

**Department of Economics**  
**Year: III, Semester: 06**  
**Course: EC 306: Economic History of India**  
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**Book Reference:**

1. G. Khusal: "Economic History of India 1757-1966"
2. Debesh Mukherjee: "Indian Economic History"

**The Policy of Discriminating Protection**

-The Fiscal Autonomy convention, accepted by the Secretary of State for India in 1921, was a landmark in the history of fiscal policy in India. It paved the way for the appointment, in 1921, of the Fiscal Commission "to examine with reference to all interests concerned, the Tariff Policy of the Government of India, including the desirability of adopting the principle of Imperial Preference."

-The Commission, after a careful investigation of existing conditions, concluded that the Industrial development of India had not been 'commensurate with the size of the country, its population, and its natural resources.'

-In order to secure steady industrial progress, the commission advocated the policy of protection for India, but in order "to make the burden as light as is consistent with the due development of industries and avoid abrupt disturbances of industrial and commercial condition" the commission recommended discrimination in the industries selected and in the degree of protection afforded.

-In other words, all industries **were not to be protected**, but a careful selection was to be made, and only those industries were to be given the protection that fulfilled certain conditions. This inaugurated the policy of Discriminating protection in India. The Commission laid down the following three conditions for the grant of protection to an industry:

- (a) The industry must be one possessing **natural advantages**, such as an abundant supply of raw materials, cheap power, a sufficient supply of labor or a large home market.
- (b) The industry must be one which, without the help of protection, either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country.
- (c) The industry must be one that will eventually be able to face world competition without protection.

In addition to these three main conditions, known as the **Triple Formula**, the commission laid down certain subsidiary conditions which, though not essential, were to be regarded as factors favorable to the grant of protection. These were:

(1) “An industry in which the advantages of large-scale production can be achieved a particularly favorable subject for protection.”

(2) Another industry that should be regarded with a favorable eye is that in which there is a probability that in course of time the whole needs of the country could be supplied by the home production.

(3) “Any industry which is essential for purposes of national defence, and for which the conditions in India are not unfavorable should be adequately protected irrespective of the general conditions laid down for the protection of industries.”

For the successful working of the Scheme, the Commission recommended the appointment of a “thoroughly competent, impartial and permanent. Tariff Board” charged with the duty of making detailed enquiries into the claims of protection and to express its conclusions in the form of detailed and definite recommendations.

-The Commission felt convinced that the mere imposition of protective tariff would not, by itself, produce full industrial development and, therefore, recommended several supplementary measures such as changes in railway rates, greater emphasis on technical education and replacement of imported skills for promoting the growth of industries.

-The above recommendations were not endorsed by five out of the eleven members of the commission. The minority objected to the policy of Discriminating Protection on the ground that it mixed up the policy with the procedure and laid down such rigid conditions as to impart the industrial progress of the country. In their opinion, the fiscal policy best suited for India was protection “to be regulated by the government and Indian legislature from time to time by such discrimination as might be considered necessary in the best interests of India.” The Minority was also against Imperial Preference and wanted certain conditions to be imposed on foreign capital in India.

-The Policy of Discriminating Protection, as recommended by the majority of the commission, was **accepted by the government in 1923** but with some limitations. The Resolution accepted by the Assembly did not refer to the non-fiscal recommendations which were considered equally important by the commission. Further, the government-appointed only Adhoc Tariff Boards in place of a permanent one recommended by the commission.

### **Criticism**

- The policy of Discriminating protection came in for severe criticism which mainly centered around the conditions laid down for the selection of industries for protection. The First condition regarding natural advantages was one which ultimately boiled down to the cost of production. Therefore, an examination of the cost of production in each industry would have been a more scientific approach to the problem than a mere description of natural advantages.
- In fact, based on this interpretation, the tariff board **recommended protection to the Glass industry although Soda Ash** was not available in India, stating that dependence on imported materials was not a bar to protection provided the final costs justified it.

- Similarly, in the case of the Heavy Chemicals industry, the Board observed that the absence of Sulphur in India was not an inseparable objection. And yet the government, attaching undue importance to the raw material part of the condition, disregarded the recommendation of the Board and refused protection to glass, chemicals and the worsted section of the Woolen industry.
- Another serious flaw was that it laid unnecessary emphasis on the existence of an internal market as a condition for the grant of protection. As Professor Vakil points out, “if Britain keeps industries fed by foreign raw materials and is dependent upon foreign consumers there is no reason why India should not encourage industries which can be fed by her own materials irrespective of the market.”
- But the government thought otherwise and denied protection to the locomotive industry on the ground that the home market was not large enough.
- Apart from this, the Triple Formula was mutually ‘incompatible and inconsistent.’ If the first condition was satisfied, it was impossible to fulfill the second for there is no industry that possesses all the natural advantages and yet is not able to develop without protection. The Formula thus set a mutually contradictory task to the Industry applying for or enjoying protection.
- The cement industry, for instance, fulfilled the first condition extremely well owing to the plenitude of natural advantages but it could not satisfy the Second and was refused protection. The case of the Tata steel was more ridiculous when it blew hot and cold by explaining its improved financial condition and, at the same time, describing its troubles least protection might be withdrawn.
- While the first two conditions were mutually contradictory, the third was ‘illogical and superfluous’. In fact, ‘the first condition itself was explanatory of the Third’, or an estimate of whether industry would be able to eventually stand on its own feet or not had to be based on the First condition, viz, availability of raw material, market, etc. The Triple Formula, therefore, was a misleading one.
- The Commission had recommended the constitution of a permanent Tariff Board. The govt. instead appointed Adhoc Boards for a duration not exceeding one year in the first instance. This practice of appointing different boards at different times “prevented the taking of long-term views, the accumulation of experience and the building of an efficient body of technique and procedure.”
- Besides, these Boards had to function under certain limitations. They had neither any power to initiate enquiry nor to summon witnesses. The absence of such power was particularly left in the case of foreign enterprises which often did not cooperate. For instance, the Swedish Match company refused to disclose, even in confidence, the cost figures of their factories in Sweden.
- Worse still was the case of the non-worsted section of the woolen industry where the govt. refused to accept the recommendation of the Board for the grant of protection on the ground that the British controlled section of the industry had not tendered evidence and that the Board’s findings did not apply to the industry as a whole.
- The very composition of the various tariff boards would suggest that the Boards were appointed largely with a view to securing easy acceptance of the govt’s views. In fact, as

Adarkar points out, any expression of nationalist or protectionist sentiment was a sure disqualification. This is evident from the fact that of the total number of 113 positions on the various enquiries, 71 were held by the govt. officials themselves and only 42 by non-officials.

- The restrictive nature of Discriminating protection was made doubly so by the dilatory and difficult procedure laid down. The govt. was not bound to refer every application to a Tariff Board; the Tariff Board was not bound to submit its report within a specified period of time; and finally, the govt. was not bound either to accept the recommendations of the Board or the resolution of the Legislative Assembly if it ran counter to govt. proposals.
- The authorities at all levels had their own notion about the time factor in the urgency of protection which was often granted when the industry was on its last legs. In the case of Match and Sugar industries, two years elapsed before protection was announced; in that of textiles, the Board and the govt. together took 2½ years before protection was granted.
- On the other end, the woolen industry waited for 2½ years and glass for three years only to be told that protection could not be given. Delay by itself would not have been so objectionable were it not for the fact that the Commerce Department, in every case, sat in judgment upon the reports which were submitted by the tariff board after “laborious, searching and meticulous enquiries.”
- The Triple Formula did not recognize the importance of developing ‘embryo’ or ‘potential’ industries. The Board’s view was that “there was no need for protection unless there was something to protect.” The system of Imperial Preference, under which British goods were given preferential treatment by way of lower import duties, further reduced the utility of Discriminating Protection.
- -According to R.P. Rutt, the Policy of Discriminating protection was introduced in-order “to prepare the way for Imperial Preference” so that England could win back the Indian market from her rivals. Accordingly, protection was given only to such industries as did not clash with British interests. For example, in Steel, India competed with Belgium and other continental countries; in textiles, with Japan and China in inferior varieties; in gold thread, with France; in Sugar, with Java; in Plywood and tea chest industry, with Finland.
- In all these Industries, there was no clash between Indian and British interests and they were, therefore, favoured with the grant of protection. In the case of cement, however, the British and Indian interests were in direct conflict and that is why it was left to work out its own salvation.
- In the case of Heavy chemicals, protection was directly opposed to British interests. That explains why, after a great delay, the industry was given temporary financial aid to be left high and dry within 18 months. The case of Magnesium Chloride was different for here the competition was with Germany.
- That is the reason why, of all chemicals, Magnesium Chloride received protection at the hands of the govt. It shows that, under the circumstances, there was hardly anything like Fiscal Autonomy. Had India been free, the Policy of protection would have been directed as much against England as against the rest of the world.
- Furthermore, the period for which tariff protection was given was often far too short. Except in two or three cases, the maximum period of protection was limited to seven years.

In not a few cases, especially in the early days of the experiment, the period was limited to three years.

- It is also noteworthy that, in some cases, protection was withdrawn temporarily or finally, or reduced substantially, e.g., protection was withdrawn temporarily or finally, or reduced substantially, e.g., protection was temporarily withdrawn from Steel Wire and Wire nails in 1927-32; it was finally withdrawn from various chemicals except Magnesium chloride in 1933, and it was substantially reduced in the case of a large variety of steel products under the Act of 1934.
- In view of this, new entrants in the industry did not feel sure of govt. help against foreign competition. The most fundamental defect was that protection was not visualised as an instrument of general economic development but was viewed as a means of enabling particular industries to withstand foreign competition. In other words; it was of a 'safeguarding variety.' As Professor Bal Krishna points out, there was neither a comprehensive scheme of development nor a bold approach to implementing it. The result was a lop-sided development of Indian industries.

### **Achievements of the Policy of Discriminating Protection:**

In spite of these limitations, discriminating protection was not without some tangible results. Between 1923-39, the tariff boards conducted in all 51 enquiries. These included fresh applications for protection, cases for renewal or revision of the quantum of protection and a few technical matters.

- The government accepted the Board's recommendations without any change in 34 cases, ten of which the Board had rejected the claim for protection. In all cases, the government modified the recommendations before accepting them. The Board's recommendations for protection were rejected in six cases. The number of industries that actually received protection was thirteen. They were Iron and steel including subsidiary steel industries, cotton textiles, Paper and Paper Pulp, matches salt, Heavy Chemicals, Sericulture, Magnesium Chloride, Plywood and Tea chests, Goldthread, wheat and rice, the last two having been protected on government's initiative without reference to the Tariff Board. Among the industries denied protection were cement, glass, coal, Petroleum and Woolen.
- The main advantage of the policy was to enable the protected industries to remain comparatively unaffected during the world trade depression when all other industries suffered considerably. Jute goods and Pig Iron were the only large-scale Industries that were adversely affected.
- Other protected industries not only maintained but, in several cases, recorded substantial gains so that the total output, after an initial set back in 1930, was continuously rising between 1930-38.
- The Policy brought about a tremendous expansion of protected industries. During the 17 years, 1923-39, the production of steel Ingots expanded 8 fold; of cotton piece goods by 2½ times; the output of matches and paper rose by 38% and 180% respectively, and cane sugar recorded the maximum advance of a little less than 39 times from 24000 tons in 1922 to 9,31,000 tons in 1938.

- Another important way in which protective tariffs tended to help the Indian economy indirectly was the establishment of industries dependent on Iron and Steel, Paper and cotton textiles. A number of small industries developed due to the availability of steel and steel products manufactured in India and the existence of industries like paper, cotton textiles which provided a market for their products.
- As a natural consequence of the establishment of new industries and the expansion of the old, there was a steady increase in employment in the country. According to Dr. Bal Krishna, total employment in the group of protected industries was about 580,000 in the year 1923 but it increased to about 881,000 by 1937. In other words, there was an increase of 46.8% in employment among the protected industries by 1937. During the same period, the increase in the unprotected group of industries was only 23.6%.
- The expansion of the indigenous cotton textile industry was an advantage to cultivators of cotton as it stimulated the production of high priced medium-staple cotton. The gains of the cultivator in the case of sugar-cane were even more substantial. From 26 lakh acres in 1930-31, the year when protection was first granted to the Sugar Industry, the area under sugar cane increased to 36 lakh acres; area under improved varieties increased from 1 million to 2.6 million acres; the Yield per acre improved from 12 to 14 tons.

To sum-up, the policy of Discriminating Protection “within its limited scope — achieved a fairly large measure of success and on balance, the direct and indirect advantages of protection —offset the burden on the consumers.”

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Further readings:

Trithankar Roy: “Economic History of India 1857-1947”, Oxford, 3rd edition

G. Khusal: “Economic History of India 1757-1966” Kalyani Publishers; 2nd edition

Debesh Mukherjee: “Indian Economic History” New Central Book Agency; 3rd Revised edition.

Dhires Bhattacharyya. “Concise Economic History of India”.

### **Topic II- Imperial Preference**

The policy of Imperial Preference required that preferential treatment should be given to goods coming from and going to Britain and the British Dominions and territories. When the first Fiscal commission recommended the protection- a protective tariff policy for India. The question of Imperial Preference assumed greater importance:

Any preferential treatment for import of British origin was resisted in India, the ground that it would reduce the effectiveness of protection and help the British producers at the expense of the Indian consumers.

Despite opposition, the government of India introduced measures of Imperial Preference to the tariff legislation of the country

The Ottawa Imperial conference of 1932 formally consolidated the scheme of Imperial Preference hitherto in operation and afforded an opportunity to the Empire country to bargain with Britain for better terms for the entry of their own goods into the British market

In justification of the Ottawa agreement, it was pointed out that only by such special negotiated bilateral agreement could the export of Indian Goods be maintained in the atmosphere of intense competition which the great depression had created.

-The working of the Imperial preference system under the Ottawa Agreement did not prove satisfactory for India. British export in India increased substantially but Indian export to England increased only to a small extent.

-Imperial Preference was a Tariff policy that gave British products an advantage over the non-Empire product in the Indian market and Indian product an advantage over the non-empire product in the empire market. After the Ottawa Agreement, this became the keynote of the tariff system. It was a system that assisted the British indirectly to compete in the Indian market while giving India the privilege of the favored rate of duty for her raw material and semi-manufactured products in the British market. In other words, by this system, the old policy of exploitation through a colonial pattern of trade continued. It was naturally resented by the rising industrialist in India.

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Trithankar Roy: "Economic History of India 1857-1947", Oxford, 3rd edition

G. Khasal: "Economic History of India 1757-1966" Kalyani Publishers; 2nd edition

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