bhupal Singh, Senior Professor of English in the same College and Doctor of Literature, who knows enough of both economics and mathematics to be of material help to a teacher of economics. I am also indebted for assistance to L. Ram Labhaya, Librarian, Punjab Public Library, and L. Labhu Ram, Librarian, Punjab University Library.

The present volume furnishes the historical background for the study of problems arising out of the crisis which form the subject matter of *India in the Crisis*. It deals largely with facts and problems of the past, but a knowledge of the past is essential for a proper understanding of the present.

Unfortunately the gravity of the economic situation is not sufficiently realised either by officials or non-officials. Our leaders would talk less about *gur*, *churkha* and *khaddar* if they had any perception of the gigantic forces released by scientific progress in recent years.

The collapse of agricultural prices has ruined the peasantry. But there is little recognition of this fact in our system of land taxation. The peasant, whose 'net assets' have completely disappeared, is still supposed to be able to pay the land revenue at the old rate of one-quarter 'net assets.' And a system of assessment has been devised which, in the name of one-quarter 'net assets,' will, in effect, impose a heavy tax on the subsistence of the worker.

LAHORE,  
September 26, 1935.

BRIJ NARAIN

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### ERRATA

- P. 30, line 3. Read 247 for 127
- F. 51, line 21. Read *variable* for valuable
- P. 67, line 11. Read *Numbers* for Members
- P. 129, line 18. Read *Self-Sufficiency* for Self-Insufficiency.

## APPENDIX

### THE YEAR 1934-35

The League of Nations *Survey* of world economic conditions in 1933-34 shows the beginnings of a slow revival of trade and industry. Some countries, *e.g.*, the United Kingdom, may be said to have definitely turned the corner. What is the extent of the 'recovery' in India?

The course of prices (wholesale, Calcutta) is shown by the following statement:—

	1934.		1935.	
	January.	July.	January.	March.
<b>FOOD-GRAINS—</b>				
Oil-seeds ..	61	71	79	73
Pulses ..	78	83	94	84
SUGAR ..	124	127	126	124
TEA ..	149	139	106	100
OTHER FOOD-GRAINS ..	93	99	103	92
OIL-SEEDS ..	75	99	110	94
OIL, MUSTARD ..	48	55	121	61
<b>TEXTILES—</b>				
Jute, raw ..	42	35	147	47
Jute manufactures ..	79	74	81	78
Cotton, raw ..	75	73	86	71
Cotton manufactured	114	115	119	119
Other textiles (wool and silk) ..	69	61	64	66
HIDES AND SKINS ..	74	44	60	55
METALS ..	102	101	99	97

	1934.		1935.	
	January.	July.	January.	March.
OTHER RAW AND MANU- FACTURED ARTICLES	99	95	88	82
BUILDING MATERIALS				
(TEAK WOOD) ..	124	124	114	119
ALL COMMODITIES ..	90	89	94	87

It is impossible to speak of any rise of prices in India. Prices had risen in January, 1935, but the trend is downwards again. The position in March, 1935, was generally the same as it was a year before.

#### FOREIGN TRADE

India is a debtor country. The Home charges (as we have seen) amount to about £31 millions annually; to this may be added £15 millions which represent miscellaneous trade and other obligations. Roughly, to meet these payments India requires a surplus of over 60 crores of exports annually. Before the outbreak of the crisis this was the usual trade balance in our favour; abnormally heavy net exports took place in the years 1923-24 to 1925-26. Net exports fell to  $3\frac{1}{2}$  crores in 1932-33, recovered to about 35 crores in 1933-34, and fell to 23 crores in 1934-35. As compared with the preceding year, exports of Indian merchandise increased by about 5 crores in 1934-35 (from 146 to 151 crores), but imports increased by no less than 17 crores (from 115 crores to about 132 crores). The position is unsatisfactory.

*Gold Exports:*—We are avoiding bankruptcy only through gold exports, which amounted to  $65\frac{1}{2}$  crores of

rupees in 1932-33, 57 crores in 1933-34 and 52½ crores in 1934-35. We have started exporting silver as well. The net exports of silver in 1934-35 amounted to over 2 crores of rupees. The net *imports* of silver between 1927-28 and 1933-34 were as follows:—

	Net Imports of Silver (private). In Lakh rupees.		
1927-28	..	..	.. 13,85
1928-29	..	..	.. 13,04
1929-30	..	..	.. 11,89
1930-31	..	..	.. 11,65
1931-32	..	..	.. 2,59
1932-33	..	..	.. 73
1933-34	..	..	.. 1

There is no change in the Government attitude towards gold exports. Our Finance Member “can see no sufficient reason for placing them in a different category from exports of any other commodity of which India has a surplus . . . .”! There is no difference between gold and any other commodity which India exports, presumably because we grow crops of gold every year, as of cotton, jute, or oil-seeds!

The following Associated Press message will be read with interest:—

“Simla, May 17. Information from Madras shows that Mr. Aiyengar, a Congress member, has given notice of a Bill prohibiting the export of gold. The Bill cannot be introduced



without the Governor-General's sanction, which Mr. Aiyengar is not likely to obtain.\*

"The Bill, therefore, will probably not come up at the next session. The reason for the refusal of sanction is said to be that the Government, which is the best judge in such matters, will not permit a disturbance of the market by any false hopes of the passage of a private Bill. The Government seems, in fact, to be more convinced than ever of the need of allowing gold export, which, by swelling the balance of trade, is enabling India to meet her extensive foreign obligations. Indeed, it is argued in export quarters that, owing to the serious fall in India's exports through certain countries like Germany and Italy curtailing purchases of Indian goods, the chief factor in the maintenance of a favourable balance of trade for the next four or five years will be through the export of surplus gold and silver, thereby obviating the necessity of raising large sterling loans to meet the annual London obligations.

"It is said that precious metal is stored so extensively in India that the high price of gold and silver, which is likely to last as long as the international situation remains on the existing basis, will enable India to export her precious metal abroad and realise profits, and thus also help the country's finances. The Government is thus not likely to entertain any proposal to stop the export of gold and silver."

No. The Government is not likely to entertain any such proposal. For as soon as gold exports cease, the exchange, in the present condition of our trade balance, must fall—and India's credit depends on the maintenance of the 18*d.* sterling rate. But it may be questioned whether exports of gold and silver are the best means of maintaining a solvent position.

\* The sanction was refused.

## THE OTTAWA PACT

The trade figures for 1934-35 may be analysed to discover the benefit which India derived from the Ottawa Pact in that year.

There are three chief features of our trade returns for 1934-35: (1) the United Kingdom has stopped buying more of our goods, (2) exports to Japan about doubled in 1934-35 as compared with the preceding year, and (3) exports to the principal European countries and the United States are definitely declining.

Exports to the United Kingdom were valued at 47,53 lakhs in 1934-35 and 47,21 lakhs in 1933-34. The increase is so slight as to be negligible. On the other hand imports from the United Kingdom increased from 47,59 lakhs in 1933-34 to 53,75 lakhs in 1934-35. In 1933-34 Britain's purchases from us were about equal to our purchases of British goods. In 1934-35 our trade with the United Kingdom (as also with the British Empire) gave us an adverse balance. Thanks to the Ottawa Pact, British imports are increasing, while our exports to the United Kingdom are stationary.

Of particular interest is the export of raw cotton. By Article 8 of the Trade Agreement the Government of the United Kingdom undertook to co-operate in schemes for promoting, whether by research, propaganda or improved marketing, the greater use of Indian cotton in the United Kingdom. Again, in 1933, when the Agreement with Lancashire was concluded (known as the Mody-Lees Agreement) the Indian side "strongly emphasized the urgent necessity of further efforts being made in the United Kingdom to

popularise the use of the Indian raw material." The United Kingdom did buy more Indian cotton in 1933-34 (61,037 tons) than in 1932-33 (29,434 tons). But evidently the limit of expansion has been reached. Lancashire's purchases of our cotton in 1934-35 amounted to 61,933 tons.

Exports to Japan, on the other hand, increased from 182,565 tons in 1933-34 to 359,033 tons in 1934-35. Of our total exports of cotton, the share of the United Kingdom was 12.4 per cent in 1933-34 and 10.0 per cent in 1934-35. Japan's share increased from 37.4 per cent in 1933-34 to 58.3 per cent in 1934-35. Exports of cotton to Japan were approximately six times greater than those to the United Kingdom.

The basic quota of Japanese piece-goods is 325 million yards, linked with 1 million bales of Indian cotton. The maximum limit of imports of Japanese piece-goods is 400 million yards. In 1933-34 (first quota year) Japan sent us 341 million yards of piece-goods, and in 1934-35, 374 million yards. Her purchases of raw cotton amounted to a little over 2 million bales in 1934-35; exports to the United Kingdom in 1934-35 amounted to 346,785 bales (of 400 lbs. each). Imports of piece-goods from the United Kingdom are not linked with any purchases of raw cotton, with the result that while exports of cotton to the United Kingdom in 1934-35 show a negligible increase as compared with the preceding year, imports of British piece-goods increased from 414 million yards, in 1933-34 to 552 million yards, or by 33 per cent in 1934-35.

It is evident that Lancashire is taking her promises to buy more of our cotton lightly—she is more interested in increasing her exports to India. In view of this development, it would be desirable to subject her imports into India to the same quota system which has been applied to Japan. Limitation of British imports of cotton piece-goods to a maximum of 400 million yards, with a basic quota of 325 million yards linked with 1 million bales of cotton (as in the case of Japan), will impose no hardship on the Indian consumer, and will benefit the Indian grower of cotton. If in any Cotton Year (beginning 1st January) the United Kingdom buys less than 1 million bales of Indian cotton, let her quota of piece-goods for the corresponding piece-goods year (beginning 1st April) be determined by reducing the basic quota of 325 million yards at the rate of 2 million yards for every 10,000 bales of deficit.

If the United Kingdom was not able to buy more than the present amount, or 346,785 bales of cotton in a year, imports of her piece-goods would be limited to 195 million yards.

The Punjab peasant is also interested in the export of wheat. Indian wheat enjoys preferential treatment in the United Kingdom. A Committee of the Assembly, which examined the Ottawa Pact, held that the preference was of definite value to India. Exports of wheat to the United Kingdom were valued at Rs. 11 in 1932-33, Rs. 17 in 1933-34, and 7 lakhs in 1934-35. The total exports of wheat in 1934-35 amounted to about 11,000 tons, or 0.1 per cent of the crop of 1933-34 (9,358,000 tons).

Far more serious than the inability of the United Kingdom to buy more of our goods is the decline of exports to the United States and our principal European customers :

EXPORTS OF INDIAN MERCHANDISE

	1933-34 Lakhs.	1934-35 Lakhs.	Decrease Lakhs.
Italy .. .. .	5,75	5,73	3
Belgium .. .. .	4,48	4,23	25
United States ..	14,07	12,87	1,20
Holland .. .. .	4,21	2,53	1,68
France .. .. .	7,37	5,26	2,11
Germany .. .. .	9,84	6,99	2,85

It is well known that restrictions on Indian imports have been imposed in certain countries. The full effect of these restrictions will become evident in 1935-36 and the following years, but the decline of exports has begun. The Ottawa Pact does nothing to encourage exports to foreign countries; it positively discourages them. Even if foreign countries have imposed restrictions on Indian imports not by way of retaliation but primarily for reasons of exchange control, or of national self-sufficiency, the Ottawa Pact has provided them with a very good excuse for pursuing such a policy. And as the figures given above show, India is exceedingly vulnerable; that is, the demand for the greater proportion of our exports is not inelastic.

Germany, Italy, Roumania and Turkey have already limited Indian imports, and Iran (Persia) buys nothing from us unless we make purchases from her of equal value.

The chief feature of the import statistics is the growing competition between Japan and the United Kingdom. The following statement shows imports from the principal countries:—

## IMPORTS OF MERCHANDISE

	1933-34 Lakhs.	1934-35 Lakhs.
United Kingdom .. ..	47,59	53,75
Japan .. ..	16,36	20,80
Germany .. ..	8,89	10,12
United States .. ..	7,18	8,40
Italy .. ..	2,91	3,01
France .. ..	1,50	1,53
U. S. S. R. .. ..	1,64	1,55
Belgium .. ..	2,66	1,16
Holland .. ..	1,82	1,29

American and German imports increased appreciably, but the biggest increase was in the case of two countries, United Kingdom and Japan.

In a very few cases the United Kingdom has lost the advantage that she gained over her rivals in 1933-34. For example, British imports of woollen piece-goods into India increased from 52 lakhs in 1932-33 to 57 lakhs in 1933-34, but fell to 47 lakhs in 1934-35, while in these three years Japanese imports grew from 8 lakhs to 73 lakhs.

But in most cases, thanks to the Ottawa Pact, the United Kingdom is maintaining her lead and increasing it.\*

Exports to Japan increased from 12,61 lakhs in 1933-34 to 24,14 lakhs in 1934-35. But this is not due to the Ottawa Pact. It would not be surprising if Japan bought less of our cotton and other goods in 1935-36.

### FINANCE

The financial position is excellent. The Indian budget for 1934-35 estimated a surplus of 10 lakhs. The revised estimates showed a surplus of 3,27 lakhs. The surplus was in the main due to Customs, the principal contributing items being sugar (138 lakhs), cotton fabrics (90 lakhs), and yarn and textile fabrics other than arti-

\* British imports of the following articles increased in 1934-35 as compared with 1933-34.

Belting for machinery; cement (imports from Japan and Germany fell); earthenware and porcelain (Japanese imports fell slightly); glass and glassware; hardware (excluding cutlery and electroplated ware); electric fans and parts thereof; electric wires and cables; gas-filled electric bulbs for automobiles; wireless valves; electric lamps, other sorts; accumulators; switch boards; other electrical goods and apparatus; spirit; railway locomotive engines, etc.; electrical machinery; machinery and millwork (imports from Germany and Belgium declined; mixed or yellow metal (brass) for sheathing; copper, wrought; iron bars and channel (imports from Sweden declined); bars other than cast steel.

Iron or Steel: beams, channels, etc.; bolts and nuts; fencing materials; hoops and strips; nails, rivets and washers; rail-chairs and fish-plates; screws, galvanized (imports from Belgium and Japan declined); total of not galvanized; sleepers, etc.; tubes, pipes and fittings; wire rope; and wire other than fencing wire.

Paints and colours; packing paper; provisions; rubber; pneumatic motor and cycle covers, and solid tyres for motor vehicles; cotton piece-goods; sewing or darning thread; silk yarn; goods of silk mixed with other materials; cycles; carriages and wagons for railways; motor-cars, including taxi-cabs; motor cycles; motor omnibuses.

cial silk (90 lakhs). The budget for 1935-36 estimates a revenue of 90,19 lakhs, and expenditure of 88,69 lakhs, leaving a surplus of 1,50 lakhs. The duty on imports of silver has been reduced to 2 annas and the export duty on raw skins abolished.

The main proposal of the Finance Member for 1935-36 (which was accepted) was the reduction of the surcharges on income-tax and super-tax (imposed in the supplementary budget of September, 1931) by one-third. The removal of the surcharges altogether would have cost the Government 3,34 lakhs a year; their reduction by one-third accounts for 136 lakhs out of the anticipated surplus of 150 lakhs in 1935-36. Of the remaining 14 lakhs, 8 lakhs is the cost of the removal of the export duty on raw skins, which leaves a nominal surplus of 6 lakhs.

The salary cut has been fully restored. The cost of restoration (5 per cent) is 55 lakhs for the Civil Departments (excluding the Railways but including the Posts and Telegraph Department), and 53 lakhs for the Army, or a total of 108 lakhs. There is a set off against this in the form of extra income-tax amounting to Rs. 16 lakhs.

*Punjab Finance:*—The income of the Punjab Government is derived from four main sources—Land Revenue, Irrigation, Excise and Stamps. In the year 1933-34 these four heads provided 86 per cent of the total income.

The income from land revenue increases when new canals are made and a large area of waste-land can be brought under the plough. "For the present," said Mr. D. J. Boyd, Finance Member, Punjab, "it looks as if we



have come very nearly to an end of our colonisation schemes." The Haveli project, however, is under consideration; and when the Pakpattan perennial canal is fully developed, it would bring 80,000 to 100,000 acres of waste-land under cultivation, and provide about 130,000 acres of Crown land for sale.

The average receipts from land revenue since 1927-28 have been about 258 lakhs. The revised estimate for 1934-35 was 283 lakhs and the budget estimate for 1935-36 is 272 lakhs.

The average income from irrigation since 1927-28 has been 387 lakhs; the revised estimate for 1934-35 was 414 lakhs and the budget estimate for 1935-36 is about 410 lakhs. It may be noted that about 2 crores of receipts credited to Irrigation consist in reality of land revenue on land which would not have come under cultivation but for the canals.

Excise and Stamps yielded 94 lakhs and 103 lakhs in 1933-34, respectively, but are expected to increase to 99 lakhs and 110 lakhs in 1935-36.

The main heads of expenditure are: Irrigation 334 lakhs (working expenses 187 lakhs and interest on debt 137 lakhs), Education Department 160 lakhs, Police 122 lakhs, General Administration 109 lakhs, Administration of Justice 55 lakhs and Jails 30 lakhs.

A surplus of 34 lakhs was realised in 1933-34. For 1935-36 ordinary revenue is estimated at 10,39 lakhs, which is about equal to the estimated expenditure.

In the year 1933-34 working expenses of the Mandi Hydro-Electric Scheme were 3 lakhs and revenue 5 lakhs;

in 1934-35 expenditure will be between 6 and 7 lakhs and revenue between 11 and 12 lakhs. It is estimated that in the year 1938-39, after paying interest, depreciation and all operating expenses, there will be a profit of Rs. 1,40,000.

A survey is being made to investigate the possibility of a system of tube-wells for irrigation purposes to be worked by power from the Mandi Scheme.

The Mandi Scheme has cost 626 lakhs (including 42 lakhs spent on local distribution). The accumulated interest charges are 123 lakhs, which brings the total capital expenditure charged against the scheme to 749 lakhs.

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