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India in the World Depression

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INDIA IN THE WORLD DEPRESSION

1. *The Course of the Depression.*

TRADE fluctuations were not unknown in India before 1929; a hundred years ago there was a prolonged economic depression in Southern and Western India, and there have been some milder slumps since. But before 1870, India's connection with the rest of the world had been very imperfect, and price movements in Europe had no very active influence on Indian prices. Even the "Great" depression of 1873-96 had hardly any echo in India; while prices in Europe fell by 30 to 40 per cent., they remained fairly steady in India. This was perhaps largely due to the depreciating rupee exchange, but that was not the only cause. With the adoption of the gold exchange standard by India towards the close of the nineteenth century, the rupee was linked to the gold currencies of the West; and the regular steam-transport and the largely increased demand for Indian cereals, jute and cotton in the first decade of the present century brought India into closer contact with Europe and America. In other words, India became an integral part of World Economy; her primary products became essential for the feeding of men and machines in the West, and she became a steady market for the finished goods of European industries. In result, India has had a full share in the depression which started in October 1929; and her public finance as well as the private finances of her people came to be seriously affected by the slump.

The fall of prices was heaviest during the period from October 1929 to December 1930. Most of India's staples fell more than 40 per cent. within fourteen months. The Calcutta index-number (base 1914), which stood at 143 in October 1929, fell to 91 by September 1931—a fall of 36 per cent. The abandonment of the gold standard in September 1931 gave a temporary check to the slump, and there was a slight upward trend, but the downward course started again and by June 1932 the index-number fell to 87 per cent.—a fall of 40 per cent. Since then, prices remained fairly stationary until April 1934, when a slightly upward tendency commenced, partly due to the recovery programme in America. Thus, between April 1934 and February 1935, cereals

showed a rise of about 13 per cent., oil-seeds 19 per cent. and raw cotton 5 per cent. This, however, does not indicate any definite recovery; some prices have again sagged, and the general index is still not above 90—about 36 per cent. below the 1929 level.

The most notable feature of the slump in India is the wide disparity between the prices of primary products and finished goods. While rice slumped 52 per cent., oil seeds 55 per cent., raw jute 53 per cent., and raw cotton 51 per cent., between September 1929 and March 1934, cotton manufactures slumped only 29 per cent., metals 22 per cent. and sugar 26 per cent. during the same period. As India's exports are chiefly primary products, this disparity has affected the barter terms of trade. The price-index for exported articles fell by 46 per cent., while that for imported articles fell only by 24·6 per cent. Hence the rapid decline in India's balance of trade in merchandise from Rs. 80 crores in 1929 to Rs. 4½ crores in 1932. The total value of merchandise exports fell from Rs. 330 crores in 1929 to Rs. 132·6 crores in 1932–33. Conditions, however, have since improved slightly. In the last financial year, exports came to Rs. 154 crores and the balance of trade to Rs. 22½ crores. The disparity between agricultural and industrial prices is also becoming narrower.

2. *The Effects on the Depression.*

The immediate result of the slump was the breakdown of the country's purchasing power. The extent of this breakdown can be gauged from the fact that the value of the principal crops, which came to Rs. 1,018 crores in 1929, declined to Rs. 534 crores (by 52·5 per cent.) in 1933. It is true that a good part of the food crops raised in the country is consumed by the producer himself or exchanged in kind for services rendered; and 85 per cent. of our cultivated area is under food-crops. But the cultivator has to pay his land revenue and interest charges *in money*, and the burden of these fixed charges is crushing the agricultural classes to an extent unknown before. As a result, Government was compelled to make partial remissions of land revenue; rent disputes have increased; and the debts of agriculturists are hanging like a millstone round their necks.

It is well to recognise, however, that although India has been hit by the world depression, her position is not so bad as that of many agricultural countries which have concentrated on the production of one or two commodities needed for the world

market. To take some examples :—Brazil specialises in growing coffee, which accounts for 70 per cent. of its exports; Cuba produces chiefly sugar almost entirely for export, and its export trade is nothing without sugar; certain parts of Africa (*e.g.* Gambia, Senegal) are exclusively devoted to the production and export of groundnut. These lands depend entirely on world demand, and are sorely hit when the world markets fail. Take, for instance, the present position of sugar-producing countries. India imported 1 million tons of sugar in 1930–31; but she took only 264,000 tons in 1933–34. From Java alone her imports came to 809,000 tons in 1930–31; in 1933–34 it was only 194,000 tons. Such cataclysmic changes in trade have completely disorganised the economic condition of those countries. In this respect, India enjoys a much more stable position; in spite of the increasing demand for India's staples from outside during the last sixty years, she still remains more self-sufficient than any country in the world, except perhaps China. Only a small share of her total production (7 to 10 per cent.) is exported. Out of her total cultivated area of 228 million acres, 85 per cent. is under food-grains, and so far as India (excluding Burma) is concerned hardly any part of the produce of that area is exported. Cotton comes next with 14 million acres, and only 30 per cent. of that crop is exported. Jute and tea are raised on only 1 per cent. of the total cultivated area of India, and the bulk of both products (73 per cent. and 88 per cent. respectively) is exported. Fortunately for India, hardly any part of the country depends solely on one commodity. Her agricultural economy is broad-based on a diversified system of crops, a wise mingling of many subsistence crops with a few "money" crops. In this respect, even Australia and Argentina, Ceylon and Malaya, are more vulnerable than India. It must be admitted, however, that some parts of the country depend more than others on export trade; Bengal, with nearly all the jute area in the country, is therefore the worst exposed to the risks of world dependence, but even Bengal has only 6 per cent. of her total cropped area under jute; and rice, which accounts for 80 per cent. of the area, is nearly all consumed at home. Hence the comparative mildness of the trade depression in India, and the absence of such wholesale unemployment and impoverishment as has come over several other agricultural areas of the world. The Indian peasant has often been blamed for his disinclination to change over from food-crops to "money" crops; but this weakness has now become his strength. Nor is this the only matter in which

the instinct of the Indian peasant has served the country better than all the intricate reasoning of the economist and the administrator.

Thus, India has got on better than many other countries during the depression. Other lands have suffered both from the slump in prices and from the fall of demand from outside; India has chiefly suffered from the former. But, whether a country's produce is disposed of within the country or without, the price which the producer gets is the thing that chiefly matters to him. From 1929 the Indian ryot found his income dwindling and his burdens increasing; and in this respect the troubles of Indian agriculturists have been much greater than those of the large farmers in the U.S.A., Canada, Australia and Argentina, who have a greater staying power and easier means of recouping themselves. The Indian peasant, even in the best of times, lives on the verge of poverty; and most of the economic surplus from agriculture normally goes into the pockets of the landlord, moneylender, or Government. The depression has increased the inequalities of distribution between these partners in the agricultural business. The shares of the Government, the landlord and the moneylender are fixed, and thus the risks have largely fallen on the peasant, who is the least capable of bearing them.

The extent of suffering, however, varies between province and province and between the different classes of the community. Of the provinces, Bengal, and Behar and Orissa, are worst hit. The principal crops of these two provinces fell in value by 61 per cent. and 58 per cent. respectively between 1929 and 1933, while those of Bombay, U.P. and the Punjab have fallen only by 30 per cent., 35 per cent., and 36 per cent. respectively.

Of the different agricultural classes, those who cultivate with hired labour are worse hit than the small-holder who cultivates with his own labour and raises various kinds of produce. Land-owners who get their rent in money are well off, but those who receive in kind have lost. The labouring classes have comparatively gained where there is ample employment, but in several areas there has been an increase of unemployment and under-employment. This is particularly the case in the jute areas of Bengal.

But all these agricultural classes have suffered much more than the industrial population of the country. Owing to a vigorous policy of Protection followed since 1925, an inordinate increase of revenue tariff in recent years, and the Swadeshi spirit preached by Mr. Gandhi, the demand for the

products of Indian manufactures has increased, and industrial production in the country has greatly expanded. In 1928-29, Indian mills produced only 1,893 million yards of cotton goods (out of a total available quantity of 3,830 million yards), but by 1933-34, Indian mill production increased to 2,945 million yards—an increase of 55 per cent. in five years. The progress of the sugar industry is even more striking. In 1925-26, there were only 41 sugar mills producing 91,399 tons of white sugar; in 1933-34, there were 128 mills producing 554,000 tons. Thus sugar production increased sixfold in eight years. Large progress has also been made in iron and steel, cement, woollens and several small industries, and in particular the provinces of Bombay and U.P. have largely benefited by these developments. While such progress has been going on in India, industrial production had been drastically curtailed in Europe and America, and no other country except Japan has made such rapid strides in industrial production as India has done during the last five years.

3. *How Financial Equilibrium was Restored.*

The depression affected the Government's finances at an early stage. By March 1931, the financial position showed unmistakable signs of dislocation. Customs duties being responsible for as much as 62 per cent. of the total tax-revenue of the Government of India, the heavy decline in foreign trade involved a sharp fall in customs revenue. Income-tax, which comes next in importance with 22 per cent. of the tax-revenue, was also seriously affected. The profits of companies assessed to income-tax, which averaged Rs. 53 crores for eight years ending March 1930, fell below 29 crores in 1932-33. As for the commercial departments, the revenue from railways and other non-tax revenue, which amounted to 30½ crores in 1923-24, fell to 19½ crores in 1929-30, and was only Rs. 5¼ crores in 1933-34. In March 1931, customs duties and income-tax rates were increased. The budget for 1930-31 closed with a deficit of Rs. 11½ crores, and the deficit expected for 1931-32 was Rs. 19½ crores. The declining price of Government securities disclosed the true state of Government's credit. The 3½ per cent. sterling stock, which stood at about 60 in April 1931, fell to 43½ in September. The gold standard was abandoned in September, following the example of Great Britain, and if this action had been accompanied by any inflationary measure, it would have resulted in the most disastrous consequences.

The Government of India fully realised the seriousness of the

situation. A committee for retrenchment of expenditure had already been appointed for suggesting lines of economy, and it worked in various sub-committees. On 29th September, 1931, Sir George Schuster placed a supplementary budget before the Assembly. For meeting the impending deficit, three lines of action were proposed: namely, retrenchment, an emergency cut in salaries, and fresh taxation. The expenditure of Government, both civil and military, was cut down; and the extent of the retrenchment will be clear from the fact that the defence budget, which stood at Rs. 55·10 crores in 1929–30, was brought down to Rs. 44·38 crores in 1934–35. The cut of 10 per cent. in the salaries of Government servants was much criticised at the time, but the future historian will perhaps consider it too mild a measure and will disapprove of its regressive character, the rate being uniform for all salaries between Rs. 40 and Rs. 7,000 per mensem. To make up for the fall in revenue, a surcharge of 25 per cent. was placed on import duties, excises and income-tax. In this way, expenditure was cut down and revenue was increased; and, in the words of the Finance Member, a solid barrier was erected against the possibility of India getting on to the slippery slope of inflation. In result the deficit for 1931–32 was reduced to Rs. 11 $\frac{3}{4}$ crores and the budget for 1932–33 closed with a surplus of Rs. 1 $\frac{1}{2}$ crores. In both years, a liberal provision (nearly Rs. 7 crores) was made for the reduction and avoidance of debt, and therefore it must be pointed out that, so far as the budgetary income and expenditure were concerned, Government not only paid its way but also provided Rs. 3 $\frac{1}{2}$ crores for the reduction of debt.

In the following year, 1933–34, customs duties again fell, due chiefly to the reduced importation of cotton piece-goods and sugar. In view of such a situation it was decided to provide only Rs. 3 crores for the reduction and avoidance of debt in 1933–34 and 1934–35. As a further fall was expected in customs duties in 1934–35, Government imposed, in April 1934, excise duties on sugar and matches and increased import duties on tobacco.

By these timely measures, the Government's budgets for the last three years have closed with comfortable surpluses, and the credit of Government has risen to an enviable position. This has enabled Government to carry out profitable conversion operations and to reduce the burden of debt. The floating debt of Government fell from 84 crores in September 1931 to 35 crores in 1933, and the gold and sterling backing of the rupee currency rose from 40 per cent. in 1931 to 60 per cent. in 1933. No

wonder that the $3\frac{1}{2}$ per cent. sterling paper, which stood at 46 in September 1931, rose to 89 by March 1933, and has soared up since to higher levels. It was 98 in January 1935.

It is but fair to state that this result was greatly due to the export of gold in copious quantities. In prosperous times, the yellow metal freely flowed into the country, and the peasant invested his savings in it. When hard days dawned again, he has had to part with it. The abandonment of the gold standard by India put a premium on gold, and enabled the country to sell its gold at a profit. In this way, much gold flowed out week after week, and an amount valued at Rs. 230 crores has left the country. It is disquieting to hear it, but we have to remember that it was not gold kept in the reserve of the Central Bank or of Government but barren metal lying in idle hoards. The gold exports enabled Government to obtain sterling in London for its needs, and thus Government was able not only to meet its dues in London, but to strengthen its reserves there. They have also enhanced the credit of India and have enabled Government to borrow at low rates of interest and to carry out conversion operations effectively and profitably. The export of gold helped greatly in maintaining the currency, and it came in good time to make up for the drying-up of the purchasing power resulting from the catastrophic fall in prices. Many of our politicians and even economists are uneasy about these gold exports, but their arguments are tinged with a crude mercantilism and need not be examined here. Between 1922 and 1931, India's net imports of gold came to about 43 million ounces; of this, about two-thirds has flowed out; rather, it has been converted into mobile purchasing power. As Francis Bacon said long ago, "Money [gold] is like muck, not good except it be spread." The Indian hoarder invested his savings in gold, but such reserves are for use in lean times. Such times arrived in 1932, and the hoards were turned to profitable use. It has enabled the country to keep up its purchasing power, and there might have been intense suffering had not the hoards been opened. How long can this go on? This is a question which we may now consider with advantage, and as the Reserve Bank has already begun to function, it is perhaps time for reconsidering the whole position.

The provincial governments have also pursued a policy of retrenchment during the period, and some provinces had to raise new taxes. In spite of such measures, several of them have had unbalanced budgets, and had to call for help from the central Government.

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4. *The Effects of the Financial Measures on Purchasing Power.*

Indeed, the Government of India succeeded in balancing its budget, but it did so by unbalancing, to a considerable extent, the budgets of private persons. Government followed a rigid policy of budget equilibrium, but during a period of unexampled depression hardly any country has followed such a severely orthodox financial policy. Most countries made it their aim to maintain the internal purchasing power at any cost, and have done so by a liberal loan expenditure on public works. Even Great Britain has kept up her public works expenditure, but India has cut down such expenditure to the bone. It was perhaps sound finance but rather unsound economics. For a country whose public debt is so small and nearly all of it covered by valuable assets, even sound finance called for a more liberal loan expenditure, as it would have not only maintained purchasing power but increased the economic equipment of the country at little real cost. Instead, India followed a policy of drastic retrenchment. The extent of it can be realised from the following facts. During the three years ending 1929-30, the total works expenditure on railways amounted to Rs. 41 crores annually, and not less than Rs. 10 crores was spent by the provincial governments on civil works. After 1930, all this was cut down; hardly any new constructions were carried out on the railways in 1931-32 and 1932-33, and in the latter year the total works expenditure came to Rs. 6.42 crores, which was only a seventh of that of the years immediately preceding 1929-30. The provincial expenditure on civil works was also reduced by one-half, and expenditure not charged to revenue was cut down to 6 per cent. of that of the last pre-depression year. Thus Government's expenditure on railway works and civil works fell in three years from about Rs. 50 crores to Rs. 12 crores—a fall of about 75 per cent. in a very short time.

We have to remember in this connection that in India Government is much the largest single employer of labour, that from 50 to 75 per cent. of the outlay on most public works goes directly to labour, and that even the rest goes indirectly to labour, seeing that the stores are increasingly purchased within the country. Therefore, the severe retrenchment in such works must have resulted in a large increase of unemployment, and a substantial fall in consumption and purchasing power. Let us note also that this happened at a time when many plantations within the country were closing down and when large numbers of labourers were being repatriated from Ceylon and Malaya. It is difficult to estimate

the financial results of unemployment in the plantations of those countries, but we know that the amount of money sent by money order to their families by Indian labourers diminished largely during the period. Between 1927 and 1929, the average remittance by M.O. from those countries was Rs. 134 lakhs and Rs. 76 lakhs respectively. By 1933-34 these figures fell to Rs. 69 lakhs and Rs. 23 lakhs, a fall of 50 and 30 per cent. respectively.

What with such drastic fall in incomes and a wide disparity between the prices which the agriculturists pay and those that they receive—a disparity aggravated by high tariffs—a steady fall in consumption has taken place. We have not adequate statistical data for accurately measuring this decline in consumption, but a few facts will indicate the general trend. The quantity available for annual consumption can be measured by adding up local production and imports and by subtracting exports. In this way the annual consumption of cotton piece goods, sugar, salt and kerosene can be approximately estimated. The consumption of cotton goods has not fallen considerably since 1930, but the nature of the goods consumed shows a fall in the standard of living. Before 1914, out of every hundred yards of cotton piece goods worn in India, as much as 50 yards was of British manufacture and of good quality; but in 1933-34 only 7.6 yards came from Lancashire, 56 yards came from the Indian mills and about 28 yards came from the handloom. This is indeed gratifying from the point of view of Indian industrial progress, but it indicates a deterioration in standard of living, and it is noteworthy that the change-over to cheaper quality has not been accompanied by an increase of consumption. The consumption of white sugar, salt and kerosene is even more discouraging. The annual average *per capita* consumption of sugar was 7.7 lbs. during the five years ending 1930; but it has fallen since and was 5.8 lbs. in 1932-33—a fall of 24 per cent. But the consumption of *gur*¹ has not diminished, and this may be gratifying from the health point of view, but it is rather disconcerting to the sugar manufacturers and should be so to Government. The annual average consumption of kerosene and salt was 232 million gallons and 1,965,000 tons respectively during the ten years ending 1930, but in 1933 it fell to 213 million gallons and 1,884,000 tons, thus recording a fall in consumption of 8 and 4 per cent. from the ten-year average. These are all disconcerting not only to the economic reformer and the industrialist, but also to the Government treasury, which cannot thrive on a falling consumption. Things might have been worse, had it not

¹ Unrefined sugar.

been for the copious gold sales. To a great extent, therefore, it was the peasant's hoarding instinct that saved the country from the utter breakdown of consumption and from all its baneful consequences.

While deploring the fact that Government's retrenchment policy has aggravated the evils resulting from the depression, one must not forget that the strict financial policy pursued in these few years has raised India's credit to a high level among the nations, and has thereby prepared the ground for a constructive economic policy for the future. Countries that have deliberately kept their budgets unbalanced have had a false prosperity during these years, but they will have to swallow the bitter pill sooner or later, and some of them have already begun to taste it. The example of France is instructive in this connection.

5. Measures for protecting Indian Industry and Trade.

Nor has Government lost sight of some of the evils above dealt with. The rapid decline in foreign trade and the growing burden of fixed charges engaged the attention of Government at an early stage, and various measures have been taken (1) for safeguarding Indian industry and trade and (2) for relieving the burden of debt, rent and land revenue. The action taken under (1) falls under four heads. First, steps were taken for protecting Indian industry and agriculture from unfair foreign competition. Secondly, trade agreements were entered into with the two largest customers of India for safeguarding our export trade with them. Thirdly, Government gave active support to certain classes of producers in their efforts at restricting production and export. Fourthly, organised efforts were also made for the improvement of the quality and grading of India's produce and the adoption of better marketing methods.

After 1929, Japan made a powerful bid for the Indian market. Her low labour cost, great efficiency in production and business management, and not least the rapid fall of yen, enabled Japan to export large quantities of cotton piece goods, artificial silk, earthenware and porcelain, glass and glassware, boots and shoes, hardware and cutlery, apparel, haberdashery, toys, playing cards, bicycles and parts thereof, fruits, toilet requisites, and a variety of other goods. Her success in the Indian market has been remarkable. In the three years ending 1928-29, Japanese imports of piece goods averaged 308 million yards; but in 1929-30 and in 1932-33 it exceeded 550 million yards. The significance of this development can be realised when we note that while the share of the United Kingdom in the import trade in piece goods

fell from 82 per cent. in 1926-27 to 48 per cent. in 1932-33, the share of Japan rose from 13.6 per cent. in 1926-27 to 47 per cent. in 1932-33. The progress in regard to silk goods was phenomenal. In 1928-29, Japanese silk imports amounted to only 1.2 million yards; in 1933-34 it came to 8 million yards. In 1930, hardly any artificial silk yarn was imported from Japan; but last year, Japanese imports reached the first place, being 53 per cent. of the total artificial silk yarn imports into India. Such marvellous progress was to some extent due to the suitability of Japanese goods to the Indian market, but it was the systematic depreciation of yen that enabled Japan to capture the market. Soon after Great Britain went off the gold standard, Japan did the same, and from that time yen steadily depreciated, from 137 rupees (for 100 yen) in 1930-31 to 80 rupees in 1933. This gave a fillip to Japanese export trade and made Japan a redoubtable competitor in international trade.

The Government of India realised the trend of developments at an early stage. As early as March 1930, the *ad valorem* duties on cotton piece goods of non-British origin were increased by 5 per cent. to 20 per cent. In March 1931, another 5 per cent. duty was put on, and in September a surcharge of 25 per cent. was imposed on all import duties. Thus, while British piece goods paid 25 per cent. *ad valorem*, foreign goods paid 31½ per cent. Matters got worse in 1932, with a rapidly falling yen, and as the result of a Tariff Board inquiry, the *ad valorem* duty on foreign goods was raised to 50 per cent. This was followed by the Safeguarding of Industries Act of 1933, which empowered Government to impose, by notification, such duties as it deemed fit on foreign imports whose prices were so abnormally low as to endanger the existence of any Indian industry. As the influx of Japanese goods continued unabated, high specific duties were imposed, in the Finance Act of 1933, on the uppers of boots and shoes, artificial silk goods and silk mixtures. In June 1933 the *ad valorem* rate on non-British cotton piece goods was raised from 50 per cent. to 75 per cent.

The trade agreement with Great Britain was signed in 1932. It involved the grant of preferences ranging from 7½ to 10 per cent., on various British goods, in return for similar preference for Indian produce in British markets. Japan feared that the Ottawa Agreement would adversely affect its trade with India, and this fear was aggravated by the further enhancement of the duties on non-British goods in June 1933. Japan retaliated by declaring a boycott on Indian raw cotton. Negotiations were

then started for a trade agreement with Japan, and this came to a successful conclusion early in 1934. Accordingly, the basic quota for the import of Japanese cotton piece goods was fixed at 325 million yards for one million bales of Indian raw cotton exported to Japan. If the raw cotton exported from India exceeded or fell short of one million bales, the Japanese imports would be raised or lowered accordingly.

Since 1931, South India has been flooded with cheap rice from Siam and French Indo-China. The influx of foreign rice is believed to have depressed prices further, and as a result of representations from the Madras Presidency, a small duty has been imposed on rice imports. Other protective measures are also under contemplation.

Rubber industry had been in a depressed state even before the slump, and the condition of tea industry became precarious after 1930. As the world's largest producer of tea, India has a substantial interest in tea prices, and Indian tea-growers took a large part in the formulation of the international tea restriction scheme, which involved a strict control of production and export. At the request of the Indian Tea Association, legislative sanction was given to this scheme by Government in 1932. India's rubber interests are much smaller; hardly $1\frac{1}{2}$ per cent. of the world's rubber is produced in India, and most of it comes from the Native States of Travancore and Cochin. But a large number of Indian labourers find steady employment in the rubber estates of Ceylon and Malaya, and thus the slump in rubber affected South India materially. Government was therefore glad to sanction the rubber restriction scheme in 1934, and appointed a local Board of rubber planters to watch India's interests in the scheme. Both these attempts at restriction have largely succeeded, and the prices of both tea and rubber have gone up considerably.

The depression has given a great impetus to the work of that most useful organisation, the Imperial Council of Agricultural Research. Since 1930 the Council has pushed through various important schemes for the improvement of Indian produce. The latest and perhaps the most hopeful of its activities is the setting up of an expert organisation for the improvement of marketing methods in the country. This will be of great value in the internal as well as external trade of India.

6. *Measures for adjusting Fixed Charges.*

Under the above category come the remissions of land revenue granted in most provinces, the revision of the basis of land revenue

now under consideration in the Punjab and elsewhere, measures for the scaling down and settlement of rural debt, and the establishment of land mortgage banks. This is too large a subject to be covered in this paper. Suffice it to say that in several provinces—the Central Provinces, the Punjab, the United Provinces and Bengal—legislation has been carried through for the settlement of rural debt. Indian States like Bhavnagar, Mysore, Cochin and Travancore have also taken action. Already some relief has been given to indebted agriculturists in many parts of the country, and more may be expected in the near future. It may be pointed out, however, that the settlement of existing debt alone will not solve the problem; a more humane system of rural credit has to be devised and put into operation if any lasting good is to come out of it.¹

These are matters of provincial concern in India; yet the Central Government has also been active in watching and co-ordinating provincial measures. In April 1934, a conference of representatives from provincial Governments was held in Delhi for the consideration of rural debt relief and allied problems. The question of handloom weaving—the most important cottage industry of India—has also engaged the attention of the Central Government and funds have been allotted for its reorganisation. The efforts made by Government to enable sugar-cane growers to get their full share of the fruits of protection to sugar industry are also commendable. Perhaps the most gratifying of all these measures is the grant of over one crore of rupees made in the current year's budget to provincial Governments for rural development. Let us hope that this grant will be properly utilised.

7. *The Future.*

In the past, depressions have often been the cause of the reconstruction of worn-out economic systems and clarification of economic principles. The trade depression of 1873–96 led economists like Marshall to vigorous thinking and brought about readjustments of economic policy even in Great Britain, whose faith in *laissez-faire* was then unshaken. The present depression has already proved a more potent influence and everything indicates a thorough overhauling of both economic policy and economic theory. The insecurity and wastefulness of *laissez-faire* have been brought out in bold relief, and however much we may try to rehabilitate that old policy, it may not be possible to revive it. The Government of India has long been a firm believer in *laissez-*

¹ See *Rural Debt Relief in India* by the present writer (Madras University).

faire, although in practice it had to be modified owing to frequent famines and crop failures; but after the war, the policy has changed, and since 1929 a thorough reorientation has taken place in the attitude of Government towards economic activity. However, no drastic action has been taken in India; fortunately her economic difficulties have not been such as to demand any of the revolutionary measures taken in other countries faced with quite different problems.

In future, two principal aims, in my opinion, must be held before India in her programme of reconstruction. *First*, the safeguarding of her foreign trade, and *secondly* the increase of the standard of living at home. Although only a small part of India's production enters into her external trade, that part is essential for her financial stability, and in view of the surging waves of economic nationalism all over the world, and the increasing competition from better-equipped agricultural countries, it is important that every effort should be made to keep up her external markets. In this light the Ottawa Agreement and the Indo-Japanese Agreement have been in the right direction; and it is necessary to enter into similar agreements with others of our customers. In the interests of both internal and external trade, it is also necessary to improve our methods of production and marketing, so that our goods may become more acceptable abroad and our position in the world market may become more secure.

A rise in India's standard of living should be the central objective of our economic policy. It is the solvent, not only of our economic ills but also of our social and political ills; perhaps it will also solve in great part the economic problems of Western industry, for, with a rise in the Indian standard of living, there will not only be greater prospects for Indian industrial and agricultural production, but there will also arise a wider scope for the consumption in India of the products of Western industry. Let us remember that the persistently low standard of living of the Indian masses is to-day the greatest obstacle to the increasing consumption in India of Great Britain's better-grade goods.

It is often thought that a rapid industrialisation will remedy India's economic ills, but one cannot see how it could, seeing that hardly a million additional labourers can be employed in Indian industries even if most of the goods to-day imported are manufactured at home. The central problem of India is to increase the income of her masses, who are mostly agriculturists. For this purpose agriculture must be made more profitable, and suitable subsidiary industries must be provided in every locality, so that

the agriculturist may be enabled to supplement his income by using to capital advantage the abundant free time which he is now idling away. In this light the recent grant for rural development is one of the greatest things done by the Government of India for many years.

Circumstances are now favourable for a forward move. India's credit stands high among the nations, and loans can be raised at low rates of interest. A Reserve Bank has already been established for the management of currency and credit, and the new constitution may solve the political problem for the time being. India's place in the British Commonwealth of Nations is also a source of strength. These are all great assets, and, if properly used, will enable her not only to increase the economic welfare of her own teeming millions, but also to help substantially in the world's painful struggle for recovery.¹

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¹ Rupee = 1s. 6d.; Rs. 1 crore = £750,000; Rs. 1 lakh = £7,500.