INDUSTRIAL PROTECTION IN INDIA

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Industrial Protection in India.

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PREFACE.

Protection, the rage of the Modern World:- It is inconceivable that economists and politicians will ever agree regarding the comparative merits of Protection and Free Trade. Taking facts as they are, the World War of 1914-18 and its aftermath cut short the life of economic liberalism and sowed the seeds of economic nationalism. The most effective instrument for the attainment of this new goal has been the old policy of Protection revived with numerous new and ingenious ramifications. A vigorous policy of protecting home industries may thus be said to be the rage of the modern world, and the prospects of freer international trade appear at the present moment to be none too bright. The subject of fiscal policy as based on protection has naturally received a great deal of attention from economists and statesmen in the post-war period, and the literature on the subject has been continuously growing.

Strong protectionist sentiment in India:- The trend of world opinion has had its inevitable reactions on economic thought and policy in India. The controversy regarding the most suitable fiscal policy for India is a long standing one. It may be said, however, that Indian Economists of all shades have generally speaking been strong protectionists ever since the days of the late Dadabhai Nowroji and Justice M.G.Ranade. As the distinguished authors of the Montague-Chelmsford Report observe, "the theoretical free trader hardly exists in India". The fiscal policy of the Government of India was, however, for

a long time out of tune with the trend of public and commercial opinion in the country. Broadly speaking it may be said that before the War the Government of India were wedded to the policy of Laissez-Faire. In fact, they had no freedom of action in fiscal matters and had to carry out the policy as dictated by the Secretary of State for India, i.e., really by the British Government who were then firm believers in the blessings of Free Trade. The War imparted a new urgency to the problem of industrial development of India and the Constitutional Reforms of 1919 made the recognition of fiscal autonomy for India necessary. Then followed the Fiscal Commission and their recommendation for Discriminate Protection. The new policy was implemented in 1923 and since then has been carried out through the agency of the Tariff Board whose numerous Reports are a veritable mine of information for the research student. The subject of Industrial Protection is thus a very important one in India today and has a peculiar fascination for the student of economics and commerce.

Outline of the Thesis:- This thesis on Industrial Protection in India, for the sake of convenient analytical and critical treatment, is divided into four parts. Part I deals with the general problems in connection with protection, and thus forms the background for Part II. Part II is devoted to the study of the past and present Fiscal Policy of India. The working of the new policy is reviewed in Part III. Part IV is devoted to a critical examination of the present policy of protection in India.

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We may now briefly indicate the general arrangement of the various chapters of the thesis. Part I comprises of three chapters. Chapter I, "Fortunes of Protection" gives a brief review of the different phases through which Protection has passed from Mercantilism which was the first scientific system adopted to foster national industry, down to the post-war economic nationalism. In chapter II, "Theoretical Background of Protection", it is proposed to examine the theoretical basis of Protection and to attempt a critical survey of the various arguments advanced in favour of protection and its limitations. In chapter III, "Methods of Protection", we deal with the various methods of extending protection to home industry. Although tariffs form the chief weapon in the protectionist armoury there are other missiles too for protecting national industries.

Part II comprises of chapters IV and V. As a necessary preliminary to the study of the present fiscal policy of India, we deal with the past industrial and tariff policy of the Government of India in chapter IV "The Protectionist Movement in India". *Ghapter IV* elucidates the controversial points connected with the early history of India's tariff policy, and indicates the subsequent changes in that policy especially during and since the War. It is concluded with the appointment of the Fiscal Commission in 1921. Chapter V, "Policy of Discriminate Protection" is devoted to the study of the recommendations of the Fiscal Commission which commended the adoption of the policy of Discriminate Protection. The action taken by the Government of India and the Legislative Assembly on the Report is also indicated.

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Part III consists of chapters VI to IX. In these chapters we pass under review the working of the policy of protection in respect of the several industries examined by the Tariff Board. In making the survey of the various industries a historical treatment of the development of each industry is given in order to bring out its position at the time of the reference of its claim for protection to the Tariff Board. The findings of the Board in each case are considered, and the growth of the industry after the grant of protection to it and its present position are also examined.

Chapter VI, "Iron and Steel Industry" is devoted to the question of the grant of protection to the Iron and Steel Industry and the numerous enquiries made by the Tariff Board from time to time. In chapter VII "Cotton and other Textiles Industries" the questions arising from protection to the Textile industries are dealt with. Chapter VIII "(1) Paper (2) Cement (3) Sugar (4) Salt-Industries" reviews the question of protection to these industries. In the last chapter of this part - Chapter IX" A. Other Industries, B. Removal of Tariff Anomalies" the remaining industries which were examined by the Tariff Board are dealt with. In the concluding portion of this chapter the question of Tariff Anomalies is considered.

In part IV a critical examination of the present policy of Discriminate Protection is undertaken and suggestions for improvement offered. The question of the future Fiscal Policy of India is also dealt with. In chapter X "Protection and Imperial Preference" which forms the first chapter of part IV, the bearings of Imperial Preference on the policy of Discriminate Protection in India are critically examined. This is followed by chapter XI "Conditions, Mechanism and Procedure of Protection in India" which attempts a scrutiny of the conditions, mechanism and procedure of Discriminate Protection and makes suggestions. In chapter XII "Other Measures of Protection" the other methods of extending protection to home industries in India are considered and suggestions made wherever necessary. This chapter "Other Measures of Protection" ends with the general conclusion regarding the right future Fiscal Policy for India.

The six Appendices at the end of the thesis are illustrative of some of the important problems connected with the thesis. Appendix I shows with the help of charts, the progress made by the main industries after the grant of protection to them. Appendix II gives a Tabular Statement of the several enquiries carried out by the Tariff Board from time to time. Appendix III gives particulars regarding the Indian Customs (Protective) Tariff as in operation on 1st January 1937. The rates of duties after the grant of protection to the Iron and Steel, Cotton Yarn and Piecegoods and Sugar Industries, in force during different periods, are given in Appendices IV, V and VI respectively.

<u>Materials and sources consulted</u>:- The treatment of part I is mainly based on foreign books. For the study of recent tendencies in the industrial policy of the world, besides the foreign books mentioned in Bibliography, the Annual Volumes of World Economic Survey published by League of Nations have

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been depended upon. For, chapter IV, Part II "Fiscal Policy of India - Past and Present", standard works by Indian Economists have been consulted. Chapter V "Policy of Discriminate Protection" is mainly based on the Report of the Fiscal Commission (1921-22). Part III, which studies Protection under Operation, is chiefly based on the materials collected from the Reports of the Tariff Board and the Minutes of Evidence tendered before the Board. For the purpose of reviewing the growth of industries after the grant of protection and the present position of the various industries statistics have been taken from the Annual Review of the Trade of India, Monthly Survey of Business Conditions in India and the various Year Books. Considerable difficulty has been experienced in collecting figures up to date, as the statistical and other Governmental publications are available after such long intervals that the most recent facts cannot easily be incorporated.

I have freely drawn upon the Bombay Secretariat Library, the Bombay University School of Economics and Sociology Library and the Library of the Sydenham College of Commerce and Economics, Bombay. I take this opportunity of expressing my gratitude to the authorities of these Libraries for extending to me generous facilities. A detailed Bibliography of the various sources laid under contribution is given at the end of the thesis and exact page and paragraph references are mentioned in the foot notes to the several chapters.

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