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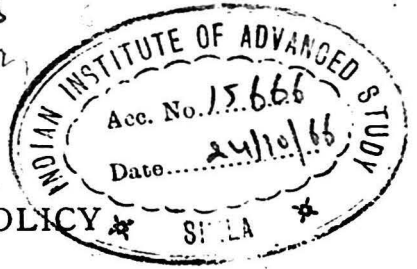
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INDIA'S TARIFF POLICY *

BY SIR CAMPBELL RHODES, C.B.E.

A REQUEST from the Editor of the ASIATIC REVIEW for an article on India's tariff policy is both a compliment and an embarrassment to a member of the late Indian Fiscal Commission. After ideas have been crystallized in a signed report, it is difficult for the signer to continue to view the situation with an unprejudiced mind. The acceptance of the Commission's report, both by the executive government and the legislature, opens up a new era of immense possibilities and hidden pitfalls. Nothing is now to be gained by arguing at length the desirability of adopting a policy that has become *un fait accompli*, but something may usefully be said about the dangers and discouragements that lie ahead. It is against the teaching of history that the right path must necessarily be the easy one.

The recent review of India's tariff policy was one of the inevitable results of the reform scheme. No country can claim to have gone far in the development of self-governing institutions if it is without some real measure of fiscal autonomy, for self-government consists largely in the power to decide what goes into and what comes out of the national purse. The first claim of every nation, as of every individual, is the right to make mistakes, and in the realm of fiscal matters the opportunities for making mistakes are both numerous and varied.

The Indian Fiscal Commission took upon itself a great responsibility in coming to certain conclusions, a responsibility that has now been transferred to the shoulders of the Indian legislature. On February 16 last, the Legislative Assembly adopted, without a division, a resolution which accepted the principle of protection with due regard to the financial needs of the country and the present dependence

of the government on import, export, and excise duties for a large part of its revenue. The resolution accepts the dicta of the Fiscal Commission, that protection must be exercised with discrimination, that the consumer must be adequately safeguarded, and that the creation of a Tariff Board is necessary in order to investigate and balance conflicting interests. India is therefore definitely embarked on a new policy, the fortunes of which have been committed into the hands of the three members of a newly-appointed Tariff Board, which is now entering on its arduous duties.

In making up her mind on this important question, India had not that free choice which, in England, has been exercised in the direction of free trade. The resolution of the Legislative Assembly refers explicitly to the dependence of the government on duties for a large part of its revenues, and this dependence is, in fact, a dominating feature of the situation.

During the past ten years the yield from duties has been increased by over 250 per cent., and now provides nearly one-third of the imperial revenue. The old economic doctrine, that duties cannot be both protective and revenue producing, though perhaps more completely sound in theory than in practice, has naturally made the Indian executive nervous as to how so large a proportion of its income is to be replaced, if protective measures prove successful in substituting local for imported manufactures. But high revenue duties on a broad basis are altogether incompatible with the accepted principles of free trade, a fact which has been recognized by one of the leading free-trade organs in India. In its leading article of March 8, the *Calcutta Statesman* remarks :

“The obvious alternative, and the alternative which is implicit in the entire Free Trade theory, is the restriction of Imperial expenditure within limits which will obviate resort to a form of taxation that is always uneconomical in its yield and invariably produces effects that are disastrous alike to the industrial, social, and political interests of the country concerned.”

The argument is unfortunately built upon a wrong hypothesis. It is not possible, leaving aside the question of desirability, so to reduce expenditure as to permit of the abolition of all duties and of a complete reversion to free trade. Lord Inchcape's committee failed, even in regard to present expenditure, to make such large savings, and it is generally recognized that much of the money saved by retrenchment requires to be spent in many other directions for the material and intellectual advancement of the people.

The only other adequate source of revenue lies theoretically in an increase in the land taxes, which would in fact necessitate a readjustment of provincial and imperial revenues. The poverty of the masses in India is mainly due to the strain put upon the land by the large numbers prepared to eke out an inadequate existence with a minimum amount of labour, an evil not checked, as in England, by the law and custom of primogeniture. To all interested in this aspect of the question may be recommended a glance at that brilliant little monograph, written by the late Mr. Jack, entitled "The Economic Life of a Bengal District." A large proportion of these millions, though directly dependent on the yield of the land, take no part in its cultivation. Higher land revenue would starve out the parasites, but no Indian leader has yet come forward with sufficient courage and, let us add, inhumanity, to advocate so drastic a course towards the greater material prosperity of the individual. Any sudden increase in land revenue may therefore be regarded as outside the sphere of practical politics, and the present intolerable growth of population on the land can only be relieved by the spread of education, leading to later marriages and a higher standard of culture and comfort.

Duties must therefore remain an integral part of India's financial structure, and this consideration inevitably raises the problem as to how such duties are to be regulated in order to produce as much good and cause as little harm as possible to the people of India and their industries. And herein lie, it must be admitted, all the evil possibilities
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emphasized by the *Statesman*. A high level of import, export, and excise duties is an undoubted evil in itself, an evil that the Fiscal Commission did not ignore, but rather, in the opinion of some of its critics, overemphasized. Were it possible to abolish the duties, the field would be open for a full-dress controversy between the free trade and protectionist schools of thought, but so long as the duties exist, their regulation in the interests of the country is the inevitable corollary.

India's decision to adopt a system of protection is, however, founded rather on national sentiment than on economic fact. India self-contained, self-supporting, and self-governing, is an attractive picture to put before the country. Even the Industrial Commission, sitting under the shadow of the great war, was impressed by the picture. It is a conception that finds special favour in abnormal times, like those in which we live, and which we have almost come to regard as normal. Self-contained France fails to grasp the point of view of a country like Great Britain, which depends not only for its prosperity, but for its very existence, on its international trade, and the exchange problems surrounding the payment of her foreign debt have not yet troubled her. The United States, too, with its relatively small export trade, can demand payment of her debts without unduly upsetting her exchanges and international trade, but even there the form of payment will present an interesting problem for the future. Accepting Sir George Paish's estimate of the amount of money spent in pre-war days by the American tourist in Europe as substantially correct, a large part of the debt we owe to America will be paid by that invisible export which depends upon Stratford-on-Avon remaining a place of pilgrimage, until such time as any general acceptance of the Baconian theory comes in to upset the world's exchanges.

India in a ring fence is, therefore, an attractive picture so long only as the picture is of the impressionistic and not of the Dutch school. When the details are filled in, the beauty of the conception becomes somewhat marred. India

drinking all her own tea and clothed in all her own sack-cloth, makes a somewhat bilious and depressing picture. Nor is it correct to assume that the market gardener is necessarily less prosperous than the carpenter or blacksmith, and that a country is necessarily impoverished if she sells her raw produce and buys her manufactured requirements. The theory, for instance, that the linseed grown in India should be crushed in India and the oil exported, takes no account of the conditions of steamer transport. Nor would the Argentine admit that she should be regarded as a backward country because she depends so largely on the export of her raw materials.

Nor, again, does the creation of a large manufacturing population within that ring fence mitigate the evils of famine, a theory so often advanced and which might be arguable only if India could feed her agricultural and industrial population in times of scarcity on the hardware or fabrics she manufactures.

Such were some of the numerous fallacies pressed on the consideration of the Fiscal Commission by many of the witnesses. But though the national ideal in favour of industrial development may be based largely on loose thinking, it remains an ideal, and in it, if rightly exploited, may lie the seeds of material and intellectual progress. The real cause of the present unrest in India, stimulated, it is true, by the present unhealthy political atmosphere throughout the world, is the birth of a middle-class, due to the spread of Western education—a middle-class without occupation, for to dig it is ashamed. India has yet to learn, as England has been so slow in learning, the dignity of industrial callings and the restricted opportunities of a clerical life.

Another incentive towards industrialization lies in the fact that one of the chief difficulties of establishing self-governing institutions in India is the need for a greater number of level-headed business men to form the backbone of the body politic, less prone than at present to subordinate their business acumen to their political creed. The Fiscal

Commission worked hard, and successfully, to keep racial discriminations out of its report, but many of the witnesses, who appeared before it, seemed unfortunately more anxious to down England than to raise India, an attitude necessarily calculated to cloud the intellect. If India is tempted to use her new fiscal powers as a weapon of offence, rather than as a means of progress, she herself will be the first and greater sufferer. India's wealth of population and raw material encourage a belief in industrial development, but the measure of her success will not be the creation of a few millionaires, but the degree in which India's philosophic mind will find expression in something more tangible and beneficial to the country than perfervid eloquence expending itself on abstract speculations. India has indeed much to gain, and something to lose, by steady advance along the industrial roadway, and she believes that progress is impossible without some regulation of the present high revenue duties in the interest of her manufactures. She has seen other countries prosper under protection, though she has not seen so clearly the cost at which that progress has been bought, or the difference in the conditions that so largely vitiate the comparison.

How far tariff regulations can assist the development of India's industries is a difficult and debatable question and one on which it is unnecessary to enter here, for the views of the Commission are set out fully in their report, but it is obvious that industries cannot be allowed to grow up under a protective wall of revenue duties which may be removed without warning by an easing of the financial situation. Fortunately, India has had recent experience of the danger of too rapid or reckless progress. Her greatest industrial setback of recent years was due to the artificial and absolute protection afforded her by the conditions of the war. She sets out, therefore, with her eyes open along a path beset with difficulties, and it remains to be seen whether she will be able so to guide her actions as to reap the greatest good with the least harm to her national and industrial prosperity. She is at present undoubtedly handicapped by entering into

the industrial lists so late. The classic economists put forward the infant industries argument at a time when industries in the older countries had not reached the high standard of organization they enjoy to-day. If that argument, with all its attendant dangers, was sound then, it is difficult to combat it in these more strenuous days. In the establishment of any industry new to India, the capitalist is at once up against highly organized industries in other countries, crushing out the new-comer in their relentless fight with one another. He also finds himself handicapped at home; a lack of industrial labour, inured to regular hours and so trained in kindred industries as to acquire readily the skill necessary to operate new processes. He misses that vital link in all European industrial organization, the efficient foreman. He is not surrounded, as in England, by manufacturers, who can turn out cheaply the elementary parts needed for his finished article, and he must lay out and lock up capital in obtaining from abroad many of the stores and tools required in his work.

When he has established his industry, he will find the market for his production circumscribed within his protective wall and demand for his wares centred chiefly in the ports, where naturally foreign competition is greatest. He is confronted with an inadequate railway system, which is likely to be reduced to chaos, if the proposed nationalization of railways becomes an accomplished fact. Until his industry is able to stand alone, a cardinal point in the Commission's report specifically accepted by the Assembly, he will find an export trade impossible, whilst the low standard of living outside the large seaport towns, to which reference has been made, together with the lack of proper railway facilities, militate against the internal demand for manufactured articles.

The task of the Tariff Board is therefore no light one. It is rendered the more difficult by the public criticism to which its personnel has been subjected before even its operations have begun. At this juncture such criticism can do no good, and is productive of infinite harm. It is

inconsistent with the persistent cry of the people for more participation in the administration of the country. Indians, who come forward to demonstrate by their conduct in high office the capacity of the people, should be given a fair chance to prove their claim. There will be ample opportunity to criticize the work of the Tariff Board. Much of that work must at the outset be warily experimental: mistakes are inevitable, and, right or wrong, the Board may count on receiving the full blast of public criticism. It may also expect blame in that the facts will not allow it to justify the opinion, so commonly held, that tariff regulation is the only thing lacking for a rapid advance in industrialization. The Fiscal Commission could only touch lightly on matters outside its terms of reference, but enough has been written above to indicate that the industrial issue does not rest entirely, or even mainly, with the decisions of the Tariff Board. Those who argue against any experiment in fiscal reform base their contention largely on this fact. It is generally safe to assume, however, that the extremists on both wings are in the wrong, and have attempted to prove too much. It is certainly true that if any attempt is made to establish exotic industries at reckless speed, the masses of the people, whilst ignorant as to how they have been hit, will be fully conscious of the blow, and the present discontent will only be transferred from the intellectuals to the uninformed with all the disastrous implications involved.

The Fiscal Commission has recommended a new departure as the only policy consistent with India's present financial system and economic aspirations. It has clearly indicated the need for caution, the advantages to be gained, the dangers to be avoided. The representatives of the people have accepted the report. A Tariff Board has been appointed. It now only remains for every wellwisher of India to give that Board a fair chance.

