

**BOMBAY AGRICULTURAL
DEBTORS RELIEF BILL.**

D. R. GADGIL

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BOMBAY AGRICULTURAL DEBTORS RELIEF BILL.

By D. R. GADGIL

Director, Gokhale Institute of Politics and Economics.

I

IN an article published in this journal some weeks ago, the salient provisions of this Bill were described and its central feature discussed. We now propose to discuss some of its provisions in detail and to indicate directions in which we feel that they need to be modified. In this discussion we shall take for granted that the structure of the Act remains unchanged and that it remains a measure which adjusts in a whole sale definitive manner existing debts and contemplates all future finance through resource societies.

Scope :—The Act shall apply to all debtors whose secured debt is not less than Rs. 100 or more than Rs. 15,000. Though it is true that on account of the operation of the D. A. R. Act most agricultural debts in this Province are secured, the requirement that the debt should be secured may result in denying the benefit of the Act to some needy debtors at the lower level. There does not seem to be any special reason why the application of the Act should be restricted to debtors who have a minimum secured debt. We suggest, therefore, that the scope of the act be widened by deleting the "secured" qualification from Section 23. There is yet another and more important direction in which the scope of the act

to become a member can conceivably be the result of delay on the part of the resource society or the refusal of the resource society to admit the debtor as member. In such a case it would be unfair to saddle the debtor with the burden of costs.

Co-operative Debts:—Remission to be granted to the debtor in respect of debts due to co-operative societies is to be intimated to the Board by the co-operative society. This is placing the creditor himself in the position of determining the amount of the remission he will grant. In principle this provision is unsatisfactory. If co-operative debts are to be treated in a special manner—and they should, of course, be so treated—some independent person who is in a position to appreciate the position both of the society and the debtor member should be asked to determine the amount of the remission. The Registrar is obviously the appropriate person. In many other provincial acts also the Registrar is entrusted with this duty. We, therefore, propose that the remission to be granted be determined not by the co-operative society but by the Registrar or such other official for any area that the Registrar may authorise in this behalf. If this is not done the Registrar will still intervene with numerous mandatory circulars in order to bring about uniformity of practice. It is far better to place the responsibility in a direct manner on the Registrar.

Under Section 43 (4) the Collector and the Co-operative Society are asked to intimate to the Adjustment Board the amount of remission they are willing to give to a debtor. It is not clear

however, at what stage they shall so intimate and what data they will consider before sending the intimation. It is of the essence of the process of adjustment that the relief granted shall bear some relation to the requirements of each case. This is done in the bill under consideration by calculating the paying capacity of the debtor in a given manner. But it is not provided and it does not seem to be contemplated that the Collector or the Co-operative Society will have knowledge of the Boards' calculations of the paying capacity of individual debtors. In the absence of such knowledge the remissions given will be on some uniform scale and this will necessarily result in the remission being needlessly large in some and small in other cases. It should, therefore, be provided that the Board shall intimate to the Collector and the co-operative society the total outstanding debt calculated according to the provisions of Sec. 39 and the total paying capacity determined under Sec. 47, of each individual debtor and that these authorities shall take account of this data in determining the amount of remission to be given.

Insolvency Proceedings:—The Bill provides that a debtor may be declared insolvent under two contingencies (Section 62). In the first place the Board may declare a debtor insolvent if it is satisfied that "the paying capacity of the debtor is inadequate to pay the total amount of his debts as scaled down under Section 48." It is difficult to see what this means in case "paying capacity" in the above sentence is the same as "paying capacity" as defined in Section 47. The measure of scaling down prescribed in Section 48

is the paying capacity as defined in Section 47. Therefore, the paying capacity can never be inadequate to pay the scaled down debt. It is not, on the other hand, clear what "paying capacity" in the above sentence can mean other than according to the definition of Sec. 47. We have, therefore, to ignore this first contingency under which a debtor may be declared insolvent. A debtor may secondly be declared insolvent if he defaults in payment of two consecutive or any three instalments. This provision is categorical and allows of no exceptions. It seems to make no provision for bad seasons, years, for example, when the payment of even land revenue has to be suspended or remitted. It may be presumed that the annual instalment under an award will ordinarily be much heavier than the land revenue to be paid by a cultivator. In a tract like the Deccan where proverbially one season in three is bad this will mean almost universal insolvency over the period of awards which may run, on an average, from fifteen to twenty years. Further Section 69 provides that any immovable property of an insolvent on which a debt is secured shall be directed to be sold in satisfaction of the debt. It is well-known that today most debts of agriculturists are secured on their land. The effect of the two sections together will then be a rapid dispossession of the cultivators from their lands in favour of their creditors, which we suppose to be contrary to what the bill is supposed to aim at. The best way to avoid this disastrous result would be to modify the provisions of Section 62 (2). The provision must allow for exceptional circumstances. In the first instance, defaults in years when the payment of land revenue has had to be suspended

or remitted ought not to count as defaults for purposes of this section. Secondly instead of the debtor being declared almost automatically insolvent on a stated number of defaults some room should be left for enquiry by the Court. The court at its discretion may, on being satisfied of any justifiable exceptional circumstances on account of which the debtor could not pay the instalment, refuse to declare a debtor an insolvent even if he has defaulted for the stated number of times. In either case the award will run for an appropriately increased number of years. If, however, these modifications are not made we fear the result would be almost universal insolvency at least in tracts like the dry Deccan districts.

Other sections of this chapter IV do not require much comment. Sections 67 and 68 have been taken bodily from the D. A. R. Act. Under that Act these provisions have all along proved ineffective. We do not feel they will be effective under the new act either. In most cases there will be little to be managed if due provision is made for the support of the insolvent and his family; ordinarily we expect the lands of the insolvent to be sold up to satisfy the claims of the secured debtors. A sentence or clause seems to have been omitted from Section 68 (1). The marginal summary of this provision runs as follows: "Possession by the creditors of debtor's property not required for his support." In the body of the provision, however, the clause making clear that the property shall be such as is not required for the support of the insolvent or his family has been omitted by oversight. We do

not also see why the exemption under Section 67 (3) should apply to buildings other than the dwelling house and yard of the debtor. The provision is no doubt copied from the D. A. R. Act, but seems to have no justification.

II

PAYING CAPACITY.

The clause defining the paying capacity of the debtor is one of the most important clauses in this Bill. This is so because of the fundamentally different structure of this measure from other measures of scaling down debts. While in other cases the extent of scaling down has depended on a conciliation effort made by a Board as between the debtor and the creditor, this Bill provides for an automatic scaling down. Of course, in a conciliation effort the extent of scaling down is naturally dependent on estimates of the total paying capacity of each individual made by the creditor and the Board, and equally, of course, there is no definite limit of the scaling down laid down. Thus while in this voluntary effort there are likely to obtain differences in the extent of the relief provided from case to case, each case is at least considered on its individual merits. The main difficulty in the way of providing for a general rule of scaling down debts automatically is that of finding a suitable measure. In considering the clause defining paying capacity in this place we must examine the question from two points of view: (i) whether the measure of paying capacity laid down is suitable for the purpose, and (ii) whether the limits laid down

for the operation of that measure are such as to give adequate relief. The measure of paying capacity laid down is the value of all property — moveable or immoveable — of the debtor. So far as we understand the aim of the Bill, it is to adjust the burden of the cultivator's debt in such a manner as to enable him to repay without losing his land. It is not, we suppose, the intention of the Bill to sell out the peasant, but to enable him to pay back in a series of instalments extended over a period of years. If this is so, the measure of paying capacity seems obviously unsuitable. For, while the paying capacity of the debtor will really depend on the surplus element in his *annual income*, the Bill seeks to measure it by the *capital value* of his property. It may, however, be urged that in case the capital value bears some comparatively fixed relation to annual income this objection could not hold good. Two replies may be made to this contention. First, in actual fact such a constant relation between the value of the property and the income it yields cannot be proved, specially as the property will include not only all types of land—garden, dry, rice, etc.—but will also include other items such as houses and the capitalised value of certain current incomes. Secondly, and this is much more important, such a measure of capital value cannot make the proper differentiation between the various grades of income as regards paying capacity. It should be remembered that we are here trying to discover paying capacity in respect mostly of old accumulated debts. The provision for current future finance has to be considered independently. There are obvious

ranges of income where cultivators have no paying capacity in these terms. We may, for example, tentatively put forward the income limit of Rs. 150 p. a. below which no cultivator can be supposed to have any paying capacity. The actual figure may be disputed, but the idea must be agreed to on all sides. Now, in the dry districts a cultivator whose income is about Rs. 150 p. a. may well have lands worth about Rs. 1,000. His paying capacity under the Bill would be measured at Rs. 800, and he would thus be expected to pay an instalment which may amount up to about Rs. 50 p. a. over a period of 20 years! This hypothetical example would show how the value of property is an extremely unsuitable measure of paying capacity, especially in lower income ranges. There are two ways of avoiding this grave injustice to the poorer debtors by the operation of this clause. One is that of entirely changing the basis of the definition and adopting some more elaborate measure of paying capacity on methods pursued by the Land Mortgage Banks. If, however, the present measure is to be retained, clause 50 (2) (b) should be suitably modified. A second provision should be added here and the Board should be directed to fix the annual instalment *after providing out of the annual income for the support of the debtor and the members of his family.*

The second question to be raised is as to whether the limit of paying capacity provided gives adequate relief. Paying capacity in the Bill is placed at 80 p. c. of the value of all property of the debtor, and this amount has to be repaid with interest in annual instalments not exceeding

25. We have already seen how the limit will operate in the case of the poorer cultivators. But even in the case of those who are somewhat better off we believe the limit to be placed too high. Consider a cultivator whose total property is worth Rs. 5,000. His paying capacity would be placed at Rs. 4,000 and his annual instalment would come up to about Rs. 200. One has merely to ask oneself how many cultivators could repay Rs. 200 annually in respect of old debts to judge the high level of this limit. There is another way also of looking at this question. We may enquire as to how many cultivators will get relief under this definition of paying capacity. Unfortunately, the data necessary for an adequate discussion of this question is lacking. We have, however, some evidence to indicate that the 80 p. c. limit will give relief in only very few cases. Consider, in the first instance, the data presented by the Bombay Provincial Banking Enquiry Committee. The information, of course, relates to pre-depression years. The Committee nowhere gives the relation of the debt to the value of property, but it gives figures of the average debt in terms of the multiple of land assessment. The following are the main figures: *Broach* (i) inland tract 7.2; (ii) coastal tract 18.7; famine tract (cotton-growing) 20; transitional tract 15; *Konkan* 12. The relation between land assessment and land values is far from uniform from tract to tract in this province. It is, however, safe to say that land value is almost never less than 50 times the assessment. This will show that on the figures of the Banking Committee average debt is much less than even half of the value of the land. Again, the Dharwar enquiries of the Provincial Banking Enquiry Committee put the highest figure of average debt per owned area at Rs. 27.8. All these figures, it

should be remembered, take account of the value of no property of the debtor other than land. It may be urged that the movement of debts and of land values during the last decade makes the above data useless. We do not believe that these movements have seriously upset the proportions indicated. We, however, present below some more recent information. The Gokhale Institute of Politics and Economics has conducted, as part of an enquiry into the profitability of farming, an enquiry into the indebtedness of farmer-cultivators in the Wai Taluka of the Satara District. The provisional results of this enquiry are to hand, and a summary of the results for a representative group is given below.

No. of Farmers having	Total No. of Farmers	Farmers who did not give information	Farmers with no debt	Farmers whose total debt is					
				below 20%	20% to 50%	50% to 75%	75% to 100%	above 100%	
				of their total land value					
1 No land	7	0	3	0	0	0	0	4	
2 Land valued below Rs. 500	12	1	6	0	1	1	0	3	
3 " bet. Rs. 500 and Rs. 1,500	71	6	27	13	12	9	2	2	
4 " between Rs. 1,500 and Rs. 3,000	80	6	24	34	14	2	0	0	
5 " above Rs. 3,000	55	7	21	23	4	0	0	0	
Total ...	225	20	81	70	31	12	2	9	
Percentage of the Total ...	100	8.9	36.0	31.1	13.8	5.3	0.9	4.0	

It is not claimed that the results of the enquiry are exact. The number of those free from debt is perhaps put too high. But they are accurate enough for the purpose in hand. Those possessing no land get no relief under the Bill; so that of the 117 debtors from the above table who would come under the operation of the Bill only 7 would get some relief because of the application of the paying capacity definition. The vast majority would be unaffected. Another source of information tapped by us in order to test the results of the 80 p. c. limit was the information contained in the returns made by the primary co-operative credit societies. In these returns information is available about the secured debts of creditors other than co-operative societies, but no information is given as to the unsecured debts of other creditors. This is, of course, an important defect of these figures. We give below figures prepared from the returns made by four village societies in the Haveli Taluka (Poona Dist.), chosen at random. The figures show the relation of the total outstanding debt of each debtor member to the value of his property minus the value of the secured debt.

No. of debtor members owing land—95

No. whose debt is less than 20 p. c. of the
value of property—51

„	between 20 p. c. and 50 p. c.	35
„	„ 50 p. c. and 75 p. c.	4
„	„ 75 p. c. and 100 p. c.	3
„	above 100 p. c.	2

Making all allowances for inaccuracies or lack of information, the statistics given above, we believe,

make out a strong case for holding that the 80 p.c. limit will give relief to only a very small proportion of the debtors who come under the purview of the Bill.

It may be urged that if only a few holders have debts over 80 p. c. of the value of their property the majority do not require any relief. This would be a valid argument only if the 80 p. c. limit had been arrived at after some enquiry or deliberation. So far as we are aware, it is not based on any factual data and there is no ground for believing that it represents a proper standard of paying capacity. The hypothetical cases and the data we have cited above seem to support an opposite conclusion. It is further commonly agreed that a majority of debtor cultivators to-day find the burden of their debts insupportable and they will get no relief by the operation of the 80 p. c. limit. Again, it should be remembered that the scaling down is accepted by a creditor for two reasons. First, because the paying capacity of the debtor would not warrant sticking out for a higher claim and, secondly, because the conciliation or adjustment process provides a much greater security of repayment. So that all debtors, whether their paying capacity fell or did not fall short of their debt, have been able to obtain a considerable scaling down of their debts under the conciliation machinery in the other provinces. Because of the rigid definition of paying capacity under the Bombay Bill no relief on this latter count will be given to the debtors.

We thus conclude that both the measure and the limit of paying capacity are inappropriate. It would in our opinion be far better if the basis of the measure is changed. If it is not so changed, we have already suggested providing for a basic subsistence income level in clause 50 (2) (b). It is not equally easy to suggest the change necessary in the limit laid down. We do not believe that the same limit could be properly applied to all ranges of income, neither are there adequate data for fixing the limit. But if a single rigid percentage of the value of property has to be laid down in the Act, we would favour the figure of 50 p. c. instead of the present 80 p. c.

SELECT COMMITTEE'S REPORT

The report of the Select Committee on the Bombay Agricultural Debtors Relief Bill has so considerably modified the original structure of the measure that it becomes necessary to consider in detail the consequences of some of these modifications.

SCOPE

The scope of the legislation has been modified by the Select Committee in three important ways. In the first instance, the definition of "holder" has been narrowed so as to exclude all those whose income, from sources other than agriculture, exceeds 20 per cent. of their total income. There may be ground for some difference of opinion regarding the percentage but the principle at the back of this exclusion will be agreed to generally. Secondly, the qualification regarding the maximum debt has been widened so as to place both secured

and unsecured debts on the same level. This is a welcome step. The most important modification, however, is that in respect of tenants. The original Bill had excluded tenants, other than permanent tenants, from the definition of a "holder". The Select Committee now proposes the deletion of this saving sub-clause. This means that the provisions of the law would become applicable to tenants equally with owners of land. We had in a former article advocated the extension of the application of the law to tenants and, therefore, heartily endorse the recommendation of the Select Committee. The Select Committee does not, however, seem to have considered fully the implications of such an extension of the scope of the measure. In no later section is a reference made to tenant-debtors, and it has evidently been thought that they could be treated exactly in the same manner as those owning land. The main difficulty in doing this will, however, arise in connection with determining the paying capacity of the tenant-debtor. Paying capacity for purposes of this measure has been defined in terms of the value of the property of the debtor. The Select Committee has further narrowed this definition by making it refer to immoveable property only. It is obvious that a purely tenant-cultivator will possess very little immoveable property and that generally his capital assets will be very small. The application of this measure of paying capacity to tenant-debtors will, therefore, amount virtually to an extinction of their debts. A capable tenant-farmer may have considerable annual paying capacity, but almost none in terms of the value of property. It will consequently be neces-

sary either to adopt a separate measure of paying capacity in the case of tenants or to change the present basis of the measure in the Bill.

PAYING CAPACITY

This leads to a consideration of the very important innovation made by the Select Committee in introducing in the Bill the concept of annual paying capacity. In a former article we had pointed out how scaling down would be effected under this measure in two stages. Firstly, by way of taking accounts and secondly by direct scaling down to 80 per cent. of the value of property. We had pointed out that if the intention was to enable the debtor to repay his debts by annual instalments while retaining the ownership of his land, the value of property was an irrelevant consideration in determining paying capacity. We had, on the basis of some statistical data, also indicated that the 80 per cent. measure would afford no relief in the vast majority of cases and that it would lead to fixing the annual instalment at too high a level. The Select Committee defines paying capacity in terms of immoveable property alone. This will somewhat lower the evaluation, but the basis still remains inappropriate. The evil results of this provision will, however, be largely avoided by the introduction of the new additional measure to be called "annual paying capacity". This measure will come in at the time of fixing the annual instalment. The Select Committee provides that the annual instalment shall not exceed the annual paying capacity, which shall mean the portion of the annual income of the debtor

“after deducting such sum as may be considered necessary for the maintenance of the debtor and his dependants, and the sum due by the debtor to pay the debts due to Government, to local authorities, to resource societies and to persons authorised to advance loans under section 79.”

The annual paying capacity thus provides for the maintenance of the debtor and his family, for the payment of annual dues and for the charges for future finance. The recommendation of the Select Committee makes sure that the payment of the annual instalment in respect of present debts will not entrench on at least the minimum subsistence of the peasant. This is an absolutely vital provision, and it removes in a great measure the main ground of criticism against the original framework. It changes at the same time, in a radical manner, the way in which repayment will work out. In the case of the marginal cultivators, and at least in tracts like the Bombay Deccan, the marginal cultivator class is extremely numerous, the introduction of annual paying capacity will lower very considerably the sum available for the annual instalment. Further, in a number of cases a proper calculation of the deductions will reduce the annual paying capacity to nothing or to a negative quantity. The Select Committee does not, however, provide at all for this contingency. The Committee has evidently assumed that the annual paying capacity will always be a positive quantity, and it provides for the adjustment of the two measures of paying capacity by removing the restriction on the number

of annual instalments. Thus, the property value measure of paying capacity will determine the total burden; the annual paying capacity measure will determine the yearly instalment; and the ratio between these two will determine the number of years for which the instalments will run. This means that the number of years for which the debtor and his heirs will have to pay the instalments may be indefinitely large; the payment may continue for generations. This is an undesirable situation; and it is not likely to be tolerated for any length of time by the debtor class. The way out of this *impasse* is clear. The introduction of the idea of annual paying capacity makes the property-value measure of paying capacity superfluous. Paying capacity can only properly be measured as so many times the annual paying capacity, and such a change will no longer affect the working of the Act. The former maximum number of twenty-five may appropriately be retained. After the taking of accounts, the annual paying capacity of each debtor should be determined and the debt should be scaled down to twenty or twenty-five times this sum. Provision should also be made for cases where the debtor's annual paying capacity is very low or negative. The only way to deal with these cases is to treat as insolvents all debtors, twenty-five times whose annual paying capacity falls below a certain proportion of their outstanding debt as calculated by the Board after the taking of accounts. The large majority of such debtors will be what may be called sub-marginal cultivators, and it is best that their cases be summarily dealt with at the initial stage.

It may be noted that the Select Committee has deleted the provision regarding the determination of the value of the property of the debtor at the market value. It recommends instead that Government should frame rules in this behalf. We presume that the Select Committee has made this change because it felt that the term "market value" was vague and that it was liable to be variously interpreted by the different Boards. We feel that it is necessary to give Government similar rule-making powers for the determination of the annual paying capacity. This determination involves a number of complicated calculations. The estimation of the income of the debtor, of the maintenance expenditure of his family and of the charges for future finance are all far from simple. The possibility of the adoption of varying bases and scales is enormous. It will, therefore, be necessary for Government to lay down in a series of detailed rules how, for different regions, each of these estimates should be framed.

INSOLVENCY

The changes recommended by the Select Committee in the chapter relating to Insolvency Proceedings are also, in some directions, revolutionary. The Select Committee is to be congratulated on the deletion of the old provision for automatically declaring a debtor insolvent on failure to pay a certain number of instalments. It has instead provided that the Court may declare a debtor insolvent and may order the sale of his immovable property if it is satisfied that the debtor has made default in the payment of

any instalment, intentionally and without any reasonable cause. This is a reasonable and necessary provision and it avoids the defects of the old sub-clause. The Select Committee has, however, failed to modify the first sub-clause of this section which, as we have formerly pointed out, fails to make any sense. This sub-clause could be modified suitably to provide for cases where the annual paying capacity falls far short of a certain proportion of the total debts. The Select Committee has put in a further sub-clause under which a debtor may be declared an insolvent if "the Court to which an award is transmitted for execution finds that two consecutive or any three instalments could not be recovered by the sale of the *moveable* property of the debtor". (Italics ours.) It is difficult to understand why this provision has been put in. In the first instance, it may be noted that the alternative between two consecutive and any three instalments which found place in the earlier sub-clause in connection with the due payment of annual instalments is retained in the amended form. But such an alternative is wholly inappropriate in this instance. Under the amended version the Court has to judge whether the sale of the moveable property of the debtor will fetch an amount equal to a certain number of instalments. It is entirely immaterial in this instance as to whether the instalments are consecutive or not. In either case their value will be the same. As a corollary of this the alternative between two and three is also inappropriate. It should be either of the two. We have, however, to offer an even more fundamental objection to this new provision. We do not see any justification for linking solvency with

the value of the *moveable* property of a debtor. We take it that the vital requirements of the agriculturist such as his cattle will be exempt from sale. If this is so the saleable moveables of even a substantial agriculturist may sometimes be of little value. If an agriculturist has an adequate annual paying capacity and is reasonably punctual in the payment of his instalments we fail to understand how a paucity of moveable goods should suffice to render him insolvent. The value of moveable goods owned is surely an irrelevant consideration in determining the solvency of a peasant. The Select Committee has by a new clause in this chapter introduced an important principle in the measure. It recommends that when land taken over from the insolvent under provisions of this chapter is restored to him he shall be deemed to hold such restored land in future as an unalienated land under sec. 73 A of the Land Revenue Code. We welcome this policy of extending the sphere of inalienable holdings.

There are a number of other minor changes made by the Select Committee which we have not the space to deal with here, and there are two or three important recommendations which we shall treat of on a later occasion in connection with the future of our rural credit machinery. We desire, however, in closing to comment on the new clauses introduced by the Select Committee at the very end of the Bill. These new clauses provide for the repeal of the Bombay Small Holders Relief Act and the Deccan Agriculturists' Relief Act as soon as the Agriculturist Debt

Relief Bill becomes law. In our opinion the repeal especially of the Deccan Agriculturists' Relief Act should be consequent not on the passing of this Act, but on the passing of a comprehensive Moneylenders Act. The measure under contemplation provides mainly for the adjustment of past debts. It does not provide at all for the regulation of the working of the credit machinery in the future. The operative part of the Deccan Agriculturists' Relief Act is in the main a Rural Moneylenders Act. The regulation of accounts, the passing of receipts, the registration of documents, the power of courts to open transactions, all such provisions form part of a Moneylenders Act. Such protection as they afford will vanish the moment the D. A. R. Act is repealed; for the Agricultural Debtors Relief Act makes no provision in these respects. The transitory provisions do not obviate this difficulty as they refer only to transactions entered into before the coming into force of the Debtors Relief Act. From the date of the repeal of the D. A. R. Act to the coming into force, whenever that may happen, of a Moneylenders Act the rural credit machinery will be left, entirely without legislative regulation. We would therefore, strongly oppose these new clauses. A Select Committee has under consideration already for a long time past a Moneylenders bill. It is high time that the report of this Select Committee was expedited. The enactment of this measure will be the suitable time for the repeal of the historic and once useful D. A. R. Act.

FUTURE CREDIT MACHINERY

We have repeatedly pointed out an important difference between the Debt Settlement Acts

of other provinces and the Bombay debt adjustment legislation. It is that, while the framers of the other Acts were anxious to disturb as little as possible the existing machinery of rural credit, the Bombay Bill gives no importance to this consideration. The sponsors of this legislation were evidently prepared to supplant entirely the present moneylender and provide a complete alternative; and they were evidently prepared to do this within a year or two. The Bill in its original draft had made it compulsory on all debtors whose debts had been adjusted to become members of a resource society. The Government thereby accepted the responsibility of starting enough societies and providing these societies with enough resources to finance all debtor-agriculturists. We did not share these optimistic estimates and, therefore, viewed and still view the future with considerable misgivings.

In order to place the problem in its proper perspective, it is necessary, in the first instance, to gain a clear idea as to the amounts involved. This is all the more necessary as we have heard responsible persons putting forward absurdly low estimates. Unfortunately, no enquiry into agricultural debt has been conducted recently in this Province. For authoritative estimates we have to go as far back as the report of the Bombay Provincial Banking Enquiry Committee. This Committee estimated the total agricultural debt of this Province at well over Rs. 60 crores. This figure, however, is not particularly significant for our calculations. It has been pointed out that there has been a continuous process of the accumulation of old debts, and that a considerable proportion of out-

standing debt is made up of debt contracted for unproductive and unnecessary purposes. The process of debt adjustment and a careful and strict regulation of the economy of the cultivator may make it possible to eliminate to a considerable extent these two elements from our credit structure. For the estimation of future requirements we have, therefore, to resort to another calculation made by the Provincial Banking Enquiry Committee. This is an estimate prepared by the Committee for the finance required for current agricultural needs. The Committee have made a careful calculation strictly of the cash requirements of the cultivator for agricultural purposes and, after allowing duly for persons who may not require such finance, arrived at a total figure, of Rs. 2378 crores. It should be remembered that this amount provides only for current agricultural needs. It does not take account of any finance required, for example, for marketing, for land purchase or improvement, for domestic requirements, for ceremonials or for litigation. It may be possible with concentrated effort and under specially favourable circumstances almost to do away with debts for litigation and to reduce greatly debts for ceremonials. As long, however, as the earning capacity of the agriculturist remains low and his income uncertain, accruing to him in large uneven instalments, current finance for domestic requirements cannot be dispensed with. Further, the demands of improvement and of marketing finance should increase and not lessen in the future. The Provincial Banking Enquiry Committee prepared no estimates for these items of financial needs similar to their estimate for current agricultural finance. It is not possible, therefore, to

arrive at any estimate of the total financial needs of the agriculturist even for the period for which the calculations of the Committee were made.

In attempting to use the estimate of the Provincial Banking Enquiry Committee for our purpose, we shall have to allow for the fall in the general level of prices during the last decade. It is reasonable to suppose that the fall in the prices of the requirements of the agriculturist and the wages of agricultural labour will lower, in a roughly proportionate manner, the needs for current finance. If this fall is calculated at a third of the level for the years 1927-29, we may reduce the estimate (in round numbers) of Rs. 24 crores of the Banking Enquiry Committee to about Rs. 16 crores. To this figure must be added an amount for finance for the other important purposes that we have enumerated above. The latter amount we are not in a position even to guess with any approach to accuracy. We, however, hazard the opinion that to put the needs, even under a carefully regulated economy, of future finance of the agriculturists of this Province at Rs. 25 crores would be no over-estimate.

It may be as well to draw attention to the available recent statistics. The only comprehensive statistical data relating to agricultural finance that exist are those contained in the annual reports on the working of the co-operative societies. According to the report in 1936-37, the percentage of the number of societies to villages was 22.8. Agricultural societies thus existed in just over a fifth of the total number of villages. In the villages in which societies

exist their membership does not embrace the entire body of cultivators; neither do the societies meet all the financial needs of their members. Co-operative finance thus forms a small proportion of total agricultural finance. The total dues outstanding of the agricultural co-operative societies were Rs. 248 lakhs in 1936-37, and in the same year fresh finance was afforded by the societies to their members to the extent of Rs. 78 lakhs. The latter figure needs to be interpreted with caution. It is well-known that enormous overdues have accumulated over the period of the depression and that consequently societies and central finance agencies are extremely cautious in advancing sums to the agriculturist. What is called fresh finance in the co-operative movement to-day really waits on the progress of recoveries and is correlated to it. It, therefore, bears no definite relation to the current financial needs of the members of the co-operative societies. If all the factors that severely limit to-day the part played by the co-operative agencies in current finance of the agriculturist are taken into account, it will be realised that the amounts revealed in the reports of the co-operative department do not militate against the rough guess put down above by us. It may be urged that all agriculturists do not fall within the scope of the Agricultural Debtors' Relief Bill. But the number of those excluded may be safely neglected, especially since the Select Committee has done away with the exclusion of tenants and has provided for Government extending the maximum limit of debt, in particular areas, to Rs. 25,000.

We do not know what arrangements are contemplated by Government for shouldering this enormous responsibility and what are the sources from which they expect to obtain the necessary funds. The Select Committee has no doubt made some changes in the Bill which make the problem perhaps a little less pressing than before; but these changes in no wise modify its fundamental character. The Select Committee has introduced the Land Mortgage Banks into the picture. But this will have little effect on the extent of the unfulfilled demands for future finance. The provision made by the Select Committee will enable the Land Mortgage Banks to finance, for the purpose of liquidating existing debts, some of the better-off among the debtor class. We do not expect the number of such cases to be large; for the Land Mortgage Banks will necessarily continue to work, broadly, along the same comparatively conservative lines along which they operate to-day. The intervention of the Land Mortgage Banks will result only in the present creditors getting back their money promptly. So far as the debtor is concerned, the only difference made is that he will now pay the instalment—which may, however, be somewhat smaller—to the Land Mortgage Bank instead of to his old creditors. The Land Mortgage Banks could not obviously help in future current finance. For purposes of this finance Government seem mainly to rely on the co-operative credit movement. The present resources of this movement are, however, totally inadequate, both in men and money, to meet the demands of the future. We have already indicated the very small part that it plays to-day in

financing the agriculturist. It has been argued that a much greater proportion of the resources of the movement could be employed in financing the agriculturist than is the case to-day. The experience of the last decade should provide a salutary check on any extravagant hopes in this direction. The depression rendered very weak the position of just those Central Financing Agencies, a large proportion of whose funds was lent to the agriculturists. And though the new dispensation may perhaps make recoveries more prompt, it cannot eliminate the fundamental risks involved in the business of agriculture. In the ultimate analysis, if co-operative finance is to cover the whole field within a short time, Government must provide the necessary funds. The extent to which fresh deposits may be attracted depends on a number of uncertain factors. The two main sets of considerations seem to be the state of the general money market and public belief in the stability and solvency of the movement. It should be further noted that because of the national desire to still further lower the cost of credit to the agriculturist the co-operative movement will not be able in the future to offer competitively attractive rates for deposits as it has sometimes done in the past. It would, therefore, be hazardous to depend on largely increased deposits from the public, at least in the near future. We thus emphasize the direct responsibility of Government in this matter because of the failure of Government, so far, to enlighten the public as to its efforts and intentions. It will be cruel to cut off the agriculturist by legislation from his present sources and then not

be prepared to meet his legitimate and pressing current needs. A detailed statement by Government of its programme of ways and means for this purpose is, therefore, highly desired.

Attention may be drawn in passing to the necessarily changed character of the co-operative movement of the future. A large number of societies will have to be hurriedly "opened" and their operations should in future resemble much more those of official land banks than of co-operative societies. It is also to be considered whether the unlimited liability principle will not be affected by the passing of this legislation. As a consequence of the process of adjustment, the entire property of a large proportion of debtors will remain charged for a considerable length of time. Unlimited liability will have little meaning under these circumstances, except perhaps an ominous one for the small class of debt-free members.

We have not commented so far on the recommendation of the Select Committee that it should not be obligatory on a person whose debt has been adjusted to be a member of a resource society. In one way this is a fundamental change. For, in so far as Government does not compel the debtor to become a member of a resource society, Government may not accept the responsibility for providing finance to all debtors. It is our opinion, however, that the situation is not truly altered. The structure of the legislation and the nature of the process of debt adjustment are such that they make the continuance of the present machinery extremely difficult. Government which thus upsets existing arrangements is morally responsible for

providing an alternative. And though it may not compel all to be members of resource societies, it must make reasonable arrangements for financing all those who voluntarily demand such finance. In this connection it is necessary to realise how little inducement there will be for anybody to finance a debtor-agriculturist in the future. The debt adjustment award made in the case of each debtor will include a list of all the moveable and immoveable properties of the debtor, and a debtor who is a party to such an award cannot alienate "any property included in such award." As the Board has been directed to include all the property of a debtor in the award, a debtor under an award cannot in the future alienate, or consequently create a charge on, any of his property. It is obvious that no private creditor would think of lending money to a debtor so circumstanced. We fail to see why the charge should be on the entire property of all debtors. There is at least a strong case for limiting the charge only to the immoveable property of the debtor. Now that the Select Committee has defined paying capacity in terms of the value of immoveable property only, alienation of moveable property may be freely allowed. This will leave at least some means to the creditor for raising small temporary loans. If this is not done, the resource society will have to come to his help for the pettiest sum needed. As a member of a resource society, he will also not be free to alienate any part of his produce and may find it difficult, therefore, to find money even for his domestic purchases at the weekly market. In short, the Act binds the debtor hand and foot, renders him

thoroughly helpless and hands him over to a resource society or an authorised individual or association.

We have no objection in principle to making the main body of agriculturists dependent almost entirely on a resource society. Our apprehensions in this respect arise from a feeling that the resources of the Government and the co-operative movement fall far short of the extent of the responsibility undertaken and that the services rendered by the credit and marketing societies will neither be adequate nor efficient. We have, on the other hand, a fundamental objection to the idea of finance by an authorised individual or association. For, the authorised person will be far different from merely a licensed moneylender; he will be a monopolist creditor. It may be said that more than one person may be authorised in any region or locality. But whatever the number of persons authorised, any particular debtor can have resort to only one such person. The wording of section 75 makes this clear and it is only logical that this should be so. If the idea is to regulate severely the supply of credit to debtors, the power of granting credit to any debtor must be restricted to a single person. Even the Reserve Bank of India has sponsored the idea of a single monopolist creditor. Such a system, however, grants an enormous power over his debtor to the authorised creditor. The possibilities of an abuse of this position when the creditor is a resource society are extremely small as compared with the position when the creditor is a private individual or an association of such

individuals. The authorised individuals will be in even a stronger position than in the days before the Deccan Agriculturists' Relief Act; and it is not impossible to contemplate under such a system, conditions similar to those described in the report of the Deccan Riots Commission. The Bill no doubt provides for laying down conditions on which such authorisation will be granted. But he must be an incurable optimist who believes in the strict enforcement of such conditions in the wide-spread expanses of rural India—especially when the debtor is a perpetually needy poor man bound to a single source and the creditor a rich and authorised individual. It is surprising to note that even alienation of land which is charged under an award may be permissible in favour of an authorised individual. Thus while the Bill seeks to stop alienations in one direction it creates possibilities of transfers of land to moneylenders in others. These authorised individuals could become centres of enormous power and patronage, and the possibility of abuses radiating from them in a variety of directions is so enormous that we would desire the elimination of the entire idea.

The immediate prospect looks to us extremely disquieting. Already one hears complaints of lack of availability of the necessary credit to agriculturists. These complaints are bound to grow in volume and intensity. The public reports of the state of preparedness of Government and the co-operative agencies do not reveal adequacy of arrangements. A liberal resort to the provision of authorised individuals we would look upon as

a great evil. We do not, of course, believe that economic life will thus be brought to a stand-still. Credit transactions will no doubt continue, but under different guises and different conditions; and the party to suffer will be the needy debtor. It has been the universal experience, whether in this province under the D. A. R. Act or in other provinces or countries, that where the creditor has been forced by legislation into evasive or fraudulent practices he has recuperated himself by making the conditions harder for the debtor. Credit transactions will then continue, but the net charge for the credit will be very much heavier than even to-day. One partial safeguard against such a contingency is a Moneylenders Act, properly enforced. A reasonable, comprehensive Moneylenders' Act may prevent the grosser abuses; but it will do so only if its working is supervised by an efficient inspectorate. May it not be reasonably said that prompt action in respect of the Moneylenders' Bill is the least we now expect of Government?

D. R. GADGIL

TENANCY AND DEBT LEGISLATION IN BOMBAY.

THE agriculturists' relief programme of the Government of Bombay is at last assuming a definite form. After a series of alarms and excursions the proposals of Government reached a stage where they could be presented for consideration to a meeting of legislators belonging to the Congress party. They have emerged from this meeting, held last week-end in Poona, wholly unscathed and the public is now in a position to know roughly what is proposed to be done. The Moneylenders Bill, which may be taken to be the preliminary part of the relief programme, has already reached the select committee. The further legislation now contemplated will cover the scaling down of agricultural debt, tenancy legislation and rural reconstruction. The incomplete and unauthoritative reports of the intentions of Government that are at present available do not make it possible to enter into a detailed consideration of these matters. The main outline of the programme can, however, be set forth.

I.

We may first examine the proposals in respect of the scaling down of debts. These fall into two distinct parts. The first is a general automatic scaling down measure applicable to debts contracted before 1931. The balance due on 1st January, 1931, to any creditor by any

agriculturist debtor with a holding below the equivalent of 100 dry acres, will be reduced in amount by 30 per cent. This is a measure that can be justified only by reference to the fall of agricultural prices during the time of the depression and belongs to a type resorted to by a number of European countries during the years 1931 to 1934. The utility and the urgency of such a measure was evident during the acute depression years. It may be questioned whether it is equally urgent or necessary to-day. The depression lifted definitely at least two years ago and there was during 1936 and 1937 an upward movement of prices. And though another general recession of prices threatens to overtake us, it is hardly arguable that the problem of the pre-depression debts can be equitably dealt with in this manner to-day. Without attaching an exaggerated importance to the sanctity of contracts, it has to be admitted that the compulsory scaling down by law of all debts or all debts of a particular class of people is an extraordinary measure which should not be enacted except under the most pressing circumstances. The vagaries of the monetary system and the incidence of cyclical fluctuations bring about changes in the fortunes of whole classes and the terms of their contractual obligations which operate hardly, even cruelly, upon large numbers of people. The possibility of remedying these abuses is a question apart. Given the present arrangements, however, the method of trying to adjust the terms of the contract by legally scaling down debts as a whole is a step which is bound to shake the foundations of existing credit. For it

erects a precedent. The creditor class will naturally ever afterwards be apprehensive of a further arbitrary scaling down, and the volume of its operations and the rates at which it lends will be conditioned always by this fear. In the worst days of the depression this might have been justifiable as a desperate remedy for a desperate situation; but to-day when considerable adjustments have already taken place, when those who needed and deserved help the most are probably ruined beyond the possibility of this relief being of any use to them, there is no adequate ground for taking this step.

It should further be noted that if any relief is at all to be afforded on the ground of a price fall, it will not be possible to limit its applicability to any specific class. There is no reason why agriculturists possessing only less than 100 acres should get relief on this ground and not those possessing a larger acreage. It may well be argued that in years of loss the proportionate burden is greater on the larger unit than on the smaller, and that under these circumstances the larger landlords are at least as much entitled to a scaling down of their burden as the smaller agriculturists. In the same way the tenant class ought also to be included within the scope of this legislation; for they have also suffered equally from the fall in agricultural prices and their credit is equally dependent on incomes from agriculture. It would further be difficult to restrict the operation of this reduction process only to loans made by private moneylenders. Whether the loan is made by Government, by a co-operative

society, by a joint stock bank or by a money-lender, the fact of the price fall enhances its burden in an equal measure. Hence the moment the reduction is sought to be justified on the price movement basis it will become necessary to extend the privilege to all classes and bring within its scope every type of loan transaction. Such a measure would be impracticable, unnecessary and inexpedient.

We fail to understand why the Government of Bombay should have included this illogical element in its programme. They might at least have taken a warning from the recent experience of Madras. In that province legislation regarding the wiping off of interest was introduced with much *eclat*; it had to suffer a process of whittling throughout its progress in the legislature; and now the Prime Minister of that province is reduced to claiming that its main use lies in strengthening the hands of the Conciliation Boards. Was it wise to raise all this dust merely to give definitive directions to Conciliation Boards? There are many less contentious and less offensive ways in which this could be done. The action of the Bombay Government is all the more inexplicable as the next step in their programme of debt relief is that of scaling down the debts according to the repaying capacity of the agriculturist. Why is it necessary to arrive at this logical end by means of an intermediate illogical step? We have always maintained that the only way of clearing the jungle of the agriculturist's debt is to adjust immediately the burden on each agriculturist to his repaying capacity. In this manner alone is the way left open for future

efforts at reconstruction, and it is the only way that is essentially fair. For, whatever the past history of a transaction or its rights, every creditor knows that the repaying capacity of the borrower sets the inexorable limit to possibilities of recovery. We, therefore, heartily welcome the decision of the Bombay Government to adopt this as the ultimate test. No clear indication is yet available as to how the process of scaling down is to be brought about. The process of setting up Boards on the C. P. model, with perhaps a larger element of compulsion, appears to us to be the best. Anyway the scaling down will have to be done by a quasi-judicial tribunal composed either of officials and non-officials or of officials alone.

In those Indian provinces where the method of the Conciliation Boards has been adopted the instalments of the compounded debt are recoverable, in case of default, in the same way as land revenue. It is not yet clear whether the Bombay Government will extend the same privilege to creditors whose outstanding loans have been scaled down to the repaying capacity of the debtor. We expect, however, that this will have to be done to reconcile the creditor class to their fate. Another sop which the Bombay scheme holds forth to creditors is the possibility of the proposed Rural Reconstruction Finance Corporation taking over their debts immediately and relieving them of the burden of future collection, etc. The intentions of Government regarding the constitution and working of the Rural Reconstruction Finance Corporation are yet entirely unknown. Hence we would not venture at this stage on any comment

regarding it. It is, however, clear that the operations of this institution can never be so large as to include all debts which have been scaled down. The tentative figure, mentioned at the Poona Conference, of the extent of liabilities that may be taken over by this Corporation was Rs. 5 crores. It is obvious that this will fall far short of the total value of the creditors' claims. So far, therefore, as the bulk of moneylenders is concerned, the activities of the Rural Reconstruction Finance Corporation cannot help them. They will have to be content to try and recover the instalments of their scaled down loans as best as they can; a few lucky ones may, however, find themselves the possessors of the debentures or shares of the proposed Corporation.

II.

The Congress Cabinet deserves to be congratulated on having persisted in its resolve to undertake tenancy legislation in spite of an active campaign on the part of landholders. The proposed measure, so far as one can judge from a rough outline, is modest enough. But it is important as the first attempt at such legislation in a rayatwari province. And, however modest the beginning, the protection afforded to tenants is bound to grow once a Tenancy Law is on the statute book. The Bill proposes to protect tenants of landowners holding 100 or more acres of dry land or its equivalent and the tenants of all khots, talukdars and inamdars. The limitation involved in the first condition is obviously illogical. Tenancy legislation is justified mainly on the

ground that it is necessary to create a class of secured cultivators and it makes little difference whether a tenant holds from a big or a small man. Usually it is the smaller rent receiver against whom protection is most needed. Tenancy rights should be accruable as against the class of rent receivers, and in this matter we have always held that the provision of section 49 of the C. P. Tenancy Act, 1920, is the simplest and the most efficacious. It is clear, however, that the Congress high command thinks this an inopportune moment to attempt general legislation on such lines. We would pointedly draw attention to one natural consequence of this policy. It is that when in the near future the creation of tenancy rights for tenants of the smaller landholders is demanded, it will not be possible to legislate on lines of the present proposals. For the small landlords would have in the meanwhile changed their tenants and would not have let any one tenant to hold land continuously for six years. For tenants of landlords holding less than 100 acres the present proposal merely creates a situation where their tenure of land is bound to be less secure than heretofore. The fear of tenancy law will in future make the class of landlords now exempt keep their tenants on the move. The apparent cutting of the Gordian knot has been unsuccessful. The problem of the tenants of the smaller landlords will raise its head as soon as the agreed provisions are made into law. It would have been wiser, or rather it would still be wise, to deal with the problem as a whole, courageously brushing aside considerations of political expediency,

The rights of the new class of protected tenants will, of course, be subject to certain conditions. The rights will be heritable but inalienable. We are glad that the principle of the inalienability of the new tenant rights has been thus accepted. The grant of alienability has always resulted in the slow passing away of these rights from the hands of the actual cultivators and the reduction of the tenantry anew to the position of tenants at-will. Among the other conditions is one which lays down that the tenant will cease to be protected if he has failed to pay, by 31st March in any year, the rent of such land for that year. This makes no provision for arrears or temporary inability to pay on account of circumstances beyond the tenant's control. The condition is too stringent and will have to be suitably relaxed. There is a further condition which lays down that the landlord may re-enter the land if the tenant commits a breach of any other conditions of tenancy entitling the landlord to such re-entry. This is too vague and general and it may lead to lawyers and landlords evolving tenancy agreements which will defeat the purpose of the legislation. A definition of these other terms will, therefore, be necessary.

There is one class of persons whose claims to protection are highly deserving of consideration but who will perhaps not be covered by the proposals before Government. These are cultivator-owners who lost their lands during the depression and who have continued since to till them as tenants. Nothing can be done for those who lost lands during the depression and have had to

move away from them. But those who continue to till the land, though they are no longer its proprietors, can at least be helped and should be helped. All persons who have personally cultivated land since 1931 or 1932 continuously should be protected tenants, whether they hold the land as owners or tenants of other landlords.

What of the future? Opponents of tenancy legislation argue that to-day the extent of tenant holding on rayatwari lands is small, and widely varying estimates of such holding have been put forth during the controversy. To us it appears that even if tenant holding were as low as a tenth (nobody has put the figure so low) of the total land, the problem would be important enough to invite legislative attention. Apart from the present extent of tenant holding, it is its possible extension in the future that appears to us even more important. The Money-lenders, the Debt Relief and all such legislation under contemplation cannot but have an adverse effect on the credit position of the cultivators. Because of the Deccan Agriculturists Relief Act nominal sales of land to moneylenders as security for the loan already enjoy a certain amount of vogue. They will now become much more common and in general the movement of land to moneylenders is bound to be accelerated. What about these lands which pass away from the hands of cultivators in the future? No tenancy rights of the sort contemplated by the present legislation can grow on them. The cultivators of these lands will under the proposed arrangements always remain tenants-at-will. The situation can

be met only by some kind of legislation which makes cultivating rights inalienable or makes an ex-proprietor automatically an occupancy tenant. Analogous provisions are to be found in sec. 6 (c) of the Punjab Land Alienation Act or the provision regarding the *sir* lands of landowners in the Central Provinces. This most important problem has obviously not yet engaged the attention of the Government of Bombay.

The proposals regarding tenancy legislation now put forward are thus both unsatisfactory in certain respects and incomplete. We hope that the Poona Conference decisions are not irrevocable and that it will be possible still to modify them suitably. In any case we would congratulate the Bombay Government on recognising the need for protecting the rights of tenants and attempting to put a Tenancy Law on the state coxubt

THE BOMBAY MONEYLENDERS BILL.

I.

THE Moneylenders Bill introduced during the last session of the Legislative Assembly by the Government of Bombay is a very comprehensive piece of legislation. It tries to regulate the entire business of lending, rural and urban, small and large, in money and in kind. There are obvious advantages in adopting a single comprehensive enactment to cover all phases of an activity like money-lending. The omission of the former Bombay Governments to do anything in this field has also made it possible for the present Government to deal with the problem as a whole. While a comprehensive piece of legislation should on all accounts be welcomed, it would not do to shut one's eyes to the difficulties involved in framing an all-embracing single enactment. The variety of transactions covered by the term money-lending is immense. The major portion of the activities of organized banks, co-operative societies, the post office and other official and semi-official institutions remain outside the scope of the Bill under consideration. Even so, the field covered by the proposed regulation will be very large. We may draw attention to at least three separate types of loan transactions which need some type of regulation or other and which are covered by the Bombay Moneylenders Bill. In the first instance, there is Agricultural Credit. This, of course, is the main field which the Bill has in view. This province, with its Deccan Agriculturists Relief Act, has been the pioneer in legislation regulating agricultural

credit. The D. A. R. Act has by a consensus of opinion failed in large measure to achieve its objectives, and the present Moneylenders Bill deals with this problem in ways which have been devised and accepted in a large number of Indian provinces in recent years.

There are two other fields, however, which deserve more attention than is usually given to them. The first we may call Consumer Credit and the second Artisan Credit. The problems with regard to both of these are most acutely felt in the towns. So far as the bulk of the agricultural population is concerned, it is not possible to differentiate between credit required for production purposes and that required for consumption. The problem of consumer credit has been dealt with specifically in a number of Western countries. In the U. S. A. the main enactments are what have been called Small Loan Laws, and the Russel Sage Foundation has for over two decades played an active part in framing a uniform Small Loan Law and getting it adopted by the various States. In England also both pawn broking and lending in a small way have been strictly regulated for many decades. Consumer credit is required mostly by persons in the lower income strata—whether professional, salaried employees or skilled and unskilled workers. They have little or no security to offer and their needs are urgent. Hence the terms which the moneylender can and does impose on them are onerous. At the same time, it has also to be remembered that the size of all these loans is very small, the business risky and the cost

of collection and general administrative expenses proportionately high. A very large part of consumer credit is supplied by sales on credit by shops which supply the necessities to these classes. But there also exists a very large sphere of money-lending as such in this field.

Artisan credit stands somewhat apart from the two others because of the dual role played in it by the creditor. The money-lender in the case of artisans is usually also the merchant who supplies them with raw materials and buys the finished product from them. The dealings of the artisan with the creditor are, therefore, both in money and in kind and involve the extension of credit as well as the sale and purchase of goods. The nature of the transaction further makes it impossible to separate, for purposes of regulation, the money and the kind or the credit and the merchandising transactions. At the same time the helpless position of the artisan and the hold that his dual capacity gives to the merchant-moneylender make it imperative that the transactions in this field should also be covered by a regulative regime.

There are, of course, a number of aspects of regulation in which the different types of credit involved do not necessarily make any difference. The licensing and registration of moneylenders, the regulation of accounts, reopening of accounts or deposits in courts, etc. can be provided for in a uniform manner for Agricultural, Artisan or Consumer Credit. But in certain other respects the underlying conditions are so different as to call for a difference in regulatory provisions.

The initial problem to be considered is that of the field to be covered by regulation. Reading together the definitions of "money-lending" and "loans" in the Bill, it seems clear that the Bill will cover even the ordinary sales on credit made by a shopkeeper. As a consequence after this is enacted any shopkeeper may, when trying to recover the cost of goods sold on credit, be held to be a moneylender under the Act and be compelled to apply for a licence. Such a wide definition of the field of money-lending seems unnecessary and will in practice prove vexatious. The terms must be redefined in such a manner as to narrow the field. At the same time this ought not to be done by the simple method of dropping the reference to loans in kind. For, this will leave out of the field of regulation grain loans to agriculturists and the major part of the dealings of the merchant-moneylender with the artisan. These must at all costs be covered by regulation.

The other major question is that of the regulation of the rate of interest. The prescription of the rates of interest is a matter which requires very careful consideration. It is one of the provisions which is easiest to evade. An unduly low rate of interest may have one of two effects. It may merely dry up credit or more likely it will lead to evasion. Evasion may be practised by licensed moneylenders in a variety of ways or licensed moneylenders may go out of the business and the whole of the business may become concentrated in the hands of unlicensed persons. The provision regarding the rate of interest as well as the other regulatory provisions

become in the latter case ineffective. This is proved by recorded experience in the U. S. A. The Russel Sage Foundation, which began with a natural bias in favour of a low rate, was after detailed studies forced to the conclusion that $3\frac{1}{2}$ per cent. per month was a rate that had to be allowed if the activities of unlicensed money-lenders were to be effectively checked in the field of small loans. Very recent experience in the U. S. A. further showed the evil effects of reducing the rate to a too low level even in States where regulation had been previously established for many years. The findings of a study of conditions in three States which reduced their legal rate in 1929 from $3\frac{1}{2}$ to $2\frac{1}{2}$, 2 and $1\frac{1}{2}$ per cent. per month were as follows: (i) The rate reduction in each state resulted in a contraction of lending.—(ii) The lenders refused applicants for smaller and more poorly secured loans, who were presumably most in need of the facilities and protections which the Act was designed to supply. (iii) Bootleg lenders immediately began to make loans of the kind refused by licensed lenders, at exorbitant rates of interest. There is no reason to believe that the repercussions of legislation in India will be any different from that in the U. S. A.

The Bill under consideration limits the rate of interest to 9 per cent. on secured loans and 12 per cent. on unsecured loans. The rates are fair so far as lending to agriculturists in the more secure parts of the province is concerned. The data collected by the Bombay Provincial Banking Enquiry Committee would bear out this

contention. We are not, however, sure that in the insecure Deccan districts these rates may not lead generally to a crop of evasive practices. A small sample indebtedness enquiry in some villages of the Wai Taluka of which we have the provisional results at hand shows that the normal rate on an unsecured loan in that part is $18\frac{3}{4}$ per cent. per annum. This is the rate at which reputable cultivators are able to borrow. Some others pay much higher. The Wai Taluka is a comparatively secure and prosperous part of the Bombay Deccan. We, therefore, feel that the limit for at least the small unsecured loans to agriculturists will have to be raised, at least, to 18 per cent. if the legal rates are at all to be effective.

Loans to agriculturists, even when unsecured are less risky than loans to artisans and much less risky than the small consumer loans in cities. The agriculturist cannot leave his place easily and his standing crop is always some kind of security for repayment. The security offered by the production of the artisan is, on the other hand, much smaller in value and the urban consumer of the lower income strata has almost nothing to show on which the lender can depend in the last resort. Recent legislation making the attachment of salaries below Rs. 100 impossible has reduced the credit of salary earners also to almost the position of non-salary earners. The Bill as it stands makes no distinction between the legal maximum rates for these different types of credit; and the maximum rate of interest that it contemplates is for all cases 12 per cent. per annum. It is wellknown that the terms on which credit is

available to the small artisan or consumer are very much higher than 12 per cent. As a fact the rate at which the merchant in Poona lends money to a small weaver is usually $6\frac{1}{2}$ per cent. per month. It will thus be realised that the discrepancy between the actual rates and the rates that will be legal if the provisions in the Bill become effective is truly enormous. Under the circumstances the only result will be that, so far at least as small loans are concerned, the provision regarding the rate of interest will be completely ineffective and that this business will remain in the hands of unlicensed money-lenders.

This will be most unfortunate. The only remedy is to adjust the legal permissible rate to the realities of the situation much more than it is in the Bill. There is no way of determining at present the lowest rate at which no undue shrinkage of credit will take place or no special encouragement will be given to the operations of unlicensed moneylenders. This can only be arrived at after experience and investigation, by the trial and error method. In the meanwhile it will not be unwise to presume that the maximum permissible rate should not be less than the U. S. A. standard rate for small loans, i. e., $3\frac{1}{2}$ per cent. per mensem. (It may be noted that while the English Moneylenders Act does not lay down a legal maximum it indicates a rate which may be taken as excessive. This rate is put at 48 per cent. per annum.) We do not, of course, propose that this should be the legal maximum for all kinds of loans; that would mean making the

provision meaningless for all except the small loan business. What we would propose is a classified schedule of permissible rates instead of the provisions suggested in the Bill. In addition to the distinction between secured and unsecured loans there should be added at least two new lines of divisions. These are by occupation, i. e. differentiating between agriculturists and non-agriculturists and secondly by the size of the loan. The distinction between agriculturists and non-agriculturists is common in many types of legislation, and in fact a number of enactments regulating the business of credit have in recent years been confined in their operation only to agriculturists. Division by size of the loan is also common in Indian legislation. The U. P. Agriculturists Relief Act divides loans into five different classes by their size. In classification by size what we should seek to separate is the very small unit whose cost of collection and administrative expenses form a very high proportion of the principal, from loans of the medium and big size. The limit must be put in such a manner as to clearly demarcate the really small business. The C. P. Reduction of Interest Act puts the dividing line between small and large loans at Rs. 5,000; the smallest division in the U. P. Act is of loans below Rs. 1,000. Both these limits are too high for the purpose indicated. The small loan legislation in the U. S. A. applies only to loans under \$3,00 and the latest formulation of the Russel Sage Uniform Law differentiates between rates of interest for the first \$100 and for the next two hundred. The determination of analogous figures for India is a matter, at least at present, of mere guess-

work. We would not advocate too numerous divisions by size. They need not, for purposes of regulating the rate of interest, be more than three. The smallest division should be of loans below Rs. 100; the next division of loans between Rs. 100 and Rs. 1,000; and loans above Rs. 1,000 should all be classified in one class as large loans. It is not necessary for our purpose to prepare a detailed schedule. We want merely to emphasise that the regulation of the rate of interest could be made effective only if the complexity of the character of the business of money-lending is taken into account and to indicate the types of considerations for which it would be necessary to allow.

Reference may be made to another vexed problem which is involved in the regulation of the rate of interest. This is the determination of the rate of interest when the loan is made in kind. The problem is difficult even when the loan is also repaid in kind. For, even in that case, the price per unit of the good may be different at the time of repayment from the price at the time at which the loan was made. In cases in which the kind loan is repaid either in cash or a raw material is paid for by a finished good the calculation of the rate of interest is also difficult because the monetary valuation of goods is made by the lender. If a merchant-moneylender lends yarn to a weaver and receives back cloth from him the enforcement of any particular rate of interest becomes impossible. Because the determination of the prices of both yarn and cloth usually depends, within a very

large margin, upon the lender himself, and the lender can always defeat the regulating provisions by manipulating suitably the prices of materials. The small loan legislation in England and the U. S. A. did not come up against this problem because it dealt only with consumer credit and not with artisan credit. In recent years the same difficulty has been encountered in these countries in connection with the regulation of instalment sales and hire-purchase contracts. The difficulty of regulating a rate of interest in the sale of a goods like an automobile is not so considerable as that of regulating it in the case of the dealings of the merchant-moneylender with the artisan. Even so, the Massachussets Committee which recently considered this problem recommended that the regulation of instalment selling should be confined to registration, disclosures, and specification of terms of contract in certain defined forms and should not attempt to fix the maximum rate of interest. Similarly Miss Wilkinson's Hire-Purchase Bill now under consideration in Parliament does not try to regulate the rate of interest. Indian legislation also does not usually concern itself with the problem of the determination of the rate of interest on loans in kind. It is interesting in this connection to note that the U. P. Agriculturists Relief Act (1934) specifically exempts from its operation loans of agricultural produce "repayable at the next harvest with not more than one quarter of the quantity of the said produce by way of interest": and, as to other loans in kind, it does not make the rate of interest on them subject to the scheduled rates but provides that a dispute

about the fairness of the rate on such loans shall be referred to the Collector, whose decision shall be final. We have raised this question in this place to indicate another sphere in which the attempt to regulate the rate of interest on lines provided in the Moneylenders Bill will prove inadequate. Initially, at least, no attempt should be made to regulate the rate on loans in kind except by way of the usual provisions regarding excessive or usurious interest. It will be enough to apply the other protective measures of the Moneylenders Bill to them.

II.

THE compulsory registration of moneylenders has been enforced hitherto in only one Indian province, viz. the Central Provinces. The licensing of moneylenders has not yet been attempted in India. The Bombay Bill contemplates the registration and the licensing of moneylenders. The Provincial Government will for purposes of this legislation divide the province into a number of areas and will appoint a Registrar of Moneylenders for each area. The Registrar will annually receive applications from moneylenders and will issue licences which will be valid for business only within that area. The total amount of capital which a person intends to invest in the business of money-lending for the year will also have to be stated in the application. This scheme is an ambitious one. It has also a dual character; it combines the regulation of money-lending with a fiscal device. We have yet little experience in this country regarding the regula-

tion of money-lending operations. The extent to which evasion will be practised and unlicensed moneylenders continue to operate cannot be gauged. The evasion might, however, be large, at least initially, and it would perhaps have been better if a first step had been tried with registration only. The annual licence, the limitation of the area of operation and the statement of the capital invested seem to have been introduced for the sake of the tax character of the regulation. It is not clear otherwise why the operations of a moneylender should be confined to a particular area or his total investments limited to a previously declared amount. A provision that a moneylender should be registered with the Registrar of the area in which he has his place of business should be sufficient; registration in more than one area being made compulsory only when the number of places where business is transacted are numerous and are situated in different areas. The provisions in the Bill may act unfairly. Even if a moneylender may not consciously extend the area of his business or open any new offices or places of business, his clients may move into areas outside his registration area and he may then either have to cease to have dealings with them immediately or register in a new area. And if the clients do not notify the moneylender of their change of address he may unwittingly break the law. We do not thus see any justification for the way in which section 8 is at present drafted. No particular desirable regulation is likely to be defeated by allowing a moneylender to operate beyond a particular area. In the same way the declaration of the amount

to be invested in business can also have no relation with regulatory provisions. It is entirely a part of a fiscal device. It will also be extremely easy to evade in the absence of a very elaborate inspecting machinery. Even from the point of view of tax collection it will be better to ask the moneylenders at the end of the year to declare the amount of capital invested by them during the previous year and charge them a licence fee on its basis rather than ask them to declare the amount in advance. It is much easier to sustain a plea of miscalculation if the amount is to be stated in advance than if it is declared at the end of the year. The need for an annual application is also not evident. The whole system would best be administered on the lines of motor vehicle registration and motor driving licences. The moneylenders' licence fee would be fixed according to a schedule based on the volume of the previous 12 months' maximum business. The registration and the licence would be automatically renewed on the payment of the licence fee accompanied by the necessary declaration of the past year's amount of business. A summary enquiry each year into all the applications seems unnecessary. A licence may be endorsed for each offence committed as is done in the case of motor driving licence, and on the commission of a particularly grave offence or accumulation of many offences a magistrate may refer the case to the Registrar of the area, or the Registrar may on his own motion suspend or cancel the licence. Until this happens the licence will be renewed each year on the payment of the proper fee. Such a system will be less trouble-

some to applicants and much more easy to administer than the one contemplated in the Bill.

We feel serious doubts as to whether Government is in a position today to administer an elaborate licensing system. If, however, it is decided to set up such a system the provisions of the Bill appear inadequate to implement it properly. In the first instance, though the Bill makes it obligatory on all moneylenders to obtain a licence before carrying on business, it does not make the non-obtaining of the licence an offence. The only pressure on moneylenders to obtain a licence is the provision that there will be stay of suits in the case of moneylenders not holding a licence. The fact of being unlicensed will merely be inconvenient if recovery of a loan is sought through courts. Obviously, that notorious class of moneylenders who rarely go to court for recovery of their debts will be under no necessity to apply for licences. They can and will carry on their activities entirely unaffected by this legislation. Enquiries which can be held into the practices of licensed moneylenders under section 16 of the Bill cannot be held into the activities of unlicensed moneylenders. Nor will Registrars have the power to call for documents, etc. which they will exercise under section 10 (3) with respect to applicants for licences. It is only the law-abiding applicant for a licence that comes under the purview of this legislation. The non-licensee is left entirely free to do as he likes as long as he does not have recourse to a court of law to recover a debt. And even in this case he need only pay a fine and the licence fee for one particular year. If, there-

fore, the scheme of licensing is to prove a success, penalties for non-registration and provision for enquiries into the character of the business with suitable penalties on proved infraction of the law will have to be provided for as against the class of non-licensees.

This by itself will not be enough. The licensing system will be a success only if the proper enforcement of the regulatory Act is made the business of a set of State officials as in the U. S. A. Without an agency which closely supervises the working of the Act it is bound to be, for the major part, a dead letter. Chapter IV of the Bill deals with the regulation of accounts and provides for the keeping of accounts, passing of receipts and furnishing of statements of accounts periodically by the moneylenders. The provisions apply to all moneylenders. Presumably, therefore, both the licensed and the non-licensed moneylenders will be expected to keep their accounts in the prescribed fashion. No provision is, however, made for any inspection, no powers given to the Registrar in this behalf. It is only when a claim is made in court that an examination into compliance with these sections will be made. The enforcement of the Act by the indirect way of making recovery of a claim through courts difficult, may prove fairly successful in the case of Agricultural Credit. But we feel sure that it will almost entirely fail so far as Artisan Credit and Consumer Credit is concerned. Unless there is set up an agency which has full powers and which is charged with the business of the enforcement of the Act the legislation will prove ineffective so

far at least as the poorer urban classes, who need this protection very badly, are concerned. Even in the United States, with the varied private philanthropic help and social service activity available, it has been found necessary to set up in each State a Supervisor of Loan Agencies. It is instructive that some of these supervisors have felt it desirable to let the borrowers know of the legal aid and protection available to them by getting printed on the receipt, which every borrower has to get from the lender, the following: "For information or complaint consult the Supervisor of Loan Agencies." We are aware that the possibility of inefficiency or corruption may be urged against the proposal of setting up an official supervisory agency. But in these matters there is no half-way house. Paternal legislation of this kind necessarily means enforcement through administrative machinery. In these matters experience has also often proved that no legislation is better than legislation enforced in an inadequate or lop-sided manner. The Registrars contemplated in the Bill should, if the licensing system is to be adopted, be made into Supervisors and they should be given powers to inspect account books, call for documents and enforce the law in respect both of licensees and non-licensees.

We have indicated above the main lines on which modification is required in the structure of the proposed Moneylenders Bill. For the rest, it is a comprehensive piece of legislation which has profited from the experience of the other countries and the other Indian Provinces. We

have already described the provisions regarding the registration and licensing of moneylenders and stay of suits by moneylenders not holding a licence. It is provided that the Registrar cannot refuse to grant a licence except on one of stated grounds. Courts will have power to suspend and cancel licences and any person may file an application in a competent court for the suspension or cancellation of the licence of any moneylender. We are glad that in regulating the accounts Government intends to prescribe the forms of cash book and ledger in which accounts will be written. One minor point that strikes us with regard to these provisions is that under sec. 23 (2), while the charge for supplying to the debtor a statement of accounts in the English language is Rs. 2, the fee for a statement in a language of the province is Rs. 4. The position should properly be reversed. The lower fee should be chargeable for a statement of the account in the court language of the District and the higher fee for English and other languages of the Province. Under miscellaneous provisions power has been given to court to direct payment of the decretal amount by instalments. Compound interest has been prohibited and so are also charges for expenses on loans by moneylenders. Reopening of transactions by courts is permitted and it is provided that a debtor may at any time make an application for taking accounts and declaring the amount due. It is also provided that if any creditor refuses to accept any amount in repayment of a loan the debtor may deposit the sum in court. In this connection we may draw attention to another

provision usually found in American legislation. This is the permission given to borrowers to make payments in advance, whatever the terms of the contract. Entry of a sum in a bond greater than the loan advanced is made an offence and the recommendations of the Labour Commission relating to molestation have been incorporated in another section. The comprehensive character of the legislation will thus be apparent. Almost all the provisions we have summarily indicated above have been evolved after a good deal of experience in other places, and we heartily congratulate the Government of Bombay on having taken such a large view and having produced a sound and comprehensive Bill.

D. R. GADGIL.

INDIAN CURRENCY AND EXCHANGE

I.

THE dominance of Indian economic policy by British interests is perhaps no where more clearly exhibited than in the sphere of currency and exchange management; and the specific reservations regarding these matters provided under the new constitution bear witness to the unwillingness of the British to loosen their hold in this behalf. British interests affected by Indian currency and exchange policy are diverse in their character. There are the interests, for example, of British residents in India — the official and commercial community — who earn their income in rupees and calculate their remittances or savings in terms of sterling. There are the British investors in companies operating in India, the size of whose dividends depends partly on the rate of exchange. But most important of all, there are the interests of the British exporters. The interests of the official class are guarded by fixing their pension, etc., in sterling, and on extraordinary occasions they have been given special allowances to cover exchange depreciation. The bulk of Indian Government securities held by British investors are sterling loans and are thus unaffected by exchange fluctuations. The interests of British investors in companies operating in India are more largely dependent on Indian business conditions than on the rate of exchange. The interests of the British exporters are thus really the dominating factor. A large number

of British exporting industries depend on the Indian market, and any currency and exchange policy which tends to diminish these exports naturally hits Great Britain hard.

From the strictly Indian point of view there are two sets of considerations which may guide currency and exchange policy: budgetary and those affecting industries and trade. The Indian Government has to pay very large amounts in sterling each year by way of pension, interest and other charges. Fluctuations in the exchange rate, therefore, upsets the budget, and any considerable appreciation of the sterling in terms of rupees increases materially the burden of these charges on the Indian central budget. The other important consideration may be that of trade and industrial conditions; that is to say, currency policy may be determined by its relation to maintaining a balance of economic life internally. In the history of Indian currency management the two considerations that have throughout remained dominant have been the interests of the British exporter and the budget of the Central Government, and both these tend to bring about an overvaluation of the rupee in terms of sterling.

It is not necessary for us to enter into distant history. The closing of the mints to silver and the adoption of the gold exchange standard are matters which need not be discussed. On the eve of the war, the gold exchange standard had been firmly established for some time. The war upset these arrangements and drove the rupee on to a purely paper standard. The rupee remained a managed currency till 1927. The recent history of the

Indian currency and exchange policy dates from the attempts at stabilization in the post-war period and the actual standard and ratio adopted. The pre-war ratio between the rupee and the sterling had been 1s. 4d. to the rupee. In understanding the situation when stabilization took place, it has to be noted that Indian currency management between the years 1919 and 1925 was carried on with reference only to the sterling exchange. From 1922 to the middle of the year 1925 currency policy was so managed that the ratio of the rupee to the sterling appreciated steadily from about 15½d. to the rupee to 18d. During the same period the sterling also appreciated in terms of the dollar, i. e. gold. Thus in relation to gold the rupee was made to appreciate by nearly 25 per cent. during this period of three years.

The case of those who opposed the policy of the Government of India in its attempts to stabilize the exchange at 18d. was in all essentials the same as the case presented by Mr. Keynes against Mr. Churchill's policy. The only difference lay in this that for Mr. Churchill it could be claimed that he was misled by motives of prestige and the sentiment of the banking community in restoring the gold standard at the pre-war parity even though the pound was overvalued at that point; but a similar defence was not available to the Government of India. The Oppositionists' demand was for restoration of the pre-war parity of 1s. 4d., and it was the Government that departed from the old level. Budgetary considerations may have weighed with the Finance Member in decid-

ing upon the higher ratio. It is necessary to remember that till the establishment of the Reserve Bank in 1935 the control of currency and exchange policy lay in the hands of the Executive Government, i. e. the Secretary of State for India and the Viceroy's Cabinet. Directly it was the Finance Member of the Government of India that controlled exchange and currency policy. There is, therefore, little wonder that the prospect of a saving in the budget influenced this policy to a perhaps greater extent than would otherwise happen. The public agitation against the 1s. 6d. ratio was based squarely on the fundamental objection that it had a deflationary effect. It is now admitted on all hands that during the period 1925 to 1931 the pound sterling was overvalued in terms of the dollar or gold. It is admitted that this is perhaps the main reason why England did not share in the contemporary boom. On similar evidence or similar calculations it may safely be stated that the rupee was also clearly overvalued during the period. It is not possible here to go into all the evidence but the following table showing the movements of the index-number of wholesale prices in some countries will be found instructive.

WHOLESALE PRICES (Index Number).

Year	India	Australia	U. S. A.	U. K.	S. Africa
1924	173	1885	98.1	166.2	1448
1925	159	1844	103.5	159.1	1436
1926	148	1832	100.0	148.1	1387
1927	148	1817	95.4	141.6	1395
1928	145	1792	97.7	140.3	1354
1929	141	1803	96.5	136.5	1305

It is clear that, during the period 1924 to 1928, while in U. K. and India the index number of wholesale prices fell by approximately the same extent the movement in other countries was very much smaller. We are not building the case for overvaluation on the wholesale price index. We merely indicate the nature of the deflationary effect of the ratio at which the rupee was stabilised. It is no doubt much more difficult to determine the motives which lie behind policy than to determine its after effects. While the budgetary consideration was no doubt important, it was also commonly alleged that the overvaluation of the rupee was the result of a desire to help the British exporter of goods to India. This would be natural in an English Finance Member of India or the English Secretary of State for India. If the ratio had been lower, Lancashire, for example, might well have found it much more difficult to withstand the competition from Indian cotton mills in the Indian market than it actually did.

The behaviour of those in control of Indian currency and exchange policy during the early years of the depression also patently lays them open to the charge of having interests other than Indian at heart. Some acquaintance with the nature of Indian foreign trade and the Indian balance of international payments is necessary to an understanding of the issues involved. India is an essentially agricultural country, of whose exports raw materials (mainly the products of agriculture) form the bulk. The export trade is composed of a few dominant lines such as raw cotton, raw jute, wheat, oilseeds, tea and hides

and skins. Jute manufactures are the only manufactured goods that figure as important in Indian exports. The imports are, on the other hand, made up of a large number of commodities, mainly manufactured goods. Cotton cloth is the most important group of these commodities. The other important goods are machinery and millwork, iron and steel products, etc. The most important feature of India's balance of international payments has always been a very large net merchandise balance. For the ten years before 1928-29 this amounted on an average to more than Rs. 87 crores. It was thus by exporting a much larger value of merchandise than it imports that India had been able to meet the interest (Government and private), dividend, pension and charges for other services that it had annually to pay. The merchandise balance of trade had also enabled India to effect a net annual import of gold and silver. During the ten years prior to 1928-29 the value of the net imports of gold and silver amounted together to over Rs. 37 crores. These figures will indicate how India would be affected by the Great Depression. Because its exports were somewhat more diversified and because it was not dependent on foreign trade to the same extent, India did not suffer disaster as early as Australia or Argentine. But its position was in all essentials the same. The net merchandise balance of trade experienced a drop in 1929-30 and a further sharp fall in 1930-31. The Government of India which normally met its requirements for sterling payments by buying sterling in the open market found it impossible to do this at the

statutory rate of 1s. 6d. April 1929 was the last month before September 1931 when sterling was bought by Government in the open market at 1s. 6d. After April 1929, the Indian exchange remained weak all the time. The Indian Government was, however, irrevocably wedded to the maintenance of the ratio, and for two years it continued to do this at all costs. It intervened in the short-term money market to withdraw funds by continuous issue of treasury bills and by contraction of currency. By its intervention it kept interest rates at a high level. It thus met the beginning of the depression by violent deflationary measures. Prices first broke in the beginning of 1929. It was about September 1929, however, that there began a precipitate fall. The Calcutta index number stood at 143 in September 1929, at 111 in September 1930, and at 91 in September 1931. In 1930-31 Government found it impossible to buy sterling in the open market, and recourse was had to sterling borrowings to meet the requirements of payments in England. It had also during the same period to meet demands from the public for sterling at the statutory rate for nearly £6 millions sterling in order to maintain the rate of exchange. A general flight of capital from India was also noticed.

All this was the result of the determination of the Government to maintain the ratio at 1s. 6d. A mere enumeration of these facts is enough to prove the charge that the Government was in no way actuated by considerations regarding Indian interests. Examples of the right policy

to be followed by agricultural countries in face of the depression and an adverse balance of international payments were not wanting. Australia and Argentine had long before suspended the gold standard, and many South American countries had followed suit. Exchange control had been tried in some other countries. The Government of India refused peremptorily to consider any of these alternatives and declared its intention to continue borrowing on a scale as large as was necessary to maintain the fixed ratio. The British Premier also declared that the British Government would lend its support to the Indian Government, to enable it to borrow (at the cost of the Indian tax-payer) in order to maintain the ratio.

The providential escape of India from even a worse fate and the incurring of even higher liabilities was the result of no action of the Government of India. It was because the sterling went off gold that the link of the rupee with gold was also snapped. This fact is by itself noteworthy. If the sterling had not been forced off the gold standard, no amount of distress and difficulties in India would have been thought sufficient to bring about a change in Indian currency policy. When the sterling went off gold, the English currency system entered the class of managed currencies. The Indian did not follow suit. It also left its gold moorings but did not become a managed currency. The Indian standard was transformed from a Gold Bullion standard to a Sterling Exchange standard. It is impossible to explain the decision of the Government of India and the Secretary of State to adopt the Sterling Exchange

standard for India except on the assumption that budgetary considerations and a solicitude for the interests of the British exporter influenced this decision. The budgetary consideration by itself, in view of the experience of other countries during the depression, would not support this course of action. For, it is clear that a depreciation of the currency which may raise the charge on account of foreign payments would be adequately compensated for if it helped at the same time to restore a balance to the national economy. The extra expenditure could be easily incurred if it strengthened the other tax resources. It was essentially the fear of further hampering the British exporter if the rupee was allowed to ~~move away~~ from the fixed sterling ratio that ~~seems to~~ have decided the issue.

II.

IT is unnecessary to enter ~~into a lengthy~~ theoretical discussion to maintain the point of view put forth above. A few salient considerations may, however, be indicated. The Gold Bullion standard and the 1s. 6d.. ratio were adopted in India as a result of the recommendations of a Royal Commission. This Commission had examined the possibility of establishing both a Gold Exchange and a Sterling Exchange standard and had definitely rejected these alternatives. It had raised a number of objections against the Gold Exchange standard and some additional ones against the Sterling Exchange standard. Why then should the Government of India have hastily adopted

this standard in 1931? The advantages flowing from a uniform international standard are obvious; its disadvantages lay in the fact that under changing circumstances the maintenance of the gold standard involved a tyranny of international movements over the internal economy of a country. The possibility of pursuing a consistent internal policy and of maintaining exchange stability had been for a long time proved inconsistent, and informed opinion was slowly veering round to preferring the first alternative. This meant giving up the gold standard and a fixed parity and adopting the managed currency system. It should be noted, however, that while India abandoned the gold standard it was not allowed to secure the most important advantage that normally flows from the step. Indian currency had still a fixed statutory parity. Instead of being a gold parity, it was a paper sterling parity; that was the only difference made. A statutory parity involves the management of the currency system with the maintenance of the parity as the dominant aim. The Indian currency system though off gold could still, therefore, not be managed with reference to the needs of Indian economic life. And, of course, as the succeeding period was one of exchange chaos India did not get the advantage of any exchange stability either. The decision to adopt the Sterling Exchange standard thus meant having the *worst* of both worlds.

Some protagonists of the link with sterling talked as if the only alternative was wild inflation or chaos. This, of course, was highly erroneous. The plea could not stand in India as

only a decade ago, i. e. during the period 1919 to 1925 the Indian currency system had been a merely managed currency system without fixed parity with sterling. As a fact, Mr. Keynes in his "Tract on Monetary Reform" affirmed the practical possibility of a managed currency system by reference to the contemporary Indian example. What was urged, when the link with the sterling was opposed, was that the extent to which the rupee was depreciated should not necessarily be the same as that the sterling had depreciated. The need for going off gold lay in avoiding the deflationary effects of the continuous fall of gold prices. Internal price stability and perhaps reflation subsequently were the objectives at which all countries which left the gold standard aimed. The appropriate exchange levels at which these objectives could be attained were necessarily different for the different countries. And the claim of Indian opinion was merely the claim that this should be determined by reference to Indian conditions alone.

As later events proved, the depreciation brought about by the depreciation of the sterling was not adequate so far as India was concerned. Even on *a priori* considerations it is easy to see that this would happen. For, in the early stages of the depression the fall in the prices of agricultural products was much greater than the fall in the prices of manufactured goods. Hence the degree of depreciation necessary to balance an economy which sold agricultural goods and bought manufactured goods would be greater than in an economy which reversed these roles. The

phrase "an exchange finding its natural level" is sometimes ridiculed as being vague and almost meaningless. But under managed currencies currency authorities can have no other aim than this and must pursue this shadowy end. There are to-day no agreed objective tests regarding the proper equilibrium level at which a currency should be stabilised. Without entering into the niceties of theoretical discussion we may cite the opinion of the study group of the Royal Institute of International Affairs as being representative of the main trend of thought on this question. The study group holds the equilibrium rate to be one at which the balance of payments is in equilibrium, the normal exchange of goods and services facilitated and capital movements are kept at a reasonable level and are properly invested. Even with the snapping of the gold link the movement of the balance of trade against India did not stop. As a fact, the situation became worse and in 1932-33 India had an actual deficit balance of merchandise trade. The adverse merchandise balance did not continue during the following year, but the average of the net merchandise balance during the three years 1933-34 to 1935-36 was only Rs. 19 crores. When it is realised that the payments abroad on account of Government expenditure and interest payments amounted on an average to Rs. 45 crores during the same years the extent of the continuous adverse balance of trade during the five years from 1930-31 to 1935-36 will be clearly realised. These bare facts about India's international balance of payments are enough to prove the

contention that the exchange ratio of the rupee was seriously out of adjustment.

On all counts the Indian exchange ratio throughout the period of depression was seriously out of equilibrium. It is generally held that an influx of gold indicates undervaluation of the currency, and on this indication it is calculated that the English currency was undervalued in the period after September 1931. The adverse balance of payments in the case of India was accompanied by a large efflux of gold out of the country. India, from being a country which normally bought large quantities of gold became a country exporting gold on an enormous scale. During the five years 1931-32 to 1935-36 India exported gold worth more than Rs. 270 crores. This represented a higher value than the value of the net imports of gold into India for the period of ten years previous to 1930-31. The enormous dislocation of India's normal balance of payments indicated by these facts will be fully realised when it is noted that for a period of over fifty years prior to 1930-31, i. e. for the entire period of the modern era of India's international trade, there had never been a net balance of export of treasure from India. In some years there has been a net export of gold but it has then always been more than balanced by the net import of silver. The net export of gold has been a feature of the years 1892-93, 1894-95, 1915-16 and 1918-19. In 1892-93 and 1918-19 the net export of gold was due to silver having been comparatively overvalued and gold undervalued in the Indian currency system. The net export of gold was

therefore, accompanied in these years by a very large net import of silver. The closure of the mints in 1893 led to a considerable overvaluation of the rupee, and this was one of the factors responsible for the very low net imports of gold in 1893-94 and the net export of gold in 1894-95. But even during this year there was no net export of treasure, gold and silver being taken together. The foreign trade situation of India for over five years after September 1931 was then unparalleled even in the worst years of famine or other distress in the modern period.

It is not sought here to make out necessarily a case for any particular course of conduct. The most natural course of action would have been that taken by other countries in the sterling area. Most countries which now form the sterling area devalued their currencies simultaneously with or a little after the sterling. But all of them allowed their exchange rates to fluctuate more or less independently of the sterling for over a year after the break. It was only in 1933 that most of the present sterling area countries began to peg the ratio of their currency in terms of the sterling. This would have been the most natural and beneficial course for India to follow. It would have caused loss to the Central Government but it would have saved a lot of distress to primary producers and also consequently to Indian provincial Governments and it would have saved loss of capital on a large scale. If, however, this course was not liked by the Finance Member and he wanted a fixed rate of exchange, he could have followed the alternative

series of steps adopted by the exchange control countries of Europe. In all these countries like Germany and Italy an official rate of exchange has been throughout maintained at the old par. This has been done avowedly with the purpose of avoiding an increase in the burden of foreign debt. But these countries have also seen to it, at the same time, that an adverse balance of trade and a loss of capital assets do not follow. They have adopted a large variety of measures for this purpose, and the effort has led them into a meticulous control over foreign exchange and international trade. Fundamentally both the courses outlined above involve interference with foreign exchange dealings. The process of letting the exchange find its level has to be carefully managed, and the later maintenance of the pegged ratio involves intervention in the market. The operations in the exchange control countries have, of course, to be much more drastic. Both methods when followed logically have very similar results. They result in a net shrinking of international trade. They are both aimed at arriving at an equilibrium point with regard to export and import obligations. We do not favour the latter more stringent method. We have referred to it only to point out that if the external obligation and budgetary considerations were so dominant in the mind of the Government of India there was open a way in which that aim could have been reconciled with the guarding of the larger national interests of India, i. e., promptly balancing the international balance of payments. The real fact, however, is that those in charge of the Indian exchange and

currency policy do not look primarily to Indian interests. Any course dictated by considerations of Indian interests would necessarily have meant some shrinkage in Indian imports with consequential repercussions on some British exports which the Government was anxious to avoid. Hence the adoption of the sterling exchange standard and the obstinate maintenance of the fixed parity at a time when every country outside the gold bloc was manipulating exchanges.

III

THE comparison of Indian experience with the course of events in Australia shows the picture in its proper perspective. Australia suspended the gold standard as early as December 1929. It then went about in the most systematic manner to evolve a plan for restoring the balance to its economy. It maintained its pound throughout these years at a discount with the sterling. The gold value of the Australian pound was already 76.6 per cent. of the par in September 1931. The lowest value reached by the Indian rupee was 58.4 per cent. of the old gold value. This was in March 1935. The Australian pound reached its lowest point in the same month. This was 46.0 per cent. of the old gold value. Australia further scaled down the internal obligations of government and did everything else in its power to attain the main aim of adjusting its balance of international payments. This effort was, perhaps, even more difficult in the case of Australia than in the case of India. The Australian balance of payments was normally a deficit

balance on current account and was usually made up by capital imports. It was the cessation of capital imports immediately on the first signs of the depression that brought about the crisis in Australia. Efforts had, therefore, to be directed towards converting a normal adverse balance on current account to a favourable balance. By systematic and strenuous efforts this was achieved within two years and Australia had already a positive balance on account of current trade in 1931-32. The effort meant an enormous curtailment in purchases abroad. The value of the imports of Australia which was £131 millions in 1929-30 had been brought down to £44 millions in 1931-32. A similar fall in the imports of India, those in control of our currency and exchange policy were perhaps most anxious to avoid. At least it is only by presuming this that their policy can be explained adequately.

A word is necessary about the character of India's exports of gold. It has been urged that the gold exported out of India during these years came out of private hoards and hence the significance of these exports is not the same as that of the movements of gold stocks held by Governments or Central Banks. Some have gone so far as to compare this export of gold from India to exports of gold from gold-mining countries like South Africa. The latter suggestion is, of course, wholly absurd. Gold exports form a natural feature of the foreign trade of gold mining countries. This gold being the product of a national extractive industry, should be counted properly as a part of the merchandise balance of

trade. Gold in India, whether in private or public hands, as gold in all other non-mining countries, is a part of a hoard or a reserve. From the national point of view this gold whoever holds it is a national capital asset. Its loss means a loss of capital assets. If India as a whole was able to balance its current imports only by exporting gold for any period of years, it obviously means that the country was living partly on its capital assets for that period. Whether the exported gold was public or private makes no difference to national account. It made a difference only for the operation of exchange policy. As the gold came out of private hands, Government was in a position to maintain the fixed parity. If this flow had been absent, Government would have been forced to change the policy. What happened was merely that the overvaluation of the rupee led to a premium in favour of gold exports. This premium led people to sell out gold and started a movement of gold to other countries. This movement made it possible for the country to balance the account even though the balance of merchandise trade had fallen very low and made it possible for Government to maintain the exchange at the overvalued point. Some have maintained that as this brought gold out of private hoards where it was sterile, the movement was beneficial. It is pertinent to ask, however, for what purpose the hoards were emptied out. If the hoards had been brought out to be invested in productive capital forms, the movement would be counted all to the good. But if the hoards were depleted for buying oreign consumption goods when we could not as

a nation afford to buy them, it involved a definite loss of a capital asset. There are a variety of reasons which have led to the formation of hoards of gold in private hands in India. It might be advantageous to remove these and diminish the extent of these hoards, releasing thereby fresh capital for productive investment; but there is nothing virtuous in the mere fact of the lessening of the hoards. These hoards are after all the results of previous capital savings, and we would rather have the capital savings in hoards than not have them at all.

Another important consideration which needs to be emphasized is that an elastic exchange and currency policy is for India an indispensable weapon for combating a depression of any considerable magnitude. The main problem created by a depression in India is not that of unemployment. In the industrialised countries of the world growing unemployment and consequent fall in the purchasing power of consumers are the main evils towards which attention of State policy is directed. Direct relief of the unemployed and an ambitious public works policy thus play a leading part in the campaign for recovery. An agricultural country like India which mostly exports raw materials feels the depression primarily through the slump in the prices of agricultural products. The agricultural classes do not in the depression suffer from unemployment as they would in a widespread famine. They are as fully employed as before; only they find that the margin of profitability in agriculture is reduced to a vanishing point or even becomes nega-

tive. The comparative rigidity of agricultural costs makes the position specially difficult. The agriculturists' purchasing power falls greatly and this in turn affects rural artisan industry which depends primarily on the demand from the agricultural population. Under these circumstances the technique of dealing with the depression developed in the industrial countries cannot adequately meet the situation. The numbers of our industrial labour are comparatively small; so that even a liberal relief policy with regard to these classes could make little impression on the national situation as a whole. A public works policy would, for similar reasons, not prove very helpful. The measures most required are those that will support the tottering position of the agriculturist—that will finance him in difficulties and will stop the continuous fall of, at least, internal prices. Deflation, agricultural finance and a drastic diminution in the imports—which the nation can no longer afford at the normal level—these must be in the forefront in the Indian programme for recovery. None of these can, however, be even attempted if Indian currency and exchange policy is tied up with any external currency system. These considerations will explain the reasons for the dismal failure of government policy during the last depression; they will also make clear the importance to the country of an independent currency and exchange policy.

The issues raised in these articles threaten to assume immediate practical importance. We are already in the beginning of what has been called a "recession"; we do not yet know

whether it will develop into a full depression. Already, however, India's merchandise balance, which had almost righted itself during 1936-37, shows signs of a rapid fall. The extent to which the position worsened during the year 1937-38 is made clear by the following extracts from the latest report on Currency and Finance of the Reserve Bank of India. "As a result of the substantial increase in imports and the slight decline in exports the balance of trade in merchandise for India and Burma combined decreased from Rs. 79,51 lakhs in 1936-37 to Rs. 43,54 lakhs in 1937-38. There was also a decrease in net exports of gold from Rs. 27,85 lakhs to Rs. 16,33 lakhs, but this was more than balanced by a decrease in net imports of silver from Rs. 13,59 lakhs to Rs. 1,50 lakhs. The decrease in the favourable balance of trade necessarily involved a decrease in the amount of sterling available for purchase by the Reserve Bank. Such purchases amounted to only Rs. 33,29 lakhs in 1937-38 as compared with Rs. 70,87 lakhs in 1936-37..... The amount purchased in 1937-38 fell short of the total requirements, of the various Governments by about £12 million but in view of the large sterling resources which had been built up in previous years the Bank had no difficulty in meeting this deficit."

The Government is, again, in no mood to listen to Indian interests. It has declared its intention to maintain the fixed ratio at all costs, i. e., of course costs to India and her people. In the new constitution the exchange policy is put specifically under the protecting

wing of the Governor-General, and Indians have been definitely told that their interests and opinions count as for nothing. This fanatical belief of the Secretary of State and the Government of India in the fixed sterling ratio would have appeared even more absurd than the fanatical belief of its adherents to the gold standard, if it could not have been explained by reference to solid British interests.

D. R. GADGIL

TENANCY LAWS IN INDIA.

GENERAL PRINCIPLES.

By D. R. GADGIL.

THE first land revenue settlement carried out by the British in India was the permanent settlement of Bengal made by Lord Cornwallis in 1793. The main object of the settlement was the introduction of the English landlord system which the Governor-General, in ignorance of the actual conditions of the country, had determined was the panacea for all agricultural evils. Accordingly, individuals — some with perhaps some sort of title, others without any sort of title whatever — were sought for and set up as landlords of estates, the land revenue of which was then settled in perpetuity. It was expected by the Governor-General that the result of his system would be the creation of a body of loyal, contented and intelligent landowners who would be not only a source of strength to the Government but would, also like their English counterparts, take an interest in their estates, resulting in an improvement of the condition of their lands and the lands of their tenants. But these anticipations were doomed to early disappointment. The new landlords, far from making improvements, proceeded to rackrent their tenants. At the same time the Government, having no direct interest in the land and the cultivators, found it difficult to obtain any real and detailed information regarding the condition of the agricultural population or the resources of the country. It was as

a reaction to the permanent landlord system that the rayatwari system was adopted in some districts of the Madras Presidency, and thence spread over first that Presidency and was later carried on to Bombay.

In North India, though the principle of the permanent settlement of revenue was early discredited, the landlord system retained its hold. India can broadly be divided to-day by systems of tenure in the following manner. The landlord system, i. e., of settlements for single estates under one landlord, holds sway in the provinces of Bengal, Bihar, Orissa and the United Provinces. A variant of the landlord system "the malguzari" is predominant in the Central Provinces. Settlement of estates of proprietary bodies, usually village communities, is the rule in the Punjab; while settlements for individual occupants, i. e., rayatwari, obtains in the provinces of Madras and Bombay.

The aim of those who introduced the rayatwari system was to settle directly with the occupant of land. Hence, problems of tenancy could not, at least in the early stages, arise in these tracts. It is notable how these early ideas have continued to persist to this day. Thus the Bombay Survey and Settlement Manual differentiates between the landlord and the rayatwari systems in the following manner: "The former system has to face the main difficulty of tenancy legislation, but on the other hand Government saved a vast amount of troublesome and detailed work by the fact that responsibility for

the collection of land revenue lies in the hands of a comparatively small body of persons. The latter, while escaping the problems connected with tenancy legislation, has to solve the difficulties inherent in a system under which the officers of a Government have to deal direct with the small revenue accounts of a large body of individual cultivators."

As Bengal was the province in which the landlord system originated, it was also the province which first faced the problem of the protection of the tenant. It would be wrong to suppose that Lord Cornwallis left the tenants entirely unprotected at the hands of the landlords. The two methods which he thought would provide for the protection of the tenant were the compulsory delivery of Pattas or leases by the landlord to the tenant and the proper maintenance of accounts by the "Kanungo". Both of these, however, proved illusory for a variety of reasons; and in actual fact the Patta regulations were utilised by the zamindars for the destruction of the rights of the tenants. The duty of maintaining the record of rights being also thrown on an agency paid by the landlord, the record soon became utterly worthless for purposes of defining tenant rights or even for ordinary statistical purposes. Modifications of the revenue system made during the first half of the 19th century all had the effect of further worsening the position of the tenantry. Thus in order to help landlords in the collection of rent so that they may promptly pay the land revenue, the landlords were armed with powers of distraint and even in

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some cases of arrest. In the same way legislation inaugurated by Government — from the revenue point of view again — in the interests of the purchasers at revenue sales, had the effect of further destroying the rights of the rayats. The landlords had in this period, except for a few cases, absolute rights of eviction and enhancement of rent.

The year 1859 marks the turning point. In this year the first modern tenancy law in India — the Bengal Tenancy Act — was passed. This Act, though scrappy and in a large measure ineffective, contains a number of ideas developed in later legislation. It recognised for the first time explicitly a series of grades of tenants with varying rights. The three chief classes of the 1859 law were: (i) tenants holding at a fixed rent since the permanent settlement; (ii) tenants holding for twelve years or more, whether at fixed rent or not; and (iii) tenants holding for less than 12 years. The Act further laid down definite rules for the enhancement and reduction of rent. It also amended the law of distraint. The main service of the Act was the bestowal of the right of occupancy on those who had held the same land continuously for 12 years and protection of this class of occupancy tenants against arbitrary enhancement of rent. The chief defect of the 1859 Act was that under it, it was very difficult for the tenant to prove 12 years' occupation and thus acquire the tenancy right. The conditions, therefore, were not improved much after 1859, and there were riots and a detailed Government inquiry. The next stage is the Bengal Tenancy Act

of 1885. This Act defined and classified the body of tenants more scientifically and accurately. By it the acquisition of tenancy rights was simplified. If a tenant had held any land for 12 years in a village he was raised to the status of a "settled tenant" and he acquired occupancy rights in all the lands which he may hold in the village. The burden of proof was also thrown on the landlord. Distinct provisions were made stating the grounds for the enhancement of rent and at the same time imposing restrictions on capricious and frequent enhancements. It was presumed that the existing rents were fair. Rules were also made for possible reductions of rent. Occupancy tenants and other superior tenants were given the right to construct works of improvement on the land. Provision was made for grant of formal receipts for rent, etc. For the first time also the non-occupancy tenant was given some consideration. The most important provision in his favour was that he could get a fair rent fixed by the court in the event of a dispute over a proposed enhancement. A very important feature of the 1885 Act was also that it marked the beginning of the provision for a proper record of rights.

The next important landmark in the history of Bengal tenancy legislation is the amendment of 1928. Between 1885 and 1928, however, a number of important changes were made. For example, the Act of 1898 considerably modified the system of the record of rights. The Amending Act of 1907 gave greater authority to entries in the record of rights and prohibited the

practice of landlords of obtaining illegal enhancements of rent through unfair and inequitable compromises with their tenants. It also enabled landlords to recover arrears of rent by the summary "certificate" procedure. An amendment of 1919 declared the realisation of more cesses than those allowed by the Cess Act of 1880 illegal. The amendment of 1928 made certain notable changes. It made the occupancy right completely transferable. Before 1928 the occupancy right could be transferred by a tenant only with the landlord's consent except in districts or on estates where by custom or usage transfers could be made without the consent of the landlord. But even more important than this was the recognition for the first time of the under-rayat. In Bengal a network of complex customary rights, added to the fairly common transfer of occupancy rights, had carried the process of subinfeudation to considerable lengths. The actual cultivator was, therefore, in a very large number of cases a sub-tenant or under-rayat who had hitherto been given no protection at law. The 1928 amendments prevented the ejection of under-rayats except on certain specified grounds which included personal cultivation by the superior holder. In the case of under-rayats holding land continuously for 12 years or having a homestead thereon eviction was, however not allowed except for non-payment of rent. Similarly, the conditions under which the under-rayat's rent could be enhanced were defined. In case the under-rayat did not agree to an enhancement the court had power to determine the fair rent, and once this was done the under-rayat was entitled

to hold land at that rent for 15 years. Further, under-rayats who were customarily regarded as occupancy under-rayats were statutorily recognised as such.

Such in brief is the history of Bengal tenancy legislation until the very recent efforts at further improvements. Bihar was till comparatively recent times a part of the Presidency of Bengal. The tenancy legislation in U. P. also began with the application of the 1859 Bengal Act to the Province of Agra. The conditions in the other division of U. P.—the Province of Oudh—are highly peculiar. (For a short historical sketch of Oudh tenancy, see the *Servant of India*, May 12, 1938.) The application of the Bengal Act to Agra created a class of fixed rent tenants, whose rights were heritable and transferable, and another class of the 12 years occupancy tenants. Later in 1876 a new class of ex-proprietary tenants was also created by allowing ex-proprietors to retain privileged tenancy rights in their "Sir" land. The provision regarding the accrual of occupancy rights was generally evaded as in Bengal, and the Act of 1901 tried to stop a number of loopholes. The 1901 legislation was only partially successful in its objective. In 1926 after deliberations of a committee, therefore, an entirely novel step was taken in U. P. The non-occupancy tenant had hitherto no protection either against eviction or against undue enhancement of rent. This class of non-occupancy tenants-in-chief other than tenants on the "Sir" was declared as having statutory

life-tenure with the right to the heir to hold on for another five years. On the other hand, as a concession to the landlords, the old 12 years' rule was abrogated so that no new occupancy rights could accrue, and it was provided that the "Sir" land of the landlord on which there could be no statutory life tenants would be considerably extended in area. The 1926 Act also elaborated the regulations regarding enhancement of rent. The enormous extension under the 1926 Act of the "Sir", tenants of which had no protection against either eviction or undue enhancement of rent, is one of the problems tackled by the recent U. P. legislation. The 1926 U. P. Act also dealt with the question of sub-letting and gave some protection to sub-tenants of the fixed rent tenants.

The history of tenancy legislation in the C. P follows a somewhat different path. Here also the beginning was made by the extension of the Bengal Act of 1859 in the first instance. This created the three-fold division in tenant ranks of (i) specially privileged old tenants, (ii) 12 years' occupancy tenants, and (iii) non-protected non-occupancy tenants. The first C. P. reform of 1883, however, diverged materially from this scheme of things. It abrogated the 12 years rule so that no new occupancy rights could be created. But it gave protection to the whole class of tenants-at-will by fixing their rent for a seven-year period and by providing compensation for disturbance. It was also provided that occupancy rights could not be sold in execution of a decree. The legislation of 1898 still further strengthened the position of the ordinary

tenant and made provisions regarding eviction and enhancement more stringent. At the same time the rights of the occupancy tenant and the ordinary tenant were made inalienable. The 1920 law carried the evolution to its logical end and abolished the distinction between ordinary and occupancy tenants. The C. P. laws have also been very strict about sub-letting. The result has been that in C. P. there is the least variety and diversity of forms of tenure and a larger body of tenantry is effectively protected than in any other province. There are only three classes of tenants to-day in C. P. : (i) absolute occupancy tenants, (ii) occupancy tenants, and (iii) sub-tenants. Occupancy tenants are liable to eviction only for non-payment of rent or misuse of land. Their rents are regulated by provisions relating to enhancement and by the jurisdiction of the revenue courts. The sub-tenants — a small class — is not protected a good deal. But there is an important provision which, when applied to any area, gives powers to revenue authorities to declare the sub-tenants of a habitual rent-receiver to have the status of occupancy tenants. This provision can effectively keep in check any large extension of sub-tenants who are mere tenants-at-will.

Even this summary account of the main tenancy laws will show how certain common problems arise. Before regular tenancy laws were passed the only privileges and rights that the tenant body had were such rights according to custom and usage as the courts recognised. Sec. 83 of the Bombay Land Revenue Act does not take us beyond this stage. Regular tenancy legislation.

tried in a variety of ways to achieve the two objectives of fixity of tenure and fair rent. For giving fixity of tenure a particular class of tenants was sought to be marked out. And this was initially done everywhere along lines of the 12 years occupancy rule. Experience showed that the 12 years occupancy rule could be evaded, that it led to litigation and did not, after all, give protection to the entire body of the tenantry. Hence we have two different ways of dealing with the problem. In C. P. occupancy rights have been generalised. In U. P. a new experiment has been tried with the creation of a new class of statutory life-tenants. In provinces where there have been since old times many layers of holders of rights in land the protection of the top tenant has still left the actual cultivator unprotected. Hence the problem of the protection of the under-rayat. In C. P. this has been avoided by making occupancy rights inalienable and by strict regulation of sub-letting. Other important provisions of tenancy legislation have been: prohibition of illegal or extra cesses and other payments, determination of periods between permissible enhancements and setting up of independent outside bodies for determining fair and equitable rent. And most of this legislation has been made possible only by making various concessions periodically to landlords. These concessions have mostly had connection with ease of recovery of rent or in connection with "Sir" land on which no tenant rights could accrue. In the old landlord provinces even the determination of tenant holdings or tenancy terms of agreement and their recording meant an up-hill fight.

So far as Bombay is concerned, the problems of tenancy legislation here are somewhat different from provinces of big landlord estates. But the principles underlying are essentially similar. Sub-letting of land is a departure from the rayatwari system, and the moment permanent sub-letting comes in on a considerable scale, fixity of tenure and fair rent determination for the tenant must logically follow.

THE BOMBAY TENANCY BILL.

THE provisions of the Bombay Tenancy Bill have been commented on often in these columns during the last eight months.* I have no desire to repeat these comments, and it is my intention in what follows mainly to suggest a few definite amendments to the Bill in the light of the experience of other provinces. In doing this I shall confine myself to important points regarding the fundamental structure of the proposed enactment.

The Bombay Tenancy Bill which has now been referred to a Select Committee has two main chapters. Chapter II deals with the rights of a class of tenants to be newly created called "protected tenants," and Chapter III deals with the rights of tenants generally. In the creation of the class of protected tenants, Government seems to have followed the general principles evolved

* See specially issues of 21st July, 18th and 25th August, 1st and 8th September and 29th December, 1933 and 26th January and 17th February (p. 92), 1939.

in the creation of the class of occupancy tenants. The period of continuous occupation required by the Bombay Bill—six years—is shorter than the usual period. But a much more remarkable departure from the usual practice is that the rights of protected tenancy will be created only against certain specified sections amongst landowners and not against all of them. The statement of objects and reasons justifies this step by stating that it is particularly the tenants of large landowners who suffer from the disadvantages of being tenants-at-will. The main disadvantages of the tenant-at-will are described in the following terms in the same statement: "Tenants-at-will have no incentive to improve the land, and, if they venture to make improvements are liable to be charged increased rent or to be evicted in consequence of their enterprise". Surely, this is applicable as much to the tenant of the small landlord as to that of the large landlord. If any difference exists at all it is in favour of the large absentee landlord who may be less immediately exacting. It is not also as if the class of smaller landowners did not contain a very large element of the class of rent receivers. The number of permanent absentee landlords amongst the smaller landholders is large, particularly in areas surrounding urban centres of population. This limitation, therefore, on the creation of protected tenant rights is both unusual and illogical. It is also positively harmful, because as a direct result of this legislation the exempted landholders will be led to change their tenants continuously. As everybody knows

this particular exemption has been put in on grounds of political expediency. The need for removing this anomalous distinction is obvious. This means that clause 3 (iii) in the Bill should be deleted.

There is another important respect in which clause 3 requires to be modified. Though exact information on the point is not available, it is generally believed that a considerable extent of land has changed hands during and since the depression, i. e., during the last decade. In the case of many of these transfers the old owner, though he loses ownership of the farm, does not cease to be its cultivator. This class of ex-proprietary tenants is specially deserving of being placed in the class of protected tenants. According to the provision of the Bill, however, they would not be so included if the transfer of their land has taken place after 1st January 1932. The difficulty can be met by providing in clause 3 (i) that the tenant shall also be protected if he has held land continuously for six years previously in the capacities of landlord and of tenant.

So much for the extent of the class of protected tenants. A consideration of the nature of the privileges granted to this class takes us on to clauses 5 and 6 of the Bill. In both these clauses are to be found novel restrictions on the rights of protected tenants not met with anywhere else. There are firstly the provisions contained in 5 (iii) (a) and (b) regarding the payment of rent and ejection. These sub-clauses provide that the tenancy of a protected tenant shall be terminated if he fails to pay the rent or its instalment on a cer-

tain date. All tenancy laws include provisions for ejectment of protected classes of tenants for non-payment of rent; but in no case does the protection terminate automatically because of non-payment of rent on a certain date. Let us, for example, refer to the provisions approved by the select committee on the U. P. Tenancy Bill, 1938. (It may be parenthetically noted that the report of this select committee is signed among others by Messrs. G. B. Pant, R. A. Kidwai and Sampurnanand). The proposals of the select committee in respect of ex-proprietary, occupancy and hereditary tenants are as follows :

When a tenant is in arrears with his rent at the end of the agricultural year the landholder may, between the 1st July and the 31st August, cause a notice to be issued to the tenant by the tahsildar. If in response to the notice the tenant does not appear or appears and admits the claim, the tahsildar shall pass an order requiring him to pay the arrears of the previous kharif and rabi and also the rent of the kharif and rabi of the agricultural year in which the notice is issued by the end of that year on pain of being ejected from half his holding. If the tenant does not so pay and is ejected from half his holding and if he defaults again the following year, the same process may be gone through for his ejectment from the other half of his holding. If the tenant contests the arrear, the case will proceed as a suit for arrears of rent. If the suit is decided in favour of the landholder, the court will pass the same order as it would have passed if the arrear had not been contested. This will in future be the only method of ejecting a tenant for arrears of rent. Ejectment will not be one of the methods of execution of a decree of arrears of rent against ex-proprietary, occupancy or hereditary tenants.

We do not necessarily suggest the adoption of the U. P. provision of ejectment in two instalments. But we definitely feel it necessary to provide for a proper notice and the grant of a suitable time limit for the payment to be made. It will, therefore, be necessary to delete 5 (3) (a) and (b) and to provide for a suitable method of recovery and ejectment in a separate clause.

Sub-clauses 5 (3)(d) and (f) are put in terms that are far too wide. "Any act injurious to land" could be so interpreted as to bring within its scope even a slight unconscious act of neglect. In the same manner the provision regarding breach of any conditions of tenancy is likely to be abused unless the nature of such conditions of tenancy is also strictly defined. 5 (3) (e) which prevents sub-letting raises a very important problem. We have already pointed out how this problem has had to be dealt with in all tenancy laws. Sub-letting has been most severely regulated in the C. P. Tenancy Act. But even here sub-letting is allowed for a single year. The absolute prohibition contained in the Bombay Bill appears to us, therefore, to be too severe. We suggest the deletion of this sub-clause 5 (3) (e) and the substitution therefor of a separate clause regulating sub-letting on the model of section 12 of the C. P. Tenancy Act.

If the provision for termination of tenancy on the non-payment of rent on a certain date is unusual and unfair, the provision in clause 6 of the Bill for landlords' right to determine tenancy is even worse. The statement of objects and reasons gives no justification for

this clause. The *raison d'être* of tenancy legislation is the provision of security to the tenant class, this sense of security is for the most part nullified if the landlord can resume cultivation at any time because he wants to cultivate the land himself. There is no parallel to clause 6 of the Bombay Bill in any other Indian tenancy law. The only provisions in other tenancy laws regarding land for the personal cultivation of the landlord are those in respect of "khudkast" and "sir" lands. Originally "khudkast" and "sir" were the same thing; they just meant land cultivated by the landlord himself. The prevention of any tenancy rights accruing on these lands amounted to nothing more than allowing for the occasional sub-letting of such lands on the part of the landlord. Gradually, however, with the development of tenancy legislation "sir" came to mean in certain provinces not lands personally cultivated, but only lands on which tenancy rights could not accrue. We have pointed out above how landlords attempted everywhere to increase the area of such "sir" land and how in some cases they succeeded. The original and justifiable idea behind the exemption is the exemption of personally cultivated land. Now, so far as the province of Bombay is concerned, no rights under the proposed Bill can accrue on lands which a holder is to-day cultivating personally or has cultivated for any period subsequent to 1st January 1932. The exemption of what may be called "khudkast" proper, is thus automatically secured. Is there any justification for creating a special class of "sir" lands in this province? We do not see any.

Indian tenancy history shows how unnecessary complications arise from such a step and how it leads to many abuses.

There is, however, one special aspect of this question which deserves some consideration. The Bombay Province is in origin a rayatwari province and a very large number of the holders are still small men. Among those, therefore, who let their lands to-day and who may have let them continually since 1932 will be included rent-receivers proper as well as some who may be cultivators. A minority, a long illness, temporary migration to an urban centre and such other causes may lead to fairly long periods of letting out by cultivators themselves. It would certainly be unfair if such people were denied all opportunity of resuming cultivation of their lands. Obviously also such opportunity could not be kept open indefinitely for all times and generations. If an ex-cultivator has for some reason or other not cultivated personally during this period he should make up his mind in the near future whether he desires to resume the cultivators' occupation or not. A limited time may be allowed for making the choice. We suggest tentatively a period of five years. This would take us on to 1944. It is not unfair to suggest that a protected tenant may be established on land the owner of which has not found it possible or desirable to take up its personal cultivation during a period of twelve years, i. e., from 1932 to 1944.

Such a transitory provision for resumption of lands by landlords must be severely limited.

in its scope. For, otherwise, the absentee landlords and the rent-receiver class will take advantage of it to defeat the object of tenancy legislation. If the bigger landlords are allowed even a temporary option of resumption they will make it impossible for a protected tenant class to arise by resuming cultivation and turning their present tenants nominally into servants. It is, therefore, necessary that the option be restricted. It is impossible to devise a way in which all possible abuses of the option are prevented. The best way of dealing with the difficulty seems, however, that of restricting the option to small holders. It may be safely assumed that there will be almost no cultivators proper among holders beyond a certain limit. We would suggest the adoption of the dividing line suggested in clause 3 of the present Bill. The right of resumption should not be given to talukdars, inamdars or khots, for these are hereditary rent-receivers. It also need not be given to those who hold 100 or more acres of dry land or its equivalent. These are large holders in whose case personal cultivation can only mean cultivation through hired labour. There is, even so, some danger that rent-receivers in the class of holders below the 100 acre limit may take an unfair advantage of the option; but there seems to be no suitable way of stopping this. We suggest, therefore, that clause 6 as it stands be deleted and that it should be replaced by a clause which, as a transitory provision, gives the right of terminating protected tenancy to a restricted class of small holders for a period of, say, five years.

We would also suggest one important change in the clause regarding the continuation of tenancy on the death of a protected tenant. As it stands, the clause 9 (2) allows the landlord to select the heir in the absence of a mutual agreement. The grant of this choice to the landlord is likely to be abused and the choice should, therefore, rest, not with the landlord, but with the revenue authorities.

We shall now turn to the provisions of chapter III relating to Tenants generally. The existing provisions are extremely meagre; they provide only for the abolition of extra cesses, for receipts for rent, and for suspension or remission of rent under certain circumstances. The chapter thus leaves out the most important need, i. e., the determination of fair rent. In any case the new class of protected tenants will be very small, and little protection will thus be afforded to the vast majority of tenants. We have pointed out how elsewhere the rents of non-occupancy tenants are also independently determined and how in some provinces like Bengal even the under-rayats are protected against arbitrary enhancement. If rack-renting is an admitted evil, there is no reason why it should be tolerated in any case. There is no justification for confining the operation of the clause regarding reasonable rent to the class of protected tenants, and we suggest that clause 11 of the Bill should be transferred to chap. III and made applicable to all tenants generally. On similar grounds clause 8, which provides for compensation for improvement

made by a tenant, should also be generalised in its application. It is true that usually some difference is made in the rights in this connection of occupancy and non-occupancy tenants; but, looking to the small extent of the protected tenant class in Bombay, it would be desirable to concede the right of receiving compensation for improvements to the general body of tenants in Bombay Province. The addition of these two clauses (11 and 8), providing for the determination of reasonable rent and for compensation for improvements, to chapter III is necessary to improve substantially the position of tenants in general in this province.

We may in passing comment on one sub-clause of clause 11. In sub-clause 11 (5) are enumerated the factors to which regard shall be had in determining reasonable rent. The first among the factors mentioned is "the rental values of lands used for similar purposes in the locality." If this factor is made the determinant of reasonable rent it will not be possible to lower rents in an area where they are all at a high pitch already. It is only on the profits of agriculture that rents should depend, and it would in our opinion be desirable to delete (a) from sub-clause 11 (5).

Finally, there remains a very important consideration, that of increasing the extent of the protected tenant class in the future. We have already pointed out above how in each province tenancy privileges were initially bestowed on a small class and how this had to be steadily widened in each case. We have also indicated how the continuous period's occupancy

fails to widen, after the initial legislation, the extent of occupancy tenants. Once it is known that six years' continuous occupancy creates privileged tenancy, landlords will not allow such continuous occupation. We have indicated above the various ways in which this difficulty has been overcome in the other provinces. The best way of doing this in Bombay appears to be to allow for the creation of protected tenancy rights on the lands of all habitual rent-receivers. An adaptation of sec. 40 of the C. P. Tenancy Act will be most suitable for the purpose. This would mean an additional clause in the chapter on "Tenants generally" which should run somewhat as follows: "A tenant holding land from a landlord or a tenant may, if it is proved to the satisfaction of a Revenue Officer that the land is habitually sub-let or managed solely with a view to obtaining rent, be declared by such Revenue Officer to have all the rights of a protected tenant."

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The Ottawa Agreement and India

BY

D. R. GADGIL, M. A., M. Litt., (Cantab.),

Director, Gokhale Institute of Politics and Economics,

Author "Industrial Evolution of India," "Salaries of Public
Officials in India" "Imperial Preference for India" etc.

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THE OTTAWA AGREEMENT AND INDIA.

I

THREE complete years have elapsed since the ratification by the Indian Legislative Assembly of the agreement arrived at by the Indian delegation at Ottawa. We have considerable statistical information at hand for the course of world trade for two years following the conclusion of the agreement and there are data enough for attempting to form a considered opinion regarding the efficacy of the Ottawa programme. The two documents which will be found most important in considering this problem are the two reports issued by the Government of India "on the working of the scheme of preferences" for the years 1933-34 and 1934-35. The two reports, though planned on identical lines, are yet notably different in character. The first is issued under the signature of Dr. Meek, the then Director of Commercial Intelligence and Statistics, and is a document which embodies emphatically expressed opinions and definite conclusions. The second report is not signed by anybody and does not even purport to issue from the Department of Commercial Intelligence and Statistics; it gives a mass of information and statistics on the lines of Dr. Meek's report but is a comparatively colourless production containing a minimum of comment. It is not known why such a change has come over the report this year; but it is expected that the Government of India will issue a defence of the Ottawa policy in time for the meeting of the Assembly. We have, in what follows, not found it necessary to travel much beyond the

statistical material officially sponsored in these two reports.

There are, as even Dr. Meek has pointed out, a great many difficulties to be met with in an attempt to elucidate the effects of the working of the Ottawa scheme. The course of international trade is affected by factors so numerous and so complex that the effects of a single factor like preferential tariff rates may easily be masked by other movements. It is, therefore, necessary to remember that even in spite of the fullest statistical information any judgment regarding the working of preferences is not likely to be more than a well-informed and well-reasoned guess. It may be pointed out at the outset that in the following analysis it is only the course of the trade on India with the United Kingdom that has been taken into account. The total measure of colonial preferences is so small that they may for all practical purposes be neglected.

We may begin with a consideration of the changes in the total volume of Indian trade with U. K. The volume of this trade has increased more than proportionately during the years 1933 and 1934. This is due to certain broad changes that have recently come about in the world distribution of trade. It is the currency and exchange policies of the different countries that have been mostly largely responsible for the changes. The biggest currency group in the world—the "sterling group"—has since 1932 distinctly gained in its percentage share of the total export and import trade of the world. Japan has forged ahead more than any other single country and so also U. S. A. in 1934. The increase in the trade of India with U. K. that has come about recently is,

therefore, to be attributed not to any measures of trade policy but to general trade movements brought about by other causes. This can be made most clear from the following statistics of the U. K. trade with India in preferential and non-preferential goods.

	1931-32	1932-33	1933-34	1934-35.
Index of the export trade of India with U. K. in articles enjoying preference	100	89.3	109.5	110.2
Ditto— in articles not enjoying preference	100	74.0	112.0	118.6
Index of U. K. imports into India in articles enjoying preference	100	105	118	134
Ditto—not enjoying preference	100	110.3	101.5	114.4

This table shows the comparative changes in the values of Indian exports to U. K. and of imports from U. K. into India of groups of articles enjoying preference and not enjoying preference. It clearly indicates that while the exports in that group of articles which enjoy preference increased from 1931-32 to 1934-35 by about 10 per cent. the increase in the group not enjoying preference is even greater. Hence the only conclusion possible on these figures is that the import trade of U. K. having expanded largely in recent years all kinds of Indian goods have found a widening market in that country irrespective of preferential treatment. It should be noted, on the other hand, that the imports into India of U. K. articles enjoying preference have increased much more than of those not having that advantage.

The general expansion of our trade with U. K., especially export trade, having thus no connection

with the Ottawa arrangements we are left to examine each item of preference individually to ascertain what effect preferential treatment has had on its trade. We had followed this method of attack in our brochure on "Imperial Preference" published on the eve of the consideration of the Ottawa agreement by the Assembly, and we shall have occasion hereafter to refer to conclusions reached therein.

It is obvious that every measure of preference must, like any other measure of interference, have some effect on trade and prices. So that preferences accorded to any commodity in a market must tend to increase the sales of that commodity and additional duties levied must tend to increase the prices of commodities. Circumstances may, however, either minimise or conceal these effects. And our endeavour has to be to note the extent of the effect felt by any trade allowing for the conditioning circumstances.

We may before going on to discuss each item glance at certain calculations made by Dr. Meek and published in Appendix II of the reports on the working of the agreement. These are called "advantage on landed cost in the United Kingdom" and are arrived at by multiplying the declared values of the various exports from India to the United Kingdom by the rate of preference. It is curious that in neither of these reports is any explanation given as to why these calculations have been made and published and as to what it is that they are supposed to represent. They are, of course, meant to lead the unwary reader into believing that they represent the real measure of the benefit secured by Indian trade as a result of the Ottawa agreement. Dr. Meek knew

better than to say so categorically in the body of his report, but we find other officials, as for example Sir Thomas Ainscough, using the statistics in this sense. Now even a moment's reflection by anybody who has had some elementary training in economics would show that these figures are utterly meaningless. They represent no more than the result of a mechanical multiplication of two sets of figures. The benefits secured by the Indian trader or trade may be indicated by an increase in the trader's profits and/or by an expansion of the trade over the previous level. And the reactions of a preferential treatment from trade to trade would vary enormously. In the case of a perfectly inelastic trade the benefit or loss suffered by the trader would be nil and the only effect of an increase or decrease in customs duties would be reflected in a variation of the price to the consumer. With a highly elastic or sensitive trade the effects, beneficial or otherwise, would be very large indeed. Without studying the detailed conditions of each trade there is no means of saying offhand or determining mechanically what benefits have been received. The official calculations are thus meaningless and we would hardly have thought it necessary to notice them if it were not obvious that they are very likely to mislead many persons.

In considering trade in each individual commodity the figures of its general expansion or contraction by themselves will not suffice. A particular movement of trade with the country may be part of a general movement of trade with all countries or may be part of a special trend, due to other causes, of that trade in that particular country. In either case a contraction or expansion could not be described as a result of the special tariff measure. The

contention put forward in the 1934-35 official report that a fall in the percentage of the exports to U. K. in a particular commodity is no necessary proof of the failure of the preference may be admitted and it may be agreed that the most important test is the increase in the proportionate share of India in the total imports into U. K. of the particular commodity. Of course, even if an increase is apparent the further question as to whether the increase is substantial enough and as to whether it is due directly to the preference or to other causes would still have to be asked.

II

We shall now indicate briefly the conclusions regarding trade in some of the most important export commodities using the figures given in the two official reports and the latest statistics as given in the "Indian Trade Journal" of 5th December 1935. The figures in brackets represent the values of the exports to U. K. for the years 1933-34 and 1934-35.

Tea (Rs. lakhs 17,56 ; 18,15.) :—This is by far the most important article of export from India to U. K. and it was generally agreed at the time of the inauguration of the Ottawa arrangements that it was likely to profit somewhat from the preference. Even so it was clear that Indian producers had to depend on such a wide area for their market that protection in a single important area which would naturally result in intensified competition in other non-preferential markets was not in the long run of much real help. This was early realised by most producers of tea in India and Ceylon, and they had, therefore, directed their energies towards arriving at an arrangement with their

most important competitor—Java. An international scheme for the regulation of world tea exports was arrived at in May 1933 and has been in operation since. Hence for almost the entire period of the currency of the Ottawa agreement exports of tea to various countries have been regulated by national agreement among the main producers. The course of tea trade may be said, therefore, to have been entirely unaffected by the preference and no useful purpose can be served by discussing the statistics thereof. The Tea Restriction Scheme is working successfully and there is every prospect of its continuing to operate at least till 1938. Under the circumstances the grant of preference to tea becomes meaningless and may be considered as of no account.

Dressed and Tanned Hides and Skins (Rs. lakhs 5,30; 4,86):—In the class of undressed leather (other than sole) for which preference has been granted to Empire products India supplies to U. K. tanned and dressed hides, and tanned and dressed goatskins and sheepskins. In all these products U. K. is by far the most important market for India and India the most important supplier to U. K. In 1927-28, for example, India supplied more than 90 per cent. of the total imports of tanned and dressed hides and goatskins into U. K. During the years 1930-31 and 1931-32 the Indian exports to U. K. of hides fell remarkably and so did their share in total U. K. imports. Since 1933 they have attained to their former position and it is presumed that the preference was helpful in enabling them to do so. In the case of skins the loss of market to others during the worst years of the depression was not large and hence there has been no con-

siderable advance in the percentage share since 1933. The goatskin market being almost entirely dominated by India, there is no scope for further advance. In sheepskins the fact that one of the competing sources of supply—Australia—is an Empire country limits the possibility of the remaining portion of the market being easily captured by India. This particular measure of preference, though it may have been helpful in enabling Indian exports in rising rapidly from the sharp fall in the depressed years, is not of a character likely to lead to a continuously expanding market. Seeing that these products have no important competitors in the U. K. market a free entry is all that is really needed by them.

Jute Manufactures (Rs. lakhs 1,56 ; 1,56.):—In the U. K. market the imports of jute manufactures from India have to meet practically no competition. This will be made clear from the figures of trade in jute bags and piece goods on the eve of the ratification of the Ottawa agreement, i. e. in 1932.

Imports into U. K. Imports from India.

Jute sacks and		
bags '000 cwts.	730.2	707.4
Jute piece goods		
'000 sq. yards	68.6	67.3

It will be seen that in both cases India held more than 96 per cent. of the total U. K. market. There was no possibility of the preference further widening the market and no important movement of trade has, therefore, been visible during the years since 1933. Here is another case where what is really required by the Indian producer is not so much preference as merely free entry.

Linseed (Rs. lakhs 2,01 ; 1,28.):—It was generally agreed in 1932 that linseed was a crop which was most

likely to profit from a preferential treatment. The trade figures for 1933 and 1934 show a most revolutionary change in the imports of linseed into U. K. During these two years India supplied much larger quantities of linseed than Argentine, which has during the post-war period been the chief supplier to U. K. This change seems to have been chiefly due to a shortage of crops and an increase in price of the Argentine linseed. On account of the shortage of crops in Argentine the demand for Indian linseed increased not only in U. K. but in the entire world market. It is the relation between the prices of Plate linseed and Indian linseed that determines the off-take in the U. K. market and throughout 1933 and 1934 this was greatly in favour of India. No doubt the 10 p. c. preference must have been of some help in bringing this about, but the main reason was undoubtedly the crop conditions. This is made clear by the fact that the moment the Argentine crop and prices reverted to their normal, the imports of Indian linseed into U. K. declined heavily. The following table shows the imports into U. K. of linseed during the first nine months of the years 1933, 34, 35.

	1933.	1934.	1935.
Total '000 tons	182.1	152.2	173.3
India "	68.0	109.6	36.1
Argentine „	109.9	42.2	136.4

Groundnuts (Rs. lakhs 67; 1,70):—There has been a substantial increase in the imports of groundnut from India into U. K. and this may be partly attributed to the preference given to Empire groundnuts. There are two points, however, to be noted regarding this trade.

Firstly, India is not the sole Empire exporter of groundnut. British West Africa grows groundnuts on a considerable scale and its imports into U. K. have benefited very largely from the preference also. The possibilities of future expansion of the Indian market into U. K. are, therefore, limited by the strength of the competition of the W. African produce. The second point to be noted is the possibility of the substitution of groundnut by other oil-producing products. We had in our examination of the Ottawa agreement drawn attention to this feature of the oil seeds market and confirmation of it is available in the latest Government of India report on the agreement. It is here pointed out how the non-Empire imports of soya bean and cotton seed are increasing in spite of a duty and how this limits the market for groundnuts in U. K.

Castor Seed (Rs. lakhs 33 ; 31):—The U. K. market in castor seed was always held almost entirely by India and no difference has been made to the former position by the grant of preference.

Rice (Rs. lakhs 43 ; 50):—Preference may be said to have helped India to retain the U. K. market or slightly to increase it. The whole of the rice trade with U. K. is, however, unimportant and the position is best expressed by pointing out that while U. K. received in 1932-33 3.8 % of the total Indian exports of rice, in 1934-35 it received 4.8 % of these. The significance of the loss of rice markets of Germany and Poland is discussed elsewhere.

Teak and other Hardwoods (Rs. lakhs 49 ; 69):—Preference has been granted to teak and other

hardwoods and as teak is by far the most important of the exports from India it amounts practically to a preference for teak alone. India had even before the agreement been supplying U. K. with more than 80% of her total imports of teak-wood and this percentage has not increased during the last two years. The imports of teak have grown largely in recent years, but this has nothing to do with the grant of preference. Imports of all hardwoods into U. K. from all sources—Empire and non-Empire—have grown owing most probably to the boom in building and constructional industries and the Indian imports of teak-wood have merely shared in the general movement.

Tobacco (Rs. lakhs 47 ; 35) :—We had pointed out in our review in 1932 that from the analysis made by the Imperial Economic Committee it followed that preference to tobacco could be of no use to India. We export a very small proportion of our total production and what tobacco we exported was not of the type wanted in U. K. Dr. Meek's report and the latest Government of India report follow the same lines of analysis. The figures for both the years 1933 and 1934 show that with a large increase in the total tobacco imports into U. K. the figure of Indian imports is stationary, which means a large proportionate decline in India's share.

Coffee (Rs. lakhs 30 ; 21) :—Indian coffee has always had a small but select market in U. K. and it was not expected that a small measure of preference could much help it, even though the main competitor in the U. K. market of Indian coffee was non-Empire coffee from Central America. The result of the trade during the last two years

shows that the proportion of U. K.'s share in Indian exports and the absolute volume of these exports have both declined. There has been during these years a large and continuous decline in the total imports of coffee into U. K. The decline in Indian imports into U. K. was proportionate in 1933 but was less than proportionate in 1934. This, however, was entirely due to a short crop in British E. Africa, as is shown by the fact that the proportionate share of Costa Rica—India's chief competitor—also increased during this year. It would seem from the latest available figures that for the year 1935 even the 1932, 1933 position cannot be retained and that the share of Indian imports of coffee into U. K. will decline relatively both to British E. Africa and Costa Rica.

Imports into U. K. of Coffee for the first nine months.

	1933.	1934.	1935.
Total '000 cwts.	553.0	495.2	407.3
India	44.8	49.0	29.3
B. E. Africa	195.0	107.3	151.0
Costa Rica	231.4	225.4	177.4

III

Pig lead :—(Rs. lakhs 1,30; 85) All the most important suppliers of lead to U. K. are Empire countries and hence it was not clear from the beginning how preference was going to improve the position of Indian lead in the U. K. market. Actually there has been a definite deterioration in the position since 1932. Australia and Canada have both made considerable advances. It is expected that the former was helped to do this by the exchange advantage that it had obtained. It is clear from the figures given in the Government of India report that the imports of Indian lead into U. K. have declined both in absolute volume as well as in their percentage to

total imports. This decline which is clearly noticeable in the 1933 and 1934 figures seems to have continued still further in 1935, as the following figures will show.

Imports into U. K. of pig lead for the first nine months.

	1933	1934	1935
Total '000 tons	208·7	228·1	243·5
India	39·9	31·5	33·0
Australia	107·2	118·2	132·9
Canada	53·0	56·5	67·0

Oilcakes :—(Rs. lakhs 86; 1,36) This is a composite group and detailed figures are not available regarding each of its separate constituents to enable us to judge of the detailed effect of the preference. By far the most important constituent of this group is, however, groundnut cake. From the statistics available (I. E. C. Report on Groundnut products, 1934) it is seen that in 1931 and 1932 the average percentage of Indian imports of the total imports into U. K. was 92. This was maintained in 1933. It is not known what the percentage was in 1934. It is, however, obvious that the competitors of India hold such a small part of the market that the scope for a beneficial effect of preference as such, if any, is extremely limited. The large expansion of Indian exports of groundnut cake in recent years follows naturally on the greatly increased demand in the U. K. and other markets. The point we have noted before that the oilcake trade is one which we need not be anxious specially to encourage is one to be borne in mind in this connection.

Carpets and Rugs :—(Rs. lakhs 57; 74) In carpets and rugs U. K. has been always our chief market and the exports to that country have increased

somewhat during the last two years. The percentage share of India in the total imports into U. K. under this head has also increased and this would show that the preference has been of some benefit to us.

Paraffin Wax :—(Rs. lakhs 55 ; 47) The figures of the imports of paraffin wax into the United Kingdom since 1931 show clearly that there has been no increase in the proportionate share of Indian imports to the total in 1933 and 1934. On the contrary there is noticeable some decline in that share.

Fodder, Bran and Pollards :—(Rs. lakhs 38; 65) This again is a composite group and in the absence of detailed information it is impossible to comment. The Indian imports into U. K. under this head are almost entirely made up of rice meal and dust and in that article the Indian imports have never met with any significant Empire or non-Empire competition.

Coir manufactures :—(Rs. lakhs 23; 25) This head has to be considered under two sections: coir yarn and coir mats and matting. The U. K. supply of the former has always been drawn almost entirely from two Empire sources—India and Ceylon. Since 1932 the only noticeable change in this trade has been an improvement in the share of the U. K. market by Ceylon at the cost of India. Of coir mats and matting India has always been the predominant supplier to U. K. but Belgium used also to send a substantial consignment. Today the Belgium imports into U. K. under this head have totally disappeared and the market is held entirely by India. It is doubtful, however, how far this result can be attributed to Ottawa as India already took up 98 p. c. of the U. K. market in 1932.

Pig Iron:—Under an agreement supplementary to the Ottawa agreement free entry has been granted to Indian pig iron into U. K. As the standard rate is $33\frac{1}{3}$ p. c. and as there are no other Empire suppliers this has meant that the Indian supply has almost entirely captured the U. K. market. The U. K. market for pig iron is, however, not a large one and it has to be noted that pig iron imports into U. K. are not increasing in spite of the greatly increased activity in the iron and steel industry of that country.

Imports of pig iron into U. K. for the first nine months.

	1933.	1934.	1935.
Total '000 tons	67.9	87.5	64.9
India	60.3	76.4	54.0

Apart from preferential treatment the Ottawa delegation was able to secure free entry into U. K. for some of the articles in which India was specially interested. The most important among these articles are lac (Rs. lakhs 1,32 ; 1,46), mica (Rs. lakhs. 24 ; 35) and myrobolans (Rs. lakhs 29 ; 25). In lac and myrobolans India has usually supplied in recent times more than 95 p. c. of the total demand of the U. K. market. In mica also India has always been a dominant supplier and the competing sources are mostly within the Empire. With a mere free entry guaranteed no special movement of trade was expected ; neither has any come about.

Raw Cotton (Rs. lakhs. 3,37 ; 3,42) :—There is no preferential treatment accorded to raw cotton and its imports, from whatever source, were never subjected to any duty. The U. K. Government has merely undertaken to encourage the use of Indian cotton in U. K. and has set up a committee to carry on some propaganda and research

in this behalf. Apart from the expenditure—whose extent we are not able to ascertain—in connection with the work of this committee, there is no burden involved on the U. K. producer, consumer or taxpayer in this connection. Hence it is highly misleading to include raw cotton as falling within the scheme of preferences. It is very difficult to gauge how far the work of propaganda and research has been useful in extending the market for Indian raw cotton in England. The consumption of Indian raw cotton in U. K. has always been subject to considerable fluctuations, both in absolute amount and the proportion of the total of raw cotton imported into U. K. The following is the percentage of the imports of raw cotton from India of the total raw cotton imports into U. K. for a number of recent years:— 1929: 6.8; 1930: 10.0; 1931: 9.7; 1932: 4.3; 1933: 7.8; 1934: 12.1. It will be observed that the 1933 percentage is less than the average of the three years preceding and even the 1934 percentage is not extraordinarily above the percentage for the years 1930 or 1931. The consumption of Indian raw cotton in U. K., it is well known, depends almost entirely on the relation between the price of Indian and American cotton. Now the parity (i. e. percentage of Indian price on American) between the prices of Middling American and Fine Broach at Liverpool was for the greater part of the year 1932 between 94 and 90; throughout 1933 it tended to come down and varied between 90 and 80 and it remained for the greater part of the year 1934 below 80. This would show that the progressive cheapening of Indian cotton in terms of American was by itself of sufficient magnitude to explain the greater consumption of Indian cotton by Lancashire in recent years. Even if it

were claimed that some part of the increase in consumption was due to the efforts of the Lancashire Committee we wish to emphasize the very great difference between a trade advantage obtained in this way and that obtained by preferential tariff treatment. There is, as a fact, not even a theoretical objection to favouring another country's goods by means of disseminating information and conducting research. It was along these lines that the activities of bodies like the Imperial Economic Committee and the Empire Marketing Board were carried on in Free Trade England, and no one could say that the costs of such activities are either excessive, wasteful or even onerous. As a fact they are in the long run advantageous to the country which incurs them. Research and a spread of knowledge of the ways in which Indian cotton can be used is of benefit to Lancashire itself and in the long run all steps that make Lancashire dependent less exclusively on the American supply of cotton are eminently to its own advantage. So that while one may acknowledge the possibility of the activities of the Lancashire Cotton Committee proving of some immediate use to the Indian raw cotton producer it should be made clear that they are of a type that lay no significant burden on the English producer, consumer and taxpayer and that they are of ultimate advantage to the Lancashire industrialists themselves. We, for our part, would never object to the most extensive reciprocity along these lines in favour of British goods. If the Indian Government can undertake activities by which the spread of information among consumers or the conduct of research work by government bodies in India would further the sale of any types of British commodities this should be certainly done in exchange for

similar treatment of Indian goods in England. We would not grudge any expenditure along these lines and we do not think that the monies will be ill spent. But we object most strongly to considering the costs of the activities of the Lancashire Committee as on a par with the sacrifices involved to the consumer and the tax-payer by a manipulation of the customs duties.

IV

We have examined above the movement of trade in all articles included in the Ottawa arrangements in which the exports from India to U. K. averaged during the years 1933-34 and 1934-35 at approximately more than Rs. 25 lakhs p. a. It is unnecessary to extend the examination to less important articles of trade. Before we go on to indicate the conclusions to which the above examination leads us it is necessary to note certain important reservations. It is extremely difficult to isolate the effect of preference, and any quantitative measurement of the effect of that policy is impossible. We have already commented on the misleading nature of the calculations entitled "advantage on landed cost" included in the Government of India reports. We have no idea as to what the state of trade would have been in the absence of the Ottawa agreement and, of course, cannot say that the increment in percentage shares noticed in individual commodities are, in any given proportion, to be attributed to this agreement. Indeed a change in trade volumes or percentages unless studied in relation to all the facts of the trade cannot warrant us in arriving at any conclusions. We have said above that all measures of interference such as a preferential tariff must have some repercussion on trade; but the extent of this repercussion

differs widely from trade to trade and hence the necessity of examining each item in detail. The important test in this examination that we have used is the percentage share of U. K. trade in any commodity that India obtains and the additional advantage gained, presumably as a result of preference. It is, however, also important in seeking preference or free entry for any commodity to consider whether the total U. K. market for it is important or not.

We note that the tea trade, being entirely extraneously regulated, shows no effects of the Ottawa agreement; in the case of tobacco, paraffin wax, lead, coir yarn and coffee there has been a definite decline in the percentage; in the case of jute manufactures, tanned skins, teak, oilcakes, bran and pollards, castor seed, coir mats and matting no significant difference in the percentage either way is to be observed; while in linseed, tanned hides, groundnut, rice, and carpets and rugs a definite advance in percentage has been noticed. The most important constituents of the free entry group are lac, mica and myrobalans. The speculation in shellac renders the recent trade figures of that commodity useless for drawing any conclusions; while in both mica and myrobalans no increase in the percentage share is noticeable.

The percentage relation by itself is not conclusive but when it is considered with the other relevant factors it makes certain deductions highly probable. In jute manufactures, tanned goatskins, teak, castor seed, lac, mica, myrobalans, groundnut oilcake, rice meal and dust etc. India is almost the sole supplier to the U. K. market. With no direct competitor in the field, a preference is of no more sig-

nificance than affording a duty-free entry to the market. It has been suggested that it helps in keeping off the competition of substitutes; but this is an advantage whose existence requires much more concrete proof than has hitherto been made available. For example, what is the point at which jute manufactures may begin to be replaced by some alternative means of packing is not easy of determination. The Review of the Trade of India, 1934-35 notes how in some countries efforts at finding substitutes are being made; but in most of these cases the incentive is that afforded by an almost prohibitive scale of duties or that of deliberate attempt at self-sufficiency. It is clearly open to doubt whether the difference made by a 10 p. c. revenue duty would be large enough for this purpose. A 10 p. c. revenue duty would no doubt affect somewhat the position of a direct competitor but not materially that of a substitute commodity. We find that the effects of a 10 p. c. duty are a number of times countered even in the case of a direct competitor by such factors as exchange fluctuations or crop shortage. We, therefore, conclude that in the type of articles noted above a preference has little significance. We shall have something to say later *re* the obtaining of free entry.

There are next a series of articles in which the main competitor of the Indian article in the U. K. market is produce from another Empire country. This is for example the case with coir yarn where the competitor is Ceylon and tanned sheepskins and pig lead where the competitor is Australia. In these trades general Empire preference has meant practically no change from the pre-Ottawa conditions. There are other commodities such as coffee, paraffin wax and tobacco where the competitors from non-

Empire countries hold, on account of various reasons, such a strong position in the U. K. market that a preference of the degree of 10 p. c. or thereabouts has not helped to stop a further deterioration of the Indian position. It is, of course, possible to say in this case, as everywhere else, that the position would but for the preference have been worse. But even this is doubtful. In most such cases the U. K. market for Indian produce is a small and specialised one and the difficulties in the way of expanding or retaining it are mainly those of quality of produce or marketing organisation; and a small measure of preference is thus unable to affect its position.

A definite rise in percentages is to be observed in the case of tanned hides, linseed, groundnut, carpets and rugs and rice. In tanned hides the normal position is that of India being the dominant supplier to the U. K. market. This position was temporarily lost during the years of depression and regained after 1935, hence the noticeable increase in percentage. In all the other products the competing sources of supply in the U. K. market being to a large extent outside the Empire, definite advantage of the preferential treatment has been available. It should be noted that the position of Indian rice in the U. K. market before Ottawa was substantially similar to that of Indian tobacco and coffee and that Indian rice has gained in the U. K. market only because the amount of preference given has been very high. The preference is indeed so high that it temporarily led to the creation of a flourishing rice-milling industry in U. K. on the basis of the imports of Spanish paddy which could come in subject to a 10 p. c. ad valorem duty. This import was put a stop to when on a representation by the Government of India the duty on

paddy was raised. While the increase in the trade in linseed and carpets and rugs was anticipated by us in 1932 it may be admitted that the course of groundnut trade has been different from what we had calculated it would be. It should, however, be observed that this is the result of an important change that has come over the world trade in groundnut and that we are likely to lose more in consequence in the French market than what we have gained in the British. U. K. before Ottawa drew its supplies of groundnut chiefly from India, British W. Africa and French W. Africa. These were also the chief sources of supply of our most important customer of groundnut, viz. France. To both U. K. and France India supplied the bulk of their groundnut requirements. The recent organisation of trade on Imperial lines has come to mean that U. K. has almost ceased to take up any groundnut from French W. Africa and that France is rapidly contracting her purchases of Indian groundnut. Now so far as groundnut is concerned the French market is vastly more important than the U. K. market. The consumption of groundnut in France in recent years has been on an average more than five times the consumption in U. K. (vide I. E. C. Survey 1934). Hence it is open to doubt whether, at least so far as groundnut is concerned, reorganisation of trade on Imperial lines can be held to be beneficial to India.

We have noted that preference has been of active use to Indian trade only on a limited range of commodities and that even among these commodities in one case, i. e. rice, the total share of our exports taken up by U.K. is extremely small. There remains to consider the question of free entry. We have noted above in the case of a number of commodities that, though

a preferential treatment has no particular value, obtaining a free entry to the U. K. market is helpful to the trade. One consideration may be noted at the very outset. It is that in the case of almost no important Indian export to U. K. does the commodity compete with U. K. home produce. Even in jute manufactures the Dundee products are substantially of a different type from those imported from Calcutta. The imports of Indian agricultural products do not compete directly or indirectly with British agricultural production. We are not thus affected by the new protectionist policy of Mr. Elliott either. Hence the main ground for opposing the abolition of import duty is in this case non-existent. Further except for rice, carpets and rugs and coir mats and matting almost none of the articles of export that we have examined above are consumers' goods. They are all in the nature of raw materials or subsidiary products helpful in the preparation of finished materials by U. K. manufacturers and hence it is obviously to the interests of the U. K. industrialists to obtain these with as light a fiscal burden as possible. That the U. K. manufacturer and trader is really anxious in this behalf is clear in a number of ways. Thus the linseed oil industry secured for itself from the beginning a rebate of 50 p. c. of the revenue duty on the non-Empire linseed contained in all exports of linseed oil products from U. K. This drawback was increased to 60 p. c. in 1934. Even so we learn that "the linseed oil crushers in this country (U. K.) have been seriously prejudiced and resent the tax on their raw material." (*The Economist Commercial History and Review of 1934*, p. 44). The latest Government of India report on the working of the agreement notes (p. 102) how the U. K. tanners successfully

agitated for the removal of the duty on some non-Empire tanning materials. Similarly the 10 p.c. duty on lead having had a very depressing effect on the business in lead on the London Metal Exchange it was on the advice of the Import Duties Advisory Committee substantially reduced only a few months ago. The chances of at least a mild recovery in business are now much brighter than they were in 1932 and hence the U. K. manufacturers will be all the more anxious to obtain duty-free raw material for themselves. The raising of revenue was never an important consideration in the imposition of the import duties by U. K. and hence the question of the consequential loss of revenue need not be raised in this connection. Further as in the large majority of articles in which India is interested the U. K. market being held entirely by Empire producers or India being the sole Empire supplier the abolition of preferential treatment or the reduction of it to mere free duty is not likely to be opposed by interests in other parts of the Empire. The chief reason why in 1932 U. K. imposed import duties was, it was said, the anxiety to attain to a bargaining position with other countries. It is likely that the anxiety to continue to be able to bargain favourably with India may induce U. K. to refuse Indian products free entry even though such a step may be in the interests of U. K. manufactures. We shall, however, consider this aspect of the problem somewhat later.

We may then conclude this examination of the export trade of India by stating that it is only in the case of a very small number of our exports that preferential treatment has been of clear use to us and

that its continuance is likely to be helpful in the future only perhaps in the case of linseed, carpets and rugs and rice. It is also doubtful whether a preference on linseed will continue to be available in the future. On a large majority of the other products a free entry to the U. K. market is all that the Indian producers need and the grant of such free entry is essentially in the interests of the U. K. producers themselves.

V

We have made it abundantly clear above that no quantitative measurement of the effects of the Ottawa Agreement on our export trade is possible. It is even more difficult to gauge the cost to revenue and to our consumers of the preferences that we have in return extended to British goods. We do not undertake an examination of the increase in the imports of British goods into India as a result of preference, as the ascertaining of the profits accruing to British trade is neither relevant nor useful for our purpose. What is necessary and useful is to estimate the loss suffered by revenue on account of the preference and the increased burden on the consumer. For it is clear that the cost of the preference is borne by India partly in one way and partly in the other.

The Central Board of Revenue prepared for the Assembly Committee in 1934 a statement giving an appreciation of the effects of the Ottawa preferences on the customs revenue. This statement consists of three tables. In these tables are considered tariff headings (i) completely affected by the Ottawa Agreement, (ii) partially affected by the Agreement, and (iii) not affected by the Agreement. The tables

set out the customs revenue obtained in the years 1932-33 and 1933-34 under the various headings and indicate whether there has been an increase or a decrease. The conclusions arrived at are that under head (i) there has been a slight increase in revenue, under head (ii) a fair decrease and that the most substantial decreases have taken place under head (iii). It is supposed to follow from this that the Ottawa Agreement has not affected our customs revenue. It is difficult to understand how these figures can prove anything. The yield of customs revenue depends on two factors: (i) the extent of the trade and (ii) the rate of duty. When we are considering the problem of estimating the effects of preferential treatment on customs revenue we have to take two possible effects of preference into account: one that of contracting trade and affecting revenue and the other that of diverting trade from imports liable to a higher duty to those liable to a lower duty. In the case of those articles in which the level of duties did not rise at all as a result of the Ottawa Agreement the first type of effect would be totally absent.

For example, the duty on motor cars in Dec. 1932 was $37\frac{1}{2}\%$ and preference was given to U.K. by lowering that duty in the case of U. K. imports. In doing this no further obstacle to general trade was raised and one special section of it was encouraged in preference to others. The total effect of the Ottawa scheme on the motor customs revenue would be gauged by estimating the extent to which in that year trade was stimulated because of the preference—this would count on the credit side—and also estimating how far trade was merely diverted from cars liable to $37\frac{1}{2}\%$ duty to cars paying 30% duty—this would count on the debit side. It is only estimates of this nature

which would show the effects of preference on customs. Instead, the Board of Revenue gives the figure of increase in customs revenue from 1932-33 to 1933-34 and seems to consider that as measuring the effect of Ottawa. For aught we know, the trade in motor cars would have increased to the same extent even without the preferential treatment of British cars and the only effect Ottawa had was in increasing the sales of English cars at the expense of American cars and thus causing a loss to our revenues. At least, it is clear that the mere figures of customs revenue for the two years warrant us in drawing no conclusions.

In the absence of statistical information of this nature we can only proceed on the basis of estimating probable reactions of trade. The majority of preferences given were in the neighbourhood of about 10% and in the majority of cases the preferences were given by increasing the standard level by 5% and lowering the U. K. level by 5% as compared with the previous rate. It is difficult to say to what extent the demand contracted, or its recovery was impeded by the increase of the general rate of duty by 5% or thereabouts. But we are of opinion that in the majority of commodities the preference given to U. K. goods was not likely to stimulate trade. In those commodities in which U. K. was the dominant supplier and its supplies already priced low, trade could be stimulated by preference, but as in the case of the majority of articles this did not hold true, preference would have had the effect of merely bridging the competitive difference between British and non-British sources of supply and enabling the U. K. producer to expand his market at the cost of non-British competition or to hold his own. It is most

likely, therefore, that the effect of preference on our customs revenue was felt mostly by way of the loss entailed on account of the transference of a portion of the market to U. K. producers, i. e. the lightly taxed producers.

Another feature to be noticed about the tables presented by the Central Board of Revenue is the exclusion from the influence of Ottawa of cotton piece-goods and iron and steel. Formally the exclusion of iron and steel might have been correct in 1934; but as the 1935 Indo-British agreement balances the free entry to Indian pig iron against the preferential treatment of British iron and steel, even this no longer holds true. But in view of the Mody-Lees pact and the consideration of raw cotton under the Ottawa arrangements it was obviously never right to exclude cotton piece-goods. For our part we have always maintained that the preferences granted under cotton and iron and steel ought both to be reckoned in a measurement of the total effects of preferential arrangements. The value of trade under both these items is very considerable and the measure of preference accorded is also great. The preferential element, be it noted, in iron and steel has actually been increased in a number of items in 1934. It is extremely likely, therefore, that under them the loss of revenue is most marked.

There are not data enough to evaluate quantitatively the loss to revenue along lines indicated above. But it is only along such lines that an even approximately correct estimation of loss is possible. Whatever the loss in customs revenue sustained by us it is clear that we can ill afford it. It is notorious that the Central Government in India depends to a very

large extent on receipts from customs for its finance and it is the falling off of this revenue that has led it in recent years to resort to the very objectionable method of levying exoigres.

While it is difficult to attempt an estimate of the loss sustained by our revenues the burden imposed on the consumers by the preferential arrangements is almost impossible of estimation. Dr. Meek, for his report on the working of the Agreement for the year 1933-34, had caused to be compiled a series of statistics of comparative prices for the pre-Ottawa and post-Ottawa periods. Figures on the same lines have been given in the 1934-35 report also. The writer of the 1934-35 report has contented himself with pointing out the difficulties which make it impossible to draw any conclusions from these statistics of prices. Dr. Meek, however, in his report hazards the definite conclusion that the consumer has not suffered. It is evident that Dr. Meek was carried away by his too great enthusiasm in the cause of Ottawa. For it is otherwise not possible to explain how he could write sentences like the following and place them in juxtaposition :

Lastly the price reductions may have been effected by imperceptibly reducing the quality of the supplies . . . Some of the Collectors of Customs have definitely stated that some prices have been reduced at the cost of quality . . . But by whatever method the end was achieved the fact remains that the prices of both preferential and non-preferential items have fallen in most cases and the consumer has, therefore, profited to some extent as a result of the scheme of preferences.

To begin with it is obvious that Dr. Meek's claim amounts to saying that the consumer must benefit from a price reduction even though it has been brought about by a deterioration of the

quality of the commodity in question!! Further even though it be admitted that the prices have fallen, how can that fall be called a result of the scheme of preferences? The one way by which Dr. Meek tries to establish a connection between these two is by visualising the non-British importer as cutting down his prices in an attempt to compete with the British importer getting preferential treatment. No doubt temporarily such devices may be resorted to, but they cannot operate over a series of years. In the long run quality must suffer or the market given up. And if this did not happen and the non-British importer was always able to cut prices and keep his market why should the Britisher ask for the preference, unless it be, of course, out of benevolent intentions towards the Indian consumer? Further, even Dr. Meek admits that in commodities where international prices are controlled by rings this type of consideration would not operate. How such rings would take full advantage of the tariff wall is best exemplified by what happened in the case of galvanised sheets. When the supplementary agreement to Ottawa was entered into we had remarked that the consumer had now been delivered bound hand and foot into the hands of the combined iron and steel industries of Great Britain and India Government to put some check on this exploitation of the consumer imposed a maximum price on the trade but it transpires that this maximum was exceeded and Government never noticed this till it was reported on a year later by the Tariff Board.

As a fact the small price fall in recent times of imported articles has had nothing to do with preference. The imports of India mostly belong to the group of manufactures; and the last two years have witnessed a tendency towards the bridging of the gap

between the prices of agricultural and manufactured goods by a continued fall in the price level of the latter. The following table shows the movement of prices of these two groups of articles in India :

	Exported Articles.	Imported Articles.
Indian Index No.		
Dec. 1932	120	129
Dec. 1934	124	124
Calcutta Index No.		
Dec. 1932	69	115
Dec. 1934	76	109

The movement revealed by both these indices is identical. This is further a movement not confined to India. The League of Nations' Review of World Production and Prices (1925-34) notes that "in most countries for which information is available raw materials rose more (or fell less) in prices in 1933 than manufactured articles." In 1934 also the same movement was continued in a large number of countries. Supporting statistics may be cited from Japan which next to U. K. supplies to us the largest volume of our imports. The following figures are taken from the monthly circular of the Mitsubishi Economic Research Bureau :

Index No.	Commodities for export.	Imported commodities.
Jan. 7-1933	159.0	171.2
Jan. 10-1935	133.9	192.3

Japan imports mostly raw materials and exports manufactured articles. Hence the movement of prices in these groups is opposite to that shown in the table of Indian index number. It will be observed that the extent of the movement in the Japanese index numbers is even greater than that shown by the Indian

index numbers. It is unnecessary to enter into the causes of this tendency of price movements. For our purpose it suffices to point out that the price fall in imported commodities is the result of causes extraneous to the preference arrangements.

It has further to be noticed that the movement of exchange rates has been a factor powerfully affecting prices and trades. Thus, one of the reasons why Japan has been able to lower the prices of its goods is the exchange advantage obtained by it. On the other hand, the countries of the gold bloc and Germany have been handicapped by their exchange rates and have found it difficult to lower the prices of their products to any marked extent in the period since Ottawa. The extent to which exchange considerations may influence trade is clearly shown by the variations in the imports of motor vehicles into India. In 1933 helped by the adverse dollar exchange and the Ottawa preference Great Britain was able to capture a considerable portion of the Indian market for motor vehicles. In 1934, on the other hand, the depreciation of the dollar placed U.S.A., in its turn, in a favourable position and American cars recovered their old position in the Indian market in spite of the preference.

It has been maintained a number of times that the Ottawa arrangements have led to a lowering of tariff barriers. It is obvious that this is not true at least of India. It is not possible for us to compile an index of the level of customs duties. But it is enough to point out that of the 163 items contained in Schedule F to the Ottawa Delegation's report on which preference has been granted to U. K. the grant of preference has meant some raising of the general rate of duty in nearly 100 items. In most cases

this has been achieved by lowering the rate on British goods by half the measure of preference and adding half the measure to the general rate. On more than 15 items, however, Ottawa has meant raising of the general level of duty by the full measure of the preference. Now it can confidently be maintained that so far as consumer's prices and the real measuring of the tariff wall is concerned, it is the general rate that is the ruling one. It is not the height of the barrier at which one section of the supply comes in, but the height at which the general supply comes in that determines trade and prices. Hence the cases in which the tariff rate is lowered in favour of U. K. without lowering the standard rate are not to be reckoned as instances of a lowering of tariff barriers. They mean no doubt no additional burden to the consumer but they mean also, in general, no relief to him; and in their case it is the loss of revenue involved that measures the loss caused by preference to the country granting it.

It may perhaps be argued that this is not true of trades in which U. K. is the sole or at least the dominant supplier. It is difficult to determine to what extent this may be true. But we need not enter into any complicated analysis on this account. For, in contrast to the position which India holds in a great many lines in the U. K. market, it is only in a very few items of trade that U. K. can claim even as great as a three-fourths share of the Indian market. Among the groups of articles to which preference has been granted by India there are only four such items. These are: arms and ammunition, engine and boiler packing, toilet soap and cycles. And among these cheap Japanese soap has been kept out since December 1933 by a specific

minimum duty. On the other hand there are a large number of heads under which U. K. does not contribute even 25 per cent. of the total imports even after preferential treatment. The most important of these are earthenware and porcelain, haberdashery and millinery, packing paper, toys, umbrellas and motor omnibuses. We can in this connection do no better than quote a paragraph from what we wrote in 1932.

There are a great many important lines in which the U. K. importer is in so inferior a position that a large part of the supply will continue to be drawn from other countries in spite of the preference. Such lines are motor cars and lorries and pneumatic motor covers; metals like brass, aluminium and copper; metal lamps, enamelled iron-wares and builders' and domestic hardware; cutlery; electric lamps and fans; typewriters; blankets and rugs and woollen piece goods; printing and packing paper and pencils; canned fruit and condensed milk; porcelain; toys; playing cards etc. Secondly in these and even in others in which the United Kingdom is dominant non-British supply is mostly taken up by the poorer consumer. Mr. Ainscough emphasises again and again the strength of the competition in what he calls bazaar trade. The Indian consumer may be blamed for disregarding quality, but it is obviously his lack of means that forces him to do so. As Mr. Ainscough has himself put it at one place, "every pie counts." If for such a statement any authority is needed we may quote it in the words of the Fiscal Commission. "The great mass of the people in India, it must be remembered, are poor." And it is especially the poor that consume non-British goods. For these they evince a partiality because of their cheapness and we are now being asked to penalise them very heavily. In respect of tariff burdens the Fiscal Commission has clearly laid down; "Such burden as appears to us inevitable in the pursuit of a policy of more rapid industrial development of India, the Indian consumer must be asked to bear. But he should not be called upon to bear an additional burden on top of this for the further-

ance of interests which are not primarily Indian." (para 243). This additional burden is being imposed, it should further be remembered, at a time when, on account of the fall in world prices, the mass of the Indian population is enormously poorer than it has been for many years past.

In a number of commodities mentioned above the U. K. share has increased since the grant of preference, but in most of them non-British supplies are still very important and all of these now bear a higher duty than before. It is always extremely difficult to measure the burden on the consumers and in this case the task is rendered impossible by a contemporary fall in the prices of manufactured articles. But there is nothing in the situation that can lead us to believe that the burden of the tariff has not been passed on to the consumer.

VI

We have, it will be seen, made no attempt to balance directly the gains that may be available to India under the Ottawa Agreement against the losses and sacrifices entailed by it. We feel that it is impossible to estimate, quantitatively either of these sides even in an approximate way. It is necessary thus to emphasise these difficulties as there have been current in this discussion some entirely misleading calculations of this character. There are the crude calculations of advantage on landed costs which have been used in a peculiar way by Sir T. Ainscough and which have been used by publicists in U. K. to support the statement that India has gained more than U. K. by the Ottawa Agreement. But there is even such a statement as the following by Dr. Meek which requires careful examination:

"The situation may be summarised in the statement, that although after the Ottawa Trade Agreement the United Kingdom has improved her position in the Indian Market, there is still a good deal of leeway for her to make up. On the other hand, she has proved an increasingly important market for Indian goods." Here, prefacing the sentence with the words "after the Ottawa trade agreement" seems to imply a causal relation of the later trends in trade with the agreement for which there is not the slightest justification. Our detailed examination of the Indian export trade has clearly shown that the development of recovery in U. K. has affected in varying proportions the different trades and that very little of this development can be attributed to Ottawa as such. On the other hand, the statement that the U. K. has a good deal of leeway to make up is based on the assumption of a normal level. The normal level that Dr. Meek assumes is that of the pre-1929 trade of U. K. with India. But this level can no longer be considered normal. It is true that since 1929 the favourable merchandise trade balance that U. K. had with us has considerably diminished; but this is due to certain fundamental factors that are unlikely to be affected by preferential arrangements.

It is necessary in this connection to emphasize a very important change in the direction of world trade that is progressively affecting international trade since 1929. This change, which has been very generally recognised by economists in recent years, has been termed the "trend to bilateralism." With an increasing height of tariff and other barriers to trade and increasing attempts at national self-sufficiency nations are regulating the measure of their trades.

directly one with the other. The multilateral system of trade in which surpluses of trade balances with one country were balanced by deficits in that with another has almost broken down. This has led to a great many adjustments in trade relations and we maintain that the recent changes in the trade balances between U. K. and India are for the most part results of this movement. We are not concerned with the merits of bilateralism, neither is it necessary for us to consider the economics of it. We merely note that Ottawa itself was a very important step in the progress towards bilateralism. The abandonment of free trade on the part of U. K. and the attempt at the organisation of trade on Imperial lines within the British Empire were very important stages in this movement. No doubt they were in part themselves caused by other earlier movements in this direction. But it is equally true to say that they helped considerably to intensify the situation. The protestations at Ottawa that Imperial preference will in course of time lead to freer trade all over the world did not even then find much credence ; today they are thoroughly discredited. This trend towards bilateralism is so important a change, the probability that the changes brought about by it are durable is so high and the way in which it affects our trade with U. K. so intimate that we shall deal with it and its results at some length. We may begin this by describing the nature of the old trade relations with an extract from a publication of a Scandinavian Bank.

The excess of imports of the United Kingdom, which during the years immediately preceding the depression was fairly constant, amounted in 1929 to £382 millions, a sum which may be taken as representing the yield of the overseas investments of the country, the income of the merchant marine in foreign traffic and net profits on

account of various other business activities, after deduction of the amount by which capital exports exceeded capital imports in the form of amortizations, etc. The most important item of income was, of course, the yield of long-term investments abroad, which according to the estimates of the Board of Trade amounted to £250 millions.

According to statistics available for 1930, only 2½% of British long-term capital abroad is invested in the United States and 7½% in Europe. It may thus be estimated that about nine-tenths of the income from foreign investments are derived from other countries. Probably the other payments by means of which England met her excess of imports were also due mainly from these countries.

Some 80% of excess of imports arose, however, in trade with Europe and the United States and only 20% in trade with other countries. In fact, several of the countries indebted to the United Kingdom, for example India, Brazil and Australia imported more from that country than they sold there; but the balance of their total trade was active on account of their large exports to the United States and Continental Europe.

The transfer of the large amounts which the raw material producing countries had to pay in England was therefore performed in the following manner. These countries sold their products to all industrial countries of the world and employed their exports surplus with the United States and the industrial countries of Continental Europe for payments to England. England in her turn employed the currencies she thus obtained for purchases of various products, particularly industrial goods, in the last mentioned countries. These latter were to a considerable extent dependent upon their export surplus with England for their supply of foreign raw materials and foodstuffs. (Folke Hilgerdt: *The Approach to Bilateralism*: Index. Stockholm, Aug. 1935.)

This extract brings out very well the importance to India of its export surplus in the trade with U. S. A. and the countries of the European continent. It was only this export surplus that enabled us to buy the manufactures of U. K. in such great excess of

the value of our exports to that country and in addition to pay the various burdensome but invisible obligations that we owe to it. Bilateralism has meant inevitably the steady diminution of our export surpluses with other countries. The specially strong position that some of our products hold has no doubt steadied the rate at which our export surpluses have declined but no exports are entirely substitute-proof and when nations are bent on obtaining self-sufficiency or a closed economy within a group there are, it seems, no lengths to which they will not go. Hence though gradual, the tendency towards diminution of our export surplus has been continuous.

The following table shows the values of the export and import trade of India with the more important countries. It exhibits clearly the change in the character of the pre-1929 trade relations and demonstrates how with the vanishing of our export surplus with other countries our imports from U. K. have diminished. It has further to be remembered that even so, the balancing of our obligations in recent years has been made possible only by a draining of our capital or reserve resources by means of exports of gold.

VALUE OF INDIAN TRADE [Rs. lakhs]

COUNTRY.	Exports to			Imports from		
	Average 1926-27 to 1928-29	1933-1934.	1934-1935.	Average 1926-27 to 1928-29	1933-1934.	1934-1935.
U.K.	70.10	47.21	47.93	114.33	47.59	53.72
Japan	34.82	16.36	20.80	17.34	12.61	24.14
Germany	28.65	9.84	7.17	16.03	8.89	10.11
U. S. A.	36.26	14.07	12.90	18.68	7.18	8.41
Belgium	11.03	4.48	4.38	7.16	2.66	2.16
France	15.85	7.37	5.29	4.21	1.51	1.53

If we lose our export surplus we lose both the capacity to buy from U. K. and to pay for our invisible obligations. And the only way in which U. K. can extract these payments from us is by creating a direct surplus of merchandise trade in our favour. The whole lesson of the post-war reparations and debt tangle has been this; that a creditor country which wants to recover its interest and other charges must buy freely the products of its debtors. U. K. in many of its recent trade agreements has shown due appreciation of the importance of this by providing more for debt and interest recovery than expansion of its export trade. It is this consideration that lies at the bottom of its solicitude for the imports of Argentine and other South American countries. In this also lies the great strength of our position vis-a-vis U. K. We are both the biggest market for U. K. producers and U. K.'s biggest debtor and the biggest source of the invisible imports of U. K. Mr. Hilgerdt, in the article from which we have quoted, points out how during the years 1929 to 1934 the flow of trade along multilateral channels has enormously shrunk. The greater proportionate diminution of the imports of U. K. into India is the result entirely of this change. Even so U. K. was the only important country with which India had an import surplus during both the years 1933-1934 and 1934-35. If the whole world trade becomes entirely bilateral—and there is nothing in the world situation to-day that prevents us from making this assumption—then U. K. must buy from us to the total extent of the value of what she sells to us and the value of our invisible obligations.

VII

The view put forward by official spokesmen that on the one hand it was the wickedness of foreign countries that forced on U. K. the policy of import restrictions and imperial preference and that on the other hand the Ottawa agreements have not had any effect whatever in intensifying the international trade situation is really too naive. "Retaliation" may or may not be a myth. It is useful to remember that the bogey is not newly raised but is at least as old as the memorandum on Imperial Preference by Lord Curzon's government. There are a number of ways in which the possibility of retaliation is disputed. In the first instance it is pointed out that Imperial Preference is not usually considered in international trade as "discrimination" against foreign countries. On this general question it is enough to record the following opinion of Prof. A. Zimmern: "The combination of a system of reciprocity within the Empire with the most-favoured-nation system in external relations is no doubt illogical and thus lays itself open to criticism." (*Index*, June 1933.) In practice what is and what is not considered "discrimination" changes from time to time. When the measure of Imperial Preference is not considerable foreign countries may not trouble themselves about it; but if its effects are deeply felt it will certainly be resented. It is, for example, an open question whether under the new U. S. A. policy of unconditional extension of reductions of customs duties to all countries not discriminating against U. S. A. the preferential agreements within the Empire will be interpreted as being discriminating or not. It again depends on what you interpret as "retaliation." Was

the action of Japan in stopping imports of Indian raw cotton retaliatory in character or not? And will Japan in the next renewal of the trade agreement put up with such a high measure of preference in favour of U. K. goods, especially cottons?

As regards retaliation in general, it may well be said that today no retaliation (except in such a case as the tariff-war between U. K. and the Irish Free State) is to be noticed in the world. For, it is not a question of general easy conditions of trade to be made more difficult against a particular country. It is rather the variety and difficulty of the general barriers that have to be discriminatingly lowered. No country has retaliated on any other; each has raised barriers against all others. Today, therefore, the situation is that no country fears retaliation but rather hopes for favourable discriminating treatment. And the only way of obtaining this favourable treatment is to negotiate a bilateral treaty. The crux of the whole situation is thus whether we are free to use our bargaining position to the fullest advantage when negotiating with other countries.

It has been taken for granted by some official apologists that it is no use entering into bilateral treaties with countries with which we have a favourable balance. For, if the principle of compensation is applied this favourable balance is either way bound to vanish. It is obvious that such writers have not had any acquaintance with even official trade literature such as the reports of the Indian Trade Commissioner at Hamburg. The Trade Commissioner at Hamburg has commented in the past on the steady diminution in India's exports of various commodities to European countries, such as that of rice to Poland, oilseeds to France and Germany, etc. He

has invariably given as the reason for this diminution our not having entered into trade agreements with these countries. The best exposition of our position vis-a-vis these European countries is to be found in the latest annual report of the Trade Commissioner (*Indian Trade Journal*, Dec. 19, 1935). Here it is pointed out that already India has lost all its favourable balance of trade with Germany. Imports and exports just equal and they must continue to equal under the operation of Dr. Schacht's new plan of compensation trade. But this is not all; for, even with a trade treaty, we cannot expect a highly favourable balance of trade. The real danger, in the opinion of the Trade Commissioner, is not disappearance of the favourable balance of trade but the possibility that in the absence of trade agreements, the total volume of trade will continue to shrink. "One inevitable result of Germany's adoption of compensation trade and clearing agreements is that she has changed her sources of raw material supplies. She is now obtaining large quantities of raw materials, which she formerly bought from India from countries with whom she has clearing agreements." In the Trade Commissioner's opinion, these circumstances are likely to continue for something like a decade and if that happens he points out that we shall have permanently lost a good customer. He says: "This is a very serious danger and one which must receive due consideration." The Trade Commissioner's final comment on the whole situation is as follows:—

With the exception of jute, Indian raw materials do not enjoy any monopoly of supply to the German markets, and under the present abnormal conditions India can only maintain even the form of trade with equally balanced exports and imports to and from Germany by means of compensation or barter trade. Under these conditions

an expansion of exports from India to Germany postulates an expansion of imports into India from Germany.

In considering the costs involved by the Ottawa agreement we must, therefore, pay attention to a cost other than the loss of revenue and the increased price to the consumers. This additional cost, to which we attach very great importance, is the effect that the Agreement has on our capacity to bargain with other countries.

In this connection we may note the peculiar character of the Ottawa agreement between U. K. and India. By this agreement U. K. accorded preferential treatment or free entry to a small number of the export products of India. Of the total value of the exports from India to U. K. covered by the Ottawa agreement the exports of tea alone amount to nearly 50 p. c.; and the total value of the articles of exports that we have examined in detail above amounts to more than 95 p. c. Prof. Zimmern thus characterises the effect of Ottawa on U. K.: "The Ottawa agreements have left Great Britain far freer than was generally expected before the event to negotiate treaties for tariff reduction with other countries. It is indeed only in respect of some 30 articles that her tariff is 'tied' in favour of the Dominion." (*Index*, June 1933). The preferential treatment accorded by India to U. K. ranges on the contrary over a very wide list of commodities of all kinds. And the problem before us is: if our tariff gets "tied" in favour of U. K. on almost all the more important items in our import trade, what is there left for us to offer to the other countries?

The problem of a trade treaty with Japan will arise in an acute form in the near future. Whatever the unwillingness of the Indian Government to allow

any manufactures other than British a fair chance in the Indian market, Japan as an important customer for our raw materials holds such a strong position that it can easily force the hands of our Government. At the time of the last treaty a raw cotton boycott had to be successfully enforced by Japan for some months before our Government woke to a sense of its responsibility in this matter. In recent years Japan has proved a good buyer not only of raw cotton but of other articles such as pig iron, pig lead and lac. On the sales of raw cotton to Japan depends a great deal the prosperity of large tracts of agricultural India. Of pig iron Japan has always been our most important customer and even in the post-Ottawa period the take-off by Japan of our pig iron has been much more than double that by U. K. Our sales of pig lead and lac to Japan have increased very noticeably during the year 1934-35. We can ill afford to discriminate against such an important customer of ours and we must, if we want to expand the Japanese market for our products, be willing to extend the same opportunity to Japanese producers in respect of at least some of their export lines. The position of our trade relations with Germany has been made clear above by extracts from the Trade Commissioner's report. The U. S. A. President is recently following a policy of entering into trade treaties with other countries and of allowing general benefit of a large number of reductions in customs duties only to countries that do not discriminate against U. S. A. All the countries of continental Europe and as a fact all over the world are now working by way of negotiating bilateral treaties. We have noted above how U. K. has been left free to negotiate with other countries bilateral treaties on favourable

terms in spite of Ottawa. In the case of India however, the opposite is the case. The imports that she receives from her important customers like Japan, Germany, U.S.A., France and Belgium all compete with some portion or other of the imports from U. K. and are mostly covered under the Ottawa preferential arrangements. We should, therefore, be obviously unwise to accept the detailed schedules of Ottawa on which to give preference to U. K. or to accept the general principle of preferential treatment as propounded in the 1935 Indo-British agreement.

VIII

"Where, however, important and influential nations are concerned which can command the acquiescence of weaker nations in less rigid interpretations of this principle of competitive equality much progress is possible. Perhaps the Ottawa agreements of 1932 in which Great Britain, her colonies and self-governing dominions all participated are a case in point. But if these Ottawa pacts illustrate the possibility of a wide extension of areas enjoying comparatively unimpeded trade they also clearly indicate the underlying conditions necessary for success. There is no need here to review the results of the Ottawa Conference and assess its value to the mother country and to the dependencies. But it would not be easy to refute the criticism that this series of trade agreements between the several parts of the British Empire have been trade-diverting rather than trade-enlarging in their effects. Moreover, they demand sacrifice on the part of some of the participants which in the long run may prove to be intolerable"—Prof. J. G. Smith "Economic Nationalism and International Trade", December 1935.

The above quotation from the Presidential Address of Prof. J. G. Smith to Section F of the British Association brings out clearly the nature of the agreements entered into at Ottawa. The Ottawa scheme has not been of India's seeking, and Imperial

Preference as a general policy has always been held to be not in the interests of India whether by Lord Curzon's Cabinet or the majority of the Fiscal Commission. It was because U. K. imposed import duties to attain to a bargaining position with respect to the other countries that imperial preferential arrangements are said to have become necessary. For, it is alleged that if we had not entered the Ottawa scheme we would have lost free access to the "world's most stable and largest open market". This involves the assumption that the Ottawa agreement between England and India reflects correctly the economic needs and bargaining position of the one with respect to the other. We have already indicated how it is only in the case of few commodities like tea, linseed or tanned hides and skins that U. K. is a dominant market for our products. We are not in the position in which other Empire countries like Australia and New Zealand find themselves, that of having to look to and secure chiefly one—the U. K. market. Neither can we hope for such an extension of the U. K. market for our products as to absorb the bulk of them, even if such an absolute dependence on one market were not otherwise undesirable. We are under the necessity of having to sell a large variety of raw products to a large number of different countries. In some exports, most important from the point of view of the peasantry, such as raw cotton and rice, the U. K. market plays a most insignificant part. Whatever our anxiety, therefore, for keeping a hold on the U. K. market, we cannot afford to do anything which will jeopardise our position in the other important world markets for our products.

We have clearly shown above the strong position that many of our products hold in the U. K.

market and the great importance of the majority of them to the U. K. manufacturer. Today when many industrial countries—U. K. prominently among them*—seem to be in the midst of a process of economic recovery they must be specially anxious to obtain their raw materials tax-free. The “necessity of obtaining raw materials in the cheapest market” has been put forward as one of the safeguards against retaliation on India by non-British foreigners. Presumably this necessity operates with equal force on the British industrialists. In asking for a free entry for our products we shall thus be not calling for any special sacrifice on the part of the British consumer, producer or tax-payer. Apart from this our position when bargaining with U. K. is one of the strongest, as we are that country’s most important market and the most considerable debtor. We have discussed in detail this aspect of the question above. Any obstacles that U. K. puts in the way of the expansion of Indian exports to that country can merely result in a contraction of our imports of British goods. Hence the U. K. manufacturer has need to be quite as anxious regarding our export trade as about our import trade. If bilateralism progresses apace our export surpluses will in due course entirely vanish; we must awake from now to the new situation that will soon confront us. It may not be possible for us to negotiate for an export surplus but we should at least attempt to maintain our trade relations with other countries lest their entire market slips away from us by stages. We must try to stabilise by trade treaties, at least at the lower level that bilateralism demands, our exports to these other countries.

* The “Economist” index of business activity in U. K. has moved from 95½ in Jan. 1933 to 116½ in Jan. 1936.

An attempt has been made recently in a series of notes issued by the Director of Information on Trade Policies to draw a red-herring across the trail. These notes set out to compare the merits of various trade policies and emphasize the defects of the method of bilateral treaties comparing it specially with the application of the most-favoured-nation clause. In reply to such contentions it may in the first instance be pointed out that India is not in a position today to choose independently for herself her foreign trade policy. We are not in a position to set an example to the world and we must make the best of the international situation in which we find ourselves. Whatever our own wishes in the matter we must seek trade treaties with other countries if our failure to do so means an entire extinction of our trade with them. And that this is likely to happen we have proved above by reference to the course of our trade relations with Germany. Further in seeking trade treaties of this kind we shall only be following the most respectable precedents. That most right-minded of nations—the U. K.—has followed up Ottawa by a series of bilateral treaties with countries in all parts of the world. Canada has only recently negotiated an agreement with U. S. A. and Australia has sent delegations to many countries in the East for the purpose of these negotiations. U. S. A. has further shown how insistence on the application of the most-favoured-nation treatment can be combined with the technique of negotiating bilateral treaties. The supporters of the National Government in England have been at pains to show how the trade with countries with whom agreements have been concluded has increased specially rapidly. It would thus seem clearly necessary and desirable for us to follow this

method. Government-inspired criticisms of these trade policies can only mean that they begin to wear a different aspect and have a different result east of the Suez. We are not advocating, we have always most strenuously opposed, the spread of further restrictionism. But when it becomes clear that our exports to other countries are dwindling rapidly, because our Government would not try and enter into trade treaty relations with them, we are surely justified in asking for an exploration of the means of formulating such treaties, and when it is clear that the general adoption of Imperial preference is not called for in India's interests, and that the benefits we can receive therefrom are very small as compared with the sacrifices and the handicaps that it involves, we are surely justified in denouncing the Ottawa scheme.

In the management of bargains the positions of India and U. K. may be usefully contrasted. Each time U. K. has skilfully manipulated the tariff so as to benefit herself. The latest example of such manipulation was afforded by the way in which the duties on iron and steel imports into U. K. were temporarily put up to enormous heights in view of the negotiations with the International Steel Cartel and thus unexpectedly favourable terms were secured in the agreement of the U. K. producers with that body. On the contrary our Government is interested each time in favouring U. K. manufactures without any chance of obtaining a return, the latest example of this being Article 1 of the Indo-British treaty of 1935. It is difficult to understand why the Government of India should go out of its way to state that the normal Indian protective arrangements may be of a character so as to be pre-

ferential to U. K. It has all along been disputed by Indian publicists that the preferential element in our protective tariff has come in without any reference to U. K. interests and it has been repeatedly pointed out that the interest of the consumer could be protected without introducing this preference. But even if this contention were incorrect such a gratuitous admission, which is tantamount to deprecating on one's own motion the benefit of the preference granted to others, must be unique in bilateral trade treaties. It is not to be found in any British treaty with any Dominion, though it is obvious that the comparative competitive positions of the British and the non-British producers are the same in other countries as in India. And the great disparity in results may be emphasized by the fact that in the Indo-British trade treaty of 1935 the free entry into U. K. to Indian pig iron, the total value of which trade is in the neighbourhood of Rs. 20 lakhs, is balanced against the most substantial preferential treatment to British iron and steel imports into India worth nearly Rs. 3 crores. In the same way the preferential treatment to imports of British cotton piecegoods worth annually a good deal over Rs. 10 crores is often set off against the propaganda on behalf of Indian raw cotton exports to U. K.!! Cotton piecegoods and iron and steel are our most valuable import trades and the throwing away of these preferences in the supposed interests of the consumer can best be described as a result of the "acquiescence of a weaker nation" in a "less rigid interpretation of the principle of competitive equality."

If the fiscal autonomy convention is real and our Government, both disposed and able to use to the fullest our bargaining position, then the time has come, in our opinion, to change radically the

APPENDIX

Table I

EXPORTS FROM INDIA (VALUE RS. LAKHS)

Article.	1931-32	1932-33	1933-34	1934-35
<i>Jute Manufactures</i>				
Exports to all countries.	2,192·4	2,171·2	2,137·5	2,146·8
Exports to U. K.	186·4	174·6	160·2	159·7
<i>Tea.</i>				
Exports to all countries.	1,943·7	1,715·3	1,984·5	2,013·2
Exports to U. K.	1,692·8	1,478·5	1,756·6	1,814·6
<i>Rice not in the husk</i>				
Exports to all countries.	1,740·0	1,374·4	1,019·7	1,009·6
Exports to U. K.	27·4	33·6	30·1	87·
<i>Groundnut.</i>				
Exports to all countries.	1,013·7	725·2	694·7	
Exports to U. K.	114·7	62·7	70·	
<i>Skins Tanned..</i>				
Exports to all countries.	313·7	304·2	45	
Exports to U. K.	276·8	277·	291·2	
<i>Paraffin Wax.</i>				
Exports to all countries.	231·7	28·9	191·9	
Exports to U. K.	76·	54·7	46·8	

Article.	1931-32	1932-33	1933-34	1934-35
<i>Hides Tanned</i>				
Exports to all countries	212.7	162.1	240.8	197.6
Exports to U. K.	208.2	159.3	238.3	194.5
<i>Oilseed cake.</i>				
Exports to all-Countries.	200.7	196.5	164.7	197.0
Exports to U. K.	72.5	72.4	86.1	116.2
<i>Coir yarn, Mats and Mattings.</i>				
Exports to all-Countries.	190.1	129.1	151.6	142.9
Exports to U. K.	98.8	53.1	62.8	60.3
<i>Shellac.</i>				
Exports to all-Countries.	183.9	124.2	246.4	330.0
Exports to U. K.	45.0	32.8	131.8	146.0
<i>Lead.</i>				
Exports to all-Countries.	178.0	152.5	156.6	139.5
Exports to U. K.	105.2	119.0	129.8	89.0
<i>Linseed.</i>				
Exports to all-Countries.	153.1	91.1	457.5	299.8
Exports to U. K.	16.5	16.5	201.2	128.0
<i>Castor Seed.</i>				
Exports to all countries.	149.7	130.4	105.0	85.4
Exports to U. K.	33.6	35.7	35.5	31.8

Article.	1931-32	1932-33	1933-34	1934-35
<i>Coffee.</i>				
Exports to all countries.	94.5	109.8	102.5	72.7
Exports to U. K.	27.9	33.9	30.3	21.4
<i>Tobacco,</i>				
Exports to all countries.	85.4	77.1	93.8	82.0
Exports to U. K.	39.5	36.8	47.4	34.7
<i>Bran, Pollard etc.</i>				
Exports to all countries.	74.2	68.9	46.6	77.2
Exports to U. K.	48.2	54.0	38.0	64.8
<i>Woollen Carpets and Rugs.</i>				
Exports to all countries.	56.7	63.5	72.7	89.8
Exports to U. K.	40.6	44.6	56.5	73.9
<i>Teakwood</i>				
Exports to all countries.	56.6	40.2	62.1	94.2
Exports to U. K.	34.3	28.4	39.9	65.5

Table II

NOTE :— The figures for the year 1935 have been taken from the Indian Trade Journal (12 March 1936).

IMPORTS INTO U. K.

Article.	1931	1932	1933	1934	1935
<i>Tea.</i>					
Lbs. (000).					
Total Imports.	535,446	565,962	505,032	507,596	475,600
Imports from India	276,963	311,964	279,974	274,906	269,000
Percentage.	51·72	55·11	55·43	54·15	56·56
<i>Leather.</i>					
(Undressed Skins.)					
cwt. (000).					
Total Imports.					
Imports from India-	147·8	141·7	158·4	165·1	
Percentage.	98·5	102·1	111·7	123·5	
	66·89	71·83	70·88	75·15	
<i>Hides Undressed.</i>					
(000 cwts.)					
Total Imports.	297·5	252·8	267·8	271·7	
Imports from India	188·6	203·2	235·2	239·6	
Percentage.	63·42	80·23	87·68	88·23	
<i>Groundnut.</i>					
Tons (000)					
Total Imports.	138·7	96·8	131·6	112·7	139·9
Imports from India	81·3	57·6	69·8	72·5	89·8
Percentage.	58·27	59·79	53·03	64·60	64·18
<i>Jute Manufactures</i>					
In. Sq. Yds. (000)					
Total Imports.	71,915	68,666	56,250	60,820	71,486
Imports from India	56,759	67,332	55,076	60,644	71,406
Percentage.	78·90	98·05	97·91	99·71	99·9
<i>Shellac.</i>					
cwts. (000)					
Total Imports.	120	108	171	440	93
Imports from India	117	105	167	436	87
Percentage.	97·50	97·22	97·66	99·09	93·6

Article	1931	1932	1933	1934	1935
<i>Linseed.</i>					
Tons (000)					
Total Imports.	338	362	249	184	257
Imports from India	15	9	131	140	58
Percentage.	4.43	2.48	52.61	76.08	22.6
<i>Oilseed Cake.</i>					
Tons (000).					
Total Imports.	459	423	387	558	
Imports from India	126	101	159	238	
Percentage.	27.45	23.87	41.08	42.7	
<i>Pig Lead.</i>					
Tons (000)					
Total Imports.	299	262	282	313	317
Imports from India.	49	44	55	42	43
Percentage.	16.38	16.79	19.50	13.41	13.4
<i>Cleaned Rice whole</i>					
Cwts (000)					
Total Imports.	1,441	1,592	1,034	1,358	1,186
Imports from India.	453	527	644	808	896
Percentage.	31.43	33.10	62.28	60.23	75.5
<i>Woollen carpets and Rugs.</i>					
(In thousand Sq. yards)					
Total Imports.	3,554	2,572	2,505	2,706	
Imports from India.	760	1,073	1,277	1,761	
Percentage.	21.38	41.71	50.97	65.07	
<i>Teakwood.</i>					
Cubic feet (000)					
Total Imports.	1,187	826	863	1,555	1,921
Imports from India.	869	731	782	1,372	1,788
Percentage.	73.20	88.49	90.61	88.23	93.07

Article.	1931	1932	1933	1934	1935
<i>Bran, Pollards etc.</i> Tons (000)					
Total Imports.	391·6	524·9	545·5	657·6	
Imports from India.	159·1	184·1	196·6	245·3	
Percentage.	40·56	35·04	36·08	37·23	
<i>Coir Mats and Mattings.</i> Sq. Yds. (000)					
Total Imports.	6,563	6,962	8,497	7,912	8,405
Imports from India.	5,332	6,817	8,385	7,820	8,346
Percentage.	81·24	97·91	98·68	98·83	99·3
<i>Paraffin Wax.</i> (000 cwts)					
Total Imports.	1,312	1,192	1,046	1,016	1,141
Imports from India.	491	337	213	235	265
Percentage.	37·42	28·27	20·36	23·12	23·22
<i>Tobacco</i> Unmanufactured Lbs. (mill)					
Total Imports	194·0	174·9	211·1	239·3	251·6
Imports from India	9·3	9·2	13·0	9·8	11·5
Percentage	4·79	5·26	6·15	4·09	4·57
<i>Castor Seed</i> (Tons 000)					
Total Imports.	31	25	33	35	36
Imports from India	25	20	30	32	29
Percentage.	80·64	80·00	90·90	91·42	80·6
<i>Coffee.</i> Cwts. (000)					
Total Imports.	751	742	659	542	483
Imports from India	46	50	45	49	30
Percentage.	6·12	6·73	6·82	9·04	6·2
<i>Coir yarn.</i> Cwts. (000)					
Total Imports.	451	216	148	153	165
Imports from India	403	199	125	124	140
Percentage.	89·35	92·12	84·45	81·04	84·8

